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SUMMARY BRIEFING OCTOBER 2023

## MARRAKECH RETREAT: HOW CAN MULTILATERAL DEVELOPMENT BANKS EVOLVE TO DRIVE A RAPID CLIMATE TRANSITION?

**E3G & WILTON PARK UK**

From 6-8 October, over forty representatives from civil society, governments, academia, and multilateral development banks came together in Marrakech, Morocco to discuss ways in which the MDB system could accelerate financing the world to reach a position of climate safety. Proposals touched on internal bank reforms, MDB coordination, the supply and scale of public and private finance, and the political prioritisation and sequencing needed to make change happen. After three days of earnest conversation and contemplation, participants expressed resolve to implement a suite of actions aimed at developing and connecting MDB reform ideas to relevant political processes and fora.

### Themes & Takeaways

Changing the way MDBs work, the scale at which they work, and the way they engage with shareholders is not a task for the faint of heart! The existing MDB system can be frustrating. However, it is the one we've inherited, and retreat participants agreed we don't have the time or political capital to build a new one from the ground up, with climate change worsening every year. The harsh reality is that change is difficult and often incremental for such big, entrenched institutions. In that context, the Marrakech gathering was useful to explore the myriad ways in which the MDB system can be improved, grown, streamlined, and harmonised.



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As many pointed out, the window for generational MDB reform is currently wide open, but momentum could quickly fade. Fleeting political will could be splintered by a raft of competing policy ideas, and the window will close. Hence the need for the deep conversation and potential alignment that was on display at our Marrakech retreat.

Notably, existing climate lending was not a central topic of discussion – rather, the political actions and technical reforms necessary to reshape the MDB system, thus setting the stage for potential increased future lending for climate, tended to be a larger focus. In short, conversations centred around how to navigate the politics of donors, recipients, global challenges, international financial system reform, and scaling resources. These are the areas that will require new thinking and consistent advocacy to help MDBs evolve to drive a rapid climate transition, and can be sorted into the following themes:

**1. High-level Political Plays**

Governments and ministries must compromise and align on objectives related to capital increase and reform pathways, and agree a strategy for weaving these goals through regular G7, G20, COP, and Annual/Spring Meetings timelines.

**2. Technical Reforms**

Civil Society and MDB management must work together better on reform designs that will incentivize and de-risk climate lending for borrowers, as well as stretch balance sheets to unlock additional lending.

**3. System Coordination**

These actions must be synchronized across the MDB landscape, with an emphasis on cooperation regarding objectives and finance platforms for transformative outcomes.

Amidst all the discussion of new directions for reform, the retreat ended on a note of optimism and recognition of how quickly change has manifested within the MDB system, particularly over the last calendar year. The World Bank Evolution process is unquestionably up and running, and other MDBs are paying attention. The time for progress is now, and we are collectively motivated, knowing our fellow participants will continue to make the most of the opportunity before us.



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## Dialogue Summary: Key Points

### **Capital Increase + Replenishment**

This will be a closely monitored and contested space over the coming months and years. Within the World Bank alone, IDA replenishment is due in 2024, the Evolution Roadmap has opened up space for voluntary capital pledging including concessional finance for IBRD, and some donors are already whispering about a plan for a General Capital Increase in the short to medium term. These competing demands on the same pot of donor resources risk distracting from and potentially splintering the overall reform effort. While new sources of capital and CAF efficiency measures can blunt this risk to a degree, ultimately a political strategy for sequencing the capital needs within the MDB system will be necessary to avoid a pile-up.

One proposal included urging the 2024 Brazilian G20 presidency to champion the immediate needs for IDA and IBRD concessionality as a first order priority, while starting the medium-term GCI conversation to land in a year or two, potentially with a USA G20 in 2026. This would slightly stagger the budget asks, while hopefully securing initial support from IDA recipient countries and proving out the Evolution Roadmap concept in line with President Banga's framing: building a Better Bank before a Bigger Bank.

### **CAF Reforms**

While political momentum for CAF reforms mounted over the last year, it's clear there is still much work to do. New reports have indicated an incredible amount of slack within the MDB system, on the order of hundreds of billions of dollars in potential lending, but with the earliest wins taken off the board, the remaining actions present greater challenges. Governments must complete stress tests on capital calls and ensure dialogue with credit ratings agencies to develop new evaluation metrics. The World Bank has made the headlines this year for its meagre equity-to-loan nudge, but CAF evaluation must be executed at all major MDBs, using all the tools available. Possibilities for guarantees, both sovereign and Bank varieties, were a substantive topic of discussion, likely due to the tempting leveraging figures being cited (25-30x for sovereign guarantees!). World Bank management and shareholders are harnessing this enthusiasm, with high hopes for new guarantee issuances coming from donor countries, including the US.

Related to the GCI discussion above, donors are viewing the CAF process as a prerequisite for any capital increase – prove the concept, make the necessary



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reforms to improve efficiency, and then the new capital may be made available. Similarly, this must be tied to a political sequencing process, with tangible progress being made public. Transparency is key, as the conversation around the GEMS database has demonstrated. MDBs must show their homework on CAF!

### **Concessional Allocation Framework**

Many participants viewed this framework as an important vehicle for driving reform climate reforms, albeit limited to the World Bank for now. As we learned, the Evolution Roadmap pivoted the Bank's mission and laid out the incentive for middle income countries (MICs) to borrow at lower rates for Global Public Goods, such as climate or pandemics. However, the list of Global Challenges that could qualify for concessional funds has since expanded to 8-9 pursuits. Now the pendulum has swung back the other way, with donor countries insisting on a priority allocation mechanism that would channel their funding to the global challenge(s) of their choosing.

