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Making Global Benefits Pay: The World Bank Reform to Support Global Public Goods

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Summary

Global public goods (GPGs) are goods that are produced locally but have global effects. GPGs are essential for securing global development. The climate and biodiversity crises, pandemics, as well as fragility, conflict and violence are threatening livelihoods and well-being around the world, and addressing them would have enormous positive economic and social effects. However, the cross-border externalities involved are not being fully taken into account by countries, and hence these GPGs are still underprovided compared with what would be globally optimal.

One year ago, the World Bank launched the Framework for Financial Incentives (FFI) to strengthen the support of GPGs in its operations. This novel instrument encourages countries to implement investment projects and policies that have positive spillovers to other countries by offering targeted financial incentives. As a core element of the World Bank's Evolution reform, the FFI reflects the recognition that relatively modest investments in client countries can generate substantial global benefits – for other developing and emerging economies as well as for the Bank's shareholder countries. Its challenges lie in incorporating the non-financial aspects of GPGs and the multi-faceted motivations to provide them in bankable operations.

This policy brief discusses the relevance of GPGs for development and presents the World Bank's approach to supporting their provision in client countries through the FFI. The key takeaways are:

- GPGs are not all those that are commonly shared or agreed upon as goals but are defined by the specific problem structure that the involved cross-border externalities entail.
- Investment in GPGs can generate substantial benefits – not only for developing and emerging economies, but also for high-income countries that make up the World Bank's largest shareholders. Consequently, both out of enlightened self-interest and as a cost-effective way to advance global sustainable development at a time when international development budgets are undergoing significant reductions, shareholder countries should increase their contributions to the FFI. This applies in particular to those provided to the Livable Planet Fund, which provides the essential grant financing for countries' GPG-related projects.
- To retain and strengthen confidence among stakeholders, the FFI must deploy its resources efficiently. This implies offering grants only when projects' overall domestic benefits are insufficient to motivate countries to provide GPGs on their own, and extending loans instead when client countries have sufficient self-interest to ensure repayment. The assessment of costs and benefits is complex, but it should improve with experience and become increasingly standardised. To signal its effectiveness, the FFI should pursue full transparency in its allocation decisions and undertake systematic impact assessments.

Supporting local development in a globalised world

The World Bank and other multilateral development banks (MDBs) have set themselves the twin goals of ending global poverty and promoting shared prosperity. They aim to achieve these goals predominantly by providing financing to developing countries to implement projects and policies that support economic development and increase incomes in the poorest parts of societies.

However, development is increasingly less a purely national issue. Many sources of economic and personal well-being across the world are rooted in global developments rather than purely domestic ones (Kaul, 2013; United Nations Development Programme, 2024). Take the global climate and its impact on local farmers as one prominent example. But there are many more ways in which human activities around the world can either boost or impede economic prospects and well-being in other parts of the world to a critical extent.

These global interdependencies of development pose challenges to the mode of operation of MDBs. When central parts of development are not in countries' own hands, the countries cannot be supported in implementing projects to achieve this development. Therefore, the World Bank and other MDBs have been investigating ways to foster global development by expanding their mode of operation to support the provision of so-called global public goods (GPGs).

This policy brief discusses the World Bank approach to supporting GPGs through the Framework for Financial Incentives (FFI). It first illustrates the economic relevance of GPGs as a rationale for investment. It then discusses why GPGs are nonetheless underprovided still, to show why financial incentives through the World Bank may be a promising way to support their provision. It then presents the FFI in more detail to discuss challenges it faces and the most efficient way to use its funds. The policy brief closes with recommendations on the way forward and a call for an enhancement of the instrument.

The importance of GPGs for development

Crises such as the climate crisis, wars and trade wars are omnipresent in the news, as have been pandemics and financial crises. Their urgency appears obvious. However, it is not as straightforward how their impacts compare to other concerns – above all, economic ones. With limited funds in development cooperation, particularly at current times, it is imperative that money is spent in an impact-oriented way. Oxford Economics has developed a framework to approach a unified monetary valuation of GPGs (Oxford Economics, 2023a). It is based on existing research, and some GPGs are more extensively researched than others. Still, the exercise can provide a quite coherent overview of the opportunities that investment in GPGs present and allow for comparisons of costs and benefits between different GPGs. The framework considers all economic and social impacts that the provision of GPGs would entail. In the case of "adverse" GPGs – where we typically think about related harms such as a deteriorating climate, the loss of biodiversity or the emergence of pandemics – the value lies in the reduction of these harms, that is, the reduction of greenhouse gas emissions, the protection of important biomes or reducing the risk of pandemics. The framework considers all the direct economic effects as well as the social impacts, insofar as established monetary valuations of these are available. When the values are contrasted with the costs of providing the respective GPGs, a "return to investment" in GPGs can be assessed. This comparison reveals how investment in GPGs measures up against other development projects typically financed by the World Bank. Table 1 presents estimates for an inconclusive exemplary list of GPGs based on the meta-study by Oxford Economics (2023a). They show that the returns on investment in these GPGs could be immense.

