The World Bank at 75

Scott Morris and Madeleine Gleave

Abstract

As the World Bank approaches its 75th anniversary, it faces a rapidly changing global environment. Economic growth among developing countries means that, according to our projections, up to 42 current IDA countries and 36 current IBRD countries could be eligible to graduate from their respective lending windows by 2019 under the bank's current rules. Changing dynamics in financial supply, both within and outside of the bank, and demand, e.g., for massive infrastructure investment or global public goods, indicate a need to rethink the bank's core lending model.

This paper examines ways in which seemingly immoveable forces underlying the World Bank's work might finally be ripe for change in the face of shifting development needs. Specifically, we offer examples of (1) how country eligibility standards might evolve; and (2) how the bank might move further away from the "loans to countries" model that has long defined it. Finally, we consider options for mobilizing more resources, and in more flexible forms, to support the World Bank's work.

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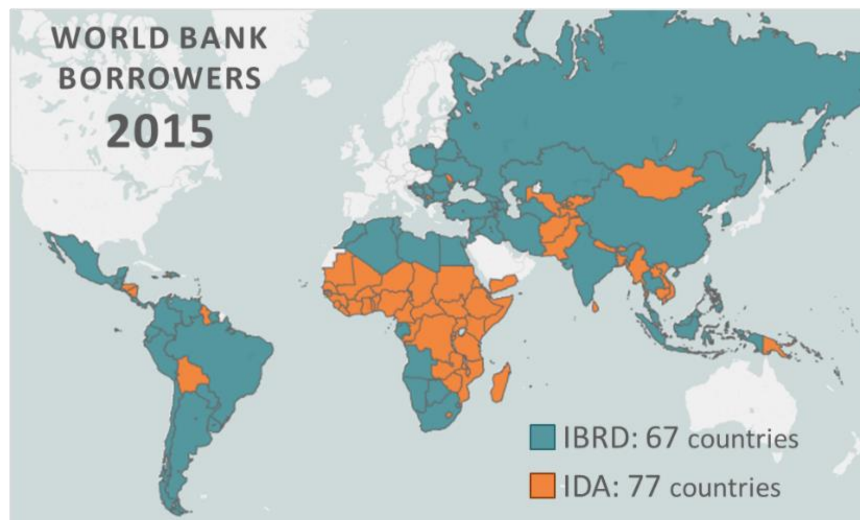
Introduction

When the International Bank for Reconstruction and Development (IBRD) was launched at Bretton Woods in 1944, it introduced a model for development finance that has proved remarkably durable over seven decades. Sovereign governments come together with contributions of public funds, which serve as pooled capital to support lending to countries on a leveraged basis for development purposes.

There have only been two major adjustments to the model to form the World Bank Group as we know it today. First was the creation of a dedicated financing arm for private sector investment with the establishment of the International Finance Corporation (IFC) in 1956.[1] And second was the creation of the International Development Association (IDA) in 1960, which introduced the differentiation of financings terms in sovereign lending according to the borrowing country's level of income.

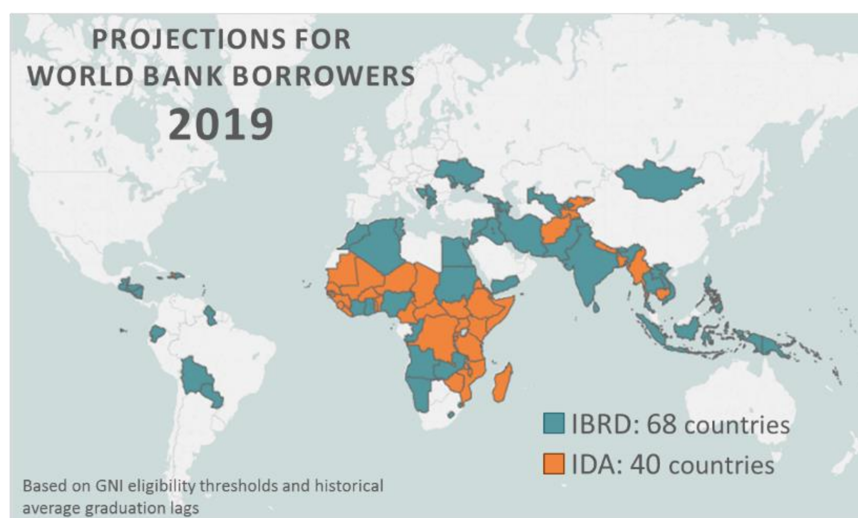
The World Bank continues to operate according to the core model some 71 years after the founding of IBRD and 55 years after the founding of IDA: loans to sovereign governments with terms differentiated largely according to one particular measure (GNI per capita) of a country's ability to pay. Together, concessional and non-concessional loans to countries still account for 67 percent of the institution's portfolio.[2]

So when the World Bank looks at the world today, it sees a large number of countries organized by IDA and IBRD status.



[1] The Multilateral Investment Guarantee Agency (MIGA) followed in 1988 to provide political risk insurance to private investors, but its operations remain small (about 5 percent of annual World Bank commitments) relative to the other arms of the bank.
[2] FY2014 commitments for IBRD, IDA, IFC and MIGA. 2014 annual reports.

And what will the World Bank see in 2019, on the occasion of its 75th anniversary? On its current course and with rote application of existing rules, the picture could look very different, with far fewer of those so-called "IDA" and "IBRD" countries.[3]



But does this picture accurately reflect the development needs that will be pressing in the years ahead? Or instead, does it simply reflect an institutional model that is declining in relevance?

It is remarkable how enduring the World Bank's basic model has been. The two core features (lender to sovereign governments; terms differentiated by countries' income category) have tremendous power within the institution, which has grown up around them. The differentiation in terms has generated two of the core silos within the institution: the IBRD and IDA. And lending to national governments (what we will call the "loans to countries" model) is so dominant that it has crowded out other types of engagement, even when there has been political will to do other things (notably, climate-related financing).

So while the model has been laudably durable in some respects, it is also increasingly seems to be stuck at a time when external dynamics call for change.

This paper examines ways in which seeming immoveable forces underlying the World Bank's work might finally be ripe for change in the face of shifting development needs. Specifically, we offer examples of 1) how country eligibility standards might evolve; and 2) how the bank might move further away from the "loans to countries" model that has long defined it.

We do not attempt a comprehensive reimagining of the World Bank's instruments and strategy. These illustrative examples of reforms are intended to motivate the bank's shareholders to think differently about the core model in terms of what is essential and what

[3] The projections depicted here are described in detail in Section 1.

should be adapted. As World Bank shareholders contemplate the institution at 75, it is ultimately their decision on the way forward.

In Section 1, we consider key aspects of the "external dynamics," highlighting key trends among the World Bank's client countries. Next, we apply these trends to the bank's current model to assess what graduation trends will look like in the years ahead for the bank's borrowers. We then examine broader trends in the institution's financing activities. We conclude Section 1 with some consideration of demand for World Bank resources.

Section 2 explores policy options for adapting the World Bank's model along the two main dimensions: loans to countries, and lending terms and access according to country income categories.

Finally, Section 3 considers the question of the World Bank's financing needs and the role that financing *of* the institution plays in determining how the bank operates.

Section One: A Picture of the World Bank and Its Countries

In this section, we present the picture of the World Bank and its client countries as they exist on the current path. That is, when we consider the loans to countries model, with its reliance on country income categories, what do the trends for countries and bank support for those countries look like?

Trends among the World Bank's Borrowers

The overall performance of developing countries during the past two decades has been positive, with major gains in economic growth and poverty reduction globally. Champions of the Millennium Development Goals (MDGs) eagerly welcomed the success of the poverty goal five years ahead of schedule in 2010, and the pace of poverty reduction (by current measures) has been so robust that the World Bank has set the effective elimination of extreme poverty by 2030 as one of its twin institutional goals.

Of course, the "developing world" is highly diverse, and much of the positive picture to date has been shaped by the performance of large emerging market countries like China, Brazil, and India, whose growth trajectories have been strong. China alone has driven much of the success around global poverty reduction.[4]

Yet, as much as a few large countries may be driving gains globally, the positive picture actually reaches more broadly across developing countries. For example, focusing on the IMF's category of low-income developing countries, which largely comprise the so-called "IDA" countries, reveals a remarkable picture by historical standards. First, growth in these countries has been strong and durable in recent decades, particularly compared to the picture in advanced and emerging market countries.

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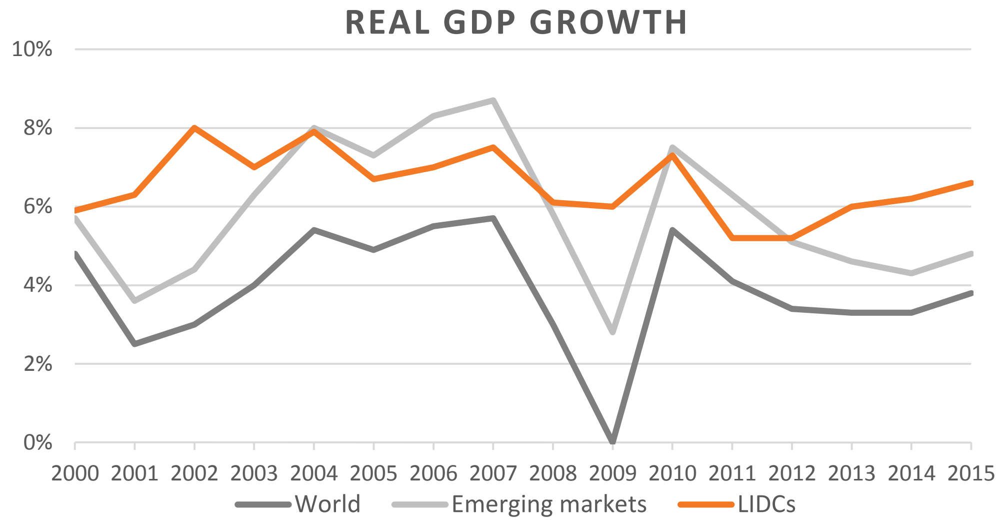
[4] Chen, S. and M. Ravallion (2012). "An update to the World Bank's estimates of consumption poverty in the developing world." Briefing note, World Bank Development Research Group. Washington, DC: World Bank.

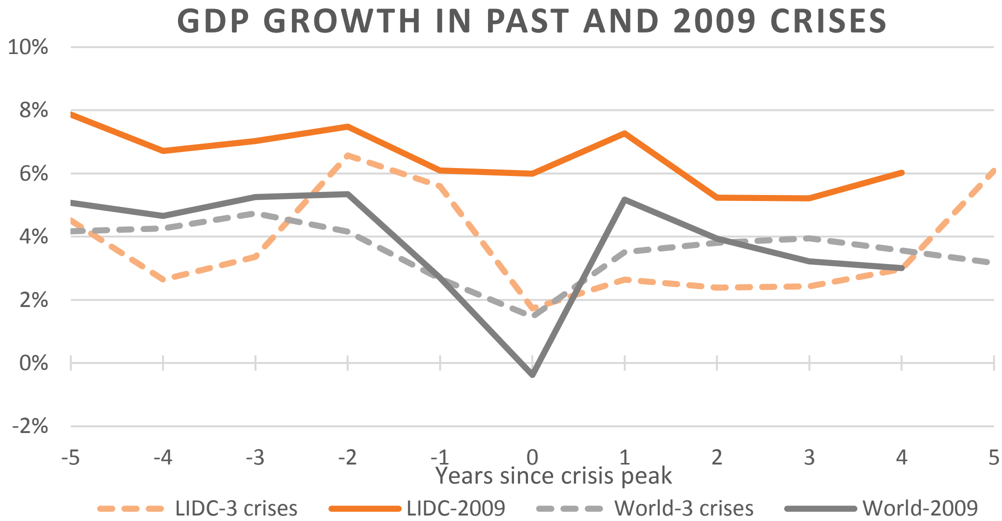
Figure 1



Source: IMF (2014)

The post-Lehman global crisis was a once-in-a-century negative economic shock for the global economy, yet low-income countries barely registered a slowdown during this period. This does not reflect the historical norm. IMF analysis shows that in previous crises, low-income countries registered bigger drops in growth and longer recovery periods than the global economy as a whole.[5]

Figure 2



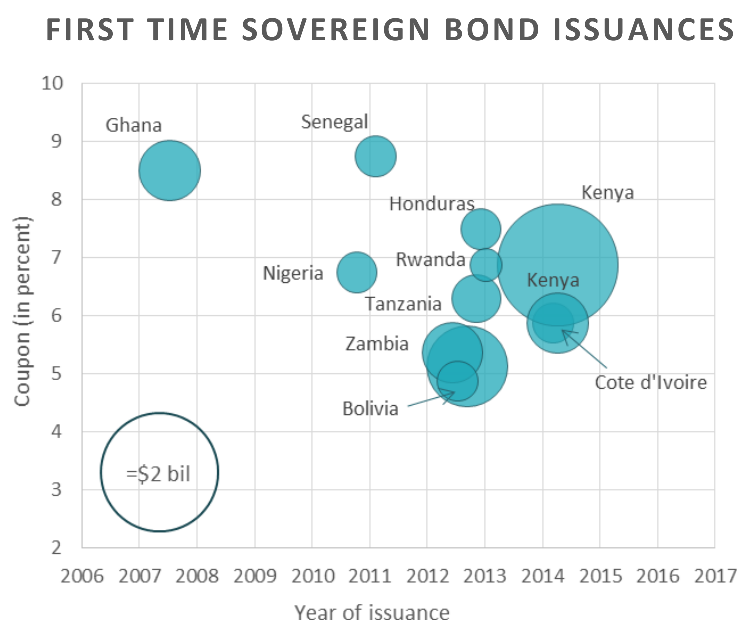
Source: IMF (2014)

[5] International Monetary Fund (2014)a. "Macroeconomic Developments in Low-Income Developing Countries." Washington, DC: IMF.

These particular measures of progress are relevant because long standing World Bank engagement in low-income countries is a story of gains that can be lost to economic setbacks. IMF analysis suggests that these countries are sustaining growth "takeoffs" more today than in previous periods.[6]

Other measures of success in this group of countries are equally striking and have bearing on the World Bank's role. Low-income countries have had growing success in obtaining sources of financing other than official development assistance (ODA). Perhaps most prominent is the recent cohort of countries engaged in first time sovereign bond issuances, as well as the coupons on those issuances (see Figure 3). Both the incidence and interest rates reflect what is an extraordinary period in global financial markets, where investors are increasingly "chasing yields" after a sustained period of low interest rates associated with quantitative easing by major economy central banks. Of course, it is unclear if this new class of borrowers will continue to enjoy access to bond markets on favorable terms in the years ahead, but the broader macroeconomic trends in these countries suggest that they are better positioned to sustain access to private flows today than during any other period.

Figure 3



Source: Bloomberg, via IMF, 2014.

More generally, financing outside of traditional ODA sources (including the World Bank) are becoming increasingly important for developing countries. Foreign direct investment (FDI) from OECD countries has more than doubled over the last ten years, and is now 1.7 times as large as total ODA.[7] Remittance flows to developing countries, too, are growing rapidly,

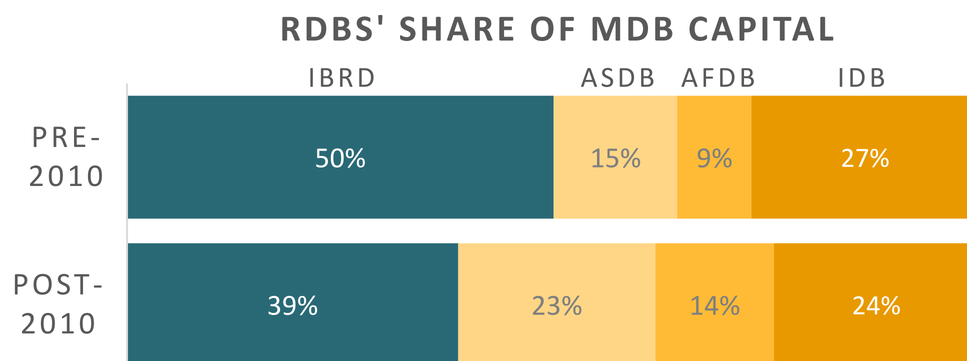
[6] International Monetary Fund (2013). "Breaking Through the Frontier: Can Today's Dynamic Low-Income Countries Make it?" *World Economic Outlook 2013*. Washington, DC: IMF.

[7] OECD (2014)a. "Keeping ODA focused in a shifting world," in Development Co-operation Report 2014: Mobilising Resources for Sustainable Development, Paris: OECD Publishing.

totaling $430 billion in 2014.[8] And due to their nature as direct income transfers, remittances have a first-order effect on poverty unmatched by many other flows.[9] South-South financing also has an increasing footprint: estimates put aid or aid-like flows from emerging markets at $15 billion per year, potentially rising to over $50 billion per year by 2025.[10] FDI flows from emerging markets to developing countries are growing at an average 21 percent per year, and investment from BRICS countries alone reached $71 billion in 2012.[11] And domestic resource mobilization has become an increasingly important source of public financing, as least-developed and lower-middle income countries have doubled domestic tax revenues in the last decade to total almost $14 billion.[12]

Finally, although the World Bank itself maintains a significant and stable share of official flows to developing countries (around 14%, according to OECD data), the bank's borrowers also enjoy greater access to financing from the regional development banks (RDBs). These include the Inter-American Development Bank (IDB), the African Development Bank (AfDB), and the Asian Development Bank (AsDB). A round of capital increases in 2010 significantly shifted the balance between the World Bank and RDBs as a result of large capital increases for the regional banks and a relatively small increase for the World Bank (Figure 4). Continuing this trend, we now see the emergence of new multilateral development banks, which promise to mobilize additional public capital for development finance (see Box 1).

Figure 4



[8] World Bank (2014)a. "Migration and Remittances: Recent Developments and Outlook," Migration and Development Brief 22. Washington, DC: World Bank.
[9] Yang, Dean (2011). "Migrant Remittances," *Journal of Economic Perspectives*, 25 (3), 129–151.
[10] Park, K.H. (2011). "New Development Partners and a Global Development Partnership", in Kharas, H. Makino, K. and Jung, W. (eds) *Catalyzing Development*. Washington, DC: Brookings Press.
[11] OECD (2014)b. "Growing dynamism in South-South co-operation", in Development Co-operation Report 2014: Mobilising Resources for Sustainable Development, OECD Publishing.
[12] OECD (2014)a.

Box 1: Emerging Players

In 2014, the World Bank's third largest shareholder, China, announced the creation of a new multilateral development bank for Asia, the Asian Infrastructure Investment Bank (AIIB). At the same time, the Chinese also joined with the other "BRICS" countries, representing over one-fifth of the World Bank's shareholders and some of the bank's biggest borrowers, to plan for a new global MDB, the New Development Bank.

