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Reforming the World Bank to Play a Critical Role in Addressing Climate Change

PEDRO ALBA, PATRICIA BLISS-GUEST, AND LAURA TUCK

Abstract

The current World Bank model focuses on reducing poverty and promoting equitable growth, while considering environmental and social sustainability. Programming of resources is country-driven, and resources are allocated to programs and investments according to priorities of client government authorities. Despite the appeal of this approach and its many benefits, it has left numerous global public goods (GPGs), particularly those related to climate change, underfinanced, undermanaged, and unachieved. The resulting limited levels of investment and programs have significant global cost and, potentially, extreme ramifications. While there has been considerable reflection on the question of mandate, as well as on options for improving financial engineering of the multilateral development banks (MDBs) to increase resources to better address GPGs, there has been little attention given to reforms and changes in the internal business model that would be required at an MDB like the World Bank if it were to implement a new global mission on climate change. This paper examines the changes in the internal business model that would allow the World Bank (or other MDBs) to better address climate change—and, with some adjustments, potentially, other GPGs.

POLICY PAPER 288 • MARCH 2023

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Pedro Alba, Patricia Bliss-Guest, and Laura Tuck. 2023. "Reforming the World Bank to Play a Critical Role in Addressing Climate Change." CGD Policy Paper 288. Washington, DC: Center for Global Development. https://www. cgdev.org/publication/reforming-world-bank-play-critical-role-addressing-climate-change

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Foreword

There is growing attention on reforming the World Bank so it can increase its role in climate finance. And while there has been significant focus on what is needed to grow the institution's financial firepower, there has been less analysis around the operational reforms that are necessary to make this happen.

In this paper Pedro Alba, Patricia Bliss-Guest, and Laura Tuck present a series of changes to the operational practices of the World Bank that would allow it to provide greater support for climate financing across its client countries. The authors explore five reform areas, including expanding the mission of the World Bank, mobilizing more financing for climate, establishing a new climate focused financing window, changes to the World Bank's governance model and internal structure and increasing collaboration among the multilateral development banks on climate finance.

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I. Overview

The current World Bank (Bank) model focuses on reducing poverty and promoting equitable growth, while considering environmental and social sustainability. Programming of resources is country-driven, and resources are allocated to programs and investments according to priorities of client government authorities. [1]

This model benefits from country ownership, and Bank programs are developed in partnership between national authorities and Bank regional/country leadership, based on opportunities, risks and context. The Bank support is codified in a Country Partnership Framework (CPF)[2], based on a Systematic Country Diagnostic (SCD)[3] and, beginning recently, taking into account the findings of the new Climate Change Development Report (CCDR).[4]

This model has allowed countries of all income levels to identify investments and support that fit their national priorities, available resource envelopes and debt capacity, as well as their international commitments to global conventions and agreements.

Despite the appeal of this approach and its many benefits, it has left numerous GPGs, particularly those related to climate change, underfinanced, undermanaged and unachieved[5], since these are often not the highest priorities of national authorities. The resulting limited levels of investment and programs have significant global cost and, potentially, extreme ramifications, especially for issues related to climate change, loss of ecosystems, pandemic disease, and migration.[6][7]

There has been considerable discussion around the many GPGs that could usefully be tackled more explicitly by MDBs. Obviously each GPG is unique and addressing each of them adequately would require a specifically tailored approach for the associated agenda. But perhaps the most urgent and costly one, where an institution like the Bank could very clearly make a significant contribution, is climate change, which is the focus of this paper. Given the critical importance of this issue, and the general applicability of the many lessons that could be derived from moving the Bank significantly further toward addressing it, it is worthwhile to begin with this case.

1 "Our Mission," World Bank Group, https://www.worldbank.org/en/home#:~:text=Our%20Mission,prosperity%20in%20a%20sustainable%20way.

2 "Country Partnership Frameworks," World Bank Group, https://openknowledge.worldbank.org/handle/10986/23100.

3 "Systematic Country Diagnostics," World Bank Group, https://openknowledge.worldbank.org/handle/10986/23099.

4 "Country Climate and Development Reports (CCDRs)," The World Bank, https://www.worldbank.org/en/publication/country-climate-development-reports.

5 "Climate Plans Remain Insufficient: More Ambitious Action Needed Now," *United Nations Climate Change*, October 26, 2022, https://unfccc.int/news/climate-plans-remain-insufficient-more-ambitious-action-needed-now.

6 Dissanayake et al, "A Bank for the World?" *Center for Global Development*, June 9, 2022, https://www.cgdev.org/blog/bank-world.

7 *Climate Change 2022: Impacts, Adaptation, and Vulnerability* (Cambridge and New York: IPCC, 2022), https://www.ipcc.ch/report/sixth-assessment-report-working-group-ii/.

In this context, it is important to consider whether the overall mission of the Bank (and potentially other MDBs) should be revamped, either to shift focus explicitly to include a new goal for the delivery of climate change programs, or to shift partially to include delivery of climate programs within goals of poverty reduction and growth.

There is growing consensus, both within and outside the Bank, that at least some shift in focus is warranted. But with millions still living below and close to the absolute poverty line, maintaining a development mandate must remain part of the global imperative.[8] Moreover, addressing climate change effectively (as well as other GPGs) will require continued investments and programs that also improve growth and reduce poverty. We believe that adding a third goal to address GPGs, with an initial focus on climate change, to the Bank's mission will not require a change in the Bank's Articles of Agreement, but rather could be adopted through a process similar to that followed when the Bank adopted its current twin goals to eradicate absolute poverty and boost shared prosperity. The current mission statement was presented in a paper discussed at the Board and endorsed by the Development Committee in 2013.[9]

While there has been considerable reflection on this question of mandate, as well as on options for improving financial engineering of the MDBs to increase resources to better address GPGs,[10] there has been little attention given to reforms and changes in the internal business model that would be required at an MDB like the Bank if it were to implement a new global mission on climate change. The Bank has recently released a paper describing management proposals regarding changes to its mandate and operational and financial models (World Bank Reform Paper).[11]

This paper goes further in examining in more detail the changes in the internal business model that would allow the World Bank (or other MDBs) to better address climate change (and, with some adjustments, potentially, other GPGs). The paper calls for the following five major changes that are further explored in this paper.

8 "Poverty," The World Bank, https://www.worldbank.org/en/topic/poverty/overview.

9 "A Green Light for a New Work Bank Group," *The World Bank*, October 12, 2013, https://www.worldbank.org/en/news/feature/2013/10/12/green-light-for-new-world-bank-group

10 For example,

Ahluwalia et al, *Multilateral Development Banking for This Century's Development Challenges: Five Recommendations to Shareholders of the Old and New Multilateral Development Banks* (Washington: Center for Global Development, 2016), https://www.cgdev.org/sites/default/files/multilateral-development-banking-report-five-recommendations.pdf.

Dissanayake et al, *A Bank for the World Better Terms and Conditions for Global Public Goods* (Washington: Center for Global Development, 2022), https://www.cgdev.org/sites/default/files/bank-for-the-world.pdf.

Léautier et al, *Boosting MDBs' investing capacity: An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks* (G20 Italy and G20 Indonesia, 2022), https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/news/news/CAF-Review-Report.pdf.

