A World Bank for the 21st Century

Amar Bhattacharya

G24 Technical Group Meeting
February 24, 2023

Center for Sustainable Development at BROOKINGS

LSE THE LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

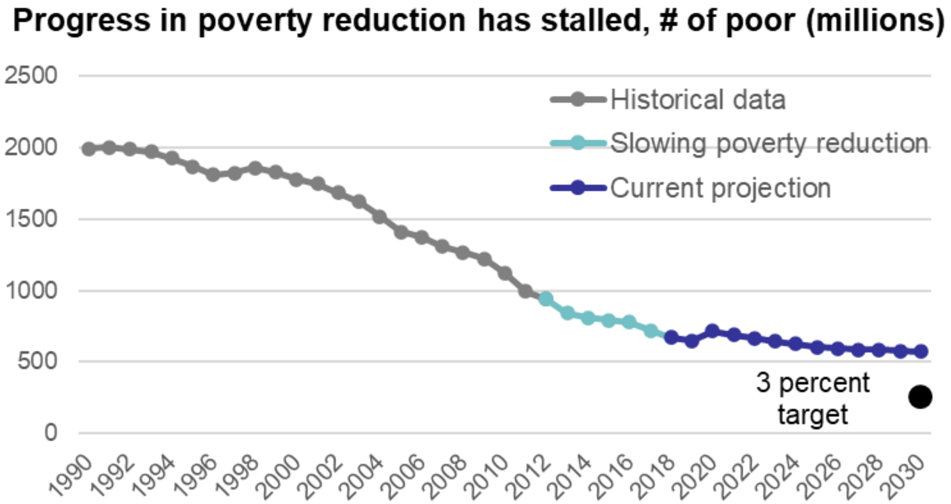
Grantham Research Institute on Climate Change and the Environment

Photo by Tyler Casey on Unplash

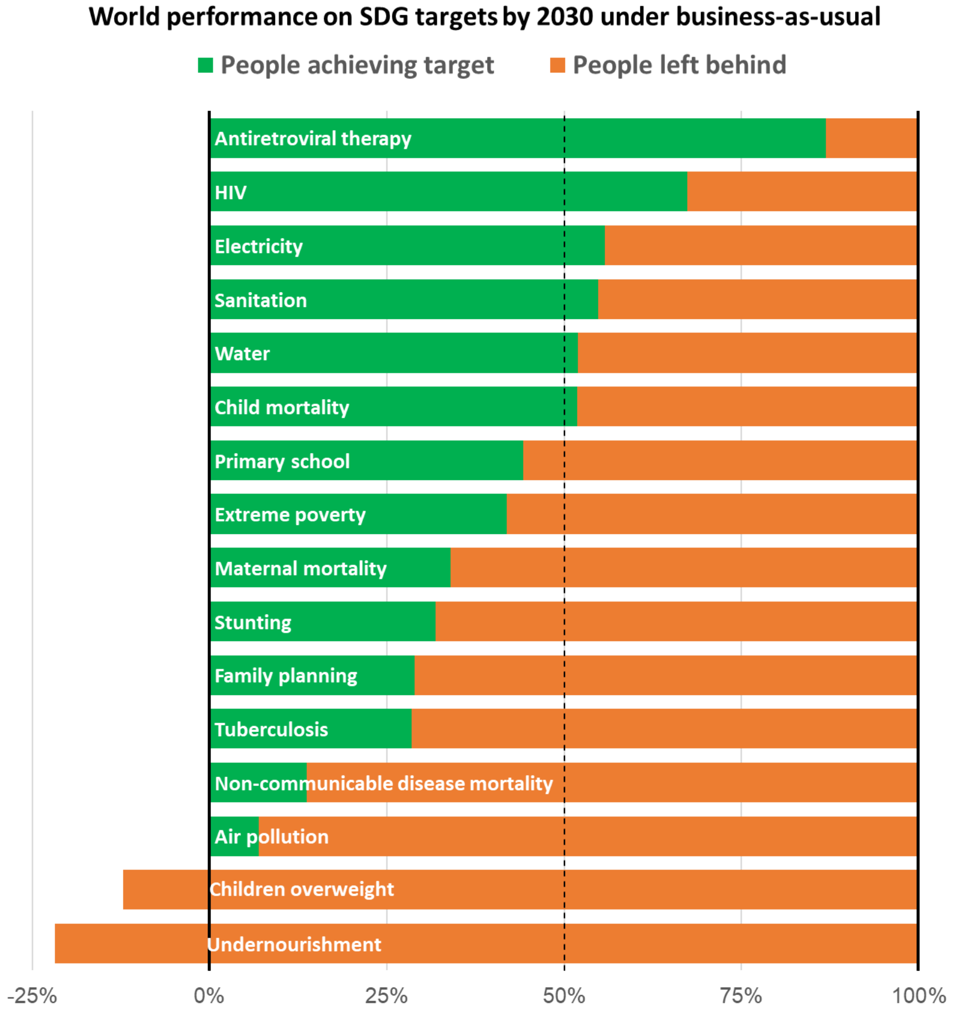
A critical moment in time

- A moment of **great risk and great opportunity**. One path leads to attractive growth and development, the other to great difficulties and indeed destruction.
- Even before the COVID-19 pandemic, emerging markets and developing countries (EMDCs) were facing challenges. As a result of the Covid pandemic and the war in Ukraine, **EMDCs are under great pressure**.
- The present trajectory is one of slow growth, low investment and public spending, and rising debt service burdens in many, if not most, EMDCs. **Risk of a lost decade for development**.
- We are **off track on virtually all SDGs** and ill prepared for the **major demographic transitions** ahead.
- At the same time the **urgency and opportunity of tackling climate change** is becoming ever clearer.
- **Equally urgent challenge to protect and restore nature**.
- Acting on climate and nature is not a cost but rather an **opportunity to unlock new and better forms of growth.**
- **A major push on investment and innovation** can drive a sustainable recovery and make a breakthrough on both development goals and climate.
- Seizing that opportunity will **require a clear strategic direction, strong and purposive policies, a massive scaling up and shift in investment and the mobilization of the right finance at the right scale.**