The model pioneered by the World Bank is now being adapted and challenged by new institutions financed largely by emerging market countries. The New Development Bank, announced in March 2013 at the fifth BRICS summit, has moved forward with plans of $50 billion in initial subscribed capital ($10 billion each from founding members Brazil, Russia, India, China, and South Africa) and $100 billion in initial authorized capital ($41 billion of which is to be contributed by China).[1]

The Asian Infrastructure Investment Bank (AIIB), launched in October 2014, has 27 founding members including India, Malaysia, Vietnam, and several Gulf states. Most notable, the United Kingdom (the World Bank's fifth largest shareholder and IDA's largest donor) recently announced plans to join the new institution, followed immediately by France, Germany, and Italy. The majority of the AIIB's initial authorized capital—$50 billion, including $10 billion paid-in—will be provided by China. The AIIB plans to ultimately increase authorized capital to $100 billion.[2]

Both institutions will focus heavily on infrastructure, responding to the massive unmet demand from developing economies and the expressed priorities of their leaders.

While these new banks are nominally smaller than existing institutions in total authorized capital, their levels of paid-in capital are on par (and compared to some, such as the AfDB and IDB, even larger). And certainly their aspirations for growth, both within their respective regions and across the multilateral framework, will make them important players with which to engage. Strategic outreach can ensure that the World Bank, and the best elements of the MDB model, remain relevant in the new dynamic. According to statements by Jim Yong Kim, the World Bank has broadly welcomed the new institutions. On the AIIB, the bank has already been "been working quite closely with [the Chinese]," offering technical support on "everything from project preparation to implementation support, to bringing multifold different groups together to finance budgets." As the bank stands as a source of expertise and collaboration, Kim was right to state that "the critical thing for [the World Bank] would be to make sure that our interests are well woven in."[3]

[1] Ministry of External Relations, Brazil (2014). "Agreement on the New Development Bank – Fortaleza, July 15." VI BRICS Summit. Press release, July 15.
[2] "Malaysia Joins 20 Countries to Set up AIIB." English.news.cn, October 24, 2014.
[3] Taylor, G. "World Bank President, Obama at Odds over China Global Lending Project." Washington Times, October 26, 2014.

In sum, it has been a highly favorable period for the World Bank's client countries, including the low-income countries. With sustained growth and a favorable global interest rate environment, these countries, some for the first time, are enjoying access to private credit and more generally sources of financing other than the World Bank. World Bank financing continues to be important in a large number of countries, but trends suggest that the bank will be a shrinking share of country level financing in the years ahead. We turn now to a closer look at how external trends affect the way the World Bank provides financing to its client countries.

WBG Borrowers: History and Projections

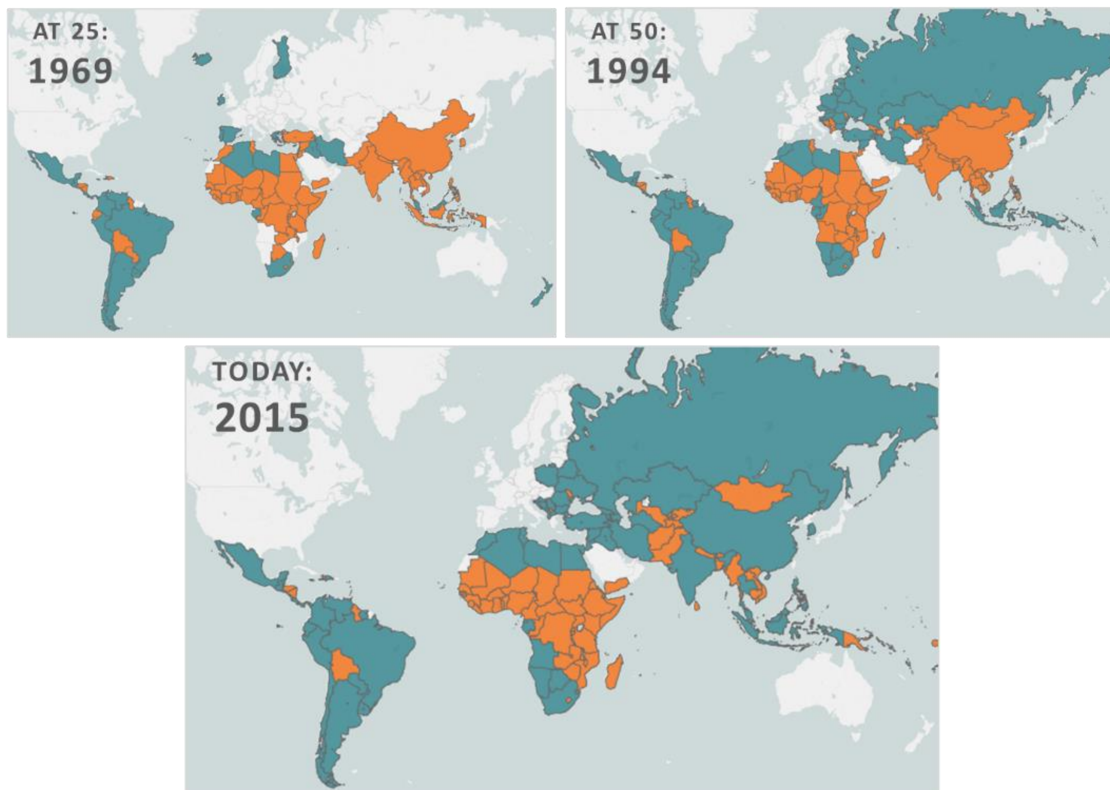
History of Country Borrowing Status

The World Bank at its inception was comprised mainly of post-war European and Latin American borrowers; by year 25, it began to include newly-independent African states. By its 50th anniversary in 1994, World Bank IBRD and IDA members had swelled to incorporate a slew of former Soviet states.

While additions to the bank since that point have slowed, there has been significant transition in the internal composition of the bank through graduations from the IDA and IBRD windows. Since 1994, there have been 23 graduations, 18 from IDA and 5 from IBRD. There have also been four de-graduations: former IBRD graduates Iraq and South Korea returned to borrower status for reasons of severe conflict and regional financial crisis, respectively, while IDA saw the return of Cameroon and Congo (the tail end of a series of reverse graduates in the early 1990s) and later Papua New Guinea.

As of 2015, there are 77 IDA countries and 67 IBRD countries. Although today's IDA countries are tomorrow's IBRD borrowers, the eligibility criteria and dynamics of each arm of the bank are distinct. We therefore look at each in turn, examining current graduation policies, prior graduation patterns, and model potential graduates by 2019 and beyond.

Figure 5



IDA Projections

Graduation Policies

IDA graduation policy is based on two criteria: 1) GNI per capita (using the Atlas method) in excess of an agreed-upon operational cutoff, which as of 2014 was set at USD $1,205, and 2) creditworthiness (to be lent IBRD resources), as determined by the bank.[13] Creditworthiness is evaluated based on broad components of "political risk, external debt and liquidity, fiscal policy and public debt burden, balance of payment risks, economic structure and growth prospects, monetary and exchange rate policy, financial sector risks, and corporate sector debt."[14] It is important to note that market-evaluated credit ratings (such as the S&P) are not equivalent to bank-evaluated creditworthiness, although the two are often correlated.

Additional considerations and exemptions are given for small island developing states (SIDS, 18 of the current 77 IDA countries) and fragile and conflict-affected states (FCAS, 28 of the current IDA countries)—determined on a case-by-case basis in agreement with IDA donors. These exceptions are most relevant to middle-income countries facing a severe economic or security crisis that would otherwise be far outside the eligibility threshold, such as Iraq. However, neither SIDS nor FCAS status precludes graduation; St. Kitts and Nevis and Bosnia and Herzegovina are two examples.

Both IDA policy and practice make it clear that graduation is not an automatic or mechanical process, but rather based on a set of triggers, some discretionary, intended to achieve an incremental adjustment in concessionality from IDA's "softer" terms to the IBRD's "harder" terms. Strict adherence to the GNI threshold as an end to IDA funds and creditworthiness as a prerequisite for IBRD financing would leave many countries without access to any World Bank funding—a situation the bank opposes on principle.[15] Thus, the bank has kept a number of these "gap countries" within IDA; as of 2015, there are 38. Nine are fragile or conflict-affected, and sixteen are small-island states. The persistence of some of these conditions make predicting these countries' graduation uncertain.

However, countries on a normal (i.e., not SIDS or FCAS) growth trajectory should be able to begin establishing creditworthiness a few years after crossing the income threshold. Reclassification as Blend status is the first step in the process, involving a creditworthiness evaluation and the phasing in of harder terms. The bank states that the final graduation process typically begins when a Blend country exceeds the GNI cutoff for at least two

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[13] World Bank, IDA Resource Mobilization Department (2012). "Review of IDA's Graduation Policy." IDA16 Mid-Term Review. Washington, DC: World Bank.

[14] Ibid, 6.

[15] Ibid, 4.

consecutive years. Overall, when making its own internal predictions, IDA builds in a five year lag between crossing the GNI threshold and formal graduation.[16]

Past Graduations

Nonetheless, the timing of the IDA graduation process has varied widely in practice. The 16 countries that have graduated since 1990[17] moved to IBRD anywhere between four years before and sixteen years after crossing the threshold, with an average length of 5.8 years (see Appendix Table A1). While this approximately matches the sequence predicted by the bank, the variance in the lag between the threshold year and graduation complicates predictions around the timeline for graduations. Delays are likely due to the disruptions of the 2008 financial crisis and other external circumstances affecting creditworthiness, as well as political considerations. But their length and variability raises questions about the strength of GNI as an eligibility criterion.

Recent graduations have tended to occur in spurts, largely driven by the IDA replenishment cycle. In 2008, coincident with IDA-15, a number of Eastern European and Central Asian countries transitioned to IBRD, and several more followed after the negotiations for IDA17. Uniquely, the most recent round also included India's official graduation into IBRD, four years after it crossed the GNI threshold—however it will continue to receive IDA lending over an undetermined transition period. The delicate negotiations around the graduation of large countries with heavily concentrated loans highlights the tenuous composition of each window and the complexity of the graduation process.

Projections to 2019 and Beyond

Despite the difficulties in projecting IDA graduations, the exercise is an important one, because of its significant bearing on the future of the bank's core anti-poverty work under the current approach. Several attempts to model IDA membership have been made by others.[18] Variations in the model produce slightly different results (see Table 1), however all point to a significant number of graduates over the next decade and a remaining pool of countries that is heavily Africa-centric and fragile. Following these attempts, we construct a graduation model based on the GNI threshold, the more measurable aspect of the World Bank's criteria (see Appendix for full methodology). Unlike Moss and Leo (2011) and Salvado and Walz (2013), we choose to include SIDS in our sample, since (as discussed earlier) the exception offered them is not guaranteed, although we do rate the non-SIDS

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[16] World Bank, IDA Resource Mobilization Department (2010). *A review of IDA's Long Term Fiscal Capacity and Financial Instruments*. Washington, DC: World Bank, p.29.

[17] Changes to the GNI cutoff level and graduation policy in 1989 make earlier graduations less comparable.

[18] Reisen, H. and C. Garroway (2014). "The Future of Multilateral Concessional Finance." Bonn: Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ); Salvado, R. and J. Walz (2013). "Aid Eligibility and Income per Capita: A Sudden Stop for MICs?" PAF Working Paper Series. Washington, DC: Bill & Melinda Gates Foundation; Moss, T. and B. Leo (2011). "IDA at 65: Heading Toward Retirement or a Fragile Lease on Life?" Center for Global Development Working Paper no. 246. Washington, DC: CGD.

countries as more likely graduation candidates. We also use both bank policy and historical average lag times, reflecting a potentially more realistic timeline for graduations.

Given all current Blend countries except Zimbabwe have crossed the GNI threshold as of 2014, applying the two-year lag would project these 17 to graduate by 2019 (see Table A3.1). Granted, seven are SIDS and/or FCAS, leaving ten normal, likely candidates, highlighted in bold: Sri Lanka, Congo, Bolivia, Mongolia, Moldova, Nigeria, Vietnam, Uzbekistan, and Pakistan, and Cameroon. Even when using the six-year lag (i.e., a lower bound projection) only Cameroon drops out. Under either lag model, all current IDA Blend countries would be expected to graduate by 2025, again excepting Zimbabwe whose GNI per capita is projected to remain below the threshold for the foreseeable future. These ten countries represented a total of $35 billion in grants and loans in 2013.

While IDA-only countries cannot graduate directly to IBRD, and must transition to Blend status first, the six-year lag in our model captures the entire average eligibility process. Therefore, while we do not predict the timing of the intermediary stages within IDA, we can estimate potential final graduates among current IDA-only countries (see Table A3.2). By 2019, we project there could be as many as 26 IDA-only countries eligible for graduation. Looking beyond to 2025, we project an additional five nations could graduate. There is, unsurprisingly, a high concentration of SIDS and FCAS countries in the IDA-only window, even among countries whose growth rates would put them well above the GNI cutoff.

Excluding these countries, we identify eight most-likely candidates for graduation by 2019: Honduras, Bhutan, Guyana, Nicaragua, Ghana, Lesotho, and Lao PDR. These countries represented a total of $6 billion in World Bank grants and loans during 2013.

Table 1: IDA graduation models to 2025*

		Remaining in IDA					
	Graduates	**Total**	**African**	**FCAS**	**Model**	**Lag?**	**Incl. SIDS?**
Morris and Gleave (2015)	44	33	82%	48%	Uses operational GNI threshold, WEO 2013 growth estimates	6 years	Yes
Reisen and Garroway (2014)	11 crossing operational; 12 crossing historical	56	54%	45%	Examines only countries below operational ($1205) and historical ($1965) GNI thresholds as of 2012, uses WEO 2013 estimates	-	Yes
Salvado and Walz (2013)	34	31 (+12 SIDS)	87% (63%)	74% (53%)	Use operational GNI threshold, WEO 2013 growth estimates	5 years	No
Moss and Leo (2011)	29	31 (+17 SIDS)	81% (52%)	58% (38%)	Use operational GNI threshold, WEO 2009 growth estimates	5 years	No

*Updated to exclude countries that have already graduated since publication

IBRD Projections

Graduation Policies

The IBRD's stated criteria for eligibility stem from its Articles of Agreement. These outline two broad requirements for lending and investment eligibility: 1) that given prevailing market conditions, a borrower would otherwise be unable to obtain the loan under reasonable conditions,[19] and 2) that private capital is not available on reasonable terms.[20] An "extensive review" of graduation criteria outlined in a 1982 policy called for the additional consideration of "a country's level of development and overall economic situation," and "a country's capacity to sustain long-term development without further recourse to the bank's financial resources."[21] These in turn would depend on a country's ability to access external capital markets on reasonable terms, and its progress in establishing key institutions for economic and social development. All of these constitute fairly subjective measures dependent on internal analysis that do not enable much external predictive ability. While an income threshold was introduced in 1973, and is currently set at $7,115 per capita, this is again only a partial indicator of eligibility. As with IDA, and perhaps even more so, a country's crossing of this threshold triggers only a *start* of discussions about graduation, and is not a sufficient condition in itself.

Past Graduations

For this reason, projecting IBRD graduation rates is a limited exercise. It is more useful to look at graduation in practice, examining patterns of former IBRD countries (Table A2). In general, there has been an average three year lag between countries' crossing the GNI income threshold and their graduation from IBRD since 1990, a tighter timeframe than observed in IDA. In the past, countries have typically taken out their last loan two years prior to graduating. This is likely because the jump from IBRD to full market creditworthiness is far less significant than IDA to IBRD creditworthiness. Nonetheless, five countries were forced to re-enter IBRD, and three received additional loans despite not officially de- graduating. None have re-graduated, including the clearly high-income South Korea, despite having not renewed borrowing for over ten years, indicating a hesitancy to close off a source of financing should economic crisis strike again.

Projections to 2019 and Beyond

Using the same model as for IDA (but using the IBRD threshold of $7,115 per capita GNI and applying an three year average lag), we project 36 countries will be eligible for graduation from IBRD by 2019, and five more by 2025 (Table A5). The vast majority of these countries

[19] Article III, Section 4 (ii)
[20] Article I (ii)
[21] "Graduation from the Bank," Memorandum from the World Bank President to Executive Directors (R82-1), January 6 1982. Washington, DC: World Bank.

(33) are already above the GNI threshold, although some may not cross it for up to seven years. Given the less concessional nature of IBRD lending and the increased flexibility in choosing to borrow, regardless of status, there is less pressure on IBRD countries to graduate than in IDA. Many likely see membership as an insurance strategy against volatility, and despite a pause in lending (as 18 of the potential graduates currently have chosen) both the bank and its borrowers have an interest in keeping the option open.

Any actual graduations from IBRD will likely be negotiated on a case-by-case basis. Still, the eligibility framework does highlight the possibility for IBRD to shrink substantially in the years ahead, particularly under a strict formulation of existing policy. More importantly, whether there are more formal graduations or not, the projections demonstrate the underlying uncertainty associated with potential demand from a growing number of countries with more options when it comes to sources of public financing.

