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Orchestrating private investors for development: How the World Bank revitalizes

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Abstract

Confronted with a new wave of criticism on the in effectiveness of its development programs, the World Bank embarked on a revitalization process, turning to private investors to finance International Development Association projects and widening its mandate. To explain these adaptation strategies of the World Bank to regain relevance, this piece draws on organizational ecology and orchestration scholarship. We contend that international organizations rely on two adaptation mechanisms, orchestration and scope expansion, when they lose their role as focal actors in an issue area. We find that the World Bank has indeed lost market share and has relied on these two mechanisms to revitalize itself. We show that the World Bank responded to changes in the environment by orchestrating a private sector-oriented capital increase, prioritizing private funding for development through a "cascade approach," and expanding the scope of its mandate into adjacent domains of transnational governance, including climate change and global health.

Keywords: development, orchestration, organizational ecology, private investors, World Bank.

1. Introduction

Following a new wave of criticism from the largest shareholder, the United States, on the ineffectiveness of the World Bank's development programs, president Jim Yong Kim announced in January 2018 a plan to revitalize the Bank by strengthening its private capital flows. The catalyzation of private sector financing flows has been an element in the conceptualization of the Bank's mission from the very beginning. World Bank Vice President J. Burke Knapp (1958) had already spoken of "mobilizing private capital" in a 1958 interview published in Challenge, as did Georges R. Delaume (1960), an attorney for the International Bank for Reconstruction and Development (IBRD), in a 1960 article in the George Washington Law Review. With the publication of its 2016 report *Forward Look*, the Bank officially turned to private investment – including from sovereign wealth funds, private equity firms and insurance companies – to finance International Development Association (IDA) projects and expanded the scope of its mandate to climate change and global health (World Bank Group 2016).

The shift toward private investors marks a new development in revitalizing IDA, which has so far been based on a traditional donor replenishment funding model. Whilst IBRD and the International Finance Corporation (IFC) have both raised capital by bonding on global markets since their inception, and the Multilateral Investment Guarantee Agency (MIGA) has made use of even more complex reinsurance instruments that it negotiates, IDA's use of bonding to raise money in 2018 is a new phenomenon. This development raises the question of what induced this change. More generally, these two adaptation strategies of the Bank – turning to private capital to finance development programs and expanding its mandate into adjacent domains – can be extrapolated to the discussion on the revitalization of international organizations (IOs) (Gray 2021). This will enable us to better understand the conditions

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[Correction added on 13 October 2021, after first online publication: Corresponding author's name has been changed from Eugénia da Conceição-Heldt to Eugenia C. Heldt.].

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under which multilateral financial institutions are more likely to adapt over time. To explain how the Bank responds to changes in the environment, we turn to a functionalist understanding of global institutions. We start from an organizational ecology perspective to show that organizations seek goal achievement but compete for limited resources and exchange access to the institution to obtain resources. We then identify two IO adaptation mechanisms. IOs may orchestrate private actors to acquire necessary resources (Abbott & Snidal 2013). Alternatively, they may obtain resources by strategically expanding their scope to resource-rich niches.

We begin our case study on the World Bank by showing how it has operated in a space increasingly populated by private financial flows to developing countries. We demonstrate that the Bank has been struggling to maintain its focality in multilateral development finance due to the entry into the scene of new competitors – with the creation of the New Development Bank (NDB) and the Asian Infrastructure Investment Bank (AIIB) – and the WB's loss of market share in the multilateral development assistance landscape. In the third section, we turn to alternative explanations, assessing their potential contribution to a better understanding of the Bank's adaptation strategies. In the fourth section, we trace how the World Bank has reacted to the loss of market share by turning to the private sector for IDA through orchestration, shifting development financing to the "cascade approach" and securitization. In the fourth section, we explore the second adaptation strategy of the Bank, namely expansion of the scope of its mandate to include global public goods. The paper concludes with some thoughts on the implications of the Bank's turn to private capital.

This piece contributes to the literature in four ways. *First*, we bring together the debates on private actors in global governance (Andonova 2010; Tallberg *et al.* 2014; Green 2018) and the literature on orchestration (Abbott & Snidal 2013; Schleifer 2013; Abbott *et al.* 2019). While scholarship has focused mainly on the demand for expertise, credible commitment, access to targets, monitoring, or adjudication (Tallberg *et al.* 2014; Abbott *et al.* 2016a), we add to the literature in studying the complex environment of multilateral development institutions and how they enlist private actors to obtain access to economic resources they cannot otherwise acquire. *Second*, we contribute to the debate on IO resourcing. While this literature has begun to investigate donor (Reinsberg 2017b) and corporate influence (Malik & Stone 2018), donor funding choices (Reinsberg *et al.* 2017), IO budgeting (Heldt & Schmidtke 2017; Patz & Goetz 2019), or IO funding rules (Graham & Serdaru 2020), we draw attention to broader developments in the organizational environment tied to the specific adaptation mechanisms of global economic institutions. *Third*, we contribute to the literature on the World Bank's role vis-à-vis non-state actors. We investigate how maintaining focality as a development financier plays a key role in IO adaptation by enlisting private actors and thus complementing concepts on the evolution of policy norms within the Bank (Vetterlein & Park 2010), the Bank's organized hypocrisy (Weaver 2008), and the mismatch between environmental mandates, institutional design, and incentives (Gutner 2005), which the Bank had sought to fix by increasing accountability toward private stakeholders (Park 2017; Heldt 2018; Heldt & Schmidtke 2019b). *Finally*, we draw on World Bank documents – including strategy documents, annual reports, evaluation reports, financial statements, and trust fund reports – together with press coverage and secondary sources to examine the Bank's adaptation strategies in terms of "crowding-in" private capital and expanding its scope. While scholars have noted a turn to private actors in other fields of global governance, for instance in credit rating (Kruck 2011) or internet governance (Becker 2019), adaptation strategies in multilateral development institutions have, to the best of our knowledge, attracted less attention.

2. Adaptation strategies of international organizations

Why do member-state driven IOs seek to fund their activities privately and to expand their mandates into adjacent domains? In answering this question, we rely on a functionalist concept of IOs. Our premise is that the institutional design of IOs follows "rational, purposive interactions among states and other international actors to solve specific problems" (Koremenos *et al.* 2001, p. 762). Applied to IO adaptation strategies, rational functionalism suggests that IOs deliberately choose organizational strategies on the basis of their respective functional advantage (Tallberg *et al.* 2013).

