Report

Providing global public goods

What role for the multilateral development banks?

Inge Kaul

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Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ

Tel. +44 (0) 20 7922 0300
Fax. +44 (0) 20 7922 0399
E-mail: info@odi.org.uk

www.odi.org
www.odi.org/facebook
www.odi.org/twitter

Cover photo: The Unisphere, a 12-story high, spherical stainless steel representation of the Earth, was built as the theme symbol for the 1964 World's Fair in Flushing Meadows, Queens. Credit: Wally Gobetz/Flickr.

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The author is adjunct professor, Hertie School of Governance, Berlin, and former director, Office of Development Studies, UNDP, New York. Comments can be addressed to: contact@ingekaul.net.

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Abbreviations

AfDB	African Development Bank
AsDB	Asian Development Bank
BRIC	Brazil, Russia, India and China
CGD	Center for Global Development
DAC	Development Assistance Committee of the OECD
EBRD	European Bank for Reconstruction and Development
FCV	fragility, conflict and violence
GEF	Global Environment Facility
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GPGs	global public goods
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IMF	International Monetary Fund
IPF	international public finance
MDBs	multilateral development banks
MENA	Middle East and North Africa (WBG region)
NATO	North Atlantic Treaty Organisation
NDB	New Development Bank (BRICS)
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PPP	public–private partnership
RPGs	regional public goods
WBG	World Bank Group
WBG-IEG	World Bank Group Independent Evaluation Group
WBG-OED	World Bank Group Operations Evaluation Department

Executive summary

There is a growing list of global challenges, from climate change and the spread of communicable diseases and antimicrobial resistance to excessive financial volatility, illicit trade, cyber-attacks, terrorism and forced migration. In some areas, the world is coming close to reaching thresholds of irreversibility, as with climate change and the loss of biodiversity. Resolving these global challenges requires effective international cooperation. But what exactly would it take to generate such cooperation? Are we pulling all the levers at our disposal? And if not, how should we do so?

This short paper addresses these questions. It takes a close look at how the multilateral development banks (MDBs), as one part of the operational side of international cooperation, deal with global border-transcending challenges. Many challenges affect us all, whether in rich or poor countries, in powerful or fragile states; and because they possess the properties of public goods, we also refer to them as global public goods (GPGs).

The analysis shows that the MDBs are supporting initiatives in several GPG policy fields, currently placing the emphasis on climate change, communicable diseases and situations of fragility, conflict and violence that could spill across national borders and pose global security risks. Their interventions fall into three main categories: preventing the ill-effects of underprovided GPGs – such as natural disasters linked to climate change – from reversing development; facilitating developing countries' access to GPGs such as the international financial markets; and supporting investments in developing countries that generate not only national development benefits, but also global co-benefits such as net-zero or reduced carbon emissions and, thereby, help correct the under-provision of GPGs.

While MDBs' work in these areas has been important and in many instances innovative, it does have basic shortcomings. The main problem seems to be path dependency. The MDGs address GPG issues mainly through the traditional development approach, one that is country-focused and uses development-assistance tools and finance in ways that fail to resolve many of the problems in collectively tackling GPGs. At best, their contribution to GPG provision will go only as far as national and global interests overlap. But, in many cases, adequate GPG provision requires more than what states, guided only by their national interests, might do for them. The MDBs, as a system, and, in particular, the World Bank Group (WBG), as the bank with a worldwide remit and so best placed to facilitate MDB inputs to GPG provision, lack a separate GPG engagement model that allows them to help the international community close the often wide gap between national and global interests.

The root cause of this gap lies outside the MDBs, however. The wider system of international cooperation itself lacks a well-grounded concept and system of GPG provision and finance and continues to treat GPG provision as if it were development assistance. But accelerated GPG provision requires its own finance mechanisms and instruments. It especially requires more grant resources to attract, guide and nudge the large private investments to resolve the long list of unmet global challenges – and avoid doing so at the expense of 'pure' national development concerns. This paper therefore recommends the following:

- Both the MDBs and the wider international community consider remodelling international cooperation as a two-track system, comprising development assistance and support for GPG provision.
- All governments, in accordance with the internationally agreed principle of common but differentiated responsibility and capacity, contribute to the public part of international GPG finance, charging these contributions to the budgets of the relevant technical or government entities, such as ministries of defence, environment, energy, finance, health or trade.
- The wider international community consider the creation of an international office that, for international GPG finance, would undertake what the Development Assistance Committee of the Organisation for Economic Co-operation and Development (OECD DAC) does for development assistance.
- The MDBs jointly prepare a report for their shareholders' consideration outlining their views and recommendations for establishing development assistance and GPG provision as two separate but synergistic operational models, including what such a repurposing might imply for their mandates, instruments and finance arrangements, as well as the division of work among themselves.

The analysis in this paper also shows that GPG provision requires an issue-based operational model. This model must, however, recognise that adequate GPG provision often depends on national and regional inputs from public, private, civil and other individual actors. And, therefore, it must take into account differences among regions, countries and population groups when identifying how to produce and finance a particular good in ways that are globally efficient, effective and fair.

Given the growing importance of GPGs and the policy interdependence among countries that they entail, the MDBs' country engagement models would also need updating to integrate what is 'global'. For example, they should indicate whether the country is eligible for adaptation support because it suffers from GPG under-provision; or whether it has accepted, upon the request from the international community, to supply, against payment, inputs to a particular GPG, such as biodiversity preservation. To strengthen countries' trust in the fairness of international cooperation and their willingness to contribute, such GPG-related transfers should be additional to development assistance and come out of GPG finance.

Why split international public finance resources into development finance and GPG finance? The reason is to get the narrative right for national and international policy-makers to explain to their constituencies and the general global public why it sometimes is in one's best self-interest to invest domestic revenue in upgrading the international components of the GPG they want to enjoy nationally. Involving the concerned national authorities with their budgets in GPG provision would make clear that, in interdependent policy fields, operational international cooperation is not just a moral or ethical issue, but one of enlightened self-interest – that international cooperation is needed and, to be effective, needs to be mutually beneficial so that both, the national and international components of the goods get produced and come together to form the GPG that we want to enjoy locally.

If the MDBs were to get a clear mandate from their shareholders and the resources to pursue such a two-strand agenda of development assistance *and* GPG provision, they could drive faster far-reaching progress towards less crisis-prone and more sustainable and inclusive global growth and development.

1. Introduction

There is a growing list of global challenges, from climate change and the spread of communicable diseases to excessive financial volatility, illicit trade, cyber-attacks, terrorism and forced migration. Crisis follows crisis, and new challenges keep emerging, including those linked to the coming digitalisation of work processes. The conjuncture of these challenges has led some to try to turn back the clock and call for renewed protectionism, while others have responded by looking ahead and exploring ways to foster better international cooperation, realising that unilateral action will not keep these challenges at bay, let alone resolve them. But what exactly will it take to generate better international cooperation and to demonstrate that, at least for the purpose of overcoming these global challenges, such cooperation is often the best way for countries to achieve their national interests?

To answer this question, this paper takes a close look at how the multilateral development banks (MDBs), as one segment of the operational side of international cooperation, address global, border-transcending challenges. Many of these challenges affect us all, whether we live in rich or poor countries, in powerful or fragile states; and because they possess the properties of 'public goods', we also refer to them as 'global public goods', or GPGs.

The discussion focuses on the role of the World Bank Group (WBG) and the main regional MDBs in GPG provision. Together, they are referred to here as 'the MDBs' or simply 'the banks'.[1] These banks have been tackling GPG-type policy issues for decades. However, prompted perhaps by the 2030 Agenda for Sustainable Development[2] and the Paris Agreement on Climate Change,[3] they have recently upped their commitment to GPGs in such documents as *Forward Look: a Vision for the World Bank Group in 2030* (WBG, 2016d), the communiqué of the October 2016 meeting of the Development Committee of the International Monetary Fund (IMF) and the World Bank,[4] and in a number of papers jointly written by several banks, including *From Billions to Trillions* (MDBs, 2015b) and *The Forced Displacement Crisis* (MDBs, 2016a).

More of the same? What about operations and impact? To help answer these questions, this paper explores the role of MDBs in providing GPGs and asks what they can do better to bring their full potential to bear on the supply and distribution of GPGs.

The analysis draws on a review of publicly available documents issued by MDBs, as well as on external studies on their activities and institutional set-ups in policy fields tied to GPG concerns. The findings of this analysis are offered as inputs to further research and as a contribution to the debate on the future of MDBs and – more widely – the future of international cooperation.

Section 2 discusses the main characteristics of GPGs and the governance requirements of special interest, as background for Section 3, which identifies five criteria that a sound bank delivery model would need to meet to be fit for purpose when providing GPGs. Section 4 then compares the banks' current GPG policy practices with the given delivery model. The conclusions round out with some findings and possible next steps, partly supporting reform proposals that have already been aired, but also moving beyond these proposals.

So, in brief, the answer to the question posed at the outset of this paper is 'yes', we – and the legacy MDBs that are at the centre of this paper's analysis – could do better in terms of addressing global challenges, provided their shareholders agree and equip them with the necessary mandate and the resources to do so.

But, before elaborating on the findings and conclusions, this paper will begin with the analysis.

1 The regional banks covered in this paper are the African Development Bank (AfDB), the Asian Development Bank (AsDB), the European Bank for Reconstruction and Development (EBRD) and the Inter-American Development Bank (IADB).