Overall Implications of Graduation

There are a number of conclusions we can draw from this analysis:

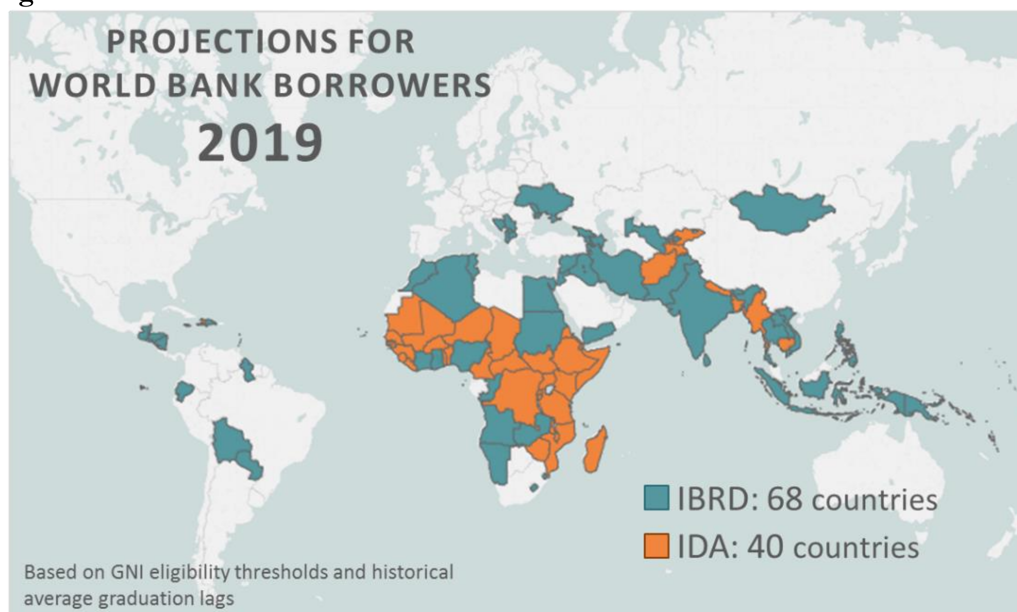
- A clear pattern of graduation from IDA and into IBRD points to a likely shift in demand for resources under the current rules from the concessional lending of IDA to the hard loans of the IBRD.
- The notion that countries move in a smooth linear fashion through categories of bank assistance is overly simplistic. In fact no country has completed the full trek through IDA and IBRD assistance in IDA's 55 year history (that is, beginning as an IDA recipient and continuing through graduation from IBRD). Reverse graduations have occurred in both IDA and IBRD.
- In general, there has been more emphasis in the institution on IDA graduations, although both have seen significant graduations (Table 2).
- Under business as usual when it comes to the bank's approach to *country* lending and graduation, we can expect to see a smaller IDA and IBRD by 2019, with the institution overwhelmingly focused in Africa and India. Whether countries technically graduate from IBRD as projected in our model, discretionary borrowing on the part of the bank's higher income borrowers becomes much less certain in the years ahead and many may simply choose to stop borrowing as they did before the global financial crisis.
- Yet, this picture may only serve to show how the bank's approach may be limiting the potential for greater development impact in the years ahead. Specifically, the dominant focus on *country* progress and on a particular measure of that progress distorts the picture of needs when it comes to World Bank financing. We consider both in Section 2.

But first we consider trends in World Bank lending and characteristics of demand for this lending going forward.

Table 2: All-time Graduation Rates

	IDA	IBRD
Total all-time eligible countries	110	87
Total graduates	33	20
Graduation rate	30%	23%
Remaining countries	77	67

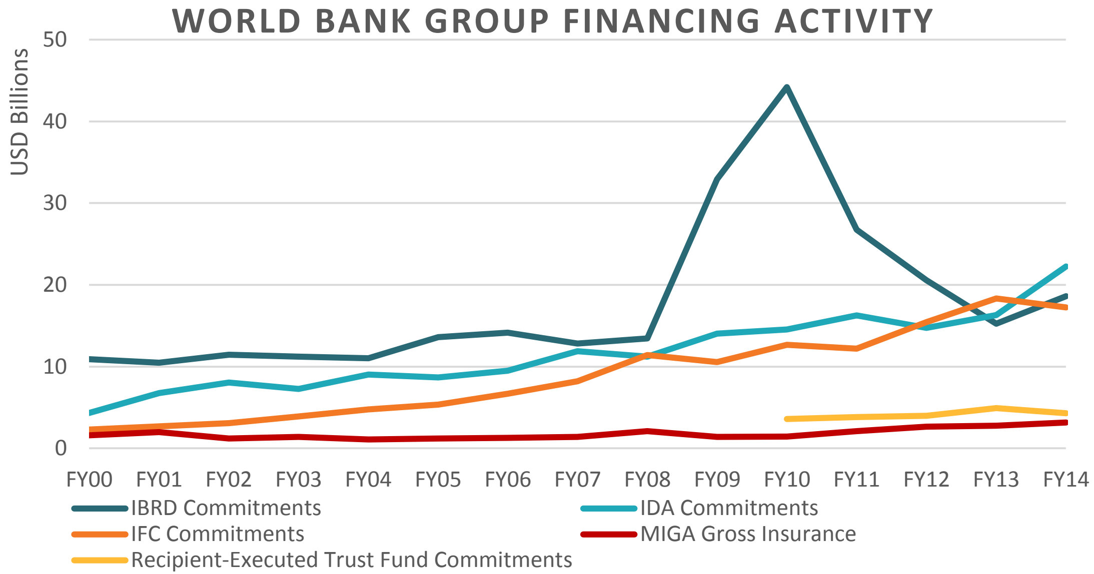
Figure 6



Financing at the World Bank Group

The World Bank Group's financing activities have expanded over time and each arm of the institution has grown to varying degrees. MIGA is the smallest, newest, and slowest growing member of the group, reflecting its relatively limited mandate to provide guarantees for foreign direct investment. Its gross yearly insurance approvals have increased by only $1.5 billion since 2000, still remaining under $3.2 billion in FY2014. The bank's other private-sector focused arm, however, has seen the highest growth rate in the last 15 years; IFC's commitments totaled $17.3 billion in 2014, with average yearly growth of 16 percent. With an increasing appetite for private sector engagement in the development process, both among Bank management, donors, and borrowers, it is likely this upward trend will continue – a dynamic we explore in greater detail in Section 2.

Figure 7



Source: WBG annual reports

Core commitments to borrower countries have risen overall by nearly $26 billion since 2000, with most of the year-on-year growth coming from IDA. Nonetheless, IBRD has the greatest capacity and flexibility for lending, particularly in times of crisis. This is evident in the enormous jump in commitments in response to the global financial crisis in 2010, when shareholders approved a general capital increase of $58.4 billion. But while the increase put IBRD commitments at more than triple FY2008 levels, within five years they had returned to pre-crisis levels, constrained by fiduciary requirements.[22]

Despite the large number of transitions from IDA to IBRD, IDA's absolute level of commitments has consistently grown, by approximately 14 percent per year. This indicates that the remaining IDA countries are receiving a larger share of financing each year. Indeed, last year's increase of nearly $6 billion was the largest spike of the decade, coming off a record setting replenishment of over $52 billion in new contributions for IDA17.[23] This boost made IDA the largest source of financing commitments of any arm of the World Bank, for the first time in history. Combined with the projected tide of graduations over the next few years, continued growth in IDA will mean that the largest arm of the bank could soon be serving the smallest number of countries and a declining share of the world's poor.

It is also worth noting the significant share of World Bank activities that are conducted through donor trust funds. These highly dispersed pools of donor resources account for

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[22] By design, the 2010 general capital increase only enabled the IBRD to return to a sustainable nominal lending level of $15 billion per annum under the bank's capital rules at the time. In this sense, the capital "increase" was designed to shrink the IBRD in real terms over time.

[23] World Bank (2014)b. "World Bank's Fight against Extreme Poverty Gets Record Support," Press release, December 17. Washington, DC: World Bank.

more financing than MIGA, but the earmarked funds are spread across a wide range of programming activities.

Finally, it is useful to consider World Bank financing on a net flows basis. That is, annual loan commitments and disbursements should also be considered net of annual payments that the bank's borrowers are making on earlier loans. Net flows to IBRD borrowers (disbursements from the bank minus payments to the bank from borrowers) were $8.7 billion in 2013 and were $5.8 billion for IDA, considerably less than the gross commitment levels revealed above.[24] While we would expect net flows to be negative among countries close to IBRD graduation, net flows to some lower middle income countries (for example, Kosovo and El Salvador) have also been negative in recent years. Negative net flows should be a particular concern for the bank when it comes to LMIC countries since it is part of a broader decline in external source of public financing in these countries, a phenomenon we describe further in Section 2.

What Demand Will the World Bank Face?

There is no accepted model for estimating future demand for World Bank financing. Exercises of this sort have typically been conducted by the bank itself, which is hardly an unbiased source. That is not to say that the bank will consistently overestimate demand for borrowing. Criticism of the modest IBRD capital increase in 2010 by borrowing countries suggested that the bank had underestimated demand in order to make projections consistent with the size of a capital increase that was considered to be politically achievable at the time.

Demand for World Bank financing is malleable, depending for example on the availability of other sources of financing and attitudes of client countries toward the bank (informed by qualitative judgments about the institution that extend beyond the terms of financing). With this in mind, we offer here a number of ways to think about future demand short of precise estimates.

Demand for concessional financing, whether through IDA or through some of the new mechanisms discussed in this paper, will always exceed supply. Even under cumbersome rules and procedures, the appeal of "free money" is strong. Of course, the question of IDA graduations is important, but even a strict reading of the existing rules does not provide a clear picture of demand given that the bank and donors are already discussing ways to allocate more funding in non-graduating IDA countries.

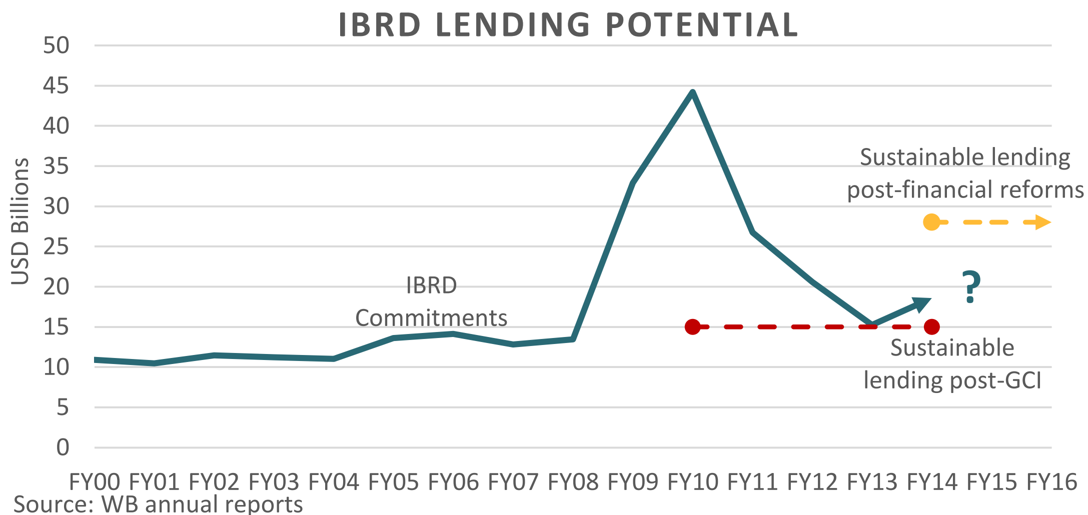
Similarly, if we consider the IFC's investment model today, it is hard to identify a constraint on demand that would exceed the supply of capital available to support investments. There will always be private sector projects available for investment, and as countries develop and

[24] World Development Indicators, Net financial flows, IBRD. *The World Bank*.

markets grow, the number of such projects will grow. In the next section, we explore the question of "additionality" when it comes to IFC investment. Just because the IFC can invest, does that mean it should? Current standards for qualifying projects around non-financial, development-oriented measures are such that it is hard to see a time when available IFC capital will outpace projects available for investment.

It is only with the IBRD, then, that we can consider demand for financing to be self-limiting beyond what IBRD capital might provide for. And here there is a great deal of uncertainty. Again, the 2010 capital increase was predicated on a demand scenario where post-crisis demand would fall in real terms below pre-crisis levels, a premise that the borrowers themselves rejected. Nonetheless, it is also clear that demand during the pre-2007 period remained largely flat in nominal terms and had in fact fallen in real terms.

Figure 8



Source: WB annual reports

The crisis-related spike in IBRD lending and subsequent drop was determined by the supply of IBRD capital. That is, the IBRD could not sustain lending above the $15 billion level after 2011 in a manner consistent with available capital. Yet, just two years later, World Bank leadership announced a series of new financial reforms (the so-called "margins for maneuver") that would increase the IBRD's sustainable lending level to $28 billion per annum.

Does $28 billion reflect demand any more accurately than $15 billion? The IBRD is lending largely for the same types of activities post-crisis as it was pre-crisis,[25] and it is hard to imagine that underlying demand for infrastructure (the leading area of bank financing) has fundamentally shifted during these few years. Yet, demand for IBRD loans remained consistently below $15 billion before the crisis.

[25] The spike in crisis lending depended more heavily on development policy loans (DPLs) than was the historical norm.

The case for a significantly higher level of demand seems to rest more on a shift in attitudes among the borrowers toward the bank – namely that post-crisis views are much more favorable toward the institution as a lender and development partner than was the case pre-crisis. The crisis lending itself could have spurred more positive attitudes as these countries were able to rely on the World Bank as other sources of financing disappeared during this traumatic period. Whether crisis needs translate into a more robust financing relationship in normal times remains largely to be seen.

To some degree, attitudes that affect country demand for World Bank resources are likely related to the question of supply. The creation of the AIIB and New Development Bank followed repeated calls from major World Bank borrowers for more capital in the bank. Those calls were rejected by World Bank management and were met with silence from key non-borrowing shareholders. Having concluded that more capital would not be mobilized through the World Bank, the Chinese in particular moved to mobilize additional capital in new institutions (see Box 1). These moves to increase the availability of MDB capital are in themselves a measure of demand coming from MDB borrowers.

One additional approach to evaluating World Bank demand considers key areas of existing and potential programming. In Section 2 we consider policy options for pursuing a larger global public goods agenda at the World Bank, so it is worth considering here some of the demand elements of such an agenda. In terms of existing activities, we consider future demand for the bank's single largest business line: infrastructure.

Global Public Goods

As one of the few truly global institutions, the World Bank sits in a potentially instrumental position to provide global public goods (GPGs). While quantifying some of the more hypothetical demands, e.g. on disaster mitigation, is challenging, we can consider some of the cost estimates associated with climate mitigation and resilience, arguably the largest looming demand for GPG investment.

Developing nations' current greenhouse gas (GHG) emissions are very low—LICs only emit an average 0.5 tons CO_2 per capita, versus high income countries' average 12.3 tons.[26] This imbalance, coupled with the lack of convergence from emitting countries in financing their own needed mitigation, highlights climate's status as a classic public goods problem—one that culminates harshly in developing countries. However, rising consumption and income levels will mean that GHG mitigation will become an increasingly serious challenge in developing countries as well.

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[26] World Development Indicators. CO2 emissions per capita. *The World Bank*. Data from 2010.

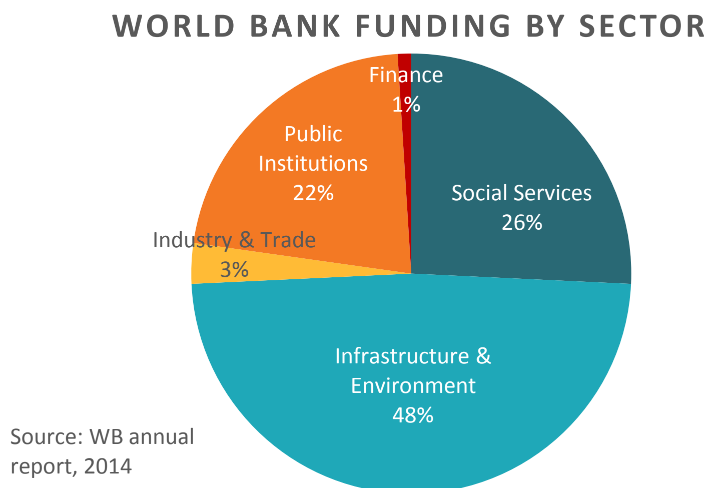
The World Bank itself estimates the cost in upfront investments for mitigating GHG emissions in developing countries could be $140 billion per year,[27] although upper-bound estimates from other sources reach $563 billion per year.[28] The effects from GHGs, those produced by both poor and rich nations, have the potential to be even more costly.

Substantial investment—an estimated $70-$100 billion per year through 2050—is needed ensure developing countries can adapt and become resilient to droughts, flooding, and other natural disasters that may increase in frequency and severity.[29] These costs are far beyond the domestic capacity for developing nations, and seem to be beyond the price major emitting nations are willing to pay unilaterally. They also provide a useful perspective on the scale of World Bank financing generally, with all World Bank Group (IBRD+IDA+IFC+MIGA) commitments totaling about $65 billion annually.

Infrastructure

The massive demand for infrastructure in emerging countries represents one of the biggest challenges for development finance today. As Figure 9 shows, the World Bank is primarily an infrastructure bank, and more specifically, a source of public investment for infrastructure in developing countries.

Figure 9



Reliable and affordable systems for transportation, energy generation and access, and sanitation are a critical foundation for other development goals, such as economic growth, job creation and broadened opportunities, and social services such as health and education.

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[27] World Bank (2010). World Development Report: Development and Climate Change. Washington, DC: World Bank.

[28] McKinsey & Company (2009). "Pathways to a Low-carbon Economy. Version 2 of the Global Greenhouse Gas Abatement Cost Curve." McKinsey & Company.

[29] World Bank (2010); Baudienville, G. (2010). "Beyond grants: climate finance in developing countries". ODI Opinion, December.

In many poor countries, the lack of these systems is one of the largest binding constraints to an accelerated trajectory, potentially dampening growth rates by two percent per year.[30]

Recognizing this, developing nations consistently put infrastructure at the forefront of their national priorities, both within their domestic platforms and in their engagements with donors and private investors. Citizens as well are intent on improved infrastructure: public attitudes surveys in Africa show that two-thirds of individuals, particularly in low-income countries, named infrastructure as the most pressing national problem—even above jobs and income.[31]

Beyond being a stated priority for developing countries, economic evidence suggests that public investment in infrastructure generally has a favorable growth effect. And even with concerns about low capacity and efficiency in low-income countries, estimates for the positive multiplier from infrastructure investment in these countries range from 1 to 1.3.[32]

Both bilateral (e.g., Power Africa) and multilateral (Africa 50 Fund, Global Infrastructure Investment Hub) partnerships have sprung up to try to expand public and private investment in infrastructure. Current infrastructure spending in developing countries totals $800-900 billion per year, much of it financed directly by domestic budgets.[33] However, a huge financing gap remains. Estimates suggest an additional $1-1.5 trillion in annual investment will be needed through 2020.[34] It will undoubtedly require a combination of increased domestic revenues, international contributions, and private capital mobilization to meet this massive demand.

IMF analysis of the economic multiplier associated with *public* investment in infrastructure reveals an important characteristic of this area of investment: a great deal of infrastructure is public in nature and does not lend itself to private investment.[35] So, for all of the discussion around leveraging private investment to meet infrastructure needs, the leveraging role itself often involves significant public financing and there will continue to be significant public infrastructure needs for which public financing is central. In this sense, it is not realistic to expect that the public financing role of the World Bank and other public sources will be supplanted by private investors, whether they be private equity, pension funds, or sovereign wealth funds.

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[30] Foster, V. (2008), "Overhauling the Engine of Growth: Infrastructure in Africa," World Bank Africa Infrastructure Country Diagnostic. Washington, DC: World Bank.

[31] Leo, B., R. Morello, and V. Ramachandran (2015). "The Face of African Infrastructure: Service Availability and Citizens' Demands." Center for Global Development, Working Paper no. 393. Washington, DC: CGD.