The organizational ecology literature (Hannan & Freeman 1989) explores change in organizational populations and how developments at the population level affect organizations. Abbott *et al.* (2016b, p. 257) define populations as "sets of organizations engaged in similar activities and with similar patterns of resource

utilization." Elemental organizations within a population share common features, for instance, objectives or forms of authority. At the outset, elemental organizations pursue both substantive objectives, such as sustainable development goals (SDGs) and organizational goals, namely, maintaining or even expanding their authority and autonomy (Abbott *et al.* 2013). Within a population, elemental organizations vary in size, resources, and other potential features. Organizational ecology postulates that organizations compete within a population. Competition, in turn, will lead to institutional selection processes in which uncompetitive organizations become less relevant and potentially disappear. Diversity emerges in the population through selection processes (Hannan & Freeman 1989). To survive, organizations will carefully delimit their "niche" in the ecosystem, that is to say, a domain where they are more competitive than other organizations (Hannan & Freeman 1989; Gehring & Faude 2014).

Because IOs require naturally limited material resources to perform their tasks, there is competition between IOs to maintain or expand their "market share" (Abbott *et al.* 2013; Heldt & Schmidtke 2017). Maintaining and potentially expanding their financial resources is a key occupation. Traditionally, IO financing has come from member states. As a baseline, the resort of IOs to private actors' resources, for example through public-private partnerships, and their expansion into adjacent domains should correlate in large part with the willingness of member states to contribute financial resources (Andonova 2010). This also applies in the realm of development financing, where the World Bank competes in the market for donors. While the Bank has raised capital on markets since its inception, it needs member-state backing, for instance in the form of paid-in and callable capital.

Tapping into resource-rich niches is a function of the demand and supply of limited resources. Resource exchange theory suggests that organizations that are unable to produce the resources they need internally seek to obtain them through exchanges with their environment (Pfeffer & Salancik 2009). For the Food and Agricultural Organization, for instance, Liese (2010) shows that the demand for limited resources is the key motivation for granting access to civil society organizations. Other scholars (Abbott *et al.* 2016b) suggest that IO adaptive behavior also depends on environmental features –including financial resources, expertise, or credible commitments. Given adaptive opportunities, IOs may shift their activities to areas where there is less competition or where additional resources are available. As a result, IOs may change certain organizational structures, rules, and practices to target valuable actors or new domains. Consequently, IO adaptation processes are intricately linked to changes in their external environment. The wider the gap between goal attainment and the availability of internal resources, the more likely IOs are to seize adaptive opportunities and expand into resource-rich niches (Abbott *et al.* 2013).

Resource constraints can lead to two different IO adaptation strategies. First, IOs can *orchestrate private actors* to attain the resources they need to perform their allocated roles (Abbott & Snidal 2013). Abbott *et al.* define orchestration as "the mobilization of an intermediary by an orchestrator on a voluntary basis in pursuit of a joint governance goal" (2016a, p. 722). Orchestrators enlist third parties for functional benefits. Orchestration is faster, requires the IO to commit fewer resources, avoids distributive conflict among member states and the domestic politicization of IO activities (Genschel & Jachtenfuchs 2018). IO officials can act as policy entrepreneurs by driving private actor orchestration. Member states, in turn, tend to accommodate to these IO initiatives because of the high costs associated with the creation of alternative IOs. While the orchestration literature has predominantly focused on the provision of expertise, monitoring, or local knowledge, we argue that orchestration is a key means of obtaining additional financing for revitalization. Orchestration is a horizontal relationship in which the orchestrator enlists an affine party identifying with the orchestrator's goals by providing material or ideational support (Abbott *et al.* 2019). Both organizations and third parties tend to formalize exchange relationships to stabilize activities and resource provision (Pfeffer & Salancik 2009). But, in contrast to delegation relationships, they remain volatile.

IOs may choose orchestration under certain conditions. In general, the wider the gap between the optimal resource level needed to achieve an IO's goals and the actual supply of resources, the stronger the incentives will be to involve private actors contributing resources and services to compensate for resource shortages (Tallberg *et al.* 2013). Over time, we would expect IOs to draw on private actors' economic resources as their own become scarcer. The choice for orchestration depends on the governors' identity and interests, third party availability, and the governance function (Abbott *et al.* 2016a). First, IOs will enlist private actors, particularly in areas where functional benefits are high and sovereignty costs low, such as policy implementation. In contrast, they hardly do

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so for decisionmaking and enforcement (Tallberg *et al.* 2013). Second, IOs constrained by their treaties to deliver policy benefits to their stakeholders and with limited financial and administrative resources to control are likely to orchestrate third parties. Third, orchestration becomes attractive for IOs if strong veto players constrain them. Orchestration is less conspicuous, often remaining out of the reach of veto players (Abbott *et al.* 2016a). This brings us to our first proposition:

> P1. When the market share of an IO declines, the IO is more likely to look for complementary funding niches to keep its focal position in an issue area.

The second adaptation strategy of IOs consists in expanding *their scope* to obtain necessary resources. Scope refers to an IO's issue area and is a key dimension of IO design (Koremenos *et al.* 2001; Heldt & Schmidtke 2017). Besides tasks and capabilities, scope is a critical component of IO power and increases with the number and intrusiveness of delegated issue areas. Hooghe and Marks (2015), for instance, identify 25 different policy scope areas for their subset of 72 IOs. The delegation literature typically assumes that IO scope is relatively static. Indeed, Lenz *et al.* (2015) have found that IO tasks have hardly changed over time. However, we expect the scope of IOs to be more dynamic than often assumed even without formal changes to their mandates.

Expanding IO scope is likely to be a function of institutional competition for financial resources in densely populated spaces. IOs can adapt to resource constraints by widening their scope into domains where resources are more abundant. Expanding scope provides IOs with access to new environments and actors with which resources could be exchanged (Pfeffer & Salancik 2009). While smaller institutions strategically seek favorable niches to avoid intense competition, focal IOs typically seek to dominate and expand their scope. This behavior enables focal IOs to achieve organizational goals, prosper, and expand while gaining access to much needed resources. Hence, IO scope expansion to adjacent domains is a rational response to resourcing challenges and can be understood as a purposeful expansion to further IOs' goals. Scope expansion tends to occur into adjacent domains at the boundaries of IOs' tasks. IOs are more likely to frame the new issue area as intricately linked to their core mission and emphasize the benefits of addressing the issue area in the light of their mandate, and, conversely, the threats to their core mission if this issue area remained unaddressed (Jinnah 2011). If market share drives scope expansion, does this not make private finance a means for achieving scope expansion? We argue that expanding scope is a conceptually distinct organizational response to declining market share and not dependent on the orchestration of private finance. Even though private funding is one possibility for addressing scope expansion, IOs may also rely on other financing resources to expand their scope. While both adaptation mechanisms are ideal-typical, empirically, they may also occur in combination. This line of reasoning brings us to our second proposition:

> P2. When the market share of an IO declines, the IO is more likely to expand its mandate into adjacent domains.

