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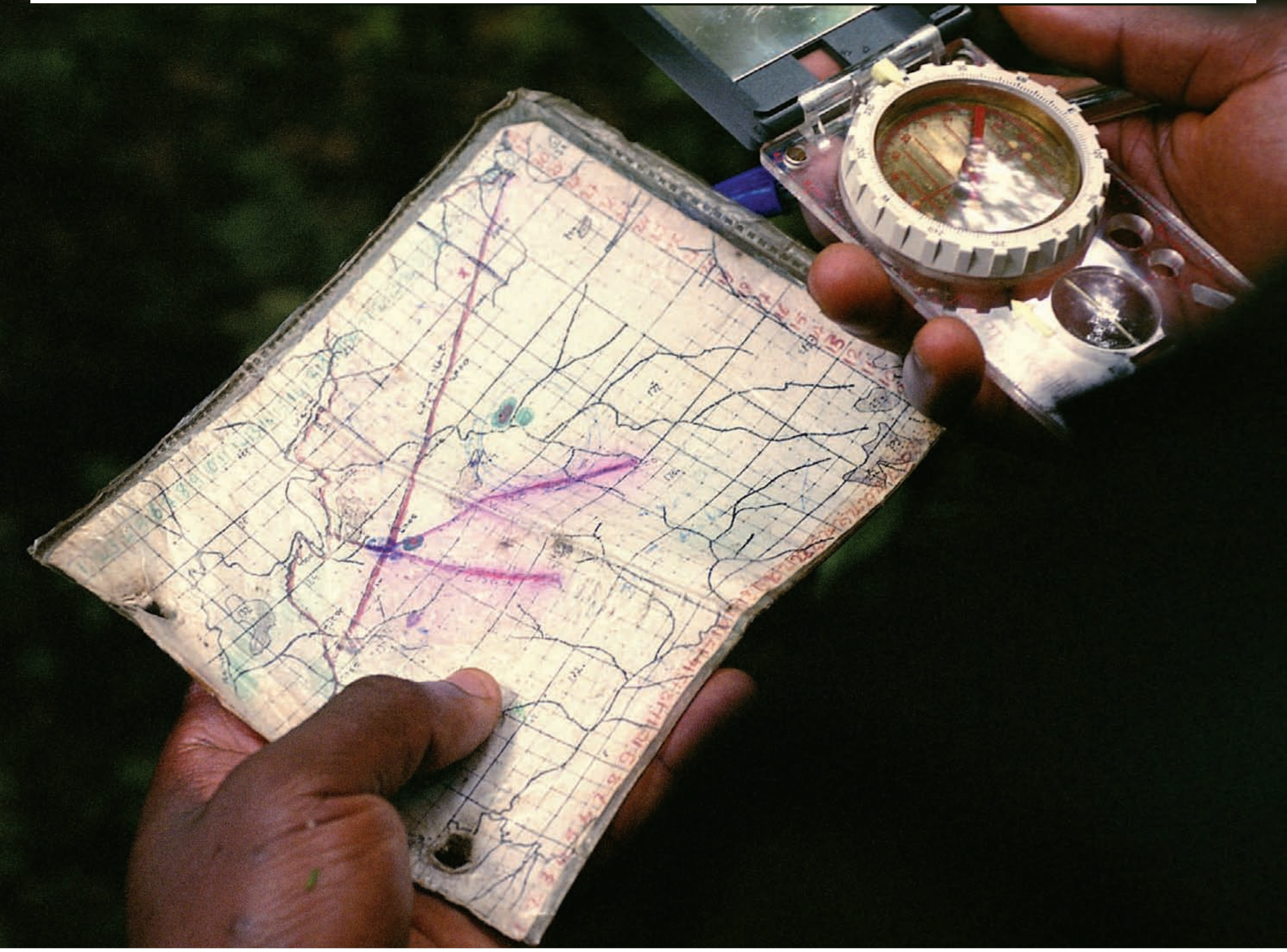

The role of the World Bank Group in the post-2015 agenda

A policy note by M. Schmaljohann et al.

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List of Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
BMZ	Federal Ministry for Economic Cooperation and Development
BRICS	Brazil, Russia, India, China and South Africa
CCSA	Cross-Cutting Solutions Area
CIFs	Climate Investment Funds
COP	Conference of the Parties
CPIA	Country Policy and Institutional Assessment
CTF	Clean Technology Fund
DPL	Development Policy Loans
DPO	Development Policy Operations
DSF	Debt Sustainability Framework
EBRD	European Bank for Reconstruction and Development
ED	Executive Director
EIB	European Investment Bank
FCS	Fragile and Conflict Affected States
FfD	Financing for Development
FY	Fiscal Year
GAVI	Global Alliance for Vaccines and Immunization; GAVI Alliance
GCF	Green Climate Fund
GEF	Global Environment Facility
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GIF	Global Infrastructure Facility
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
GMR	Global Monitoring Report
GPG	Global Public Good
GP	Global Practice
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
ICESDF	Intergovernmental Committee of Experts on Sustainable Development Financing
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation

IFFIm	International Finance Facility for Immunisation
IL	Investment Lending
IMF	International Monetary Fund
LDC	Least Developed Country
LIC	Low-Income Country
MAMS	Maquette for MDG Simulation
MAR	Management Action Report
MDB	Multilateral Development Bank
MDG	Millenium Development Goal
MDRI	Multilateral Debt Relief Initiative
MIGA	Multilateral Investment Guarantee Agency
NDB	New Development Bank
NGO	Non-Governmental Organisation
OWG	Open Working Group
PBG	Policy Based Guarantee
PCG	Partial Credit Guarantee
PforR	Program-for-Results Financing
PPP	Public Private Partnership
PRG	Partial Risk Guarantees
PSIA	Poverty and Social Impact Analysis
RAS	Reimbursable Advisory Service
SBL	Single Borrower Limit
SCF	Strategic Climate Fund
SDG	Sustainable Development Goal
SPF	State and Peacebuilding Fund
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNFCCC	United Nations Framework Convention on Climate Change
UNGA	United Nations General Assembly
UNSG	United Nations High Level Panel of Experts on Sustainable Development by the UN Secretary General
UMIC	Upper Middle Income Countries
WBG	World Bank Group
WDI	World Development Indicators
WDR	World Development Report

Executive summary

The year 2015 will present a watershed for international development. The Millennium Development Goals (MDGs) are coming to an end and the international community will agree on a new set of goals (Sustainable Development Goals, or SDGs) that will address future global challenges and redefine the means of implementation to achieve them. The World Bank Group (WBG) is one of the main multilateral organisations supporting international development and it will play an important role in implementing the post-2015 agenda. This policy note analyses possible roles and areas for the WBG in implementing the new development agenda and in addressing the challenges that arise from it. The note also highlights different aspects that might constrain the institution's ability to fulfil these roles.

The process of developing a new sustainable development agenda that follows the MDGs has been ongoing since the Rio+20 Conference in 2012. In 2014, the two intergovernmental expert groups established by the United Nations (UN) General Assembly presented their proposals on the SDGs and for an effective sustainable development financing system. Based on these two reports, the UN Secretary General's synthesis report published in December 2014 as well as ongoing discussions and the background interviews conducted between December 2014 and January 2015[1], this policy note identifies at least seven challenges the post-2015 agenda will have to tackle and possible areas of activities the WBG could strengthen to respond to these challenges.

Fit between the WBG's organisational structure and the post-2015 agenda

The WBG has adopted a new strategy in 2013 and underwent an organisational restructuring in the past year. Both changes seem to prepare the organisation well for the new international agenda. The new twin goals of the WBG – reducing extreme poverty and inequality – are also essential goals of the SDG agenda; likewise the WBG's strategy to achieve the twin goals captures most of the areas addressed in the SDGs. This alignment with the SDGs is also mirrored in the new organisational structure of 14 Global Practices (GPs) and five Cross-Cutting Solutions Areas (CCSAs).

Yet, two possible weaknesses in the WBG's new set-up can be identified. First, while the WBG strategy states that the twin goals shall be implemented in a sustainable way, sustainability is not a stand-alone goal and has no own GP or CCSA. It will be important that the WBG manages to mainstream this topic in its activities in order to be a strong implementing partner for the SDGs. To this end, the policy note recommends to

- Include more sustainability measures into the WBG's internal monitoring tool, the corporate scorecard, (Recommendation 1) and to
- Develop knowledge products on inter-linkages between poverty reduction, growth and sustainability (Recommendation 1a).

The second weakness relates to the idea behind the WBG's organisational reform of strengthening knowledge exchange at the central level by establishing the new GPs and CCSAs and reducing regional knowledge clustering. A concern of this development is that an overly strong thematic focus could lead to a loss of country specific or "adaptive" knowledge. It is therefore recommended that

- Centralisation tendencies should be closely monitored by the shareholders (Recommendation 2).

Specific challenges of the post-2015 agenda and implications for WBG

Turning to the specific challenges of the post-2015 agenda, the first one that this policy note identifies relates to the ambitious goal of eradicating extreme poverty (Challenge 1). With decreasing numbers of people living in extreme poverty, it will be harder to target the remaining pockets of poverty in predominantly fragile and conflict affected states (FCS) and among marginalised groups. This asks for stronger focus of poverty reduction activities in FCS which, however, come at higher costs and with more risk of failure.

Given the WBG's growing experience and own aspiration to focus more on FCS as outlined in its new strategy, the WBG is in a good position to respond to this challenge. But while it has different instruments, ranging from public sector lending by the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD) to private sector support through the International

1 Table 4 in the appendix provides a list of conducted interviews.

Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), there exists nevertheless a need to improve the WBG's performance in FCS. The policy note identifies the WBG's risk aversion as a main constraint (especially for IFC) as well as partially overly complex regulations for the FCS context and an overly strong focus on economic returns in comparison to development outcomes for IFC. Lifting these constraints will be vital to strengthening the WBG's ability to eradicate extreme poverty. To this end the policy note recommends to:

- Strengthen the WBG's role (including IFC) as an implementing agency of the SDGs, in fragile states in particular (Recommendation 3),
- Revise risk assessment and internal incentive systems across all parts of the WBG (Recommendation 3a) and to
- Evaluate the possibility of first-loss capital instruments as a valuable instrument to support private investments in FCS (Recommendation 3b).

The second challenge of the post-2015 agenda is mainstreaming sustainability through future interventions to limit negative development impacts from climate change and natural disasters (Challenge 2). The WBG could especially contribute by supporting sustainable infrastructure projects. Enhancing the WBG's role as a provider of sustainable infrastructure will however be challenged by the establishment of new agencies that focus on infrastructure financing like the BRICS' (Brazil, Russia, India, China and South Africa) Bank. These might not pay too much attention to the sustainability dimension. The WBG's safeguards are relevant to sustainability aspects but at the same time they delay project preparation processes. The policy note recommends:

- Strengthen the WBG's role as a provider of sustainable infrastructure (Recommendation 4),
- Acknowledge safeguards as important contributors to the sustainability of projects while increasing the efficiency of the safeguards system (Recommendation 4a) and
- Support WBG cooperation with the new agencies and try to ensure that similar safeguards are applied (Recommendation 4b).

The WBG should further strengthen and broaden its role in addressing climate change through mobilising climate finance, supporting climate mitigation activities and maximising co-benefits between development and climate activities. The WBG has already in the past been heavily involved in initiatives to fight climate change, e.g. by being the trustee for the Global Environment Facility (GEF) and administrator for the Climate Investment Funds (CIFs). To strengthen the WBG's activities on climate change the policy note recommends to:

- Identify WBG as a major provider of Global Public Goods (GPGs) (Recommendation 5) and
- Review possibilities to provide through the WBG's core business (Recommendation 5a).

The fact that the new set of development goals – in contrast to the MDGs – applies to all countries in the world implies a paradigm shift away from the previous North-South agenda. The post-2015 agenda will be a universal agenda (Challenge 3). The WBG can use its knowledge and experience to support non-borrowing countries with technical advisory services to help them implement the SDGs and define national policies. However, it is important that providing these services will not divert resources from developing countries. On the contrary, such activities should generate knowledge that is also useful for the WBG's core clients.

Given the ambitious goals of the post-2015 agenda, broad political and public support will be vital (Challenge 4) to ensure that governments will take challenging but needed decisions. The WBG's strategy overlaps with the SDGs and the organisation's active role in the post-2015 process reveals its important endorsement of the new development agenda. Through its Board, 186 countries have already agreed on goals and on a strategy that covers several areas of the SDGs. The policy note recommends to:

- Leverage the WBG's commitment to the SDGs to strengthen political support and commitment to the agenda across its membership (Recommendation 6).

The successful implementation of the SDGs will depend on the development of measurable indicators and the availability of underlying data (Challenge 5). Both are essential to monitor progress towards the goals and to address potential shortfalls. The WBG is already contributing to the ongoing exercise of identifying measurable indicators. However, for several of the current goals and indicators, there is no or only very limited data available, such as for measuring rates of urbanisation or reduction of violence. The WBG can play an important role in addressing this challenge by building on its experience of disseminating and providing data. To address the challenge of limited data availability, the policy note recommends to:

- Leverage the WBG's experience in providing technical assistance to build in-country statistical capacity (Recommendation 7) and
- Coordinate the WBG's activities with the ongoing UN Data Revolution process (Recommendation 7a).

The scope of the post-2015 agenda and its transformative character requests countries to translate the goals into national strategies and to identify and conduct policy reforms to achieve the proposed targets (Challenge 6). The implementation of the SDGs will therefore heavily depend on countries' institutional capacities. The WBG can make a valuable contribution by supporting governmental and institutional capacity building through knowledge sharing and its financial instruments. The organisation has already developed a framework to identify national constraints to achieve the SDGs which shall help formulate national strategies and identify possible financial sources. The policy note recommends to:

- Use WBG's knowledge products, experience and financial instruments to support governmental and institutional strengthening to assist countries in implementing the SDGs and managing new sources of finance (Recommendation 8)

The final challenge of the post-2015 agenda refers to the mobilisation of the required additional financial resources to achieve the goals – especially from the private sector but also from domestic sources (Challenge 7). The WBG has experience in mobilising the private sector through MIGA and IFC which provide instruments to mobilise private investments in developing countries. In addition, the WBG has mobilised private flows through innovative financial instruments, such as green bonds. It will be important to intensify the use of these instruments to overcome the challenge of limited public resources. At the same time, the higher dependence of recipient countries from private flows in the future makes them more vulnerable to volatilities in these flows. The policy note recommends to:

- Further leverage the WBG's capacity to mobilise financial resources through innovative financing mechanisms and its support of private sector investments (Recommendation 9)
- Use WBG's countercyclical lending to cushion negative impacts in terms of economic or other crises (Recommendation 9a).