Table 1: Estimates of values and costs of GPG provision for four exemplary GPGs

	Global values	Global costs	Project-level values	Project-level costs
Climate change mitigation	10% of global gross domestic product (GDP) is at risk by 2100	5% of global GDP until 2050	US$300 harm avoided per tonne of CO_2-eq. emitted less	US$100 sufficient, but low-cost emission reduction options start at US$20 per tonne of CO_2-eq.
Protection of biodiversity	More than 50% of global GDP at risk in next 50 years	Current financing gap is less than 1% of global GDP	US$5,000 per ha. of tropical forest	Opportunity costs of farming typically lie around US$200 per ha.
Pandemic preparedness	US$3.5 trillion yearly harm through Covid; average before about US$237 billion	US$2 to 45 billion	Established interventions are estimated to have returns of US$10 to 100 per invested US dollar	
Peace and security	10% of global GDP overall; about US$300 billion only in most conflict-affected states	US$20 billion in most conflict-affected states	Predefined interventions for peacekeeping, stabilisation and prevention could produce value of around US$16 per invested US$	

Source: Oxford Economics (2023a)

The list of GPGs for which investment could produce significant social and economic returns could be continued (for a more extensive discussion and examples of other GPGs, see Oxford Economics, 2023a). We limit it to these examples because they are the most relevant for World Bank client countries, both in terms of their role for development in these countries as well as their potential to be addressed in them (Oxford Economics, 2023a).

It is indeed the case that the significant potential economic and social impacts of investments in these GPGs would accrue in developing countries to a substantial extent. Countries close to the equator (as well as small island states) are the ones most affected by further global warming, for example through extreme weather events such as droughts, which affect agricultural outputs, and hence a significant source of income in many developing countries. The value of biodiversity and its habitats is global, but the economies of developing countries depend much more on natural capital than high-income countries, and also more on the environmental regulation services that many biomes provide. Poorer countries are more vulnerable to pandemics due to weaker health systems. During the Covid crisis, middle-income countries were the most strongly affected due to global value chain disruptions. It is clear that the externalities associated with global warming, biodiversity loss, pandemics as well as conflicts pose substantial threats to opportunities for development. Therefore, the provision of GPGs for alleviating these threats is a big chance – if not an obligation – to end poverty and promote shared prosperity.

GPGs are underprovided

To understand why GPGs are underprovided, despite their significant economic and social returns – and hence, how this can be addressed effectively – one needs to analyse the special problem associated with them by their defining characteristics. GPGs are everything that affects local well-being but does not arise (solely) from within the affected country. However, they can be seen as "goods" because they originate from economic activities. They are global, because they originate in the economic activities of others, outside of the control of the affected country, that is, consequently, in other countries. This, economically, is considered *external effects* (of the respective activities), or in this case, because it happens across borders, *cross-border externalities*. The good is what generates value or harm. GPGs, by the problem structure they exhibit, are hence defined as goods that have global cross-border externalities. Although public goods and externalities are theoretically two distinct concepts, they can be used interchangeably in this context, so we can apply the commonly used term GPGs to those goods that exhibit cross-border externalities (International Monetary Fund, 2021; World Bank, 2007).

The channels of the cross-border externalities differ between GPGs. Table 2 lists for the four exemplary GPGs estimates of the share of cross-border externalities in the overall value presented above and lists the main channels of these externalities. The involved amount of externalities can depend on the exact activities in the respective area. An important distinction can be made in the area of the fight against climate change: Whereas climate change *mitigation* activities almost completely generate value from cross-border externalities through reduced emissions, those for climate change *adaptation* are typically much more local, that is, they involve rather few global externalities (if any, then mostly regional ones).

