Global Challenges Foundation

The "Sponsored Loans Program" – How to Mobilize Private Sector into Global Development

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The world has an issue: trillions of dollars are parked at negative interest rates. Simultaneously, hundreds of projects in the developing world sadly never materialize. The reason? Not being "eligible" for the larger players (pension funds, insurance companies) due to their risk. Concurrently, the World Bank has two unique features: it can issue debt at exceptionally low terms and has never experienced a default. Meanwhile, there are 2,000 billionaires worldwide that share a common element: a fraction of their wealth is held in cash. Lastly, there is a concept that applies to almost any field with the exception of the financial world: "sponsorship". The proposal is the to set up a systematic structure within the World Bank, the "Sponsored Loans Program", that would enable billionaires to sponsor projects as guarantors, becoming the new standard for development finance.



1. Abstract

The “Sponsored Loans Program” is a proposal to align three of the major actors in the world -The World Bank Group, The Giving Pledge and corporates with a focus on Corporate Social Responsibility (CSR)- that by working together, could have a massive impact in the development world.

There is a once-in-a-life opportunity to create a virtuous circle with a stunning feature – it would have a zero cost. Let us explain how.

THE PREMISES

The “Sponsored Loans Program” is based in 9 premises:

Premise 1 – There is sea of money parked on the sidelines
The first premise should be an encouraging one –there are plenty of financial resources available. In today’s world there are –literally- trillions of dollars invested at a negative yield waiting a better investment opportunity.

Premise 2 – There are many opportunities in the developing world
Simultaneously, these investors at negative yield could have access to alternative opportunities. In many developing countries there are plenty of investment projects waiting to be untapped. These green pastures could simultaneously offer both attractive yields and diversification benefits.

Premise 3 – Demand and supply cannot be matched
Indeed, the potential investors (Insurance Companies, Sovereign Funds, Infrastructure Funds) are unable to allocate resources to these developing countries opportunities. The reason being the rating hurdles that legal covenants impose on asset allocators. Any potential investment in order to be eligible would need to be many notches above high yield.

Premise 4 – The World Bank Group’s potential could be maximized
The World Bank Group holds two critical features.

First, the institution has maintained a constant AAA rating for more than five decades. This means that from the liability point of view of its balance sheet, it can issue debt under the most favorable terms.

Second, from the other side of the balance sheet, the assets, they also have an absolutely unique characteristic –there is not a single record of government default, ever. Even during the most uphill situations, still under the largest sovereign debt defaults, when the debtor was a government the loan has alwaysbeen honored to the World Bank.

Premise 5 – A number of billionaires want to take a step forward
There are more than 1800 billionaires in the world. And a significant number of them are looking for fresh ideas to do more; precisely some very relevant ones, as Jeff Bezos, are publicly asking for innovative ideas to give back to society.

Premise 6 – Billionaires hold a fraction of their wealth in cash
Some billionaires have their own charities; some of them have joined the Giving Pledge. But all the most affluent persons in the world have something in common –a fraction of their wealth is held in cash.

Premise 7 –Corporates can also contribute to a better world
The goal of any corporate is making money for their shareholders. But some things have changed in recent years. New approaches as the "triple bottom line" have been gaining momentum. There is an increasing willingness in many corporates to try to go further than just use their CSR division as the standard default answer.

Premise 8- The inequality debate will intensify
The inequality debate has heated up. Specifically, the social discontent focuses in two perceived "guilty" –large corporates that are seen as the winners of globalization and the top billionaires that have amassed fortunes in some cases larger than many countries' GDP.

Premise 9 – The untapped potential of sponsorship
And the last premise is probably the most important one –sponsorship has been applied to almost any subject with the exception of financial world. There is a massive opportunity just waiting to be exploited.

THE PROPOSAL

The proposal is extremely simple –setting up a new unit in the World Bank Group to lead the "Sponsored Loans Program". This division would belong to the IBRD and hosted in the Poverty Global Practice with dotted reporting lines to Treasury and Regional Offices. Thus, it could leverage on the WBG's already existing decision-making procedures, internal by-laws and control mechanisms.

Astonishing as it may sound, billions from the private sector could be mobilized at a zero-dollar cost by replicating the following path.

a) The World Bank sets up a SPV (Special Purpose Vehicle)

b) A billionaire or corporate makes a deposit in the SPV.

c) The money deposited in the SPV by the billionaire or corporate is kept by the WBG as a future loan guarantee.

d) The WBG offers to the billionaires or corporates development projects of their interest for them to sponsor.

e) Once the project is chosen, the WBG issues bonds, taking advantage of its AAA rating.

f) The money raised is lent to a sovereign government (always to a government, not to a private entity; the key factor is always using sovereign guarantee)

g) The government uses the loan to execute the development project selected by the corporate or billionaire.

h) By having the billionaires deposit guaranteeing 1:1 the loan, there is no capital consumption in the World Bank balance sheet. Thus, the WB can keep on lending indefinitely.

j) By being a sovereign government the debtor, the WB ensures that it will be paid back because all the undesirable consequences that a for a sovereign state involves defaulting the World Bank (suspension of all other multilateral help; freezing of every assistance program). As a matter of fact a default to the WB would imply shutting the door to external funding to the country involved.