Challenges arising from the changing international development landscape

A direct challenge for the WBG as a financial institution does not arise from the post-2015 agenda itself but from implicit changes of its client landscape. There will be a focus of poverty in FCS. On the other hand, the number of IDA countries will considerably decrease in the future. The current rather strict separation between IDA and IBRD countries is likely to limit the WBG's flexibility to react to the changing client landscape and demand for its products. The policy note therefore recommends to:

- Review possibilities to increase the flexibility of the WBG's financial windows (Recommendation 10).

The WBG's ability to address the different challenges identified in this policy note and to support the new development agenda depends on whether it is seen as a legitimate partner. The governance structure of the WBG has been criticised to be dominated by Western donor countries in the past. While the voice reform has been an important step in responding to these points of criticism, there still is a common-held perception that the WBG is dominated by a Western agenda. The policy note therefore emphasises that:

- The WBG needs to become significantly more amenable to the interests of client countries to ensure it is seen as a legitimate institution supporting the global agenda (Recommendation 11).

A final aspect to be considered is the WBG's role among other actors in a changing international architecture. The broad scope of the new development agenda requires coordination among international agencies to ensure the support of all goals and to avoid a duplication of efforts. Therefore, the policy note finally recommends to:

- Assess the comparative advantage of the WBG in relation to other multilateral development banks (MDBs) and the UN system in delivering the SDG agenda and to coordinate interventions (Recommendation 12).

1. Introduction

2015 will be a landmark year for international development. The Millennium Development Goals (MDGs) are coming to an end and the international community will agree on a new set of goals (Sustainable Development Goals, SDGs) to address future global challenges and to redefine the means of implementation[2] to achieve them. The World Bank Group (WBG) is one of the main multilateral organisations supporting international development and, with its high volume of financial flows, breadth of sector expertise and knowledge, large presence at country level, as well as its number of country-level and regional, thematic and global partnerships, it will undoubtedly play an important role in implementing the post-2015 agenda.

This policy note was commissioned by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) on behalf of the Federal Ministry for Economic Cooperation and Development (BMZ) with the aim of informing BMZ's staff and external stakeholders on:

1. the possible role of the WBG in supporting and implementing the post-2015 agenda and evaluating the extent to which its financial and non-financial instruments and activities are well suited to support these tasks;
2. areas where further action might be needed to strengthen the WBG's support of the post-2015 agenda.

The study is based on a desk-based literature review and interviews with key stakeholders from the WBG (staff and Executive Directors or EDs), the United Nations (UN), non-governmental organisations (NGOs) and think tanks conducted between December 2014 and January 2015 in person and by phone.[3] Though most arguments in the study are based on a combination of these two sources, in case an important argument was only mentioned by one or more interviewees, this is made explicit in the text. The team managed to secure only two interviews with EDs from developing countries[4], so the interpretation of the qualitative analysis should factor in this limitation. The study does not claim to provide an all-embracing analysis of possible roles of the WBG, but tries to cover the most important areas, priorities and challenges of the new SDG agenda as well as WBG instruments and capacities, as identified during the interviews.

The policy note is structured as follows:

- **Section 2** briefly describes the current status and timeline of the ongoing post-2015 negotiation processes, including the main actors involved. It identifies the challenges arising from the new development agenda in comparison with the MDGs. It concludes by analysing the past role of the WBG in the MDG process and in the SDG negotiations so far.

- **Section 3** analyses the WBG's role as a financier as well as its non-financial strengths and how these can address the challenges of the post-2015 agenda in the context of the WBG's new organisational strategy.

- **Section 4** takes a closer look at the WBG's institutional and organisational set-up and identifies areas that constrain the WBG's ability to fulfil its role in the post-2015 agenda. It also develops recommendations on how to overcome these constraints.

- **Section 5** summarises the potential roles of the WBG in the post-2015 agenda and recommendations on how specific instruments as well as its institutional and organisational set-up could be enhanced to strengthen the WBG's capacity to support the new development agenda.

2 The proposed means of implementation are defined in SDG 17 and mention the following areas: finance, technology, capacity building, trade, policy and institutional coherence, multi-stakeholder partnerships as well as data, monitoring and accountability. See section 3.1 for a brief discussion of how these areas relate to the WBG's strategy.

3 A list of interviewees can be found in Table 4 in the appendix.

4 The Executive Director of India, representing Bangladesh, Bhutan, India and Sri Lanka, and the Executive Director of Brazil, representing Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Panama, Philippines, Suriname and Trinidad and Tobago.

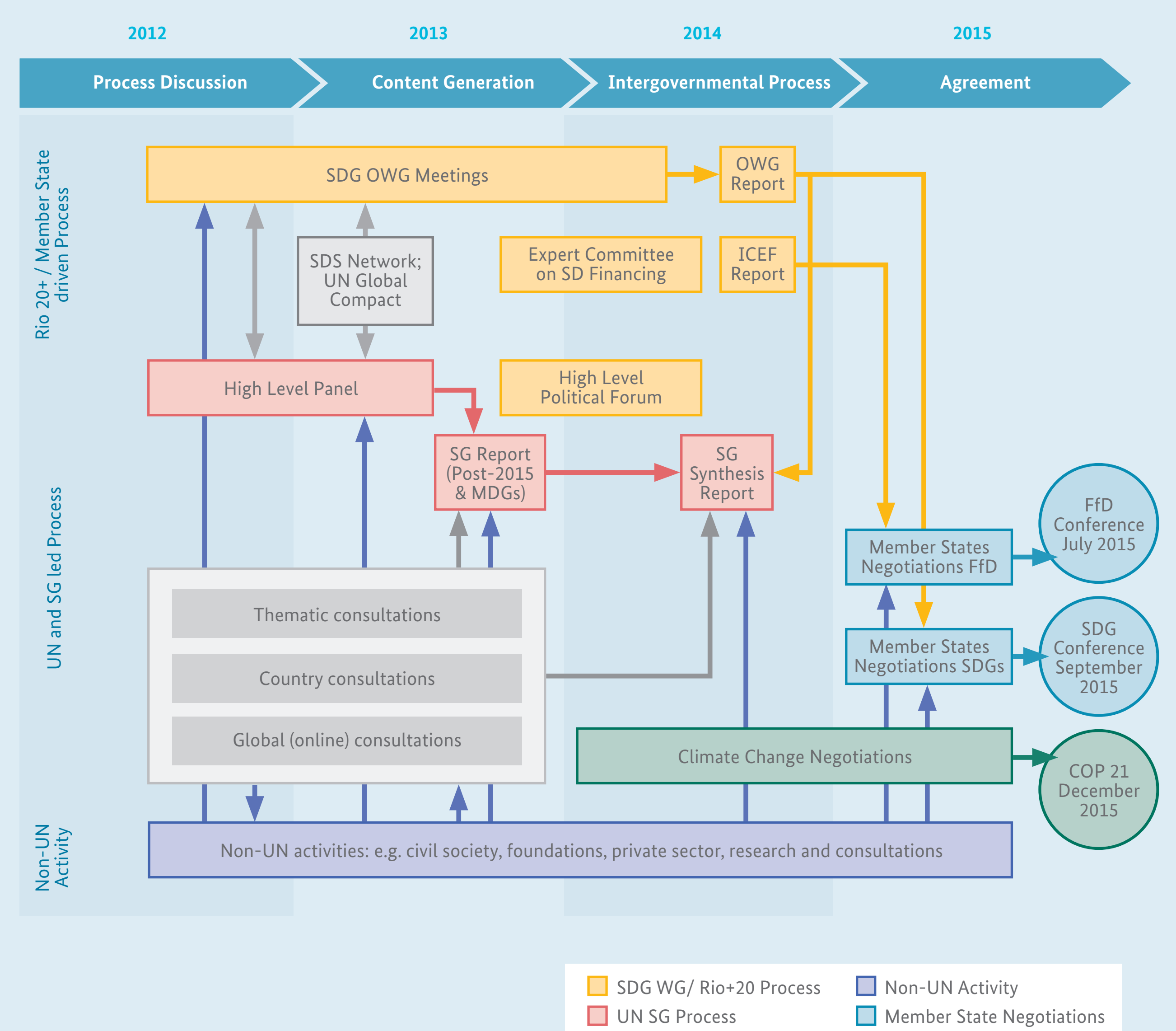
2. The post-2015 agenda

This section gives a brief introduction to the current status and timeline of the ongoing post-2015 negotiation processes, including the main actors involved. In the second part, it identifies the challenges of this new agenda in comparison with the MDGs, both for the means of implementation and the new global partnership for sustainable development. It concludes by analysing the past role of the WBG in the MDG process and the role it has played in the SDG negotiations to date.

2.1 The consultation process

The post-2015 process (see Figure 1) kicked-off with the appointment of a UN High Level Panel of Experts on Sustainable Development by the UN Secretary General (UNSG) as well as the establishment of the Open Working Group (OWG) on sustainable development through the Rio+20 Conference.

Figure 1: Overview of the post-2015 process



Source: UN Foundation and Dalberg Analysis; Figure adapted from: Minh-Thu, P. and van Loggerenberg, M., 2014.

The **UN High Level Panel** consisted of 27 members, including leaders from civil society, the private sector and governments and was co-led by Indonesia, Liberia and the United Kingdom. The aim of the panel was to advise on the new development agenda following the MDGs through a report it handed to the UNSG in May 2013. The report proposed five transformative shifts for the post-2015 agenda as well as 12 indicative targets and 54 goals. It fed into the UNSGs' report for the special event on post-2015 in September 2013 as well as into the OWG's work to develop the post-2015 agenda.

The **OWG** on sustainable development, as agreed in the Rio+20 outcome document, was established in January 2013 by the UN General Assembly (UNGA) and consisted of 30 shared seats, divided into regional groups. It was supported by UN thematic consultations at the global and regional level between 2013 and 2014. Furthermore, it used the report of the UN High Level Panel as input for its work. In July 2014, the OWG presented its report with the proposals for goals and targets to the UNGA which adopted the report in September 2014.[5]

The **Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF)** was established in June 2013 with the aim to identify options for an effective sustainable development financing strategy. The ICESDF consisted of 30 experts nominated by a regional grouping and was co-chaired by Finland and Nigeria. The committee's report on sustainable development finance was adopted by the UNGA in August 2014 and is the basis for the intergovernmental negotiations for the **Financing for Development (FfD) Conference**. The discussion on financing options will finally lead to the FfD in Ethiopia in July 2015, a follow-up to the Monterrey Conference (2002) and the Doha Conference (2010).

Following the special event on achieving the MDGs in September 2013, the UNGA asked the **Secretary General** in October 2013 to provide a synthesis report of the different inputs to the post-2015 agenda. This report was published in December 2014.

In 2015, intergovernmental negotiations will take place for both processes, FfD and the new SDGs. The FfD process will culminate in an outcome document from the third FfD conference in Addis Ababa in July 2015. The outcome document on the SDGs will be adopted by the UNGA in September 2015.[6]

In addition to the processes developing the post-2015 agenda and its financing options, a third important process affecting the post-2015 agenda is taking place in 2015: the development of a new agreement on reducing carbon emissions under the UN Framework Convention on Climate Change (UNFCCC). The negotiations for the new binding agreement on reducing carbon emissions started in Bali in 2007. Including climate change and sustainable development in the post-2015 agenda links it directly to the **UNFCCC process** and the outcomes to be decided by the Conference of the Parties (COP) in December 2015 in Paris.

2.2 The MDGs and SDGs

2.2.1 A comparison between the MDGs and the SDGs proposal

The SDGs, as they stand at the moment, mark a big shift from a rather narrow agenda of eight goals with a focus on poverty and human development towards a broad and transformative agenda comprising 17 goals and almost 170 indicators. This new agenda covers more topics than the previous MDG agenda, as can be seen in Table 3 in the appendix which compares SDG proposals and MDGs. Some MDG topics have been further differentiated to become more concrete, i.e. MDG 1 on reducing poverty and hunger is now covered by SDG 1 (poverty), 2 (hunger) and 8 (sustainable growth); and MDG 7 of environmental sustainability is explicitly set out in SDG 6 (water), 13 (climate change), 14 (oceans) and 15 (ecosystems) as well as indirectly in several other SDGs that address sustainability. This shows the new focus on sustainable development in all areas compared to general development in the previous agenda. Although breaking up broad categories like environment into several sub-targets underlines the importance of the specific sub-areas, there is a feeling that the current number of goals and targets might be excessive and needs some condensation effort (Norton and Stuart, 2014).

5 This proposal with its 17 goals and 169 targets is what we are referring to when mentioning the SDGs throughout the document. An overview of the 17 goals can be found in Table 1 in the appendix.

6 The time line for these negotiations can be found in Table 2 in the appendix.

However, regarding health issues, the opposite is true. SDGs subsume various health issues under SDG 3 as an overarching health goal, while the MDG agenda covered health in a more differentiated manner, listing the reduction of child mortality, the combat against HIV/AIDS, malaria and other diseases as individual goals.

Several topics in the SDG agenda are new, compared to the MDGs. The explicit reference to climate change and sustainability sets the double focus of the SDG agenda on social development and environmental protection. The SDG agenda also includes the goal of reducing inequality within and among countries (SDG 10) which is new to the global agenda. Other new goals refer to access to energy (SDG 7), resilient infrastructure and sustainable industrialisation (SDG 9), urbanisation (SDG 11), sustainable consumption and production (SDG 12) and finally, peace- and state-building (SDG 16) which adds a focus on fragile and conflict affected states (FCS).

A new aspect of the SDG agenda is its universal approach. While the MDGs only applied to developing countries, the new agenda explicitly states the responsibility of all countries to achieve the new development goals. Therefore, the post-2015 agenda marks a paradigm shift away from the previous "North-South" approach to a universal development agenda.

2.2.2 Challenges of the new agenda

The proposal for a new set of goals, their breadth, ambitiousness and universal coverage raise at least seven challenges for the post-2015 agenda, its means of implementation and the new global partnership for sustainable development as identified by the interviewees and derived from the current proposal of the SDGs and the UN Secretary General's Synthesis Report.

Challenge 1: Eradicate extreme poverty. With fewer citizens living in extreme poverty, it becomes more and more difficult to further reduce their number because it increasingly concerns minorities and marginal communities which are harder to target. Important in this context is the need for reducing inequality, as raised in SDG 10, to support the inclusion of marginalised groups in the development process. Extreme poverty will not only concentrate in marginalised groups, but also in FCS. Already, one third of extreme poor lives in fragile states around the world and predictions see this trend continuing (e.g. Kharas and Rogerson, 2012). The lack of institutions and the fragility of the political surrounding pose particular challenges to engage in these countries.