Dominik Kopiński and Marek Wróblewsk, "Reimagining the World Bank: Global Public Goods in an Age of Crisis," *World Affairs* 184, no. 2 (2021): 151-175, https://journals.sagepub.com/doi/full/10.1177/00438200211013486.

11 "Evolving the World Bank Group's Mission, Operations, and Resources: A Road Map," *World Bank Group*, December 18, 2022, https://documents1.worldbank.org/curated/en/099845101112322078/pdf/SECBOS0f51975e0e809b7605d7b690ebd20.pdf

1. As noted above, expand the mission of the Bank to include, in addition to ending extreme poverty and boosting shared prosperity, supporting governments through financial and other assistance to address global challenges including, in the first instance, priority action on climate change mitigation and adaptation.

While the Bank provides more climate finance to developing countries than any other institution[12], this amount still falls far short of what is needed and frequently does not address the biggest challenges and the top priorities.[13] Countries (generally Middle Income Countries (MICs) and Upper Middle Income Countries (UMICs) with the largest emissions may not be prioritizing programs to reduce those emissions, or at least not to reduce them in a speedy or efficient manner. The Bank's current focus on poverty reduction also frequently limits the Bank's response in UMICs from the supply side. Many other countries, especially Lower Income Countries (LICs) and Lower Middle Income Countries (LMICs), are frequently unable to adequately address their adaptation challenges.[14] Making a climate change mandate explicit, with a focus on the highest opportunities for impact, would go a long way toward making a difference. In November 2022, Bank President David Malpass called for expanding the Bank's mission to explicitly include public goods such as climate change.[15] This would not entail changing the Articles of Agreement but would formally expand the Bank's mission statement with endorsement of the Development Committee.[16]

2. Mobilize significantly increased financing to address climate change investments and programs that could have the largest impact on reducing global emissions or strengthening climate resilience.

Additional funding will be needed, including large amounts of concessional support to provide adequate incentives to countries to make investments that do not align with domestic priorities but have a significant global public good dimension. Concessional terms will be required for countries that are constrained in their investment opportunities by borrowing limits of different kinds and having a grant element to their borrowing can stretch their capacity to invest.[17] As the recently unveiled programs to support emissions reductions in South Africa and Indonesia (announced around COP27 and the G20 meeting in Bali)[18] have demonstrated, the amounts needed to induce and support change are very large.

12 "Climate Change," The World Bank, https://www.worldbank.org/en/topic/climatechange.

13 *Joint Report on Multilateral Development Banks' Climate Finance* (AfDB, ADB, AIIB, CEB, EBRD, EIB, IDBG, IsDB, NDB, and WBG, 2021), https://www.eib.org/attachments/lucalli/mdbs_joint_report_2021_en.pdf. https://www.lse.ac.uk/granthaminstitute/publication/finance-for-climate-action-scaling-up-investment-for-climate-and-development/

14 OECD (2022), *Multilateral Development Finance 2022*, OECD Publishing, Paris, https://10.1789/9fea4cf2-en.

15 https://www.worldbank.org/en/news/speech/2022/11/09/remarks-by-world-bank-group-president-david-malpass-at-the-cop27-climate-finance-event

16 "World Bank/IMF Spring Meetings 2013: Development Committee Communique," *The World Bank*, April 20, 2013, https://www.worldbank.org/en/news/press-release/2013/04/20/world-bank-imf-spring-meetings-2013-development-committee-communique.

17 The World Bank Reform Paper also indicates the need for significant grant financing to create incentives for countries to investment in mitigation investments.

18 Katherine Kramer, "Just Energy Transition Partnerships: An opportunity to leapfrog from coal to clean energy," *IISD*, December 7, 2022, https://www.iisd.org/articles/insight/just-energy-transition-partnerships.

While climate mitigation must urgently be addressed if the world is to avoid the most catastrophic impacts of climate change, strengthening climate resilience and mitigating the risks of impacts from climate change are equally critical and will continue to be a pillar of sustainable development. IDA funding would need to be increased, in particular, to expand support for the adaptation needs of LICs estimated in the hundreds of billions of dollars. Additionally, increased financing should be available to MICs, especially LMICs no longer eligible for IDA, to support their efforts to invest in a development path that takes into account the impacts of climate change. The increase in funding for mitigation should be matched by, and not come at the expense of, increased IDA and other funding for adaptation.

3. Establish a new (third) World Bank financing window for GPGs, with an initial focus on climate change, and expand IDA to increase adaptation financing in LICs.

The new window would open the financial infrastructure for funding GPGs generally but in the immediate term, would provide financing for climate investments (mitigation and adaptation) in MICs and in LICs that can make significant contributions to emissions reductions. Adaptation funding for LICs would be provided primarily through an IDA expanded with dedicated financing for climate purposes. Grants would be blended with the new window's loans or provided on their own, as required. The third window could be capitalized with a combination of new contributions, resources transferred from IBRD (the baseline for such a transfer being those resources currently used, on average, for climate purposes but the final amount would be determined through negotiations among shareholders) and/or redeployment of existing trust funds and financial intermediary funds. There are many benefits, but also some drawbacks, associated with establishing a third financing window relative to other financial structures, and these are discussed more fully in the paper. On balance, we believe the third window to be the most advantageous, but other options could be considered.

Allocations from this window would be scaled for maximum impact in line with the Paris Agreement targets and disbursed with speed and efficiency to match the urgency of the climate change threats. In an important adjustment to the current operating model, amounts from the window would be allotted to countries and programs using objective, transparent, and agreed criteria and metrics (e.g., using a global cost abatement curve) to ensure that funding is channeled to investments with the potential for the largest global impacts.

Rules for allocating IDA funds across countries would be revised to include resiliency to the impacts of climate change, including measures of adaptation needs and the effectiveness in the use of resources in addressing such needs.

4. Restructure the Bank by establishing a new governing Board to oversee the GPG window and modify the Bank's internal structure and incentives to allow the Bank to fulfill its new climate change mission together with its poverty and shared prosperity agenda.

Governance

A new Board for the climate window would be established with consensus on the distribution of voting rights across shareholders based on the following principles:

- broad representation on the Board of all borrowers (all shareholders should have a minimum number of shares),
- recognition of size (GDP or population?) of countries, and
- contributions of new capital and grant resources.

Structure and Incentives

Internal structure and incentives would be revised so that the Bank can continue to address poverty while also more efficiently and effectively addressing its new climate mandate, including:

- Maintaining the current country driven model for the Bank's work on poverty and growth, in particular in LICs and LMICs, within a context of enhancing sustainability and climate resiliency.
- Focusing increasingly on climate mitigation in the Bank's engagement with country authorities in MICs and UMICs, while reviewing country programming and strategies to incorporate this new focus on climate. In UMICs and certain MICs, this may be the only element of Bank support.
- Reinforcing the roles and staffing of the global practice working on climate that will play a critical role in setting priorities and allocating resources across regions and countries for climate programs.

These recommendations do not involve a major reorganization of the Bank. They aim to minimize disruption and cost, and to minimize resistance from inertia or vested interests to the extent possible, while at the same time, creating a framework that would allow the Bank to achieve the desired global impact in the most efficient and effective manner.

5. Increase MDB collaboration on climate change, with the World Bank playing a lead role to support and promote such collaboration.