CONCLUSION

Very recently the President of the World Bank, Jim Yong Kim, stated:
"To achieve our goals of ending extreme poverty and boosting shared prosperity, we need new thinking and innovation".

The president of the institution that should lead this governance system proposal clearly has the view and the willingness. And he is looking for "new thinking and innovation".

Let us give him the tool.

2. Description of the model

THE "SPONSORED PROGRAM" – HOW TO MOBILIZE PRIVATE SECTOR INTO GLOBAL DEVELOPMENT WHILE TACKLING INEQUALITY

Maximizing the World Bank Group Potential
In 2009, two San Francisco entrepreneurs had an intuition. In a region with massive traffic congestion, they had out a visionary idea. Where everyone else just saw a car empty seat, they saw a business opportunity. Über was just born.

Yet this was not an isolated case. Just a couple of years earlier, two roommates, Brian Chesky and Joe Gebbia did the same with -at that time- a strange concept. Today AirBnB is worth over $30bn.

The following is a governance proposal to broaden the debate regarding how to expand the World Bank Group role and, in particular, to explore what could be its unique capabilities. The final aim is to offer operational alternatives that would enable the WBG to exploit its full potential as a 21st century institution.

If AirBnB has been able to become the world's largest lodging-operator without owning a single bed, and Über has become the world's largest car-operator without owning a single car, other industries – including the multilateral world – should be able to replicate the model. The World Bank Group could and should pursue this course –becoming a much larger development institution with minimum equity consumption.

THE CONTEXT

During the past 40 years, the world has experienced the most acute reduction of poverty ever recorded. The advance has been extraordinary. Yet, there are still hundreds of millions of people whose life conditions remain unacceptable.[1]

Simultaneously, an apparent paradox has taken place. At the same time that entire populations managed to escape poverty, the wealthiest among the wealthiest have accumulated even larger fortunes. [2]

There is an intense ongoing academic debate whether economic growth should necessarily correlate with inequality but one fact is beyond dispute: the unease in the middle-class of the developed world has increased. A timely book published in 2013, "Capital in the Twenty-First Century", helped to intensify an already heated debate.

In the interim, an instrument that arose in the 1990s and has proved very useful to channel private sector resources – the public-private partnership (PPP) – has gradually begun to lose momentum. Thus, a new economic instrument, still to come, is required to supplement the role of the PPPs.

The natural conclusion is that if a financial innovation could be found that could help simultaneously to a) engage the private sector into development projects and b) reduce inequality, significant support would be obtained.

THE CONUNDRUM

But there is a conundrum. In a world with overflowing liquidity, it is very difficult to channel this cash to where it could obtain a healthy yield. Absurdly enough, the biggest challenge for any large institution CIO is what to do with its available liquidity.

Furthermore, in a world where more than $10tn debt trade at negative yield,[3] it still proves exceptionally difficult to allocate a fraction of available funds to specific regions where return and diversification benefits could be exploited. The reason lies in one word, de-risk.

There is a wall of risk to be bridged. Therefore, in order to solve the conundrum, a remedy to the de-risking issue is required. If a solution to the risk mitigation problem could be found, a massive flow of financial resources could pour into profitable projects in a very short timespan.

This financial innovation is within reach and could be fully operational in a short period of time. We have termed it "Sponsored Loans" and the WBG should be in the forefront of its implementation.

THE TRADITIONAL PLAYERS

Before illustrating the concept of "Sponsored Loans", let us discuss the role of the three traditional actors involved in any financial transaction.

The Demand

The first participant is well known – the demand. The request for financial resources. Hundreds of millions of people whose lives could change dramatically if basic investments were undertaken in areas such as power generation, water supply or healthcare. A few first steps that, if taken, could prove transformational for large swathes of population.

The Supply

On the other side of the equation there is a sea of money – the supply. A huge accumulation of cash emanating from pension funds, insurance companies or sovereign wealth funds, many of which are sitting on the sidelines in a world of negative yields.

The common factor of all these institutions is that they would be eager to obtain a better return on their money. However, there is a problem. The trust bylaws prevent these companies from investing in any financial instrument that do not reach a minimum score from the main credit rating agencies.

The Middleman

Finally, between a demand and supply difficult to match, exist the middlemen. Intermediaries of all sorts, attempting to bridge the gap between financial providers and investment projects. At the end of the spectrum, as funders of last resort, are the institutions that could be the game changers – the development multilaterals.