Challenge 2: Achieve the SDGs in a sustainable way. In the future, the pro-poor growth agenda needs to be amplified by a third dimension: the environment. This paradigm shift poses a challenge to rethink growth and development strategies. Sustainability is not only important in its own right, but also inseparable to the poverty agenda, as extreme weather and disasters caused by climate change risk to reverse progress on poverty reduction (Shepherd et al., 2013). In addition to finding a new growth concept that combines growth, poverty reduction and sustainability, including building up resilience, it must be ensured that the use of development finance – especially concessional finance – is in line with both objectives (Kharas et al., 2014). The focus on sustainability requires a focus on green infrastructure to close the infrastructure gap in developing countries and to prevent a lock-in of carbon intensive infrastructure. This is all the more essential as the new agenda also explicitly calls for a fight against climate change.

Challenge 3: Make the goals universal. The new agenda will no longer only apply to developing but to all countries. While the MDGs focused on low-income countries (LICs) and least developed countries (LDCs), the new post-2015 agenda, with its broader set of objectives, is relevant for middle-income countries (MICs) and even requires action from high-income countries (HICs), for example to mitigate climate change or address inequality. It is not an agenda that will be delivered by developed countries to developing countries. Each country is responsible for contributing to achieving these goals and for adjusting their national strategies to do so.

Challenge 4: Gain broad political support. The new agenda is very ambitious and requires a global effort to design national policies to help achieve the goals. This will in some cases also require governments to make challenging decisions, for example in designing policies that demand green investments from the private sector, although they might come at a higher cost, or to support minority groups that constitute the extreme poor, but might not be the government's core electoral base. The stronger the political support for the overall agenda, the more likely governments will make these important decisions.

Challenge 5: Set measurable indicators and ensure data availability. Defining measurable indicators will ensure that progress can be measured against them and shortfalls addressed. For several of the current goals, there is no or only very limited data available, e.g. on urbanisation or reduction of violence, making it difficult to design and monitor strategies to progress on these topics. Another problem is the "adding up" question: as SDG combinations need to be prioritised above all at country level, how is global consistency to be assured?

Challenge 6: Strengthen capacity to implement the agenda. The post-2015 agenda, as it stands, is a transformative agenda that requires countries to define strategies to achieve the proposed targets. Especially the cross-cutting subject of sustainability demands reforms and a change in policies to adapt the country framework. These exercises require a high implementation capacity from the governments and will need capacity and institution building efforts. Furthermore, the breadth of the agenda demands a high level of coordination among international agencies to ensure that all areas are supported and duplication of efforts is avoided.

Challenge 7: Mobilise additional finance, especially from the private sector and for sustainable infrastructure development. The expansion towards a broader agenda is connected with a broadening of the means of implementation. The MDG agenda was focussed very much on a North-South financial transfer based on public finance. This time, the proposed agenda implies a higher demand for policy changes, knowledge exchange and a broader set of finance, including the expectation that the private sector will contribute to this core transformational agenda. Infrastructure financing will have to support economic growth and to ensure that it is achieved in the most environmentally friendly way (see challenge 2). This will require significant additional resources. In addition, countercyclicality of international public finance will become more important to support countries in times of crises, when private and domestic finance is limited.

2.3 The WBG's role in the MDGs and the post-2015 discussion

2.3.1 How the WBG contributed to the MDGs

Implementing projects, providing policy advice and cost analysis analysis

Although the WBG was involved in consultations for implementing the Millennium Declaration which led to the formulation of the MDGs (Manning, 2009), the WBG only really engaged with the MDGs starting with the Financing for Development Conference in Monterrey in 2002, according to internal interviewees. This is considered a major difference between the MDG and the SDG process, where the WBG has been heavily engaged since the beginning. Though the WBG was not very involved with the MDGs in the beginning, it supported their implementation, especially because it required poverty reduction strategies that helped countries formulate development strategies and operationalise the goals at country level and through its programmes.

In addition to supporting specific MDGs with its project work, the WBG helped to strengthen countries' government structures and institutions through policy reforms that enable them to set the framework for development. It supported the MDGs indirectly by providing a fiduciary (trustee) platform for vertical health funds. The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) as well as the Global Alliance for Vaccination and Immunization (GAVI) contributed to a great extent to the success on the health MDGs.

The WBG also played a major role in debt restructuring and debt relief initiatives (Target 8d) under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) over the last 15 years which were found successful in reducing the debt burden of 35 low-income highly indebted countries (Mustapha and Prizzon, 2014). The joint International Monetary Fund (IMF)-World Bank Debt Sustainability Framework (DSF) monitored trends in public debt; together with UN Conference on Trade and Development (UNCTAD), the World Bank contributed significantly to capacity development in debt management.

Finally, the WBG also supported the operationalisation of the goals with the Maquette for MDG Simulation (MAMS), a tool developed by the WBG to estimate the costs of achieving the MDGs and the trade-offs between different mixes of investments and policies needed to achieve them.

Raising awareness for the importance of data
For most of the indicators, baseline values were missing and data coverage among developing countries was weak when the MDGs were adopted. The MDGs, as international goals with explicit and measurable targets, helped to improve the availability of development data. The WBG's remit was poverty data (MDG 1a). In addition, the WBG collected data on the child mortality and maternal health goals. At the same time, the WBG developed the World Development Indicators (WDI), a platform to make development data from different sources available and comparable across countries, sectors and topics.

Monitoring the MDGs
Initially, the WBG was in charge of monitoring the poverty goal (MDG 1a) and the sub-indicator on debt for the global partnership (MDG 8d). Then it contributed to the monitoring of the MDGs with its Global Monitoring Report (GMR) series. Contrary to the official MDG Reports by the UN, the focus of the GMR is on analysing how institutional settings and other factors influence the achievement of the MDGs and providing recommendations on actions to generate an enabling surrounding for the MDGs. Although not explicitly mentioned in the interviews, the analysis of institutional factors that influence progress towards the international development goals seems to be important to support their successful implementation and to facilitate the provision of an enabling environment. However, in order to increase the use of the GMR, it is recommendable to better link it to the UN-led monitoring process in the future to promote the application of its findings.

Currently, the Independent Evaluation Group (IEG) is evaluating the WBG's role on the MDGs: the report will be published in the first half of 2015. A first lesson that can be drawn from the experience with the MDGs is the need to internally define its expected contribution to the SDGs and the strategy to do so. Such a strategy was missing for the MDGs and made it difficult for the organisation to evaluate its own success in contributing to the agenda.

2.3.2 How the WBG has been contributing to the post-2015 processes

Compared to the MDG process, the WBG's contribution to the post-2015 SDG preparatory process has changed dramatically. According to several interviewees, the cooperation between the UN and the WBG has evolved and improved in recent years. The WBG has been involved in both the FfD and the SDG processes since the beginning. As early as 2013, it appointed Mahmoud Mohieldin as a special envoy for the MDGs and the SDG process and created an internal MDG post-2015 working group. The WBG provided input in both processes – defining the goals and discussing the financial means to achieve sustainable development – in the first phase of expert hearings and external consultations when invited. For the OWG on SDGs, the WBG was among those who were invited to provide input on economic development in LDCs as well as on biodiversity and ecosystems. The WBG's report "Financing for Development Post-2015" was another input for the UN-led SDG process. After the expert hearings were concluded, the WBG contributed to several of the reports drafted by the UN Task Team on the post-2015 agenda, including on poverty reduction, climate change and disaster reduction, mapping financial flows for infrastructure. According to internal interviewees, the WBG will also be involved in the ongoing discussion on defining targets for the indicative goals in those areas in which it can provide expert knowledge.

The WBG is developing a country diagnostics framework which shall support the translation of the SDGs into country strategies by discussing the required policies to support progress towards the SDGs and by analysing options to expand the fiscal space to do so. The framework has been applied in Uganda as a pilot case study (Gable et al. 2014, see section 3.3.5) and has been referenced in the ICESDF report.

Though the WBG has been an active supporter of the UN-led 2015 process, it is still defining its own role for the post-2015 process. On financing sustainable development, for example, the WBG is currently preparing a position paper in collaboration with other multilateral finance institutions (AfDB, ADB, EBRD, EIB, IDB and IMF) on how they can help countries achieve the SDGs through the provision of finance and technical assistance as well as analyses and knowledge capacity. Likewise, the WBG is still developing its own role in the SDG process.

3. The role of the WBG in the post-2015 agenda

The role of the WBG in the post-2015 agenda will be defined by its financial instruments as well as its non-financial strengths. The WBG has adopted a new institutional strategy in 2013 that sets its long-term internal goals and discusses how to achieve them. To set the scene for the WBG's possible roles, this section first provides an overview of the aspects of the institution's new strategy that are relevant to the WBG in the SDG agenda and then briefly reviews the different available financial and non-financial instruments. Second, the section discusses the roles the WBG can play and areas in which it can strengthen its activities to address the post-2015 development challenges.

3.1 The new strategy

The shareholders of the WBG adopted its new strategy in October 2013. This strategy is based on the following twin goals:

a end extreme poverty: reducing the percentage of people living on less than USD1.25 a day to three percent by 2030

b promote shared prosperity: foster income growth of the bottom 40 per cent of the population in every country.

The strategy set out to achieve the twin goals is in line with the discussed post-2015 agenda and it is emphasised that the two goals shall be reached in a sustainable manner. Yet, it does not place sustainability on an equal and measurable footing alongside the poverty and shared prosperity goals and it remains to be seen, whether a paradigm shift from pro-poor growth to sustainable pro-poor growth will happen.[8] The proposed SDGs also cover the twin goals, though in a more ambitious way. SDG 1 calls for a complete eradication of extreme poverty and SDG 10 formulates the new equality goal with the aim to ensure that income growth of the bottom 40 per cent is higher than the country average (SDG 10). The latter is considerably more demanding than the Bank's shared prosperity goal.

Most of the Global Practices (GPs) and cross-cutting topics in the WBG's new structure overlap with most of the currently proposed SDGs (see Figure 2). However, the assignment of SDG topics is not equally distributed across the GPs and Cross-Cutting Solutions Areas (CCSAs). Some cover several SDGs, while other SDGs are shared by various units. According to the WBG strategy, substantial areas that need to be addressed to achieve the twin goals refer, for example, to job creation (SDG 8), good governance (SDG 16), environmental sustainability (SDGs 6, 7, 9, 11, 12, 13, 14, 15 and cross-cutting SDG topics), the enhancement of human capacities (SDGs 3, 4 and 6), the access to key infrastructure (SDG 9) and electricity (SDG 7) as well as gender equality (SDG 5).

8 See list of proposed SDGs in Table 1 in the Appendix. For a brief overview of the WBG's activities and their overlap with the SDGs, please refer to section 3.2.1.

Figure 2: Comparison of the WBG's new organisational structure and the proposed SDGs

Proposed Sustainable Development Goals	Global Practices														Cross-Cutting Solution Areas				
	Poverty	Agriculture	Health, nutrition & population	Education	Water	Energy & extractives	Social protection & labour	Transport & IT	Social, urban, rural and resilience	Environment & natural resources	Governance	Macroeconomics & fiscal management	Trade & competitiveness	Finance & markets	Climate change	Fragility, conflict & violence	Gender	Public private partnerships	Jobs
1. Poverty	X																		
2. Hunger, food security, nutrition & agriculture		X	X																
3. Health & well-being			X																
4. Education & lifelong learning				X															
5. Gender equality & female empowerment																	X		
6. Water & sanitation					X														
7. Energy						X													
8. Economic growth, employment & decent work							X					X	X	X					X
9. Infrastructure, industrialisation & innovation								X											
10. Inequality	X																		
11. Cities & human settlements									X										
12. Sustainable consumption & production		X											X						
13. Climate change															X				
14. Oceans, seas & marine resources										X									
15. Terrestrial ecosystems, forests, desertification, land degradation & biodiversity										X									
16. Societies, justice & institutions											X					X			
17. Means of implementation & global partnership												X	X	X				X	

Note: The blue crosses indicate major overlap between SDG and WBG unit topic. The grey crosses indicate at least a partial responsibility. Several cross-cutting SDG topics exist, e.g. poverty and gender, where different units could contribute. The graph only depicts those units mainly responsible for the topic (e.g. GP poverty and CCSA gender).

Knowledge and technology transfer are integral parts in the WBG strategy and overlap with the proposed tasks for the new global partnership (SDG 17). SDG 17 lays out the means of implementation and areas to strengthen the global partnership such as finance, technology, capacity building, trade, policy and institutional coherence, multi-stakeholder partnerships as well as data, monitoring and accountability. The WBG identifies technology transfer as an important area for business development in recipient countries and aims to support it through public private partnerships (PPPs). In addition, knowledge generation and provision is at the core of the WBG's strategy to become a bank that is able to offer knowledge-based solutions to its clients.

The WBG strategy explicitly addresses the universality of the SDGs by specifying that it will assist MICs, including upper middle income countries, in times of distress, while keeping its traditional focus on LICs. It does not explicitly mention support to HICs, although in the past, the WBG has supplied reimbursable advisory services, for example, to members who are no longer eligible to borrow.

The new WBG strategy aims to strengthen the links between the different institutions of the WBG. This includes that country engagement models are jointly developed between International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA). The new country engagement model includes systematic country diagnostics and country partnership frameworks that identify key constraints and opportunities to achieve the twin goals in the partner country and derive from this analysis focus areas of WBG interventions in line with national development priorities. Regular assessments and evaluations are expected to ensure that there is a constant learning process and the solutions orientation of the interventions is ensured.

Although the new strategy seems to support the WBG in playing an important role in supporting different areas of the SDGs, several interviewees also mentioned that the new strategy and organisational set-up distracted the WBG in the past two years. The organisation was very much focused on itself and it will still take time until it has established a new routine (see section 4.1). It therefore remains to be seen, once the institution has adapted to its internal changes, how effective it will use the similarities between the new priorities and structure with the post-2015 agenda to support the latter.

3.2 The WBG's financial and non-financial instruments

The WBG strategy shows awareness of the scope and complexity of the challenges ahead. In order to address them, the WBG has different financial instruments and can play an important role beyond funding. This section provides a short overview of these different mechanisms and discusses how they can be used to address the challenges the post-2015 agenda poses.

3.2.1 Financial instruments

The total (gross) disbursement in fiscal year (FY) 2014 has been USD 44.4 billion for IBRD, IDA, IFC and recipient executed trust funds combined. The gross issuance of MIGA guarantees were an additional USD 3.1 billion. The WBG is by far the largest MDB, providing about 58 percent of the combined lending of all MDBs. WBG lending has been relatively static over the past, with a significant rise in activity only in crisis years. This underlines its importance for countercyclical lending to cushion the recipient's constrained market access in times of crisis (Kharas et al., 2014).