2 World leaders adopted *Agenda 2030* at a special summit meeting of the United Nations (UN). The Agenda sets out 17 main goals and 169 sub-goals that the international community aims to achieve by 2030. The goals apply to all countries, with the overarching objective of fostering inclusive and sustainable growth and development worldwide. http://www.un.org/sustainabledevelopment/development-agenda

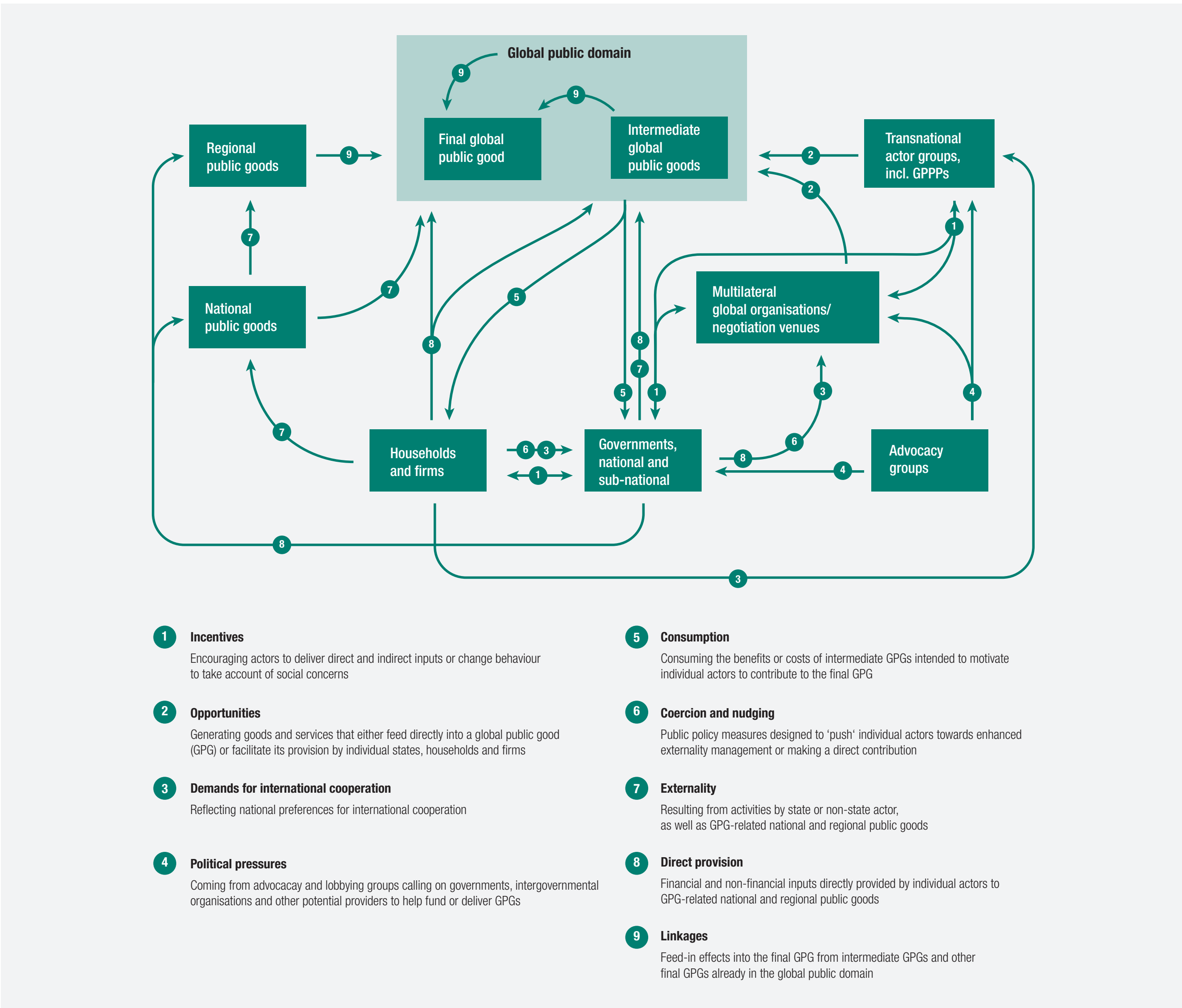
3 For details on the *Paris Agreement*, see http://unfccc.int/paris_agreement/items/9485.php

4 The text of the communiqué is available at: http://www.worldbank.org/en/news/press-release/2016/10/08/world-bank-imf-annual-meetings-2016-development-committee-communique

2. The provision requirements of GPGs

GPGs are often difficult to provide because they are consumed by the 'global public', the vast majority of the world's population. But since we live in a world of wide disparities in income, education, needs and even hopes, the preferences of people and countries for these goods also vary widely. Moreover, many GPGs are global-public in consumption *and* in provision (Kaul et al., 2003). They require many, if not all, countries to cooperate when one or a few countries want to modify the provision of GPGs in some way, including how the benefits and costs of these goods are distributed. Intrinsically, GPG provision is in many cases a highly complex process, requiring inputs from multiple groups at different political and administrative levels (Figure 1).

Figure 1. The provision paths of GPGs



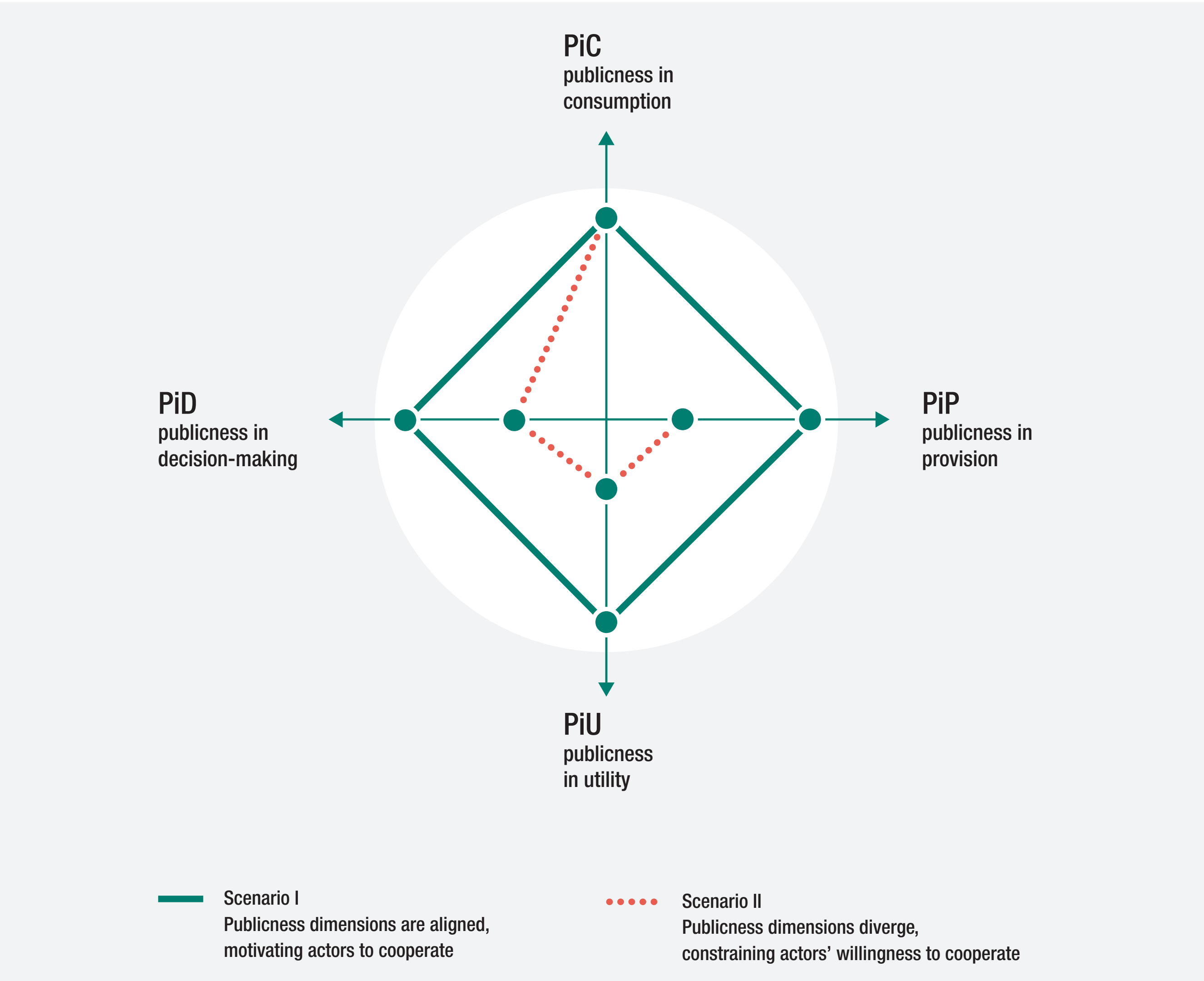
Source: Kaul et al. (2016: xxxix)

When states or non-state actor groups disagree on what steps need to be taken, they may find it hard to reach a consensus on how to act. In previous years, more powerful countries could deal with the controversial GPGs that mattered to them, such as the ozone layer or peace and security, through power politics, employing a mix of political pressure, moral suasion and financial rewards to ensure compliance. Such power politics are losing their force, however, in a world increasingly moving from a bi-polar to multi-polar polity and in light of the changing balance between markets and the state.

Thus, international cooperation on GPGs today needs to be largely voluntary, based on international bargains that all sides perceive as characterised by fairness in negotiations and outcomes. Such fairness is important because the provision of GPGs, like any public goods, whether national or international, may involve problems related to collective action, such as the risk of parties withdrawing from cooperation if they do not see a clear and significant net benefit in engagement. Because there is no equivalent of a national state to help overcome collective-action problems at the international level, the provision of GPGs depends heavily on the willingness of the concerned parties to arrange bargains that are mutually beneficial.

Recent global debates suggest, however, that countries, and also civil society and business, want to be consulted and have a say not only on which goods to consider and how to produce them, but also on what constitutes a fair bargain. Effective GPG provision thus seems to require a matching of the four dimensions of publicness – the '4 Ps' – shown in Figure 2. It calls for an alignment of publicness in consumption, in provision and in decision-making, thus allowing an effective voice for all concerned – participatory decision-making – to ensure publicness in utility, such as a distribution of costs and benefits that all parties find acceptable and regard as a good investment.

Figure 2. The condition of adequate GPG provision: Balancing the '4 Ps'



Source: Kaul et al. (2016: lix)

3. Involving the banks: A proposed delivery model for GPGs

The primary focus of MDBs has conventionally been on development. The observations above suggest, however, that GPG provision may concern all countries, developed and developing. Moreover, several GPGs, notably the global natural commons such as the ocean, also affect areas beyond national jurisdiction. So, it seems reasonable to assume that, when tackling GPG issues, the MDBs need a widened operational focus, looking beyond development assistance, and corresponding adjustments in their operational policies and institutional set-ups. In particular, changes in the following five areas appear to be important for GPG provision to run alongside development assistance – not to replace it:

- GPG provision recognised as an added operational focus of the banks;
- the division of labour among the MDBs organised with the GPGs' provision path in mind;
- the banks' toolbox expanded and geared to address global collective-action problems;
- measures taken to ensure GPG provision and finance do not distract from development finance; and
- the governance of GPG-focused interventions being aligned with the goods' dimensions of publicness.

