

Opportunity for reforms at World Bank

With Ajay Banga nominated to be the next World Bank (WB) president, there is great hope in his abilities to revamp this vital global institution.

What the world needs today is a global institution, tasked with guiding a global transformation towards a sustainable planet and promoting shared prosperity. The WB is largely missing in action, according to former US vice-president Al Gore, in the climate fight. Instead, the WB, which earlier adapted well to addressing global poverty, is now seen as a multi-purpose development bank that tries to provide support to countries for their perceived needs without a broad strategic vision. It used to be a leader in thinking on economic development, but has lately fallen behind and is often seen as a laggard on how it addresses these issues.

Another major critique of the WB is that it's been overly conservative and much too risk-averse in the use of its capital base, and, as a result, it's not been able to lend as much and leverage private capital flows for infrastructure and climate change. It has underutilised its guarantees and focused largely on loans, and has not financed insurance facilities as much as it could have. It's also been criticised for being too slow and laden with bureaucratic procedures that cause costly delays to its borrowers and make it difficult for the private sector to do business with it. Its country focus has improved performance but neglects its ability to meet global and regional financing needs. It needs a substantial overhaul of its objectives and much more innovative use of its capital base and financial instruments.

Just as we needed a Marshall Plan to help the world recover from the ravages of World War II, we now need actions on a similar scale internationally to engineer the energy and ecological transformation for a more sustainable planet. Its new role should be as the global

institution for climate change and sustainability — not just another multipurpose development bank. It must also be able to provide monitoring and advice on climate action in the entire world — not just to developing countries — on a range of issues such as climate adaptation, mitigation, carbon pricing, environmental, social, and corporate governance and net-zero transformation. Climate change cannot be yet another add-on activity like agriculture, industry, and infrastructure. It is not sufficient to create a climate change department in the WB that allows all others to continue business-as-usual, with sustainability being handled by the new department. The entire organisation must be transformed to make it the premier global institution for helping the world deal with climate change and shared prosperity.

The WB must also shift the focus from lending to catalysing resource flows. It must help build the institutions and regulatory systems that will help to draw in more capital from the private sector and from sovereign wealth funds. Loans for more schools, health centres, roads, dams, irrigation systems, power

plants or rail lines will not be enough. If, in addition, it works to build regulatory and public financial systems and the judicial and governance frameworks, it will help the countries attract more private capital for this social infrastructure, and also meet the badly needed infrastructure financing needs of these countries. Its success must be judged not just by how much it lends — but by how much resources it can catalyse to address social and physical infrastructure and climate finance needs. More innovative use of its financing instruments is needed especially in the way it books and uses guarantees and insurance backstops. A guarantee or an insurance back-stop facility has only a probability of being called and must be booked differently from a loan as otherwise

it creates a huge disincentive in using these instruments. They remain a very small part of the WB's portfolio. Its private sector arm, the International Finance Corporation, is also a big player in private finance as it spends enormous effort on looking for and financing individual companies, where it should spend much more effort on helping develop systems for SME finance, which can attract international capital. The Multilateral Investment Guarantee Agency part of the WB also remains very small in its work so far and it covers political and non-commercial risk.

The WB must continue its country-based assistance and also focus more on global problems — much more than it has done so far. The WB has huge leverage and convening power to address these issues — working in partnership with specialised agencies at the UN and elsewhere. It may need new and more innovative sources of financing for this purpose, including green bonds.

The WB's capital base must also be increased, but at the same time, there must also be changes to the way it uses its capital. The WB and other regional banks now provide an exceedingly small share of net flows to emerging markets. They have been overly conservative in their equity to loan ratios despite having preferred creditor treatment and AAA ratings based on their shareholder ratings. They could also be allowed more leeway in the use of capital — by changing their capital adequacy ratios and by allowing them to use a small share of callable capital — not just their paid-in capital, without hurting their credit ratings.

The WB must become Archimedes' lever to help change the world into a more prosperous, inclusive, and sustainable planet in the 21st Century. The change in leadership now provides that opportunity.



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