However, with the rapid rise of other sources of finance, especially foreign direct investment, in the last two decades, the relative importance of the WBG's financial instruments has decreased over time. The total of public domestic resources, foreign direct investments and remittances to developing countries amounted to almost USD 3 trillion in 2011/2012 (UN 2014).

The WBG has the following instruments available for the public sector (IDA and IBRD): IL, development policy operations (DPOs), Program-for-Results (PforR) and guarantees. Grants, the highest form of concessionality, are usually used to manage the level of concessionality of these instruments. Pure grants are only used for countries in debt distress whose situation is not considered sustainable, even on IDA credit terms. These instruments do not differ from what other MDBs offer. However, the global knowledge, risk diversification, and global presence of the WBG give it a comparative advantage vis-à-vis regional development banks.

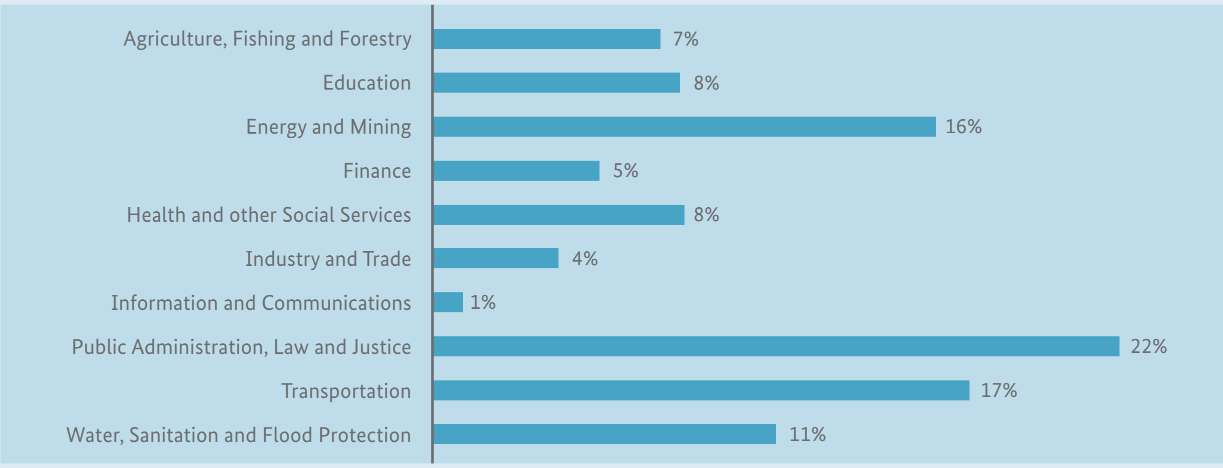
Investment Lending covers around 90 per cent of the active lending portfolio and accounted for 69 per cent of new lending in FY 2013. It primarily targeted infrastructure investments in the past, but it is increasingly used for institution building and social development. It is also useful for financing long term investments with economic returns and could therefore be used to target the challenge of increasing investments in sustainable and resilient infrastructure in the post-2015 agenda. The use of this instrument to support infrastructure investments could, however, be constrained by the WBG's limited resources (see discussion in section 4.3 and 4.4).

Development Policy Operations accounted for 27 per cent of new World Bank commitments in volume terms in FY13. DPOs are general budget support with disbursement over one to three years, dependent on the fulfilment of prior actions, usually policy reforms. These prior actions provide an instrument to strengthen the institutional and governance system in developing countries and help create an enabling environment for private sector investments. The right design of policy reforms requested by DPOs can therefore support the institutional framework setting needed for implementing the SDGs (challenge 6).

Program-for-Results is a relatively new instrument (introduced in 2012) currently capped at 5 per cent of total IBRD and IDA lending. Disbursements are conditional upon result or progress on predefined indicators. According to internal interviewees, PforR is an important instrument, especially in the social sector where measurable targets, e.g., in the education sector, can easily be defined. In specific cases where measurable short-term targets can be predefined, PforRs can therefore be a valuable instrument to support measurable progress. Another advantage of such a results-based financing instrument is the possibility to increase the recipient government's responsibility to achieve development outcomes and increase accountability towards its citizens (Birdsall and Savedoff, 2010). However, civil society organisations suspect that the use of country systems with PforRs could breach WBG's safeguards procedures and that recipient countries might struggle with the upfront costs of projects. Preliminary results of a review of the PforR instrument show positive feedback from most governments and a high future demand for the instrument is predicted (World Bank, 2014a).

Guarantees for the public sector come in form of partial credit guarantees (PCG), partial risk guarantees (PRG) and policy based guarantees (PBG). PCGs and PBGs support government borrowing from commercial lenders or government bond issues. PRGs cover commercial lenders for a private sector project against default arising from a government owned entity failing to perform its obligations. Guarantees have an important role in strengthening the cooperation between the public and private sector and in supporting private investments in developing countries. It is likely that the importance of this instrument will increase in the future as governments increasingly tap the private market for borrowing to fill investment gaps. Guarantees are also mentioned as important instruments in the FfD discussions.

Figure 3: Allocation by sector for IBRD and IDA in FY14



Source: World Bank Annual Report 2014

In terms of sectors that are currently covered by IBRD's and IDA's lending activities, there is a clear overlap with the areas tackled in the proposed SDGs (see Figure 3). Although the aggregation provided in the annual report is relatively broad, there are several sectors that can be linked directly to the SDGs. These sectors are: agriculture, fishing and forestry (SDGs 2, 12 and 15), education (SDG 4), energy and mining (SDG 7), health and other social services (SDG 3), industry and trade (SDGs 9 and 12), public administration, law and justice (SDG 16), transportation and water (SDGs 9 and 11), sanitation and flood protection (SDG 6). They account for more than 90 per cent of the WBG lending. In addition, finance, information and communication but also trade and industrialization can be linked to SDG 17 which covers the means of implementation. The SDGs on poverty, inequality, climate change and gender are not covered in this snapshot of IDA's and IBRD's sector-based lending portfolio due to their cross-cutting, not sector specific nature. The thematic split (not shown in Figure 3) of IBRD's and IDA's lending reports that 3 per cent of the lending portfolio are used for social development, gender and inclusion, while 10 per cent are allocated to environment and natural resource management. Around 20 per cent of IBRD's and IDA's lending activities in FY14 had mitigation and adaptation co-benefits.

Support to the private sector is provided through MIGA and IFC. MIGA issues guarantees to insure private investors against political risk which includes transfer restrictions, expropriation, war and civil disturbance as well as breach of contracts. MIGA has currently USD 12.4 billion of outstanding capital which is only about half of the maximum amount MIGA would be able to guarantee given its capital base. With the increasing need of mobilising private sector finance, MIGA is likely to become more important. Through its guarantees it is able to reduce risks for private investors and thereby enable investments that would otherwise not be made. The importance of guarantees as a form to mobilise private investments in developing countries has also been recognised in the ICESDF report. According to Humphrey and Prizzon (2015), MIGA has a higher exposure in LICs compared to other multilateral guarantee agencies.

IFC offers a whole toolkit of financial instruments (loans, equity finance, risk management instruments and trade finance) to support private investors in developing countries; it is by far the biggest among bi- and multilateral institutions that supports private sector development, especially equity finance. Unique is also its asset management company which has six funds through which it manages USD 6.1 billion. This asset management company is an example of how to mobilise funds of institutional investors for development purposes. Like MIGA, IFC has the potential to leverage additional private funding, if combined with public finance instruments, addressing one of the challenges of the post-2015 agenda (see section 2.2.2). The strategy to better combine the different parts and instruments of the WBG with the "one WBG approach" has the potential to strengthen this comparative advantage. While several other MDBs have a private sector arm, none is as large as IFC. Conversely, in several cases (e.g. ADB), private sector operations are fully integrated, usually within a separate country exposure limit, with the rest of the operation, while IFC is a separate institution with a separate governance structure. The experience of IFC in delivering PPP advisory services is also more longstanding compared to other MDBs. The IDB only followed in 2012[10] and the ADB in 2014[11] with their own PPP advisory services. However, there is also a lot of criticism of IFC's activities with regards to their development orientation (e.g. IEG 2011a, IEG 2014). The business approach and internal performance system of IFC tend to favour high-return projects over high-development impact projects. This has been addressed for example in IEG's evaluation of the poverty orientation of IFC. This limitation will be discussed in more detail in section 4.4.

In addition to the lending instruments by IFC and MIGA, the WBG facilitates the flow of private finance to developing countries through more innovative forms of finance. For example, the IBRD treasury issues different bonds, e.g. green bonds or catastrophe bonds, at the international market to support developing countries (see section 3.3.6). Another example is the newly established Global Infrastructure Facility (GIF) that shall support the identification and design of bankable infrastructure projects and provide a platform for private investors to finance these projects (see section 3.3.1).

3.2.2 Non-Financial instruments

The WBG is not only an international financial institution; it is also a knowledge bank that provides technical assistance, analytical and advisory services as well as development research and dissemination of data. In some situations, the WBG acts as facilitator and as trustee for international facilities and funds. It also has a strong convening power for multi-stakeholder dialogues.

10 See http://www.iadb.org/en/news/news-releases/2012-07-17/regional-public-private-partnerships-advisory-services,10063.html.
11 See http://www.adb.org/news/new-adb-office-provide-independent-ppp-transaction-advisory-services.

A Knowledge Bank

Through its global experience in implementing projects and supporting countries, the WBG has established and developed its knowledge base, since long ago. WBG former president James Wolfensohn explicitly formulated the idea of becoming a knowledge bank during his speech at the Annual Meetings 1996.[12] The Knowledge Bank stands for generating knowledge through its research, disseminating findings through technical advisory services and supporting knowledge sharing through open knowledge platforms and peer-learning between countries. The research work ranges from general macro studies where development questions are analysed across countries to country and sector specific ones. They are also conceived to inform the preparation of country projects.

Apart from these studies, the WBG produces also different flagship reports like the yearly World Development Report (WDR) or the Global Financial Development Report. These reports often inform policy makers and influence the international agenda setting. The WBG supports knowledge generation through the development of technical tools that analyse the impact of policies – an example is the Poverty and Social Impact Analysis (PSIA) – and data analysis like the BOOST data tool which compares government expenditures across countries, sectors and regions.

The organisation often uses its knowledge and technical tools to help countries define their national policies. This is an aspect that will become especially important, once the SDGs have been agreed (see challenge 6). The WBG has already developed a country diagnostics framework to support countries in this operationalising task and to help them identify possible ways to expand their fiscal space in order to finance the goals (Gable et al., 2014). These studies and tools likewise inform the technical advisory service of the Bank. Technical advisory services are often part of country programmes, but can also come as stand-alone reimbursable advisory service (RAS). Since 1970, the WBG has provided RAS in more than 40 countries, both developing and high-income countries.

While this intense research work on development is seen by many as a particular strength of the WBG which is unique in its scale, there has also been criticism among others of the lack of usage of local knowledge in WBG research work. Critical voices might become even stronger, given both, the risk of increased centralisation due to the new organisational structure (see section 4.1) as well as the WBG's neoliberal bias that challenges its status as an independent and legitimate knowledge institution (Kramarz and Momani, 2013). A recent study also shows that about a third of its policy reports are not read (Domeland and Trevino, 2014).

Data collection and dissemination

Related to its research work is the WBG's support for data collection and dissemination. The Bank provides a platform to share data of all its member states, if available, through its WDI. Although the Bank is not the collector[13] of most of the WDI data, it has provided an important Global Public Good (GPG) to researchers, civil society organisations, policy makers and individuals across the globe with the dissemination and provision of a common platform for the data. The data group at the Bank also supports the editing of collected data to make them comparable across countries.

The WBG offers advice to member countries on conducting surveys and censuses and provides technical assistance to national statistical capacity building programmes supporting both the legal framework and the technical knowledge for data collection. This will be important for the SDGs' implementation process to ensure that countries are able to collect the necessary data to measure the targets (challenge 5).

Facilitator of multi-stakeholder dialogues and convening-power

The WBG is often described as a facilitator of multi-stakeholder dialogues. It is able to bring together different groups, e.g. government, private sector and civil society and to facilitate the exchange between these groups. In this regard, the Bank has a strong convening power. Given its broad membership and importance for international development with regards to both financial strength and knowledge as well as its considerable degree of political neutrality[14], it can both help bring together countries that would otherwise not interact as easily in the diplomatic sphere and support such processes with considerable technical depth. This is an increasingly important role when considering the universality of the new development agenda, particularly with regards to fostering dialogue between emerging countries and Western powers. But also at the country level, this facilitation role is important as the post-2015 agenda requires bringing together different groups, e.g. private sector, civil society and government, in multi-stakeholder dialogues.

12 See Wolfensohn's speech available at: http://go.worldbank.org/SA5WLZWH70.

13 For example health data, such as mortality or malnutrition rates, are often collected by the World Health Organization (WHO), the UN Population Fund (UNFPA) and the UN Children's Fund (UNICEF); and education data, such as literacy or enrolment rates, by United Nations Educational, Scientific and Cultural Organization (UNESCO).

14 Section 4.2. discusses the risk the current governance structure and the tendency to be seen as a G7 dominated organisation might pose on its picture of political neutrality.

3.3 How the WBG can contribute to the post-2015 agenda and its challenges

The previous section provided a short overview of the different roles and instruments that characterise the WBG. This section discusses different roles the WBG could play as well as areas where it could extend its activities to in order to support the post-2015 agenda and to address the challenges as described in section 2.2.2.

3.3.1 An implementing agency of the SDG agenda

Overlap with SDGs sectors
The WBG is primarily a financial organisation with the aim to fight poverty and inequality. As described in section 3.1, the new WBG strategy overlaps considerably with the SDG agenda as it is currently proposed. The WBG will therefore play an important role as an implementer of the SDG agenda. While this is true across the topics of the post-2015 agenda, given the challenges outlined in section 2.2.2, it could – as an implementing agency – strengthen its role in FCS (challenge 1) and provide sustainable infrastructure (challenge 2).

Expertise on fragile countries
The SDG's target of eradicating extreme poverty will require an increasing focus on FCS as extreme poverty will cluster in these countries. Operating in this group of countries is riskier and often more expensive due to stronger monitoring and oversight needs. The WBG is likely to have an important role in this area.[15] First, the WBG strategy identifies FCS as a priority to achieve the twin goals of poverty alleviation and shared prosperity. Second, fragility assessments are part of the new systematic country diagnostics which are the base for each country partnership framework. The WBG does usually not have different operational rules for FCS, but adapts its approaches to the special situation in each country. Recently, IL procedures have been made more flexible for FCS to take account of lower institutional capacities and the need for fast reaction in crisis situations. Half of IDA countries are today classified as fragile states and the IDA 17 replenishment sets a goal to increase IDA's interventions in FCS by 50 per cent. No such objectives exist for IBRD borrowers, some of whom are also FCS. Despite the increased flexibility for IL, internal procedures might still be too slow for fast emerging needs as well as short-term windows of opportunities in FCS (see section 4.3).

