PROPOSAL FOR A GLOBAL PUBLIC GOODS FINANCING FACILITY AT THE WORLD BANK
WITH SIX YEARS TO HALVE GLOBAL EMISSIONS,
IS IT TIME FOR A SIXTH MEMBER OF THE WORLD BANK FAMILY?
ROHIT KHANNA & CLAIRE HEALY
About the authors


**Claire Healy** until recently worked for climate change think tank E3G, first as a Program Director for Climate Diplomacy and Geopolitics, and most recently as Head of their U.S. Office. Before that, Claire was a Senior Adviser in International Affairs at the U.S. Department of Energy.

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The views presented in this paper are those of the authors.
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EXECUTIVE SUMMARY

There is an emerging consensus that the international financial architecture needs a rethink and an upgrade 80 years after the creation of the Bretton Woods institutions. This was the focus of the recent leaders-level summit in Paris for a ‘New Global Financing Pact’ and, since last Fall, has driven World Bank shareholders to ask its senior staff for an “Evolution Roadmap” as to how the institution needs to evolve.

Meanwhile, a new President has just taken the helm of the World Bank Group. Ajay Banga is expected to amplify the World Bank’s resources, build new partnerships, and develop a new playbook to integrate the Bank’s work on traditional development challenges - which are particularly acute after a global pandemic, spillover effects from an on-going war, and in a high-interest environment where debt burdens are more pronounced - and global challenges like climate change and pandemics.

Mr. Banga has suggested the Bank’s new mission should be to “create a world free from poverty on a liveable planet”. To achieve this, the World Bank needs a robust replenishment of the International Development Association (IDA) and recent moves to increase the balance sheet of the International Bank for Reconstruction and Development (IBRD) are welcome, as is the effort to better integrate global challenges – especially climate change -- across the Bank’s operations. This must continue apace. But these measures don’t go far enough and fast enough. The urgency and scale of the climate change challenge are well-documented. It is time to coalesce around a commensurate solution.

In addition to mainstreaming climate goals across the World Bank Group, a new mechanism is required to mobilize the step-change in concessional finance, from traditional and non-traditional sources, that signals a resoluteness that has been lacking thus far. Having considered other options on the table, all of which have merits - including a scale-up of the IBRD GPG Fund – we conclude creating a sixth member of the World Bank Group with its own balance sheet, dedicated specifically to global public goods, is likely to be the best path to provide the scale of additional and concessional resources to realistically have a shot at bending the emissions curve to safer levels. In this paper we explain our rationale, suggest a financing and capitalization model, and propose a governance structure and funding allocation mechanism.¹

We offer this proposal for consideration by the new President as part of the Bank’s Evolution Roadmap exercise, and of the larger efforts to rethink the global financial architecture. The original Bretton Woods conference lasted three weeks, and the IBRD came into existence 18 months later. With the same resolve, we suggest that the new World Bank Group financing

¹ While the focus of this paper is on climate mitigation as a global public good, we invite experts in other fields to elaborate on what the allocation model should look like for other global challenges, cognizant that GPGs require different approaches.
window -- the GPG Facility -- could be operational by November 2025, the 10th anniversary of the Paris Agreement.

**Summary of proposal for a new financing window for global public goods in the World Bank Group – the GPG Facility**

1. The new GPG Facility would be established (alongside IBRD, IDA, IFC, MIGA and ICSID) as part of the World Bank Group with its own balance sheet and income statement, while ensuring the financial strength of the existing World Bank Group institutions -- assuring contributors that the additional financing is dedicated to global public goods and mitigating borrowers’ concerns about IBRD and IDA lending capacity for their development needs, while avoiding any impact on IBRD voting shares.

2. The GPG Facility would focus on the subset of global challenges that meet the definition of global public goods. These should have a transnational nature, with global externalities, and for which countries incur additional costs or face specific barriers to deliver global public goods. The initial focus would be on climate change mitigation – covering sources and sinks of carbon emissions in middle- and low-income countries (i.e., investments in energy transition, as well as forests and land use).

3. The GPG Facility should enable country action on global public goods by providing low-interest loans, interest buy-downs or risk-mitigation instruments, as part of an overall World Bank Group and MDB blended financing package that tailors terms to a target level of concessionality to make a project viable.

4. The GPG Facility should be sufficiently capitalized for about USD 35–40 billion in financing per year over five years. If every dollar from the GPG Bank could mobilize $4 in co-financing (from IBRD/IDA/IFC, other bilateral and multilateral development banks, and private capital)

5. The capital structure of the GPG Facility could consist of the following building blocks:
   - Capital Markets, based on USD 4 billion paid-in capital, USD 23 billion in sovereign donor guarantees, and Clean Technology Fund balance sheet transfer (leveraging USD 107.5-127.5 billion)
   - Allocation of surplus Special Drawing Rights (USD 40 billion)
   - Donor grants and concessional loans of USD 15 billion
   - Hybrid capital from sovereign and philanthropic donors of USD 3 billion (leveraging USD 9-12 billion)

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2 At levels of co-financing mobilized by the Clean Technology Fund of the Climate Investment Funds.
• IBRD net income transfers (USD 0.5 billion)
• Sovereign wealth funds/pension funds -- *pari passu* parallel financing (USD 5 billion)

6. A new Board would be established to oversee the GPG Facility, with Directors representing constituency groupings formulated and distributed taking into account the need for balanced and equitable representation of all members of the GPG Facility and giving due weight to the funding efforts of all contributors. There would be an equal number of Directors (and Alternates) from countries eligible to receive funding and from sovereign contributors. Non-sovereign shareholders would have non-voting Board membership. The President of the World Bank would serve as non-voting Chair of the board (IBRD staff would be ex officio staff of the GPG Facility). Decisions requiring a formal vote by the board would be taken by voting procedures that would recognize decision-making by an agreed majority of all constituencies as well as support of contributors. Decisions would require a double-weighted majority.

7. All MDBs could access the GPG Facility to co-finance their operations. A key feature of GPG Facility operations would be the requirement to have IBRD/IDA/IFC co-financing and/or co-financing from other multilateral and/or bilateral development banks. This could be achieved through the adoption of co-financing agreements with all international development finance institutions whose objectives align with the GPG Facility.

8. Mainstreaming global public goods in IBRD/IDA country engagements would need to continue and would be a necessary condition for the success of the GPG Facility, to ensure strong country ownership of programs/projects and robust MDB financing for climate mitigation.

9. Establishment of the GPG Facility should be accompanied by the rationalization of the international climate finance architecture, which would ensure more streamlined access for countries. Funds freed from the phasing out of several climate trust funds and financial intermediary funds would be reallocated to the GPG Facility.

10. Country resource allocations from the GPG Facility – and associated internal World Bank administrative budgets for country programs -- should be based on country ambition, criticality, policies, and capacity related to the global public goods agenda. While Country Directors and Regional Directors would continue to be the primary interlocutors with country counterparts and remain responsible for developing the World Bank’s Country Partnership Frameworks and the delivery of country lending and non-lending operations, authority for budget and funding allocations would shift from being the exclusive domain of the Regional Vice Presidents and Country Directors to being a shared responsibility with the Global Vice President for Climate Change.
CHAPTER 1
INTRODUCTION

There have been growing calls for reform of international financial institutions because the international community has been unable to rise to the existential threat of climate change, with progress too slow, official financial transfers to the Global South well short of agreed amounts and growing evidence of loss and damage affecting the most vulnerable populations and ecosystems. At the same time, there are several other global environmental problems with transboundary impacts, such as biodiversity loss, persistent organic pollutants, and plastics pollution. The Covid-19 pandemic also demonstrates the importance of international financial support to the Global South to address health emergencies with global ramifications.

No single country has an incentive or the ability to solve such problems, which is why solutions are seen as global public goods (GPGs), generating benefits for all. Furthermore, countries of the Global South often do not have the resources to sufficiently invest in these areas, particularly for climate change. See Box 1 for a summary of factors that have hindered the achievement of more transformative impacts on climate change.