Standing out among them is the World Bank Group, the point of reference in global development. A group of extraordinarily qualified people that would probably be able to reach even larger targets if the bank could achieve something certainly difficult – expanding its balance sheet.

Indeed, the size of a bank balance sheet depends on its equity. And the amount of equity required by regulators is linked to its risk weighted assets. If it would be possible to find a way where an external actor could fully guarantee a development loan and thus, reducing the capital consumption of these guaranteed loans to zero, the bank balance sheet could then expand indefinitely as long as the proper amount of guarantees would be found.

In our view, this is feasible. Such a loan expansion is possible if the World Bank Group would successfully tap into one of its best assets – its strong reputation. In order to do this there is a critical requirement – enhancing the middleman.

HOW TO CLOSE THE CIRCLE

Enhancing the Middleman

A basic principle of any industry is that the best player holds a strong competitive advantage. These entry barriers can take very different shapes; proprietary technology, first mover network, market dominant position, and so on. Yet, one of the best competitive edges is something that appears simple in theory but is very difficult to achieve in practice – a good name. Trust. A spotless reputation based on decades of sound performance.

In September 2008, the investment banking industry was tanking by the day. Unexpectedly, Lloyd C. Blankfein, Goldman Sachs' CEO received a phone call. On the other side of the line was a legendary investor, Warren Buffet, with a stunning proposition – buying $5 billion worth of Goldman's preferred shares at a 10% yield. [4]

Blankfein knew that this was not optimal. He could have gotten a much better deal by selling preferred stock in the open market. But there was something else that tilted his decision – capitalizing Buffett's goodwill. The message sent to the market

was that the most respected worldwide investor was becoming a core stockholder of Goldman Sachs. And this was infinitely more valuable.

The World Bank Group should follow suit. It not only has an exceptionally good name, but it holds two distinguishing features in terms of both, funding and lending, that no other institution simultaneously has.

First, on the liability side of the balance sheet, a perennial AAA rating; a capital market access at very favorable conditions.

Second, and most important. On the asset side of the balance sheet, a track record of government loans always being repaid. The confidence that any country will take extra care not to default to the WBG. Under extreme circumstances, some delays and arrears have happened. But something critical for any creditor has always been true – the principal has historically been honored.

This unique advantage could and should be maximized.

Obviously there is a limit to the amount of debt that any bank can issue to support its loan portfolio. The limit, as mentioned, is related to the bank's capital consumption requirements. If the goal is to enlarge the loan portfolio, a buffer is crucially required. Therefore, a guarantor is needed.

THE NEW ACTOR – THE GUARANTOR

Thus, in addition to the three traditional actors (demand, supply and the middleman), a fourth new participant is required – the guarantor. An entity or individual that has both the financial means and the will to help close the circle and solve the conundrum.

Under our proposal, the initial guarantor would be a very limited target audience – the ultra high-net-worth individuals (UHNWI); the billionaires of the world.

Enhancing the Guarantor

There are 2,000+ individuals worldwide with a net worth over $1bn[5]. Some are heirs and some genuine entrepreneurs; some are risk-takers and some are risk-averse. Their ethnic origins, religious background or cultural identities can be extraordinarily diverse. But there are two factors where almost all the wealthiest families on Earth converge:

a) A percentage of their assets, however small, are held in cash.

b) Regardless of their geographical location, in the years to come they will all experience an increasingly pressing environment to address inequality.

Our proposal is to take advantage of these factors by simultaneously:

a) Putting a fraction of their assets held in cash to work for development, while, paradoxically, keeping this financial position in cash. In other words, the UHNWI cash would not be used to finance but rather to *guarantee*.

b) Improving the perception of UHNWI in the eyes of the global community by showing that the most affluent people on Earth are also doing their part to fight inequality.

In order to achieve this, we have coined a term to describe the financial tool to be implemented – the "Sponsored Loans".

The Sponsored Loans

The concept of sponsorship applies to many aspects of daily life, from the patronage of roads or schools to playgrounds and park benches. Yet, surprisingly, the concept has not been used in one of the largest world industries, the financial markets.

The underlying concept is extremely simple, and can be summarized in four steps:

a) A UHNWI expresses interest in a certain development field (e.g. power, water or agriculture).

b) The WBG raises money in the capital markets using its AAA rating.

c) The WBG provides a loan to the government leading the project where the UHNWI has showed interest.

d) The UHNWI sponsors the project by guaranteeing the loan.

Therefore the cash involved in the transaction is raised and lent by the WBG. The cash of the UHNWI *does not* finance the project. Rather, it stays as a guarantee. Only in the case of a government default – an event that has never happened in the history of the WBG – the cash of the UHNWI would be used to absorb the loss.