Successfully addressing the climate change challenge will require collaboration across MDBs, the UN and other institutions that also play an important role in setting climate policy and providing climate finance. The World Bank, with its global scope, size and analytical and knowledge capacity is well placed to lead an MDB collaborative partnership on climate change finance. Increased collaboration will also be important at the global level with institutions such as the UNFCCC that play a key role in setting climate policy and agreed global goals.

II. Introduction

The Bank's[19] mission is **"to reduce poverty and boost shared prosperity in a sustainable way"**[20] by promoting sustainable growth and investment in people." It has done this by investing in projects and programs addressing the most pressing constraints to development at the country level and, to a lesser extent, at the regional level. It has identified these constraints through intense policy dialogue with national governments and strong analysis.[21] Funding for these projects and programs originates in one of two windows: IBRD, which provides non-concessional funds targeted to MICs, and IDA, which provides highly concessional resources targeted to LICs (see Box 1).

Box 1. Current World Bank windows

The World Bank currently has two funding windows. The first is the International Bank for Reconstruction and Development (IBRD) which offers money at market rates (non-concessional) to credit-worthy, middle-income countries. Its annual commitments are in the order of $25 to $30 billion. In FY 22, this figure was $33.1 billion as a result of the pandemic response. [https://thedocs.worldbank.org/en/doc/f3508084cc8eae0e08c432b2427b6946-0340022022/original/IBRD-Information-Statement-FY22.pdf]

The second window is the International Development Association (IDA), which lends (or grants) money at low (concessional) rates with a long repayment period to low income and lower-middle-income countries. Through development credits, grants and guarantees, IDA committed $37.7 in FY22 billion on highly favorable terms (concessional lending) to the poorest countries. [https://ida.worldbank.org/en/financing#:~:text=Other%20recipients%20receive%20IDA%20credits,which%20%2413.2%20billion%20in%20grants.]

Yet, many of the problems that currently top the global agenda do not respect national borders, such as combatting climate change, preserving nature and biodiversity, or reducing pandemic risks. These global problems can only be addressed through global collaboration and cooperation to address global "bads" through the delivery of Global Public Goods (GPGs) and are, therefore, not adequately addressed with country level programs. As a global financial institution, the World Bank has a significant number of projects and programs that support GPG delivery, but they have not been sufficient to drive the global shifts at the magnitude or speed that is required for collective success in these areas (See Box 2).

19 The World Bank is part of the World Bank Group that in addition to the Bank includes the International Finance Corporation (IFC) focusing on achieving the objectives of the Group through investments in private sector entities in developing countries, and the Multilateral Investment Guarantee Agency (MIGA) that does so by providing political risk insurance and other forms of credit enhancement for cross border investors. Both of these institutions have separate balance sheets.

20 "Our Mission," World Bank Group, https://www.worldbank.org/en/home#:~:text=Our%20Mission,prosperity%20in%20a%20sustainable%20way.

21 "Country Engagement," The World Bank, https://www.worldbank.org/en/projects-operations/country-strategies#:~:text=The%20World%20Bank%20Group's%20Country,prosperity%20in%20a%20sustainable%20manner.

Box 2. What factors to date have hindered achievement of more transformative impacts on climate change?

- **Other national priorities take precedence in funding decisions because:**

  – National investment/program decisions don't fully take into account global public good benefits. IEG reports show a disconnect between country priorities and global priorities. Developing countries are understandably reluctant to increase their borrowing for investments to mitigate global public "bads" which they had a minimal role in creating, and where they might not capture many of the benefits from the investment. Yet delivery of climate programs is likely to produce both local and global benefits. [Evans, J. Warren, and Robin Davies, eds. 2015. Too Global to Fail: The World Bank at the Intersection of National and Global Public Policy in 2025. Direction in Development. Washington, D.C.: World Bank. Doi:10.1596/979-1-4648-0307-9.]

  – There is not full understanding of or priority commitment to issues related to climate change and measures to respond to climate challenges. In some countries, there has been skepticism about the urgency of the climate change problem and the cost-benefit analysis for taking immediate climate action. Needed investments may be associated with a risk of significant short-term political costs (job loss and prices increases) while investing in competing priorities may be more expedient (raising short term income, investing in familiar technologies as opposed to more costly climate-friendly innovations, supporting industries that have already made substantial investments in the economy). [Custer, S., Sethi, T., Knight, R., Hutchinson, A., Choo, V., and M. Cheng. (2021). Listening to Leaders 2021: A report card for development partners in an era of contested cooperation. Williamsburg, VA: AidData at the College of William & Mary.]

- **Countries may lack financially viable alternatives in current carbon intensive sectors.**
- **Countries may face supply and demand constraints in borrowing**—The Bank's lending capacity is limited by its capital and may set lending ceilings, the so called single borrower limits, to mitigate credit risk (see Box 3). On the demand side, many countries have limited debt capacity, particularly after the Covid pandemic, others may have a risk profile that constrains the amount they can borrow.
- **The Bank does not have access to adequate volumes of concessional finance** to compensate for the divergence between domestic benefits and global benefits and the additional costs of climate-smart development.

[Authors' assessment]

This paper focuses on reform proposals to the operational practices and policies of the World Bank that would allow the Bank to respond to a new—and for some developing countries exclusive—mission to provide greater support for addressing climate change, as an urgent, priority GPG. These proposals hopefully will promote discussion, reforms and lessons that could help in establishing a larger Bank role in climate change and beyond to a broader GPG agenda.

III. The World Bank Group is already a major source of external finance for GPGs

The Bank Group has a Climate Change Action Plan[22] that establishes a number of objectives for the Bank, including a commitment to ensure that at least 35% of its financing goes for climate action.[23] As part of these efforts, the Bank has recently launched several Country Climate and Development Reports (CCDRs), a new core diagnostic to help countries prioritize the most impactful actions that can reduce GHG emissions and boost adaptation. [24]

Through its financing of country programs to meet poverty reduction and economic growth needs, the World Bank supports the delivery of global public goods at a country level when the national benefits justify the costs. In fiscal year 2022, the World Bank Group delivered $31.7 billion[25] from its own balance sheets to help countries address climate change. This amounted to 36% of total Bank Group financing and a 19% increase over the previous fiscal year. IBRD and IDA together delivered $26.2 billion in climate finance. Nearly half of that—$12.9 billion—specifically supported investments in adaptation and resilience. IFC, the private sector arm of the World Bank Group, delivered $4.4 billion in climate finance from its own balance sheet and mobilized an additional $3.3 billion from other sources. MIGA, the Bank Group's political risk insurance and credit enhancement arm, delivered $1.1 billion in climate finance.[26]

The Bank also plays an important role in mobilizing concessional financing for GPGs. In 2019, it launched the Fund for Innovative GPG Solutions (the "GPG Fund") using funds transferred from IBRD net income.[27] Specifically to address global challenges, including climate change, the Bank has mobilized and supports a number of trust funds and Financial Intermediary Funds, such as the

22 *World Bank Group Climate Change Action Plan 2021–2025: Supporting Green, Resilient, and Inclusive Development* (Washington: World Bank Group, 2021), https://openknowledge.worldbank.org/handle/10986/35799.