In 2013, IEG evaluated the engagement of the WBG in FCS (IEG, 2013). The evaluation revealed that there is a statistically significant correlation between the use of DPOs in fragile states and improvements in their Country Policy and Institutional Assessment (CPIA). Building better institutions and strengthening the country systems is a central task in FCS. The DPO instrument is well-placed to support these objectives through policy reforms as well as the use of country systems for budget support. This links to challenge 6 which stresses the importance of strengthening government capacities and institutions to enable them to implement the SDG agenda. However, one internal interviewee mentioned that it is important how and by whom the requested policy reforms are designed: institutions should be adjusted to context and follow the preferences of the client country and not necessarily Western blueprints to ensure long-term stabilisation of the country.

In addition to the WBG's core business in FCS, it administers and financially supports the multi-donor State and Peacebuilding Fund (SPF). This fund allows engaging also with non-member countries, countries in arrears as well as in situations that need urgent support where IDA might not be able to provide this in time. In addition, the SPF offers flexibility in terms of implementation as projects can for example be implemented by NGOs or the UN. The SPF is able to take more risks than the WBG would be able to take in its core business. The SPF can therefore be seen as a valuable complementary instrument to the WBG's core business with FCS.

The WBG often cooperates with the UN in situations of fragility. This cooperation is described by interviewees from both institutions as complementary: the UN supports governance and political stability, while the WBG helps build the economy and develop the provision of basic services. The role of UN agencies is especially important in the early stages of peacekeeping and state-building where they are better positioned and have a comparative advantage to the WBG. According to interviewees, though complementary, the cooperation between UN and the WBG nonetheless poses some challenges as for example financial and fiduciary rules are not the same across the organisations. Two agreements on the mutual acceptance of each other's rules and regulations in the area of financial management already exist. Both organisations should further invest in facilitating their cooperation.

15 The WBG dedicated its World Development Report 2011 on this topic.

Private sector development in fragile countries

Among other priorities, the private sector arms of the WBG also aim at intensifying their engagement with FCS. One of IFC's strategic goals is to increase its investments in frontier markets including fragile states. In FY 2013, 20 per cent of its advisory service and about 3 per cent of its investments (USD 950 million) went to FCS. IFC's goal is to increase its activities in FCS by 50 per cent. The IEG evaluation on IFC's activities in FCS noted that IFC's instruments might not be adequate for countries with a large informal economy and that IFC's internal incentive system is not well aligned with promoting engagement in fragile states. These factors can help explain the overall lower outcome ratings of IFC investments in FCS compared to non-FCS (IEG, 2014). IFC's engagement in fragile states is focussed mainly on telecommunication, transportation and extractive industries. While these sectors promote economic development, they have limited impact on job creation. Although MIGA is specialised in the provision of political risk guarantees for the private sector, which are especially important in the context of FCS, MIGA has not played a distinguished role compared to other issuers of political risk insurance (IEG, 2014). But MIGA is trying to increase its activities in FCS: to this end it established a facility on fragile and conflict affected countries in 2013.

The WBG has a broad toolkit of public and private sector instruments that can be used to engage in FCS, but their combination requires improvement. Especially the private sector instruments are not yet used to their full extent. Acknowledgement of the higher risk in these surroundings and the willingness to accept these higher risks is a factor that needs to improve as both the IEG evaluation and the background interviews have shown (see section 4.3.4). Better political economy analyses of the situation in FCS and increased monitoring and oversight activities can help reduce the risk and increase the success in these contexts. However, as pointed out during the interviews, these additional measures increase the costs of projects and require additional support to generate knowledge which can be constrained by the limited availability of financial resources for research. Shareholders need to better acknowledge the need for the additional research, if there is a will to support increased activities of the WBG in fragile states.

Facilitator of sustainable infrastructure development

The WBG's infrastructure portfolio increased from USD 5.2 billion to USD 22.2 billion between FY00 and FY12.[16] Part of the strong increase, however, can be explained by the economic downturn between 2008 and 2011 and an ensuing increase of demand for multilateral credits. According to different analyses, there is a huge annual global gap of around one trillion dollars in infrastructure financing in developing countries to satisfy investment needs. The main challenge for the future, as stated in challenge 2, is to ensure sustainability of these infrastructure investments; they need to be climate friendly and climate resilient. The profound knowledge of the Bank in this area and IFC's experience in supporting private sector investments in developing countries and in promoting PPPs could, if combined, strengthen the WBG's role in providing green infrastructure finance.

New sources for infrastructure finance are emerging, including new regional multilateral organisations like the BRICS' (Brazil, Russia, India, China and South Africa) New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB). As the financial gap is estimated to be significant, this development is generally welcomed. However, there has been evidence that the WBG's lending is perceived by client countries as too complicated and/or unreliable in its procedures and often rather slow in its disbursement (see section 4.3.1). This explains why, at the margin, they tend to opt for financially more expensive options that are easier to mobilise and seen as less conditional (Greenhill et al., 2013, among others).

To help close the infrastructure gap, the WBG should leverage its experience in mobilising private sector financing, as much as possible.[17] Infrastructure is one of the areas where private sector engagement is most demanded by the international community. The new GIF is aiming to provide a platform for private sector investors to engage in infrastructure investments in developing countries. However, the facility is currently much smaller than intended. In its pilot phase, it focuses on designing bankable projects, i.e. projects that are economically viable, well-structured for funding and thereby qualify for external private financing. Several reviews of infrastructure finance have concluded that the biggest infrastructure financing "gap" is not between already bankable projects and available funding for them, but rather between theoretical "needs" and well-planned and structured investment proposals which could be bankable (World Bank, 2014).

16 See the WBG's website for information on the infrastructure portfolio at: http://go.worldbank.org/Z2USXGBEM0 (accessed on December 19, 2014).

17 Providing detail on innovative proposals for mobilising private finance goes beyond the scope of this study. For some recent overviews, see for example Kharas and Macarthur, 2014.

After the pilot phase of the GIF, it is planned to also start the so-called downstream window which aims at identifying financial arrangements for the investments, building on the WBG's capacity to mobilise private financing. However, additional public finance would be needed for this window which shall serve to reduce the risk for private investors, especially in the early stages of projects.

3.3.2 Provider of global and regional public goods

GPGs have two main features (see Kaul et al. 1999). The first is that their benefits are non-rival and non-excludable. Second, these benefits are quasi universal in terms of countries (covering more than one group of countries), people (accruing to several, if not all population groups) and generations. Though only climate change mitigation was explicitly stated among the challenges in section 2.2.2 (challenge 2), the provision of GPGs in general is a challenge as they affect development across countries, as the Ebola crisis shows. The WBG's fast response to the Ebola crisis and the set-up of a new fund to facilitate the fight against this disease has also shown its ability to engage in GPGs. This could be an indicator that the WBG has the capacity to be much more involved in GPGs like climate and health (communicable diseases).

Yet, its current contribution to these GPGs is still limited in terms of the Bank's core business. This is partly explained by its country-based lending system which will be discussed in section 4.4.2. Otherwise, given its broad membership, global engagement and capacity as a financial institution, the WBG seems to be generally very well-placed to provide GPGs. In the area of regional public goods, regional development banks might be better placed due to their expertise in the region so that either allocation through them or cooperation between the regional banks and the WBG would be advisable. The majority of GPG activities are provided through trust funds and institutions like the GFATM, GAVI or the Global Environment Facility (GEF). They are mostly in partnership with, but not managed by, the WBG. Past efforts to streamline the Bank (core) and GFATM's respective roles (e.g. one providing more disease specific project support, another working more on health systems) have failed. The fact that these funds and facilities operate almost entirely on a grant basis, whereas the WBG generally does not, further complicates the relationship.

It seems that there is a need for an international understanding for coherent political strategies across GPGs. Instead of an ongoing incremental increase of the WBG's activities with respect to GPGs, it is recommendable that a fundamental decision be taken on whether the WBG should strengthen its role in GPG provision. Such a decision by the WBG shareholders would increase coherence of policy decision between institutions, if the decision is communicated across national governments. Such a decision could also be used to trigger a discussion on the division of labour and a better coordination among international institutions to ensure complementarity of the assistance, i.e. ensure that efforts of the various health agencies and funds and the WBG in the area of health is not duplicated.

Climate change

Addressing climate change in future development strategies will be a key challenge of the post-2015 agenda (challenge 2). The creation (and retention post-reorganisation) of the post of a special envoy on climate change underlines the WBG's readiness to engage in the topic. The WBG has in the past already been heavily involved in initiatives to fight climate change, e.g. by being the trustee for the GEF and administrator for the Clean Technology Fund (CTF)[18] and the Strategic Climate Fund (SCF) which are often referred to as the Climate Investment Funds (CIFs).[19]

The establishment of the CIFs in July 2008 represented a substantial shift in the architecture of climate finance by introducing a big new player outside the UNFCCC. Nakhooda et al. (2014) argue that the CIFs aimed to pilot a new approach to financing solutions to climate change which harnessed the implementation capacity of MDBs, increased the scale of funding available, extended the range of financial instruments, and helped mainstream climate change considerations into investments by MDBs. The CIFs' success in raising finance reflects the trust that contributors have placed in them as well as their willingness to accept non-grant contributions such as capital contributions and loans. The CIFs have pushed the envelope on many important aspects of climate finance and may have incentivised the creation of the Green Climate Fund (GCF) under the UNFCCC. Currently the WBG is the interim trustee for the GCF. However, the GCF is expected to become unaffiliated from the WBG, once it has built up the necessary capacities for managing its resources. The WBG is exploring options on how to raise climate finance money in the future in addition to the already existing

18 The CTF aims to promote scaled-up financing for the demonstration, deployment and transfer of low-carbon technologies in MICs.

19 The SCF supports piloting of new development approaches or scaled-up activities aimed at a specific climate change challenge or sector. The SCF has established three programmes: the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP) and the Scaling Up Renewable Energy in Low-Income Countries Program (SREP).

instruments like the green bonds or the recently established auction facility for methane and climate mitigation. According to one interviewee, the aim would be to create a platform where also funds from emerging markets could be raised for climate change activities. Apart from building on its financial knowledge to find ways to mobilise additional climate finance the WBG should further explore co-benefits between climate-related actions and poverty reduction (recommendation 1a). The need to strengthen co-benefits is important to make the use of limited public financial resources most effective for both, the poverty and the sustainability goal. This is all the more important when considering the destructive impacts climate change and weather extremes can have on poor and vulnerable people and when assessing positive effects of risk mitigation on the development progress (Shepherd et al., 2013).

As stated above, it is also important that countries define the role of the WBG coherently in the area of climate change. The impression that emerged from the interviews was that decisions at the UN and the Board of the World Bank are not always coherent as different parts of the government act as representatives in the two organisations. For example, interviewees within the WBG saw a central role for the World Bank in the climate finance architecture, but this view is not always shared within the UN system. Furthermore, when agreeing on a central role of the WBG in mobilising climate finance, it will also be important to ensure that it is complementary to activities of other entities like the UNFCCC (see challenge 6 on coordination of international agencies). One point of criticism of the CIFs, for example, referred to their missing links to the UNFCCC (Nakhooda et al. 2014).

Information
The WBG significantly contributes to the provision of knowledge as a public good with its research work and open data approach. Knowledge and data are important factors in addressing the challenge of country capacity to implement the SDGs and to develop national strategies (challenge 6). The importance of knowledge and technology sharing is also mentioned as one of the means of implementation for the SDG agenda under the new global partnership goal (SDG 17). This is an area where the WBG is likely to play an important role in the post-2015 agenda. With its new organisational structure, the institution aims to further strengthen the flow of knowledge across regions by aggregating knowledge in GPs instead of regional groupings. The WBG's e-learning institute (http://einstitute.worldbank.org/) will support the distribution of knowledge through e-learning courses, but also peer-learning through exchange among participants in courses and communities of practice. The importance of peer-learning has been recognised by several of the interviewees. There was also the idea expressed by one of the interviewees that the WBG could become a platform for peer-learning at the global level, following the OECD model.

3.3.3 Supporter of the international agenda

Several internal and external interviewees stated that the WBG contributed to the political importance of the MDGs through accepting them as targets for international development and consistently relating its work to them. Given the (significant but not total) overlap between the WBG's new twin goals and, indeed, its overall strategy as well as the SDG agenda, strengthening the political importance of the agenda should be again an important role the WBG can play (challenge 4). With its membership of 186 countries, the WBG goals have already an important international backing. The similarity of the agendas of the WBG and the UN mean there is now an even deeper joint support for these priorities compared to the MDGs. This broad support might become important regarding some of the challenges posed by the new agenda. For example, the poverty and inequality goals, both referred to in the SDGs and the twin goals, call for the support of minority groups that might not be a priority constituency for the government. This will inevitably demand a change in the governments' preferences. Given governments' implicit support of these goals via the WBG strategy, the WBG might be able to use its convening power to support governments' understanding of the importance of addressing these problems.

3.3.4 Provider and disseminator of data

One relevant contribution of the MDGs to the general development arena was to emphasise the importance of data for the facilitation of progress monitoring and to compare it across countries and regions. Several of the new integrated topics in the SDG's agenda still face massive data gaps, for example urbanisation (challenge 5). As discussed in section 3.2, the WBG facilitates the dissemination and provision of data around the globe. The WBG also supports the gathering of data with its assistance to surveys and censuses and by fostering statistical capacity building in countries. So while the WBG does not necessarily play a role in data collection in most of the SDG areas, it makes an important contribution to the data challenge of the post-2015 agenda[20] by increasing country capacity to measure development indicators as part of its technical assistance (recommendation 7). In addition, the WBG has valuable experience in data dissemination through its open data approach which it can share with other agencies. This is linked to the WBGs' role as a provider of knowledge as a GPG and as a provider of advisory services to higher-income countries. As a reaction to the data challenge, the UN has established a UN Data Revolution expert group which developed recommendations in an UN-led effort. Activities of the WBG should be coordinated with this new initiative to ensure consistency of activities across international agencies and to prevent duplications (recommendation 7a).

The new development agenda does not only demand more information on the data side, but also requires knowledge building to identify policies supporting the SDGs. For example, this refers to ensuring sustainable investments across sectors and coming up with strategies that focus on economic growth both, along the social and environmental dimension. These are areas where the WBG's strength in knowledge generation and research will become important (see challenge 2).