Poverty

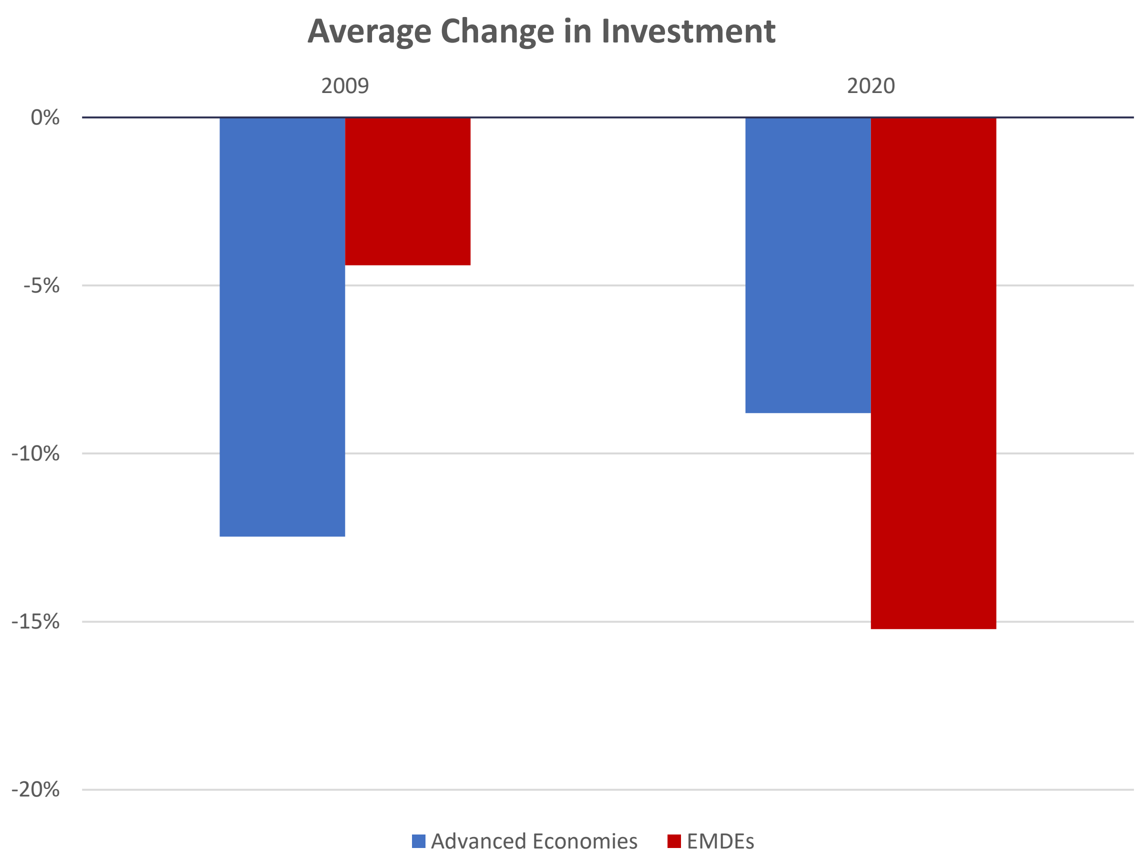


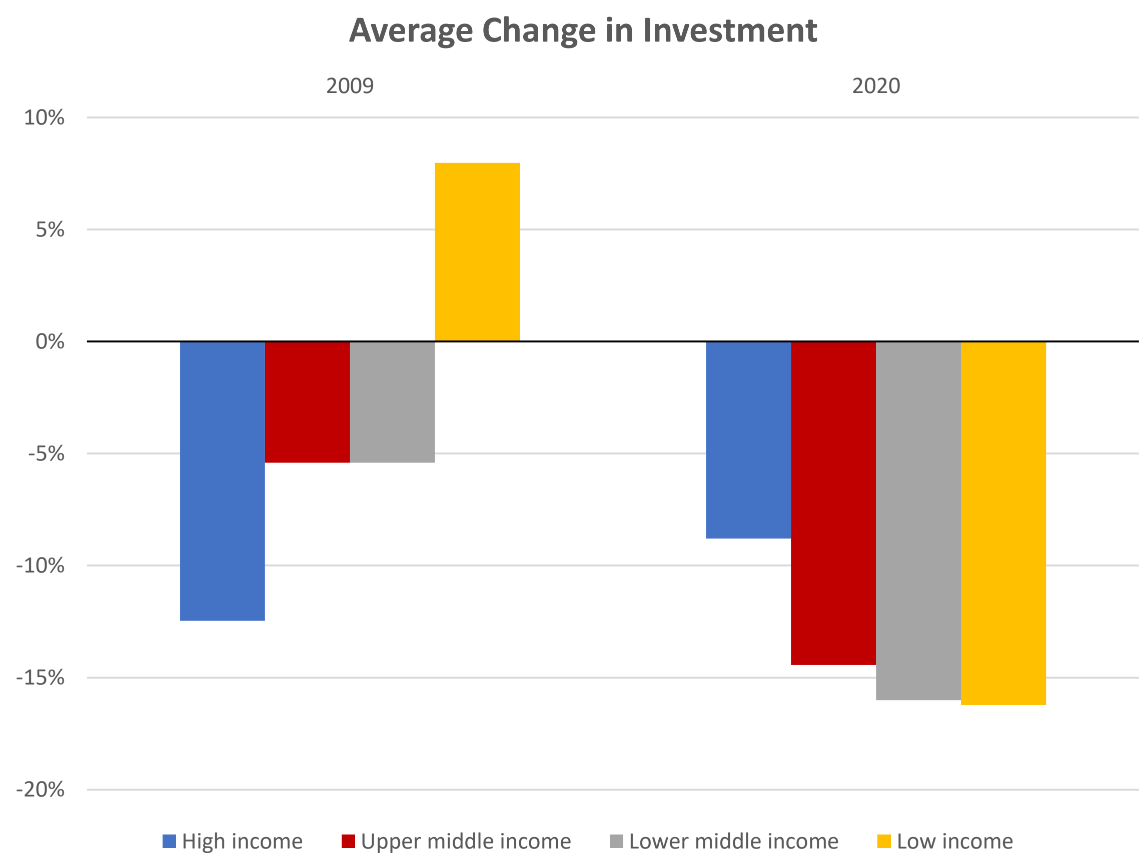
Sustainable Development Goals



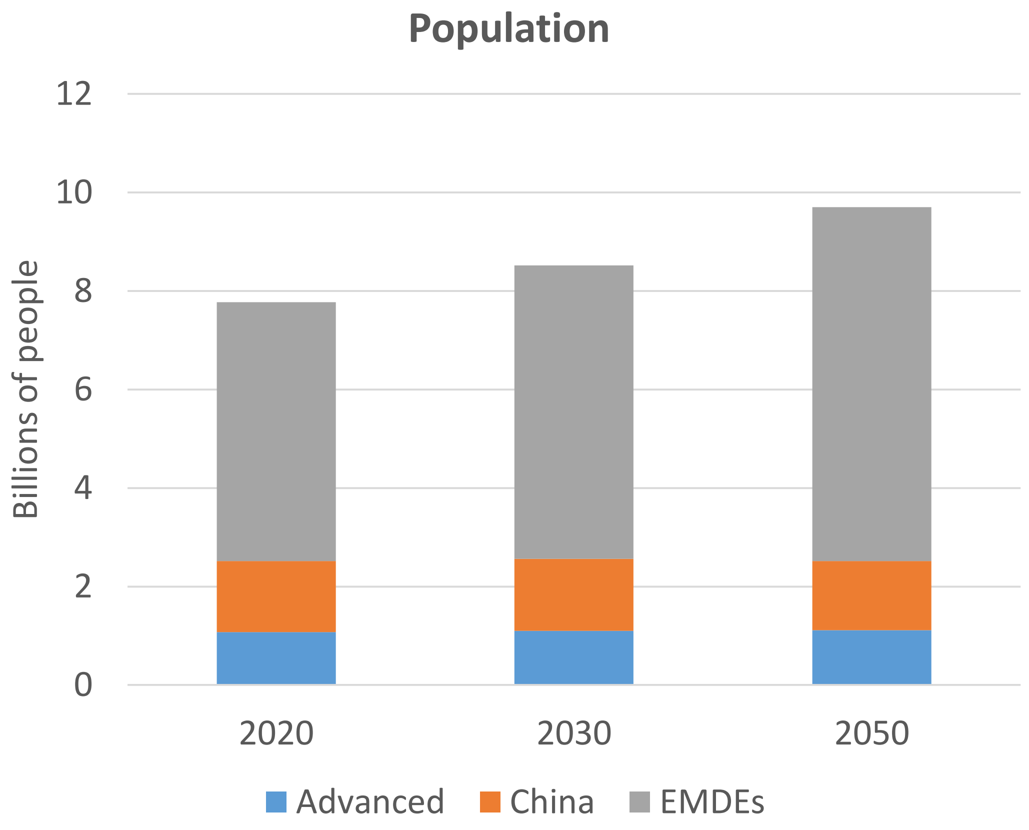
Source: Preliminary results from Kharas, McArthur, and Onyechi (forthcoming)

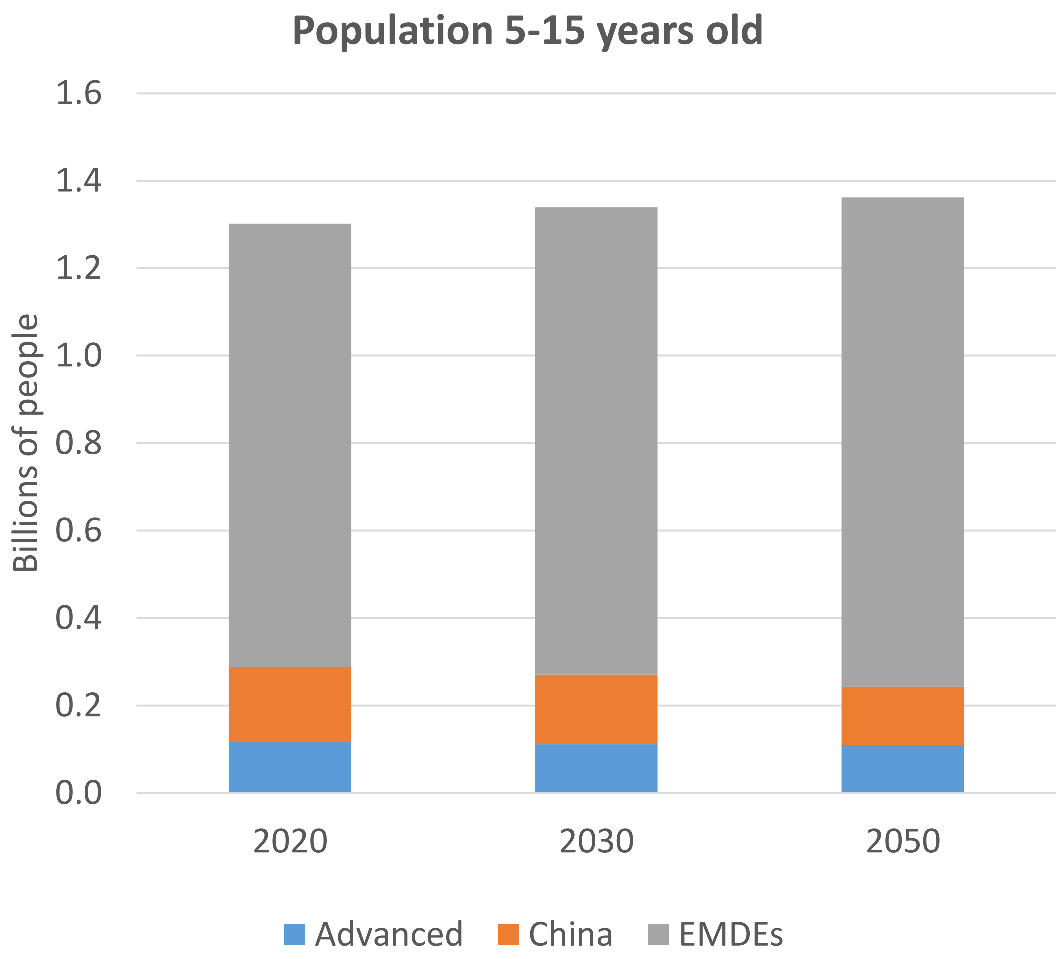
Changes in Investment Rates 2009 vs 2020