3.1. GPG provision as an added operational focus

Development assistance and GPG provision differ in key respects. These include the motivation and rationale of the parties for seeking cooperation with others, the main focus of the proposed interventions, the relations between the parties, and the instruments employed (Table 1).

Most parties have mixed motives, behaving neither as pure egoists nor pure altruists.[5] One or the other motive may be more pronounced, depending on the issue, though not to the point of either being excluded. In the case of GPG provision, self-interest may in many

Table 1. Comparing international cooperation in support of GPGs and development assistance

Dimension	International cooperation in support of GPGs	Development assistance
Main rationale	Efficiency considerations, motivated by self-interest or mixed considerations (self-interest and other concerns)	Concern about others, notably developing countries and poverty reduction in these countries
Main focus of the intervention	The GPG to be produced	A particular lower income, fragile or vulnerable developing country, or group of developing countries, or the poor in middle-income countries
Relationship between the cooperating parties	Concerned state and non-state actors from all or several parts of the world bound by policy interdependence yet potentially with varying preferences, responsibilities, capacities and (perhaps) willingness to cooperate	Rich and poor countries – 'donors' and 'recipients' – plus perhaps their respective development partners such as multilateral development agencies, including banks, civil society and private sector entities
Links between GPG provision and development support	Adequate provision and development-supportive design of GPGs	Development-compatible provision of GPGs, including, as and if warranted, incentive payments for the promotion of sustainable national development strategies generating global co-benefits

5 See Kaul et al., 2016: xxix-xxxi for a brief overview of the literature on the issue of mixed-motive actors.

instances be an important, or even the main, driving force – as parties consider how to allocate their scarce resources to competing purposes (for example, to private or public goods, and from among the public goods to purely national, purely regional or global public goods). Considerations of efficiency are therefore likely to dominate.

For development assistance, by contrast, the main (stated) rationale tends to be a concern for others, typically for poor and vulnerable countries and population groups (see Table 1, row 1).

The focus of interventions is also fundamentally different for GPG provision and for development assistance (see Table 1, row 2). For the provision of GPGs, the focus should be on the goods, covering the provision path in full, its national and international, market, civil society and state parts. For development assistance, however, the focus should be on the recipient partner countries or regions, since these are – in theory if not always in reality – the centre of programme and project design. A further difference exists in the nature of the relationship between the cooperating parties. For GPG provision it is – due to the goods' publicness in consumption and provision – one of policy interdependence. And for development assistance, it is – even if efforts are made to approach it as a partnership – essentially one between 'donors' and 'recipients' (see Table 1, row 3).

There are, however, both key differences and major potential synergies between GPG provision and development assistance. As highlighted in Figure 1, national public goods, as well as domestic efforts to rein in cross-border spillovers that could harm other countries and other areas beyond national jurisdiction, are important inputs to GPGs. For example, strong national capacity to monitor public health conditions and, at the first signs of a disease outbreak that, if left unchecked, could assume pandemic proportions, is a critical input to the GPG 'communicable disease control'. Well delivered development assistance is therefore crucial for effective GPG provision (see Table 1, row 4), and such provision in turn fosters national and regional development.

For these synergies to occur, however, both strands of international cooperation need to be addressed separately but with a view to achieving complementarity. So, the banks would need to have two engagement models: (1) their existing engagement framework for assistance to developing countries and regions, and (2) an engagement framework for GPGs.

All countries, both rich and poor, have made global commitments to promoting sustainable and inclusive global growth and development and thus may have an interest in realising those commitments. So, one would expect to observe country engagement frameworks that aim at GPG-compatible national development, for example, development with net-zero greenhouse gas emissions; and GPG-provision engagement frameworks designed to be development-compatible, for example, offering effective incentives for countries to contribute to the preservation of biodiversity.

3.2. Division of labour among the banks

The WBG and the regional development banks have extensive experience of working in multiple sectors with multiple parties. The WBG in particular has a long history of policy interventions worldwide and of addressing GPG-type issues such as agricultural research.[6] All of the banks, in fact, are well equipped to deal with the multi-actor, multi-sector and multi-level nature of many GPGs (Figure 1).

One advantage of regional banks is their closeness to their own region, while the contrasting advantage of the WBG is its capacity for dealing with global issues. As a group, therefore, the banks are well poised to cover large parts of the policy interventions required in providing GPGs, especially if they were jointly to examine the goods' provision paths based on the principle of subsidiarity.[7] This would mean initially deciding on which tasks to leave to others (such as individual countries, international organisations, and private and civil society groups), and then distributing their tasks among themselves, again applying the principle of subsidiarity according to economies of scale and scope.

On these parameters, the WBG would be better placed to undertake activities that call for a concerted and, therefore, more centralised approach. Such activities could include harmonising policy approaches, norms and standards across countries; producing 'best-shot' GPGs

6 Brief historical accounts of the WBG's involvement in global partnerships and programmes can be found in several chapters of Ferroni and Mody (2002) and Evans and Davies (2015). Another source of information on this issue can be found in evaluations of these partnerships and programmes, including WBG-IEG (2008, 2011a, 2011b and 2011c) and WBG-OED (2002, 2004 and 2006). A history of the Consultative Group on International Agricultural Research is available at: http://www.cgiar.org/www-archive/www.cgiar.org/pdf/cgiar%4040_final_LOWRES.pdf

7 According to the principle of subsidiarity, decentralisation is the preferred option in all cases where there are no major factors that either argue against this approach or which call for a scaling up of relevant decision-making processes. The 'pros' of decentralisation include, among other advantages: greater scope for self-governance, context-specificity, and competition among lower-level communities, which may allow for better control of decision-makers and foster efficiency. The 'cons' of decentralisation include: a potential lack of human, institutional and financial capacity; conflict and ethnic strife; political capture of local decision-makers; and the existence of spill-ins from outside or of spillovers into other policy spaces. Among the 'pros' of centralisation are: the existence of externalities; risks of free-riding in the presence of public goods; and economies of scale and scope. The 'cons' of centralisation include: risks of over-standardisation; inefficiencies due to lack of competition; increased transaction costs due to increased needs for monitoring and reporting; and perceived top-down decision-making giving rise to feelings of alienation and reduced willingness to cooperate. For more detailed discussions, see Jachtenfuchs and Krisch (2016) and Wyplosz (2015).

such as knowledge that is useful to countries worldwide;[8] or pooling financial resources to support coalition-building and information exchange among the network of GPG providers inside and outside the banks.

Meanwhile, GPG-related interventions to be carried out at country levels, such as investing in physical infrastructure or strengthening national health systems, would in most cases perhaps be better supported by regional banks, as and if requested by their member states and, of course, in line with agreed global norms and standards. Similarly, the regional banks might often be best placed to encourage, wherever desirable and feasible, joint regional initiatives such as regional information systems for natural disaster risk management.

Considering the complexity of GPG provision paths and the need for the different parts to fit together, the MDBs, when acting together, could thus be a well-equipped task team, especially when also considering their convening power and outreach to business, civil society and other actor groups, which allows them to foster well-balanced vertical and horizontal (de-)centralisation.[9]

3.3. Expanding the banks' toolboxes

Since people's and countries' preferences for GPGs vary so greatly, incentives for state and non-state parties are probably needed to encourage parties to make their contributions, and perhaps to contribute even more than they would if guided solely by national self-interests.

For example, developing countries are sometimes the most efficient providers of inputs such as efforts to reduce pollution. Richer countries, whether individually or collectively, may thus look to developing countries to produce, in partnership with the MDBs, these inputs in exchange for payment. To be fair and effective, these and other types of GPG-related interactions between industrialised and developing countries would need to be accompanied by North–South resource transfers (Sandmo, 2007). So, the banks need price-discovery mechanisms to establish efficient and attractive prices for the goods and services to be traded in such exchanges and, possibly, also adopt a range of results-based finance instruments.[10]

International agreements grant compensation to poorer countries when they need to undertake actions such as climate-change adaptation measures to protect themselves against the ill effects of the under-provision of GPGs, including floods or droughts related to global warming. Mechanisms and instruments for adaptation financing would thus also be required. As Rübbelke (2011) argues, funding adaptation that only or at least mainly benefits developing countries is an important trust-building strategy that could help increase their willingness to cooperate in other contexts.

If one defines finance in a broad sense – as pertaining to all measures that help channel and allocate resources to particular purposes – then it is also important to examine whether the banks have instruments to address problems such as information asymmetries that might constrain the willingness of parties to cooperate.

In short, one would expect the MDBs to play a broadened, more differentiated international public finance (IPF) role in supporting input provision to GPGs than they do now as part of their provision of development assistance, where their main instruments are grants, credits or loans tailored to the particular characteristics of the country in which the funds are to be invested.[11]

3.4. Mobilising GPG finance

The typical way IPF resources for GPG purposes are currently 'mobilised' is for the conventional donor countries, the member states of the Organisation for Economic Co-operation and Development (OECD), to offer official development assistance (ODA) resources to the banks (Davies, 2015). But the use of ODA for GPG provision does not always seem to be appropriate.

As discussed above, the developed countries, or the international community as a whole, could consider it desirable (for efficiency reasons) or necessary (for technical reasons) to request developing countries to take corrective action on a GPG against cost-reimbursement. However, since GPGs by definition affect both richer and poorer countries (indeed potentially anyone anywhere), it could be perceived as unfair to charge the full amount of the external financial support that developing countries receive for responding to such external demands to development assistance accounts instead of providing new and additional resources – let's call it GPG finance – as a

8 The literature on public goods generally distinguishes three main types of provision paths, known as technologies of public supply aggregation: (1) summation technology, where each individual's or nation's contribution adds equally to the overall level of the provision of goods (as in the case of CO_2 reductions, for example); (2) weak-link technology, where overall supply depends on the input of the weakest contributor (as in the case polio eradication, for example); and (3) best-shot technology, where the public good (such as a new technology) needs to be produced only once in order to fully exist. (For a detailed discussion of these technologies and their policy implications, see Sandler, 2004.)