3.3.5 Supporter of governance and institutional strengthening

Compared with the MDG agenda, the SDGs represent a transformative agenda. To facilitate the implementation of the SDGs and the post-2015 agenda, stronger governance systems and institutions at the country level will be central (challenge 6).

The WBG can address this challenge through its DPL instruments that are designed to help generate critical policy reforms and thereby support institutional capacity building in different governance areas. In this area the role of the WBG in strengthening government reform capacities is closely linked to its possible role in FCS where these interventions are especially needed. Through its governance and anti-corruption strategy, the WBG is also aiming to support these areas, though the success of its interventions on governance has been mixed (IEG, 2011).

The WBG often contributes to strengthening governance in very technical areas, e.g. public financial management, through its technical assistance and advisory services. Enhancing financial capacities will be important for the post-2015 agenda. Especially the FfD process demands to broaden financial sources beyond aid in order to increase domestic resource mobilisation and private sector finance. The WBG supports, for example, the implementation of payroll systems for public financial management systems and the WBG's treasury has an intensive knowledge sharing programme where it provides courses on asset management and other wealth and risk management topics. The treasury also supports governments directly with instruments like currency swaps and advice on extending loan durations. With regards to fragile states, the Bank supports community driven development approaches which help build capacity and institutions from the grassroots level.

Translating the SDGs into development plans
Once the SDGs are finalised, countries will aim to incorporate the goals into their national strategies. Given the global dimension of the targets and their large number, it is likely that countries will struggle with their operationalisation. The WBG, with its broad experience and research capacity as well as strong country presence, is very well positioned to support countries in aligning their development strategies to the SDGs, if requested by the countries. The WBG has already developed an analysis tool to support countries in adapting the SDGs to the country context with its country diagnostics framework (Gable et al., 2014).

3.3.6 Mobiliser of financial sources

Mobilise private finance
The WBG is generally well placed to support the post-2015 agenda in terms of mobilising additional sources of finance through the private sector, but also because it leverages its resources through blending (challenge 7). While most of the other development agencies also have private sector arms, IFC is the biggest one. Compared with other MDBs, it has the advantage to have global reach.

The likely increase in joint programmes between the different institutions of the WBG, as promoted in the new "one WBG approach" strategy, will strengthen its role as catalyser of private sector finance. This role has been recognised among interviewees in and outside of the WBG. However, as mentioned already above, there is a need to strengthen the

20 The challenge is also outlined in the UN report "A world that counts – Mobilising the data revolution for sustainable development" (UN Data Revolution Group, 2014). The role of the WBG in supporting statistic capacities, data collection and dissemination should be coordinated with the efforts under the UN Data Revolution Initiative.

development orientation of IFC: joint projects with IDA and IBRD could contribute to facilitate that. This is especially important to ensure new investments that would not have been undertaken without the support of an international agency like the WBG. Another point that was raised during the interviews is the current shortage in risk bearing instruments of IFC. While IFC has guarantees, it lacks first-loss capital instruments. This, however, could be an important instrument to steer investments in frontier markets, i.e. in areas where private investments are still missing due to high risk for the investors (recommendation 3b). Currently, the engagement of IFC is still too much in sectors and countries that do not cover the areas where it would be needed most.

In addition to IFC, IBRD's treasury supports the mobilisation of private finance by issuing thematic bonds, such as green bonds. These bonds raise money from fixed income investors to support World Bank lending for climate change mitigation and adaptation projects. The advantage of IBRD as an issuer is its AAA rating that is requested by certain investors like pension funds. In total, the WB has mobilised more than USD 7 billion through green bonds since 2008.[21] The WB's green bonds not only contribute to the mobilisation of private finance, but also of money from institutional investors and longer-term finance for sustainable development. The IBRD treasury and the IFC also issue bonds in local currency which supports the establishment of local bond markets. These are another way to mobilise private money in developing countries that can be used for development purposes as emphasised in the FfD process.

Despite these positive examples of mobilising private sector finance, the WBG could strengthen its role, especially with regards to MIGA. Currently, according to an interviewee, MIGA only provides half of the guarantees it could provide. According to the ICESDF, there is, however, great potential for guarantees to mitigate excessive risk for private sector investment in developing countries. The question is therefore, whether the demand for guarantees is overestimated or whether MIGA's products are not adequate. A recent report (Humphrey and Prizzon, 2014) argues that multilateral guarantee products, including those of MIGA and the World Bank, have an unfavourable cost structure for clients because it is the same as for a loan. This limits their demand because the client faces higher transaction costs in form of an additional partner – the guaranteeing institution – compared to a loan contract where it has only one partner, the lending institution. Furthermore, the report argues that multilateral organisations limit their guaranteeing capacity due to a rather high equity ratio requirement. Given that MIGA has not reached its full capacity, however, this seems not to be a constraining factor yet. To increase demand and use of guarantees, the report further recommends allowing for 100 per cent guarantees instead of partial guarantees. IFC is already applying this option.

Innovative financing

The WBG has demonstrated strong capacity in finding innovative financial solutions, thanks, among others, to its legal and accounting knowledge. The International Finance Facility for Immunisation (IFFIm) is an example of the WBG's capacity to design innovative financial solutions.[22] The IFFIm is financed through vaccine bonds, i.e. bonds that have been issued on the international market with the aim to raise money to finance front loaded expenditure for vaccinations by GAVI. The repayment of the bonds has been secured by the long-term commitments of the contributing, mostly bilateral, donors. Financial resources are therefore available from the beginning through the money raised by the bonds, while the donors can fulfil their commitments over the longer term. Other examples are the previously discussed green bonds issued by IBRD that allow raising private money for green investments and the auction facility for methane and climate mitigation. This facility is both an innovative financing mechanism and a way to mobilise private investments since the projects will be financed by the private sector. The mechanism works as follows: investors bid for carbon emission certificates at a guaranteed price. They will then implement a mitigation project at their own costs and will be able to sell the emission certificates after the reduction of emissions has been achieved. They will receive at least the guaranteed price for the certificates or the market price, if higher.

Trust funds and facilities

The WBG plays a major role as a trustee of trust funds and facilities; there has been a dramatic increase in trust funds since the 2000s that has led to the establishment of over 1000 WBG administered funds today.[23] Trust funds (many of which now are spun out of the World Bank or established as separate legal entities) have a series of advantages. First, they allow for the use of more innovative financial instruments which would not always be possible as part of the core business of the Bank. This includes, for example, the

21 See http://treasury.worldbank.org/cmd/htm/WorldBankGreenBonds.html.

22 The WBG helped design the financial mechanism without being involved in the financing itself.

23 Currently the WBG is undertaking a review of its in-house trust funds to reduce their number and, if possible, group them under umbrella funds. Apparently, their large number has led to the situation that sometimes donors or sector groups are not aware of all funds they have, according to an interviewee.

previously described bond issuance to finance the GAVI vaccination campaign or the Health Results Innovation Trust Fund that was established 2007. It uses results-based disbursements – a mechanism that wasn't available in the Bank's core business at that time. Second, donors can reduce their risk as their contribution is often distributed across a broader set of projects; for the client, funding is thereby already coordinated among donors, which reduces the effort for the recipient government. Third, trust funds also allow for testing innovative ways of financing which can be scaled up, if they are successful. An example is the support of a local currency bond market in East Africa and Nigeria which can be extended to other countries, if successful (WBG, 2013a). In the context of post-conflict situations, pooled funds reduce the risk for donors. Fourth, trust funds are a financing modality used to provide grants for global public goods like communicable diseases. Finally, trust funds are complementary to the work of the WBG. In the core model of the WBG, the funding of global public goods is not very commonly used due to its country specific lending approach which has no strong incentives for the provision of global public goods (the intervention country has to pay back the loan or see the grant deducted from its available IDA funds).

There is, however, a series of risks associated with an expansion in the use of trust and so-called vertical funds. First, there is no evidence that specialised funds are more effective than other interventions (IEG, 2011). Second, there are cases where such funds provide interventions which the WBG could also integrate into its core business. In these cases, increased monitoring could be useful to ensure that the core business of the WBG is not hollowed out. Finally, there is a risk of fragmentation as every fund has a specific purpose. An example are vertical funds which covered specific health areas and were often very successful; however, while each fund took care of a specific disease, there is a risk that they neglect broader topics and the support of a country's general health system (Bezanson and Isenman, 2012). If trust funds are kept to the areas of their comparative advantage, though, they can be helpful instruments to support specific areas such as peacebuilding through the SPF. The WBG's expertise shows a comparative advantage in managing these instruments.

Countercyclical lending

Domestic resources and private finance are important sources for development and the objective to increase these sources is important. Yet, a major risk associated with these flows is their cyclicality, i.e. in times of economic crisis, disasters etc. they are likely to decrease and might put development progress at risk. International public finance as provided by IDA and IBRD has the advantage that it is not focused on economic return and is therefore also available in times of crisis, as can be seen for example in the increase of lending during the last economic crisis. Countercyclicality is one of the advantages of international public finance which was also emphasised in the FfD process. The WBG has the capacity to work together with other international finance institutions like the IMF to strengthen measures for countercyclical lending and for building capacities in recipient countries to develop their own hedging strategies.

4. The WBG's institutional challenges

This section builds on the identified roles in the previous section and questions, whether and how the current institutional set-up supports or constrains the identified roles. Four areas will be analysed: the institution's organisational structure, its governance structure, its rules and regulations and finally, how fit for purpose its financial instruments are for the future.

4.1 The organisational structure

The WBG has undergone a major organisational reform in the past two years. The main purpose of the reform was to break up the regional focus of the organisation and to develop so called "Global Practices" which would collect topic specific knowledge across the globe. The GPs and the CCSAs very much reflect the main areas of the SDGs (see section 3.1). The WBG's new structure is likely to help address the priority topics of the post-2015 agenda although the assignment of SDG topics is not equally distributed across the units. Some GPs cover several SDGs, while other SDGs are shared by different GPs or CCSAs. Especially where SDG topics are split between units, it will be important to ensure coherence and coordination in interventions. This is especially important for the cross cutting topic of sustainability which has to be mainstreamed through the WBG's activities. To ensure that the organisation uses its full potential to support the implementation of the SDGs, it will be essential to add sustainability as a third dimension to the pro-poor growth paradigm. The WBG is monitoring its performance through its corporate scorecard. Currently, the scorecard only captures a limited amount of sustainability indicators, but the organisation intends to adapt the scorecard to developments in international discussions, e.g. the post-2015 process. Broadening the scope of sustainability measures in the internal monitoring system could be one way to enforce a stronger sustainability orientation (recommendation 1).

However, the reorganisation has just been implemented, so it is premature to evaluate it. Uncertainty caused by the institutional reform has led to an inward focus over the past year. This point was critically raised by some interviewees, especially as it coincided with the increased envelope of IDA 17 and its strategic reorientation towards fragile states which has not proceeded as fast as originally expected. While it is commonly assumed that the new organisational structure will increase the knowledge flow and sharing between regions, some interviewees challenged, whether there had previously been an insufficient flow of knowledge. Some interviewees also mentioned the risk posed by an overly strong thematic concentration which could lead to a loss of country specific or "adaptive" knowledge that is valued by its clients. This could weaken the WBG's role in the future, especially since most of the interviewees recognised its country specific knowledge and client orientated approach as one of the WBG's main comparative advantages. Furthermore, country specific knowledge will become increasingly relevant, if the WBG focuses more strongly on FCS. As the political environment in these states changes rapidly, country knowledge is crucial to better understand possible risks and developments. It will therefore be important to closely monitor the implementation of the new structure to ensure a good balance between global and country specific knowledge (recommendation 2).

4.2 The governance structure

It is important that the WGB is perceived as a legitimate institution in light of its anticipated future role as a provider of GPGs and as a supporter of the new international development agenda and of potential reform agendas in recipient countries. It is therefore concerning that the tendency to see the WBG driven by a Western agenda still persists in the world beyond the WBG as well as among insiders. The 2008 and 2010 "voice reform" made modest progress towards a more legitimate representation of emerging and developing countries in the Bank's governance structure. Main measures of the reform included an increase in basic votes, the creation of a third chair for Sub-Saharan Africa on the IBRD Board and an increase of 4.59 per cent in voting shares among developing and transition countries, lifting their total share to 47.19 per cent at the IBRD. Their voting share at IFC was increased to 39.48 per cent. The next shareholding review will occur in 2015. This is supposed to lead to a further redistribution of voting shares in favour of developing and transition countries as well as to a discussion of changes in the world economy and their implications for the WBG.

Both internal and external interviewees expressed the opinion that the voice reform was an important step and that a further increase of shares of developing and emerging countries sends the right signal and is highly welcomed. However, bearing in mind the limited interview sample, they did not consider it a critical factor for the reputation of the WBG: decisions are taken unanimously at the Board and bigger shares of the non-borrowing countries are not, in the view of our sample respondents, effectively dominating the decision-making process.

According to some interviewees, it is at least as important that countries are able to express their preferences clearly and to lobby for them as obtaining a factually larger voting share. This expression of their individual views seems to be a problem for some of the developing countries, especially since many of them are grouped into one constituency and may not always share the same priorities. Their inability to lobby for a coherent joint position representative of regional, or all, developing countries, could be one reason why decisions of the Board are sometimes felt as being driven by the West. The perception that the WBG follows a Western agenda is seen as a more critical issue that needs to be addressed compared to the reform of the overall share of votes among developing countries. Arguably, however, a majority voting share for developing countries would limit the ability of the G7 to dominate the agenda.

Two complementary approaches to resolve such tensions were suggested. First, one interviewee suggested that the WBG staff and management should try to be more diplomatic with its shareholders in the sense that it should better explain certain policy decisions. The WBG should make non-borrowing member states aware that actions they request from the organisation might cause a perception among borrowing clients that the WBG illegitimately intervenes in their policy spheres. It seems that the organisation has to take better account of the political economy consequences of its decisions, in the sense of how decisions or their communication might affect the perception of the WBG. This cannot be addressed by restructuring the Bank's governance. Second, several interviewees suggested that the appointment of a non-American president may be a contributing factor to breaking the view of a Western-led agenda. The appointment of a non-US president will be an important step to make the institution more independent and more legitimate in the view of its clients.

The perception of a Western dominated institution is also often mentioned in the discussions on the BRICS' NDB and the AIIB that are seen as reactions of the BRICS and especially China to their limited influence in traditional IFIs and even to a fundamental divergence of interests. These divergent interests can be seen, for example, in the willingness of Western donors to provide grants for IDA, but only limited support for increasing the capital resources of the IBRD, a major part of which underpins lending to the BRICS themselves. The establishment of these two new institutions can be seen as a reaction to the feeling that the emerging powers are unable to have their preferences given sufficient attention in the WBG. What is less clear is whether and how fast the WBG can evolve to try to converge with these preferences in future, of its own volition or under competitive pressure.