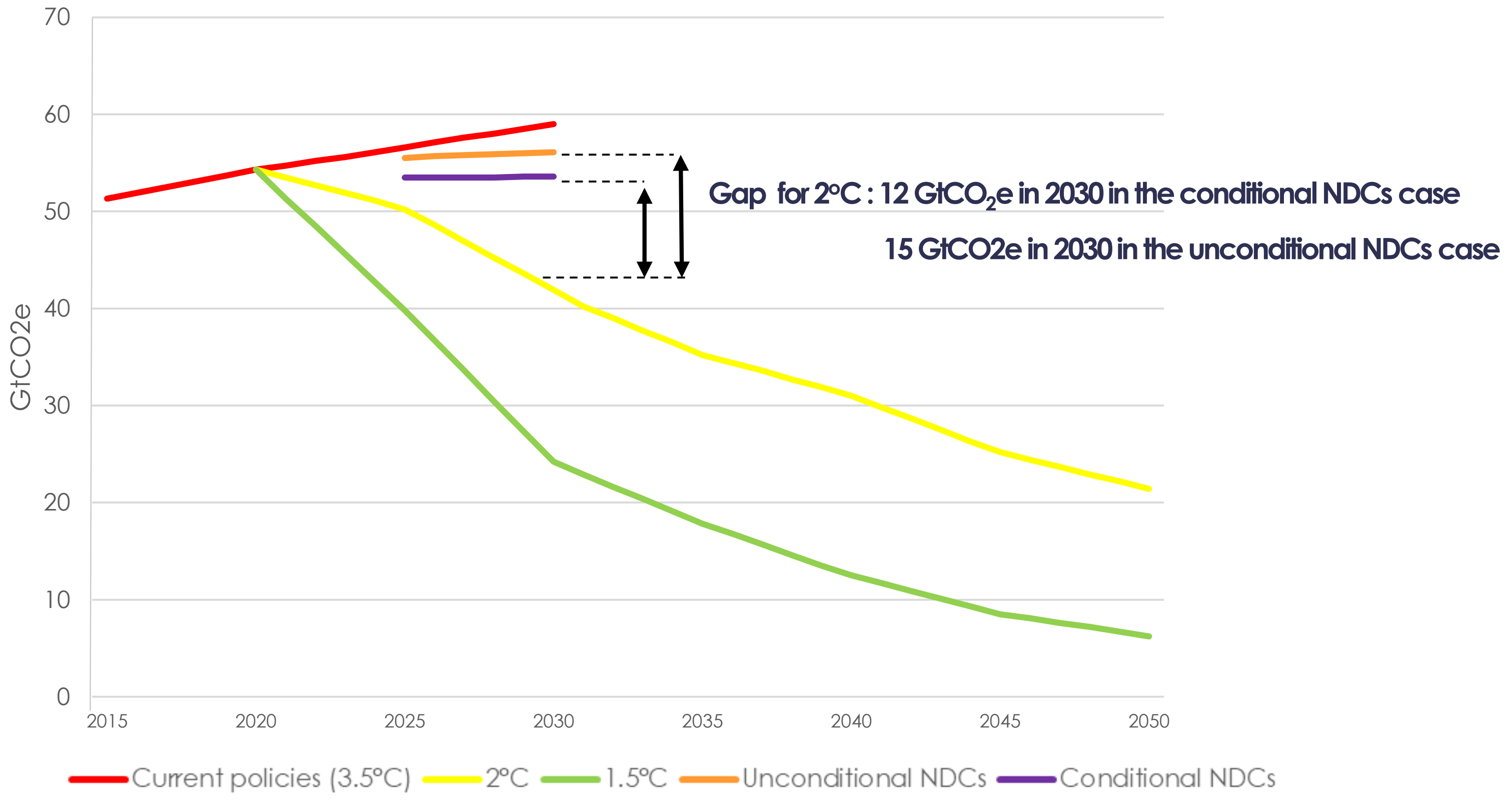


Demographic Transition





Emissions pathways

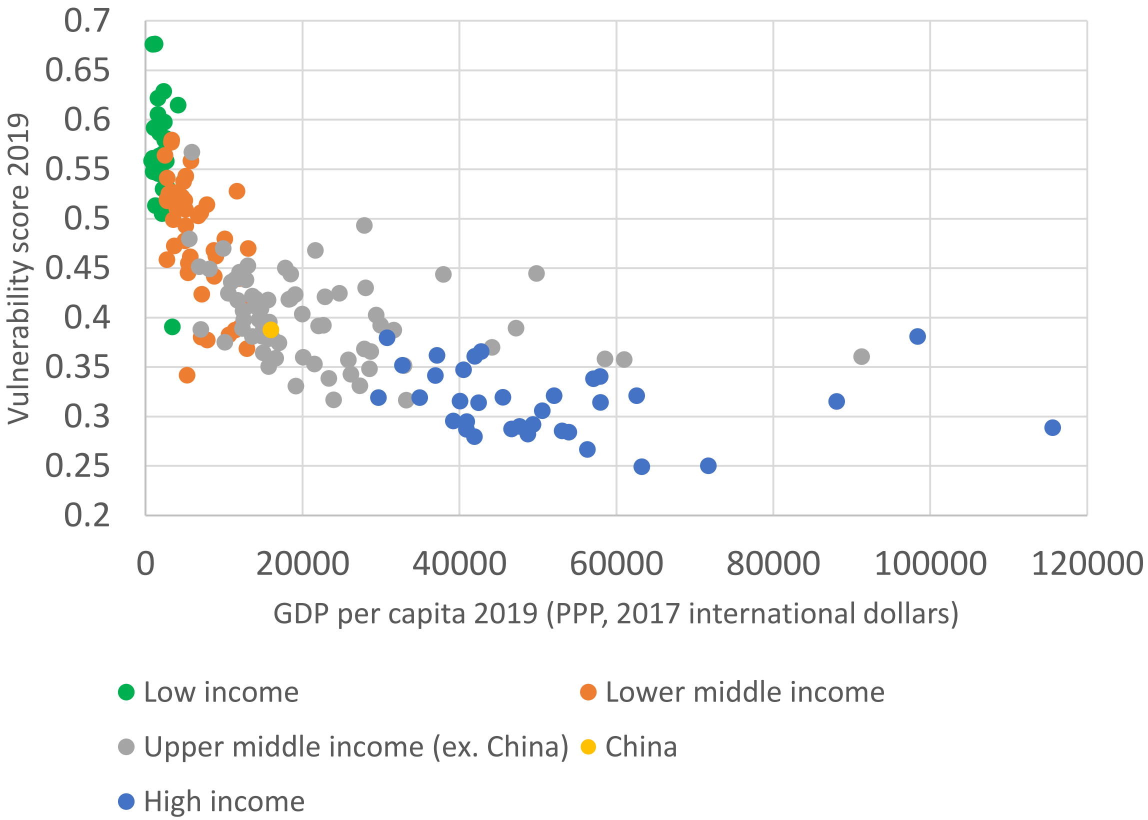


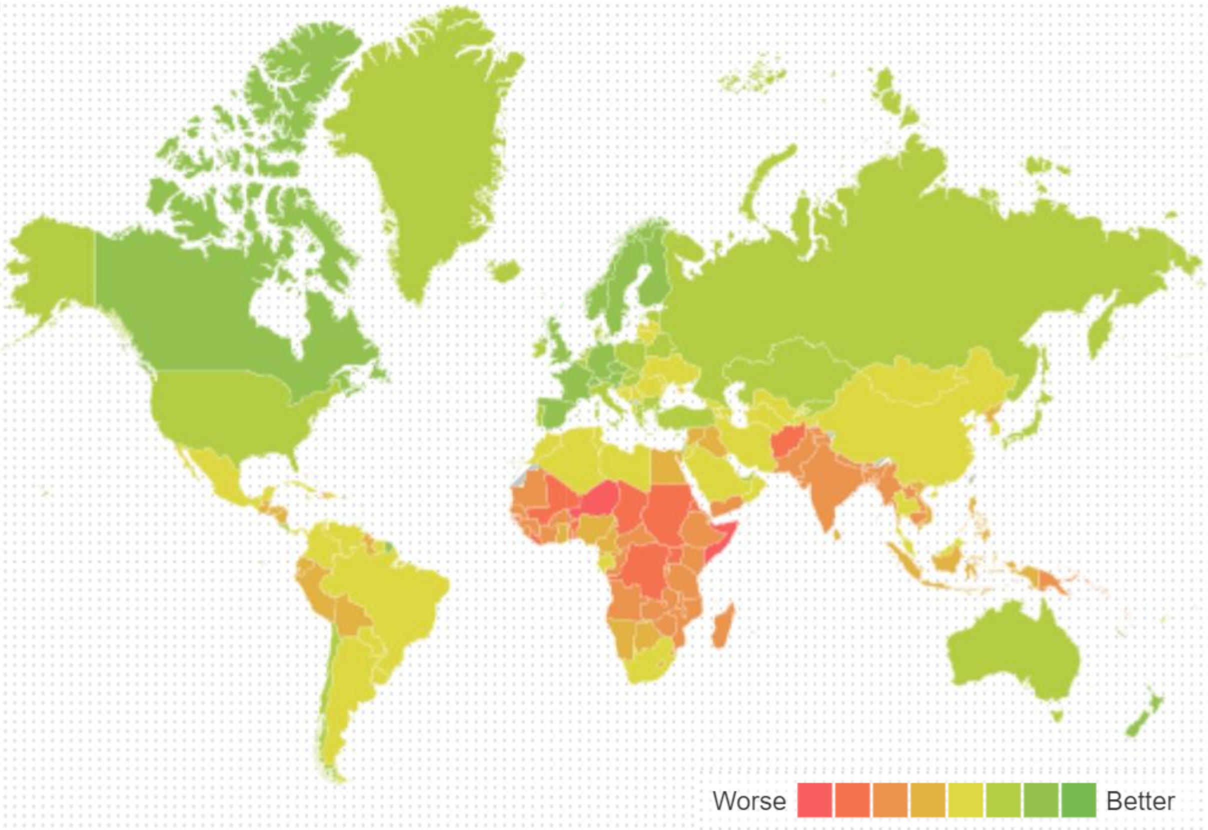
NB: The 1.5°C scenario used by the UNEP report relies on the widespread use of negative emissions technologies (NETs) later in the century.