[32] International Monetary Fund (2014)b. "Is It Time for an Infrastructure Push? The Macroeconomic Effects of Public Investment," *World Economic Outlook*, Washington, DC: IMF.

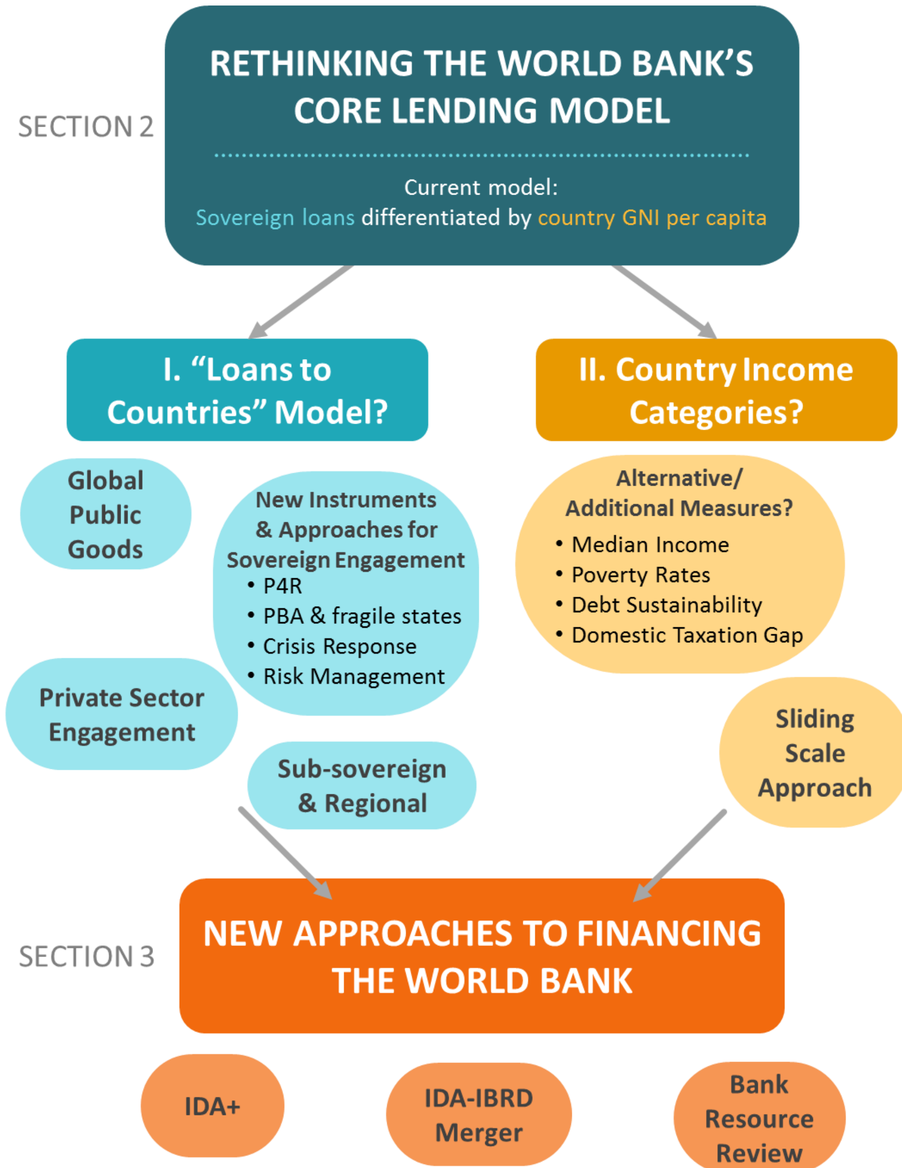
[33] Bhattacharya, A., M. Romani and N. Stern (2012). "Infrastructure for development: meeting the challenge." Policy paper, Centre for Climate Change Economic and Policy.

[34] Bhattacharya et al. (2012); G20 (2013). "Demand for Long-Term Financing of Infrastructure," G20 Issues Note #7.

[35] The IMF characterizes infrastructure as often being a natural monopoly, with high upfront costs and a long time period for the accrual of benefits, and social returns exceeding private returns.

In Sections 2 and 3 of the paper we consider a wide range of discrete policy measures aimed at testing how the World Bank might move away from its long-standing "loans to countries" model. Figure 10 indicates how we organize these policy options along the two key dimensions (departures from "loans to countries" and departures from the GNI-based low- and middle-income country categories), followed by consideration of the role that financing *of* the World Bank plays in promoting greater flexibility along these dimensions.

Figure 10



Section Two: Policy Options for Changing the World Bank's Core Lending Model

In this section, we present a wide array of policy options organized along the two dimensions depicted in Figure 10. These options do not form an integrated whole. They are simply designed to illustrate various ways in which the World Bank's core lending model, which sees the developing world as an array of LIC and MIC countries, could be usefully adapted to meet changing external development needs. Our objective is to motivate the bank's shareholders to think more fundamentally about the limitations of the model and the opportunities that are afforded by changes to it.

I. Rethinking the Dominance of the "Loans to Countries" Model

We identify four areas where the dominant "loans to countries" model could be usefully adapted:

1. A new mandate and approach to **global public goods**
2. New approaches to **sovereign financing**
3. Managing growth in **private sector finance**
4. **Sub-sovereign** and **regional financing**

Financing Global Public Goods

Recent internal reforms at the World Bank, which aim to reorient the bureaucracy toward new "global practices," have the appearance of a more robust global public goods (GPG) agenda for the institution. President Jim Yong Kim has pledged that the internal reorganization will enable the bank to "offer the most up-to-date state-of-the-art global knowledge" in support of its development mission.[36]

Yet, looking at the reorganization alongside the bank's recently announced financial reforms, which promise to boost IBRD lending in part through $400 million in administrative budget cuts, it appears that the generation of new knowledge and technologies, among other global public goods, may continue to struggle for attention under a dominant country lending model that remains largely untouched by the bank's reform agenda.

The case for a strong World Bank role is clear enough (see Box 2) and frequently echoed by many of the bank's shareholders, but the institution itself continues to operate in a way that has made it ill-suited to the task. In short, countries have very little incentive to *borrow* from

[36] Kim, J. Y., "One Group, Two Goals: Our Future Path." Annual Meetings Plenary. World Bank. Washington, DC. 11 Oct. 2013. Speech.

the World Bank to invest in agriculture or disease research, the outcomes of which are uncertain and the benefits of which are not captured by the country's government (which has to pay back the loan) or even contained within the country's borders. In principle, the subsidy provided even under IBRD's "hard terms" relative the borrowing countries' own cost of borrowing ought to incentivize some areas of GPG investment, such as employing cleaner energy technologies. But to date, the bank's borrowers have balked at pursuing this agenda aggressively absent deeper subsidies and additional sources of financing.

Box 2: Why GPGs, and why the World Bank?

Birdsall and Subramanian (2007) make the case for a GPG agenda at the World Bank defined broadly in two areas:

1. "Without collective action to minimize greenhouse gas emissions and develop local systems for mitigating its impact on people, not only will the planet be affected, but the bank's mission of reducing poverty in the world will be at great risk."
2. "Around the world, there is a tendency for research and development (R&D) to be under-supplied because it is difficult even for public suppliers (such as the National Institutes of Health in the United States) to capture for their citizens alone all the benefits. But R&D products of interest to poor countries is even more undersupplied…"[1]

So, the World Bank could usefully adopt a GPG agenda organized around addressing climate and poverty-oriented R&D agenda. The utility is not in supplanting existing efforts. Certainly on the climate front, that institutional ship has sailed: for a variety of reasons, the climate agenda is being carried forward in multiple institutional settings, including the newly-minted Green Climate Fund.

But just as it makes sense for the World Bank to continue to seek to play a foundational role among a multitude of development finance institutions, when it comes to the official "development" agenda, the bank could also seek to play this role among the many actors that currently address elements of a global public goods agenda. The World Bank is the leading mobilizer of public resources for development, and as such could bring greater scale to GPG mobilization activities that are currently dispersed across smaller scale efforts.

The bank could also provide a platform to help prioritize among research activities globally and prioritize development-oriented research activities within the broader R&D enterprise.

Finally, the World Bank provides a unique platform for joining the interests of traditional (Western donors) and non-traditional (emerging markets and philanthropic) sources of financing for GPG activities. GPG activities have relied heavily on donor trust funds, some of which have been particularly successful in attracting non-traditional donors like the Chinese government (for example, the Climate Investment Funds). But these initiatives remain isolated and lack a broader platform for engagement across issue areas.

[1]Birdsall, N. and A. Subramanian, (2007). "From World Bank to World Development Cooperative", Center for Global Development Essay, Washington, DC: CGD.

The World Bank has sought to innovate within country lending to address GPGs, but these efforts frequently confront limitations of the model. For example, the bank has offered various forms of insurance to countries, most recently to address long term climate risks. Yet, demand for these products has been limited, with country borrowers reluctant to use

their limited allocations to insure against long term climate risks when shorter term projects with identifiable economic rates of return command greater attention.

The bank has also sought to sustain a public goods-oriented research agenda by relying on overhead and highly dispersed donor-sponsored trust funds. But these efforts have fallen short of enabling the institution to play a large role, let alone a foundational one, in development-related public goods.

In fact, even these limited efforts appear to be in some jeopardy in the face of administrative budget cuts. The cuts themselves, targeted at $400 million over three years, serve to reinforce the country-lending model since all of the proceeds are intended to boost IBRD capital and promote more lending. While the bank has sought to reassure its shareholders that there is substantial savings to be had through "right-sizing" the institution,[37] recent discussions around World Bank grant funding for public goods activities, already very small in scale, may be in further jeopardy.[38] Bank funding for the public goods-oriented Development Grant Facility was cut by 11 percent in FY2014, and in a review of the institution's grant making facilities, management seemed to signal further diminishment of these efforts.[39]

In the same report, the bank acknowledges the critical role that investments in new technologies play in promoting development. In the context of agricultural innovations, the report notes that the bank itself is not a research organization but champions World Bank funding for CGIAR as a way to promote this critical area of work. Yet, the institution's contributions to CGIAR have been flat at a modest $50 million a year, and there is very little else in the bank's funding activities that suggest a prioritization of an R&D agenda.

What would it take for the World Bank to realize a robust global public goods agenda, particularly in the areas of climate and R&D? We see three critical elements: a clear mandate from shareholders; a dedicated funding stream appropriate to public goods activities; and flexibility in design.

1. A clear mandate for GPGs.

By some measures, there seems to be ample shareholder will to address GPGs, evident in many rounds of Development Committee statements that have addressed the climate agenda. Yet, this sentiment has not been harnessed adequately to establish an autonomous agenda within the institution. For too many years, the messages from the bank's owners (borrowing and non-borrowing countries alike) have been mixed when it comes to elements of a GPG agenda, generally foundering on the tension between country ownership of the

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[37] Shahine, A, and Sandrine R. "Kim Sees Job Cuts at World Bank in Effort to Lower Spending." *Bloomberg Business*, October 10, 2013.
[38] Birdsall, N. (2014). "My Two Big Worries About the World Bank," Blog post, Center for Global Development.
[39] World Bank (2013). "A Consolidated Report on the World Bank's Grant Making Facilities for FY14", Global Partnerships and Trust Fund Operations. Washington, DC: World Bank.

bank's lending relationships and the need a global institution to set global priorities, even when they may not be priorities for individual countries. The bank's climate agenda has been rife with disputes over whether money for climate mitigation and other public goods will be additional to the bank's core financing for borrowing countries or shoehorned into the existing country financing relationships.

The World Bank itself has to do a better job of proposing a coherent GPG mandate in a manner that does not send the shareholders to their entrenched battle lines. It need not be as hard as it sounds. For example, rather than a conversation about how much bank lending should be carved out from borrower's own priorities in order to address climate, the bank can start a discussion about an R&D agenda that promotes a global good while meeting countries' development needs. China, for example, has a lot at stake economically in moving carbon capture and sequestration (CCS) forward.[40] And if CCS were to operate at scale, climate as a GPG would clearly benefit. Yet, the bank itself has been largely absent from the development of technologies and innovations like CCS.

Of course, not all of a GPG agenda falls so neatly into the category of a win-win technological innovation. But introducing the possibilities of a new, flexible grant instrument at the bank that meets a dual mandate of GPGs and country-driven development could go a long way toward bringing all of the bank's shareholders on board.

2. A dedicated grants-based funding stream, tied directly to the mandate.

By definition, public goods activities do not lend themselves to financing by the marketplace or on market terms, and even concessional lending has not proved attractive in incentivizing investments in GPG activities. Instead, what is needed is a dedicated, and the bank's client countries would say an "additional," grants-based funding stream.

To date, the World Bank's grant support for many areas of GPGs has relied on trust funds and small line items in the administrative budget, none of which has added up to a robust financing stream. The World Bank does have a long-standing and highly successful grants-based model for assistance in form IDA. But the model is country based and the grant element is determined purely as a measure of country need. Nonetheless, IDA is relevant because heavy reliance on grants in IDA programming has also driven a robust fundraising mechanism that has secured over $250 billion in grant contributions from donors since its founding in 1960.

The IDA experience demonstrates the importance of having a distinct grant-making entity within the institution supported by a clear mission. The World Bank is, after all, a bank. As such, incentives arise around lending and private investment, with appealingly quantifiable measures of success in the form of dollars lent and in the case of the IFC, direct returns on investment. Grant activities can struggle for air in this environment. The success of IDA has

[40] Plumer, B. "Is China the Last Hope for Carbon Capture Technology?" *The Washington Post*, October 22, 2013.

been to ring-fence an area of bank activities and create strong political support for them. In this sense, while IBRD success has been measured by volume of lending, IDA success might be measured by dollars raised from donors. Both may be suspect, but they are instructive for the GPG agenda.

In terms of a new financing stream, there are a number of promising building blocks:

- **Donor contributions**. Looking to existing IDA replenishments would provide the first of the building blocks. Expanding the scope of IDA replenishments to a broader "Bank Resource Review" model[41] (as we discuss in Section 3) would enable some donor grant contributions to migrate away from IDA in future years in response to IDA country graduations. Near-term IDA graduations imply a decline of about $3 billion a year in demand for IDA resources. Even if half of this amount was retained as additional support for the remaining IDA countries, $1.5 billion of donor grants could be channeled toward a new GPG grant facility annually.
- **IBRD/IFC net income**. Similarly, existing World Bank commitments to dedicate a share of IBRD and IFC net income to IDA provides a basis for other uses of bank income. As an indicative measure, the IBRD and IFC have made combined annual income transfers to IDA averaging just over $1 billion during 2011-2013.[42] While there is certainly variability in income, particularly IFC earnings, it is questionable that IDA will continue to claim such a high priority on bank income going forward. Decisions about directing some share of annual earnings to a GPG facility would be part of the broader discussion about how to allocate earnings, looking at bank capital needs, administrative budget, and IDA needs.
- **Emerging market donors.** China has come along grudgingly as a donor at the World Bank, but nonetheless has significantly increased its grant-based support for IDA. Emerging market countries generally have been increasing their IDA contributions. Imagine, then, how much more motivated they might be as donors to a facility that, unlike IDA, they helped to create and from which they stand to benefit? Further, with a clearly defined R&D mandate, the new facility might be able to draw on sources of funding from these countries outside of their very limited foreign aid budgets.
- **New donors**. In establishing a new core financing facility, World Bank shareholders should consider an approach already employed in some of the bank's trust funds: accept funding from non-sovereign donors. Philanthropic actors like the Bill and Melinda Gates Foundation have been increasingly active, sometimes even dominant, donors to World Bank trust funds like GAFSP or financial intermediary funds like the Global Fund. As an indicative measure, the US-based "Giving Pledge" has attracted pledges that have recently topped the $1 trillion mark. Given the grant

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[41] Morris, S. (2014) "Shaking up the Donor Shakedown at the World Bank". Center for Global Development Essay. Washington, DC: CGD.

[42] See IBRD and IFC financial statements.

making focus of the family foundations and individuals behind this pledge, as well as their interest in environmental, agricultural, and health-related public goods, the World Bank's sovereign shareholders would do well to invite these private actors into the bank's GPG-related grant making.

- **Revisiting the 2014 financial reforms**. The 2014 financial reforms were remarkable for enabling the IBRD to nearly double its lending capacity without seeking new capital from bank shareholders. One of the risks of these measures, which rely in part on higher loan charges and administrative budget cuts, is that they will prove unnecessary due to declining demand for IBRD loans. The bank is staking a lot on massive infrastructure investment needs globally, which is certainly compelling from a development perspective.

Of course, the potential problem of too little demand is largely self-correcting, except for the administrative budget cuts. Rather than proceed with $400 million in budget savings going directly into IBRD retained earnings, some or all of these savings should be on the table for consideration in the new GPG facility. After all, the conversation itself is fundamentally about where the bank's shareholders see the greatest value for the use of their funds. And if the bank's borrowers in particular are signaling less interest in borrowing at the level of $28 billion a year, they might in the alternative prefer to see some of that capital deployed to a GPG like agricultural R&D.

3. Enough flexibility in design to avoid capture within the existing silos.

There is a temptation, particularly among IDA donors, to seek a GPG mandate within IDA. In part, this recognizes the need for grant financing. But it also reflects the relative influence of these donors within IDA compared to their influence outside of IDA. IDA is the preferred instrument for GPGs because it is the instrument over which GPG advocates have the most control. This approach is limiting on the GPG agenda and unfair to IDA countries since it sets up a direct tradeoff in the use of IDA resources and in turn limits the use of those resources to IDA countries alone.

Flexibility should also come with questions about eligible funding targets. Certainly, when it comes to funding R&D, the bank should be willing to fund institutions and projects that can best support the mission, whether they are in Mumbai or Menlo Park. This should not be a particularly controversial view, yet the long dominant mindset that World Bank resources are only channeled to developing *countries* stands in the way of using these resources more effectively for *development*.

New Instruments and Approaches for Sovereign Engagement

A mandate and financing stream for global public goods would mark a clear departure away from the loans to countries model for the World Bank. Yet, there is also considerable room for innovation within the traditional area of sovereign engagement. We consider here four areas of innovation with regard to how the World Bank lends to countries, starting with the bank's role in country-level crisis response, and the related potential for greater efforts around sovereign risk management. We then look at future prospects for the bank's most innovative effort in years around sovereign lending, the Program for Results instrument. Finally, we consider the potential for major changes to IDA's long-standing performance-based allocation mechanism.