9 'Vertical (de-)centralisation' refers to the allocation of interventions to various political and administrative levels; and 'horizontal (de-)centralisation' denotes the allocation of tasks to markets, states, civil society or individual households.

10 The MDBs' 2015 disccusion note *From Billions to Trillions* suggests, for further exploration, among others, the following results-based finance tools: advanced market commitments; conditional cash transfers; payment on delivery; prizes; and targeted loan buy-downs.

11 For an overview of the type of modifications that might be required when applying conventional public finance theory and policy (that have been conceived mainly with the domestic policy context in mind) in the global realm, see, for example, Sagasti and Bezanson (2001) and the edited volume by Kaul and Conceicao (2006).

payment for the requested input supply. But acknowledging that immediately raises another question. From where would new and additional IPF resources come? Are the banks exploring this issue with the countries that offer to finance initiatives aimed at enhancing GPG provision?

To help avoid development finance being used for GPG purposes, the banks could, as a first step, develop pragmatic methods for determining when to mobilise development finance and when to mobilise GPG finance, and to establish separate 'windows' for receiving public funds and other contributions for GPG purposes.

But for which GPG purposes? Clearly, the banks need not only to specify how they divide responsibilities and tasks among themselves. It would also be important for them to define how they intend to complement other actors in the relatively crowded field of international cooperation, in particular other multilateral bodies such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM).

Further, if the banks approached GPG provision as a new additional purpose, over and above development assistance, they would also need to have some sort of investment plans and cost estimates, at least for that part of the GPG provision path on which they agreed to act. The preparation of such plans, even if outlined only in broad brush strokes, would allow them to see more clearly the overall finance package required, including the inputs for which they, together or individually, would need to mobilise IPF resources.

Such provision path and financial analysis would be for the banks' work on GPGs what the country diagnostics are for their existing regional and country engagement frameworks on development assistance.

3.5. Publicness in decision-making

Evaluations of the WBG's global partnerships and programmes have repeatedly highlighted governance problems, indicating that the countries where some of these initiatives were undertaken did not feel adequately consulted. There were apparently similar problems among the partners, co-funders and co-implementers (see WBG-IEG, 2008 and 2011b, for example). These issues may well weaken the legitimacy, credibility and effectiveness of global partnerships and programmes, notably in policy fields where the 'how to' of addressing a GPG or particular aspects of it remains a matter of debate.

The following questions arise from these considerations: What are the procedures and criteria whereby banks select which facet of GPG issues to address? Who takes part in this process? And at what stage of the intervention do they take part? What is the evidence that the MDBs are trying to meet the conditions of effective GPG provision (as discussed in Section 2 and shown in Figure 2)? Are they attempting to match the '4 Ps'?

4. Comparing the expected GPG delivery model with the MDBs' policy practices

The banks deal with a wide range of GPG-type challenges, chief among which are currently climate change, communicable diseases and international peace and security (or conflict and violence). The interventions to address these challenges are as multifaceted as the goods themselves. But how exactly are the MDBs dealing with these and other GPG issues? How do their policy practices compare with the delivery model outlined in Section 3? Empirical evidence helps answer these questions, drawing on each of the five model components identified earlier. [12]

4.1. GPG provision as an added new operational focus

GPG-related bank activities fall into three main categories:

1. Preventing GPG under-provision from reversing development.
2. Facilitating developing countries' access to GPGs.
3. Fostering developing-country contributions to GPGs.

Category (1) activities aim at preventing GPG under-provision from reversing development by building up national 'defence' capacity in strengthened risk management, crisis preparedness and national reconstruction to return the country to a less volatile development path. The goal is to contain the costs of crises and to avoid having fragility, conflict and violence – FCV situations, as they are termed – spill across borders and turn into regional and global security threats (WBG, 2016c).

The types of risks and crises covered include natural disasters (often related to climate change), conflict and war, pandemic disease outbreaks, volatility in capital and commodity markets, and – due to or exacerbating these factors – poverty and a lack of economic opportunities, notably for young people in FCV countries.

Since the early 2000s, interventions in this field have rapidly expanded and they are forecast to continue to do so during the coming years (WBG, 2016c). For the most part, the banks' interventions consisted of country-level projects. Examples are their swift responses to the Ebola crisis and the spike in their lending to help client countries cope with the effects of the 2008–09 global financial crisis.[13] But such often ad hoc country-level interventions have been complemented by a growing number of dedicated regional and global facilities, such as the African Development Bank's Fragile States Facility (AfDB, 2015); the Afghanistan and Haiti Reconstruction Trust Funds; the Global Concessional Financing Facility for middle-income countries hosting large refugee populations, which builds on the Concessional Finance Facility for the Middle East and North Africa (MENA) WBG region; the Global Facility for Disaster Reduction and Recovery; the Pandemic Emergency Financing Facility; and the State and Peacebuilding Fund.

Moreover, to foster a more holistic, coordinated and integrated approach to FCV situations, the WBG has brought together its various activities in this field under the umbrella of the Global Crisis Response Platform (WBG, 2016c). This move reflects the shared view of the MDBs that in many crisis situations the conventional country-focused assistance approach is inadequate. The crises at the country level may result from GPG under-provision or, as the recent large-scale refugee movements have shown, generate regional or worldwide spillover effects that adversely affect other countries, rich and poor (MDBs, 2016b).

12 Among the empirical evidence mentioned in the following sub-sections will be several of the banks' GPG-related partnerships and programmes. The websites where these initiatives are described in detail are included in the annex. Further information on many of these and other GPG-related initiatives can be found in the banks' annual reports, the most recent of which (at the time of writing) are included in the references section. See AfDB, 2016; AsDB, 2016; EBRD, 2016; IADB, 2016; and WBG 2016a.

13 On the WBG's and other multilaterals' response to Ebola, see http://www.worldbank.org/en/topic/health/brief/world-bank-group-ebola-fact-sheet; and for a summary table of the banks' increased lending in response to the2008–09 financial crisis, see WBG-IEG, 2011b: 146–147). McKechnie (2016) and WBG (2016c) provide overviews of the current state of MDB support to reducing FCV and ways to strengthen their engagement in the future.

While category (1) activities address negative spill-ins into countries, those in category (2) are aimed at improving the access of developing countries to GPGs such as the international capital markets, the Internet and the global knowledge stock, which could potentially facilitate national development processes. Again, the operational pattern is similar to the one observed when looking at category (1) initiatives: myriad country-level interventions complemented by global and, in the present case, numerous regional programmes. Virtually all the banks have a large portfolio of local market development initiatives, and all assemble, synthesise and offer repositories of policy-relevant knowledge that, if left scattered, might not be accessible to individual countries. In addition, the banks have initiatives to develop new products that make it worthwhile for developing countries to enter some of the international markets. Examples include the WBG's Global Emerging Markets Local Currency Bond Program and the new insurance mechanisms (including the New Risk Sharing Facility for African Farmers, the Caribbean Risk Insurance, and the Pacific Catastrophe Risk Assessment and Financing Facility), as well as the work that the banks have undertaken in developing carbon products and user fees and charges for environmental services.[14]

Development thus appears to be also the primary purpose of the category (2) activities, though activities such as those in market access and extension, as well as those in knowledge-building, also have positive effects on the GPGs in question, making them perhaps more useful to some potential users.

The initiatives in category (3) entail a switch in perspective, since they focus on countries and on the GPG addressed, including climate change, biodiversity preservation, agricultural research and illicit financial flows. All the banks, the regional MDBs and the WBG, have a relatively large portfolio of country projects supporting climate-related activities, notably climate change mitigation, in many cases linked to and supported by global initiatives, including (in the issue areas mentioned before) the Climate Investment Funds, the Global Environment Facility, the Consultative Group on International Agricultural Research and the Stolen Asset Recovery initiative. The more acute focus of the category (3) initiatives on GPGs is evident, especially in the climate field, from the careful tracking of the investments in relevant projects both by the banks (MDBs, 2014, 2015a) and by the Development Assistance Committee of the OECD (OECD/DAC).[15]

At the same time, however, the banks and other analysts and experts are encouraging developing countries to undertake category (3) activities, especially emphasising their *national* benefits, for example, the national benefits that clean energy and transport projects could generate, such as better local air quality and health. Thus, even when an activity is self-evidently related to a GPG, development-based arguments are used to promote them, with global benefits scarcely mentioned.

So while the MDBs deal with GPG-type challenges, it seems that development and GPG concerns are being pursued not as separate but as synergistic strands of cooperation, as depicted in Figure 3. Instead, GPG provision and development assistance are closely intertwined in an often muddled process. For the most part, the main focus appears to be on development, the banks' conventional business.

So, when examining the next points, bear in mind the effects of this intertwining, asking such questions as: Does development benefit? Does GPG provision benefit? Do both suffer? Importantly, do developing countries take on too heavy a burden in coping with GPG under-provision?