Source: Trajectories based on UNEP (2020)

Climate change impacts

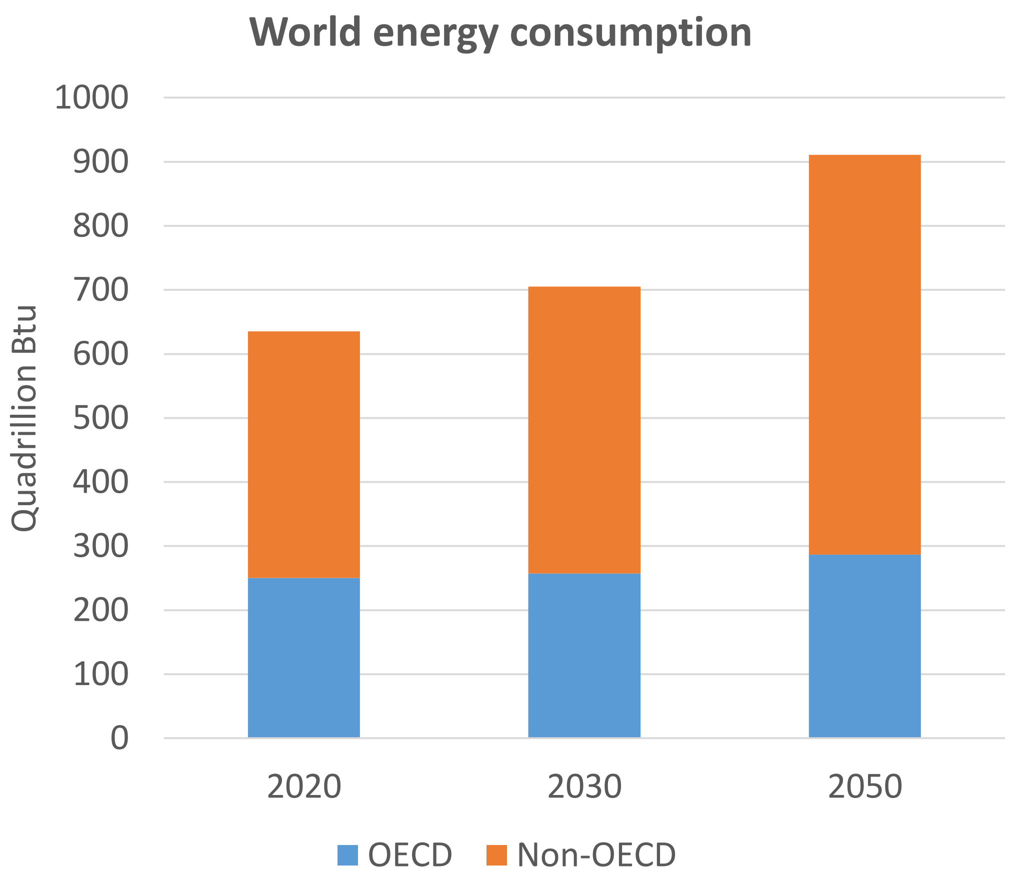
Vulnerability to climate change impacts

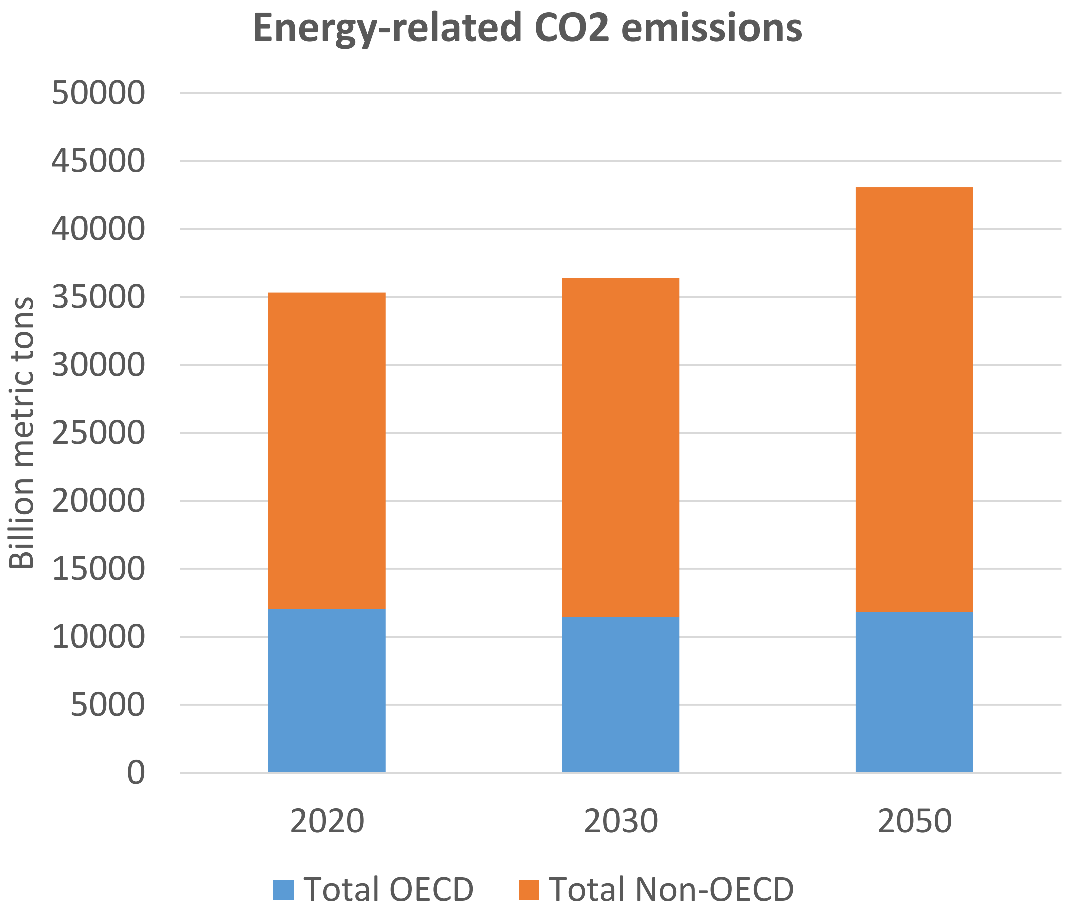




Source: Notre Dame Global Adaptation Initiative & IMF WEO database (2021).