23 *World Bank Group Climate Change Action Plan 2021–2025: Supporting Green, Resilient, and Inclusive Development.*

24 "World Bank Group Delivers Record $31.7 Billion in Climate Finance in Fiscal Year 2022," *The World Bank*, September 7, 2022, https://www.worldbank.org/en/news/press-release/2022/09/07/world-bank-group-delivers-record-31-7-billion-in-climate-finance-in-fiscal-year-2022.

25 "World Bank Group Delivers Record $31.7 Billion in Climate Finance in Fiscal Year 2022."

26 "World Bank Group Delivers Record $31.7 Billion in Climate Finance in Fiscal Year 2022."

27 *Resolution No. 672: Transfer from Surplus to Fund the IBRD Fund for Innovative Global Public Goods Solutions*, International Bank for Reconstruction and Development of Governors, October 1, 2019, https://documents1.worldbank.org/curated/en/393761570077926702/pdf/International-Bank-for-Reconstruction-and-Development-IBRD-Board-of-Governors-Resolution-no-672-Transfer-from-Surplus-to-Fund-the-IBRD-Fund-for-Innovative-Global-Public-Goods-Solutions.pdf.

Global Environment Facility,[28] the Climate Investment Funds,[29] the Carbon Market funds[30] and the CGIAR[31] Fund among others. The Bank Group has also made GPG commitments as part of its IDA replenishments, most recently in IDA20[32].

But the totality of such activities falls short of resolving the global challenge, leading to gaps in the global response and ever-increasing global problems. The scale of financing required to deliver on the climate agenda vastly exceeds the Bank's current financial capacity.[33] Financing for climate will have to be significantly larger, used deliberately in a focused manner to address the highest priorities, and scaled up rapidly to meet the urgency of the challenge in an impactful and measurable way. Delays in deploying these funds in an efficient manner will only exacerbate the crisis and lead to larger funding needs in the future. [34]

IV. Five proposed reforms

This paper proposes five reforms to the internal business model that together could significantly increase the Bank's contribution to meeting global climate goals.

Reform 1. Expand the mission of the Bank to include, in addition to ending extreme poverty and boosting shared prosperity, supporting governments through financial and other assistance to address global challenges, including in the first instance, priority action on climate change mitigation and adaptation.

Increasingly, there is shared interest and even consensus within the global community for the Bank and other MDBs to engage not only in efforts to reduce poverty and build shared prosperity but to make a greater effort to address GPGs and, as a priority, climate change.[35] The three goals can be pursued together and often are mutually reinforcing. In November 2022, Bank President David Malpass called for expanding the Bank's mission to explicitly include public goods such as climate

28 "Global Environment Facility," gef, https://www.thegef.org/.

29 "Climate Investment Funds," CIF, https://www.cif.org/.

30 "Climate Finance and Initiatives," *The World Bank*, August 14, 2019, https://www.worldbank.org/en/topic/climatechange/brief/world-bank-carbon-funds-facilities.

31 "CGIAR," CGIAR, https://www.cgiar.org/.

32 *IDA20 Special Theme: Climate Change*, The World Bank, June 11, 2021, https://documents.worldbank.org/en/publication/documents-reports/documentdetail/374421625066951199/ida20-special-theme-climate-change.

33 Songwe et al., *Finance for climate action: scaling up investment for climate and development* (Cambridge: Grantham Research Institute on Climate change and the Environment, November 2022), https://www.lse.ac.uk/granthaminstitute/publication/finance-for-climate-action-scaling-up-investment-for-climate-and-development/.

34 Vera Songwe, Nicholas Stern, and Amar Bhattacharya, "The global climate finance challenge," *Grantham Research Institute on Climate Change and the Environment,* December 13, 2022, https://www.lse.ac.uk/granthaminstitute/news/the-global-climate-finance-challenge/.

35 Kopiński and Wróblewski, *Reimagining the World Bank: Global Public Goods in an Age of Crisis*.

change.[36] This would not entail changing the Articles of Agreement, but formally expanding the mission with endorsement of the Development Committee as was done when the Bank's current twin goals were adopted. [37]

A new or revised mission to deliver climate-related programs in addition to delivery of country-based poverty reduction programs would likely see the intensity of poverty reduction programs gradually diminish, and a shift toward climate programs that increases as average country per-capita income increases.

Within the MDB community, the Bank is likely best positioned to be a premier source of funding for Global Public Goods given: (1) its knowledge of and experience in most developing countries and in sectors related to GPGs (e.g., climate, health, conservation and environment, knowledge management, data); (2) its experience and success in managing and multiplying large funds based on its strong market rating and financial markets experience; (3) its global governance structure and leadership by finance, foreign, and development ministries on its Board; (4) its substantial analytical capacity, and (5) its convening power.[38]

Reform 2. Mobilize significantly increased financing to address climate change investments and programs that could have the largest impact on emissions reduction globally and/or on strengthened climate resilience.

The scale of financing requirements to deliver climate change programs vastly exceeds the current financing capacity of the Bank. Estimates are that trillions of dollars will be needed each year to meet the 2015 Paris Agreement goal of restricting global warming to below 2° C, if not 1.5° C, above pre-industrial levels [39]Developing nations will need hundreds of billions of dollars annually to adapt to the warming that is already inevitable.[40]

It is also clear that a large new source of grant funding to buy down the terms of any climate lending would be required for the Bank to significantly step up its financing. How much would depend on the climate targets the new program would try to achieve and the degree of concessionality that developing countries would require to borrow for mitigation projects. Additional grant funding would be used to increase the concessionality of lending for climate programs (deployed independently or blended with lending resources) and to supplement IDA (for the increased costs of adaptation and for demonstrating possibilities for low carbon energy growth.)

36 David Malpass, "Remarks by World Bank Group President David Malpass at the COP27 Climate Finance Event," *The World Bank*, November 9, 2022, https://www.worldbank.org/en/news/speech/2022/11/09/remarks-by-world-bank-group-president-david-malpass-at-the-cop27-climate-finance-event.

37 "World Bank/IMF Spring Meetings 2013: Development Committee Communique."

38 Dissanayake et al, *A Bank for the World Better Terms and Conditions for Global Public Goods.*

39 Songwe et al., *Finance for climate action: scaling up investment for climate and development.*

40 "More funding needed for climate adaptation, as risks mount," *United Nations*, November 3, 2022, https://news.un.org/en/story/2022/11/1130142.

Concessionality would be aimed at providing the minimum grant amount necessary to incentivize investments, addressing the barriers to lending, and extending the climate portfolio. The Bank has experience in lending to middle income countries on concessional terms when there are large positive externalities for the rest of the world, as in the case of the Clean Technology Fund for climate mitigation or the Global Concessional Financing Facility for addressing migration/displaced people.