In a nutshell, we argue that IOs will orchestrate private actors and expand into adjacent domains to revitalize themselves in densely populated spaces. With regard to orchestration, the evidence suggests *first*, that IOs will seek to acquire resources adequate to achieving their goals; *second*, that if IOs cannot obtain these resources from member states, they will orchestrate private actors to fill the resource gap; and *third*, that IOs will adopt specific programs to attract and bind private capital. As regards scope expansion, the observable evidence suggests that: *first*, IOs will seek to expand their scope to acquire additional resources into adjacent domains; *second*, IOs will frame an adjacent issue as critical to achieving their core mission; and *third*, IOs will adopt specific programs to implement scope expansion. In the next section, we contrast our argument with four alternative explanations before moving to the Bank's adaptation strategies.

3. Alternative explanations

In this section, we consider plausible alternative explanations with a view to assessing their potential contribution to understanding the World Bank's adaptation strategies. For instance, one alternative explanation could be that

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the Bank's commitment to seeking alternative sources of funding was not due to a competitive threat but rather part of the Bank's poverty alleviation message. To make sure, we do not question that the Bank pursues substantive goals or plays an insignificant role in the development discourse. On the contrary, we assume that IOs pursue both organizational and substantive goals. Our piece constitutes a first attempt to examine systematically how organizational goals drive policy changes. As to substantive goals, Vetterlein (2012) shows that how the Bank has "seen" poverty has changed significantly. Even though poverty was not part of the Bank's original mandate, the Bank had pursued poverty alleviation discourses in earlier decades. Already in 1973, former Bank president McNamara placed poverty reduction at the heart of the Bank's mission and defined "the poor" as the lowest 40 percent of the population (McNamara 1973). A related version of this alternative explanation is that the turn to private finance could have been driven by the Bank's desire to fulfill the SDGs. However, the UN declaration on the SDGs clearly emphasizes that "international public finance plays an important role in complementing the efforts of countries to mobilize public resources domestically" (United Neations General Assembly 2015), which does not correspond to the adaptation strategies described in the empirical section. The evidence presented in this paper suggests that this perspective is not viable for understanding the timing and direction of the Bank's adaptation strategy to revitalize itself by recurring to the orchestration of private investors and by expanding its scope into resource-rich domains.

Another alternative explanation could be based on donor state preferences. According to this line of reasoning, World Bank policy changes have been driven externally by powerful state preferences, particularly those of the United States (see also Kaya 2015). Even though formal political power in multilateral economic institutions is a strong argument for analyzing internal governance reforms, it is less convincing in explaining why the Bank has turned to private funding, as we demonstrate below. First, the United States has not contributed to the steep capital increase for IFC in 2018, a cornerstone element in the capital increase toward orchestrating private financing for development. Second, the US Treasury has highlighted the risks associated with the World Bank strategy leading to the accumulation of private debt in vulnerable countries, and called for a "dramatically increased level of debt transparency" (Malpass 2018). Third, the US Congress criticized the IDA Private Sector Window in 2016. For instance, the chair of the House Financial Services Committee considered that, by prioritizing "financial returns over positive development impacts," this new instrument would "stand in conflict with the World Bank's own principles," even threatening to delay approval (Financial Services Committee 2020). Finally, the US arrears to IDA have continued to grow significantly (Morris 2017). If IDA reforms have been strictly in line with US wishes, this raises the question why the US has continued to withhold increasing amounts of its IDA contribution. The findings of the paper do not support donor state preferences accounts, as the US has rather tried to "correct" the Bank's private capital flows and its scope expansion.

At the same time, the paper's findings on the Bank's adaptation strategies do not support leadership explanations. To be sure, the Bank leadership had already tried, before Kim's presidency, to leverage IDA in 2010 but did succeed, and continued under the Malpass presidency. Kim supported the Bank's prioritization of private funding for development assistance and for expanding the Bank's scope. But he was not the entrepreneurial leader behind these new adaptation strategies.

Likewise, the broader historical shift in financial capitalism is significant and has enabled the Bank to tap into private resources. We find that this historical shift appears to be a necessary condition for revitalizing the Bank. However, the focus on a broader historical shift in financial capitalism is less plausible in explaining the twofold adaptation trajectory of the Bank – including the process, as well as the content of specific initiatives such as IDA entering the bond market or expanding the scope to climate change and health issues. Overall, our approach, to which we now turn, illustrates how the World Bank's reduction in market share led to a change in the Bank's strategy.

4. The decline of the World Bank's market share

The World Bank was created in 1944 to help rebuild countries after the Second World War. Over time, its mission has been transformed into curing a market failure: the lack of access for developing states to the capital market to finance development projects at manageable interest rates. The Bank has provided loans and grants to developing countries at low rates, backed up by wealthy member states. In turn, lending to middle-income

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countries has created profits that could be passed on to projects in low-income countries. The Bank's traditional governance features have been characterized by multilateralism, legalization, market embeddedness, and focality (Fioretos & Heldt 2019). The Bank has been a multilateral organization under tight member state control. The Bank was created as the focal development institution and operates under a dense set of rules. It is also highly embedded and leaves developing states discretion as to what development priorities to pursue, though embeddedness has varied over time. The scope has been on infrastructure projects, but has expanded over time toward agriculture, social and human development or good governance (Heldt & Schmidtke 2019a).

The World Bank "had once enjoyed a virtual monopoly" (Rice 2016, p. 56) in development financing. In recent years, however, the Bank has been "in danger of becoming a series of regional banks rather than a world bank" (Lowrey 2013). In this piece, we define *market share* in terms of the Bank's funding and its associated ability to influence policy (similarly, Abbott *et al.* 2013; McArthur & Werker 2016). Accordingly, increasing market competition decreases the Bank's ability to shape policy. We argue that the World Bank's market share is both declining among multilateral development banks (MDBs) and in terms of funding to developing countries.