Box 1: What factors to date have hindered the achievement of more transformative impacts on climate change?

Other national priorities take precedence in funding decisions because:

> National investment/program decisions don’t fully consider global public good benefits. The World Bank’s Independent Evaluation Group’s reports show a disconnect between country priorities and global priorities. Developing countries are understandably reluctant to increase their borrowing for investments to mitigate global public “bads” which they had a minimal role in creating, and where they might not capture many of the benefits from the investment. Yet delivery of climate programs is likely to produce both local and global benefits3.

> There is not a full understanding of or priority commitment to issues related to climate change and measures to respond to climate challenges. In some countries, there has been scepticism about the urgency of the climate change problem and

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the cost–benefit analysis for taking immediate climate action. Needed investments may be associated with a risk of significant short-term political costs (job loss and prices increases) while investing in competing priorities may be more expedient (raising short term income, investing in familiar technologies as opposed to more costly climate-friendly innovations, supporting industries that have already made substantial investments in the economy)⁴.

Countries may lack financially viable alternatives in current carbon intensive sectors.

Countries may face supply and demand constraints in borrowing.

- The Bank’s lending capacity is limited by its capital and may set lending ceilings, the so-called single borrower limits, to mitigate credit risk (see Box 3). On the demand side, many countries have limited debt capacity, particularly after the Covid pandemic, others may have a risk profile that constrains the amount they can borrow.

The Bank does not have access to adequate volumes of concessional finance to compensate for the divergence between domestic benefits and global benefits and the additional costs of climate-smart development.

Source: Pedro Alba, Patricia Bliss-Guest, and Laura Tuck, Center for Global Development
REFORMING THE WORLD BANK TO PLAY A CRITICAL ROLE IN ADDRESSING CLIMATE CHANGE (March 2023)

Many funds have been established to address specific GPGs, but their reach and scale of financing are limited, and they introduce additional complexity and bureaucracy to the international financial architecture. There have also been calls to establish a new global Green Bank, but experience shows that it takes many years for new institutions to become effective, and a Green Bank would not have a mandate to tackle other GPGs.

However, there is already a global institution with deep capital leverage, expertise across sectors, and a presence in virtually all countries of the Global South. It is the International Bank for Reconstruction and Development (the World Bank), established after the Second World War to rebuild Western Europe, and then expanded in the 1960s to focus on infrastructure development and poverty reduction in the Global South.

Table 1 shows how the Bank has evolved and added institutions to date. Just as the decision to create IDA in 1960 emerged out of a consensus that the existing structures at the time—IBRD and IFC—were not fit for the purpose of poverty alleviation in lower-income countries, World Bank Group’s current institutional structure must evolve to rise to the challenge of global public goods.

Table 1: History of the Evolution of the World Bank Group

<table>
<thead>
<tr>
<th>World Bank Group</th>
<th>Founded</th>
<th>Rationale</th>
<th>Latest Available Net Commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Bank of Reconstruction</td>
<td>1944</td>
<td>To provide non-concessional loans and guarantees to middle-income governments</td>
<td>$33.1 billion (FY22)6</td>
</tr>
<tr>
<td>International Finance Corporation (IFC)</td>
<td>1956</td>
<td>To provide non-concessional loans, equity investments and loan guarantees to private sector firms in middle- and low-income countries</td>
<td>$32.82 billion7 (FY22)</td>
</tr>
<tr>
<td>International Development Association</td>
<td>1960</td>
<td>To provide concessional loans and grants to low-income governments</td>
<td>$37.7 billion (FY22)8</td>
</tr>
<tr>
<td>International Centre for Settlement of Investment Disputes (ICSID)</td>
<td>1966</td>
<td>To mitigate and arbitrate investment disputes to encourage the international flow of investment</td>
<td>N/A</td>
</tr>
<tr>
<td>Multilateral Investment Guarantee Agency (MIGA)</td>
<td>1988</td>
<td>To provide political risk insurance (guarantees) to encourage foreign direct investment into development</td>
<td>$4.9 billion (FY22)</td>
</tr>
</tbody>
</table>

5 While the focus of this paper is the World Bank Group, for fuller reference, the Inter-American Development Bank (IDB) was founded in 1959; the African Development Bank in 1964, the Asian Development Bank in 1966 and European Bank for Reconstruction and Development (EBRD) in 1991. The African Development Fund was created in 1972 to channel grants to low-income governments in the region. Likewise, with the Asian Development Fund in 1973. The point is there has been continual evolution of the multilateral development banks architecture when the need is well documented and political will mustered. This is not to mention universe of national development finance institutions and their innovations.

7 Annual MD&A and FS Document_FY22 (ifc.org) – combined LTF and STF
Some of the World Bank’s shareholders have therefore rightly called on the Bank’s management to prepare a roadmap for the reforms necessary to dedicate more resources to climate change. The precise form this will take is being hotly debated and a formal consultation process is underway. The new President of the World Bank Group, Ajay Banga, has also said that the Bank needs a new playbook to tackle intertwined development goals and global challenges that don’t respect borders. His appointment provides an opportunity for fresh thinking and a course-correction in terms of the level of ambition, creativity, and urgency the moment calls for.
CHAPTER 2
A NEW WORLD BANK GROUP FACILITY FOR GLOBAL PUBLIC GOODS: THE BEST OF BOTH WORLDS

In an article for the Policy Center for the New South, Hafez Ghanem (former World Bank Vice President for Africa)\(^\text{10}\), argues that the existing multilateral development banks, as currently structured, could not effectively meet the climate challenge for three reasons. First, reaching the needed level of climate financing will require a substantial capital increase that will be a huge burden on its shareholders. Second, the World Bank is not able to mobilize sufficient private-sector climate funding. Third, the governance structure of the World Bank and other MDBs is not conducive to increasing climate financing. He concludes:

“If the World Bank and other MDBs are pushed to become green banks, the focus on development and poverty reduction risks being diluted. Furthermore, because of their governance structures and their country-focused operating model, they may not be successful green banks. The result could be the worst of both worlds: ineffective development institutions and ineffective green banks.”

However, one could have the best of both worlds with the establishment of a new financial institution, separate and distinct from IBRD but part of the World Bank Group, dedicated to supporting global public goods, and with an innovative governance and financing model. Rather than broadening IBRD’s mission, the World Bank Group should be expanded to include an entity with a sharp focus on GPGs. Rather than creating yet another international organization or the further proliferation of trust funds with their own bureaucratic structures, the international community should draw on the strengths of the existing global bank and use this as an opportunity to rationalize and right-size the existing architecture, with each institution playing to its strengths.

We acknowledge that there is an argument to mainstream the climate challenge within existing institutions inside the World Bank Group rather than creating a new entity. This process is already underway with the Evolution Roadmap, and the Paris Agreement alignment process. We recognise there is a risk of silo creation that must be mitigated. However, we believe that to achieve the scale and transformational cross-border impact

\(^{10}\) Hafez Ghanem, Policy Center for the New South, The World Needs a Green Bank (February 2023)
required, we need to create a new institution that will serve as a new pool of capital to drive a step change in financing for GPGs. It is not a matter of either mainstreaming or a new financing mechanism, but the need for both.

A recent paper prepared for the Center for Global Development by three former senior leaders of the World Bank – Pedro Alba, Patricia Bliss-Guest, and Laura Tuck11 – makes a similar argument. They call for the establishment of a new (third) World Bank financing window, alongside IBRD and IDA, for funding GPGs, with an initial focus on climate change. They, too, argue that GPGs are not adequately addressed through IBRD/IDA country programs and the scale of financing required to address climate change (let alone several GPGs) far exceeds IBRD and IDA’s financial capacity.

Alba et al review various options for the World Bank to address GPGs more effectively and conclude that a new financing window would be more practical and more likely to achieve the financing objectives than other options, such as an omnibus financial intermediary trust fund or extending the existing GPG Fund in IBRD. They note that a new window would have the potential for greater scale as well as provide transparency for shareholders who want to ensure that additional capital is used for GPGs and that financing for GPGs is not at the expense of IBRD and IDA lending for non-GPG development needs.