Table 2: Cross-border externalities by GPGs for exemplary GPGs

	Share of cross-border externalities in value	Explanation and channels of cross-border externalities
Climate change mitigation	100%	Almost the full effect of emissions can be assumed to be cross-border externalities, because the effects on climate are fully global
Protection of biodiversity	70%	Climate and other environmental regulation services, medicinal and genetic resources
Pandemic preparedness	100% / 33%	Full prevention would be global, but prevented infections also impact other countries through value chain relationships
Peace and security	40%	Refugee flows, the need for own military expenses, and value chain disruptions

Source: Oxford Economics (2023a)

The problem with GPGs – that is, those activities that draw much of their value from cross-border externalities – is that countries have too few incentives to provide these goods on their own account. Because the positive effects – at least in relevant parts – also accrue to other countries while the provision of GPGs is typically costly, individual countries are reluctant to bear these costs. As this holds for all countries, they will all do the same, and the resulting equilibrium is the mutual global underprovision of these goods (International Monetary Fund, 2021).

Economists typically suggest two potential solutions to solve the problem of underprovision of public goods or external effects. Both solutions work by affecting the incentive structure of the agents, which in this case are the countries. The first is mutual agreement on the provision of the public good. Because all countries would benefit if other countries provided the GPG, they should be willing to provide the GPG in return. Such mutual agreement exists for most GPGs through the Paris Agreement; the Convention on Biological Diversity; WHO Health Regulations and the International Treaty on Pandemic Prevention Preparedness and Response; the World Trade Organization's General Agreement on Tariffs and Trade; or the Basel Regulations. Through all of these and many others, the signatory countries commit to the provision of the respective GPG in some form. However, almost all of them have a shortcoming: They are only weakly enforceable. Most built their incentive structures largely on reputational effects. Countries that do not comply with the agreed upon actions can be "named and shamed", but there are typically few additional consequences. These incentives are evidently too weak to ensure optimal provision of the respective GPG. This can be seen with the Paris Agreement, for which basically no country fulfils the low-threshold obligations that they themselves set.

The second potential solution to the problem of externalities, or GPGs, is to provide financial incentives for the provision of GPGs. If that financial incentive is equal to the cross-border externality that is produced, in theory an optimal provision of the GPG is ensured because countries are paid for the positive effects they produce. In practice, the global community has an institution in place that can provide financial incentives – the World Bank, the world's largest multilateral provider of long-term development finance. It has the reach, the instruments and the technical capacity, along with direct operational links to the institutions that ultimately implement GPG-relevant investments and reforms in client countries.

However, the World Bank only provides financing to low- and middle-income countries. These are not solely responsible for providing all GPGs, so incentivising them to provide GPGs cannot be viewed as a complete solution for the underprovision of GPGs. But investment in low- and middle-income countries can be a key cornerstone in the global provision of many GPGs. Emerging economies take a central role: With increasing emissions, environmentally relatively inefficient energy systems, hosting many important biomes including rainforests, as well as their often large populations, they can substantially – and cost-efficiently – contribute to the provision of many GPGs, including climate change mitigation, protection of biodiversity, and pandemic preparedness.

The World Bank's Framework for Financial Incentives

Under growing pressures from stakeholders to better address the challenges to development of our times (G20, 2023), the World Bank in early 2023 presented its Evolution Roadmap. In it, the bank lays out how it seeks to transform itself in response to eight global challenges that it identified. This list of global challenges, while including the GPGs discussed above, is not restricted to areas that typically involve large cross-border externalities. It also includes commonly shared goals such as enabling digitalisation and energy access, which all countries seek to achieve, but of which the value also arises domestically where provided. However, acknowledging the particular issues that come with cross-border externalities, the World Bank also launched the FFI as part of its evolution strategy in 2025 as a keystone of this agenda (World Bank, 2025a). The FFI is a novel financing instrument that supports projects addressing one of the identified global challenges that additionally exhibit substantial cross-border externalities (Global challenges with cross-border externalities, GC+E). It is explicitly aimed at client countries of the International Bank for Reconstruction and Development (IBRD), that is, mostly middle-income countries.

The FFI is not the only instrument in the World Bank cosmos that addresses GPGs. There are specific funds for individual GPGs, such as the Global Environment Facility or the Pandemic Fund. In contrast to these, it explicitly makes its funding conditional on the provision of cross-border externalities. In order to clarify which interventions in any of the global challenges would be considered to include cross-border externalities, the World Bank provides a number of examples in each of the areas of projects that exhibit and projects that do not exhibit cross-border externalities (World Bank, 2024). The FFI is explicitly agnostic about the type of project to be supported – both "brick and mortar" investment projects as well as policy programmes can apply. The application for financial support through the FFI starts in the client countries, so that the instrument adheres to the World Bank's established country engagement model. Countries can apply for additional credit (volume incentives), extended maturities (tenor incentives) or grant funding (price incentives).