The amounts needed to have significant impact could be quite large, as demonstrated by recent programs announced around COP27 in Egypt for South Africa and the G20 meeting in Bali for Indonesia.[41]

Donors[42] have offered South Africa $8.5 billion in a climate-finance deal which will be used mainly to decommission coal-fired power plants in tandem with developing renewable-energy generation, strengthening the transmission grid and modernizing the electricity-distribution system.[43] Some financing will go toward the development of green-hydrogen and electric-vehicle industries. Estimates of the needs to fully carry out the program, however, are considerably larger, amounting to at least $84.4 billion.[44]

The United States, Japan and other countries[45] pledged on behalf of the G20 at the recent meetings in Bali to mobilize $20 billion to help Indonesia shut down coal plants, double the deployment of renewable energy by 2030 and cap power sector emissions, among other climate-related commitments. Financing will come from a mix of public and private sector sources over a three-to-five-year period, using a combination of grants, concessional loans, market-rate loans, guarantees, and private investments.[46] The full financing required for Indonesia's energy transition is estimated at $1.2 trillion.[47]

Significant grant funding will also be needed to help many developing countries address factors that are constraining their borrowing capacity on both the demand and supply side. On the demand side, some countries are already constrained by their capacity to service their debt.[48] On the supply side, countries, including some large middle-income countries, can be constrained by single

41 Katherine Kramer, "Just Energy Transition Partnerships: An opportunity to leapfrog from coal to clean energy."
42 United States, the United Kingdom and the European Union
43 Katherine Kramer, "Just Energy Transition Partnerships: An opportunity to leapfrog from coal to clean energy."
44 "South Africa releases terms of 600 mln euro climate loans from France, Germany," Reuters, November 11, 2022, https://www.reuters.com/business/cop/south-africa-releases-terms-600-mln-euro-climate-loans-france-germany-2022-11-10/.
45 Canada, Denmark, the European Union, France, Germany, Italy, Norway and the United Kingdom.
46 Katherine Kramer, "Just Energy Transition Partnerships: An opportunity to leapfrog from coal to clean energy."
47 Joe Lo, "Rich nations, banks pledge $20bn for Indonesia's coal-to-clean switch," *Climate Home News*, November 15, 2022, https://www.climatechangenews.com/2022/11/15/rich-nations-banks-pledge-20bn-for-indonesias-coal-to-clean-switch/.
48 Vitor Gaspar and Ceyla Pazarbasioglu, "Dangerous Global Debt Burden Requires Decisive Cooperation," *IMF*, April 11, 2022, https://www.imf.org/en/Blogs/Articles/2022/04/11/blog041122-dangerous-global-debt-burden-requires-decisive-cooperation.

borrower limits imposed by MDBs for credit risk considerations.[49] The Bank, its shareholders and the international financial community in general would have to develop ways of appropriately reducing or sharing debt burdens, and mitigating the single borrower limit, including by sharing risks with potential interested third parties. To the extent concessional funds are available, this constraint would be eased.

The amount of additional funding required to meet climate needs would also depend on the ability of the Bank to efficiently expand its balance sheet, and success in finding ways of attracting additional private sector funding for climate. Both of these critical issues are the subject of multiple other papers and will not be discussed in detail here (see Box 3).

Box 3. Raising the resources

If the Bank were to implement a new mandate for GPGs, particularly climate mitigation and adaptation, it would require large amounts of additional financial resources, much of which would need to be in the form of grants, to complement and make effective the reforms described in this paper. Some of these resources could be attained by stretching, and by introducing other reforms to, the Bank's balance sheets, but the majority of the programs would require new additional resources. Grants, however, are not possible to stretch or leverage, and donors would have to step up to provide such needed resources over time.

The reforms needed to increase the Bank's financial capacity have been described in detail elsewhere in multiple other papers. (See Boosting MDB's Investing Capacity: An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks (2022).) The Bank itself in the recently released roadmap develops a priority list of potential means of expanding its balance sheet (see section D of reference in footnote 11).

These are some of the key questions that would need to be considered.

What should be the size of the new climate lending window? If the Bank continues to achieve its current target of 35% of its financing to support climate action, and assuming a sustainable lending amount for IBRD of some US$ 30 billion p.a., the Bank could provide US$ 10–11 billion p.a. for climate finance from IBRD's existing resources. A reasonable initial target would be to triple

49 Charles Kenny, "If We Want the World Bank to Solve Global Challenges, It Has to Be Bigger—but Also More Cuddly," *Center for Global Development*, August 26, 2022, https://www.cgdev.org/blog/if-we-want-world-bank-solve-global-challenges-it-has-be-bigger-also-more-cuddly.

IBRD climate finance to some US$ 30–35 billion p.a., implying, given current Bank capital adequacy policies, capitalization needs of some US$ 50-55 billion, of which US$ 17-19 billion would be from IBRD existing capital and US$ 31-38 billion would be from new resources. Accurate capital needs would have to be estimated using a risk-based capital adequacy model that also considers any capital buffer required for emergency lending needs. Additional capital might usefully be deployed, for example an initial target of US$ 10 billion, to reduce private investment risks in climate projects. This could mobilize private capital by a multiple of 3 to 7 times (depending on the magnitude of the risks that the Bank could mitigate). As the Bank ramps up project preparation and supervision capacity and develops more effective means of mobilizing private finance, more capital could be provided in the future. The Bank could explore ways to reduce the requirements of new capital through higher leverage, bilateral sovereign guarantees, portfolio guarantees along the lines of IFFEd as is currently being considered by the Asian Development Bank, and other means.

What should be the amount of grant funding? At today's Bank lending rates, it is estimated that 20% to 25% of project financing would have to be in the form of grants to attain meaningful concessionality targets (e.g., close on average to those of IDA blend terms). For example, a US$ 30 billion loan amount p.a. would require approximately US$ 7.5 billion p.a. in grants if 25% is the agreed concessionality to achieve the desired climate action. Even if only a 10% grant element is agreed, a US 30 billion loan amount p.a. would require some US$ 3 billion p.a. in grants. Grants are hence likely to represent the most important financial constraint to expanding climate finance rather than new capital.

How can single borrower limits be mitigated? Single borrower limits in nominal dollars are a risk management policy to protect Bank solvency and liquidity if major borrowers stop making loan payments. This could be an impediment to achieving significant reductions in emissions since some borrowers with the potential to deliver significant reductions could require resources that would exceed their single borrower limit. More capital could ease the single borrower limit, as could bilateral guarantees from strong sovereigns. The latter solution could be constrained by risk considerations such as avoiding too great a dependence on guarantees from single countries even if they are strongly rated. The Bank would need to find ways of eliminating or at least strongly limiting the constraint that these limits could set on lending.

[Authors' Assessment—see annex]

Reform 3. Establish a new (third) financing window with an initial focus on climate funding and increase IDA funding for climate resilience.

If the Bank were mandated to be a major funder of actions to address climate change, how best could this be achieved? Various options have been proposed, some calling for the provision of additional new funds to address climate change to others calling for a more radical revision of the Bank's core mandate and a significant redirection in current funding allocations largely to climate change.[50] Four broad categories of options are summarized below. There are advantages and drawbacks of each alternative, but after considering all of them in detail, it seems that on balance, Option 3A, to establish a new financing window, would be the most advantageous. Other options, of course, could be considered. The rationale for selecting Option 3A is discussed at the end of this section.