Box 2: A new GPG window at the World Bank – pros and cons of different options

A new GPG/climate window could be established with its own balance sheet and income statement, or it could use IBRD’s balance sheet. Alternatively, an omnibus climate trust fund could be established, consolidating existing climate trust funds and financial intermediary funds (FIFs), raising additional funds, and harmonizing and simplifying the criteria for access and terms. There are advantages and disadvantages of each approach.

Using the IBRD balance sheet

Using the IBRD balance sheet would take advantage of the Bank’s existing portfolio diversification, which is likely to be positively affected if climate funding is provided to UMICs that are not currently borrowing for them to make significant emission-reduction investments. Overall, the use of IBRD’s existing balance sheet is likely to be more financially efficient than creating a new window that would have to be rated and would need to establish a reputation among bond investors. On the other hand, the challenge to using the existing IBRD balance sheet is the need to raise capital from all

member countries (proportional to their existing shares) even though some countries may not be interested in contributing to a climate-focused agenda. If capital is raised from only a few countries, this could lead to an increase in their voting shares and other member countries could object.

In addition, the Bank would have to develop a process to ensure that these new funds are used exclusively for the delivery of climate finance. This is likely to prove technically complicated and difficult to monitor over time as capital is returned by borrowing countries. Without such assurances, it is unlikely that shareholders interested in furthering the climate agenda would increase their contributions significantly. This is evident by the fact that they fund so many climate-related TFs and FIFs, rather than making larger contributions directly to the Bank. Note too that the lack of clarity on how funds are being deployed may also cause concerns among borrowing countries that IBRD resources which had previously been used for poverty reduction programs might be redeployed for mitigation programs.

**Opening a third window (in addition to IBRD and IDA)**

Opening a third window would allow for the provision and use of climate funds to be clear and transparent. This could potentially generate additionality in resource mobilization as many donors strongly support the climate agenda and would like to see a significant scale up. Many could be enticed to increase their contributions if it would enable the Bank to make a step change in global climate impact, given its outstanding financial, technical and governance reputation. Donors would have the added benefit that their funds would be indisputably credited toward their climate finance commitments. The third window could also serve to mitigate any concerns from borrowers that the existing IBRD lending capacity for broader development objectives would be compromised.

On the downside, opening a new window would be complex from a financial and governance perspective. A new balance sheet would have to be created and a new Board established. Determining voting shares could be politically time consuming. These difficulties and potential delays are not, however, likely to be more so than those of using IBRD with the need to secure agreement from all shareholders and develop credible processes for ensuring the use of new resources are used only for climate purposes.

**Establishing an omnibus Financial Intermediary Fund**

Establishing a FIF dedicated to climate could also bring significant climate benefits. If it were to consolidate many (if not most) existing climate TFs and FIFs, and harmonize and streamline the criteria for access, procedures, requirements, and terms, this would bring significant benefits for clients. Such a reform, however, is not as straightforward
as it sounds since the multiplicity of criteria across existing funds is a result of many donor requests or requirements, and this has thwarted many attempts to make progress in this area over the last decade or so. A new FIF would make the provision and use of climate funds clear and transparent and would have the added benefit that funds could be allocated to other MDBs, as done currently with the Climate Investment Funds – although a new window could also be designed to provide co-financing for MDB operations.

On the downside, to match the Bank for financial efficiency, the FIF would have to create its own balance sheet, secure a rating, issue bonds to leverage the capital newly provided by potential shareholders, and create its own governance structure. This would be in many ways equivalent to creating a new financial institution with the resulting complexities. Furthermore, such a new institution would unlikely be able to be as financially efficient (that is, achieve as large a leverage and maintain the same rating) as IBRD or a new window, at least initially. Depending on the extent to which the new FIF is not able to rely on the Bank and potentially other MDBs for critical back-office functions, it would have to duplicate these functions using scarce financial resources and time.

As mentioned, each of these three options has advantages and drawbacks. Any of the three could lead to increased climate financing, but on balance, the creation of a third window, is recommended. We believe it has the most potential to secure significant additional financial resources for investments in mitigation and adaptation and to deploy these resources quickly and efficiently. Whichever new vehicle is chosen to channel additional capital to climate and other GPGs, this must be on top of, not instead of, the mainstreaming of GPGs across the institution.

Source: Pedro Alba, Patricia Bliss-Guest, and Laura Tuck, Center for Global Development (March 2023) REFORMING THE WORLD BANK TO PLAY A CRITICAL ROLE IN ADDRESSING CLIMATE CHANGE

This paper further develops the proposal for a third World Bank Group financing window – a new GPG Facility. It would be broadly modelled on IDA, the Clean Technology Fund (CTF), and the International Financing Facility for Education (IFFEd), and would be established consistent with the following principles:

- Expanded concessionality or lending volumes for middle-income countries must not come at the expense of concessionality or lending volumes for low-income countries.
- Expanded lending volumes for global public goods must not come at the expense of existing lending for core development challenges in IBRD and IDA countries.
• Expanded concessionality or lending volumes for global public goods must not come at the cost of increased pricing for IBRD and IDA countries.

The proposed GPG Facility could be considered an evolution and scaling up of the concept of an IBRD Concessional Fund, presented in the Evolution of the World Bank Group – A Report to Governors,” for the April 12, 2023 Development Committee Meeting, by incorporating the following design parameters to be fit for purpose: separate governance from IBRD (recognizing levels of donors contributions separate from IBRD), substantial capital injections that are ring-fenced for the agreed global public goods, and internal decision making about project preparation and budget allocations that would need to be taken jointly by World Bank Country Units and Global Practices (e.g. on Climate, Health etc).
CHAPTER 3
SCOPE OF GLOBAL PUBLIC GOODS

The GPG Facility would focus on the subset of global challenges that meet the definition of global public goods. These should have a transnational nature, with global externalities, and for which countries incur additional costs or face specific barriers to deliver global public goods. Countries in the Global South generally have limited fiscal space for public investments, have higher costs of capital than High Income Countries, and do not have the same level of access to capital markets for borrowing in times of crisis as do say the United States and Europe. Public debt ratios are on the increase after a series of exogenous shocks, further constraining financing for domestic development priorities and global challenges, even if the incentives were aligned.

The purpose of the GPG Facility would be to promote country actions on agreed global public goods and the achievement of related Sustainable Development Goals, by providing a dedicated source of finance to meet their additional costs on terms which are more flexible and bear less heavily on the balance of payments than those of conventional loans, thereby furthering the developmental objectives of the World Bank Group.

For expediency, we propose the scope of GPGs to be covered by the new GPG Facility would in the first instance be primarily climate change mitigation, with tailored solutions for other global public goods developed separately and phased in. Not all GPGs are the same: we invite proposals from groups with more knowledge on the specific investments required and allocation models better suited for other GPGs such as pandemic preparedness and global biodiversity, and potentially actions related to food insecurity, financial instability, fragility and conflict, cross-border displaced people and host communities, and post-conflict reconstruction – recognizing international peace as a global public good. In the interim, we suggest an 80:20 split, with 20 percent of financing reserved for non-climate global public goods through a crisis window.

Climate mitigation investments would address both the sources and sinks of greenhouse gas emissions. The GPG Facility would support countries of the Global South in their efforts to reach net-zero emissions globally by 2050, recognizing the principle of common but differentiated responsibilities under the climate change convention.

GHG emissions reductions at the scale necessary to limit global warming to 1.5°C predominantly originate from a few sectors, chief among them the energy sector. For each sector, the GPG Facility should develop a strategic objective. For example, in the energy sector, the objective could be to achieve the following target by 2050: development of an energy sector based largely on renewable energy and electricity accounting for about half of energy consumption.
This would be achieved by investments, at scale, in energy efficiency, renewable energy generation (including support for national incentive schemes, such as tax credits, and risk sharing facilities); regulatory regimes, transmission and distribution systems (including regional interconnections and distributed renewable energy systems), energy storage, demand-management systems, and grid ancillary services for integrating variable renewable energy; coal phase-out, including for just transition; green hydrogen production and distribution; workforce development for the energy transition; modal shifts in transport; and, decarbonization of buildings, cooling, heating, industry, and transport.