Volume and tenor incentives are provided through the IBRD's Global Solutions Accelerator Platform, which can leverage large amounts of IBRD money, financed by hybrid capital or portfolio guarantees from shareholders. Up to now, the United States, Germany, Japan, Belgium, Denmark, Italy, Latvia, the Netherlands, Norway and the United Kingdom have contributed in one or the other form, so that US$2 billion per year can be offered in additional volume incentives in the upcoming years (World Bank, 2025b).

Price incentives are financed by the Livable Planet Fund (LPF), which had seed funding of US$200 million, with a funding goal of US$400 million by the end of 2025 (World Bank, 2025c). This is partly financed by transfers of IBRD net income, and partly by additional donor contributions. So far, Japan and Spain have contributed grants, while Germany, Denmark and Iceland are channelling the income from their hybrid capital contributions towards the fund.

The financing structure – with a mixture of extended volumes and tenors of loans at IBRD conditions and grants – also separates it from another World Bank instrument to foster the provision of GPGs in client countries: the International Development Association's Global and Regional Opportunities Window. This is aimed at mostly low-income countries, and thus operates with higher levels of concessionality in its financing.

The FFI, in contrast, aiming at IBRD client countries, first tries to operate with loans at IBRD conditions (which are only concessional insofar as their interest rates are below market rates). Price incentives – that is, grants from the LPF – only come in if a project is expected to have sufficiently high positive cross-border externalities, but domestic benefits are not high enough that the government would have an incentive to pay back the respective loan to finance the project. Providing grants for all projects up to the size of their cross-border externalities would ensure that all projects that are globally beneficial would be pursued. However, it would not be cost-efficient from the Bank's perspective. Many projects do not need that level of (grant) support to be pursued by the respective governments. Instead, domestic returns can be large enough that countries will pursue them when they have to pay back the loan. Disentangling this for projects – and thus determining the minimum amounts of volume and price incentives needed to produce the largest amount of positive cross-border spillovers – is thus the greatest challenge for the practical implementation of the FFI.

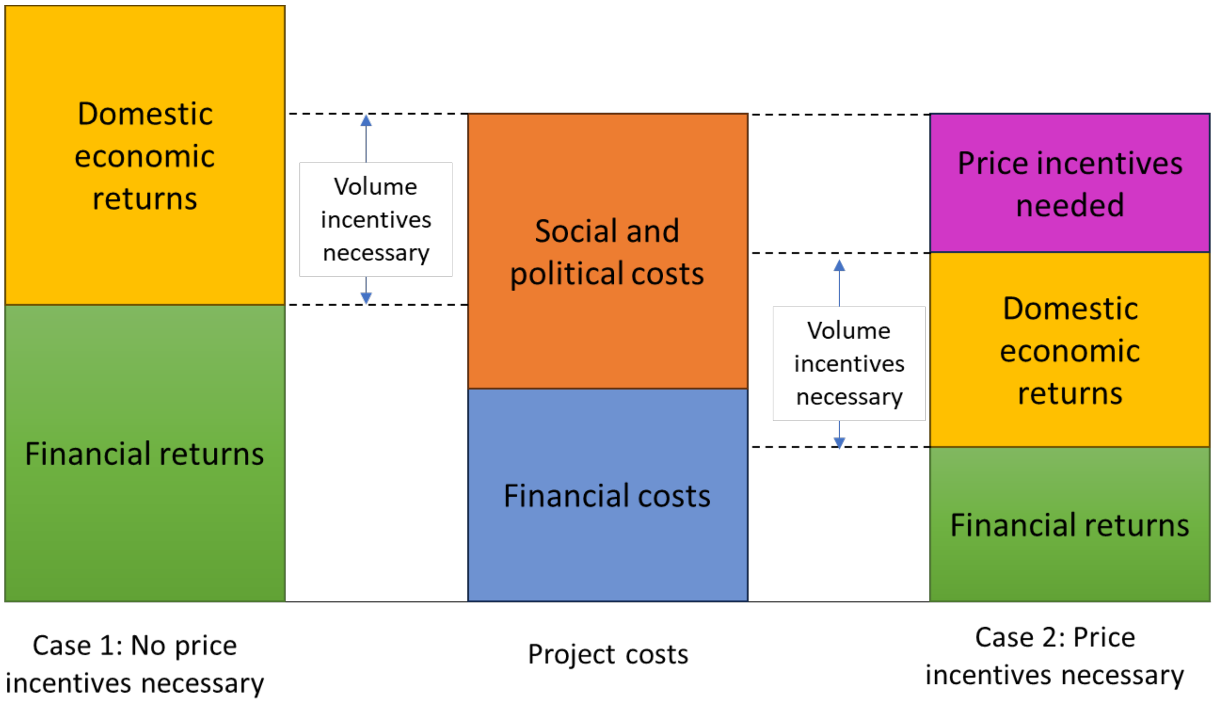
This is especially true because the domestic costs and benefits involved may not take the form of direct, project-related financial flows. Instead, the costs of projects can be political, in that they are necessary to generate acceptance in the country, such as expenses for a just transition in climate projects. On the other hand, there may also be additional domestic economic benefits, such as employment effects or reductions in levels of local pollution, which would increase a government's willingness to pursue the project without further grant support. Since price incentives are the most attractive and scarce funding line, countries applying for these grants need to demonstrate that – beyond generating substantial cross-border externalities – the project would not have been pursued anyway, to limit arbitrage (World Bank, 2024).