The first reason for the real decline in the Bank's market share is closely intertwined with the creation of new MDBs, including the NDB and the AIIB under Chinese leadership from 2016 on. These two new MDBs now compete with IDA with their focus on financing infrastructure development projects. Like IDA, AIIB-approved projects include not only classical infrastructure projects but also address broader issues of human development (Asian Infrastructure Development Bank 2018). Thus, the development assistance market is now crowded, with a multitude of MDBs competing for "market shares" in the same issue areas. In contrast to IDA, NDB and AIIB finance development programs almost without conditionality. This has provoked discussion on its implications for the multilateral development financing landscape. While some studies consider that fragmentation among MDBs is more likely when power is misaligned in existing institutions (Pratt 2020), others find that the presence of new MDBs affects World Bank conditionality, as the Bank reacts by offering credits less restrictively in order to remain competitive in the loan-giving market (Hernandez 2017). More importantly, changes in MDB populations can reduce the Bank's ability to influence policy. As Reisen (2015) shows, new MDBs compete with established banks in lending and influence over borrowers and shape lending substantially by weakening traditional enforcement mechanisms. In terms of the role of middle-income borrowers as a declining share of the market, Güven (2017, pp. 498–499) demonstrates that commitments to the seven largest borrowers "have plateaued at historically low levels" since 2013, while lending to all middle-income countries has declined from its post-crisis peak. In 2014, IBRD lending even fell below IDA allocations.

The second reason for the decline in the Bank's market share has to do with the substantial increase in external financial flows to developing countries – in terms of Foreign Direct Investment, remittances, and philanthropy – since the turn of the millennium (see Fig. 1 below). While bilateral and multilateral financing made up 27 percent of movements to developing countries in 2002, this share fell to 14 percent in 2012. In 2016, private flows at market rate ($931 billion) and remittances ($417 billion) dwarfed bilateral ($210 billion) and multilateral flows ($101 billion) (World Trade Organization & OECD 2019). Moreover, philanthropy has become a growing source of development finance, expanding to $34 billion in 2014. While different types of financial flows affect World Bank influence differently, as remittances do not go toward building hospitals in developing countries, they are likely to affect the demand for borrowing. World Bank Group (WBG) institutions committed around $62 billion in loans and investments in 2017, while other "investors now inject more than $1 trillion a year into emerging markets" (Landon 2018). This corresponds to two-thirds of the $1.5 trillion the Bank has dispersed since its inception. IBRD best exemplifies this substantial shift. While in 1990, IBRD funding still accounted for more than 0.5 percent of the combined Gross Domestic Product (GDP) of borrowers, in 2013 this figure was less than 0.1 percent (World Bank Group 2013).

This firm-type move of development turning to private funding is not a new phenomenon in global economic institutions. Focusing on IMF conditionality, Gould (2006) shows that supplementary funding by private financial institutions affects IMF conditionality toward more bank-friendly conditions being imposed on borrowers. We see similar behavior in multilateral development assistance. The Bank's initiative to revert to securitization (see below) coincides with the use of various forms of blended finance and security by both Western-led and China-led MDBs (Rowden 2019).

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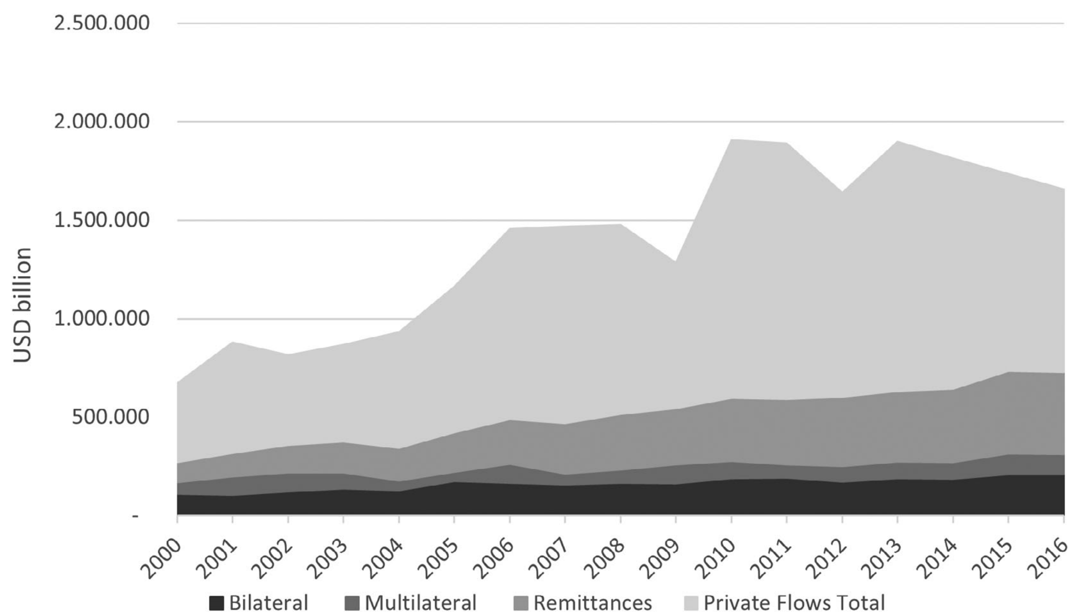

Figure 1 Financial flows to developing countries by Type 2000–2016. *Source*: World Trade Organization and OECD (2019, p. 53).

Other firm-type phenomena affect the World Bank's market share. MDBs operate in an environment with contracting donor funding. This development is apparent in ODA levels – 0.31 percent of Gross National Income in 2017, well short of the 0.7 percent target – which have stagnated around this level since 2005 (OECD 2018). The increasing indebtedness of major donors has also reduced their willingness and ability to finance multilateral institutions (World Bank Group 2018a) with G7 gross debt reaching 138 percent of GDP in early 2020, before the Covid-19 pandemic affected the global economy (IMF 2020). Finally, MDBs operate in a new environment where developing countries can borrow from a variety of sources. When interest rates are low, states in need of capital have alternatives to borrowing from the Bank with fewer conditions attached (Rice 2016). Beyond private capital, philanthropic organizations provide a substantive alternative for financing development (Lowrey 2013).