The GPG Facility would also invest in the planet’s carbon sinks; deforestation and forest degradation contribute about 11 percent of all anthropogenic greenhouse gas emissions. Investments would include restoration of land and the protection of critical ecosystems through support for strengthening forest governance and protected areas management; schemes for alternative livelihoods and payment for ecosystem services; and improved agricultural, agroforestry, and grazing practices.

The United Nations Biodiversity COP15 agreed to address biodiversity loss, restore ecosystems, and protect indigenous rights, with the objective of putting 30 per cent of the planet and 30 per cent of degraded ecosystems under protection by 2030. It also set a target of raising international financial flows from developed countries to developing countries to at least USD 30 billion per year. The GPG Facility could support the implementation of this agreement by mobilizing about 50% of this target, from its own capital and through co-financing from IBRD/IDA/IFC, other bilateral and multilateral development banks, and the private sector.

The remainder of this paper focuses on how the GPG Facility could be established to address climate change mitigation; the other GPG focal areas could be the subject of further consultations on and responses to this paper. Climate adaptation and resilience would continue to be funded by IBRD/IDA, the Green Climate Fund, the Global Environment Facility’s Adaptation Fund, and the Loss and Damage Fund – although some adaptation and resilience investments could also be eligible under the biodiversity and food security GPGs. For example, certain investments in improving the resilience to extreme weather events of agricultural systems that are critical for global food supply could be considered a global public good.

12 Deforestation | UNEP - UN Environment Programme
Box 3 summarizes potential large-scale investment programs/projects to support the energy transition, drawing on current World Bank Group initiatives.

**BOX 3: Potential Energy Transition Programs/Projects**

**Sustainable Renewables Risk Mitigation Initiative (SRMI)** seeks to reduce all regulatory and grid-integration risks to support the mobilization of commercial capital and the procurement of larger volumes of renewable energy than would be possible in an approach focused solely on one-off investments. The program draws on experiences such as Morocco’s Noor Ouarzazate Solar Complex and India’s Solar Parks that have combined concessional and non-concessional financing to catalyse significant private investment. SRMI is currently being implemented in 11 countries with support from the Green Climate Fund. The World Bank plans to mobilize US$1 billion of concessional finance through SRMI to unlock 14 GWs of renewable energy capacity in 20 countries by 2025.

The GPG Facility could take forward the **Accelerating Coal Transition** program of the Climate Investment Funds, building on the first decommissioning and repurposing of a coal-fired power plant, at Komati in South Africa. The program offers concessional finance through MDBs for retiring coal plants or repurposing sites as renewable energy or other energy system assets, as well as for just transition of the affected workforce and communities. According to the World Bank, managing the social impacts of closing coal power plants and mines in the developing world will cost an estimated US$50 billion a year between now and 2040; decommissioning and replacing 1 GW of coal-fired generation with renewable energy would cost about US$2-3 billion (including social transition costs, but excluding mining).

According to the World Bank, more than half a billion people – primarily in Sub-Saharan Africa – need to be reached with distributed renewable energy to achieve universal electricity access by 2030. The GPG Facility could help raise the ambition of the **Distributed Access with Renewable Energy Scale Up (DARES) platform** that was launched by the World Bank Group at the COP27 in November 2022. For example, it could complement IDA and other MDB financing to double the target -- providing clean electricity access for 200 million people; 200,000 public institutions; and, 2 million farmers and 2 million SMEs, while displacing 4
GW of diesel generation through mini-grids and off-grid deployments in Sub-Saharan Africa.

Other candidates could include risk-mitigation for technology demonstration projects that could lead to technological improvements for developing country contexts and accelerated cost reductions, creating larger global markets – for example, for energy storage and green hydrogen.
CHAPTER 4
FINANCING

The GPG Facility should be sufficiently capitalized to have a financing capacity of about USD 35–40 billion per year, at about the same level as robust IBRD and IDA lending in recent years.\(^{13}\) Assuming about 80 percent of the GPG Facility’s funding would be allocated to climate change mitigation (given the scale and urgency of the problem), this would more than double the World Bank Group’s FY22 lending for climate finance.\(^{14}\) If every dollar from the GPG Facility could mobilize $4 in co-financing (from IBRD/IDA/IFC, other bilateral and multilateral development banks, and private capital),\(^{15}\) the total financing package for climate mitigation would be in the range of USD 175–200 billion annually, or about a trillion dollars over five years.

According to a recent World Bank report\(^{16}\), power sector investments in low- and middle-income countries (excluding China) would need to quadruple to achieve SDG7 on access to reliable, sustainable, and modern energy and the Paris Agreement. Doubling WBG climate finance with the addition of the GPG Facility would go a long way towards filling the investment gap, if it is accompanied by fossil-fuel subsidy reforms, improving the creditworthiness of utilities, and other sector planning, policy, and regulatory reforms that lower the cost of capital and create the necessary investment climate in the Global South.

This estimate is also generally consistent with the argument made by Kharas and Bhattacharya for IBRD to triple its sustainable annual lending to about USD 100 billion per year as its contribution to the annual incremental external financing needed “to drive a strong recovery from the present crisis, to restore momentum to the SDGs, and to ensure that we can keep climate and nature goals within reach.” They argue that about one-half of the incremental investments will be needed for climate action, and the remainder for the rest of the SDGs. Therefore, if the GPG Facility (rather than IBRD) is capitalized for the climate change mitigation portion of the increased lending, then half of the proposed increment of about USD 65 billion annually would be lent by the GPG Facility – which is in the range we propose.

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\(^{13}\) In FY 2022, actual figures for IBRD net commitments was $33.1 billion - IBRD-FinancialStatements-June-2022.pdf (worldbank.org); for IDA’s net commitments in FY22 were $37.7 billion- IDA-FinancialStatements-June-2022.pdf (worldbank.org).

\(^{14}\) The World Bank Group would continue to have Paris Alignment targets and track climate finance in IBRD, IDA, MIGA and IFC, so that the GPG Bank’s financing would count as additional.

\(^{15}\) The Clean Technology Fund’s investments of US$5 billion have mobilized US$25 billion in co-financing. 03_1_ctf_results_report.pdf (d2qx68gt0006nn.cloudfront.net)

\(^{16}\) Scaling Up to Phase Down: Financing Energy Transition in the Power Sector, The World Bank (April 2023) Scaling Up to Phase Down (worldbank.org)
Concessionality would be an essential feature of the GPG Facility’s financing. It would enable country action on GPGs by providing low-interest loans with longer tenors than IBRD, as part of an overall World Bank Group and MDB blended financing package that tailors terms to a target level of concessionality to make a project viable. For example, concessional funds are essential to addressing the high up-front capital costs of renewable energy and energy efficiency investments, particularly in low- and middle-income countries with limited fiscal space and high cost of capital.17

The consequences of these barriers are well-summarized in a recent World Bank publication Scaling Up to Phase Down: Financing Energy Transitions in the Power Sector (Box 4).

Box 4: Impact of higher capital costs on the affordability of the energy transition

Where capital carries higher costs, projects require higher returns to be bankable; this can trigger affordability constraints and render projects nonviable. Taking a stylized country example, the table below illustrates the additional system costs and generation mix associated with decarbonizing the power system relative to a baseline where emissions reductions are not imposed. The results show the impact that capital costs typical of high-, middle-, and low-income countries would have on an illustrative model of power system decarbonization, all else being equal. In this illustrative country analysis, meeting electricity demand without any carbon emissions constraints costs 25 percent more for a low-income country (LIC) than for a high-income country (HIC), purely because of the LIC paying more for the capital needed to build the network infrastructure and generation assets. Continuing the same analysis, if a carbon emissions constraint is imposed, the incremental cost of achieving the same carbon target is 33 percent higher for a LIC than for a middle-income country (MIC). With many consumers already finding electricity unaffordable, and the power sector transition raising system costs overall, the LICs appear bound to pay the most to achieve the same goals because of higher capital costs.