Figure 1 illustrates the necessary levels of volume and price incentives to make projects with different cost and benefit structures viable. Exactly determining the values remains difficult because the domestic costs and benefits may be hard to pinpoint in financial terms, which requires qualified estimates.

Assessing the sufficiency of tenor incentives is even more complex because it refers to the time-wise distribution of costs and benefits, such that projects can typically be incentivised with tenor incentives when domestic economic benefits occur only in the long run.

Adding to the overall complexity, the FFI incentives do not operate in a vacuum. As noted above, there are incentives other than the financial or economic ones for countries to provide GPGs, such as their international commitments and reputational considerations. Due to these, countries may be willing to invest own money, and hence need even fewer price incentives than the financial and economic costs and benefits would suggest. Oxford Economics (2023b) has analysed a number of good practices of GPG projects and found that regularly, financial incentives that were lower than those the cost and benefit structure would have suggested were sufficient to induce countries to pursue projects that exhibited positive cross-border externalities.

Figure 1: Examples of domestic cost and benefit structures and the respective necessary incentives



Note: This figure depicts an exemplary cost structure of a GPG project (middle) and compares this with two exemplary situations of domestic benefits (left and right).

Source: Author

The most cost-efficient way to allocate price incentives would hence be to induce countries to self-report the lowest grant amounts needed to pursue a (globally beneficial) project. This can be achieved through an auction-style mechanism in which price incentives are awarded to those projects that need the least amount of support for each positive cross-border externality achieved (Zattler, 2024). This sets incentives to maximise positive spillovers at minimal cost for the FFI through the LPF. The difficulty is exactly measuring the cross-border externalities and comparing them across outcomes and GPGs. The FFI currently employs a scoring approach that is not purely based on monetary-equivalent measurements. Instead, it scores the intensity of the cross-border externality together with some additional features of the projects, such as replicability of the projects and country ambition, which can also have beneficial effects for the GPG aside from directly generated cross-border externalities (World Bank, 2024).

The way forward

In the first round of funding, the LPF disbursed US$76 million (World Bank, 2025d). This is, as is its overall endowment, still a relatively low number. World Bank shareholders would be well-advised to step up their contributions to the LPF. The returns to all low- and middle-income countries due to the cross-border externalities from the supported investments can be enormous, meaning that these contributions would effectively be fostering the World Bank's twin goals. At the same time, there are also returns to high-income countries through the cross-border externalities, giving these countries an additional self-interest in sponsoring the LPF further.

To earn the trust of sponsoring countries, the FFI needs to demonstrate that its funds are also well-invested in practice. Project assessments during its past initial phase will have provided experience and fostered institutional learning. This pertains to the assessment of typical costs and domestic benefits of GPG projects, as well as that of the involved cross-border externalities required to assess them more comparably, also across GPGs. With this experience and established procedures, the FFI should display full transparency on the allocation criteria, the process as well as the final funding allocation decisions. Furthermore, the FFI should conduct impact assessments of supported projects to be able to illustrate their results. All of this could help to showcase the effectiveness and efficiency of the instrument and also provide outside actors – including governments, researchers and other observers – with a chance to engage and contribute to the refinement of the instrument even more.

As a cornerstone of the World Bank's Evolution process, the FFI addresses the urgent need to support GPGs in order to reduce poverty and boost shared prosperity. By explicitly accounting for the underlying problem of cross-border externalities, which leads to GPG underprovision, it taps into significant – hitherto untapped – potential benefits. This is especially promising at a moment when shrinking development cooperation budgets call for a more effective use of scarce resources. At the same time, it can also directly illustrate the value of development cooperation for contributing countries. If the FFI can overcome the challenges involved with the implicit and non-monetary costs and benefits, standardise its assessments to make it predictable for client countries and become more and more transparent to increase its accountability, it can become a truly (r)evolutionary milestone in the World Bank's reform process.

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