Political power issues within and outside the World Bank also contributed to the decline in its market share. For example, the disengagement of the US led to its Bank funding contribution being reduced from $1.5 billion in 2014 to $1.2 billion in 2017 under Obama and by a further $100 million during the Trump administration (Agence France Presse 2018a). At the same time, US domestic pressure to scrutinize ODA allocations has led to "bilateralization" through World Bank trust funds (Reinsberg *et al.* 2017). The WBG has also maxed out its lending facilities. While responding to financial crisis recovery, the equity-to-loan ratio of the IBRD dropped from 38 percent in 2008 to below 23 percent in 2017, which "consumed IBRD's financial firepower" (World Bank Group 2018a, p. 29). IDA has traditionally relied on donor replenishments. However, the triennial replenishment of 2016 was below expectations and the 2019 replenishment was made conditional on raising money from capital markets (IDA 2019). The same applies to IFC, whose capital to support new investments has been limited (World Bank Group 2018a). There is now a growing disparity between the Bank's stuckness in "an operational model of providing country-specific loans and grants that are increasingly irrelevant to its institutional mission" (Bollyky 2012) to address transnational crises – including displacement, climate change, and famine (Miliband 2019). In the long term, the WBG institutions may continue to lose "market share," as developing states can select among development donors.

The World Bank operates in an external environment characterized by an enormous demand for development financing and surging private sources of development financing. In this new environment, the Bank's market share has declined, and public funding is unlikely to close the gap. Turning to private capital funding is a way to revitalize the Bank in a new environment populated by new competitors.

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5. World Bank adaptation strategies: Orchestrating private investors

In reaction to the World Bank's declining share of the market, Former President Jim Yong Kim began to orchestrate private investors strategically. Attracting private capital for development has always been part of how actors have understood the Bank's purpose. As Steer and Mason (1995, p. 42) put it: "the job of MFIs [multilateral financial institutions] is to use the small amount of 'paid-in' capital (…) from their member countries to leverage large sums of private funding". While IDA has relied on member state replenishment rounds since its inception in 1960, IBRD has leveraged member state paid-in capital and guarantees on the capital market to finance development. In 1956, member states established the IFC to invest in private enterprises and leverage their own investments with resources mobilized from private investors. However, IFC had remained a relatively marginal figure. For IDA, the shift to bond-based financing thus constitutes a significant operational change for the Bank.

In April 2015, the Bank launched the "From Billions to Trillions" report together with five MDBs and the IMF, suggesting a new approach to financing development programs. This approach aimed to increase funding to meet SDGs by recurring to private capital. Based on this report, the Bank adopted its *Forward Look* strategy in 2016, officially postulating the mobilization of private capital as one of its key priorities, also for IDA (World Bank Group 2016). The Bank intended to cooperate with "institutional investors, including pension funds, insurance companies, and sovereign wealth funds" (World Bank Group 2016, pp. 2–3). One year later, the World Bank, together with other MDBs, committed itself to increasing overall private sector mobilization by 25–35 percent over the following three years (Asian Development Bank *et al.* 2017).

To implement this new strategy, the Bank embarked on internal administrative reforms to ensure that "the Bank has a role in a world crowded with aid agencies, regional development banks and philanthropist organizations" (Thornton 2013) and to achieve efficiency gains as "low interest rates were cutting into the bank's profits" (Rice 2016). In so doing, the Bank reduced its budget by 8 percent, laying off 500 staff (Thornton 2013; Rice 2016). In what follows, we turn to the specific measures that the Bank has taken to orchestrate private investors.

5.1. Leveraging IDA for private capital: The road to IDA18

The World Bank reacted to the loss of market share by leveraging IDA to orchestrate private capital. Since its inception, IDA had operated on the basis of triennial donor replenishments without capital of its own. As a World Bank staff member pointed out: "Looking at the scale of the challenge ahead back in early 2016, IDA made a momentous decision: to seek extra cash from the capital markets for the first time (…) by bringing in this additional group of stakeholders, the private investors" (Cuff 2018).

Even though the Bank's first attempt to turn to private capital goes back to the IDA16 replenishment negotiations in 2010, it was only during Jim Yong Kim's seven-year tenure that the shift toward more private funding led to bond-based financing at IDA. During IDA17 negotiations in 2013, the Bank expected donor contributions to decline in real terms. Instead of private investors, the Bank suggested, and IDA deputies endorsed, first borrowing capital from states by issuing the novel instrument of "concessional partner loans," which required no change in the Articles of Agreement (Bretton Woods Project 2013). World Bank Vice President van Trotsenburg noted that this step was strategically important because it "introduced for the first time the notion that you get financing instead of a grant" to fund IDA (Igoe 2017). Accordingly, IDA received more than \$3.6 billion in 2017 (IDA financial statement June 2017) and continued in IDA18 with a total of \$7.8 billion in partner loans as of September 2020 (IDA financial statement September 2020).

Having proved that financing instead of grants could partially fund IDA, the Bank proposed to directly access private funding during IDA18 by reintroducing the idea of bringing IDA to the capital market by issuing IDA bonds. In December 2016, the shareholders agreed to replenish IDA by \$75 billion through 2020 and introduced a "real game changer" (OECD 2018, p. 97). For the first time in IDA history, \$22.3 billion in funds was to be raised by issuing IDA bonds (IDA Executive Directors 2017). Even though this replenishment marks an increase of 44 percent over the preceding one, state contributions decreased by 4 percent. In contrast to IDA17, the share of member state contributions dropped from 51 to 31 percent in IDA18. Thus, the decision to bring IDA to the capital market was motivated by the loss of market share in "a context of stagnating donor resources" (OECD 2018,p. 97).

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Moreover, private capital has also been orchestrated through the $2.5 billion Private Sector Window in cooperation with IFC and MIGA as part of the IDA18 replenishment. This new financing window reflected increasing donor pressure to expand IFC activities in IDA countries while maintaining IFC's strong credit rating. The underlying rationale was that, through IDA funding, the IFC would finance projects in least-developing countries that would otherwise be too risky (Lee & Mathiasen 2019). In contrast to the classical lending model of giving "the money to governments," IFC and MIGA for the first time would develop projects financed by IDA through the private sector (Igoe 2017). The Bank expected that the private sector would generate an additional $6–8 billion in private sector investment (World Bank Group 2017c). However, in the first 15 months the Bank was able to raise no more than $800 million (World Bank Group 2018d).