Power system cost and contribution of renewable energy by the typical cost of capital in high-, middle-, and low-income countries

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17 According to Homi Kharas and Amar Bhattacharya in “The Trillion Dollar Bank” (Center for Sustainable Development at Brookings, April 2023), “As a rough rule-of-thumb: Each percentage point difference in the cost of capital will affect the levelized cost of electricity by 0.5 cents/KwH. See for example, the DOE Office of Indian Energy, Levelized Cost of Energy, “https://www.energy.gov/sites/prod/files/2015/08/f25/LCOE.pdf”
## Proposal for a Global Public Goods Financing Facility at the World Bank

<table>
<thead>
<tr>
<th>Country Type</th>
<th>Present value of system cost (normalized to 100) Baseline</th>
<th>Present value of system cost (normalized to 100) Decarbonization</th>
<th>Renewable energy in 2050 generation mix (%) Baseline</th>
<th>Renewable energy in 2050 generation mix (%) Decarbonization</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Income</td>
<td>100</td>
<td>109</td>
<td>70</td>
<td>89</td>
</tr>
<tr>
<td>Middle Income</td>
<td>109</td>
<td>121</td>
<td>66</td>
<td>86</td>
</tr>
<tr>
<td>Low Income</td>
<td>125</td>
<td>140</td>
<td>59</td>
<td>83</td>
</tr>
</tbody>
</table>

Note: To illustrate the impact of different capital costs on the cost of decarbonization and the contribution of renewable energy, the World Bank’s Electricity Planning Model was used to model a single, generic, mid-sized power system. In a baseline and decarbonization scenario, three different sets of assumptions were applied to reflect the different costs of debt and equity that are broadly typical of countries at a particular income level. These values are not an average across countries. Results could vary considerably among countries even within the same income group. For comparison, the present value of system cost has been normalized to 100 for the baseline in high-income countries. Source: World Bank estimates.

Source: Scaling Up to Phase Down: Financing Energy Transitions in the Power Sector (World Bank, 2023)

The World Bank concludes that “LICs and MICs are thus caught in a poverty trap, unable to afford the high up-front cost of switching to clean energy and locked into higher costs and recurring payments for fossil fuels. Providing international funds with lower costs of capital to LICs and MICs can correct this penalty and offset the additional costs that LICs and MICs must pay to decarbonize.” In the example from Box 4, “a LIC could supply electricity in a decarbonization scenario at the same cost as in the baseline scenario only if it were able to lower its weighted average cost of capital by nearly 4 percentage points. To achieve the same goal, the MIC would need to lower that same cost by 3 percentage points. To ensure that electricity in a decarbonization scenario would cost the same as in the baseline scenario, about 10 percent of the total financing needed for the energy transition in LICs and MICs would have to be on grant terms.” In the next chapter, we propose building blocks for the GPG Facility’s capital structure that could provide countries with the necessary concessionality.
CHAPTER 5
CAPITALIZATION

We reaffirm our view that a strong IDA replenishment is a priority for already constrained donors. Implementation of the G20’s Capital Adequacy Framework recommendations is necessary but not sufficient to speed-up low carbon transition, build resilience to climate shocks; protect, and restore natural capital while ensuring a just transition within and across countries. For all this to be made manifest, a stepwise mobilization of resources is going to be required. The sooner we grasp that fact and marshal the political will and ingenuity to act, the more likely we will be able to meet the Paris Agreement targets of 1.5C, adaptation and shifting financial flows.

With that said, the GPG Facility would be based on a financial model consisting of quasi-equity and concessional loan and grant contributions. It should also have Preferred Creditor Treatment as a member of the World Bank Group and seek to have a AAA-rating like IDA and IBRD. Given its concessional nature, the GPG Facility would require periodic replenishment (we suggest a 5-year cycle).

The World Bank should invite the private sector (such as philanthropies, pension funds, and sovereign wealth funds) and official development partners to be shareholders of the new GPG Facility, recognizing that sovereign donor funding alone will not suffice and with a clear understanding that it should not adversely impact IDA or IBRD’s lending capacity and AAA rating.

The World Bank should propose a reform of the fragmented international financial architecture for climate finance. The World Bank should draw on its role as trustee of various funds to rationalize the patchwork of funds and work with governments to develop a framework that better aligns the Bank’s capital with international environmental agreements and streamlines country access.

In particular, the World Bank Group should phase out its climate change mitigation trust funds, negotiate with donors the transfer of their assets to the GPG Facility, and re-direct new contributions to the GPG Facility – except for the Green Climate Fund and the Global Environment Facility (which have special status under the climate change convention) and World Bank Group trust funds specifically for advisory services, analytics, and project preparation (such as the Global Infrastructure Facility). The Green Climate Fund and the Global Environment Facility also have the unique feature of providing direct access for a wide variety of entities including national development banks; once the GPG Facility is operational and providing concessional finance to the MDBs, they might no longer require access to the GCF and GEF for their climate change mitigation operations.
The capital structure of the GPG Facility would be based on voluntary contributions rather than a burden-sharing arrangement. This sidesteps any geopolitical tensions and prevents political dynamics in any one country constraining overall ambition. The capital can be sourced from the following building blocks, which would be a mix of existing and new financing approaches (summarized in Table 2):

**Block 1: Donor guarantees**

The GPG Facility could adopt the innovative models of IFFEd and the Asian Development Bank’s Innovative Finance Facility for Climate in Asia and the Pacific (IF-CAP).

Following the IFFEd model, donor guarantees would provide a form of quasi-equity to the GPG Facility. This would allow the GPG Facility to raise significant additional low-cost financing in capital markets and provide funding to countries on below-market terms. According to IFFEd’s structure, for every $1 in guarantees, donors would only need to provide $0.15 in cash as paid-in capital, with the remaining $0.85 in the form of a commitment to disburse should loans not be repaid. For every $1 of quasi-equity provided, the GPG Facility would be able to provide an additional $4 in financing. This means $0.15 paid-in capital could trigger about $4 in GPG Facility lending.

Along these lines, USD 4 billion in paid-in capital to the GPG Facility with USD 23 billion in sovereign donor guarantees, could mobilize about USD 105–125 billion in new financing.

**Block 2: Surplus Special Drawing Rights (SDRs)**

With the recent issuance of Special Drawing Rights (SDRs), countries with surplus SDRs could decide to channel their excess SDRs to the GPG Facility. The rationale to do so would be strong: investments in global public goods would contribute to the long-term stability of the international financial system, for example by avoiding balance of payments crises in countries affected by climate change. Furthermore, the scale of investments required in the next decade to mitigate climate change and meet the Paris Agreement targets could impose liquidity challenges for many developing countries.

As stated in a 2022 Policy Brief prepared by Lazard:18 “… there is a need to use excess SDRs in a way that meets the demand of developing economies, even if this requires a pragmatic interpretation of what a reserve asset is. It would be odd in the end if high income countries which, by their own confession, do not need such SDRs, would not be able to lend them to low-income countries that need them, because of concerns around addressing a hypothetical future balance of payments crisis.” The Policy Brief argues that “the most effective way to re-channel the excess SDRs is to invest them into MDBs who: (i) are prescribed holders; (ii) can leverage their balance-sheet (if conservatively); and (iii) can undertake maturity transformation to finance long-term projects around the climate transition and other areas”.

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18 Lazard Policy Brief, Rechannelling SDRs in a Responsible and Efficient Way: The Case for Rerouting SDRs through Multilateral Development Banks (February 2022) [https://lazard.com/media/fobbh2rg/20220208-lazard-white-paper.pdf](https://lazard.com/media/fobbh2rg/20220208-lazard-white-paper.pdf)
In 2021, the G7 had asked their Finance Ministers and Central Bank Governors to consider the details of a global reallocation of USD 100 billion. It is likely that most of this will be channelled through the IMF. It is proposed that countries with surplus SDRs consider the option of allocating some of the balance to the GPG Facility. Several options have been proposed for such transfers; it is possible that the various requirements of central banks, treasuries and parliaments might require a menu of options for SDR Holders.