4.2. Division of labour among the banks

The banks recognise that their 'effectiveness is directly linked to their ability to develop synergies among themselves, with other international organizations, and governments, as well as with the private sector' (MDBs, 2016a: 10). This recognition is reflected in the banks' practice of consulting and partnering with other actors involved in international cooperation, in both designing and implementing the initiatives for which they take the lead. It seems that they tend to assume leadership on complex, multi-dimensional and multi-sector issues, leaving more single issue-focused (though still complex) interventions to specialised mechanisms such as the GFATM.[16]

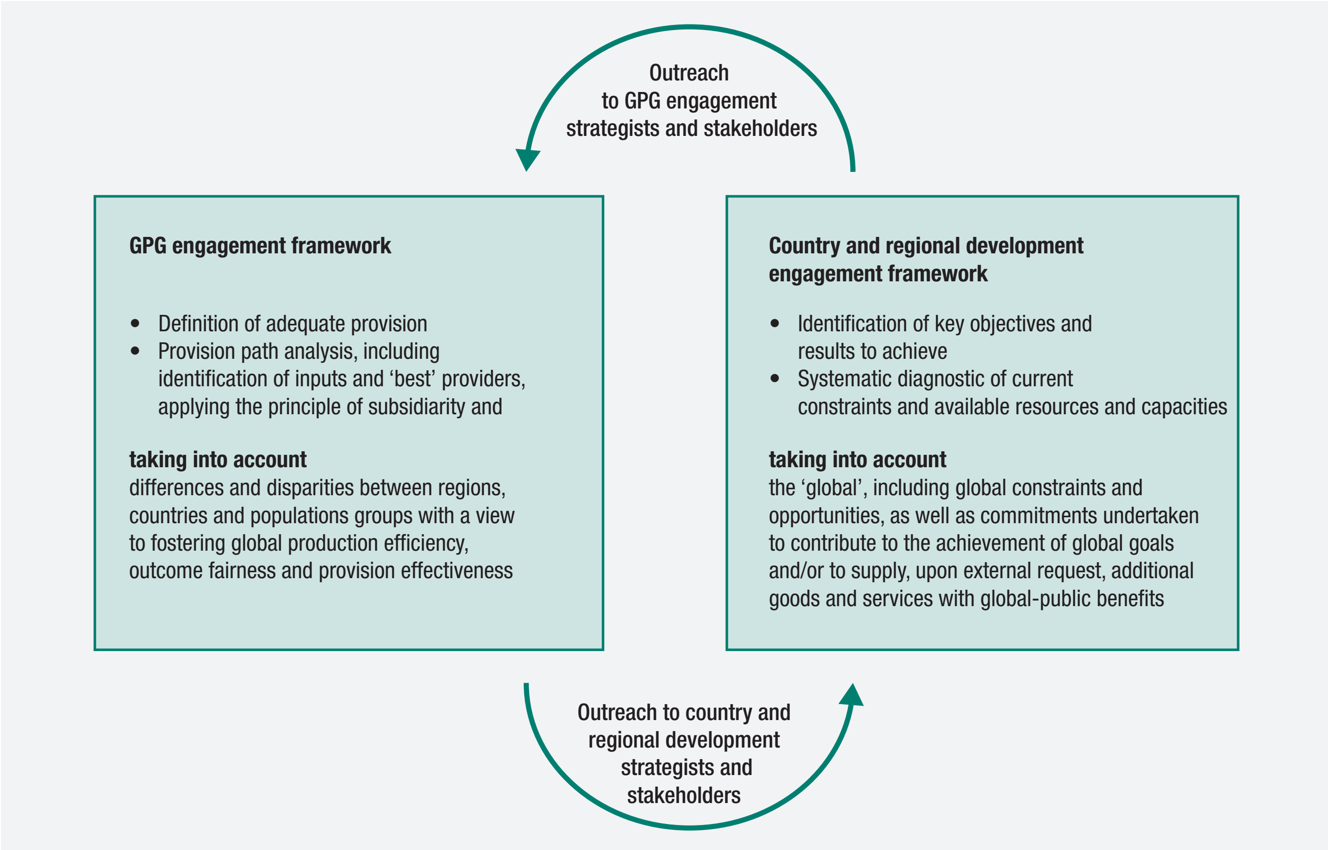
The MDBs' efforts to coordinate and complement each other's work are also evident from their joint reports on key global challenges, including climate finance (MDBs, 2014 and 2015a), the financing of *Agenda 2030* (MDBs, 2015b), harmonised and inter-operable infrastructure development (MDBs, 2015c) and forced displacement (MDBs, 2016a), as well as joint statements like the one on a New Urban Agenda which they issued on the occasion of Habitat III (MDBs, 2016b), or the Report of the Center for Global Development's High-Level Panel on Multilateral Development Banking (MDBs, 2016c).

14 See, for example, http://www.worldbank.org/en/programs/pricing-carbon

15 For OECD/DAC statistics on both multilateral and bilateral climate-related external finance flows, see: http://www.oecd.org/dac/stats/climate-change.htm

16 The WBG acts as a trustee for the GFATM and other global funds, providing basic financial management services. Of the 21 funds for which it provides these services, it acts in 14 cases also as one of the implementing agencies, alongside other external agencies (WBG, 2014). See also www.theglobalfund.org/en

Figure 3. A bifocal engagement model: GPG provision and development assistance



Moreover, they are jointly involved (besides other partners) in operational initiatives including several infrastructure facilities, among them the Global Infrastructure Facility, the Global Infrastructure Connectivity Alliance and the PPP Knowledge Lab. In some cases, including the Climate Investment Funds and the Global Environment Facility, they have demarcated functional lines that appear to follow their comparative advantages. While the WBG acts as an administrative and substantive secretariat, the regional MDBs function as programming and implementing agencies (WBG, 2014). And several of the WBG's global programmes, partnerships and practice areas support research and development (R&D) to come up with new policy approaches and instruments of potential interest to countries worldwide, such as the Pilot Auction Facility, an innovative climate finance mechanism.

The division of work among the banks is not always as clear as the above description suggests, however. In building infrastructure, all the MDBs appear to be involved at all levels, including upstream in fostering harmonisation of policies and rules, project preparation, distilling lessons and informing potential investors about individual countries' readiness for public–private partnerships (PPPs). In the climate area, all MDBs are also involved at all levels, including the WBG in many country projects, not only in development but also in GPG activities. In fact, the WBG's Climate Change Action Plan 2016–2020 (WBG, 2016b) refers to numerous partners with which it intends to cooperate in implementing the plan. However, the banks are mentioned only in passing and in lower case as 'multilateral development banks' (ibid.: 6, 52–53), perhaps because of competition for business among them, or perhaps because, given the urgency of the climate issue, the plan is meant to give an extra push to progress towards achieving the established global climate goals and targets.[17]

While a growing number of WBG policy statements and documents explicitly refer to GPGs, it is quite common for those of the regional MDBs to explicitly mention the concept of 'regional public goods' (RPGs), but rarely that of GPGs. However, RPGs may serve two quite different purposes. First, they are generated to strengthen regional integration and thus also to strengthen a region's position in the world economy. Sometimes this involves 'protecting' the region against over-centralisation or

17 The case of climate change differs from other cases often mentioned as examples of a successful coming-together of the banks, such as the 2008–09 global financial crisis and the Ebola outbreak in 2015. In these cases, the challenge was to mobilise resources quickly and on a short-term basis for a cause on which all were agreed. Climate change mitigation, however, requires many countries to make often difficult policy choices which, moreover, will always be viewed in relation to what other countries do. Beyond requiring urgent corrective action, then, climate change also poses serious collective-action problems, which may be another reason for the WBG to take leadership in this field with its Global Climate Change Action Plan.

top-down globalisation.[18] Second, they are designed as building blocks that feed into GPGs, functioning as critical connectors, facilitating the global–local nexus that many GPGs require.

A division of labour among the banks thus exists. Activities of intended worldwide reach tend to be in the portfolio of the WBG; and activities with a clear regional focus are typically handled by the regional MDBs. But all banks are actively involved in country-based activities – and, so it seems, often for good reasons, especially to respond to urgent large-scale challenges that need 'all hands on deck'. The banks' business models (to generate income by lending) may also play a role.

But is there anything GPG-specific about this division of labour among the banks? Yes and no. Yes, because it appears that through their present set-up, the banks contribute – capitalising on their respective comparative advantages – in a major way to generating an important intermediate GPG: the global harmonisation of norms and standards that facilitates the expansion of markets and the coordination of public policy, without which the world today might be even more crisis-ridden. This approach works well when adequate provision is a 'moving target' – something that can slowly but steadily be ratcheted up, as and if desired. However, in the case of GPGs such as climate change mitigation, where adequate provision is defined in a binary way (as either achieved or not achieved) and critical thresholds are fast approaching, the reliance of a gradual bottom-up approach – moving as fast and as far as national interests permit – is appropriate as a development assistance approach but signals that GPG provision is not – or not yet – being pursued systematically and decisively.

4.3. Expanding the banks' toolboxes

For a long time now, the WBG's independent evaluation teams have indicated that the bank's conventional country-based model has worked well in fostering GPG provision when national and global interests dovetail and when its grants support country investments. Where these interests diverge, however, 'the country model comes under considerable strain' (WB-IEG, 2008: 1).[19] The MDBs' report on forced displacement (MDBs, 2016a) also highlights this problem, arguing that current instruments, notably country loans, have real limitations when there is a need to provide support to population groups such as refugees who live outside their country. As the report stresses, 'Host countries are often reluctant to borrow on non-concessional terms or to use part of their limited grant allocations to address the needs of non-nationals' (ibid.: 10).

Similar problems arise when an intervention concerns global commons, the areas beyond national jurisdiction such as the high seas. As a recent report noted, innovative area-based tools for integrated ecosystem management and finance are nowhere to be seen (GEF, 2016).

The banks have, however, begun to appreciate that they need to make a paradigm shift in rounding out their conventional country model with mechanisms and instruments that consider the geographic reach and systemic requirements of RPGs and GPGs (and, ideally, the inter-temporal dimensions of such goods).[20]

Some steps in this direction have already been taken, such as the rising number of global programmes and partnerships in the WBG that are funded from trust funds (WBG-IEG, 2011c; WBG, 2013 and 2014). Not all of these are GPG-related. Many serve the WBG and its cooperating partners, including the regional banks, as key vehicles for advocacy, for harmonising policy approaches, norms and standards and, crucially, for policy innovation and knowledge-generation and transfer. In the climate area, examples are the Carbon Pricing Leadership Coalition, the Partnership for Market Readiness (in the field of emissions trading), the Pilot Auction Facility and the Transformative Carbon Asset Facility; and prime examples in the field of infrastructure are the Global Infrastructure Facility, the Global Infrastructure Connectivity Alliance and the International Infrastructure Support System.

Policy innovation and knowledge transfer are increasingly seen and used by all the banks as tools to persuade their shareholders and other partners that certain policy interventions are feasible and, from certain perspectives, desirable, thus reducing uncertainties and informational problems that might otherwise impede their partners' willingness to cooperate (see WBG, 2016d). Although these trust funds have sometimes been criticised as helping to fragment the banks' work (see, for example, CGD, 2016), they are the right tools for the current era of international cooperation when new delivery mechanisms and instruments need to be designed, tested and piloted – and only a few out of myriad innovations may prove feasible and desirable. Just as states step in with public finance to cushion the risks of R&D undertaken by private actors for private goods, it is important for them to do

18 On RPGs, see also Estevadeordal et al. (2004), Kampffmeyer (2000), Perry (2014) and Ji (2016). In fact, some analysts also see the creation of the new MDBs – such as the BRICS New Development Bank and the Asian Infrastructure Bank – as a sign of past successful regional development that has created scope for more decentralised globalisation. Griffith-Jones (2015), for example, notes that emerging and developing economies now have the necessary savings and foreign exchange reserves to finance new development banks that can contribute towards financing future investments. See also Morris, 2016 and Rana, 2013.