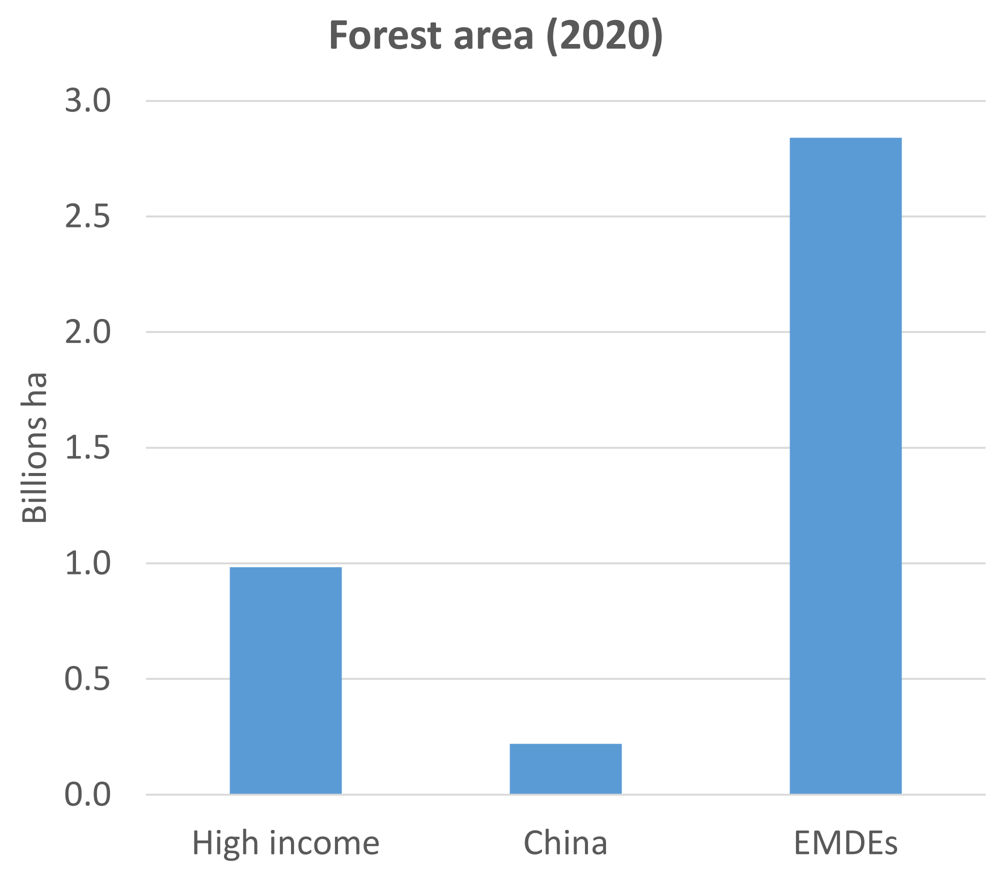
Energy demand and emissions will be driven by EMDEs

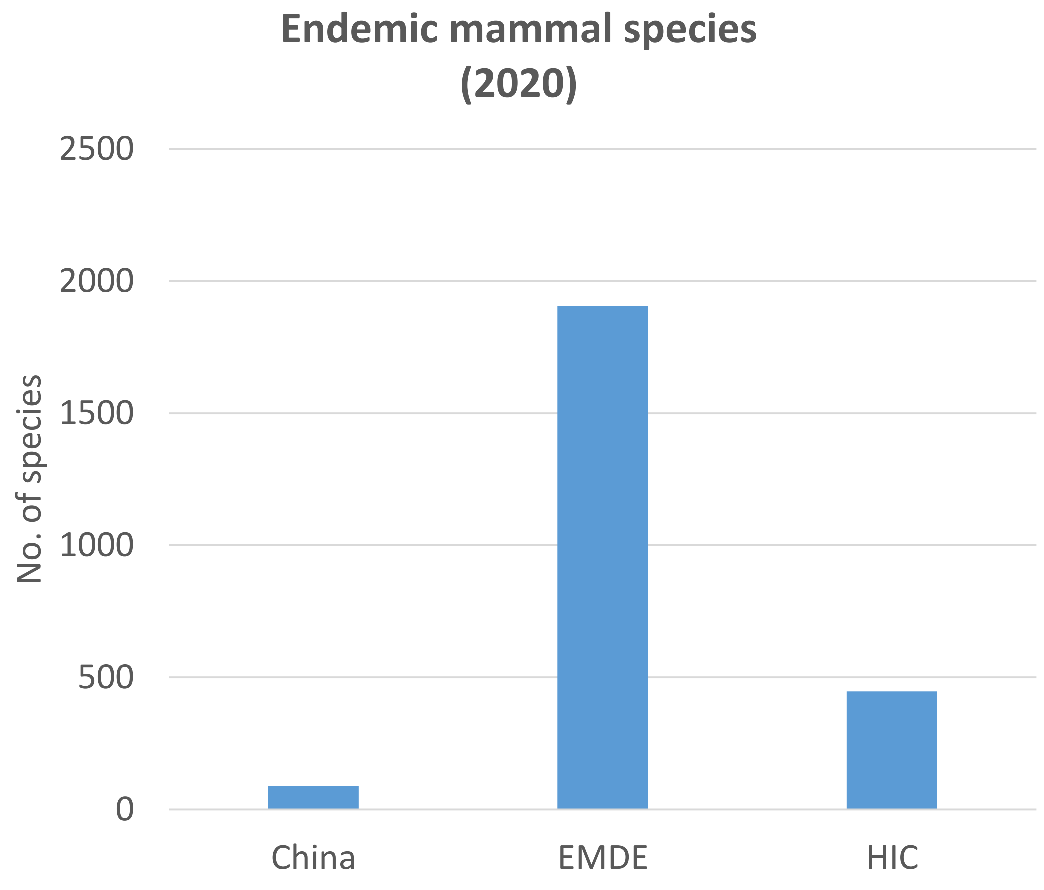




Source: U.S. Energy Information Administration (2019) International Energy Outlook 2019 with projections to 2050. https://www.eia.gov/ieo

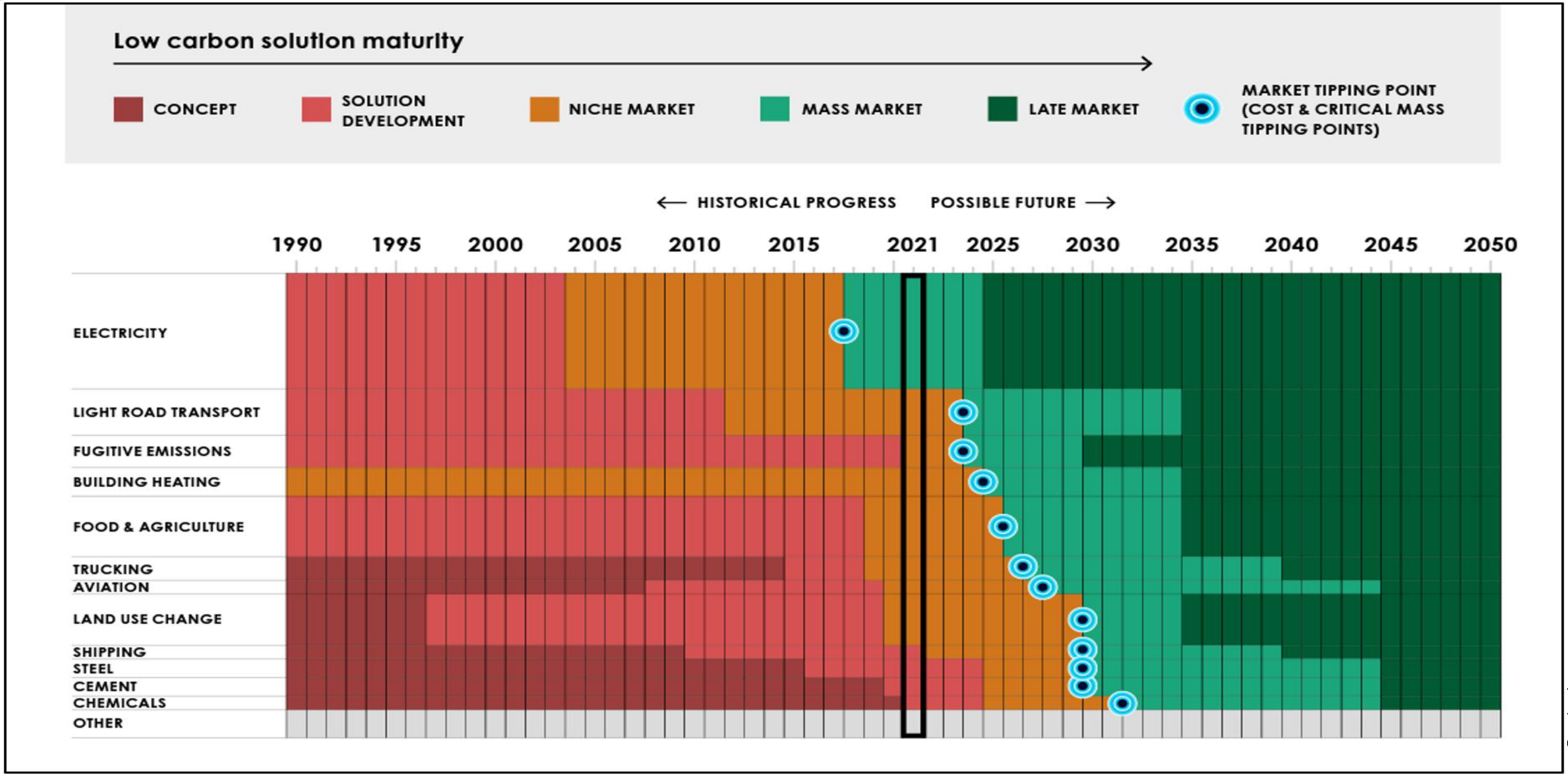
Nature and biodiversity





Tipping points for green transformation by sector

Historical progress and indicative future timeline



nated for the
represent
e decade

Source: Stern et al. (2023)