The African Development Bank has proposed an approach in which SDR Holders invest into an SDR-denominated hybrid debt instrument issued by an MDB. The instrument would be treated as quasi-equity by the MDB. Such hybrid capital would be junior to unsecured and other unsubordinated debt obligations of the MDB, but senior to the paid-in capital.

Another option would be for the GPG Facility to issue an SDR-denominated bond.\(^{19}\) In this approach, countries with surplus SDRs would lend those SDRs to the GPG Facility, which would then convert them into usable currencies through the IMF and on-lend to developing countries (ensuring that the SDR interest rate is covered by the lending terms).

It is proposed that the GPG Facility aim to mobilize USD 40 billion from surplus SDRs, through a combination of hybrid capital and SDR-denominated bonds, optimized for concessionality. A key issue to address is to what extent any gap between rising SDR interest rates and the GPG Facility’s concessional lending terms would need to be filled by grant support from contributors. Making progress on how to channel SDRs through the MDBs is one of the priority action items coming out of the Paris Summit for a new Global Financing Pact so we are hopeful the technical barriers can be overcome.

**Block 3: Concessional partner loans and grants**

Contributors would also provide grants and concessional partner loans (with high grant elements) to the GPG Facility, which would be like the IDA and Clean Technology Fund financing frameworks. It is proposed that sovereign donors and potentially philanthropies contribute about USD 15 billion in grants and highly concessional loans for a five-year period, half of which could be achieved from phasing out existing and planned World Bank Group climate change trust funds – and possibly more if donors discontinue a significant number of the 73 climate funds that are partially or fully financed by public monies.\(^{20}\) In fact, there could be significant efficiency gains from such streamlining of climate finance, not least for developing countries to access them.

**Block 4: Hybrid Capital**

World Bank shareholders who have AAA ratings and low cost of borrowing could provide hybrid capital to the GPG Facility, which could be leveraged in capital markets and

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\(^{19}\) Brad Setser and Stephen Paduano, How an SDR Denominated Bond Could Work, Council on Foreign Relations (March 2023) [How an SDR Denominated Bond Could Work | Council on Foreign Relations (cfr.org)]

potentially allow for concessionality in lending. The GPG Facility could also explore whether philanthropies might also be interested in the hybrid capital option. Assuming 6–10 such countries and philanthropies exercise this option with USD 3 billion in hybrid capital, this could leverage USD 9–12 billion in lending capacity.

**Block 5: Transfer of Clean Technology Fund Assets**

Once assets of various World Bank Group climate trust funds are transferred to the GPG Facility, it would be possible to leverage the amount from the CTF’s balance sheet in the capital markets. Based on the CIF Capital Market Mechanism, this would mobilize about USD 500 million of concessional capital per year, or about USD 2.5 billion between 2025-2030.

**Block 6: Private equity**

Sovereign wealth funds have assets of more than USD 8 trillion; some of them might be interested in stable, low-risk, long-term returns from climate investments of the World Bank Group. The GPG Facility could establish a parallel financing facility with institutional investors -- i.e., their funds would not be placed in the GPG Facility. It could follow the approach of the ILX Fund\(^{21}\), which would allow private institutional investors to invest in syndicated loans originated and structured by the GPG Facility, thereby co-investing *pari-passu* with the GPG Bank and MDBs. This would expand the pool of private capital for climate mitigation projects in borrower countries, while providing attractive risk-adjusted returns to institutional investors.

**Block 7: IBRD**

IBRD shareholders have agreed on several steps to increase its financing capacity to meet the needs of an enhanced World Bank Group mission.\(^ {22}\) A package of measures was announced during the Spring Meetings that amounted to USD 50 billion over ten years (revising IBRD’s minimum equity-to-loan (E/L) ratio from 20 to 19 percent, increasing the limit for IBRD shareholder guarantees from current USD 10 billion to USD 15 billion).

This increased financing capacity could result in higher IBRD net income, some of which could be transferred annually to the GPG Facility (along the lines of IBRD transfers to IDA, and in addition to such IDA transfers). This would also provide a portion of the grant element in the GPG Facility’s concessional financing.

There is an alternative or additional proposition: IBRD shareholders could agree to further lower the E/L ratio to 18 percent, with the USD 40 additional billion unlocked (over 10 years) be fully allocated to the new GPG Facility. Development Committee records show that this option was actively considered, and it goes without saying this could only be pursued if it did not jeopardize IBRD’s AAA credit rating.

**Block 8: Asset sales**

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\(^{21}\) [Ilxfund.com](http://ilxfund.com)

\(^{22}\) *Evolution of the World Bank Group – A Report to Governors,* for the April 12, 2023, Development Committee Meeting.
The GPG Facility, upon successful project completion – and once revenues start to flow – could sell its loan assets, thereby raising private capital and freeing up equity for additional lending. Kharas and Bhattacharya have proposed an approach for IBRD that could also be applicable to the GPG Facility:

“The solution is to design a new instrument with a step-up interest rate clause or a time-bound put option. In such a design, the interest rate would rise to commercial levels upon successful completion of the project, permitting IBRD to sell remaining maturities without taking a loss. These commercial levels would, however, be far lower because construction and other project implementation risks would no longer be applicable. Such an instrument could be particularly attractive for UMICs [Upper Middle-Income Countries] where domestic financial institutions and institutional investors might find a sovereign loan an attractive addition to their portfolio.”

In summary:

- Capitalization structure for USD 177-200 billion in financing capacity over five years
- Would require contributors to provide about USD 22 billion in paid-in capital, hybrid capital, grants, and concessional loans
- Plus USD 23 billion in sovereign guarantees
- Assuming the complex issue of surplus SDR allocations could be resolved for enough countries to provide about USD 40 billion to the GPG Facility.

It would take a concerted political push to overcome technical barriers and set up a new balance sheet with both traditional and non-traditional sources of capital. It would also send a resounding political signal that the international community is serious about tackling cross-border global challenges, chief among them climate change, for the benefit of all.

Table 2: Illustrative GPG Facility Capitalization
## PROPOSAL FOR A GLOBAL PUBLIC GOODS FINANCING FACILITY AT THE WORLD BANK

<table>
<thead>
<tr>
<th>Sources</th>
<th>Financing Amounts 2025–2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Markets based on Donor Quasi-Equity</td>
<td>US$105–125 billion</td>
</tr>
<tr>
<td>&gt; Paid-in US$ 4 billion</td>
<td></td>
</tr>
<tr>
<td>&gt; Guarantees US$ 23 billion</td>
<td></td>
</tr>
<tr>
<td>SDR Allocations</td>
<td>US$40 billion</td>
</tr>
<tr>
<td>Donor Grants and Concessional Loans</td>
<td>US$15 billion</td>
</tr>
<tr>
<td>Hybrid capital from sovereign shareholders and philanthropies based on</td>
<td>US$9–12 billion</td>
</tr>
<tr>
<td>&gt; Paid-in US$3 billion</td>
<td></td>
</tr>
<tr>
<td>Capital Markets based on CTF Balance Sheet transfer</td>
<td>US$2.5 billion</td>
</tr>
<tr>
<td>Sovereign wealth funds/pension funds (pari passu parallel financing)</td>
<td>US$5 billion</td>
</tr>
<tr>
<td>IBRD net income</td>
<td>US$0.5 billion</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>USD$177-200 billion</strong></td>
</tr>
</tbody>
</table>
A governance agreement to support the objectives and effective operation of the new institution would be agreed by initial contributors and representatives of eligible recipient countries, prior to the establishment of the new institution.

As stated by Ravi Kanbur: “Countries which contribute most, and countries which the world needs to do most to address cross-border global issues, should surely be prominent in the governance of the institution. It is only with this combination that the World Bank can best serve the global needs that only a global institution can do.”