4.3 Rules and regulations: demand side and/or supply side constraints

As more and more countries continue to graduate from IDA, the spotlight turns to IBRD and how well it serves the needs of its middle-income, especially lower-middle-income, clientele with the so-called "market terms" windows (Kharas et al., 2014). This is especially important for the WBG's role as a provider of sustainable infrastructure finance. Net lending from these facilities has been flat or negative for decades, with brief spikes during the global financial crises of the late 1990s and 2000s. It is not yet clear, whether the real binding constraint is on the demand side or the supply side. The former includes perceptions that the World Bank's processes are still far too slow, cumbersome and intrusive, especially in terms of social and environmental safeguards as well as the policy conditions they come with. The latter stems from the longstanding reticence of major IBRD shareholders, particularly the US, either to increase their paid-in capital - perhaps because this is seen as funding their global competitors - or to allow emerging countries to selectively contribute, and thereby dilute, US and European control (Morris, 2014).

4.3.1 Demand-side constraints: Safeguards and procurement systems

There is some evidence that WBG lending is perceived by client countries as too slow and bureaucratic, as they prefer to borrow from markets at appreciably higher financial cost when that opportunity presents itself (e.g. Greenhill et al., 2013; WBG, 2013) (see section 3.3). The new competition through institutions like the BRICS' Bank and the AIIB which are likely to have lower requirements could jeopardise the WBG's role in supporting sustainable infrastructure and ensuring that carbon-intensive development pathways are

not locked in. The predominant perception among interviewees in the WBG was, however, that there is sufficient overall demand for infrastructure finance so that there will still be demand for WBG products especially as many clients value their safeguard policies in their own right. External interviewees had a more negative view on this issue.
The WBG is currently reviewing its safeguards and procurement standards. These are important factors to ensure sustainable interventions, but are also one reason why WBG lending is seen as too slow and bureaucratic. Accepting the use of country systems and standards as long as they broadly comply with WBG standards (recommendation 4a) could help reduce the relative disadvantage of the WBG's lending in these aspects. The broad knowledge of the WBG and its stronger capacity to include sustainability aspects into the projects, compared with the new institutions, could be a factor that is valued by clients; this, in combination with lighter bureaucracy, could tip the balance in favour of the World Bank. As environmental and social safeguards are important, globally as well as institutionally, the WBG should strive to maintain them – while implementing procedures to reduce delays – and persuade others to adopt equivalent ones. It should also try to find ways of co-financing with the new institutions in order to prevent that infrastructure is locked-in in a non-sustainable way.

Ultimately, however, the question of standards is a variant of the Prisoner's Dilemma. It could prove futile for the WBG to isolate itself by upholding standards that major competitors abandon or never adopt and it is unable to ensure their compliance on its own. Only international collective action across institutions could avoid a race to the bottom. However, this is beyond the control of the WBG as an institution, but could be fostered by its shareholders.

4.3.2 Supply-side constraints: Flexibility of lending regulations

The WBG's management has clearly signalled that it believes the supply-side constraint which limits the WBG's financial role can be tackled through greater flexibility in lending regulations. Last year, it took steps to relax the Single Borrower Limit (SBL) which caps the share of equity represented by outstanding loans to any one nation, revised the equity-to-loan ratio and changed the IBRD's loan terms. This reform potentially allows IBRD to lend USD 10 billion more per year without the need for new paid-in capital. Underlying this entire approach is the presumption that there is an effective demand for such new lending capacity, despite the fact that some significant new competitors have entered the market. It remains to be seen, whether this demand materialises, as no independent review of the demand for market-related lending by MDBs has been conducted in recent years. The relaxation of the SBL predominantly benefits emerging countries like China and Brazil. This step might therefore result in a trade-off between supporting (sustainable) infrastructure investment in these countries and stepping-up IBRD's activities in FCS. Further reforms into this direction should therefore take this trade-off into account.

4.3.3 Supply-side constraints: Flexibility and complementarity of IDA and IBRD windows and graduation rules

A second constraining factor on the supply-side for the WBG's activities is the institutional separation between IDA and IBRD and the relatively opaque graduation from one window into the next due to individual exception to the graduation rules.[24] In the future, the number of IDA recipients will steadily decrease. Predictions say that by 2030, there will remain less than two third of the current 78 IDA recipients (Morris, 2014; Reisen and Garroway, 2014). The other countries will graduate into the IBRD group. Despite graduation, their need for financial assistance will not decrease, especially in light of the ambitious targets of the SDG agenda (for an extended examination of the matter, see Kharas et al., 2014). Today we can already observe a "missing middle" for development finance with aid flows falling as income per capita rises, while tax revenues grow, but not fast enough to compensate for the fall in development assistance.

In the near future when some countries have not yet graduated from IDA to IBRD, it could also be possible that more resources for IDA will be needed temporarily, especially with a possible stronger role of the WBG in FCS. For example, this could take into account higher project costs in fragile states due to a higher need for monitoring and oversight activities as well as necessary research to design the project.

24 The IDA management committed during the IDA 17 replenishment negotiations to establish a task force that supports countries to prepare for their graduation out of the IDA window.

25 However, it shall be noted that the increase in the IDA envelop from IDA 16 to IDA 17 was due to concessional partner loans and not an increase in grants.

Shareholders are hesitant to provide capital increases to the IBRD, despite its much greater leveraging of their contributions, while they are willing to provide IDA with much larger amounts[25] to a shrinking pool of countries. Given the constrained IBRD envelope, it is important to be able to better leverage the available resources on the market. Using the IDA receivables portfolio to increase the balance sheet the IBRD can lend against (as the ADB has recently decided to do) would be a possibility. That model is admittedly more complex for the World Bank, as IDA and IBRD are set-up as two separate institutions. An alternative option currently under consideration is that of an "IDA-Plus" window, set up on IBRD lines, that uses the receivables of the more advanced IDA countries to borrow on capital markets. Obviously in such cases, the devil is in the details and beyond the scope of this study. According to the interviewees, the WBG is also reviewing other options to make the two windows more flexible and complementary. For example, one option would be to allow a donor country to "buy down" an IBRD loan and provide it as an additional grant or soft credit to an IDA country. This means that the donor repays the IBRD credit, including interest, if it is provided as a grant to the recipient, or only the additional interest, if it is provided as a soft loan.[26]

Another issue at stake is the graduation threshold between the two windows. The WBG mentions this in its strategy admitting that average per capita income categories are becoming less important. Research also shows that per capita income – one of the criteria for graduation from IDA to IBRD – is not strongly correlated to a country's capacity to mobilise domestic revenues or attract external financing. LICs experience a shortage of finance once they graduate from the concessional lending window, but at the same time are not able to increase revenues from other sources of finance (Kharas et al., 2014) (the "missing middle" of development finance). To ensure that the WBG can support countries with sufficient financial resources, especially with regards to the challenges posed by the new agenda, it is important to address this problem (recommendation 10).

4.3.4 Supply-side constraints: Risk-taking

A third supply-side constraint the WBG faces in fulfilling its possible roles in the post-2015 agenda is its risk taking behaviour. This point has been raised several times during the interviews and earlier in this report. Risk aversion constrains the WBG's activities in fragile states and especially those of the private sector arm. By their nature, fragile and post-conflict states pose a higher risk for projects that are undertaken in these countries, but the operational rules for the projects are usually the same as in non-FCS. According to internal and external interviewees, the procurement rules are often too complicated for the institutions in FCS. There is a risk that by making projects and rules too complex, the WBG may miss a window of opportunity to engage in the country. While some level of risk aversion is needed to ensure results and value for money, current rules and regulations seem to be too restrictive for an FCS environment and limit WBG's possible role in the area, despite the changes in IL regulation for FCS. The WBG is undertaking a review of its procurement standards which are likely to include the possibility to apply for specific procurement arrangements in case of fragility. It remains to be seen, if these changes will adequately address the challenges for FCS.

The WBG's possibly stronger role in fragile states is further constrained by IDA's performance-based allocation rule (see also discussion in Folz and Leonhardt 2012).[27] There is a strong rationale behind this rule, which is to have an objective measure to prevent political economy effects deciding on the allocation of the IDA money. However, the CPIA system also leads to the fact that the WBG will predominantly go into countries where other donors go as well because the framework is more favourable for aid to be effective. This contributes to the phenomenon of aid orphans and darlings. The WBG as a multilateral organisation should, however, ideally aim to fill the gaps left by other donors. As it can take more risks as a multilateral organisation, it should do this and engage in countries with less favourable political conditions (Greenhill et al. 2015). In countries with a high level of concentration of active donors, it could fill the gap by providing technical assistance or focus on institution-building instead of merely providing additional money. This is especially the case for FCS. Those fragile states with a low CPIA will be most in need for international support as they have no other

26 This system has been used in Nigeria and Pakistan with IDA credit funds that were bought by a donor to support polio eradication campaigns. The wider problem with such devices is "double jeopardy": in the case of failure, the country does not only get no return, but becomes indebted and/or incurs higher rates, compared to the hoped-for successful case.

27 IDA 16 introduced a crisis response window which provides additional support to countries hit by severe economic crises and major natural disasters. This allocation is independent of the usual performance-based allocation. The crisis response window was again provided in IDA 17. For IDA 17, shareholders agreed to implement an exceptional allocation regime for countries facing "turn-around" situations and to reduce the importance of the CPIA in the country allocation rule for FCS as well as increasing the base allocation. Nevertheless CPIA is still the dominant factor in the country allocation rule.

sources of finance available. Apparently, there is a trade-off as IDA cannot do both: allocate on a performance base as well as fill gaps where support from other development agencies is missing. This trade-off can only be solved by the shareholders who decide on the allocation rules. In case IDA cannot become more flexible on its performance-based allocation rules, there might be a possibility to increase support to fragile states via trust funds, such as the SPF, where the allocation is more flexible. Further risk taking rules can be adapted and do not have to follow the general WBG standards. But as the WBG is generally well positioned to provide support to FCS through its core business, greater flexibility and steps towards a higher risk acceptance would be preferable.

4.4 Financial models

4.4.1 IFC's financial model lacks development orientation and compatibility with FCS

As mentioned in section 3.2, IFC's financial model is based on creating financial returns for private investors. This can constrain IFC from supporting investments in areas with the biggest development impact, e.g. in FCS where the financial risk is naturally higher (and hence the expected return lower, all else equal), but at the same time, the development impact may also be higher than in non-fragile countries. For example, PPPs are often supported in countries that already have well-developed PPP frameworks and which are increasingly served by commercial banks. IFC could strengthen its development orientation by focussing more on so called frontier countries where PPP frameworks still need to be developed. In addition, the priority sectors of IFC's engagement, especially in FCS, have often limited potential to benefit the poor directly, e.g. by providing new jobs.

Another constraint is that IFC staff is evaluated mainly on a performance-based system. Projects with a high monitoring and supervision demand – as is the case with FCS – and even more so with a higher-than-average risk of failure - are therefore not incentivised. The constraints of IFC's financial and performance models with regards to its development impact and poverty orientation were mentioned in different IEG evaluations.

The Management Action Report (MAR) which monitors how IEG recommendations have been addressed shows medium to substantial adoption of the IEG recommendations on how to improve the IFC's poverty orientation (IEG, 2014). However, both internal and external interviewees still mentioned a need to strengthen IFC's development orientation. This could be supported by the new "one WBG approach" where IFC will more often work jointly with IDA and IBRD. However, this is only likely to strengthen its development orientation, if also the internal procedures, such as the performance-based system and focus on economic return, of the agency are re-aligned and include development impact as an additional key element (recommendation 3a).

4.4.2 Country-based lending restricts provision of GPGs

As mentioned in section 3.3, the IBRD and IDA lending model poses a constraint to its engagement in providing GPGs. They only lend to central governments or with a sovereign guarantee from such governments (IFC may not take such guarantees and has pioneered sub-sovereign as well as private lending). But this country-based lending model does not work well for GPGs that involve multiple beneficiary countries with unequal appetite for and ability to take on debt repayment obligations and no incentive to use part of their finite allocation of loans or credits for the benefit of others. In the case of regional public goods, the WBG's ability to lend to regional bodies or country groups needs to be reviewed. With regards to the provision of GPGs, there is a need to think about ways to allocate grants to the provision of these goods which would not score against single country allocations or do so fairly considering their creditworthiness and other factors. There could be a possibility to think about flexible loan agreements in a way that with a rising share of GPG aspects of a project, e.g. in form of additional mitigation aspects, the concessionality or grant share increases (recommendation 5a). This would be in line with the FfD elements paper's request to offer different degrees of concessionality depending on the nature of interventions. It would reduce the burden of the country to invest in GPGs and make sure that it does not have to pay the full costs of interventions that have a positive effect on other countries as well.[28]

28 Note that adaptation projects are mostly national (occasionally regional) not GPGs and therefore the problem of funding them through country envelopes does not arise.

A possible role of the WBG as a provider of knowledge on emerging questions which are not country specific (such as on a new growth model that includes social and environmental aspects) is also constrained by country specific lending. While country specific knowledge and data generation work is usually captured in country operations, it is difficult to finance basic research on global questions via country programmes. Traditionally, the WBG has raised multi-donor trust funds for such purposes, but the question that needs to be asked is, whether we are reaching a limit with the creation and expansion of such facilities and whether there would be an option for a more sustainable financing of this important work of the WBG in terms of knowledge as a GPG.

4.4.3 Solutions for sub-sovereign lending needed

The limitation of the country-based lending systems applies also to sub-sovereign lending. The post-2015 agenda with its urbanisation goals, for instance, which will create a great need for infrastructure at the municipal level, will most likely increase the importance of interventions at the sub-national level, depending on the level of decentralisation of the country. This relates also to the discussion on focussing on the poor instead of poor countries to address the zero poverty goal. Currently, the WBG is only able to lend at the central level and requires a further on-lending and/or guarantee agreement between the central government and the sub-national institution in order to pass the loan on to the latter. This makes processes more complicated and probably constrains the WBG from supporting the SDGs to provide sustainable infrastructure at the local level.