Crisis Response

The recent Ebola crisis in three IDA countries has highlighted the question of what role the World Bank more generally has to play in crisis response at the country level. Whether due to a pandemic or an economic shock of a different nature, it is clear that the bank *can* play a useful role in countering the negative economic impacts of such shocks, either by mobilizing resources quickly after a crisis hits or by insuring against crises on an ex ante basis. IDA's Crisis Response Window (CRW) is an effort to do the former, and the World Bank's recent proposal for a "Pandemic Emergency Facility" aims to do the latter.[43]

In general, an insurance model, whether in the traditional sense or in forms like catastrophe bonds is desirable in minimizing the opportunity costs evident in scarce grant funds sitting idly in a set aside like the CRW. But there is considerable uncertainty about the functioning of insurance and bond markets around new event triggers like pandemics.[44] And pricing in the face of uncertain determinations of risk may be such that considerably grant resources would still need to be deployed on an ex ante basis (for example, to subsidize premiums paid by country governments).

It will be important to avoid viewing crisis response through the lens of the last crisis. As devastating as Ebola has been in human and economic terms, and however ominous the prospects for future pandemics, this may be an overly narrow lens through which to consider a broader, rationalized World Bank approach to crisis response, recognizing the bank's role is fundamentally an economic one, providing a counter-cyclical financing response to economic shock.[45] From this perspective, it matters less that the impetus is a

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[43] Kim, J. Y. "Lessons from Ebola: Toward a Post-2015 Strategy for Pandemic Response." Presentation, Georgetown University, January 27, 2015.

[44] Talbot, T. and O. Barder (2015). "The Can and Can't Do of Cat Bonds," Blog post, Center for Global Development.

[45] Of course, the World Bank also has an important role to play in crisis prevention, whether it is to promote economic diversification, better access to hedging products, or more effective health systems.

pandemic, a sudden drop in commodity prices, or a global reversal in capital flows with origins in US subprime mortgage markets.

Initiative-specific approaches, which typically rely on narrowly-defined donor trust funds, are less efficient and will be more expensive than a more generalized approach. As a result, they will ultimately deliver less support than a broader approach.

The key question is whether the World Bank has the scale and flexibility to contribute meaningfully to crisis response measures. The bank's response to the global financial crisis is instructive. The institution garnered praise from the G20 for rapidly scaling up IBRD lending, increasing balance sheet leverage to boost annual lending from pre-crisis levels of $15 billion per annum to $44 billion in 2010, consistent with the practice in prior crises.[46] Yet, support for IDA countries did not increase significantly, both because IDA resources are not leveraged and IDA's allocation rules are inflexible. This experience led to the creation of the CRW during the IDA16 replenishment. IFC for its part came under criticism from the bank's Independent Evaluation Group for acting pro-cyclically rather than counter-cyclically as private markets were retrenching. The IEG assessment contrasted the IFC's approach to the European Bank for Reconstruction and Development (EBRD), which demonstrated countercyclical behavior during the crisis.[47]

Going forward:

- The World Bank should test new market-based approaches to insuring against crisis. With sufficient scale, the bank's efforts might succeed in creating new markets. Part of those efforts will likely entail data generation aimed at helping markets price risk more accurately.
- Approaches that make better use of leverage generally are more desirable than creating relatively small set asides of scarce grant resources (whether within IDA or through donor trust funds), which will not operate at sufficient scale when called upon and could be better employed elsewhere. From this standpoint, the CRW would best be subsumed within a larger pool of resources under a bank-wide rather than IDA-specific initiative.
- IBRD capital increases have been exceedingly rare and almost always motivated by crisis response. It would be preferable to consider capital needs, including capacity to scale up for crisis response, during periods of calm.
- Shareholders should require a rethinking of the IFC's obligations when it comes to crisis response. The imperative to respond counter-cyclically should not be limited to sovereign lending, particularly when private capital is fleeing in a crisis situation.

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[46] Independent Evaluation Group, (2008). *Lessons from World Bank Group Response to Past Financial Crises*, Evaluation brief no. 6. Washington, DC: World Bank; and World Bank Annual Report 2014.
[47] Independent Evaluation Group (2013). *World Bank Group Response to the Global Economic Crisis*, Chapter 2. Washington, DC: World Bank.

An IFC that is better positioned to stretch during times of crisis might also obligate the shareholders themselves to commit more in terms of capital.

Sovereign Risk Management

Closely related to crisis response, shareholders should focus more on the World Bank's ability to help sovereign governments manage risk more generally, whether the instrument is targeted at sovereigns themselves or at private investors as is the case with MIGA and IFC guarantee products. In general, guarantees have been greatly underutilized at the bank, and Humphrey and Prizzon (2014) explore the constraints to their use over traditional loans. Notably, the accounting treatment of guarantees stands out as particularly problematic.[48] Currently, guarantees are booked the same as loans when it comes to the allocation of risk capital, creating a significant disincentive for their use.

Beyond addressing existing constraints and disincentives for the use of guarantee products, shareholders should look for new opportunities to address risk issues beyond the traditional loan. For example, there is considerable scope for insuring against climate-related risks, consistent with a new public goods mandate. Financial markets are already active in developing new products and adapting old ones. For example, weather derivatives can help local governments insure against the high costs associated with higher than average snowfall, or on the other side of the hedge, ski resorts insuring against lower than average snowfall.[49]

The World Bank, with its global client base, can pool sovereign risk and provide necessary subsidies to make hedging products affordable where necessary. A good example of this approach is the Caribbean Catastrophe Risk Insurance Facility (CCRIF), which was created in 2007 and is supported by the Global Facility for Disaster Reduction and Recovery, a World Bank trust fund. But as with a public goods agenda more generally, the World Bank struggles to operate outside of the core sovereign lending model, even when doing so would directly benefit countries by enabling them to affordably hedge against disaster-related risks. Work in this area to date has largely depended on donor trust funds absent the flexibility to allocate core bank resources into pooled arrangements.

Another approach to managing risk and incentivizing investment would widen the scope of the traditional guarantee instrument. Gelb and Ramachandran (2013) would apply the guarantee instrument to a wider range of government activities under "service performance guarantees." These guarantees would be aimed at improving the provision of public services related to private investment and commercial activities. By backstopping a government's "guarantee" of service delivery, the bank would incentivize both private investment and public management. Critically, the financial backstop would serve as a point of engagement for policy advice in the areas of service delivery covered by the guarantee. In this regard, the

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[48] Humphrey, Chris and A. Prizzon (2014). "Guarantees for development: a review of multilateral development bank operations," Overseas Development Institute, London: ODI.

[49] Shiller, R. "Buying Insurance Against Climate Change," *The New York Times,* May 24, 2014.

SPG's aim is similar to that of P4R, but it has the additional benefit of incentivizing private investment by mitigating risk.

Given the relatively few guarantees delivered through IBRD and IDA, the introduction of this new, more ambitious version of the instrument would require a clear mandate and proper incentives within the institution to deliver. Although the guarantee itself is a product offered to private investors, the critical relationship in this case is between the government, the private investor, and the bank.

Program for Results (P4R)

When it comes to significant innovation in the sovereign lending model, shareholders will face a key decision in the near term, as they consider where to go with Program for Results (P4R) after its initial pilot phase. P4R was introduced in 2012 as a departure from the project-oriented investment loan and the budget support-oriented development policy loan. It responded to calls from the donor community for the bank to do more to promote results in its approach to financing and from borrowing countries for the bank to show more flexibility in rules and procedures.

There is a basic bargain implicit in P4R. Borrowing countries will accept the risk that a set of agreed activities will *not* be funded by the bank if performance metrics are not met, and in return, they will receive a great deal more freedom in the preparation and operation of the activities (specifically, more reliance on their own rules and standards when it comes to procurement and environmental safeguards).

P4R is a complex instrument and one that reflects a number of key compromises aimed at satisfying various constituencies. For example, the bank's "Category A" projects are excluded, limiting the scope of the instrument to safer projects, and keeping it out of reach for countries in the very cases where they may find the bank's rules the most onerous. At the same time, P4R creates a number of opportunities for countries to receive funding in advance of demonstrating that the performance targets have been met.

The program has been limited to no more than 5 percent of IBRD and IDA financing, and shareholders now face the question of whether they want to make P4R a defining element of the bank's sovereign engagements going forward or keep it limited to an interesting but minor area of innovation. Given the complexity of its design and the political balance that was struck in its introduction, it will be important to view P4R as an evolving instrument. As such, shareholders should be open to adjustments to improve effectiveness.

As World Bank shareholders consider whether to lift the 5 percent cap on P4R, they should situate the question more broadly around the institution's sovereign engagements in the future. As the bank's share of public financing for sovereigns promises to decline further in the years ahead, P4R may offer a path forward for the institution and will be an important measure of the bank's relevance to partner governments.

Whether one considers the institution's traditional approach to investment lending (defined by ex ante verification of fiduciary, social and environmental standards) as a core value, an onerous distraction, or something in between, it is less disputable that this approach will yield less in the future as World Bank loans become a smaller share of financing.

An important characteristic of P4R is the way in which it is integrated into the sovereign government's broader programs and activities. By lifting the cap, it will reveal a fuller picture of willing country partners, where the incentives are right for broader impact. And when it is used, it will by design leverage bank resources through program wide activities within the country.

Performance-Based Allocation (PBA) and Fragile States

IDA's performance based allocation (PBA) system is indicative of the inflexible manner in which the World Bank's lending to countries has developed over time. The PBA has been heavily debated from the time of its creation and throughout its evolution. Debates have occurred over whether the governance focus is the right one, whether country performance itself is a fair standard for allocating assistance, and even whether past performance is a sound measure for future performance. Even advocates of the performance principle would acknowledge at this point that the complexity of the underlying CPIA-derived allocation formula can be a hindrance, and its dominance in determining the allocation of concessional resources stands in the way of pursuing other goals in areas like regional operations or crisis response. The more fundamental challenge going forward though, pertains to the composition of IDA countries in the years ahead and the expected concentration of fragile and conflict affected states within IDA.

IDA17 recognized the shortcomings of the PBA system in allocating resources to fragile environments, which are typically within country borders where governance capacity is extremely low.[50] Hence, we see some adjustments to the formula to place greater weight on non-performance measures, as well as innovations like the "turnaround" facility, which aims to mobilize resources quickly when governance changes in a fragile state points to a window of opportunity for development progress. Yet, these adjustments are likely to be just the beginning of a process that will force the World Bank to adjust its approach to allocations to better serve fragile situations, all putting additional pressure on the PBA system.

That does not mean that performance principles have to be abandoned. There is a legitimate accountability function in the use of donors' grant contributions that PBA has sought to meet. One alternative would shift the focus of performance measures to the project level, recognizing that even in low capacity environments (measured at the national level), there are opportunities for development gains at the project level. Gelb (2013) offers a particular proposal based on this model, such that project performance would figure prominently in a

[50] World Bank, IDA Resource Mobilization Department (2013)a. "IDA's Support to Fragile and Conflict-Affected States," IDA17 Paper. Washington, DC: World Bank.

revised approach to PBA. In principle, the bank and its IDA donors have already endorsed this approach by calling for more and better IDA engagement in fragile states.[51]

Finally, as a matter of equity and coherence across the institution, it is important to raise the fundamental question of the existence of PBA for IDA and the absence of it in the IBRD. This question resonates now as the bank has already taken steps toward more graduated pricing within IDA, such that terms for higher end borrowers look increasingly like IBRD terms. We consider this issue further in the Section 3 discussion of the "IDA+" proposal, which would promises to further blur the lines between IDA and IBRD financing.

Sub-Sovereign and Regional Financing

The dominant loans-to-countries model stands in the way of deeper World Bank engagement at the sub-sovereign and supra-sovereign (regional) levels.

With the broader recognition that large poor populations also reside outside of low-income countries and within lower-middle and middle income countries (LMICs and MICs), there comes the need to consider financing options targeted at the sub-sovereign level. Further, there are distinct development-related financing needs within countries that are neither sovereign nor private in nature. Municipal level financing is largely missing from the World Bank's financing toolkit.

The IFC does in fact engage in some municipal and sub-national financing. But the general approach is dictated more by the bank's own financial model than needs on the ground. Specifically, the IFC is the leading player in this area because the IBRD and IDA are not able to finance entities and activities without a sovereign guarantee. As a result, the bank's private sector arm is the main actor for financing local governments. Of course, IBRD and IDA have significant engagement with local governments through their national-level lending activities. But municipal financing is another area where financing activities are isolated from policy engagement.[52]

A more targeted approach to financing at the local level would support the broader aims of better targeting bank support within countries. It would also enable better and more uses of public-private partnerships (PPPs) for infrastructure, which is where the IFC's non-sovereign support has been focused. It could also serve to strengthen governance and public

[51] Gelb, A. (2013). "Implementing a Results-based Approach to Strengthen IDA Support for Fragile States," Center for Global Development Brief. Washington, DC: CGD.
[52] An earlier IBRD-IFC joint pilot for municipal finance appears to have ended without expansion.

financial management at the local level. Development of municipal bond markets is associated with better transparency and governance at the local level.[53]

The EBRD, very close to the IFC in its mandate as a private sector-focused MDB, has been particularly active in non-sovereign financing, with support to municipalities for local infrastructure in areas like waste treatment and energy efficiency. The EBRD's track record suggests that the World Bank could do far more to deepen local financial markets and support local infrastructure development at the same time.

To some degree, the issue for the World Bank's sub-sovereign financing is a matter of scale. Municipal financing is not likely to have a clear enough mandate within the private sector arm to grow significantly, and "non-sovereign" limitations in IDA/IBRD means that is has nowhere to go or grow. If shareholders value sub-sovereign engagement, they will need to offer a clear mandate for the bank as a whole, with a clear break from the sovereign lending model so that these activities can be pursued with greater ambition through the IBRD and IDA.

Regional financing presents another challenge to the World Bank's core sovereign lending instrument. Given the well-defined benefits associated with greater cross-border integration, the bank has been motivated to promote regional efforts, particularly in recent years.[54] To do so, the bank has had to work around institutional constraints. Within IDA, a "set aside" was established during IDA13 for regional operations since IDA's performance based allocation mechanism does not lend itself to these activities, and there was agreement among IDA donors to allow very limited financing of regional entities. As promising as these efforts have been from the standpoint of a more regional orientation, they have been limited in their application. The set aside has accounted for about 5 percent of IDA programming despite demand IDA countries themselves for more resources in this area.[55]

We will consider the challenges of the World Bank's reliance on country income categories in the next section, but regional operations are a good example of how limiting the institutional model can be in an inherently complex and multi-level undertaking.

Private Sector Engagement

The one major area where the World Bank has moved decisively away from the "loans to countries" model has been in private sector engagement. As such, shareholders should

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[53] "Demand for Long-Term Financing of Infrastructure" Issue Note for the G20 no. 7. Coordinated by the World Bank, Infrastructure Policy Unit.
[54] See the World Bank's 2009 World Development Report, *Reshaping Economic Geography*.
[55] World Bank, IDA Resource Mobilization Department (2013)b. "Updated IDA17 Financing Framework and Key Financial Variables", IDA17 Paper. Washington, DC: World Bank.

develop a clearer sense of purpose for these efforts before moving even more aggressively toward a private investment model for the institution as a whole.

Development Impact and IFC Profitability

Although the IFC was created relatively early in the bank's history, in recent years it has grown quickly to become a major share the bank's overall portfolio (see Figure 7). IFC's profitability has enabled it to expand its capital base without shareholder capital increases, and the creation of the Asset Management Company in 2009 has opened a significant new area of activity, with private assets under management in excess of $6 billion.[56] Bank leadership has set targets for further growth that suggest an even larger role for the IFC in future years.

The IFC-led agenda has been given considerable momentum by the enthusiasm for private sector development evidenced in the G20's work, the lead up to the Financing for Development Conference, and major bilateral initiatives like the US government's Power Africa. But rather than simply focus on how much private financing the World Bank can "mobilize", the bank's shareholders should use this attention to focus more clearly on the institution's role as a private investor and the ways in which that role can support a development mandate.

Of course, the shareholders *have* long concerned themselves with the IFC's development impact, calling for the IFC to look beyond profitability for more precise measures of development impact and, critically, additionality – that is, what is the IFC bringing to its transactions that would not otherwise be provided by private investors? But these "development" screens may ultimately provide a false sense of precision in their ability to act as a constraint on investment activities. At a minimum, virtually any IFC investment can plausibly demonstrate a "jobs" impact if nothing else.

Yet, even as shareholders concern themselves with pushing the IFC into ostensibly "high additionality" markets like fragile states, the IFC's own investment model seeks to exploit more reliable markets, with frontiers defined as large IDA countries and natural resource sectors.

In contrast to the bank's sovereign lending, which is limited by sovereign demand, IFC's investment activities could plausibly grow (consistent with capital accumulation) largely unchecked in the decades ahead. From this perspective, shareholder claims on IFC profits is an important tool to manage this arm of the bank over time, and the characterization of the IFC as a profit center for the bank may be one that shareholders would do well to embrace.

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[56] Asset Management Company (AMC). *International Finance Corporation*. Accessed March 13, 2015. http://www.ifcamc.org/.

IFC profitability to some degree depends on the IFC's relationship with the larger institution and particularly the implicit subsidy conferred by the bank's preferred creditor status (PCS) as well as the World Bank's relationships with senior level country officials, both of which give the IFC some advantage in the marketplace.[57] These advantages can usefully exploited to the benefit of the bank's broader activities. In particular, the availability of profits for grant-dependent activities is an attractive possibility going forward.

A clearer understanding that IFC profits should be available to a broader range of bank activities would act as a useful governance check on IFC growth, an endorsement of IFC profitability as an element of the institution's model, and way to better integrate governance and priority setting for private sector activities among the bank's other roles.

High level discussions around profits could lead to more profits flowing outside of IFC, or even to new uses within the IFC that extend beyond capital accumulation. For example, more allocation of profits within IFC for grant purposes could help unlock greater activities that the corporation's model views as too risky (whether defined by markets, sectors, or projects) or activities that simply do not provide a direct financial return despite having the potential for private sector development. The IFC's work in support of small-scale agricultural development through the Global Agriculture and Food Security Program provides a promising model in this area.[58]

Keeping a Check on Private Asset Management

It will also be important for shareholders to look closely at the experience of special initiatives like the AMC and the Global Infrastructure Facility, particularly to the degree they represent a new model for the World Bank more generally – relying on private capital to fund development as an alternative to traditional sources of public financing. Under this model, the World Bank plays the role of asset manager or private equity fund. There are a number of risks with the approach that shareholders should be attuned to.

At the extreme, there is some risk that activities within the bank that cannot meet the needs of private investors will atrophy as profit centers and private sources of capital become increasingly dominant. Of course, the bank today is far from this risk, as activities financed by core capital and IDA replenishments remain dominant. But a shift away from shareholder contributions in favor of models that draw in private capital introduces this dynamic into the institution as a whole in a way that it has existed within the IFC.

