



# MDB REFORM

WWF RECOMMENDATIONS • May 2023

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## WWF RECOMMENDATIONS TO MULTILATERAL DEVELOPMENT BANKS - May 2023

### Summary WWF recommendations

Last year, an independent review established by the G20 provided recommendations for MDBs to reform their capital adequacy and ultimately unlock more financial resources to support their mission. WWF believes that carrying out such a reform also provides a unique opportunity for MDBs to actively align their activities and mandates with the Paris Agreement and the Kunming Montreal Global Biodiversity Framework, and makes the following recommendations:

1. MDBs must recognize and commit to act on the global climate change, biodiversity loss and poverty challenges, in accordance with the [MDB joint nature statement](#);
2. MDBs must improve environmental and social risk management frameworks and their applications;
3. MDBs must set up ambitious short, medium and long term net zero, nature positive targets to align with the Paris Agreement and the Global Biodiversity Framework and work towards meeting them;
4. MDBs must use their influence to advance a net zero, nature positive, resilient agenda.

## RATIONALE

Multilevel global crises such as climate change, biodiversity loss, COVID-19 pandemic, and geopolitical conflicts have increased dramatically and affect the poorest, most vulnerable people the most. “Humanity must act urgently to avert total global catastrophe”, the United Nations Secretary-General António Guterres warned the General Assembly, outlining 2023 priorities for the United Nations in February 2023.

Addressing these global challenges requires substantial financing. Multilateral Development Banks (MDBs) have proven to be essential in global efforts to manage the urgent transitions towards a net zero, nature positive and resilient world. Their mandate includes providing patient, concessional financing for development projects, providing technical support to borrower countries and leveraging additional public and private finance. Their ability to borrow from capital markets at low rates enables

them to leverage their capital significantly<sup>1</sup>. According to Nicholas Stern, finance for climate action will require MDBs to triple their pre-pandemic lending within five years — then go even further.

Calls are growing on Bretton Woods institutions, especially the World Bank Group, to fundamentally revise their model and reinvent themselves with increased focus on climate change mitigation and adaptation. In response to a request from the US Treasury Secretary and representatives of other advanced economies, the World Bank has published an "evolution roadmap" in December 2022.

To truly address the challenges of climate change, nature and in particular biodiversity, must be part of the equation. The Sixth Assessment Report (AR6) of the IPCC makes it clear that the dual climate and biodiversity crises are two sides of the same coin and cannot be addressed independently. Furthermore, it demonstrates how Nature-Based Solutions offer a cost-effective approach to simultaneously address climate, biodiversity and social challenges, such as food and water security, and disaster risk reduction. Therefore, MDBs also have an opportunity to better integrate nature in their mission, not only to safeguard it, but also as the basis for a shared sustainable development.

Today, MDBs contribute significantly less to biodiversity finance than to climate finance and they are still financing harmful activities, including fossil fuels<sup>2</sup> and high impact hydropower. The 10 Point Plan for financing biodiversity calls on MDBs to make concrete international biodiversity finance pledges and to commit to align their portfolios with the Global Biodiversity Framework, as they have agreed to do with the Paris Agreement.

In a joint nature statement, 11 MDBs made a commitment to recognise the interconnected challenges of sustainable development, climate change and nature loss. And to deliver their commitment made at COP26 to mainstream nature across their analysis, assessments, advice, investments, and operations by 2025. Yet we have seen little progress.

Last year, an independent review established by the G20 provided recommendations for MDBs to reform their capital adequacy and ultimately unlock more financial resources to support their mission. WWF believes that carrying out such a reform also provides a unique opportunity for MDBs to actively align their activities and mandates with the Paris Agreement and the Kunming Montreal Global Biodiversity Framework, and makes the following recommendations.

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<sup>1</sup> The World Bank Group's International Bank for Reconstruction and Development (IBRD) lent over \$750 billion in loans from 1944 to 2020 with a capital of \$18 billion provided by the 189 member countries.

<sup>2</sup> According to the WRI, and based on data collected and analyzed by Oil Change International (OCI), MDBs provided \$4.6 billion in financing for fossil fuel projects in 2021, a \$666 million increase on 2020 levels.