Option 1: The status quo (with currently proposed enhancements)

The current mission of the Bank is to end extreme poverty and promote shared prosperity in a sustainable way.[51] In the context of this sustainability framework, the Bank has set increasingly higher targets for the share of its lending that will go to address climate change, both mitigation and adaptation, which at present is 35%. Half of that total is to go for adaptation. Under this option, these share targets would be maintained. In addition, the Bank would continue to support current Financial Intermediary Funds (FIFs) and trust funds (TFs) (e.g., the Global Environment Facility, Climate Investment Funds, Carbon Market Funds, etc.) and would seek to expand this resource base through new commitments to the *Scaling Climate Action by Lowering Emissions (SCALE)* partnership[52] and other related climate trust funds. The Bank would continue to allocate resources from net income as approved in the last capital increase and launched in 2019 and would continue to honor its IDA climate commitments as outlined in the IDA 20 replenishment. Under this option, the country-based model of resource allocation would remain fully in effect.

Option 2: Intensification of current model

Option 2 is very similar to the status quo, with the key difference being that the targets for the share of financing for climate change investments would increase significantly, and the Bank would seek more ambitious grant resources that would be dedicated to climate change associated investments. The Bank would also seek a capital increase. The recent Bank Reform Paper mentioned above describes in more detail the characteristics of option 2 although it does not clearly indicate revised targets for climate investments. The Reform Paper proposal also includes reform elements, for

50 See, for example,
"The 2022 Bridgetown Initiative," *Ministry of Foreign Affairs and Foreign Trade Barbados*, September 23, 2022, https://www.foreign.gov.bb/the-2022-barbados-agenda/.
Ahmed et al, "Reforming the World Bank and MDBs to Meet Shared Global Challenges" *Center for Global Development*, October 6, 2022, https://odi.org/en/press/independent-think-tank-leaders-issue-call-to-action-for-mdb-reform/.
Stephanie Segal, Claire Healy , and Danny Scull, "A Roadmap for World Bank Evolution," *CSIS*, December 12, 2022, https://www.csis.org/analysis/roadmap-world-bank-evolution.

51 "Our Mission," World Bank Group, https://www.worldbank.org/en/home#:~:text=Our%20Mission,prosperity%20in%20a%20sustainable%20way.

52 "SCALE: Scaling Climate Action by Lowering Emissions," The World Bank, https://www.worldbank.org/en/programs/scale#:~:text=Scaling%20Climate%20Action%20by%20Lowering%20Emissions%20(SCALE)%2C%20a%20multi,to%20access%20international%20carbon%20markets.

example considering the establishment of a "IBRD Concessional Window," that would be closer to this paper's option 3.[53]

Option 3: Hybrid model

Under Option 3, the Bank would maintain its goals of poverty reduction and growth, especially for LICs and LMICs, but it would formally add a GPG goal with an initial focus on climate change to its mission. All support to UMICs and potentially some support to other MICs, would be exclusively focused on climate change and eventually other GPGs. The country-based model would be maintained for poverty reduction and growth work but, even in these programs, there would be a significant increase in climate considerations (especially for adaptation).

A significant difference from Options 1 and 2 would involve using a global model for funding climate work and having global units allocate designated resources according to their impact on climate objectives. To ensure the Bank's country and global programs are well integrated and seamless, formal linkages between country management and global management would be established. Country strategies would be prepared with both country and global objectives in mind, and global strategies would be prepared with priorities and targets for attainment of climate goals.

Under Option 3, existing relevant trust funds and some FIFs would be folded together into the Bank's climate programming, and the Bank would augment these by seeking significant grant resources and a capital increase specifically for climate work. These resources could be structured in the following manner:

For IBRD:

- *Option 3A*—A new window would be opened focused initially on climate work. Newly raised capital and some of IBRD's existing capital resources would be allocated to this window.
- *Option 3B*—Existing balance sheets would be used to deploy newly raised capital and some of the existing TFs/FIFs for climate. Under this option, a process would have to be devised to ensure that the new funds are dedicated exclusively for climate work.
- *Option 3C*—An omnibus climate FIF would be established, with funds from other climate FIFs and TFs moved into that framework. Under this Option, the multiple funds would establish consistent criteria, approaches for access and terms, in addition to accepting fresh concessional finance.

53 See paras 37-38 of the World Bank's Reform Paper:
"Evolving the World Bank Group's Mission, Operations, and Resources: A Road Map," *World Bank Group*, December 18, 2022, https://documents1.worldbank.org/curated/en/099845101112322078/pdf/SECBOS0f51975e0e809b7605d7b690ebd20.pdf

For IDA:

- Increased IDA allocations would be aimed at supporting climate adaptation, with revisions to the IDA allocation formula to add specific criteria to this effect.

Option 4: Exclusive GPG model

Under Option 4, the Bank's mission would be shifted to exclusively address GPGs, discarding or significantly reducing the poverty reduction and shared prosperity mandate, and making climate change the first and primary focus. Under this Option, the IBRD balance sheet and IDA resources would be used only for GPGs (climate change in the first instance). The country-based model would be discarded in favor of a global model where allocations for investments are made by global units based on impact on GPGs (e.g., emissions reductions or improved adaptation). A global strategy would lay out priorities and targets for climate goals. As with the other models, the Bank would continue to seek grant resources to add concessionality to the climate lending. Under an Option 4A, only the mandate for IBRD would shift to climate, with the poverty reduction mandate remaining for IDA countries.

It is likely that Option 3—the hybrid model—would be the most politically and technically feasible option (albeit perhaps the most expensive option) for the reasons discussed below. Many of the features are relevant for all the options, although modifications would be necessary for each.

One of the important features of Option 3, the hybrid model (combining the country and global approaches), is that a global approach would be employed for funding climate work, and allocations from climate resources would be made by global units. For investments that would mitigate greenhouse gas emissions, climate funds would be allocated where they would have the biggest impact (i.e., the "biggest bang for the buck") by producing the largest reduction in emissions. These allocations would be made according to an agreed approach that would be rigorous, systematic, equitable and transparent. It is expected that such an approach would result in delivery of most funds to relatively higher income developing countries.

The metrics for allocating adaptation funding to IBRD-eligible countries would need to be agreed, likely with a focus on LMICs that do not have access to IDA. While there exist methodologies to assess the costs of an investment that can reasonably be attributed to climate adaptation,[54] these need to be strengthened and refined so they can be used to support a system that can rigorously allocate concessional funding from the climate window to address such costs, particularly in LMICs and climate "hotspots" where adverse impacts are most likely to be significant.

54 *Joint Report on Multilateral Development Banks' Climate Finance* (AfDB, ADB, AIIB, CEB, EBRD, EIB, IDBG, IsDB, NDB, and WBG, 2021), https://www.eib.org/attachments/lucalli/mdbs_joint_report_2021_en.pdf.

For LICs, IDA would remain focused on poverty reduction and growth but with a much stronger and increasing emphasis on addressing climate impacts and resiliency. Both donor countries and IDA eligible countries are likely to support an increased focus on climate adaptation especially as the consequences of climate change are becoming more severe. This new emphasis is well illustrated in the most recent IDA replenishment.[55]

IDA-eligible or IDA blend countries would continue to be supported with a broad country-based program to reduce poverty but with potentially more rigorous targets for actions that address sustainability, climate and poverty, such as resiliency and adaptation. IDA would mobilize additional funding to address the adaptation needs of LICs and explore how best to allocate those funds through a review of the IDA allocation formula. This reformed formula would allocate more funding for those countries that have large adaptation needs and have a history of addressing these needs efficiently and effectively. To measure adaptation performance, the Bank could expand the current methodology and include measures of effectiveness and resiliency in the CPIA. Furthermore, additional funding from the new climate finance window could flow to a few IDA countries that are well placed to deliver significant climate mitigation services, such as coal reduction in Pakistan or Uzbekistan or reduction of deforestation in DRC.