19 Similar conclusions were drawn by earlier evaluations, such as OED-WB (2012, 2014).

20 In 2016, the WBG's Concessional Finance Facility broke some new ground, when it approved for Jordan and Lebanon, both middle-income countries, loans at highly concessional rates usually reserved for the poorest countries, in order to help them to meet the costs of hosting Syrian refugees.

the same thing for multilateral actors when they explore public-good innovation, such as how carbon pricing could work, and to do so temporarily, so that innovations that hold no promise do not linger on, unnecessarily absorbing resources.

In fact, many of the banks' publications serve purposes similar to those of the global funds and programmes, distilling lessons learned from past experience and sharing new and innovative policy ideas.[21] They, too, contribute to a trickle-down of global norms and a trickle-up of country-level and regional-level inputs to many final GPGs, such as climate change, and many crosscutting, intermediate GPGs, such as knowledge about: PPPs (see again the International Infrastructure Support System, which goes back to an initiative taken by the AsDB and is now supported by all the MDBs and other partners); entrepreneurship (a focus, for example, of WBG's infoDev); 'getting ready for the coming knowledge economy' (the topic of EBRD's Knowledge Economy Initiative); financing techniques for addressing today's challenges (the subject of IADB's Financial Innovation Lab); fresh ideas about business in emerging markets (collected in the International Finance Corporation's Thought Leadership Library); fighting corruption and other illicit cross-border economic activities (the aim of the Stolen Asset Recovery Initiative); and a host of other topics from a variety of sources (brought together, for greater ease of access, by the WBG's Open Knowledge Repository). The creation of these intermediate GPGs is now especially important given the current strong emphasis on reliance on private sector investments not only in national development but also in the ever-more urgent provision of final GPGs such as climate change.

Even more innovation would be useful. Why, for example, are developing countries willing to take on loans for climate change mitigation projects? – as they evidently are, judging from the high level of bank lending for this purpose.[22] One reason could be that, for now, the national benefits are so great that the loan costs can easily be absorbed, so the countries do not need to insist on additional finance. But what will happen when national interests have already been taken care of and the next challenge is to find countries willing to help fill the gap between national and global interests in climate change mitigation? What sort of pull mechanisms and instruments would then be needed? How would the banks go about valuing and pricing emission reductions? Would they then not need new and additional criteria for determining which GPG-related interventions are eligible for which degree of concessionality?

With similar questions inevitably arising for issues like ocean acidification and sustainable fisheries, should we not already be devising, testing and mainstreaming incentive tools that might make countries go an extra mile, or even several extra miles, including tools like those suggested for results-based cooperation in the report *From Billions to Trillions* (MDBs, 2015b)?[23]

Also, as the banks serve both their non-borrowing and borrowing shareholders, would it not be fitting for them also to examine how to determine the value of the global benefits generated by projects undertaken in developing countries and to assess whether the current pricing of the loans roughly reflects the value of these benefits?

Regression, rather than more innovation, is sometimes apparent, however, such as when the Global Environment Facility abandoned rigorous incremental cost calculations more than a decade ago.[24] A sign of regression or stagnation in the conventional operational policy models has been the introduction of also the country-specific crisis windows: the Crisis Response Window available to countries eligible for International Development Association (IDA) loans; the Catastrophe Deferred Drawdown Option for countries in the International Bank for Reconstruction and Development (IBRD), which may also become available for IDA countries; and many other individual country projects providing either ex ante or ex post support for disaster risk management (WBG, 2016c; IDA, 2016).

It would surely have been better to have built on the excellent insurance mechanisms that the banks have pioneered, including, as mentioned before, the Caribbean Risk Insurance facility, the Pacific Catastrophe Risk Assessment and Financing Facility and the New Risk Sharing Facility for African Farmers. Why place the burden of coping with crises on the shoulders of individual countries, many of which are not originators or major contributors to the crisis from which they are suffering? Risk-sharing would be the more appropriate avenue for the banks to explore further, because of the global-publicness of many of the risks to be confronted today. So, it is reassuring that, as the WBG's (2016c) paper on the Global Crisis Response Platform indicates, more work

21 The 'Publications' pages of the MDBs' websites reveal the amount of policy-relevant knowledge generation and knowledge-sharing activities they all undertake.

22 In 2015, the world's six largest MDBs (AsDB, AfDB, EBRD, IADB, WBG and the European Investment Bank) delivered climate finance totalling $81 billion, including $25 billion of the banks' direct climate finance and $56 billion mobilised from other investors (MDBs, 2016a: 12). Eighty per cent of the banks' direct climate finance were loans and 6% grants (ibid.: 15). Evidently, the banks expect this trend to continue, as all committed to expand their climate investments by 2020. The WBG plans a one third increase to 28% of annual commitments; AFD and EBRD aim at 40% of their total investments to be in climate finance by the same date; and ADB and IADB aim at a doubling their current spending level (ibid.: 7).

23 See footnote 10 above.

24 In 2006, the Global Environment Facility (GEF) abandoned requirements for quantitative calculations of the global benefits of the environmental projects it finances. Funding requests now only have to make *qualitative* arguments demonstrating that a project likely to generate global environmental benefits will not only receive GEF financing but that co-financing from other sources is available (see GEF, 2007).

on risk-pooling and accessing insurance markets will be undertaken in future.

There are current shortfalls in: risk-sharing, as just discussed; effective incentives to get governments, over and above their national interests, to rein in cross-border spillovers; and instruments to compensate – through grant resources – countries suffering from cross-border spill-ins, such as the need to host Syrian refugees experienced by Jordan and Lebanon.

When incentives are discussed, the issue mostly is how to attract private parties to global public-policy purposes (e.g., IDA, 2016). Similarly, more attention is paid to how to reduce risks for private investors, including those joining PPPs, than to sharing the benefits (or profits) among *all* the partners, private and public (Mazzucato, 2015a, 2015b). Why? States, too, can be regarded as individual parties in the presence of GPG issues, more concerned about national interests than about the provision requirements of the goods to be addressed. So, states, too, need to be incentivised in line with the magnitude and urgency of the challenge to be resolved, a practice that is not much in evidence at present.

The banks' record in adjusting their toolkits to challenges of GPG provision is thus rather mixed. Innovations have been made, but these have essentially remained within the paradigm of development assistance and have relied, even for GPG operations, on the conventional country model and on individual country loans. This approach runs the risk that GPG provision remains limited to what is in the national interest and that under-provision might occur and continue to be exacerbated, when the sum of countries' willingness to cooperate and contribute may not add up to what the GPGs require.

So why do we see this lagging institutional adjustment in organisations that have often demonstrated flexibility and innovation? The next sub-section points to a possible reason for this hesitant adjustment.

4.4. Mobilising GPG finance

In the discourses on mobilising resources for the banks' activities – whether development assistance or GPG provision – it is usually taken as a given that IPF resources will come out of ODA resources and that the prospects for an increase in ODA are slim.[25] So, ODA and other cash or grant-type resources, such as reflows from outstanding loans, are currently the finance vehicle not just for development, as is claimed, but for *all* purposes that require IPF resources. This means that a clearer operational focus on GPGs and, with it, an increased use of the types of incentive and compensatory measures discussed in the previous sub-section, could well syphon off resources from development, especially from non-GPG-related national development priorities, such as the strengthening of government capacity or investments in education and health. And because national development in all countries is a declared global goal in and of itself, and is often key to effective GPG provision, this redirection of grant resources could undermine the effectiveness of both development and GPG provision.

Moreover, to increase their lending capacity, some MDBs have already merged their concessional and non-concessional finance windows; and others are also exploring ways to do so.[26] This could further limit the availability of cash resources required to incentivise more rapid progress towards resolving pressing global challenges; and so could the greater reliance on private business, including for interventions in fragile, conflict-ridden and violence-plagued states, for which the banks are gearing up by devising new and additional – cash-demanding – guarantee instruments (IDA, 2016; MDBs, 2016a; WBG-IEG, 2016).

Large private-sector engagement in both GPG provision and development assistance is in many cases undoubtedly desirable and even essential. This is, however, alongside public finance, domestic revenue and IPF, as shown by the banks' analyses of lessons learned (MDBs, 2015b) and other studies (e.g. OECD/DAC, 2016 and Perry, 2011). If states want to do more than merely correct market failure, both individually and collectively through international collaboration, and if they want to create and shape markets and do what markets will not do even with the most generous risk-sharing offers, then states need to strengthen their revenue bases and those of their external partners, including the banks.

Judging from the analyses in the report *Delivering on Sustainable Infrastructure for Better Development and Better Climate* (Bhattacharya and Kharas, 2016), considerable amounts of IPF might be required, even if only for the costs of strengthening government capacity to initiate, regulate and oversee large private infrastructure investments and for the banks to offer attractive loan conditions, including guarantee products to private investors. A similar argument is made in the banks' joint report, *The Forced Displacement Crisis* (MDBs, 2016a). But how much will be needed for these and other purposes, including addressing current challenges and perhaps also exploring new global opportunities such as the 'blue economy'? It is hard to find such assessments by the banks.

25 On why this perception or assumption might be unrealistic and counterproductive, see Reisen (2015) and Reisen and Garroway (2014).

26 The AsDB took the decision to merge its concessional and non-concessional windows in 2015 (AsDB, 2016). IADB's Board of Governors followed suit at its meeting in September 2016 (http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=40672663). In the AfDB, the combining of concessional resources with ordinary capital resources has, so far, only been discussed as an option (AfDB-ADF, 2014). On the advantages and the constraints of a possible merger between IDA and IBRD balance sheets, see Kharas (2015) and CGD (2016), especially Appendix 2. On the result that each MDB can expect from a windows merger, see Reisen (2017).

For climate change, they have announced lending targets.[27] Targets are one thing. But another thing entirely is to make the volume of IPF resources needed to help address a fuller, if not the full, spectrum of challenges and do so not in an incremental, slow-paced manner but promptly, efficiently and effectively.