The Structure

The recipient structure should be similar to a chest with many drawers where each UHNWI could deposit its guarantee contribution. Thus, the WBG would set up a special-purpose vehicle (SPV) divided in compartments, where any guarantor would deposit a certain amount ($100M) pledged for a long time horizon (15 years).

This $100M will be intended for one goal – to be used as guarantee for a development project financed by the WBG. Therefore, in case of government default -again, an event that has nevermaterialized- the WBG balance sheet will remain intact. The core capital of the WBG would suffer zero impact. The loss would fall entirely on the guarantor.

By doing so, any billionaire with a defined interest -a geographical area, a social issue or a particular sensitivity- could make his vision happen by guaranteeing the finance of the project, while, interestingly, maintaining the cash position at his disposal on the long run.

THE SPONSORED LOANS – AN EXAMPLE

Let us assume that, for example, Amazon's founder, Jeff Bezos, has a strong interest in both East Africa and gender issues. The newly created special-purpose "WBG Sponsored Loans Outreach Team" would reach out to him and customize a short list of available projects located in East Africa focused on gender topics.

Let us assume, that Mr. Bezos ends up choosing a $100M women integration project in rose cultivation farms, promoted by the Kenyan government. Mr. Bezos then would shift a portion of his cash position ($100M) from e.g. BNY Mellon, to

the compartment under his name in the SPV. This amount would be allocated as a guaranteeto the project.

Thus, Mr. Bezos still holds his cash position and he still gets a return from it. The project would be financed by a World Bank Group loan -to whom the Kenyan government has never defaulted- with money raised in the capital markets taking advantage of the WBG AAA rating.

In the very unlikely case of a default by the Kenyan government, the impact on the WBG books would be zero. Additionally, since the loan is fully guaranteed 1:1, the WBG balance sheet expansion has no other limits than the contributions accumulated. The development outreach capabilities could, thus, increase dramatically.

DE-RISKING THE RISK

Muhammad Yunus proved many years ago a concept that has today become widely accepted; the possibility of lending money to a theoretically high-risk counterpart while experiencing a significantly lower non-performing-loans (NPLs) rate, than institutions with, apparently, much more advanced scoring technology. We argue that the same case can be applied to the "Sponsored Loans" by lending to optically risky countries.

Nevertheless, we consider that an extra layer of protection would be advisable for the UHNWI community comfort. Of course, the main advantage of the "Sponsored Loans" proposed scheme is capitalizing on the zero historical default over the WBG loan portfolio. But in order to enhance the guarantors' position, a risk mutualization of the SPV should be considered.

Thus, a certain percentage of each guarantor position (let's assume 5%) could be transferred to a guarantor pool within the SPV that will be set aside for a double goal:

a) Share evenly between SPV participants, according to the guarantee provided, the first loss to be taken if a loan default ever materialized.

b) Undertaking a systematic hedge by buying out of the money put options in some of the most liquid indexes. By definition the WBG risk, is the risk of the world. Being the countries quota-contributor, the risk of the bank is the risk of a simultaneous global failure. Thus, engaging in nonlinear positioning with certain derivatives would secure a buffer in the face of potential extreme tail events.

Ultimately, the objective would be diversify the risk between the pool of guarantors and, simultaneously, insulate the SPV of a synchronized global collapse if it were to happen.

THE GIVING PLEDGE AND THE IMPORTANCE OF TIME VALUE

In June 2010 Bill Gates and Warren Buffett announced the beginning of an extraordinary initiative, "The Giving Pledge"; a personal campaign among the top world billionaires to encourage them to contribute with their fortunes to philanthropic causes.

In an unprecedented opening, two of the three wealthiest men on Earth did a global roadshow, paying visit to some of the most affluent individuals. The result to this day is an impressive $365bn committed.

The concept, though, has a drawback – the commitment does not have an automatic effect. In many cases the financial disbursement is not undertaken during lifetime of the UHNWI but after the pledger's demise. A laudable action loses impact because of time lapse.

The first lesson that any financial analyst learns is the importance of time in a valuation model. The further off in time a cash flow lies, the lower its present value. But what makes mathematical sense in a spreadsheet is even more dramatic in real life.

As any inhabitant of the world's deprived areas knows, some of the most crucially needed investments cannot be postponed. Waiting for the demise of a future donor is not an option. A much more urgent action is required. Every single day lost is a catastrophe. Thus a paradox arises – waiting for an *individual* tragedy in the future (the donor passing away) triggers a *collective* tragedy at present.

Therefore, the "Sponsored Loans" could become a solution to help to bridge the time gap inherent to the "Giving Pledge". Many of the UHNWIs structure their asset donations staggered over time for fiscal purposes. In the meantime, a non-negligible percentage of their assets is held in cash. But this cash could be put to work.