The potential for disagreement between donors and recipients on this issue is quite high, and the success of a major component of the Evolution Roadmap rests on finding a political compromise. If the premise holds true that concessional finance should be used to de-risk projects (and hopefully portfolios!) by buying down risk, then this could be a major breakthrough for incentivizing developing countries to build low-carbon futures. Thus, while technical, it should be top of the agenda in 2024, and participants showed interest in engaging on this with government counterparts in capitals.

### **National Development Banks**

While this topic was not originally on the retreat agenda, its emergence certainly reinforced the value of coming together for informal discussions! As we learned, the domestic investment potential in developing countries is not currently being realized, with remittances effectively being countered by bundles of investment savings going out the door. If MDBs can better work with NDBs and use their expertise to get this equation turned around, private sector mobilization within developing countries could become a massive part of a clean economy investment solution. Most of our retreat focused on how to mobilize public funding and private leveraging in rich countries, but we would be well-served to better articulate how spending on a net-zero global economy will come from developing countries themselves. Many participants were eager to understand this possibility better.



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### **Country Platforms**

Several sessions looked at the supply side and demand side of bundling resources to coordinate lending via country platforms. To this point, Just Energy Transition partnerships (JET-Ps) were primarily centered around emissions reduction, typically via coal retirement, with one or two exceptions. But looking forward, several participants recognized that country investment platforms will have to be more customized in terms of sectors being targets, and the end goal behind a negotiation. Some deals may be centered around renewables buildout, grid modernization, or other industrial development needs, which is why it's crucial that country development plans connect project pipelines, financiers, political processes, decarbonization priorities, and MDB expertise. Otherwise, the potential for these platforms to be bogged down by political risks will be insurmountable. One suggestion was for the World Bank to expand its Country Climate Development Reports (CCDRs) to include industrial planning and trade policy, and coordinate their efforts with other MDBs and government agencies.

While it remains unclear whether the MDBs themselves should actually lead these deals, there is certainly a role for them to play in organizing the platform architecture and pipeline development that make up key components of JET-P style arrangements. It was suggested the Regional Development Banks could focus on in-country policy change and the social aspects of climate transition.

### **Gaps and Obstacles to Progress**

Despite the momentum for MDB reform, many participants agreed a number of subjects will require more work and/or new thinking. Adaptation and resilience are often pointed to as an afterthought in reform discussions about increased lending, when really both should be at the heart of the issue. Certainly, to secure buy-in across the spectrum of shareholders, a reform package will have to address the climate and economic needs of all borrowers.

Sovereign debt tended to be the other conversation-stopper amid the discussion sessions. While it's important that not all indebted countries situations be painted with a broad brush, clearly there is a need for more comprehensive solutions. Increasing climate lending will continue to bump up against the debt barrier in some countries, barring intervention. One suggestion was think through an Evolution Roadmap for the IMF.



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## Proposed Actions

At the final session of the retreat, participants were tasked with pledging an action or actions to take forward as a result of the weekend's discussion. These proposals are grouped and summarized by category below, with some aimed at tying MDB reform into political processes and others focused more on technical reform work.

### **Brazilian G20 – 2024**

Participants pledged to work on a political strategy to keep MDB reform alive and on the agenda at Brazil's G20 to deliver outcomes. They also agreed to develop proposals with the Brazil government/sherpas to strengthen MDBs, evaluate governance models, and seed ideas for MDB capital increase.

### **Italian G7 – 2024**

Participants pledged to work with the Italian G7 team to identify sources of finance and engage across ministries within donor countries to align on international financial architecture reform.

### **Capital Increase**

Participants pledged to find the right political champions/shareholders to keep the capital increase discussion at the top of the agenda. We need to establish proper benchmarks for success on both the quantity and quality of finance. To do so, a quantitative group could be convened to develop the right target numbers for MDBs. Some suggested tripling IDA was a top priority while others emphasized sequencing the competing asks within capitals for IDA, IBRD, and across the MDB system, including concessional funding.

### **CAF Reform**

Participants pledged to continue CAF work by urging banks to cut red tape, engaging with CRAs, and expanding beyond IBRD to other MDBs to achieve systemic scale-up.

### **World Bank Evolution**

Participants pledge to be more proactive in scrutinizing the operational model of the Bank, with many focused on unpacking the new concessional allocation framework in development. Several colleagues proposed papers with recommendations for new staff incentives at the Bank, as well ways to further strengthen World Bank Paris alignment. Increasing engagement between the Bank, shareholder governments, and CSOs was a key theme.



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### **Private Capital Mobilization**

Participants pledged to push commercial banks to interact with MDBs not just as clients, but as shareholders, to drive PCM. We must also work with GFANZ to engage MDBs on building project pipelines, potentially converting RES project teams to project pipeline teams. IFC and MIGA reforms were a key theme for future paper proposals. Others focused on the interplay of national development banks and domestic capital markets to scale domestic finance for climate action.

### **Adaptation & Resilience**

Participants pledged to work on developing new adaptation finance instruments, and make sure adaptation and resilience becomes a major focus of MDB reform. Many recognized the importance of addressing the sovereign debt crisis as well.

### **Country Platforms**

Participants pledged to develop recommendations on the next wave of country platform agreements, whom countries should call to initiate them, and how MDBs can engage with the JET-P model. With valuable lessons presented and learned at the retreat, some pointed to increased precision being necessary in launching future finance platforms, while others called for their proliferation.



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## About E3G

E3G is an independent climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at [www.e3g.org](http://www.e3g.org)

## About Wilton Park

Wilton Park is an executive agency of Foreign, Commonwealth & Development Office. We bring the right people together in dialogue to tackle the most challenging policy issues of our time and shape the global agenda. Conversations unlock ideas, tap into potential and shape solutions.

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