Another risk is that individual transactions by the bank do not add up to more systemic progress toward private sector development in the client countries. Again, the IFC has developed an extensive development-oriented results measurement system aimed at ensuring

[57] See the IFC's description of the application of preferred creditor status to IFC investments.
[58] "Private Sector Window." GAFSP. Accessed March 13, 2015. http://www.gafspfund.org/content/private-sector-window.

broader development impact. Nonetheless, success is still largely defined by profitability across the portfolio and the ability of individual projects to meet financial hurdle rates. In contrast, success for an IBRD loan is not defined by the borrower's good track record of repayment, since there is virtually no risk of default with the bank's preferred creditor status. As a result, there is a clearer development focus on the success or failure of IBRD projects.

With these tensions in mind, shareholders should consider the impact of various pools of funding for the World Bank in terms of incentives and dynamics within the institution. The shareholders have a particular responsibility here since it is their traditional role as funders of the institution that may be increasingly supplanted by these new models.

An IFC-MIGA Merger

One private sector oriented structural shift that World Bank shareholders should consider would consolidate private sector guarantee operations within the IFC. While MIGA enjoys separate status as a provider of political risk guarantees, the IFC actually does far more with guarantee products. MIGA commitments in 2013 totaled $2.8 billion compared to IFC guarantees of $7.3 billion. The case here is largely a financial one. MIGA's activities are highly constrained by a relatively small capital base, such that country caps are a modest $800 million, which does not allow for much activity in large-scale infrastructure projects. Merging MIGA capital with IFC capital would generate greater overall capacity and flexibility in pursuing a suite of guarantee products. And by placing more reliance on the guarantee instrument, the World Bank could demonstrate more clearly that it was stimulating private investment rather than simply acting as a private investor itself.

II. Rethinking Country Income Categories as the Basis for Assistance

Kenny (2014) pointedly observes the arbitrariness of the current country income categories and their weak conceptual basis for driving decisions around aid allocations: "Despite the fact country-income classifications really don't have any grounding in anything apart from our imaginations, we have imbued these lines with awesome power."[59] Yet, for all of its faults, this approach has been lengthily and firmly rooted, with the World Bank's own rules for determining eligibility based on GNI per capita anchoring the entire aid system.

The simplicity of the bank's approach to country eligibility has the virtue of being transparent and easily understood by borrowers, in contrast to, for example, IDA's performance-based allocation system. And the shortcomings may not have been pronounced during a period when focusing on poor people, poor countries, and development were all pretty much the same thing.

But China's reluctant graduation from IDA in 1999 marked a turning point, such that the country with the world's largest poor population no longer had access to the World Bank's concessional resources. Fifteen years later, India now graduates from IDA in the midst of considerable rethinking about country income categories in the donor community. In particular, the recognition that most of the world's poor reside outside of IDA countries has motivated the view that targeted efforts in these countries will be needed to continue to make progress on poverty reduction globally.[60]

Kharas, Prizzon, and Rogerson (2014) summarize the problems associated with the dominant income classifications used by the World Bank and other assistance providers.[61] There is tremendous heterogeneity concealed by the current LIC/MIC categorization, as well as operational problems when graduation triggers sudden stops in allocations, particularly when IBRD capital is constrained.[62] This is part of a broader problem associated with the "missing middle," or countries for which there is an overall decline in available public financing as they transition from LIC to MIC status. For these countries, domestic tax revenues cannot grow quickly enough to offset the marked decline in external sources of public financing (both concessional and non-concessional).

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[59] Kenny, C. (2014). "The Strange and Curious Grip of Country Income Status on Otherwise Smart and Decent People," Blog post, Center for Global Development.

[60] Kanbur, R. and A. Sumner (2012). "Poor countries or poor people? Development assistance and the new geography of global poverty." *Journal of International Development* 24(6):686-695.

[61] Kharas, H., A. Prizzon, and A. Rogerson, (2014). *Financing the Post-2015 Sustainable Development Goals: A Rough Roadmap*, Overseas Development Institute. London: ODI.

[62] Even if overall IBRD capital is not constrained, single country borrowing limits become binding, which has been the case for India in particular in recent years. See also Salvado and Walz (2013).

In this section we consider an alternative to the current model, which defines country access and terms for World Bank assistance primarily on a measure of GNI per capita.

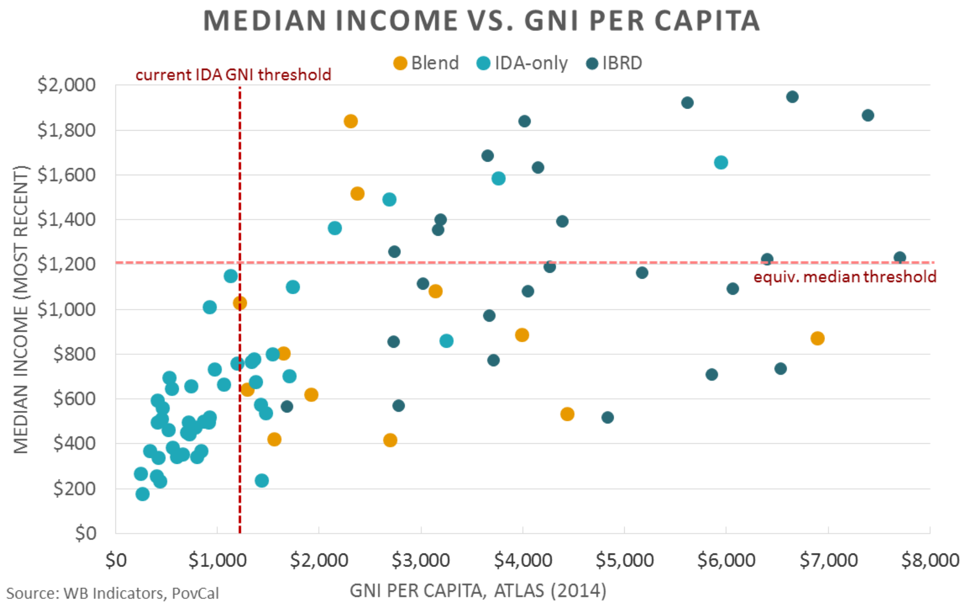
What Might Alternative or Additional Measures Look Like?

As a starting point, it is useful to look at other simple measures of country-level development progress and what they might say about existing World Bank eligibility standards. Each of these measures, if applied to eligibility, would serve to broaden the determination of the need for concessional resources at the country level.

Median Income

Birdsall and Meyer (2014) argue that median income per capita is a better simple measure of "typical" well-being within a country than GNI per capita.[63] For our purposes, it is useful to consider what a median measure reveals about current IDA country groupings relative to GNI per capita. While both measures capture a large group of what the World Bank considers the "poorest" countries when it comes to eligibility, a significant number of IDA countries (IDA-only and Blend) are above the GNI threshold yet below the equivalent median threshold. That is, the median measure would suggest greater need for concessionality than GNI per capita does.

Figure 11



[63] Birdsall, N. and C. Meyer, (2014). "The Median is the Message: A Good-Enough Measure of Material Well-Being and Shared Development Progress," Center for Global Development Working Paper no. 351. Washington, DC: CGD.

Poverty Rates

The divergence of measures is even more striking when we look at poverty headcounts (Figure 12). Starting with the measure of extreme poverty of $1.25 per day, we see a significant number of countries above the GNI per capita IDA threshold yet with one-fifth or more of the population living on less than $1.25 per day. Only four countries above the graduation threshold have met the World Bank's goal of eliminating extreme poverty.

Pritchett and others have argued for a much a higher poverty threshold when it comes to setting goals for poverty elimination globally.[64] Even small movements toward a higher threshold reveal a dramatically different picture among IDA countries. Part two of Figure 12 raises the poverty threshold to $4.00 per day. By this standard, no country above the current graduation threshold has less than one-third of its population living in extreme poverty, and most countries have more than half of their populations living on less than $4.00 per day.

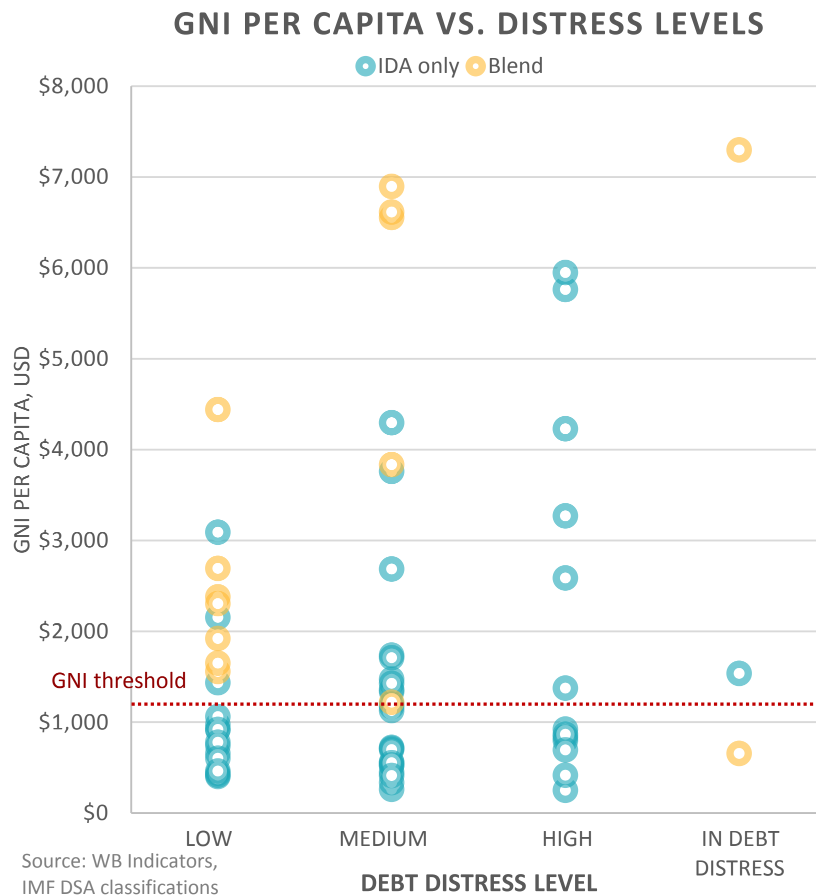
Figure 12

[64] Pritchett, L. (2003). "Who Is Not Poor? Proposing a Higher International Standard for Poverty," Center for Global Development Working Paper no 33. Washington, DC: CGD.

Debt Sustainability

Debt sustainability (as per the IMF debt sustainability analysis) already informs decisions about the concessionality of resources within IDA, and it is more closely related to the "creditworthiness" measure for IDA eligibility than a measure of need like GNI per capita.[65] But as a discrete measure, it is useful to consider debt distress alongside the GNI per capita measure. What we see is wide variation among countries that are both below and above the IDA cutoff, although IDA-only countries (particularly small-island states) are more clearly identified with higher risks of debt distress. However, the debt rating also demonstrates credit stability in many countries still below the cutoff (e.g. Cambodia or Rwanda), signaling a potentially different set of needs from other low-income countries (e.g. Afghanistan, Haiti, or the Central African Republic) with high debt risk.

Figure 13



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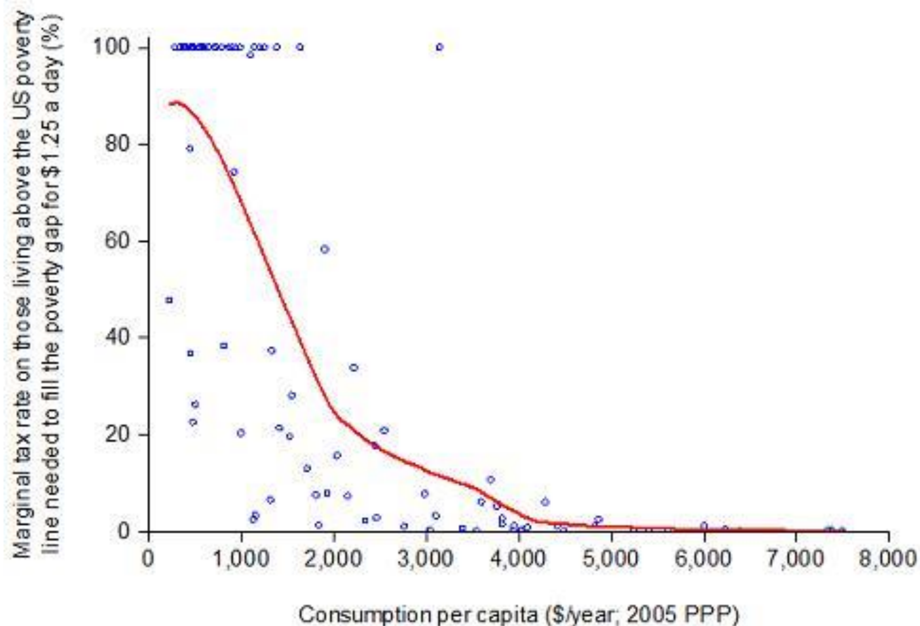
[65] International Monetary Fund (2014)c. "The Joint World Bank–IMF Debt Sustainability Framework for Low-Income Countries." Factsheet.

Domestic Taxation Gap

Finally, we consider a different approach to measuring need at the country level, focusing on domestic capacity to address poverty. Ravallion's analysis identifies the level of domestic taxation that would be needed to close the $1.25 per day poverty gap in poor countries.[66] The analysis reveals a large number of countries, many above the IDA cutoff, where marginal tax rates on the non-poor of 100 percent would still not be sufficient to address extreme poverty. India, a new IDA graduate, is among them. This approach highlights the need for IDA's concessional resources by demonstrating that a decline in IDA flows would not be offset by an increase in domestic resources – the missing middle problem highlighted earlier.

Figure 14

MARGINAL TAX RATES NEEDED TO COVER THE POVERTY GAP IN DEVELOPING COUNTRIES



Source: Ravallion (2012)

Moving to a Sliding Scale Approach

These four alternatives to GNI per capita are illustrative measures that serve to reveal a more complex picture than what is captured by current IDA/IBRD eligibility standards. But how might the bank operationalize an approach that better reflects this complexity?

Even if one alternative measure were clearly superior to GNI per capita for purposes of country eligibility, no one measure is adequate to the task of qualifying countries for World

[66] Ravallion, M. (2012). "Should We Care Equally About Poor People Wherever They May Live?" World Bank Blog.

Bank assistance in a way that reflects the reality of development needs.[67] Instead, shareholders should consider new ways to incorporate a range of measures into decisions about access and terms of financing.

One approach, put forward by the bank itself during IDA13 replenishment discussions, would create a broader index of development measures as a sensitivity test for eligibility.[68] Any one of the measures highlighted above adds value to considerations of development progress at the country level, whether they would act as a check on the existing measure or would be incorporated into a new formula to determine IDA eligibility. Given some of the evidence described above, this approach would likely serve to delay the timing of graduation for a significant number of IDA countries.

Of equal importance to which new measures might apply is to *whom* they would apply. Simply applying a new formula to current IDA countries would fail to take into account countries that have already graduated from IDA, many of whom could very well meet a needs test based on non-GNI per capita measures. And key countries like India and China stand out for absolute number of poor that would not be captured by new measures if they are only applied to current IDA countries.

The more fundamental aim, then, would be a rethinking of the IDA and IBRD categories themselves. An alternative to these two distinct categories of assistance would be a "sliding scale" approach to financing terms. This builds on the graduated pricing we currently see in IDA but would extend the model across the IDA-IBRD threshold. As countries progress economically (measured with greater complexity than the current model), they would pay more to access World Bank financing. Again, this would also represent a departure from the IBRD model, where pricing is uniform across countries, and it runs counter to a prudential approach, which would price according to risk. Differentiated pricing of this sort for IBRD was posited by the 2001 Gurria-Volcker Commission.[69] The commission endorsed a pricing standard based on need and equitable distribution of IBRD resources rather than fiduciary risk.

Another approach to differentiated pricing across all of the bank's client countries could price according to the function of the loan or grant, regardless of (or with less regard for) the income level of the country. For example, activities that can provide a financial rate of return, such as infrastructure, would be priced on harder terms, while social sector activities might be priced on softer terms. Debt sustainability would need to be considered at the

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[67] Although Birdsall and Meyer make the case that the median would be a better single measure than GNI per capita.

[68] International Development Association (2001). "IDA Eligibility, Terms, and Graduation Policies," Discussion Paper for IDA13 deputies.

[69] Gurria, J. A. and P. Volcker (2001). "The Role of the Multilateral Development Banks in Emerging Market Economies" Findings of the Commission on the Role of the Multilateral Development Banks in Emerging Market Economies, Carnegie Endowment for International Peace.

country level, but for most countries, the effect would likely be to expand overall access to IBRD-like financing.

Hand in hand with the question of loan and grant terms is the question of loan and grant volumes. Within the existing silos are two distinct approaches to allocating resources to countries—the performance (and need)-based system for IDA and the risk (and, to a lesser degree, need) -based approach for IBRD. Under a sliding scale, particularly one that adjusts terms according to activities, how will access to bank resources be determined and in what volumes? Country-level considerations will still be at the forefront, particularly for any risk-oriented model. But it is conceivable that volumes could be a function of the relative priority that shareholders place on an issue. Or more simply, country allocation principles and formulas could allow for tradeoffs between loan and grant activities on varied terms appropriate to the action being financed. These packages could be guided by an underlying formula for total allocations.

Of course, sorting through a rules-based approach to programming bank resources on a sliding scale would be a complex exercise, and one that directly implicates the bank's underlying financial model. Certainly, abandoning the IDA/IBRD categories would entail radical changes to this model, something we consider next in Section 3.

Section Three: New Approaches to Financing the World Bank

The World Bank's shareholders face the broad question of whether they want the institution to shrink, grow, or stay the same when it comes to the financing it provides to developing countries. Section 1 largely presents a picture of declining demand for the institution's resources under its current model, relying on an application of the current graduation model to projections of country performance as well as some consideration of non-World Bank sources of financing available to developing countries today.

Yet, this picture stands in stark contrast to the rhetoric of the institution's shareholders. Borrowing countries have called directly for more lending and a bigger bank. And the non-borrowers have expressed greater ambition for the bank's agenda, whether through their support for the 2014 IBRD financing reforms that boosted the bank's ability to lend or as expressed through initiatives like the G20's development agenda, which features a central World Bank role. Perhaps even more telling, key bank shareholders (borrowers and non-borrowers alike) have now moved to capitalize new MDBs.

So which is it, the rhetoric of a bigger World Bank or the possibility of declining demand for what the bank has to offer?