The new growth and development opportunity

- **Big push on investment is the new growth story**
  - Significant fiscal multipliers
  - Reversal of deteriorating public capital stock
  - Cheap power is the lifeblood of development
- Growth will generate domestic resources
- DRM will finance other SDGs
- All countries benefit when each invests: climate, pandemic surveillance, biodiversity, peace
- A big push on investment, together with innovation and a sharp focus on sustainability in all its dimensions, can drive a sustainable recovery from the present crisis, restore momentum on development and poverty reduction, and is the ONLY way to keep climate goals in reach.
- We have in our reach a much more attractive form of growth—more sustainable, inclusive and resilient.
- Such a big push will be challenging but feasible. **Delay is deeply dangerous.**

Investment must scale up by several points of GDP

Investment/spending needs per year for sustainable development and climate action for EMDCs (other than China):

Estimate	2019 US$ billion	2019 % GDP	2030 US$ billion	2030 % GDP	Gap (2030 minus 2019)[1] US$ billion	Gap (2030 minus 2019)[1] % GDP
SDG-related investment[2]	2,385	11.3%	5,880	18,2%	3,500	6.9%
Of which climate and related investments[3]	550	2.4%	2,400	7.2%	1,800	4.8%

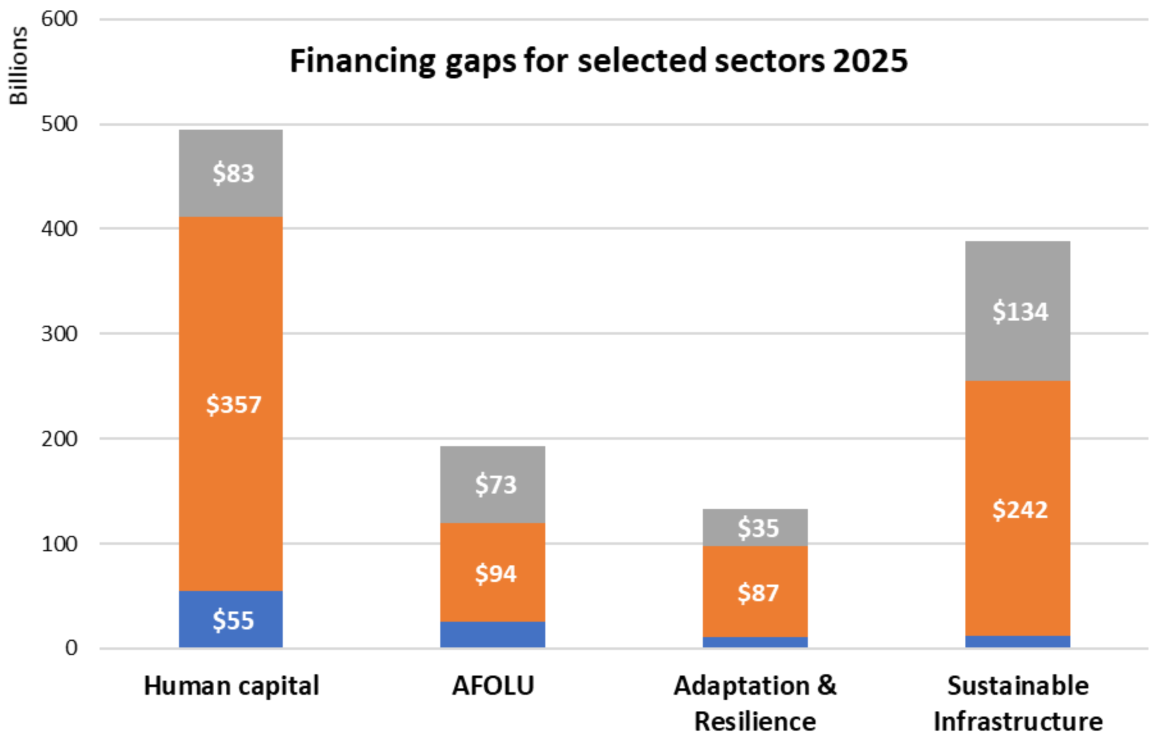
Notes:
1. Gap is defined as difference between estimated investment needs in 2030 and current baseline of investment in 2019.
2. Human capital, sustainable infrastructure (including on the energy transition), adaptation and resilience, AFOLU.
3. Energy transition, adaptation and resilience, AFOLU.

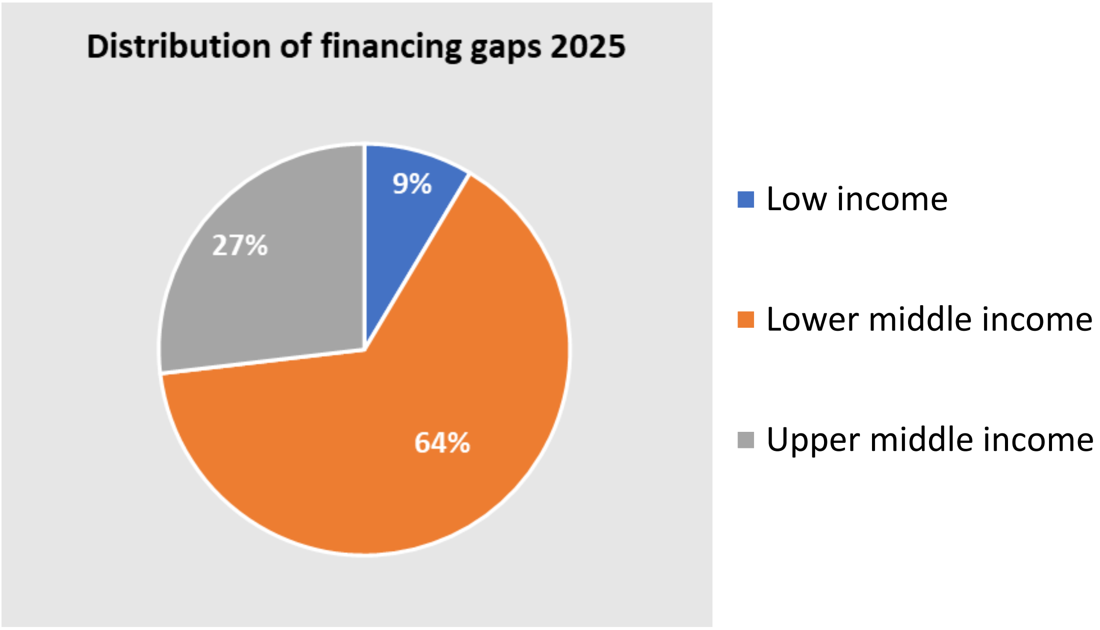
Source: Bhattacharya et al. (2022)

The growth and structural change agendas in EMDCs will already entail substantial energy investment. Savings from avoided investments in fossil fuels in EMDCs dwarf additional climate investment needs.

Investment requirements in natural capital, adaptation and resilience, and spending on loss and damage will be additional.

Funding gaps





Source: Bhattacharya et al. 2022

"Reforming fiscal policy will be an essential element of correcting course, but we must be realistic about how much we can expect it to do."

World Bank's Poverty and Shared Prosperity Report 2022: Correcting Course

Translating investment opportunities to reality: unlocking ambitious investment programs

- Investments to ramp up climate action, for both mitigation and adaptation, will remain academic, unless countries are able to develop and implement investment programmes in a purposeful way.
- These **programmes need to be translated into concrete pipelines of projects and supported by a favorable investment climate**. Investment depends on expectations, and clarity and credibility over the medium term are crucial.
- Countries will need therefore strong and sustained policy and institutional reforms to unlock the scale and quality of investments that will be needed, much of which will have to come from the private sector. A concerted push will be needed on **capacity building**.
- **Country/sector platforms**, driven by countries, help bring together key stakeholders around a purposeful strategy, scaling up of investments, tackling binding constraints, ensuring a just transition and mobilization of finance especially private finance.
- It will also be important to make market mechanisms work more effectively and efficiently to direct capital where needed.