Shortly after finalizing IDA18 and, having received two triple-A credit ratings to operate in the debt market (IDA Executive Directors 2017), the Bank implemented the historic shift toward private investors for IDA by borrowing from capital markets. After conducting a series of "roadshow" events to generate market interest (Cuff 2018), IDA issued its first bond, worth $1.5 billion, in April 2018, with central banks buying over 40 percent of the bond and pension funds 25 percent (Agence France Presse 2018b). In October 2019, IDA issued its first Euro currency bond worth 1.25 billion, followed by a Pound Sterling bond of 1.5 billion in January 2020 (World Bank Group 2020). Beyond medium to long-term bonds, the IDA also issued short-term debt instruments worth $1.9 billion in 2019 as part of a novel New Bills Program (IDA Financial Statement June 2019). In just two years, the IDA had borrowed a remarkable $12.1 billion from the capital market (IDA Financial Statement June 2020: 30), more than 15 percent of the total $75 billion funding for IDA18. The success of IDA bonds represents a significant adaptation in IDA strategy toward orchestration and shows the strong demand from institutional investors for liquid impact investment (Cuff 2018).

In sum, competition for scarce resources led the World Bank to look for complementary private funding niches to maintain focality and revitalize itself in multilateral development financing. From being one of the WBG institutions traditionally relying on triennial member state replenishments, IDA has undergone a tremendous shift toward private capital funding and away from public financing. IDA borrowing from the capital market and member states combined made up more than 25 percent of IDA18 funding. During IDA19, the Bank further consolidated the orchestration of private investors by announcing a new record $82 billion replenishment even though member state contributions had fallen by 12 percent to constitute less than a third of IDA funding. In effect, IDA has been able to increase funding levels by leveraging donor funding through bond markets and despite consecutive reductions by donor states (Edwards 2019).

5.2. Crowding-in the private sector: The 2018 capital increase

The second revitalization measure of the Bank consisted in securing the support of the Board of Governors for a sizeable capital increase for both the IBRD and IFC in 2018 to orchestrate private capital and tied to more stringent mobilization targets. The capital increase was combined with a re-allocation of votes in IBRD and IFC, which basically reduced US shares (Weiss 2018). Moreover, IBRD lending to middle-income countries was reduced by making borrowing costlier for emerging economies to better direct 70 percent of lending toward low-income countries (Agence France Presse 2018c).

Although IBRD and IFC have both raised capital by bonding on global markets since their inception, the 2018 capital increase was designed to orchestrate sizable additional private capital. The core of the private funding orientation of the capital increase lies in the increase of IFC paid-in capital from $2.6 to $8.2 billion, representing a staggering threefold increase, turning the IFC into the MDB with the highest mobilization ratio (World Bank Group 2018a). In addition, Bank shareholders agreed to suspend transfers of IFC retained earnings to IDA to free up about $3.7 billion for IFC operations through 2030, which reflects the Bank's wish to avoid ploughing their dividends back into the institution (IFC 2018). While the IBRD's capital was also significantly increased (Board of Governors 2018a, 2018b), privileging the financing of IFC marks a significant shift toward the private funding of multilateral development (World Bank Group 2018b).

The World Bank's adaptation strategy of bringing in additional private funding was closely tied to more stringent mobilization targets. Both IFC and IBRD pledged to considerably increase their mobilization ratios from below 20 to 25 percent for IBRD and 70 to 90 percent for IFC (World Bank Group 2018a). Koen Davidse,

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Executive Director of the World Bank, noted that the capital increase would enable the WBG to mobilize "US $110 billion of additional private finance over FY19-30" (Davidse 2018). Comparison with the capital increase during the financial crisis shows the 2018 shift toward the private sector. While IBRD received $5.1 billion together with $86 billion callable capital to fund financial crisis recovery in 2010, IFC received only $200 million. Hence, the steep increase in IFC funding significantly strengthened the Bank's private sector arm. Relatedly, agreement on the 2018 capital increase was achieved only after protracted negotiations, in which the US government agreed to the 2018 IFC capital increase but without US participation in upping resources on the grounds that "the IFC did not need more capital" (Malpass 2018).

In all, competition over scarce resources led the World Bank to look for complementary private funding. Facilitating a major capital increase focused on the Bank's borrowing facilities most suitable for orchestrating private capital and tied to more stringent mobilization goals supports our argument on IO adaptation strategies.

5.3. Mobilizing private funding: The "cascade approach"

The third avenue to revitalizing the Bank to counter the decline in market share was to mobilize private capital in a so-called "cascade approach" aimed at attracting private investors via new financial instruments. In 2015, the G20 had urged MDBs to focus on leveraging accumulated equity and on risk-sharing with private investors (G20 2015). This initiative was in response to the realization of G20 governments that public funding was insufficient to cover all their financing needs, thus opening the door to the private sector (Rowden 2019). The new World Bank President Malpass (2019) directly connected the initiative to declining market share: "with official development assistance stagnant and public-sector debt growing in many countries (…) [the] World Bank developed what we call the 'cascade' approach".

With the introduction of this approach, the Bank shifted its lending approach to leveraging "the private sector for growth and sustainable development" (World Bank Group 2017d, p. 1). Essentially, the "cascade approach" commits Bank's operations to prioritizing private funding and lowering "dependence on donor largesse" (Patrick 2017). This means that reforms in borrowing countries should alleviate de-risk investments and are used for financing to crowd-in private investors (World Bank Group 2017d). Overall, the cascade approach marks an extremely profound shift in the lending approach and makes private financing the default option supported by de-risking initiatives with public funding only being a last resort (Gabor 2019): "Only where market solutions are not possible through sector reform and risk mitigation would official and public resources be applied" (World Bank Group 2017b, p. 6). As Rowden (2019: 19) notes, this approach "reflects a dramatic inversion of the traditional approach to prioritizing development financing, which was to support long-term national economic development goals (…) [toward using] public development financing for prioritizing whatever is the most profitable for the private sector." The Bank's strategy coincides with a broader global shift in development discourse, what Gabor (2021) describes as the "Wall Street consensus," which stands for public-private partnerships in global economic institutions to achieve the SDGs. The Bank's design of new strategies to escort private capital to development asset classes in the global south (Rowden 2019) was completely aligned with the G20 position on turning development into investible projects that can be financed via bond markets (see G20 (2018)).