This brings the discussion back to the question: What happens to states' willingness to cooperate when national and global interests cease to overlap, when roads, power plants and other national physical infrastructure have been built, yet more needs to be done about global warming, ocean acidification, tackling water scarcity and cyber-security, or the transition to Industry 4.0?

A possible step forward could be the proposed two-track approach: to complement the banks' conventional country-based business model with a second GPG-based business model, along the lines suggested in Figure 3 above.

The WBG's *Forward Look* document (WBG, 2016d: 6) seems to hint at such a step when it suggests reforming *the trust fund framework, which will require defining mobilisation objectives more strategically* [italics in the original], simplifying and harmonising agreements, improving cost recovery, and incorporating these funds more fully into the budgetary allocation process. The *Forced Displacement Crisis* paper (MDBs, 2016a) is even more explicit on this point, suggesting that GPG-type challenges require collective action going beyond providing support programmes for individual countries, and the effective mobilisation and deployment of substantial amounts of financing (ibid.: 10).

For the banks to take such a step, however, presupposes that their shareholders act as first movers of reform and innovation. They would need to agree to change, if needed, existing budgetary rules to require the relevant sector or technical government entities, which act as the lead agency of a particular GPG domestically, to budget for and meet the costs of the international cooperation required in promoting GPG provision that the country wants to enjoy nationally.

Why not have such budget rules? Why, for example, not expect that:

- the ministry of health contributes to the financing of efforts to control communicable diseases in developing countries and other global health initiatives from which all countries benefit?
- the ministry of energy or the environment makes available additional funds (not to be charged to the ODA account) for mutually beneficial climate change mitigation?
- the ministry of defence or the ministry of the interior – or perhaps also NATO and other international security alliances – make grant assistance available for developing countries, including middle-income countries, to support them in hosting refugees from war-torn states or cope with other adverse effects they may suffer due to military operations in other countries?

Reality appears to be already heading in this direction; and the resources we still call 'aid' may actually be money that, if not channelled to developing countries, might otherwise have been in the budget of a technical ministry, as the WBG's 2015 report *State and Trends of Carbon Pricing* explains. There one reads that: 'a portion of the resulting cost savings in countries that avoid the most expensive abatement measures can be converted to financial transfers and drive low-carbon growth in the lower-income countries' (ibid.: 64).

UN member states could also decide to dedicate a small share of peacekeeping contributions to maintaining a revolving, fast-disbursing fund for coping with mass refugee movements arising from conflicts. As Jordan and Lebanon have shown, refugee populations may stay for much longer than originally anticipated, suggesting the need to rethink the structure and functioning of the UN High Commissioner for Refugees and the International Organization for Migration. Again, why wait until a crisis before scrambling for funding, as with the WBG-led MENA Facility?

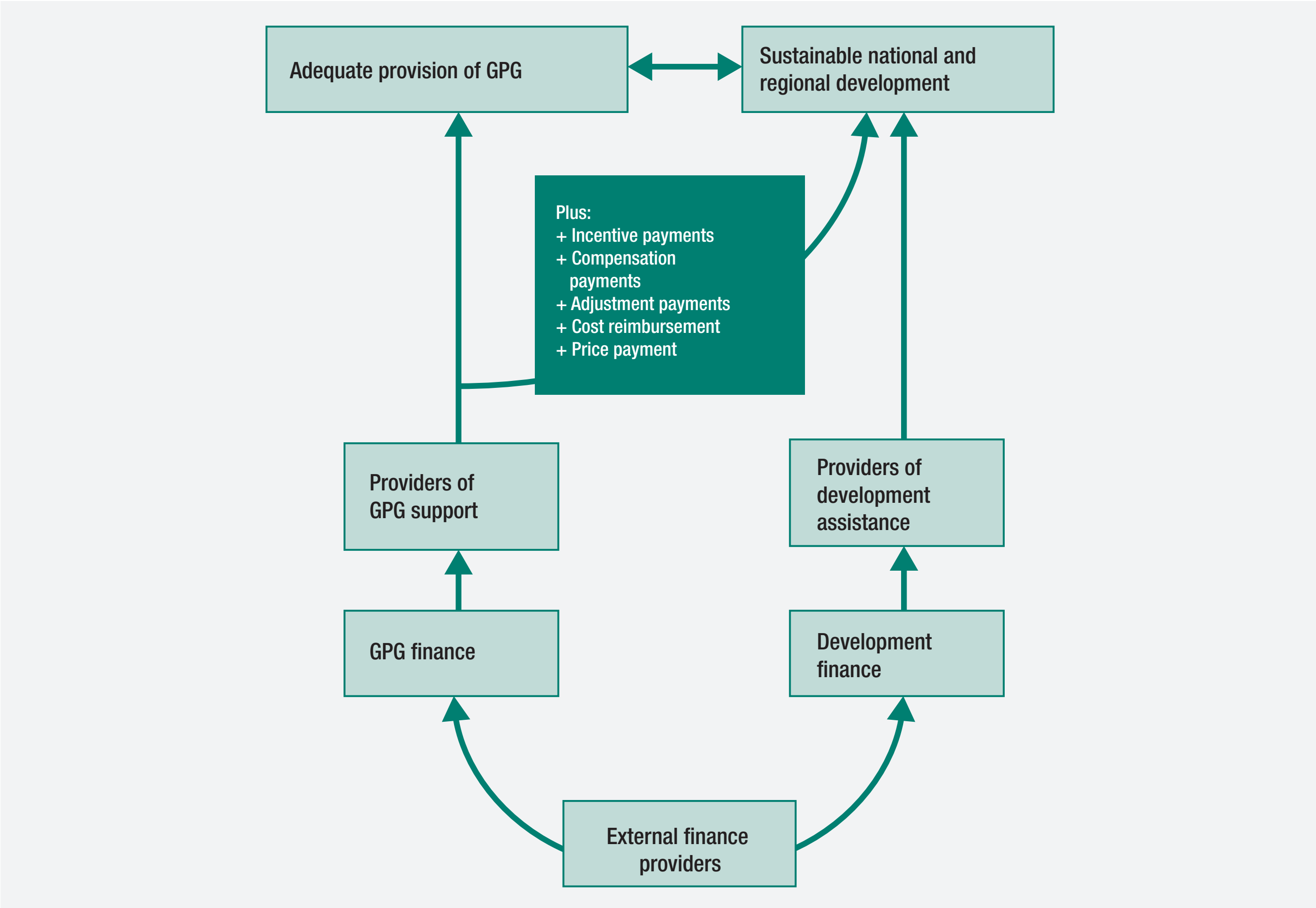
To foster adequate finance, notably IPF resources for development assistance *and* for GPG provision, the following reforms might be considered:

- Request all countries, in line with their willingness to contribute and in accordance with the internationally agreed principle of common but differentiated responsibility and capacity, to make available public finance that they wish to contribute to enhanced GPG provision, either generally or in a particular global challenge area, and not to report these funds as development finance.
- Establish an international office that would undertake for GPG finance functions similar to those that OECD/DAC undertakes for development finance, including, among other things: record what states report as GPG finance; facilitate information dissemination; and, perhaps, also share policy experiences and lessons learned.[28]

27 See footnote 22 above.

28 States providing ODA would continue to report qualifying national public-finance allocations to OECD/DAC. However, it would be left up to the developing countries to report to the proposed new GPG finance office the amounts of domestic revenue, development assistance, private domestic and external finance and other resources that, within their jurisdiction, was spent on various GPG-related purposes and, possibly, also future resource mobilisation and expenditure forecasts.

Figure 4. Linkages between GPG finance and sustainable development finance



If the international community agreed to take these two steps, many of the current weaknesses in GPG provision would attract more policy attention and perhaps also more financial support, enabling the banks to establish a systematically designed and well-resourced new additional global practice area, that of 'GPG provision'.[29]

GPG finance is perhaps the area where the MDBs still have most to do in adjusting their operational activities to the policy realities of the present and the future. They could perhaps facilitate their shareholders' decision-making and that of the wider international community by preparing a joint report on the operational implications that such a mandate expansion would have for each one of them and, in particular, for the regional MDBs and the WBG.

A related issue to examine would be whether spending on protecting countries against the ill effects of GPG under-provision should be viewed as GPG finance and thus as additional to development assistance. Still another would be, as alluded to before, how to assess and value the global benefits of projects undertaken in and by developing countries. And what would be appropriate price-finding mechanisms to employ when developing countries, on external demand, generate such global benefits – benefits that may constitute essential inputs to global environmental, economic and social sustainability?

The answers to these and other related questions matter to resource mobilisation (also shown in Figure 4), because they would tell us something about the amount of grant money needed for such purposes as loan buy-downs, payments of compensation or payments of contractually agreed-on prices, through international mechanisms such as the Climate Investment Funds, Global Environment Facility or Pandemic Emergency Facility, to suppliers of global-public benefits.

29 It is perhaps useful to clarify the difference between the proposal made here and the one set out in the report of the High-Level Panel on the Future of Multilateral Development Banking (CGD, 2016). The panel's suggestion is that the MDBs focus on 'development relevant' GPGs, including heath, agriculture, climate/energy, and development policy research (ibid.: 5-13 and Appendix 1). Of course, by doing that they will also make some contribution to GPG provision. They will make development more GPG-compatible, e.g. by 'greening' certain investments. This is important. But it may not suffice. In order to foster an adequate GPG provision, more than that might be required. Therefore, the proposal here suggests that the MDBs have an explicit mandate and the tools and resources to encourage international cooperation that is focused on what the GPGs themselves need – over and above what countries might be willing to do for them. In other words, the banks' clients would be countries and GPGs, including the natural commons and human-made GPGs, such as the basic human rights, the global knowledge stock, peace and security, the international financial architecture, and the multilateral trade regime.

A joint MDB report on these topics could make all the difference in breaking through the collective-action problem from which the IPF part of international cooperation finance currently suffers, encouraging the wider international community to end the current muddling of GPG finance and development finance, as well as reducing the related risk of over-reliance on private finance for both GPG provision and development assistance.