Thus, this liquid position could be mobilized, generating two different upsides. First, by still generating a financial upside while retaining a certain degree of remuneration (the risk free rate), and second, achieving an inspiring goal, a social upside, by bringing transformational impact where it is needed the most.

Pledging a small fraction of their liquid assets over a long-term period (15 years) not only would bring discipline to the UHNWIs portfolio diversification, but it would also achieve something much more important – bringing to the present moment the future promise of altruism.

EXPANDING THE GUARANTORS BASE

The idea is to initially involve UHNWIs. But this is just the starting point. There is a much wider base to be tapped. Hence, many large corporates could join the scheme. By engaging through their Corporate Social Responsibility (CSR) divisions, a significant amount of companies using a "triple bottom line" framework (social, environmental and financial) could devote some of their budgets to "Sponsored Loans".

Indeed, too many companies are using their CSR division as its default action tool. But there is the possibility of a much deeper involvement. If an existing structure could provide size and simplicity, a massive financial leverage of private sector money could be triggered.

Let us imagine a corporate that, for example, has impacted the environment adversely in a certain part of the world. Regardless of any legal consequences that this company would have to face, loan sponsorship could be an alternative way to try to compensate the country affected.

Thus, if unintended damages had been caused to a country in the past, the "Sponsored Loans" could be the first step in an attempt to mitigate them. By allocating a small fraction of their liquidity to guarantee projects, corporations could have a lasting impact in certain countries concerned.

In this sense, an additional win-win situation would arise. Connecting the company's name to a much-needed project in the affected country, would positively impact the company's reputation. Not only would this help achieve a praiseworthy goal, but the company's reputation would also be enhanced.

SPLITTING THE SPONSORSHIP

The initial concept is that an individual or corporation must be held accountable for the sponsorship. However, the sponsorship could also be split under certain conditions.

One of the main advantages is that when a reliable, transparent and comprehensive structure is already in place, some complicated decisions can become much more actionable. Let us assume, for example, a casual dinner in NYC between three hedge fund owners. Over the course of the conversation, a topic arises (be it migration, health or education) and, on the spot, a decision could be made over splitting the sponsorship of a certain project.

Thus, by the time of dessert, the three could have already agreed on allocating $50M each of their already existing "Sponsored Loans" account, to a project, for example, linked to improving education in the Sahel. A decision that could have taken months, if not years, could now be successfully executed in less than 24 hours.

It is important to highlight again that the $50M of each sponsor will not be transferred to an education project in Sahel. This total $150M will stay under its ownership in the SPV pledged for the next 15 years, and will act as a guarantee for a loan lent by the WBG.

A THEMATIC SPONSORSHIP

An additional possibility can be framing the sponsorship as thematic, either at an industry or at a national level.

Let us use the health sector as an example of industrial thematic sponsorship. The rational is to assume that a number of corporates of a certain sector could decide to join forces over a certain topic.

Historically, the pharmaceutical R&D has been primary focused in developing drugs related to the developed world. The logic avoiding developing countries was the theoretical lack of a profitable addressable market. Thus, sadly, insufficient resources have been dedicated to researching some of the most devastating diseases on Earth.

But this historical underinvestment could be addressed. With the "Sponsored Loans" approach, a pool of some of the most prominent pharmaceutical companies could allocate a significant amount of cash to sponsor, for example, a project over a tropical pandemic disease where very few investigation efforts have been done historically.

Likewise, the joint effort could be undertaken not under an industry umbrella but under a national umbrella. Let us assume, for example, that some of the wealthiest families in India agree to play a key role to tackle an internal issue, such as e.g. water irrigation in a state ravaged by a persistent drought. Thus, in an unprecedented move, the wealthiest of a particular country could take the leadership of fixing a critical local situation in the matter of days.

GOVERNANCE SYSTEM – THE POWER OF AN ALREADY ESTABLISHED STRUCTURE

As we see, the possibilities of the different combinations are endless. The key idea to bear in mind is that when a reliable institutional framework has been already established, a swift and properly executed action can take place in a very short timespan.

The ultimate goal is to facilitate *actionable* contribution. There are trillions of dollars in institutional money waiting on the sidelines. Therefore, once the proper structure is in place, the mobilization of large financial resources from the private sector could become a fact. With the leadership of an institution as capillary as the WBG, the "Sponsored Loans Program" could become the *standard* for development financing. UHNWIs or large corporations wishing to have an impact could use this framework as its *default* intervention.

But the interesting point is that the structure alreadyexists. The initiative would fall under the umbrella of the World Bank Group. Therefore, no additional control mechanisms or decision-making innovations would be required since the operational framework is available and ready to be used. The only requisite is to frame the "Sponsored Loans Program" properly within the organization. And this requires a new Task Force to be defined.