Section 2 sought to demonstrate how changes to the World Bank's long-standing lending model could in fact unlock much greater activity in response to underlying development needs. At the same time, many of the measures discussed in this paper also imply the need for a different approach to financing the World Bank, separate from the question of "how much." For example, as described earlier, a public goods mandate and program requires a clear grant-based funding stream. And a "sliding scale" approach to lending terms for country lending implies some rebalancing between grant-oriented fundraising for IDA and capital increases for the IBRD.

Overall, the aim for the institution should be to seek greater flexibility in its financing model to support the more flexible programming represented in the various ideas described in this paper. In this final section, we consider ways to get to a bigger bank as well as more flexible modes of financing to match an institution that does things differently.

Stretching Resources

A persistent refrain of the past five years is that donor budgets are tight and institutions like the World Bank will have to learn to do more with less (or at least more with the same). The message has been delivered firmly enough that it has motivated considerable thinking about better leveraging of World Bank resources.

As a starting point, we should recognize the measures already taken by the bank in two areas. First, the IDA17 replenishment introduced the “donor loan” instrument, whereby a portion of donor contributions to IDA could be made as a loan on top of the traditional grant. The new donor loans were responsible for a record level of resources mobilized in IDA17, even though traditional grant contributions from donors were flat. The effect of the donor loans is to front load IDA resources, anticipating that over time IDA’s resource needs will decline.

At the same time, a package of financial reforms was introduced at the IBRD having the effect of increasing the hard loan window’s annual lending capacity by nearly 100 percent.[70] This set of measures, which included higher loan fees and increases in the single borrower limit for five countries, were aimed largely at IBRD’s five largest borrowers.

In both cases, the World Bank demonstrated an ability to generate significantly more resources for programming purposes from the same stream of financial contributions. So where can the institution go from here?

Further Leveraging of the IBRD’s Balance Sheet

The bank’s lending capacity is a function of its credit rating. In order to maintain its longstanding AAA credit rating, and the favorable borrowing terms that implies, the bank employs conservative standards when it comes to the size of the lending portfolio relative to bank capital. For our purposes, it is useful to consider the simple proposition that the bank’s ability to borrow cheaply entails a tradeoff with its ability to expand its lending. Lending more with existing capital on a sustained basis would jeopardize the rating, with the bank’s cost of borrowing in turn rising.

From this perspective, shareholders should consider the value of the AAA rating, and specifically its impact on the bank’s cost of borrowing. Just as the 2014 financial reforms expanded sustainable lending in part by raising fees, the higher cost of the bank’s borrowing would be borne by those who borrow from the bank.

Although some shareholders, particularly the non-borrowers, might be open to this proposition (a more leveraged balance sheet → higher cost of borrowing for IBRD → higher charges on IBRD loans), the borrowing countries may not. The longer history of pricing discussions in the World Bank’s board suggests that IBRD borrowers value the low-cost loans that are made possible by the bank’s highly favorable credit rating. And some non-borrowers may view a deliberate move to jeopardize the current rating to be imprudent. Nonetheless, the 2014 measures do suggest that there is some appetite for exploring the balance between access to IBRD loans (as determined by the overall volume) and the cost of those loans (pricing).

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[70] World Bank, (2014)c. “World Bank President Sees $100 Billion Increase in Lending Ability to Help End Poverty,” Press Release, April 1.

Table 3 provides a rough picture of how favorable current pricing is for IBRD borrowers by comparing it to yields on selected IBRD borrowers' own sovereign bonds.

Table 3: Cost of Country Borrowing

	10-year government bond	IBRD 8-10 year Maturity Loan[71]
China	3.35	1.31
India	7.70	1.31
Philippines	4.05	1.31
Mexico	5.6	1.31
South Africa	7.40	1.31
Indonesia	7.01	1.31

Of course, a more direct approach on pricing that does not implicate the bank's credit rating would be a policy decision to further increase IBRD loan spreads and charges.

But again, higher loan charges have proved to be highly contentious with the borrowing countries. Any agreement here beyond what was achieved in 2014 will also likely need to entail greater access to IBRD lending. Higher pricing can achieve that over time, but not right away. The basis of a new deal with borrowers then rests on further leveraging of the balance sheet (and testing of the credit rating) or an agreement with non-borrowers to increase bank capital.

In sum, the longstanding culture of risk aversion that has grown up around the MDB capital model deserves some additional scrutiny. The higher tolerance for leverage implied in the 2014 financial reforms suggests that current bank management (and the board) is willing to explore these issues, and no doubt, these conversations are happening with the ratings agencies. It would seem that to the degree there is room to pursue greater leveraging consistent with current ratings, bank management is properly motivated to do so. But it is ultimately for the shareholders to hold management accountable in this area and to form a view about further testing of the tradeoffs. Shareholders should also consider what combination of higher loan charges, expanded access, and new capital could be the basis for a new deal between borrowers and non-borrowers.

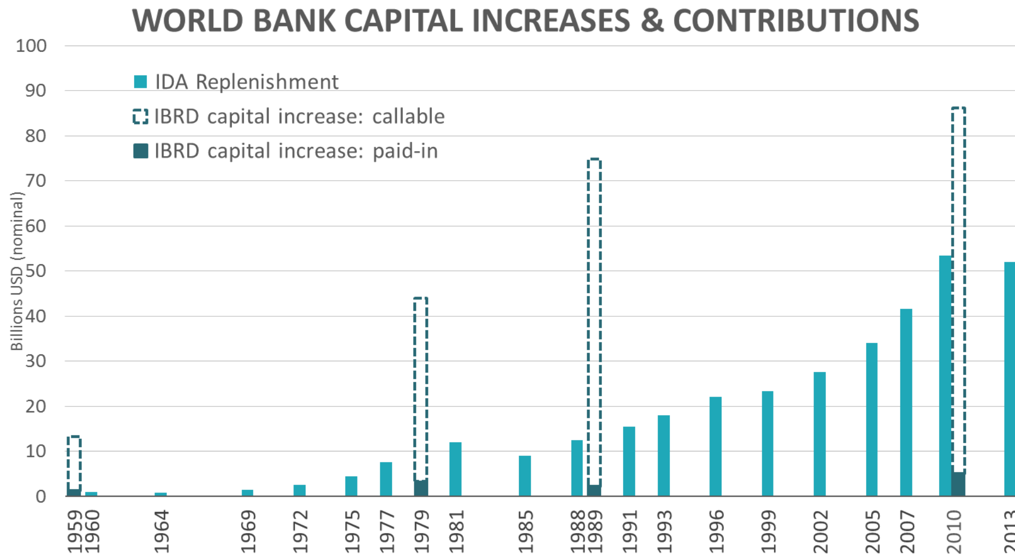
Further Leveraging of Donor Contributions

If additional leveraging of IBRD capital might prove politically challenging in the years ahead, further leveraging of the largely unleveraged donor contributions ought to be more straightforward. Since IDA's creation over 50 years ago, the World Bank has proved itself to

[71] World Bank Treasury (2015). "IBRD Lending Rates and Loan Charges." http://treasury.worldbank.org/bdm/htm/ibrd.html.

be highly successful in raising funds from donors on a grant basis to support concessional financing. The experience with capital contributions for the IBRD has been different.

Figure 15



While IDA has been replenished by donors every three years since its founding, the IBRD has seen just four capital increases in its seven decades. Not surprisingly, the relative frequency of fundraising episodes has had some bearing on strikingly different outcomes: IDA has raised nearly $250 billion in grant resources from donors since its founding, whereas paid in capital contributions from World Bank shareholders has totaled just $12 billion.

Of course, IDA and IBRD operate on very different financial models – one leveraged through capital markets and the other unleveraged. IBRD's leveraged model has enabled it to offer financing at levels roughly equivalent to IDA's annual commitments in recent years.[72]

A clear objective going forward will be to increase the leverage on all financial contributions to the bank in light of client countries' increased capacity to borrow on harder terms. Again, even the hard terms of IBRD represent a significant subsidy to the bank's most creditworthy borrowers, and the recent experience with India's IDA graduation suggest that at least some countries would prefer greater access and harder terms to more limited loan volumes on softer terms. Providing these countries with what they are looking for will also put less pressure on the scarce grant resources of the institution, allowing those funds to be fully employed where they are most needed, whether through more intensive efforts in fragile situations or put to new purposes around public goods.

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[72] Annual commitments under IDA16 were about $15 billion, which was also IBRD's sustainable annual lending level during this period.

Supporting More Flexible Modes of Financing

Increasing available resources through greater leverage is just one objective for World Bank financing going forward. Many of the ideas discussed in this paper do not necessarily depend on more resources for the institution overall, but they do require more flexibility in the allocation of resources.

We conclude then, with a look at three approaches to adjusting the bank's financial model to enable greater flexibility: IDA+; an IDA-IBRD merger; and a Bank-wide Resource Review. All three are not mutually exclusive in concept, but for practical purposes, it is not likely that shareholders would be prepared to move forward with more than one of them in the next few years. Therefore we consider each as a distinct proposal.

IDA+

Discussions among IDA donors through the IDA working group process have focused on an "IDA+" approach to leveraging IDA contributions and further hardening the terms on IDA lending for some borrowers. Leverage would be achieved by treating the portfolio of outstanding IDA loans as capital against which the bank could borrow in the bond markets. This model essentially would replicate the IBRD financial model within IDA while maintaining the existing legal, policy, and governance distinctions between IDA and IBRD.[73] As a result, it represents the least disruptive approach to increasing leverage, and in turn, generating more resources overall for country assistance.

The appeal of this approach is its relative ease of implementation. By maintaining distinct legal and governance arrangements, IDA+ would focus on the financial measures necessary to create a capital base within IDA, treating future IDA loan repayments as IDA equity for purposes of borrowing on a leveraged basis in capital markets. And a new capitalized IDA arm might also drive more flexible thinking among IDA donors when it comes to policy approaches.

But there are also a number of shortcomings to the approach. While it would deliver more non-concessional resources by introducing leverage, the degree of leverage could be quite limited compared to IBRD leverage or what might be possible under an IDA-IBRD merger. IDA countries represent a riskier pool of borrowers than World Bank borrowers as a whole. By definition, they are less credit worthy than IBRD borrowers, and they are also more geographically concentrated.

[73] As reported to the authors in conversations with multiple officials briefed on the proposal by World Bank management.

And while the proposal might motivate more flexible policy approaches in the spirit of those described in Section 2, this flexibility will still operate within a fairly rigid approach to defining countries as IDA or IBRD.

In fact, there seems to be considerable potential for a marked decline in policy coherence for the bank as a whole. IDA+ will reinforce what is already becoming an increasingly problematic bifurcation of policy approaches between IDA and IBRD. The disparate treatment of borrowers has more to do with different governance arrangements between IDA and IBRD than with an underlying rationale for different standards. Donor-driven IDA reflects donor preferences for performance-based allocations and results measurement, whereas decisions about the allocation of IBRD resources are influenced more by the borrowers themselves as well as prudential requirements. The existing tension between IDA and IBRD standards becomes more pronounced under IDA+ as certain IDA countries are treated as IBRD when it comes to terms of financing, but are subjected to IDA scrutiny and allocation restrictions. These countries might reasonably ask why they are subject to these standards and IBRD countries are not.

IDA-IBRD Merger

Recent work at the Asian Development Bank (AsDB) to propose a merger of the institution's concessional and hard loan windows provides a useful model for what an IDA-IBRD merger might look like and what it might achieve. It is important to recognize that the World Bank faces a legal constraint that the AsDB does not, since IDA and IBRD are separate legal entities. Nonetheless, legal changes are in the hands of shareholders and would be subject to a decision making process no more onerous than what the AsDB is currently undertaking.

Although we do not have enough information to compare what the AsDB can achieve in terms of leverage to a similar effort at the World Bank or to the more limited IDA+ approach, it is useful to consider the AsDB's own projections. The AsDB merger proposal is projected to increase concessional lending and grants by 22 percent and non-concessional lending by 20 percent, without any additional capital from shareholders and a reduction in donor grant contributions of more than 50 percent. Given this, there are undoubtedly gains from leveraging a combined IDA/IBRD balance sheet and including all regional borrowers in the same pool relative to the more limited approach of IDA+.

An IDA-IBRD merger would create the potential for more flexible allocation approaches. It would directly enable (even require) new thinking about country income categories since the IDA and IBRD labels would no longer necessarily apply. That said, it would by no means automatically lead to changes in other areas. And as the AsDB proposal shows, such a merger might seek to lock in current governance and policy approaches even as the financial

model is radically altered.[74] In this way, the merger could succeed in mobilizing more resources but fall short when it comes to taking advantage of the new flexibility actually afforded by the merger.

Perhaps the biggest obstacle, apparent in the policy and governance restrictions placed on the AsDB proposal, relates to the will of IDA donors and World Bank shareholders more broadly. Would leading IDA donors be willing to allow the control they exercise through the IDA replenishment process to be fundamentally altered as IDA becomes subsumed financially within the IBRD? Alternatively, would shareholders that have been less prominent as IDA donors be willing to see IBRD shareholding realigned to recognize IDA "capital" for shareholding purposes in a newly merged IBRD?

So-called "voice and vote" reform in the World Bank has been a highly contested and complex exercise, with the most recent round concluded in 2010 after a lengthy negotiation. An IDA-IBRD merger would introduce an interesting, and potentially helpful, dynamic into this fraught process. If in principle all shareholders could accept existing IDA "shares" for IBRD shareholding purposes under a merged model, the winners and losers (and past voice and vote reforms demonstrate that there are always winners and losers) do not necessarily sort out in a way that reinforces existing political divisions between borrowers and non-borrowers.[75]

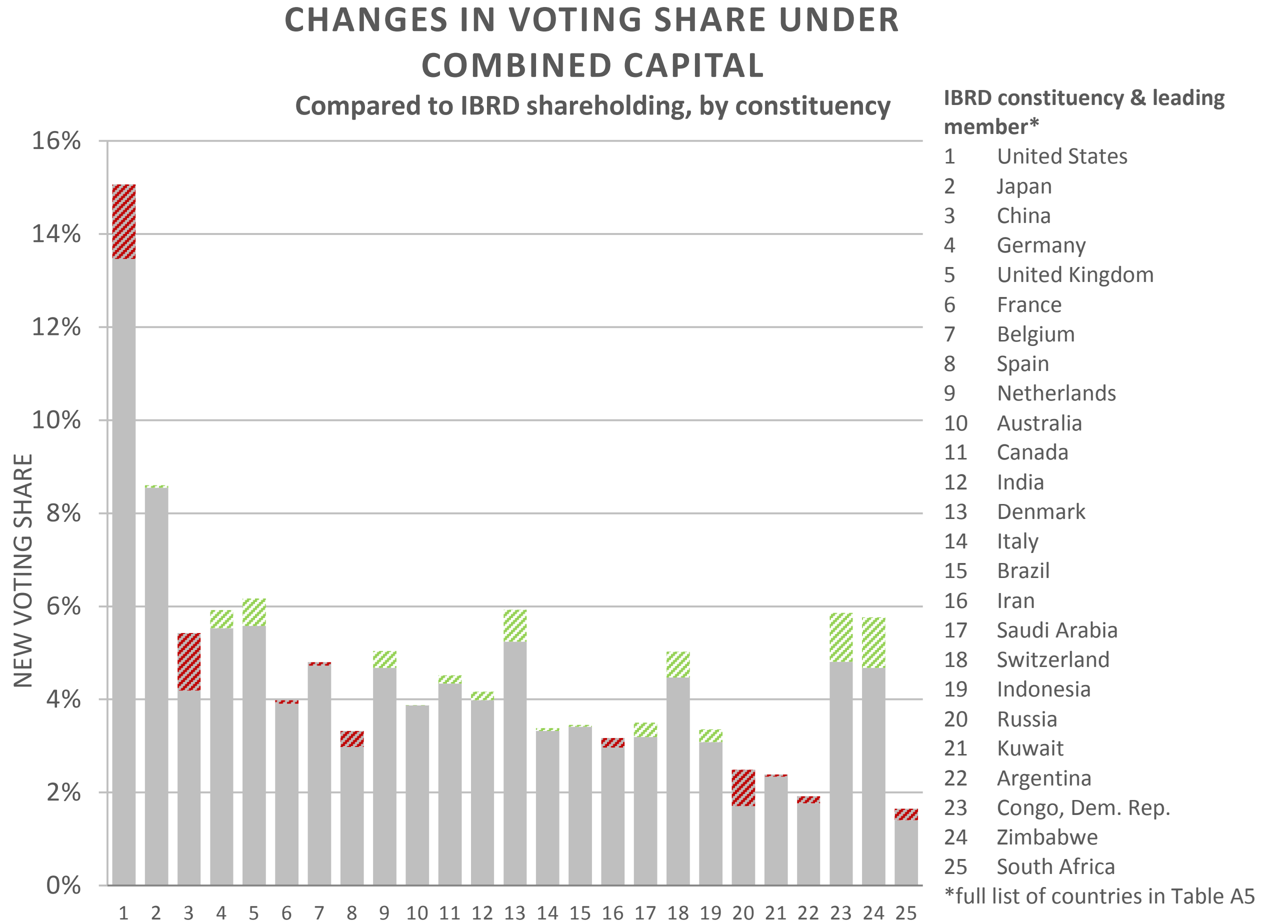
We simulate this approach through a simple model that recognizes the value of outstanding IDA loans as equity for shareholding purposes in IBRD, following the approach at the AsDB. We then allocate this equity according to existing IDA shares. Finally, we merge these equity shares with existing IBRD equity shares according to existing IBRD board constituencies.

Figure 16 depicts the results. Among the "losers" is the United States, a large IDA donor but a larger IBRD shareholder, and China, a very small IDA donor and large IBRD shareholder and borrower. Among the "winners" are the United Kingdom, the Nordic constituency, and the African constituencies.

[74] Birdsall, N., S. Morris, and E. Rueda-Sabater (2014). "Review of 'Enhancing ADB's Financial Capacity to Achieve the Long-Term Strategic Vision for the ADF," Center for Global Development. Washington, DC: CGD. See Section 3 for a critique of the AsDB merger along these lines.

[75] This approach is counter to the one taken at the AsDB. There, outstanding concessional loans were counted as new equity under the merger, but this new equity did not count for shareholding purposes. The AsDB approach was based on a clear legal interpretation specific to the institution. The legal considerations, given that IDA is a separate legal entity, would likely be different for the World Bank.

Figure 16



An IDA-IBRD merger would be ambitious, significantly altering how the World Bank operates, how it is funded, and how it is governed. Amassing the political will among shareholders to take on all of these elements at once may not be possible. But the potential gains ought to be tempting, defined broadly in terms of a more flexible institution and one that can more readily break from an overly-constraining model of country assistance.