To assure that it maintains the trust of shareholders and other stakeholders in its work, the governance structure should be attentive to preserving the following characteristics:

1. **Legitimacy**: governance and management structures should facilitate the participation of core partners (eligible recipients and contributors) and opportunities to benefit from the voice of stakeholders. The GPG Facility’s Board should be structured to help foster voice, inclusion and ownership from both borrowing members and sovereign and non-sovereign contributors.

2. **Accountability**: accountability should be defined, accepted, and exercised by all partners. The overarching governing body should have a clear mandate and adequate authority and competency to carry out its functions.

3. **Transparency**: strategies, policies, decision-making, reporting, and evaluation processes should be open and freely available.

4. **Efficiency**: governance and management structures should enhance efficiency in the allocation and use of resources.

5. **Effectiveness**: results in terms of outputs and outcomes should be measured and shared.

6. **Independence**: decision-making and oversight should be unconstrained by conflicts of interest.

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23 Ravi Kanbur, What is the World Bank Good For? Global Public Goods and Global Institutions (May 2017) [https://static1.squarespace.com/static/58cc36ed03596e3341b757ac/t/59369005725e258c00eb1ad9/1496748037864/Whats+The+World+Bank+Good+For-WP.pdf](https://static1.squarespace.com/static/58cc36ed03596e3341b757ac/t/59369005725e258c00eb1ad9/1496748037864/Whats+The+World+Bank+Good+For-WP.pdf)
As in the case of IDA, the President of the World Bank would be the ex-officio head of the GPG Facility, and the World Bank’s staff would be its ex-officio staff. However, its board would need to incorporate sovereign and non-sovereign contributors and a stronger voice for the Global South than current World Bank Group governance arrangements. The new institution would have no impact on voting shares in IBRD.

It is proposed that a new resident board be established as the highest-level oversight body of the institution, with responsibility for overseeing that the institution is effectively fulfilling its goals and objectives and for developing, adopting, and evaluating the operational policies and activities financed by the institution.

There are many precedents among existing multilateral financing arrangements to draw upon in structuring the board, but one that is particularly relevant is the GEF Council, a model that has stood the test of time for over three decades.

The board could consist of Directors representing constituency groupings formulated and distributed considering the need for balanced and equitable representation of all members of the GPG Facility and giving due weight to the funding efforts of all contributors. There would be an equal number of Directors (and Alternates) from countries eligible to receive funding and from sovereign contributors. Each constituency would be responsible for appointing its Director (and Alternate). Non-sovereigns would have non-voting Board membership.

The President of the World Bank would serve as non-voting Chair of the board. There could also be a non-voting co-chair, alternating between contributors and borrowers’ constituencies. The board would have similar responsibilities to the current World Bank Group boards in terms of project approval and policy decisions.

Decisions requiring a formal vote by the board would be taken by voting procedures that would recognize decision-making by an agreed majority of all constituencies as well as support of contributors. As in the GEF, decisions would require a double-weighted majority. This could be either: (i) an affirmative vote representing both an agreed majority of the total number of members of the GPG Facility and an agreed majority of the total contributions, or (ii) an affirmative vote of an agreed majority of the board seats that includes an agreed majority of contributor seats and an agreed majority of borrowing country seats.

Recognizing the innovative nature of the GPG Facility, the urgency and complexity of the problems to be addressed, and the need to foster broad consensus on climate action, the board could establish two standing committees to advise it and to promote a deliberative process that includes the voice of other stakeholders. These committees would consist primarily of independent external experts, with board and MDB representation.

One committee could focus on finance and the other on scientific and technical matters. The finance committee would advise the board on resource mobilization strategies, capital markets, financial innovation, private sector engagement, lending products and terms, and
capital adequacy framework for the GPG Facility. The scientific and technical committee would advise the board on the emerging evidence from innovations, the economics of policy and technology options, and criteria for allocating and prioritizing GPG Facility funding.

Both committees would be chaired by an external expert. The committee chairs would be non-voting members of the GPG Facility’s board and responsible for sharing the Committee’s deliberations and recommendations with the board.

To promote voice of a broad range of stakeholders at the level of the board, the following representatives would be invited to observe board meetings, and such observers would be afforded opportunities to engage in the deliberations of the board:

1. Representatives from each bilateral and multilateral development bank with a co-financing agreement.
2. Representatives of other climate financing mechanisms, such as the Green Climate Fund.
3. Representatives of other relevant international organizations and conventions.
4. Representatives from civil society organizations and the private sector.

Development of strategies, priorities and projects at the country level should also facilitate inclusion of stakeholder voice at the country level.
CHAPTER 7
KEY OPERATIONAL FEATURES

A key feature of GPG Facility operations would be the requirement to have IBRD/IDA/IFC co-financing and/or co-financing from other multilateral and/or bilateral development banks. In fact, coordination with other international financing institutions and joint work on project development and financing should be baked into the design of the GPG Facility and help to strengthen the MDB ecosystem. This could be achieved through the adoption of co-financing agreements with all international development finance institutions whose objectives align with the GPG Facility. These co-financing agreements would also define how the GPG Facility would deploy other financial instruments, such as guarantees and interest buy-downs, to reduce the cost of borrowing from other banks by public and private entities for projects that produce global public goods.

Box 5 summarizes specific measures, proposed by Alba et al, that could be taken for an enhanced MDB collaborative partnership on climate change finance.

Box 5: Measures to promote collaboration among MDBs on climate finance.

Among the MDBs, active partnership and collaboration would contribute to better planning, reduced transactions costs for shareholders and project promoters, recipient countries and the MDBs themselves, as well as improved sharing of knowledge and lessons. The Bank, with its global scope, size and analytical and knowledge capacity is well placed to lead an MDB collaborative partnership on climate change finance. Such a partnership could be structured to ensure the following.

Regular meetings and consultations could be held with the heads of the MDBs on the climate change strategy and agenda. MDB leaders currently meet twice a year on the margins of the Bank/IMF Spring and Annual Meetings. These meetings could include a standing agenda item on climate change with significant time and preparation to ensure meaningful oversight of a joint climate change strategy and its implementation. The bi-annual reviews would be an opportunity for MDB leadership to provide recommendations to strengthen the collective agenda through action by the MDB Boards, MDB staff and the global community.
Agreement should be reached by the MDB heads on a shared strategy for their contributions to net zero emissions and other aspects of the Paris Agreement, and climate change adaptation and resilience. In preparing a collective strategy to be endorsed by the Board of each MDB, consideration should be given to experience, knowledge and lessons learned from past MDB collaboration in climate finance, especially experience gained through multi-MDB Financial Intermediary Funds, such as the Global Environment Facility and the Climate Investment Funds. The strategy could usefully consider, among other things:

- Identifying useful collaboration among MDB staff for developing climate analytics.
- Setting collective climate change outcomes and outputs.
- Agreeing on common definitions and measurement of outcomes for global climate.
- Establishing collective monitoring capacity and strengthening collective reporting to the MDB boards and the international community.
- Harmonizing MDB climate finance standards and processes.
- Providing opportunities and means to share transaction costs to scale the pipeline of projects and investments, through joint consultations at the country level.
- Ensuring regular consultations and information sharing amongst MDB management and staff working on climate. These consultations could be expanded on a regional basis (i.e., Boards of large MDBs working in a region) to selected committees of the Boards of the MDBs.

Adoption of co-financing agreements between the GPG Bank and MDBs would provide shared access to concessional climate finance, like the Climate Investment Funds operations.

Source: Pedro Alba, Patricia Bliss-Guest, and Laura Tuck, Center for Global Development (March 2023)

REFORMING THE WORLD BANK TO PLAY A CRITICAL ROLE IN ADDRESSING CLIMATE CHANGE

The GPG Facility would provide financing to national governments, to sub-national entities (public or private) through on-lending by national governments, or lending directly to public or private sub-national entities. For sub-national entities not considered creditworthy by the World Bank, additional credit enhancement would need to be provided, such as a guarantee from the government or another creditworthy entity. While unconventional, there is precedent for non-sovereign and sub-national lending by the World Bank.