The Task Force

Out of the five entities that make up the World Bank Group, the "Sponsored Loans Program" would be framed into the IBRD (International Bank for Reconstruction and Development, the flagship of the WBG). In hierarchy terms, the SLP would be encompassed within the Poverty Global Practice having additional dotted reporting lines with the Treasury and the Regional Offices.

The number of components, task areas and any other specific issues would be the responsibility of the Head of the "Sponsored Loans Program" with a direct reporting line to the Poverty Global Practice Principal.

Additionally, In terms of WBG internal procedures, two parallel actions should take place:

First, establishing a legal framework, with a team devoted to set up the Special Purpose Vehicle. Any legal, auditing or compliance requirement of the SPV should rest on it.

Simultaneously, assembling a special "Outreach Team". Its goal being to identify and engage with the 2,000 prospect billionaires and with SCR-oriented corporates. More specifically, the team should gain an understanding of the personal background and key interests of each potential guarantor, in order to match their specific sensitivities with potential ad hoc projects. This "Outreach Team" should work internally, as well, hand in hand with regional offices to spot

the compelling projects existing in each developing country to be offered to sponsors.

THE FORESEEABLE FUTURE – TACKLING 21ST CENTURY DYNAMICS

States can morph faster than we realize. The fall into fragility is not so arduous. History teaches us how apparently solid societies can rapidly implode. If our goal as a global community is reaching lasting stability, new innovative guarantee schemes should be necessarily explored.

Sometimes the best policy remedy is prevention. Over the next decades, technological advance will have a devastating effect on employment. Millions of jobs will be destroyed. New positions will become a scarce resource. Thus, novel wealth distribution schemes should be put up for discussion. The debate over inequality has just one direction – it will heat up.

The rising aspirations of a globalized youth with an online access 24/7, combined with a decreasing number of available jobs is, certainly, an alarming equation. A recipe for an unstable situation in the future.

Simultaneously, during future decades the effects of climate change may trigger a massive flux of refugees. Figures can be horrific; estimates range from 50 to 200 million displaced people.[6] Floods, soil erosion or aquifer poisoning will expel millions. In addition to an already large number of economic migrants and war refugees, a new group will join as a major source of global challenge – the climate-change refugees.

Thus, the "Sponsored Loans" could be a very visible way to help tackle these forthcoming issues while simultaneously engaging into the inequality debate. Of course, our proposal is just a first step to fix a major global challenge. But it could help to get traction in trying to correct some of the issues that inevitably will shape the 21st century.

The Opportunity Window

The moment for action is now. Following an eight-year long recovery in the stock market, with both equities and fixed income markets at all time highs, there is enough optimism and capital gains accumulated, to explore innovative alternatives.

However, the window opportunity will not always be there. What is viable now under present market conditions, could be very difficult to achieve in the middle of a financial crisis. The WBG leadership should use all its political capital to undertake this initiative within the present opportunity window.

The Willingness is Out There

A willingness to help is gaining momentum within the billionaire community.

Very recently, Mark Zuckerberg stated in his Harvard commencement speech his concerns about wealth inequality.[7] He chiefly mentioned his commitment to promote equal opportunities and his desire to improve present generation prospects.

The last member to join the altruistic movement has been Amazon's founder, Jeff Bezos. In a recent tweet to his more than 200,000 followers he asked for ideas of what to do with his fortune.[8] Namely he stated – *"I'm thinking I want much of my philanthropic activity to be helping people in the here and now — short term — at the intersection of urgent need and lasting impact."*

As an amazing coincidence, the "Sponsored Loans" is precisely what Mr. Bezos is looking for. A perfect fit. A scheme that can have a lasting impact focusing on the *short term*.

AS A CONCLUSION

Civilization is about progress. Just as today we are perplexed about how Roman Empire spectators could enjoy seeing gladiators killing each other, the historians of the future will not understand how our society remained impassive when just a few accumulated so much, whereas hundreds of millions had nothing.

It is within our reach to do much more. The fight against poverty will, no doubt, last for decades. But the "Sponsored Loans" can be a step in the right direction; a virtuous circle from which all participants benefit.

For too long the financial industry, and particularly financial engineering, has been blamed for the devastating consequences of its "innovations". Now, with an extremely simple scheme, this same financial engineering can be put to the service of the most vulnerable.

There is a moral duty of the most privileged to the forgotten ones. The inspiring words, "working for a world free of poverty", should be much more than just a beautiful motto. There is a real possibility to achieve a more fair society. A partnership between the WBG, the Giving Pledge and some of the largest corporates in the world could, literally, trigger an unprecedented financial mobilization from the private sector to the developing world.

It is in our hands to change the destiny of hundreds of millions. Let us all get to work.