The financial architecture for the hybrid model could take several forms. A new GPG/climate window could be established with its own balance sheet and income statement (Option 3A above), or it could use IBRD's balance sheet (Option 3B) above). Alternatively, an omnibus climate FIF could be established (Option 3C above), consolidating existing climate TFs and FIFs and raising additional funds, harmonizing and simplifying the criteria for access and terms. There are advantages and disadvantages of each approach.

Using the IBRD balance sheet

Using the IBRD balance sheet would take advantage of the Bank's existing portfolio diversification, which is likely to be positively affected if climate funding is provided to UMICs that are not currently borrowing for them to make significant emission-reduction investments. Overall, the use of IBRD's existing balance sheet is likely to be more financially efficient than creating a new window that would have to be rated and would need to establish a reputation among bond investors.

On the other hand, the challenge to using the existing IBRD balance sheet is the need to raise capital from all member countries (proportional to their existing shares) even though some countries may not be interested in contributing to a climate-focused agenda. If capital is raised from only a few

55 *IDA20—Building Back Better from the Crisis : Toward a Green, Resilient and Inclusive Future* (Washington: World Bank, February 2020), https://documents.worldbank.org/en/publication/documents-reports/documentdetail/163861645554924417/ida20-building-back-better-from-the-crisis-toward-a-green-resilient-and-inclusive-future.

countries, this could lead to an increase in their voting shares and other member countries could object.

In addition, the Bank would have to develop a process to ensure that these new funds are used exclusively for the delivery of climate finance. This is likely to prove technically complicated and difficult to monitor over time as capital is returned by borrowing countries. Without such assurances, it is unlikely that shareholders interested in furthering the climate agenda would increase their contributions significantly. This is evident by the fact that they fund so many climate-related TFs and FIFs, rather than making larger contributions directly to the Bank. Note too that the lack of clarity on how funds are being deployed may also cause concerns among borrowing countries that IBRD resources which had previously been used for poverty reduction programs might be redeployed for mitigation programs.

Opening a third window (in addition to IBRD and IDA)

Opening a third window would allow for the provision and use of climate funds to be clear and transparent. This could potentially generate additionality in resource mobilization as many donors strongly support the climate agenda and would like to see a significant scale up. It is expected that many could be enticed to increase their contributions if it would enable the Bank to make a step change in global climate impact, given its outstanding financial, technical and governance reputation. Donors would have the added benefit that their funds would be indisputably credited toward their climate finance commitments.

The third window could also serve to mitigate any concerns from borrowers that existing IBRD lending capacity for broader development objectives would be compromised. The amount of existing IBRD capital that would be transferred to the new window (and added to the new capital) should be subject to discussions among shareholders. For example, if less than 35% of the existing IBRD capital is transferred to the new window (35% is the current World Bank lending target for climate purposes[56]—see Box 3), borrowing countries could be reassured that the World Bank would have the lending capacity to meet their non-climate development needs now and in the future.

On the downside, opening a new window would be complex from a financial and governance perspective. A new balance sheet would have to be created and a new Board established. Determining voting shares could be politically time consuming. These difficulties and potential delays are not, however, likely to be more so than those of using IBRD with the need to secure agreement from all shareholders and develop credible processes for ensuring the use of new resources are used only for climate purposes.

56 *World Bank Group Climate Change Action Plan 2021–2025: Supporting Green, Resilient, and Inclusive Development.*

Establishing an omnibus FIF

Establishing a FIF dedicated to climate could also bring significant climate benefits. If it were to consolidate many (if not most) existing climate TFs and FIFs, and harmonize and streamline the criteria for access, procedures, requirements and terms, this would bring significant benefits for clients. Such a reform, however, is not as straightforward as it sounds since the multiplicity of criteria across existing funds is a result of many donor requests or requirements, and this has thwarted many attempts to make progress in this area over the last decade or so. A new FIF would make the provision and use of climate funds clear and transparent and would have the added benefit that funds could be allocated to other MDBs, as done currently with the Climate Investment Funds [57](see below on collaboration).

On the downside, in order to match the Bank for financial efficiency, the FIF would have to create its own balance sheet, secure a rating, issue bonds to leverage the capital newly provided by potential shareholders, and create its own governance structure. This would be in many ways equivalent to creating a new financial institution with the resulting complexities. Furthermore, such a new institution would unlikely be able to be as financially efficient (that is, achieve as large a leverage and maintain the same rating) as IBRD or a new window, at least initially. Depending on the extent to which the new FIF is not able to rely on the Bank and potentially other MDBs for critical back-office functions, it would have to duplicate these functions using scarce financial resources and time. Even a FIF that only provides grants to MDBs could overtime represent a drain on resources if it leads to replication of the knowledge and operational functions that are currently carried out by the MDBs. Note too that a grant only FIF would have to be implemented together with either option 3a or 3b to secure the additional capital required to reach the necessary scale of investments again with the resulting complexities discussed above.

As mentioned, each of these three options has advantages and drawbacks. Any of the three could lead to increased climate financing, but on balance, Option 3A, the creation of a third window, is recommended. We believe it has the most potential to secure significant additional financial resources for investments in mitigation and adaptation and to deploy these resources quickly and efficiently.

One final question is whether this recommendation to create a new window is compatible with future expansions of the Bank's mission to other GPGs. As noted earlier, it is recommended that the new window from the start be established to address multiple GPGs, with an initial, urgent focus on climate change. The resources required to meet other GPGs are likely to be smaller than those required for climate, and the technical response measures and investment priorities would need to be specifically tailored to each challenge. These could be considered as the window evolves. Each GPG presents unique challenges that would have to be considered separately.

57 "Climate Investment Funds," CIF.

Reform 4. Restructure the Bank by establishing a new governing Board to oversee the new window and modify the Bank's internal structure and incentives to allow the Bank to fulfill its new mission without diverting attention from the poverty and shared prosperity agenda.

Under the Bank country model, programming of resources is country-driven, and resources are allocated to programs and investments according to priorities of client government authorities in partnership with the Bank. The Bank finances government programs to support the achievement of country development objectives and policy and institutional reforms through investment project financing, development policy financing, and programs-for-results as well as analytical and advisory work consistent with its mandate.