The GPG Facility’s focus on climate action opens space for new thinking on this front, especially given the federalized nature of many of the key emerging markets. That said, recognizing the fundamental over-arching principle of country-based engagement in the World Bank Group, all GPG Facility co-financed operations would need to be signed off by the appropriate national authority, as is currently the case for IBRD/IDA operations.
The GPG Facility would first assess whether risk mitigation instruments could be a more efficient means to mobilize private capital for a project or portfolio of projects, instead of or in combination with loan support from the GPG Facility. It would also adopt a private capital mobilization target and seek to dramatically increase private finance for specific projects or portfolios. The GPG Facility could take a position in investment funds alongside private investors and/or sovereign wealth funds, perhaps in a first loss position. The GPG Facility could also be a clearing house for private banks and funds actively seeking help to aggregate and apply de-risking instruments, especially in emerging markets. These ideas could be a design feature from the get-go and dovetails with wider endeavours to operationalize a county platform approach to achieve scale and speed and attract larger institutional investors.
CHAPTER 8
FUNDING ALLOCATIONS

Country resource allocations from the GPG Facility – and associated internal World Bank administrative budgets for country programs – should be based on country ambition, criticality, policies, and capacity related to the GPG agenda. As Alba et al have noted this would involve an adjustment to the country-based model with the introduction of a global allocation model alongside IBRD and IDA’s allocations. With respect to climate mitigation, concretely this would mean that funding would be allocated where the largest cost-effective GHG reductions can be found and to countries that opted in. There is room for innovation, for example, employing a reverse auction to maximize GHG reductions at the lowest cost. While internal incentives and decision-making structures would need to evolve, this does not require a major restructuring of the World Bank.

One approach would be for the World Bank’s country directors (in consultation with their country partners, IFC, MIGA and other bilateral and multilateral development banks) to bid for two-year lending and budget envelopes from the GPG Facility. The World Bank’s Country Climate and Development Reports (CCDRs) would provide the core diagnostic for identifying investments across the MDB ecosystem, further honed to provide what the private sector needs to fast-track deal flow, particularly the needed policy and regulatory reforms.

Funds would be allocated based on countries’ plans and targets to implement their Paris Agreement 2030 commitments, possibly using the following criteria:

- 40 per cent weight to cost-effectiveness (dollars per ton of carbon reduced) of proposed investments.
- 30 per cent weight for adoption of policy and regulatory reforms identified in CCDRs.
- 10 per cent weight to size of carbon reduction from proposed investments.
- 10 per cent weight to private capital mobilization in proposed investments.
- 10 per cent weight to performance of country’s IBRD/IDA portfolio (based on disbursement record and World Bank Group Independent Evaluation Group assessments).

Implementation of this resource allocation system would require changes in the World Bank’s decision-making structures. Authority for budget and funding allocations and lending decisions would shift from being the exclusive domain of the Regional Vice Presidents and
Country Directors to being a shared responsibility with the Global Vice President for Climate Change.24

Country Directors and Regional Directors would continue to be the primary interlocutors with country counterparts and remain responsible for developing Country Partnership Frameworks and the delivery of country lending and non-lending operations. However, the Climate Change Vice Presidency and Development Finance Vice Presidency, working with the Global Practices, would:

- Develop criteria and priorities for GPG Facility funding allocations.
- Determine country allocations of GPG Facility funds, along with the budgets for project preparation and supervision.
- Assess the kinds of instruments and the level of concessionality that are necessary to achieve the greatest climate impact.
- Develop global strategies with metrics and a results framework for the GPG Facility.

In the interim, the new President might get this process started in his first weeks by calling on the Bank’s Country Directors to compile a list of projects with the most cost-effective GHG reduction potential that could in theory be eligible for financing from the new GPG Facility with additional concessional financing, partnership with other multilateral and bilateral development banks.

24 Alba, Bliss-Guest, and Tuck have described in more detail the potential division of labor between the various World Bank units.
Reforms along these lines would require the World Bank’s current shareholders to acknowledge that addressing the immense climate challenge requires a fundamentally different institutional, legal, and financial approach to multilateralism than the past eight decades. They would need to face the reality that the World Bank, as currently structured or stretched, might mobilize a few billion dollars more for climate change, which is far short of the needs. The step-change needed to finance the economic and social transitions would require more fundamental reforms.

Sixty-three years ago, the World Bank created IDA, recognizing the need for concessional terms for poorer countries; now, the Bank should step forward with a similarly bold idea to accelerate climate action. We propose that the World Bank’s shareholders aim to have GPG Facility operational by November 2025, on the 10th anniversary of the Paris Agreement.

In terms of concrete next steps, there are several live diplomatic processes in addition to the Bank’s Evolution Roadmap this proposal might land and relates to (see Box 6). We recommend that, following discussions at the G-20 Summit, the World Bank’s shareholders provide guidance to the Bank’s management at the Marrakech Annual Meetings later this year to proceed with the drafting of Articles of Agreement for the GPG Facility, with a view to negotiations being conducted in 2024-25 and completed by the Annual Meeting in 2025.

**Box 6: Live diplomatic processes and adjudication moments that could drive attention and support bigger, bolder ideas for climate action**

**G20 India Expert Group on strengthening MDBs**
Under their G20 Presidency India set-up an Expert Group on strengthening multilateral development banks (MDBs). The nine-member group, co-convened by NK Singh and Lawrence Summers, is likely to focus on greater coordination among more than a dozen MDBs and channelling private capital into green finance. The initial report was finalized in June 2023 and includes a recommendation for a Global Challenges Fund housed at the World Bank, with further elaboration of the proposal by the end of the year.

**Bridgetown Initiative**
A global South-led initiative championed by Barbados Prime Minister Motley for “urgent and decisive action to reform the international finance architecture”. There are six priority actions in the Bridgetown 2.0 agenda: i) provide immediate liquidity support by fast-tracking the re-channelling of SDRs; ii) restore debt sustainability by a revamp of the Common Framework, updated debt sustainability analysis, new natural disaster debt clauses, and tapping into new sources of revenue to finance a Loss and Damage Fund; iii) mobilize private finance to tune of $1.5 trillion per year through forex guarantee and support for pipeline development; iv) increase official sector development lending for SDGs to $500 billion per year through implementation of the CAF review, an additional $100 billion of paid-in capital contributions to MDBs, re-channelling SDRs to the MDBs, increasing the leverage of and contributions to IDA balance sheet; offer new terms to invest in resilience and streamline processes; v) ensure multilateral trading system supports the green and just transformation; and vi) reform the governance and operations of the IFIs.

COP28 Dubai
Due to take place in November in Dubai, COP President-Designate Dr. Al Jaber has said there will be a big emphasis on finance. The UAE presidency has laid out four pillars to mobilize the quantum of finance required to half emissions by 2030: i) fundamentally reform the international finance institutions (italics added); ii) better leverage private-sector finance; iii) establish well-functioning carbon markets; i) unlock finance for innovation. “Tinkering around the edges” is no longer acceptable according to Majid Al Suwaidi of the COP28 team.

2024 Key Milestones
February 14-15: International Energy Agency -50th Ministerial Meeting
April: UN Forum on Financing for Development
July 12-14: Brazil’s G20 Brazil
July 21: 80th anniversary of Bretton Woods Conference
September 22-23: UN Summit For the Future

Key Adjudication Moments will add political pressure for ambitious reforms
The 2023 Global Sustainable Development Report is slated for release in September 2023 as the world approaches the half-way point of the 2030 Agenda. Practical solutions that can accelerate progress on the SDGs will be urgently needed.

Under the Paris Agreement, the first ‘Global Stocktake’ will happen in 2023. It will assess whether the net result of the climate actions being taken is consistent with the goal of keeping the increase in global average temperature from pre-industrial times to within 2C. This stocktaking process is aimed at informing the next round of NDCs to
increase ambition. It will also show the need for new thinking, collective action, and a step-change in political will.