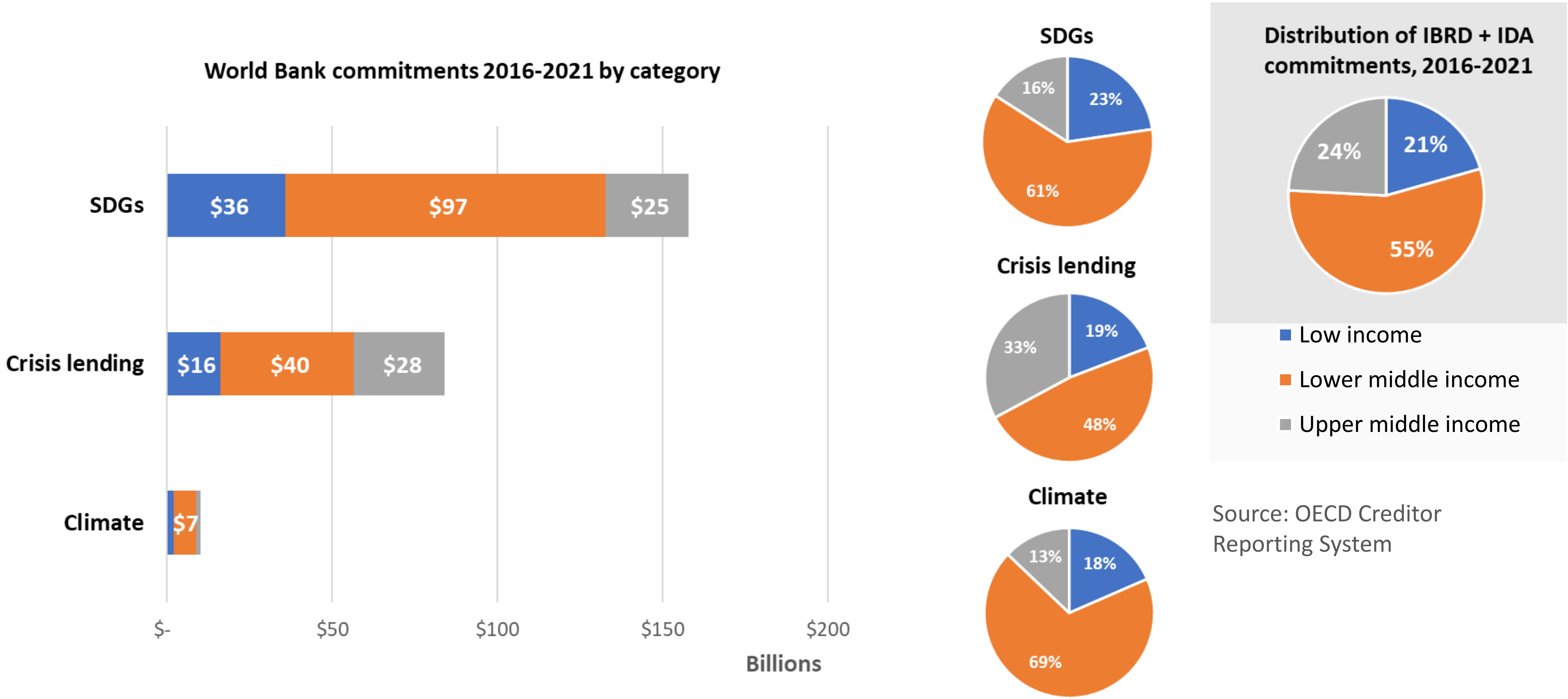
Four key implications for the World Bank

1. A renewed mandate
2. Adjustment to its operating model
3. Scaling up affordable finance
4. Reform of governance

A renewed mandate

- The World Bank, and the MDB system as a whole, has a **crucial role to play in the crucial coming decades** on development and climate.
- Three key **mutually supportive functions**:
  - ✓ Crisis support
  - ✓ Sustainable development and poverty reduction
  - ✓ Accelerating climate action.
- These three functions are fully consistent with the Bank's mission and mandate and with the global agenda set in 2015.
- What is different is the **scale and urgency of the challenge and the historic window of opportunity** to meet development and climate goals.
- Also, clear recognition that this is **a universal agenda encompassing low-income, lower middle-income, and upper middle-income countries.**
- Relative needs greatest for low-income countries but absolute needs greater in middle-income countries.

Crisis, SDG and climate lending



Source: OECD Creditor Reporting System

A shift in the operating model

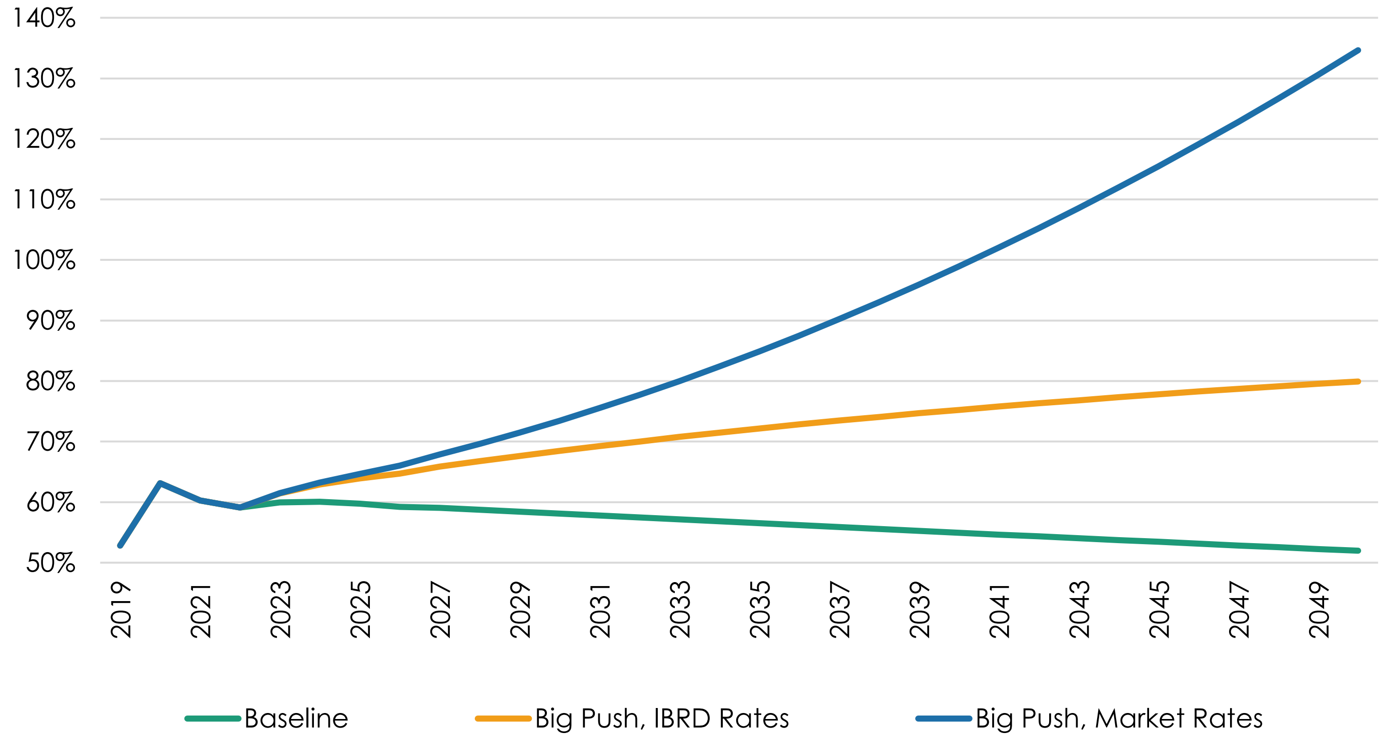
- The **country-based model is the most effective way to tackle development and climate together**.
- But the **model has to evolve quickly** given the scale and urgency of the challenge and the opportunities for transformative change.
- Working as a system, MDBs should engage with countries and the private sector to play **a purposive and proactive role in helping countries define, identify enable and foster the investments and programs** to ramp up on development and climate objectives. CCDRs provide a good diagnostic tool.
- **Country-led and country-owned coordination mechanisms** around priority objectives have to become the norm for scaling-up and mobilizing the necessary support. This requires strong buy-in from client countries and enhanced partnerships on the ground including with the private sector.
- The **"One World Bank Group" structure and functions will also need to evolve**.
- As the G20 Eminent Person Group underscored, **significant scope to enhance collaboration and effectiveness of the MDB system**. Since then much greater imperative and opportunity for structured cooperation with the private sector.
- **Institutional structures that foster collaborations and coordination with the MDBs and the private sector should be fostered** and given due independence including the Global Infrastructure Facility, the Climate Investment Funds and potentially MIGA.
- Continue to **reduce "cost of doing business"** with the Bank and enable scaling up.
- Major implications for scaling up and skills set.
- Need for **new performance benchmarks and impact assessment**.

Scaling up affordable finance

- The Bank can play a **central role in fostering a debt and financing strategy** that is fit for purpose in terms of tackling debt difficulties and fostering the scale and quality of finance that is needed.
- Need strengthening of all arms of the World Bank Group—IDA, IBRD, IFC and MIGA. Tap **complementary strengths synergies to meet evolving demands.** More donor funding for IDA and concessional financing for MICs.
- The **World Bank Group must work together to mobilize private finance** for sustainable development and climate, with clarity of objectives and specific roles, and development of the right instruments for risk mitigation and reducing the cost of capital.
- **Mobilization targets on both the scale and quality of private finance** can help give impetus to increasing private sector multipliers.
- The World Bank must significantly increase its work with the public sector and authorities to **enable the large necessary public investments.**
- The shareholders of the World Bank must explicitly recognise that these tasks require a **multiplying flows of finance by a factor of three in the next five years.**
- This scaling up of financial flows can be built in part on **more effective utilisation of the capital** already available building on the recommendations of the G20 CAF expert group.
- Shareholders must recognise that **proactive capital increases will be required** as part of the overall package to achieve the necessary three-fold increase in flows.