3. Motivation

1-CORE VALUES

The degree of evolution of a society can be gauged by different metrics –GDP per capita, Human Development Index or Literacy Rate, to name a few. But thinking in abstract, the core principle, the basic consensus of any society, should be not leaving anyone behind.

Thus, the interesting angle of the "Sponsored Loans Program" is that it enables such a consequential action as mobilizing billions, that otherwise would be parked on the sidelines, and put these financial resources to work on behalf of the most deprived on Earth. If the 21st century is about achieving a most fair distribution of wealth, the proposed system should be considered as a feasible catalyst to that purpose.

Furthermore, because of its on-the-ground presence in virtually every region on Earth, and particularly in the most disadvantaged ones, the World Bank has a unique perspective for understanding what action is most needed (education, infrastructure, health) at a certain juncture. Thus, due to the dotted reporting line described, the head of the "Sponsored Loan Program" would have the best information regarding development projects to offer to sponsors.

Nothing more transformational to the core concept of equality between human beings than the possibility to create a structure –an implementable scheme– that enables to transfer financial means from the most privileged ones to those who need it most; to provide all human beings with the basic opportunities to fulfill their existences.

2-DECISION-MAKING CAPACITY

As previously mentioned with the NYC dinner example, one of the main advantages of the SLP is its "friendly user" simplicity, which paves the way for making decisions. The scheme is designed, precisely, to help individuals with vast financial resources but a lack of time to "make happen" their social concerns.

Under the governance system proposed, there are neither endless meetings nor veto or multiplicity of views. To the contrary, there are just individual and voluntary decisions taken by resolute individuals.

Thus, the SLP allows transforming a praiseworthy reflection (helping a certain group of people in a certain area) into action (making things happen). This sequence event that used to be a protracted process, or even never happened, can literally take just a few hours under the proposed scheme. To be precise, the time that takes to wire a cash deposit into a "Sponsored Loans" account.

3-EFFECTIVENESS

The two main risks that the SLP team requires to handle closely are i) a potential default by the government taking the loan (event that, again, has never happened) and ii) a bad execution of the development project. The interesting point is that the World Bank Group has, not only decades of expertise in dealing with these problems but, additionally, a governance system already in place with the required tools to fix these two potential issues.

As mentioned above, for a developing country defaulting to the WBG is simply not an option. The reason being that this means the automatic closure of the international capital markets to the country involved. Any developing country is well aware that if they want to attract foreign capital into the country, they need to avoid at all cost a potential new investor thinking, *"If this country is not even paying back to the World Bank, why would they pay to me?"*.

We also should take into account that in term of effectiveness there is a final point to be considered. The SLP system can generate a self-induced virtuous circle in which the example of a few sponsors –both individuals and corporates- can have a magnet effect in others to join the idea. The viralization effect triggered by, for example, Elon Musk sponsoring a project, should not be disdained.

Interestingly, the more sponsors joining the SLP; the strongest is the pressure for countries to never default. Let us assume that a very poor Sahel country receives

a Sponsored Loan for education. And let us assume that a year later it receives another SLP split with 2 neighbor countries for agricultural irrigation. And let us assume, finally, that the next year it receives other loan alongside 4 neighbor countries for infrastructure development in the common border.

The point is that the country recipient of the first SL understands perfectly well that a potential default with the WB would involve the freeze of any present or future help. But there would be a much more negative effect –the SLP program in its neighbor countries could also be negatively affected. Thus, the incentive to always honor the debt is remarkably high. The collective pressureby the countries in the same situation can be certainly effective.

A final risk that must always be present when we speak of large bureaucratic structures is the slowness in the orders execution. In order to avoid that, the very same way that the WBG has a Corporate Secretariat overseeing the implementation of the decisions agreed by the Board, the SLP should have a small unit in charge to execute a proper coordination among the development projects evolution, as well as providing feedback to the sponsors.

4-RESOURCES AND FINANCING

The "Sponsored Loans Program" unit would be fully funded by the World Bank Group. Formally, the structure would be integrated in the International Bank for Reconstruction and Development (IBRD), one of the five entities that form the WBG. Thus all the costs, including both professional and material resources, would be initially allocated to the Poverty Global Practice under whose umbrella the SLP would operate. At a later stage, the costs incurred-in may be shared among other WBG business units involved, mainly the Treasury and Regional Offices.

Total staff involved –including debt originators, risk control, legal, outreach team, sponsors relation managers and development supervisors– should range from 50 to 100 people, depending on the amount of capital finally mobilized and the sponsors' profile.

The same logic that has enabled the IBRD to keep its AAA rating, applies as well to the funding of the rest of the bank. With 189-member countries being equity contributors, the financing side of the equation is not a concern. Anyhow, the financing and resources issue should be considered as a necessary (but minuscule) "investment" relative to the acomplishment pursued –mobilizing literally billions of dollars that were previously untapped for the development cause.