Bank Resource Review

This brings us to the Bank Resource Review proposal.[76] The aim of this approach would be to increase flexibility in the fundraising model to enable a more flexible approach to

[76] Morris, S. (2014). "Shaking Up the Donor Shakedown at the World Bank," Center for Global Development Essay, Washington, DC: CGD.

programming of bank resources, and providing greater financial leverage with those resources, short of a merger of the bank's core financing arms. The BRR would use the IDA replenishment as the model but broaden the scope of fundraising considerations to encompass resource needs for the other parts of the institution. So, for example, a BRR would consider the need for grant contributions (whether to support IDA or IDA-like functions, or to support a new global public goods function or a crisis response window), as well as the need for capital contributions.

The BRR approach itself is flexible enough to accommodate the existing silos of the institution, the addition of new funding streams, or the merger of existing silos. It simply seeks to bring together fundraising considerations under a single and recurring exercise. For example, rather than seek an IDA+ adaptation of IDA, the BRR would simply consider the financing needs and ability of the IBRD to achieve the same aims, such that a capital increase might be joined with an adjustment to IBRD eligibility standards to grant greater access to IDA countries.

As with an IDA-IBRD merger, governance is a key consideration and potential obstacle for this proposal. Because the exercise would no longer be limited to IDA, the participants would also necessarily expand to include the World Bank's shareholders more generally. This would require the use of the bank's constituency-based governance model in order to make the number of participants manageable.

A constituency approach would mark a step forward on governance by bringing in a wider range of voices, particularly among IDA borrowers, whose participation in the replenishment discussions is more limited than it is through the board process. This approach would also improve the efficiency of these discussions relative to IDA's replenishment process, which suffers from a larger number of actors attempting to arrive at consensus decisions across a wide range of issues.

However, many leading IDA donors would find themselves participating indirectly through a BRR constituency rather than having a direct seat at the table as they have had in IDA replenishments. In this sense, these donors would be hard pressed to see the BRR governance model as an improvement for their own standing in the institution.

Nonetheless, countries that stand to lose direct representation should also consider their relative influence as a constituency in a process with broader reach (BRR) than as a direct voice in a process with narrower reach (IDA replenishments). For example, the relative coherence in the positions and strategies taken by the Nordic countries suggest that this regional grouping could be effective in wielding significant influence over a World Bank Group-wide decision-making process.

Choosing a Financing Strategy for a Future-Focused Bank

In sum, we have identified three different approaches to how the World Bank finances itself, the merits of which are summarized in Table 4. Importantly, the three approaches hold in

common the central role that shareholders play in financing the institution and the particular role that shareholder-led funding decisions play in the core governance of the institution.

Table 4: Evaluation of New Financing Approaches

	Increases Financial Leverage	Supports Policy Coherence	Ease of Implementation	Supports More Flexible Programming
IDA+				
IDA-IBRD Merger				
Bank Resource Review				

It is important to recognize the limitations of seeking growth solely by stretching existing financial resources, or relatedly, seeking growth through non-traditional sources of financing. Currently, the World Bank is focused on these two modes of growth, evidenced in the 2014 "margins of maneuver," which provide greater financial leverage and the Global Infrastructure Facility, which aims to attract capital from pension funds, sovereign wealth funds, and other private sources. In contrast, bank management has ruled out more capital from the shareholders.[77]

This stance, which in turn reflects some judgment about the degree of support for new capital contributions among the shareholders, is in marked contrast with the movement of key bank shareholders to capitalize the AIIB and the New Development Bank. If World Bank management is simply reflecting the will of its shareholders, or some shareholders, in avoiding capital increases, these same shareholders should consider the risks this entails. Funding from somewhere other than shareholders' own domestic budgets may hold considerable appeal, but it can also come at some cost to institutional governance and good policy.[78]

Approaches like the BRR would provide a mechanism for shareholders to take a more expansive stance when it comes to funding, but it would just as readily enable the shareholders to say no to new funding. They will ultimately need to decide if their

[77] Jim Yong Kim and other senior bank official have directly ruled out capital increases in public statements. This statement for Kim is typical: "…[L]et me put it this way: we are not getting a capital increase." Transcript of speech at the Council on Foreign Relations, April 1, 2014.

[78] See Morris (2014) for a discussion of these costs.

contributions to the bank will continue to play a key role or an increasingly marginal one in the financing of the institution.

Conclusion

The World Bank at 75 will be, as it has been for much of its history, a large and complex institution. As such, the opportunities for change will exceed the capacity of the bank's management and shareholders to exploit them effectively. Certainly, some recent criticism of current reform efforts reflects a sense of World Bank leadership attempting to do too many things at once.

Adapting the World Bank to meet future development needs will depend on a clear sense of priorities for change. The overriding message of this paper is that the least exploited area of change for the institution has been hiding in plain sight. As a lender to "LICs" and "MICs," the World Bank will be reaching the limits of its usefulness in much of the developing world in the years ahead. It will continue to play an essential role in a relatively small number of fragile states, but the rest of its core lending model could very quickly become irrelevant to most of its other current borrowers.

Yet, once the institution steps outside of its role as lender to LIC and MIC governments, new possibilities and roles just as quickly come into view. The World Bank as financier of global public goods, as partner to countries with large poor populations regardless of country-level income, as innovator and market-maker for new approaches to risk mitigation—these roles suggest a World Bank at 75 with a new and expanded sense of purpose.

On its current path, the World Bank will soon enough be viewed as no longer essential. It is ultimately up to its shareholders whether they want to change that picture.

Appendix

Table A1: IDA Graduates, 1961-2014

Country	Current status	Crossed Threshold (GNIpc of $1,205)	Graduation	De/re-graduation
Chile	IBRD	1973	1961	
Colombia	IBRD	1980	1962	
Costa Rica	IBRD	1977	1962	
Nigeria	IDA Blend	2010	1965	1989
Côte d'Ivoire	IDA-only	2010	1973	1992
Dominican Republic	IBRD	1981	1973	
Korea, Rep.	IBRD	1978	1973	
Turkey	IBRD	1976	1973	
Botswana	IBRD	1981	1974	
Ecuador	IBRD	1976	1974	
Syria	IBRD	1979	1974	
Mauritius	IBRD	1979	1975	
Morocco	IBRD	1996	1975	
Swaziland	IBRD	1990	1975	
El Salvador	IBRD	1994	1977	
Paraguay	IBRD	1995	1977	
Tunisia	IBRD	1980	1977	
Jordan	IBRD	1978	1978	
Philippines	IBRD	1997	1979	1991/1993
Thailand	IBRD	1989	1979	
Honduras	IDA-only	2004	1980	1991
Indonesia	IBRD	2005	1980	1999/2008
Cameroon	IDA Blend	2014	1981	1994
Egypt	IBRD	1998	1981	1991/1999
Nicaragua	IDA-only	2007	1981	1991
Congo, Rep.	IDA Blend	1982	1982	1994
Papua New Guinea	IDA Blend	2010	1983	2003
Zimbabwe	IDA Blend	--	1983	1992
St. Kitts and Nevis	IBRD	1981	1994	
China	IBRD	2003	1999	
Equatorial Guinea	IBRD	2000	1999	
Macedonia, FYR	IBRD	1992	2002	
Albania	IBRD	2001	2008	
Montenegro	IBRD	2002	2008	
Serbia	IBRD	1999	2008	
Azerbaijan	IBRD	2005	2011	
Angola	IBRD	2005	2014	
Armenia	IBRD	2005	2014	
Bosnia and Herzegovina	IBRD	1998	2014	
Georgia	IBRD	2005	2014	
India	IBRD	2010	2014	

Table A2: IBRD Graduates, 1970-2014

Country	Crossed Threshold (GNIpc $7,115)	Graduation	Degraduation	Last Loan Approval
New Zealand	1980	1972		1972
Iraq	2018	1973	2003	2010
Iceland	1975	1974		1973
Venezuela, RB	2007	1974	1989	2001
Finland	1978	1975		1975
Israel	1987	1975		1975
Singapore	1986	1975		1975
Ireland	1987	1976		1975
Gabon	2008	1977	1988	2012
Spain	1988	1977		1977
Greece	1988	1979		1979
Trinidad and Tobago	2003	1984	1990	2003
Oman	2000	1987		1987
Bahamas, The	1979	1989		1988
Portugal	1991	1989		1989
Cyprus	1988	1992		1991
Barbados	1991	1994	*	2008
Korea, Rep.	1992	1995	1998	1998
Slovenia	1994	2004		2000
Czech Republic	2003	2005		1993
Estonia	2004	2006		2000
Lithuania	2005	2006		2002
Hungary	2004	2007	*	1999
Latvia	2006	2007	*	2011
Slovak Republic	2004	2008		2006

*received additional loans after graduation, but not officially reinstated as IBRD

Projection Models: Methodology

We construct a graduation model based on the GNI threshold, the more measurable aspect of the World Bank's criteria. We use the most recent (2012) GNI Atlas Method figures from the World Development Indicators (WDI) for each country, and project forward by multiplying by the updated WEO GDP growth rates. We then divide GNI by the yearly UN Population Division projections to get projected GNI per capita from 2012-2030. We use WDI GNI per capita figures for years before 2012. Based on these figures, we mark the year the country passed or is projected to pass the IDA-set GNI per capita threshold of US$ 1,205. The difference between this threshold year and the present year (2014) represents the ongoing graduation lag. Negative lag values indicate the number of years until a country passes the threshold in the future.

We also apply average lag periods to illustrate potential timelines for graduation: two years for Blend countries, as specified as IDA's stated policy, and six years overall, showing the average path followed by previous (post-1990) graduates (see Table A1). This is similar to the methodology used by internal IDA predictions, Moss and Leo (2011) and Salvado and Walz (2013) to project IDA and other MDB graduation scenarios, in which they use an average five-year lag to account for creditworthiness considerations. After adding the lag, we indicate which IDA countries could be expected to graduate in the near future, starting with the World Bank's 75th year in 2019 and then projecting out to 2025. Projection results for IDA (Blend and IDA-only) are presented in Tables A3.1 and A3.2.

For IBRD projections, we using the same model, but instead benchmark against the IBRD threshold of $7,115 per capita GNI and apply a three year lag, reflecting historical average delays (see Table A2). Projection results for possible IBRD graduates are presented in Table A5.

Table A3.1: Possible IDA Blend graduates

	2013 WB grant/loans (millions USD)	Small Island	Fragile/ Conflict	Years since crossed GNI threshold	Credit Rating		Projected Graduation by 2019:	
					Fitch	S&P	2 yr lag	6 yr lag
St. Lucia	86	1		31	BB-		✓	✓
Dominica	28	1		29			✓	✓
Grenada	64	1		29	BB-	SD	✓	✓
St. Vincent & the Grenadines	33	1		28	B+		✓	✓
Cabo Verde	337	1		22		B	✓	✓
Sri Lanka	2,884			10		B+	✓	✓
Timor-Leste	-	1	1	9			✓	✓
Congo, Rep.	101			9		B+	✓	✓
Bolivia	499			8		BB	✓	✓
Mongolia	472			8		B+	✓	✓
Moldova	569			7			✓	✓
Papua New Guinea	246	1		5		B+	✓	✓
Nigeria	5,278			5	B+	BB-	✓	✓
Vietnam	11,381			5	B	BB-	✓	✓
Uzbekistan	467			5			✓	✓
Pakistan	12,661			3	B+	B-	✓	✓
Cameroon	667			1		B	✓	

Table A3.2: Likely IDA-Only graduates

	2013 WB grant/loans (millions USD)	Small Island	Fragile/ Conflict	Years since crossed GNI threshold	Credit Rating		Projected graduation (using 6 yr lag)	
					Fitch	S&P	2019	2025
Tonga	23	1		25			✓	✓
Micronesia	-	1	1	22	B		✓	✓
Vanuatu	10	1		22			✓	✓
Marshall Islands	-	1	1	20			✓	✓
Samoa	104	1		19			✓	✓
Kiribati	-	1	1	18			✓	✓
Tuvalu	-	1	1	14	B		✓	✓
Maldives	107	1		12			✓	✓
Honduras	899			11		B	✓	✓
Bhutan	177			10			✓	✓
Kosovo	297		1	9			✓	✓
Guyana	13			9	B+		✓	✓
Nicaragua	533			8			✓	✓
Yemen, Rep.	2,070		1	5			✓	✓
Ghana	2,832			5		B	✓	✓
Sao Tome and Principe	14	1		4	B		✓	✓
Sudan	1,290		1	4			✓	✓
Lesotho	308			4			✓	✓
Cote d'Ivoire	168		1	3			✓	✓
Zambia	632			3		B+	✓	✓
Lao PDR	611			3			✓	✓
South Sudan	-		1	1				✓
Solomon Islands	38	1	1	0				✓
Mauritania	394			0	B			✓
Kyrgyz Republic	698			-1				✓
Cambodia	593			-3		B		✓

Table A4: Potential IBRD Graduates

	2013 IBRD lending (millions USD)	Years since crossed GNI threshold	Years since last loan approval	Credit Rating Fitch	Credit Rating S&P	Projected graduation (using 3 year lag) 2019	Projected graduation (using 3 year lag) 2025
Korea, Rep.	-	23	17	BB+	A+	✓	✓
Argentina	6,121	21	4	BBB	CCC-	✓	✓
Antigua and Barbuda	-	21	2	BBB+		✓	✓
Seychelles	25	18	2	B-		✓	✓
Uruguay	-	17	3		BBB-	✓	✓
St. Kitts and Nevis	-	14	10	BB+		✓	✓
Palau	-	13	NA			✓	✓
Trinidad and Tobago	-	12	12	BB-	A	✓	✓
Mexico	15,063	11	3		BBB+	✓	✓
Croatia	-	11	2		BB	✓	✓
Poland	-	10	2		A-	✓	✓
Chile	-	9	3	BB-	AA-	✓	✓
Turkey	14,039	9	2	BBB-	BB+	✓	✓
Libya	-	9	NA	BBB+		✓	✓
Venezuela	-	8	14	AAA	B-	✓	✓
Russia	-	8	3		BBB-	✓	✓
Equatorial Guinea	-	8	NA			✓	✓
Malaysia	-	7	16	BBB-	A-	✓	✓
Gabon	36	7	3		BB-	✓	✓
Brazil	13,598	7	2		BBB-	✓	✓
Romania	-	7	2		BBB-	✓	✓
Lebanon	209	6	3		B-	✓	✓
Mauritius	331	6	2	B-		✓	✓
Kazakhstan	3,097	5	3	BBB-	BBB+	✓	✓
Panama	578	5	2	BBB-	BBB	✓	✓
Suriname	-	5	NA	B+	BB-	✓	✓
Costa Rica	599	4	3	B	BB	✓	✓
Montenegro	408	4	3	BB-	BB-	✓	✓
Botswana	112	3	6	BBB	A-	✓	✓
South Africa	1,337	3	5	BB-	BBB-	✓	✓
Colombia	7,888	2	2	BBB-	BBB	✓	✓
Bulgaria	1,201	1	6	A-	BBB-	✓	✓
Belarus	557	0	2	BBB-	B-	✓	✓
Turkmenistan	7	-1	18	BBB-		✓	✓
Peru	1,824	-1	2	BB-	BBB+	✓	✓
China	18,848	-1	2	BBB	AA-	✓	✓
Azerbaijan	1,642	-2	2	A+	BBB-		✓
Iraq	-	-3	5	BBB-			✓
Thailand	1,053	-5	5		BBB+		✓
Dominican Republic	901	-6	4	BBB	B+		✓
Namibia	-	-7	7	B+			✓

Table A5: IBRD Constituencies and Members

Constituency members listed according to IBRD Voting Power as of October 2013

Constituency	Member
1	United States
2	Japan
3	China
4	Germany
5	United Kingdom
6	France
7	Belgium
	Turkey
	Austria
	Hungary
	Czech Republic
	Belarus
	Slovak Republic
	Luxembourg
	Slovenia
	Kosovo
8	Spain
	Venezuela
	Mexico
	Guatemala
	Honduras
	Nicaragua
	Costa Rica
	El Salvador
9	Netherlands
	Ukraine
	Israel
	Bulgaria
	Romania
	Croatia
	Cyprus
	Georgia
	Moldova
	Armenia
	Montenegro
	Bosnia and Herzegovina
	Macedonia, FYR
10	Australia
	Korea, Republic Of
	New Zealand
	Papua New Guinea
	Marshall Islands
	Micronesia
	Samoa
	Solomon Islands
	Vanuatu
	Kiribati
	Mongolia
	Tuvalu
	Cambodia
	Palau
11	Canada
	Ireland
	Jamaica
	Bahamas, The
	Guyana
	Barbados
	Antigua and Barbuda
	Belize
	Dominica
	Grenada
	St. Lucia
	St. Kitts and Nevis
	St. Vincent and the Grenadines
12	India
	Bangladesh
	Sri Lanka
	Bhutan
13	Denmark
	Sweden
	Norway
	Finland
	Latvia
	Lithuania
	Iceland
	Estonia
14	Italy
	Portugal
	Greece
	Malta
	Albania
	San Marino
	Timor-Leste
15	Brazil
	Colombia
	Philippines
	Ecuador
	Trinidad and Tobago
	Dominican Republic
	Haiti
	Panama
	Suriname
16	Iran
	Algeria
	Pakistan
	Morocco
	Ghana
	Tunisia
	Afghanistan
17	Saudi Arabia
18	Switzerland
	Poland
	Kazakhstan
	Serbia
	Uzbekistan
	Azerbaijan
	Kyrgyz Republic
	Tajikistan
	Turkmenistan
19	Indonesia
	Thailand
	Malaysia
	Brunei
	Myanmar
	Fiji
	Nepal
	Vietnam
	Tonga
	Singapore
	Lao PDR
20	Russia
	Syria
21	Kuwait
	Egypt
	Libya
	Iraq
	UAE
	Yemen
	Oman
	Jordan
	Qatar
	Bahrain
	Maldives
	Lebanon
22	Argentina
	Chile
	Peru
	Uruguay
	Bolivia
	Paraguay
23	Congo, Dem. Rep.
	Cote d'Ivoire
	Senegal
	Cameroon
	Madagascar
	Guinea
	Mauritius
	Mali
	Togo
	Benin
	Burkina Faso
	Central African Republic
	Chad
	Congo, Republic of
	Gabon
	Mauritania
	Niger
	Equatorial Guinea
	Cabo Verde
	Djibouti
	Guinea-Bissau
	Sao Tome and Principe
	Comoros
24	Zimbabwe
	Zambia
	Kenya
	Namibia
	South Sudan
	Tanzania
	Malawi
	Rwanda
	Ethiopia
	Mozambique
	Sudan
	Burundi
	Lesotho
	Sierra Leone
	Botswana
	Eritrea
	Gambia, The
	Somalia
	Uganda
	Liberia
	Swaziland
	Seychelles
25	South Africa
	Nigeria
	Angola