Addressing the debt challenge

Average developing county debt projections from 2019 to 2040

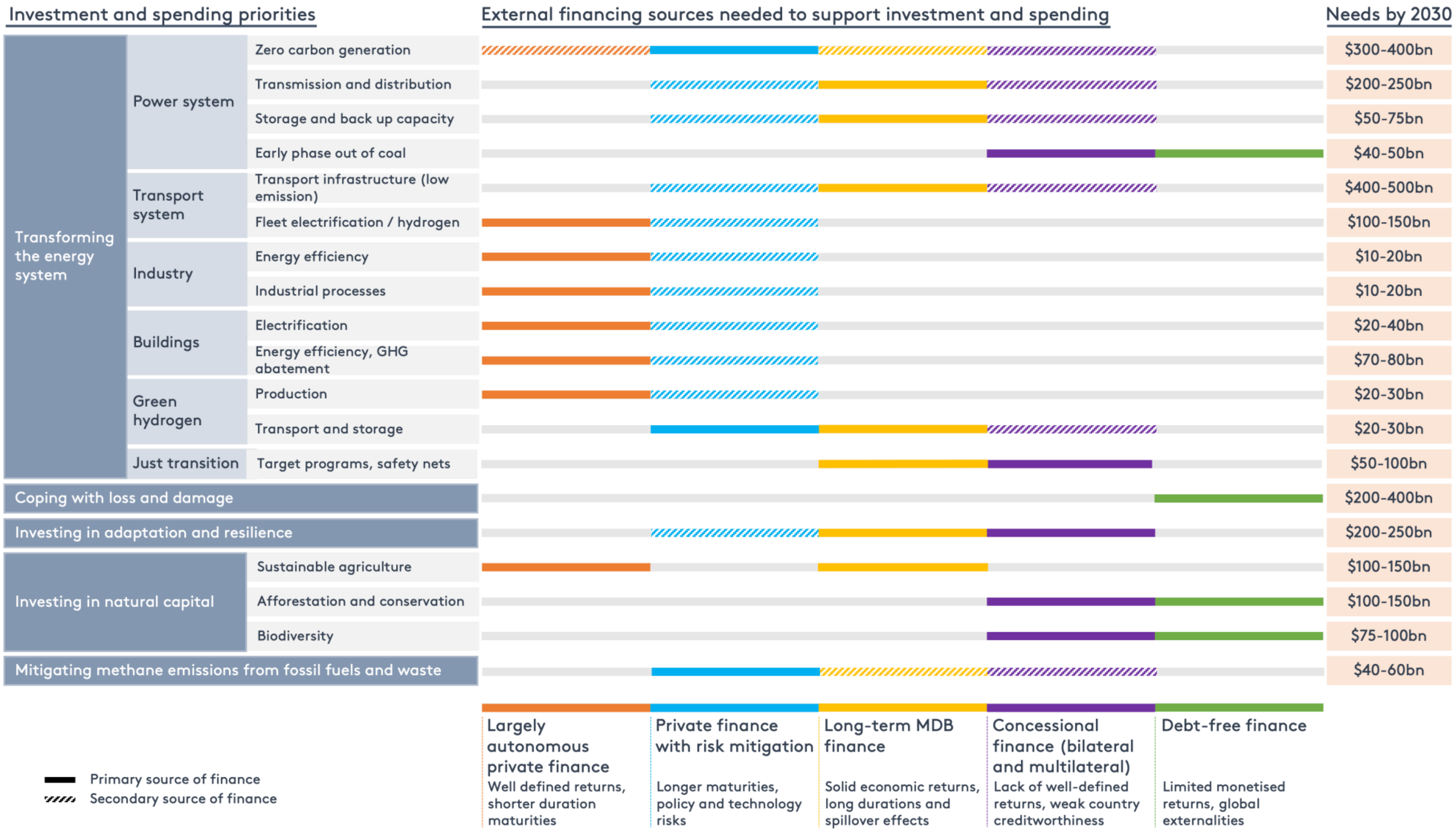


Source: Songwe et al. (2022)

A big push strategy is feasible only if the incremental financing comes largely on terms that are affordable, comparable to IBRD rates of interest.

An additional $1 trillion per year is needed in external finance from different sources

External financing sources for investment and spending priorities for climate action and related development goals



Notes:
The categories of investment and spending necessary to meet climate and development goals are shown on the left-hand side. For each, we outline the mix of financing needed from external sources to support the related investment and spending priorities.

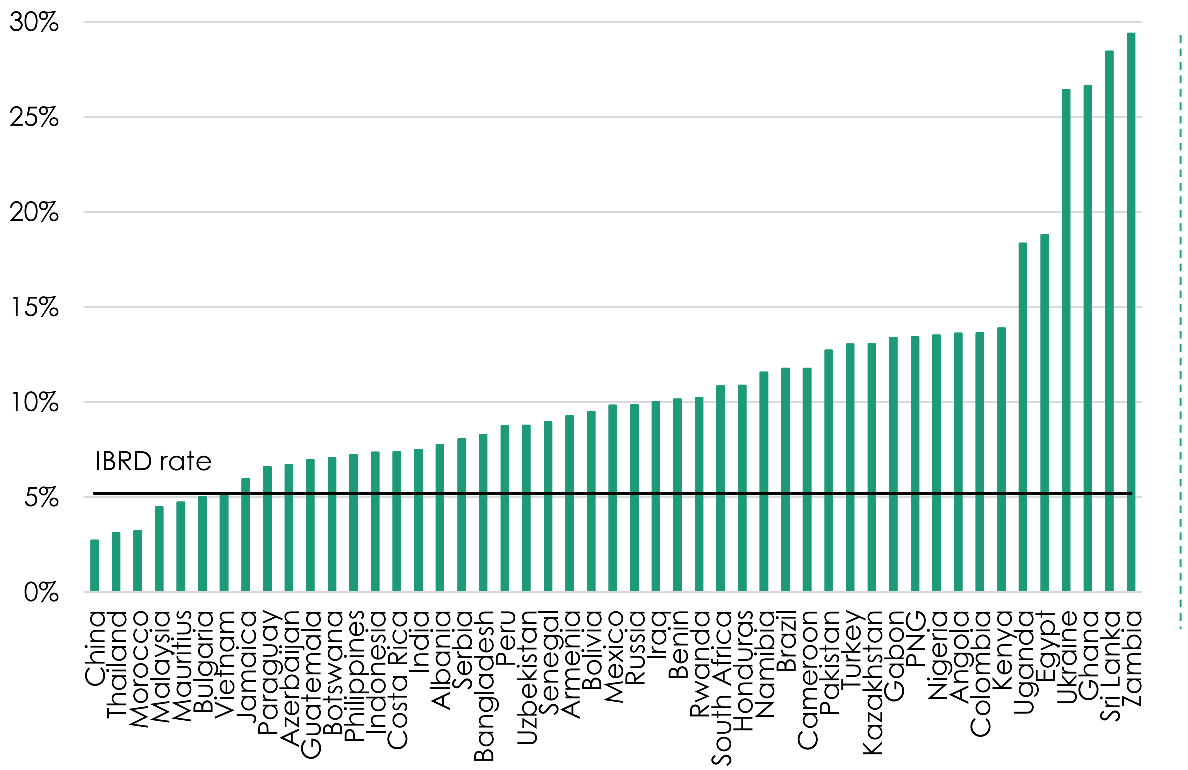
We distinguish between sources that would constitute the primary source of financing for one sector, and those that would play a secondary role.

On the right-hand side we outline the estimated investment and spending requirements by 2030 for each category.

Source: Bhattacharya et al. (2022)

The cost of capital must be tackled

Developing country 10-year bond yields



Source: Trading Economics and World Government Bonds, Market Insider, and Haver Analytics

Return expectation from solar projects in EMDCs

Country	S&P Rating	Required return from solar project (%)
Germany	AAA	7%
USA	AA+	9%
UAE	AA	10%
Saudi Arabia	A-	12%
Chile	A	12%
Morocco	BBB-	15%
India	BBB-	17%
Algeria	B	18%
Oman	BB-	18%
Peru	BBB	20%
Costa Rica	B	21%
Namibia	BB-	21%
Ghana	B-	22%
Brazil	BB-	22%
Nigeria	B+	22%
Bolivia	B+	24%
Tanzania	B	24%
Egypt	B	28%
Zambia	CCC-	38%
Argentina	CCC+	52%

Source: CPI, forthcoming

Reform of governance

- Reflect 21st century realities and enhance voice and representation of developing countries
- Leadership selection
- Cooperation and collaboration with other stakeholders
- Internal governance reforms including incentives for accelerating necessary shifts