5-TRUST AND INSIGHT

One of the distinguishing features of the "Sponsored Loans Program" is that its model relies on the interaction of two of the most respected organizations on Earth, The World Bank Group and The Giving Pledge. If one of the objectives to be attained is to have in place a combination of talented and reliable staff to build upon a governance system, one cannot think of two better institutions.

The World Bank not only has an exceptionally good name, but it may boast hosting some of the most accomplished professionals to leverage. In the whole value chain of the Sponsored Loans, from the capital market experts issuing the bonds to the regional advisors monitoring the development projects, every member involved can be described as a state-of-the-art specialist in its field of expertise.

Regarding the Giving Pledge, it suffices to say that until today its members have collectively pledge to give away up to $365 billion. Both trust and insight seemed guaranteed.

The result is a governance system where, not only all parties involved are extremely competent, but on top of this, there is total transparency and public disclosure all throughout the process, from the amount initially sponsored to the stage of execution of each development project.

6-FLEXIBILTY

In order for a initiative within a firm to succeed, a precondition is necessary –to have the top management support. If additionally the initiative enjoys a broad-based consensus of civil society and governments of all sorts, then even the most intractable problems can be overcame. A body integrated by 189 countries and with a stunning combination of ethnicities, religions or cultures must be, by default, one of the most flexible institutions existing.

The World Bank Group is an institution with a certain degree of politicization, no doubt. But it is also pragmatic. And the factor to bear in mind is that the "Sponsored Loans Program" has all the ingredients to become the flagship initiative of the group during the next 20 years.

The top management of the WBG, both President Kim and CEO Georgieva, have repeatedly emphasized the necessity of finding a solution for the questions of *"how to mobilize private sector resources into the development world"* and how *"to go from billions to trillions"*. Once the answer is found (and the Sponsored Loans Program can be the answer), the structure can become flexible enough to get over any set back. Any potential revision needed to obtain an improvement in the structure will be achieved.

The "Sponsored Loans Program" follows the governance model of the WBG and, of course, stalemate situations can arise. Under certain conditions a broad consensus would need to be reached to accomplish structure revisions or certain improvements. But the relevant point is that when someone (say, Warren Buffett) is ready to use his own money (say, 1bn) to guarantee a project that can be *transformational* for millions of deprived human beings, there are no barriers to stop it.

7-PROTECTION AGAINST THE ABUSE OF POWER

Regarding internal control systems, it is important to bear in mind that the *active* member, the entity raising the money in the capital markets and granting the loans is the World Bank Group, and the passiveplayers are the billionaires as merely guarantors of the loan.

Therefore, throughout all the "Sponsored Loan" value chain, the procedure to be followed would be exactly the same as with any other loan originated by the institution. That is to say, the process flow has the same formal steps, rigorous checks and balances and strict follow-up than any other loan granted by the World Bank Group.

Of course there is some potentially interfering with the internal affairs of nation-states. But the "Sponsored Loans" interferences work the other way around;

on a positive tone. There are several nation-states that are delighted that this "meddlesomeness" happens, precisely because many governments are conscious of their incapacity to provide basic public goods.

Anyhow, if there is an institution shielded against negative nation-states internal affairs interferences, is precisely the WBG, since the amounts invested in each region are subject to the Board's intense scrutiny. The system is precisely designed to avoid privileging some geographical area or development fields over others. Thus, given the geographical diversity of the Board members, a natural and endogenous system of control is already in place to prevent abuses in favor of special interest or agendas.

8-ACCOUNTABILITY

The capacity of holding someone accountable depends, primarily, on two factors –a proper governance structure and a full transparency during the process.

Again, the good news is that structure already exits and it has an excellent track-record. It has been back-tested for decades in a company that operates in very different matters and in virtually every region in the world. If there is one thing that the World Bank can be proud of is its sound functioning during its service record.

As previously mentioned, the SLP will operate from the Poverty Global Practice, being its Principal the ultimately responsible for the performance. Anyhow –and on top of the normal up and down reporting lines- an extra layer of protection would be introduced regarding Sponsored Loans that are particularly sensitive, either for their large amount or recipient profile. In this respect, every loan over $100m aimed to IDA countries, would need to be co-approved directly by the Head of Strategic Initiatives from the CEO office.

The transparency of the institution is unquestionable. Not many governance structures can boast having eyes from 189 different countries scrutinizing the management's financial statements. Furthermore, every October an annual assembly is held to bring together ministers of finance and central bankers. During this gathering, the consolidated annual accounts are presented and the main financial and development innovations (as the SLP) are exposed in detail to private sector, academics, civil society and, of course, the press. Again, a combination of factors generates a powerful dynamic where a multi-control structure oversees the proper functioning of the system.

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