5. Summary and Recommendations

2015 will be a landmark year for international development. The currently discussed Sustainable Development Goals (SDGs) which will be finalised and adopted by the United Nations General Assembly (UNGA) in September 2015 mark a remarkable shift from the Millennium Development Goals (MDGs). One major difference which at the same time presents a significant challenge is its double focus on reducing carbon emissions and on bringing poverty to zero. Eradicating poverty requires countries to focus on hard to reach pockets of poverty and the international community to increasingly engage in fragile and conflict affected states (FCS) where most of the poor are going to live. Furthermore, the cross-cutting sustainability goal requires taking climate friendliness, resilience and sustainability into consideration at all times. This will be most relevant for infrastructure investments in order to ensure that these are not locked-in in a non-sustainable way. The World Bank Group (WBG), as the major international development agency, will play an important role in supporting the implementation of this ambitious post-2015 agenda. This policy note has suggested some areas where the WBG could play a prominent role, given the experience and variety of instruments at its disposal. However, the WBG also faces constraints that could limit the organisation's ability to fulfil these roles. These constraints and challenges as well as recommendations on how to address them can be grouped into three areas. First, challenges arising from the WBG's new organisational structure and strategy as well as their fit with the post-2015 agenda; second, constraints of the WBG in addressing specific challenges of the post-2015 agenda; and finally, challenges for the WBG resulting from the changing international development landscape, also beyond the post-2015 agenda.

Fit between the WBG's organisational structure and the post-2015 agenda

The recently adopted new WBG strategy and the new organisational structure fit well into the post-2015 agenda and can support the role of the WBG in the process. Nevertheless, the institution has to cope with two possible challenges regarding the alignment of its new organisational structure and the demands of the post-2015 agenda. First, while eradicating poverty and boosting shared prosperity are the new twin goals of the WBG, sustainability has not such a stand-alone role, but is emphasised as crucial to achieve the twin goals in the new WBG strategy. Yet it remains to be seen, whether the WBG manages to establish sustainability as a new third dimension in addition to poverty reduction and growth and manages to mainstream it across the organisations. Only, if the WBG manages to implement sustainability as a cross-cutting topic across its intervention, it will be able to play an important role in supporting the implementation of the SDGs.

> ***Recommendation 1:*** *Shareholders should monitor the inclusion of sustainability indicators in the WBG's corporate scorecard in line with the demands of the post-2015 agenda.*
>
> ***Recommendation 1a:*** *Support the development of knowledge products on interlinking poverty reduction, growth and sustainability and identifying co-benefits between these three dimensions.*

The second risk of the recent changes in the WBG relates to its new structure. The newly established Global Practices (GPs) and Cross-Cutting Solutions Areas (CCSAs) at the central level shall strengthen knowledge flows and exchange between regions. However, a concern of these central thematic units is that they could put the WBG's strength of local knowledge at risk, if centralisation of knowledge is pushed too strongly.

> ***Recommendation 2:*** *Shareholders should monitor possible centralisation tendencies of the new institutional structure, e.g. through client country surveys, and communicate possible concerns to Management.*

Specific challenges of the post-2015 agenda and implications for WBG

One of the main challenges of the post-2015 agenda is the very ambitious goal of eradicating extreme poverty (challenge 1). This goal will require more activities in FCS in the future as a rising share of extreme poor will live in these countries. The WBG is experienced in engaging with FCS and is increasing its engagement with these. It could therefore play an important role as an implementing agency and supporter of national development strategies in this group of countries. In addition, it can use its private sector arm, the International Finance Corporation (IFC), and the guarantee agency, the Multilateral Investment Guarantee Agency (MIGA), to mobilise private investments in countries like these where foreign private investors seldom invest deliberately. However, the WBG seems to be an overly cautious risk taker, unable to take full advantage of the possibilities that come from supporting fragile states. This applies to the IFC in particular, whose business model is focussed on generating economic returns in its aim to generate development impact. This economic model as well as the performance rating system for its employees disincentivises riskier investments such as those in FCS.

Recommendation 3: *Strengthen the WBG's role (including IFC) as an implementing agency of the SDGs, in fragile states in particular, and support countries in translating the SDGs into their national development strategies.*

Recommendation 3a: *In order to support the organisation's role in FCS, revise the risk assessment and internal priority and incentive systems across all parts of the WBG, but especially in IFC. For IFC, this could be supported by introducing a strong system to evaluate possible development impacts of interventions and give it at least the same weight as the economic return in the internal priority system.*

Recommendation 3b: *Evaluate the possibility of a first-loss capital instrument for IFC.*

Sustainability is a central challenge of the post-2015 agenda. Neglecting sustainability puts development progress at risk through climate change related disasters that especially affect the vulnerable and poor. A central area to combine sustainability and development is infrastructure. According to different analyses, there is a gap of around one trillion dollars in infrastructure financing in developing countries to satisfy investment needs. The challenge for the future is to ensure the sustainability of these infrastructure investments; they should be climate friendly and climate resilient. The WBG, with its knowledge in mobilising private investments and its own appreciation of the importance of sustainable investments, could play a leading role in this area. However, two other institutions focussing on infrastructure have been established only recently: the BRICS' (Brazil, Russia, India, China and South Africa) New Development Bank (NDB) and the Asia Infrastructure Investment Bank (AIIB). In the past, procurement and safeguard standards of the WBG, though often valued by recipient countries as an important factor to ensure environment-friendly interventions, have caused delays in loan preparation and led clients to accept slightly more expensive, but faster, options. It remains to be seen, whether the creation of these new agencies reduces the potential role of the WBG in infrastructure financing. Ultimately, standards will have to be harmonised across the range of providers, but this is outside of the WBG's direct control.

Recommendation 4: *Strengthen the WBG's role as provider of sustainable infrastructure.*

Recommendation 4a: *Ensure that ongoing safeguards and procurement revision makes the system more flexible without breaching important standards, e.g. the protection of indigenous peoples. The proposed stronger use of country systems, as long as systems are in line with WBG standards, is likely to already facilitate processes and reduce delays.*

Recommendation 4b: *Support WBG cooperation with the new agencies and try to ensure that similar safeguards are applied.*

Linked to the sustainability topic and the universality of the post-2015 agenda is the need to support the provision of global public goods (GPGs). The WBG's broad membership, global engagement and capacity as financial institution qualify it to become an important provider of GPGs such as climate and health. However, the WBG is currently mainly providing GPGs outside of its core business since the country-based lending system makes financing GPGs difficult. The WBG needs to identify other mechanisms to make climate finance or other GPG finance available.

Recommendation 5: *Identify the WBG as a major provider of GPGs and communicate this across national governments to ensure coherent political decisions across international agencies.*

Recommendation 5a: *Review possibilities to provide GPGs through WBG's core business, e.g. by identifying and maximising co-benefits between development projects and GPGs, and support ongoing work to identify mechanisms and sources to make additional climate finance available through the WBG. Consider incentive mechanisms to encourage countries to borrow on improved conditions for investments with significant regional and global side-benefits.*

The post-2015 agenda is a very ambitious agenda that will require challenging decisions from governments. Taking these decisions will become easier, if the agenda benefits from a broad support. The WBG has played an active role in the post-2015 process. In addition, the WBG's strategy overlaps significantly with the SDGs. Thus, through the WBG, 186 member countries have already agreed to goals very similar to the SDGs. This internal backing, together with the WBG's convening power, mean that it can play an important role in ensuring broad support for the post-2015 agenda. However, it remains to be seen, whether sustainability, which is not explicitly a part of the WBG's twin goals, will become an essential element of the WBG's interventions in developing countries.

Recommendation 6: *Use the WBG's commitment to the SDGs to strengthen political support and commitment to the agenda across their membership. At national level, the WBG could contribute by providing input to consultations on national development strategies.*

To facilitate successful implementation of the SDG agenda, it will be important to agree on measurable indicators and targets and to provide the necessary data to monitor them afterwards. The WBG is able to play an important role here, not only as a disseminator of development data, but especially as a developer of statistical capacities in countries through its technical assistance programmes.

Recommendation 7: *Build on WBG's capacity as a disseminator of data and technical assistance to develop statistical capacities in order to help collecting the necessary data to monitor the SDGs.*

Recommendation 7a: *Coordinate with the UN Data Revolution Initiative to ensure coherence in support to collect and disseminate data across agencies.*

A second challenge for countries implementing the SDGs will be their transformative character which requires substantial domestic reforms. Achieving the SDGs will largely depend on governments' capacities and institutional abilities to implement the required reforms and to develop the necessary policies. This does not only directly relate to implementing the SDGs, but also to creating an enabling environment for private sector investments and to strengthen governments' capacities to handle new sources of finance as discussed in the Financing for Development (FfD) process. The WBG is highly experienced in advising governments and its development policy operations (DPOs) can support the implementation of required national reforms.

Recommendation 8: *Use WBG's knowledge products, experience and financial instruments to support governmental and institutional strengthening to assist countries in implementing the SDGs and managing new sources of finance. Consider using DPOs to strengthen the institutional framework as well as technical advisory services through the International Bank for Reconstruction and Development (IBRD) treasury and IFC to support management of Public Private Partnerships (PPPs) and new financial instruments.*

The ambitious post-2015 agenda requires an additional mobilisation of finance. The FfD process emphasises the responsibility of countries to mobilise their domestic resources to finance necessary investments. But the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) also asks for a stronger contribution of the private sector. The WBG will play an important role in mobilising such private sector flows to support the post-2015 agenda. It can use its private sector arms (IFC and MIGA) as well as its capacity for innovative finance to do so. By using their financial instruments and advisory service, IFC and MIGA can directly support private sector investments in developing countries. Its capacity for innovative financing enables the WBG to also develop mechanisms to mobilise private financing that can be invested in development projects, e.g. through international facilities and trust funds. On the other hand, the countercyclicality of WBG support is an important feature to cushion possible drops in external private and domestic resources in crisis situations.

Recommendation 9: *Further leverage the WBG's capacity to mobilise financial resources through innovative financing mechanisms and its support of private sector investments, in forms that are relevant to the SDGs.*

Recommendation 9a: *Use WBG's countercyclical lending to cushion negative impacts in terms of economic or other crises when domestic and private flows dry up.*

Challenges arising from the changing international development landscape

The WBG's strength is its combination of financial and knowledge products. It is therefore crucial for the WBG to ensure sufficient financial capacity in order to play a relevant role in the post-2015 agenda. The lack of flexibility in the lending windows can pose constraints on the lending abilities of the WBG. The number of International Development Association (IDA) countries will steadily decrease in the future and countries will graduate to the IBRD window. But shareholders are hesitant to provide capital increases for the IBRD and this will lead to a constrained IBRD envelope. Despite the shrinking number of IDA recipients and the number of people living in extreme poverty in general, there will still be a need for IDA resources. The smaller number of poor people will be harder to target as they will predominantly be found in marginalised communities and in fragile states. An engagement with these countries carries increased project costs and required levels of finance. A higher level of flexibility between the windows would allow ad hoc responses to bottlenecks in either window.

Recommendation 10: *Review possibilities to increase the flexibility of the WBG's financial windows to better address the needs of a changing client landscape.*

In addition to its financial capacity, it is important that the WBG is seen as a legitimate and neutral partner. Only then, it will be accepted as a central institution in supporting the post-2015 agenda as well as reform processes in recipient countries. The recent and still partial "voice" reform was an important step in improving the governance system of the WBG. Nevertheless, there is still a perception that the WBG is dominated by a Western agenda and that shareholders are not equally able to enforce their interests.

Recommendation 11: *The WBG needs to become significantly more amenable to the interests of client countries to ensure it is seen as a legitimate institution supporting the global agenda.*

A final point to be kept under review is the WBG's place in a rapidly evolving international architecture. This goes well beyond the narrow question of what safeguarding standards its partners/competitors should adopt. For example, regional development banks may have greater and more relevant regional knowledge, though in some cases, less funding strength and/or flexibility. And all these institutions need to demonstrate their added value in a world where even low-income countries (LICs) are increasingly and successfully tapping international bond markets, albeit at much higher rates than the WBG offers - a revealed preference which the Multilateral Development Banks (MDBs) would do well to keep under constant review.

Recommendation 12: *Assess the comparative advantage (not just absolute advantage) of the WBG in relation to other MDBs and the UN system in delivering the SDG agenda to ensure coordinated and coherent interventions.*

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Appendix

Table 1: List of proposed SDGs

Goal 1	End poverty in all its forms everywhere
Goal 2	End hunger, achieve food security and improved nutrition and promote sustainable agriculture
Goal 3	Ensure healthy lives and promote well-being for all at all ages
Goal 4	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Goal 5	Achieve gender equality and empower all women and girls
Goal 6	Ensure availability and sustainable management of water and sanitation for all
Goal 7	Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 8	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9	Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
Goal 10	Reduce inequality within and among countries
Goal 11	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12	Ensure sustainable consumption and production patterns
Goal 13	Take urgent action to combat climate change and its impacts
Goal 14	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss
Goal 16	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17	Strengthen the means of implementation and revitalise the global partnership for sustainable development

Source: UN Sustainable Development Knowledge Platform

Table 2: Time line SDG negotiation process in 2015

Month	Planned action
Negotiations Sustainable Development Goals	
January	Stocktaking
February	Declaration
March	Sustainable Development Goals and targets
April	Framework for monitoring and review of implementation
May	Means of Implementation and Global Partnership for Sustainable Development
June/July	Finalisation of the outcome document
Negotiations Financing for Development	
January	Drafting Session for the Outcome Document
April	Drafting Session for the Outcome Document
June	Drafting Session for the Outcome Document

Sources: Modalities for the process of intergovernmental negotiations on the post-2015 development agenda; Sustainable Development Policy and Practice Events Calender.

Table 3: Comparison MDGs and proposed SDGs

Millennium Development Goals	Sustainable Development Goals
1. Eradicate extreme poverty and hunger	1. End poverty in all its forms everywhere 2. End hunger, achieve food security and improved nutrition and promote sustainable agriculture 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
2. Achieve universal primary education	4. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
3. Promote gender equality and empower women	5. Achieve gender equality and empower all women and girls
4. Reduce child mortality 5. Improve maternal health 6. Combat HIV / AIDS, malaria and other diseases	3. Ensure healthy lives and promote well-being for all at all ages
7. Ensure environmental sustainability	6. Ensure availability and sustainable management of water and sanitation for all 13. Take urgent action to combat climate change and its impacts 14. Conserve and sustainably use the oceans, seas and marine resources for sustainable development 15. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss
8. Develop a global partnership for development	17. Strengthen the means of implementation and revitalise the global partnership for sustainable development 7. Ensure access to affordable, reliable, sustainable and modern energy for all 9. Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation 10. Reduce inequality within and among countries 11. Make cities and human settlements inclusive, safe, resilient and sustainable 12. Ensure sustainable consumption and production patterns 16. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Table 4: List of interviewees (Interviews conducted between December 2014 and January 2015)

Name	Position	Organisation
Chad Dobson	Executive Director	Bank Information Centre
Luiz Vieira	Coordinator	Bretton Woods Project
Homi Kharas	Senior Fellow, Deputy Director Global Economy and Development program	Brookings
Scott Morris	Senior Associate	Center for Global Development
Peter Wolff	Head of Department World Economy and Development Financing	German Development Institute
Caroline Heider	Director General and Senior Vice President	IEG
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