At the heart of this initiative as a major instrument for leveraging the Bank's balance sheet is *securitization*, which "reflects a competitive response to the growing use of these markets by China-led [MDBs]" (Rowden 2019, p. 7). In 2015, seven major MDBs had $359 billion in unused outstanding exposures (G20 2015). Securitization is the process of taking such loans, equity, and guarantees and transforming them into tradeable asset-backed securities. These securities can then be used as collateral for new loans. The risk can also be shared and tailored to private sector investors with different risk profiles so that MDBs require fewer reserves, which again maximizes lending space. The core idea is that these initiatives will create revenue used to repay MDBs ahead of schedule, which allows additional MDB loans to be made to developing countries. Two major avenues are "true sale securitization", where loans are bundled into an external asset-backed security trust sold to investors, and "synthetic securitization," whereby loans remain on the balance sheet but the risk is shared with private investors, reducing capital requirements and in turn freeing up resources for additional lending (Gabor 2019; Rowden 2019). To achieve the de-risking needed to implement the cascade, securitization provides an alternative

to straightforward guarantees, the traditional World Bank de-risking instrument, which cannot mobilize additional capital (Gabor 2019).

Specifically, the World Bank has begun to implement the "cascade approach" to raise more financing in bond markets. This new approach was first applied to infrastructure in nine pilot countries and will be expanded to finance, education, health, and agribusiness. The Bank has already started using new financing instruments to leverage its balance sheet and free up resources providing for de-risking required to implement the cascade. In December 2015, for instance, the Bank entered into an *Exposure Exchange Agreement* with the African Development Bank and the Inter-American Development Bank, swapping equal portions of outstanding loans to diversify their loan portfolio, allowing additional loans to be made from Bank capital (Humphrey 2017).

The Bank complemented this shift to private capital with internal administrative reforms and new incentives for staff (Edwards 2017a). Staff salary increases were capped (Igoe 2018). In addition, rewards and incentive programs were set up to encourage crowding-in private capital. The budget for performance awards more than doubled from $16 million in 2014 to $33 million in 2018 and award criteria shifted toward contributions to the "cascade" (World Bank Group 2012; 2018c). Project teams are expected to engage in "advising clients on whether a project is best delivered through sustainable private sector solutions (…) while limiting public liabilities" (World Bank Group 2017d, pp. 1–2). Bank units are rewarded for contributing to projects led by other units to better coordinate and finance parts by private capital, for instance, through IFC (World Bank Group 2017b, p. 14). Moreover, the 2016 *Agile Bank initiative* involves funding for small teams working on mobilizing private capital by removing barriers to collaboration and in 2017 had already been applied in over 170 projects (Edwards 2017a). To increase incentives to fund projects, the Bank has developed measures of (in)direct private capital mobilization (Edwards 2017b). The Bank also established a new "Blended Finance" unit to support projects in initially unprofitable sectors but with the potential to become commercially viable over time (World Bank Group 2017b).

IFC also established a new organizational structure under the heading "IFC 3.0" to achieve a new 90 percent goal for mobilization (World Bank Group 2018a) with a new CEO and a vice-presidential position to help identify public and private sector engagements. At the same time, IFC has set up two novel schemes to orchestrate sovereign investors, insurance companies, and private equity. The *Managed Co-Lending Portfolio Program* launched in 2013 serves as an index-like facility replicating the portfolio IFC is creating for its own account. IFC provides first-loss coverage to limit the risk for private investors by approving and supervising projects (World Bank Group 2018a). Eight global investors have committed more than $7 billion to almost 100 development projects implemented under this program. The second scheme, IFC's *Asset Management Company*, launched in 2009, is a co-investment vehicle to crowd-in equity investors, including sovereign wealth funds and pension funds, to finance companies and infrastructure projects. By 2019, this scheme was managing 12 funds, with $7.8 billion raised from third parties (IFC 2019).

Overall, the World Bank responded to competition for scarce resources by acquiring additional funding from the private sector to cope with the declining market share. Orchestration has occurred through the adoption of the "cascade approach" and through new financial instruments. This provides substantial evidence for our argument that a decline in market share caused a change in the Bank's adaptation strategies.

6. The second adaptation strategy: Expanding scope to global public goods

The second adaptation strategy of the Bank for coping with its declining market share consisted in expanding its portfolio to global public goods (de Nevers & Birdsall 2013). The publication of the Bank's *Forward Look* report in 2016 marked the official begin of its new strategy (World Bank Group 2016). To justify this scope expansion, the Bank adopted a narrative of aligning its goals with broader SDGs – ranging from poverty, health, education, gender, water and sanitation, environment, climate change, peace, and security. With this scope expansion, the Bank also widened the concept of development. The Bank's twin substantive goals of ending extreme poverty by 2030 and boosting shared prosperity for the bottom 40 percent in developing countries largely coincide with the SDGs. The Bank strategically portrayed unaddressed global public goods as a threat to its core mission of ending extreme poverty. As a result, the Bank linked climate change to development: "climate change is a threat to the core mission of the WBG to eliminate extreme poverty and increase shared prosperity in a sustainable way"

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(World Bank Group 2018a, p.18). The same is true for global health: "pandemics and other health deficits represent enormous threats to economic development, so they should be the World Bank's business" (Rice 2016, p. 59).

Widening the scope of its mandate to include these new global challenges was crucial for the Bank in seeking to obtain additional public and private capital funding. The Bank used UNCTAD data, which estimated that achieving SDGs by 2030 would lead to an annual funding gap of around $2.5 trillion (UNCTAD 2014), to justify the need for additional resources. The Bank has strategically adopted the narrative that the fulfillment of its core mission required new issues listed in the SDGs to be addressed such as climate change, health, displacement, and gender issues. To achieve this, the Bank promised institutional investors market opportunities in health, climate, and social infrastructure. Thus, the Bank accelerated the Washington Consensus push for the privatization and commodification of public goods (Gabor 2021).

Scope expansion into global public goods was linked to two substantial institutional innovations: public-private partnerships and financial intermediary funds (FIFs). As has been demonstrated elsewhere (Andonova 2010, 2017; Kramarz 2020), the World Bank begun addressing global public goods, using an economic framing of the instrument to highlight its gap-filling functions to areas underprovided by traditional financing mechanisms, through the massive promotion of public-private partnerships already in 2008 and 2010 during the Wolfensohn presidency (Andonova 2017). The establishment of FIFs was the second major instrument for expanding into global public goods. In contrast to trust funds (Reinsberg 2017a), FIFs are designed to rely on public *and* private co-financing. While the first FIF was set up already in 1974, 21 of the 29 FIFs have been created since 2009. Having held close to $9 billion in trust in 2007, FIFs now hold $23 billion, amounting to 70 percent of all World Bank-held trust funding. FIFs enable the Bank to expand into fields that were not originally within its mandate and also to leverage private finance for development (World Bank Group 2017a).