# WWF RECOMMENDATIONS

## **MDBs must recognize and commit to act on the global climate change, biodiversity loss and poverty challenges**

In accordance with the [MDB joint nature statement](#), MDBs must recognize and commit to act on the global climate change, biodiversity loss and poverty challenges, including:

- Recognize how global challenges (in particular climate change and biodiversity loss) are interwoven with extreme poverty<sup>3</sup>, and harness the potential of Nature-Based Solutions to address environmental and social challenges.
- Align their approaches with the objectives of the 1.5°C goal of the Paris Agreement, the Kunming Montreal Global Biodiversity Framework and the Sustainable Development Goals, and sector specific treaties like the Treaty of the high seas.
- Define and implement a consistent financing strategy that systematically takes into account climate change and biodiversity loss.
- Commit to clear and timely implementation and report on funding for biodiversity, in alignment with the Global biodiversity Framework.
- Recognize the rights and increase financial support to Indigenous Peoples and local communities, as stewards of Nature.
- Enhance support to the most vulnerable people and ecosystems through increasing adaptation finance.

## **MDBs must improve environmental and social risk management frameworks and their applications, including:**

- Identify the impacts of nature's decline on the borrowing country economies using innovative models ([Global Futures](#) report) and integrate them into country risk analysis.
- Use tools and methodologies to identify, measure and mitigate specific environmental risks, in particular for infrastructure such as the Strategic Environmental Assessment ([SEA](#)).
- Eliminate, phase out or reform incentives harmful to biodiversity and ecosystems<sup>4</sup> and adopt exclusion policies for all fossil fuels.

## **MDBs must set up ambitious short, medium and long term net zero, nature positive targets to align with the Paris Agreement and the Global Biodiversity Framework and work towards meeting them, including:**

- Increase financial support for sustainable, inclusive and resilient development<sup>5</sup> through a more efficient usage of their balance sheets, as proposed in a recent G20-commissioned [report](#), without endangering their AAA rating<sup>6</sup>.
- Leverage their balance sheets and mobilize more private sector capital to finance sustainable, inclusive and resilient development.
- Enhance financing models to be better fit-for-purpose, widen the spectrum of financial instruments to address specific financing needs (e.g. financing early-stage project development, grants instead of loans for the most indebted countries).

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<sup>3</sup> According to the [UNDP](#), a range of multidimensional risks and interconnected crises linked to the climate crisis – from extreme weather events, rising sea levels, changes in precipitation patterns, loss of biodiversity and important ecosystem services, to the contamination of air, water and soil – are endangering human health and development.

<sup>4</sup> In accordance with the G7 Climate, Energy and Environment Ministers' [Communiqué](#), April 16, 2023

<sup>5</sup> How can finance help address our dual climate and nature crises? FSEG Discussion [Paper](#), November 2021

<sup>6</sup> MDBs could generate hundreds of billions in new lending simply through more efficient use of their balance sheets. President Malpass of the World Bank [noted](#) that the bank can lend \$6 billion more per year without endangering their AAA rating.

- Explore innovative financial instruments to help governments that have limited access to traditional grants or debt relief to lower their debt burden and redirect funding towards nature conservation, for example through debt for nature swaps.
- Increase the share of climate finance that supports Indigenous People and Local Communities as guardians of forests, waters and nature, in alignment with the COP26 IPLC forest tenure joint donor statement.

**MDBs must use their influence to advance a net zero, nature positive, resilient agenda, including:**

- Identify and mobilize financial support and technical assistance to help countries governments meet their national commitments made under the Paris Agreement (NDCs and National Adaptation Plans) and the GBF (NBSAPs and associated National Biodiversity Plans)
- Engage with Ministries of Finance and national Financial Regulators to support implementation of policies that follow the principles of the Coalition of Finance Ministers for Climate Action, in particular principle 4, “mainstreaming climate [and nature] in economic policies”, for disclosure and mitigation of their nature and climate related risks.
- Encourage public sector borrowers to integrate green, social, and sustainability bonds into their funding and debt management strategies and advise them on financing in rights based and equitable Nature-Based Solutions.

With nature in freefall and less than a decade to prevent catastrophic climate breakdown, it will take ‘everything, everywhere, all at once’ to tackle the climate change ‘time bomb’.

Realizing a net zero emissions, nature-positive and resilient economy requires vision and leadership that MDBs must now show, by embracing the opportunity to renew and revitalize their missions in ways that incentivise development that works with nature rather than against it.

The reforms should lead to significant additional financial support to programmes and projects that contribute to the achievement of the Global Biodiversity Framework and the Paris Agreement objectives.

**For more information**

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