4.5. Publicness in decision-making

Earlier evaluations (such as World Bank-OED, 2004, and WBG-IED, 2008 and 2011) noted that developing countries are poorly represented in the decision-making bodies of the WBG's global programmes and partnerships. The 2016 Center for Global Development (CGD)'s High-Level Panel on the Future of Multilateral Development Banking argued that governance arrangements are still inadequate within and across the MDBs. The panel recommended the creation of a new funding window with a separate governance structure. Although consultations with potentially interested parties, shareholders, businesses and civil society groups are seemingly held quite often within and among the banks, it is difficult without further research to judge exactly how decisions on GPG policy initiatives are made and to what degree the different groups of shareholders and stakeholders feel involved.[30]

The proposed joint bank report on GPG provision and development assistance could also address participation and voice, notably in GPG practice areas.[31] The latter aspect would be particularly important, because GPG provision is still seen as a nascent and evolving operational domain. According to the self-assessment of the Climate Investment Funds, their governance structure 'represents a unique model for multistakeholder engagement' and might thus be worth examining in this context.[32]

Also, countries no longer relate to each other in GPG provision solely as 'donors' and 'recipients', but as states with varying preferences (and stakes) that are willing to cooperate if they consider that to be in their – most likely mixed-motive – interests. Recognising the manifold implications of this changed relation between the parties and translating them into new decision-making patterns could help to end global top-down policy-making and the reluctance among many to take part in cooperative endeavours – a lose-lose situation that the world can ill afford in view of the long list of unresolved global challenges.

The design of fitting governance structures for the GPG engagement framework as a whole and, as and if judged to be desirable, also for individual GPG practice areas would perhaps best be undertaken together with a broader review of the banks' – notably the WBG's – current governance arrangements, as also suggested in CGD (2016).

30 Further research on this issue also appears to be warranted in light of the recent study conducted by Greenhill and Rabinowitz (2016), which examined why donors delegate to multilateral organisations. Its findings suggest that 'supporting global public goods (GPGs) was a key rationale for delegation, and those donors with a stronger focus on GPGs appear to delegate more, at least in terms of funding' (ibid.: 5). A further finding is that donors seem more likely to delegate to 'multilaterals that support their objectives rather than seeking complementarity' (ibid.: 26). The issue of shared governance was addressed in the 2011 evaluation of the WBG's global partnerships and programmes (WBG-IEG, 2011a). While the Group's management evidently took follow-up action on the evaluation's recommendations, more recent studies point to a continuing need for further improvements. This is not surprising given that global partnerships and programmes come in a variety of institutional set-ups, so that identifying standard good practices might indeed be difficult, especially as the role and function of global partnerships and programmes are still under discussion, as also shown in several contributions to Evans and Davies (2015).

31 GPG-related practice areas are being emphasised here because in respect of development assistance the MDBs have established practices for consultations with client countries on their respective country engagement programmes.

32 For a description of how various concerned parties are involved in the Climate Investment Funds' decision-making processes, see http://climateinvestmentfunds.org/about/governance

5. Conclusions: Main findings and policy recommendations

MDBs are supporting initiatives in several GPG policy fields, currently placing the emphasis on climate change, communicable diseases and the consequences of peace and security issues, including forced migration. Their interventions fall into three main categories: preventing the under-provision of GPGs from reversing development, making GPG provision more development-supportive and supporting developing countries in helping correct GPG under-provision.

While the work of the banks along these lines of intervention has been important, and often innovative, it does have shortcomings. This is mainly because the banks have approached GPG issues as if they were development issues: relying on their conventional country-based model of operation and using country loans as their main instrument.

Note, however, that it is the *conventional* country-based model that may have run its course. For both development assistance and GPG provision, a focus on the country level will continue to be important.

But the country-model for development assistance will in any case need to be modified to incorporate the recognition by most developing countries of today's policy interdependence and their desire to take global challenges and opportunities into account in their own self-interest. This change in perspective has already taken place in some areas, notably climate change, but it now needs to be broadened to cover other global challenge areas and to be linked to the banks' GPG engagement frameworks. Importantly, to the extent that the developing countries generate global benefits – over and above the contribution level which they voluntarily undertook to make – the financing needed to reimburse them for that should be mobilised by and come out of the banks' GPG engagement frameworks.

The main focus of the GPG engagement frameworks would not be on individual countries but on the individual GPGs that the banks are expected to address. They would be issue-based operational models, recognising that adequate GPG provision often depends on national and regional inputs from public and private actors. They would therefore take the differences among regions, countries and population groups into account when identifying how to produce and finance a particular good.

In other words, the development assistance frameworks would be designed to take the 'global' into account; and the GPG frameworks would be designed to take regional and national differences and disparities into account.

If the banks developed and adopted such two-track operational models or engagement frameworks (as shown in Figure 3), one could expect in the future to see more development that is GPG-compatible and more GPG provision that is development-compatible.

This paper's analysis has also shown, however, that the main reason for the lagging adjustment of the banks to today's policy-making realities does not lie purely with the banks, but also with how the broader system of international cooperation functions.

Accordingly, the paper recommends the following reforms: for the wider international community – and not just the MDBs – to set up an international office that would undertake for GPG finance what OECD/DAC does for development assistance; for governments to contribute to the public part of GPG finance (in line with established principles of global fairness), charging these contributions to the budgets of the relevant technical or government sector entities; and for the MDBs to prepare a joint report on making operational the two-track agenda of GPG provision *and* development assistance. Such a report might facilitate decision-making on this matter by the MDBs' shareholders and other stakeholders and hasten progress towards more effective international cooperation that could free the world, to the benefit of all, from the current downward spiral of unresolved global challenges.

But why suggest that the proposed reform process start from involving the government entities in charge of the national components of GPGs in providing the IPF resources required for addressing 'their' GPG abroad? Why split IPF resources in development finance and GPG finance? The reason is to get the narrative right for national and international policy-makers to explain to their constituencies and the general global public why it sometimes is in one's best self-interest to invest domestic revenue in upgrading the international components of the GPG they want to enjoy nationally. Involving the concerned national authorities with their budgets in GPG provision would make clear that, in interdependent policy fields, operational international cooperation is not just a moral or ethical issue, but one of enlightened self-interest – that international cooperation is needed and, to be effective, needs to be mutually beneficial.

Splitting development finance and GPG finance would open the door for the MDBs to address GPG provision directly, as a second operational focus with their own engagement frameworks, instruments and more secure, longer-term funding. They could gradually scale back their now expanding involvement in preventing GPG under-provision from reversing development and re-focus their attention on supporting the international community in accelerating progress towards the ambitious goals set out in *Agenda 2030* and the *Paris Agreement* on climate change.

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Annex: GPG-related MDB initiatives mentioned in the paper

The GPG-related MDB initiatives mentioned in the main body of this paper are listed below under their subject name.

Afghanistan Reconstruction Trust Fund: http://www.artf.af/

Carbon Pricing Leadership Coalition: https://www.carbonpricingleadership.org/

Caribbean Risk Insurance: http://www.ccrif.org/content/about-us/

Climate Change Action Plan 2016–2020: https://openknowledge.worldbank.org/bitstream/handle/10986/24451/K8860.pdf?sequence=2&isAllowed=y

Climate Investment Funds, including the Strategic Climate Fund and the Clean Technology Fund: http://www-cif.climateinvestmentfunds.org/

Concessional Financing Facility for the MENA Region: http://globalcff.org/

Consultative Group on International Agricultural Research (CGIAR): http://www.cgiar.org/

Extractive Industries Transparency: http://www.worldbank.org/en/topic/extractiveindustries/

Financial Innovation Lab: http://www.iadb.org/en/sector/financial-markets/financial-innovation-lab/home,19701.html/

Global Concessional Financing Facility for the MENA Region: http://globalcff.org/

Global Crisis Response Platform: http://documents.worldbank.org/curated/en/334721474058771487/pdf/WBG-Global-Crisis-Response-Platform-08252016.pdf/

Global Emerging Markets Local Currency Bond Program (GEMLOC): www.gemloc.org/

Global Environment Facility: https://www.thegef.org/

Global Facility for Disaster Risk Reduction: https://www.gfdrr.org/

Global Infrastructure Connectivity Alliance: http://www.g20.org/English/Documents/Current/201608/P020160815370070969702.pdf/

Global Infrastructure Facility (GIF): http://www.worldbank.org/en/programs/global-Infrastructure-facility/

Global Program on Forced Displacement: http://www.worldbank.org/en/programs/forceddisplacement/

Haiti Reconstruction Fund: http://www.haitireconstructionfund.org/

InfoDev: http://www.infodev.org/about/

Innovation Policy Platform: https://www.innovationpolicyplatform.org/

International Infrastructure Support System: http://www.public.sif-iiss.org//

Investment Climate Initiative of EBRD: http://www.ebrd.com/what-we-do/sectors-and-topics/ebd-icg-initiative.html/

Knowledge Economy Initiative of EBRD: http://www.ebrd.com/what-we-do/sectors-and-topics/ebrd-knowledge-economy-initiative.html/

New Risk Sharing Facility for African Farmers: http://www.worldbank.org/en/news/press-release/2017/02/14/a-new-risk-sharing-facility-to-lower-premiums-for-africas-farmers/

Open Knowledge Repository: https://openknowledge.worldbank.org/about/

Pacific Catastrophe Risk Assessment and Financing Facility: http://pcrafi.sopac.org/

Pandemic Emergency Facility: http://www.worldbank.org/en/topic/pandemics/brief/pandemic-emergency-facility-frequently-asked-questions/

Partnership for Market Readiness: https://www.thepmr.org/

Pilot Auction Facility: https://www.pilotauctionfacility.org/

State and Peace-Building Fund: http://www.worldbank.org/en/programs/state-and-peace-building-fund /

Stolen Asset Recovery Initiative (STAR): http://star.worldbank.org/star/

Sustainable Energy Initiative: http://www.ebrd.com/what-we-do/sectors-and-topics/sustainable-energy-initiative.html/

Thought Leadership Library: http://www.ifc.org/wps/wcm/connect/publications_ext_content/ifc_external_publication_site/publications_listing_page/thought+leadership+library/

Transformative Carbon Asset Facility: http://blogs.worldbank.org/climatechange/category/tags/transformative-carbon-asset-facility/

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Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ
Tel +44 (0) 20 7922 0300
Fax +44 (0) 20 7922 0399

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