Expansion of the World Bank's mandate through FIFs has predominantly taken place in climate change and health, which amount to 85 percent of total FIF funding. The three largest FIFs, all in the domain of climate change, are the *Global Environment Facility* ($4.9 billion funds currently held in trust, since 1991), the *Climate Investment Fund* ($4.5 billion, since 2009), and the *Green Climate Fund* ($4.2 billion, since 2012) (World Bank Group 2017a). The *Climate Investment Fund*, cumulatively contributed by 14 donors for mitigation and adaptation programs in developing and middle-income countries, aims to mobilize a large portion of its funding from the private sector. Its biggest lending arm, the *Clean Technology Fund*, has approved funding of $4.1 billion and aims at leveraging $46.9 billion, $19.2 billion of which should come from the private sector (Climate Investment Funds 2016). The *Global Environment Facility*, created on the eve of the 1992 Rio Earth Summit to help tackle our planet's most pressing environmental problems, has turned its 2012 allocation of $1.2 billion into $9 billion in co-financing, $1.6 billion coming from the private sector (Global Environment Facility 2013). The *Green Climate Fund* has leveraged more than $14 billion in co-financing for its $5.6 billion investment (Green Climate Fund 2020). Thus, FIFs are an important instrument for the Bank and interested donors, including private investors, to access funding in adjacent domains.

In the domain of health, the *Global Fund to Fight Aids*, *Tuberculosis and Malaria*, established in 2002, is the largest FIF and has meanwhile received cumulative funding to the tune of almost $40 billion. Historically, 7 percent of its contributions have been from non-governmental sources and, for the latest funding cycle, the private sector accounts for $1 billion out of $14 billion pledged in total (The Global Fund 2020). By expanding its scope to global health, the Bank established the *Pandemic Emergency Facility* as a FIF in response to the Ebola crisis. Its insurance window draws on private sector participation through the issuance of catastrophe bonds, re-insurance services and other private financing instruments. This program serves as a quick-disbursing financing mechanism for rapid response to large-scale disease outbreaks in low-income countries.

Displacement and gender issues mark two ecological niches for World Bank mandate expansion with less funding volume. In response to the 2015 refugee crisis, the Bank established the *Global Concessional Financing Facility* to provide concessional financing to middle-income countries. This FIF amounts to $580 million in contributions mainly from European countries. Every dollar in donor support is supposed to unlock $4 in concessional loans. On gender issues, the *Women Entrepreneurs Finance Initiative* – the so-called "Ivanka Fund" – announced at the G20 Leaders' Summit in July 2017 is designed to improve access to financial services for women entrepreneurs in developing countries, receiving more than $350 million in contributions from

14 countries. With the first two tranches totaling $249 million designated for its programs, the Fund aims to leverage $1.5 billion in additional capital from the private sector only.

There is considerable evidence for a functional rationale behind the expansion of the Bank's scope. First, to justify the mobilization of new financing sources, the Bank used the strategic narrative that traditional public funding could not cover the SDG financing gap. For example, some Bank units have claimed that they "would be out of business without trust funds" (IEG 2011, p. 75). Second, the availability of trust funds enabled the Bank to expand its scope to global public goods and has given the Bank "voice and responsibility in (…) global partnerships addressing such issues as control of communicable diseases, climate change mitigation and adaptation, (…)" (IEG 2011, p. 68).

In short, the Bank's second adaptation strategy of revitalization consisted in connecting adjacent domains to its core mandate by creating the narrative that new transnational areas of governance were crucial in fulfilling its core mission. To achieve this, the Bank used FIFs as a major vehicle for obtaining additional funding.

7. Conclusion

In recent years, the funding of global development programs has shifted toward private capital mobilization. This financial revolution has important consequences for MDBs, for competition among actors, and financing forms. As in other policy areas, dependence on private capital funding is on the rise – with implications for the future of global development governance. Private investors are likely to set different priorities than state actors and will ensure high returns on their investment in development financing. To explain this shift toward private capital, we have focused on the revitalization of the World Bank to explain the conditions under which IOs engage in raising private capital funding and expanding their scope to close the gap opened by a decline in market share.

We set out from a functionalist premise and an organizational ecology approach to explain the revitalization of the World Bank. We argue that orchestration of private financing and scope expansion are rational responses to resourcing challenges. Our first proposition was that when an IO's market share declines, IOs are more likely to look for complementary private funding to attain the necessary resources. Our case study shows that the Bank has adapted with a mix of transforming IDA to borrow sizable private capital, gaining support from member states for a capital increase for IBRD and IFC designed for additional private capital mobilization, and setting up novel development financing instruments for crowding-in private investors throughout the Bank. Our second proposition was that when the market share of an IO declines, the IO is more likely to expand its mandate into adjacent domains to attain resources. Our case study illustrates that the Bank aligned its mandate strategically with the broader SDGs – including climate change, health, and gender issues – to increase its market share through public-private partnerships and FIFs in these fields. While orchestration and scope expansion are two distinct responses, in our case study both co-occur as simultaneous responses to declining market share.

What are the consequences of the World Bank's shift to crowd-in private financing? First, the Bank's strategy to increase private capital for IFC and IDA has "legitimized the notion that private finance is the solution to pressing development" (Sundaram & Chowdhury 2019). Second, alongside borrowers and donors, private investors joined the group of stakeholders, becoming additional principals with their own agendas, and will probably affect the Bank's lending strategies. It is too early to speculate whether these changes will shape the existing accountability mechanisms at the Bank or even lead to new ones. Third, privatizing development financing also seems to have human rights implications. A 2018 report from the UN Special Rapporteur on extreme poverty and human rights deplored that the Bank's shift to private funding ignores the human rights dimension (Alston 2018). Civil society organizations have also criticized IFC for its poor human rights record compared with other WBG institutions (Oxfam 2016). Greater reliance on private financing could therefore lead to less human rights protection where private financing is involved.

The Bank managed to adapt quickly to a new and complex multilateral development assistance landscape to revitalize itself. In the years to come, however, WBG institutions may continue to lose "market share" in this densely populated field to other MDBs and private actors, in particular to philanthropic organizations.

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Data sharing is not applicable to this article as no new data were created or analyzed in this study.

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