Investments

The Bank's basic operational modality is a bilateral loan to a sovereign which it provides either on concessional (IDA) or non-concessional (IBRD) terms. In addition, IDA makes grants to the poorest countries. The Bank also provides guarantees and counter-guarantees to sovereigns, and some disaster risk financing, but these are a relatively small share of its operations.[58]

Investments supported by the Bank at the country level are identified in country partnership frameworks that are developed on the basis of a systematic country diagnostic:

- *Systematic Country Diagnostic:* SCDs are built on an analysis of data and existing studies by the Bank and external partners, and aim at identifying the most critical constraints to, and opportunities for, reducing poverty and building shared prosperity sustainably. [59]
- *Country Partnership Framework:* The CPF lays out the main country development goals that the Bank Group aims to help the country achieve and proposes a selective program of indicative Bank Group interventions for this purpose. Derived from these country development goals are more specific CPF objectives against which the program is monitored during and evaluated at the end of the CPF cycle. CPF objectives are selected to reflect Government priorities, main constraints identified by the SCD, and the Bank Group's comparative advantage.[60]

Analytical and advisory activities

The Bank undertakes analytical and advisory activities to inform country, regional and global development agendas in line with its goals. Advisory Services and Analytics (ASA) are non-lending activities that help clients or external audiences advance a development objective. These services

58 The governance of these instruments is similar to that of the sovereign loan.
59 "Systematic Country Diagnostics," World Bank Group.
60 "Country Partnership Frameworks," World Bank Group.

support design or implementation of better policies, strengthen institutions, build capacity, inform development strategies or operations, and contribute to the global development agenda. Outputs include analytical reports, policy notes, hands-on advice, and knowledge-sharing workshops or training programs.[61]

Current organizational structure for bank operations[62]

There are two main categories of operational VPs: Regional Vice Presidents (RVPs) and Global Practice VP (GPVPs) and three main categories of operational Directors: Regional Directors (RDs), Global Directors (GDs) and Country Directors (CDs).[63][64]

Regional Vice President (RVP). RVPs oversee Bank activity in a Region. Country Directors and Regional Sector Directors (RDs) report to the RVPs. Some 80% of operational staff report to regional management. The RVP is responsible for oversight or approval of all work in the Region, even if it is carried out by other (global) units of the Bank (e.g., GPs, Treasury). The RVP allocates budget and country financing and approves all financing operations before they go to the Board.

Country Director (CD). The CD plays a critical role in the identification, design and implementation of country programs. The CD leads the dialogue with the country authorities, as well as the preparation of the CPF, hence setting the operational priorities of the Bank. The CD also leads the preparation and management clearance of investment and analytical instruments in the country in question, and then sends them to the RVP for approval. The GPVP may also concur on some analytical and investment operations of critical importance for a sector. The Managing Director (see below) or President has final approval of all operations but generally this responsibility is delegated to the RVP except for a limited number of operations with corporate reputational or financial implications.

Regional Director (RD). The RD oversees Practice Managers and sector staff who are organized into units responsible for the technical preparation (quality) and supervision of investments and for analytical products in their respective sectors (e.g., transport, urban, energy, health, finance, macroeconomics, etc.).

61 "Advice and Analytics," The World Bank, https://www.worldbank.org/en/what-we-do/products-and-services/advisory-services#:~:text=The%20World%20Bank%20undertakes%20analytical,prosperity%20in%20a%20sustainable%20manner.

62 "World Bank Group Leadership," The World Bank, https://www.worldbank.org/en/about/leadership/managers.

63 This description section is based on the author's knowledge. However, see a very recent operational chart "Organizational Chart Effective February 1, 2023," The World Bank, https://thedocs.worldbank.org/en/doc/404071412346998230-0090022021/original/TheWorldBankGroupOrganizationalChartEnglish.pdf.

64 A rather dated review but still broadly descriptive of the current matrix system can be found in the following 2013 IEG Report: World Bank, *The Matrix System at Work* (Washington: World Bank Group, 2013), https://doi.org/10.1596/978-0-8213-9715-2.

Global Vice President (GPVP) and Global Director. The GPVPs, with their Global Directors, carry out global programs and keep the Bank's work at the leading edge of development practice. They help provide technical direction and have concurrence responsibilities for the most important projects and analytic work in the sectors for which they are responsible. They work with RDs and staff to monitor delivery on corporate commitments and have a key role in managing umbrella trust funds, trying to align these with corporate and country priorities. Global Directors are responsible for managing talent boards for their sectors and taking the lead in building the leadership pipeline.

Managing Director (MD). MDs are the second level of management in the Bank, reporting directly to the President. There is one Senior MD and three MDs, one for administration, one for finance (CFO) and one for operations. All of the RVPs report to one of these operational MDs while all the GPVPs report to the other. The working of the matrix is hence not overseen by management below the level of the President.

The Bank Group Boards. The Boards of Directors (the Boards) of the World Bank Group are made up of representatives of the Bank's member countries that appoint them or elected them. They exercise powers delegated by the Boards of Governors. Member countries of the World Bank Group appoint or elect Executive Directors to the Boards of the International Bank for Reconstruction and Development (IBRD), International Development Agency (IDA), International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA). While there are four Boards, Executive Directors serving on these Boards are usually the same. Voting power of each country is proportional to their contribution to the capital of IBRD, IFC and MIGA, and in IDA to their contribution to IDA finances. In turn these capital contributions are correlated to the size of the respective economies, although these contributions have not been fully updated and do not fully reflect the increasing importance of the BRICs and other developing countries. Under the IBRD Articles of Agreement, the Executive Directors are responsible for the oversight of the general operations of the Bank. The Executive Directors consider and approve all financing proposals made by the President, decide policy issues that guide the general operations of the Bank Group and approve the operational budget.[65]

Proposed reforms

The achievement of global climate targets would require a more centralized approach to resource allocation and programming than the current country driven model. Building on the recommended Option 3A (a new window), the most salient corresponding changes proposed for the Bank's operational model are described below. If other options are pursued, not all of the proposed changes would necessarily be required.

65 The powers, composition and voting shares of the Boards can be found in the following two websites: "Board of Directors," The World Bank, https://www.worldbank.org/en/about/leadership/directors. "Boards at Work," The World Bank, https://www.worldbank.org/en/about/leadership/directors/boards-at-work.

The changes recommended below would not entail a major reorganization of the Bank. They aim to minimize disruption and cost and avoid resistance from inertia or vested interests to the extent possible, while at the same time, ensure a framework that would allow the Bank to achieve the desired global impact.

One important modification would be to partially replace the current country-based model with a global sector-based model focused on achieving climate targets, particularly in the area of mitigation, but also for the distribution of resources for adaptation in MICs.

For mitigation, additional (concessional) finance that would go beyond existing country resource and borrowing limits would be made available from the new window to countries willing to make investments in GHG emissions reductions. Funds for this purpose would be allocated globally across countries and investments based (primarily[66]) on the cost effectiveness of the investment (dollars/ton of carbon reduced)[67]. Clear and transparent metrics would be needed and would be used for fund allocation. The newly developed CCDRs that identify the country's key mitigation and adaptation challenges would provide some of the analytic basis for decisions, but additional analysis would likely be needed. Close linkages would be required between the usual country-driven program and the programs to support climate change.[68]

For adaptation, IDA-eligible countries would continue to use an (expanded) IDA for their adaptation programs. IBRD country programs would continue to be developed based on dialogue with authorities and prioritization of available resource envelopes. Priority setting would benefit from existing strategy documents, together with the CCDRs. While the expectation is that a large share of funds in the new window would be used for mitigation, grants or concessional terms could be provided to IBRD countries that would allow them to address critical adaptation challenges following a methodology similar to that developed for the IDA allocation formula. The level of concessionality for adaptation would be graduated based on per capita income, with LMICs that do not have access to IDA resources benefiting the most, and UMICs receiving funding only for mitigation. As country per capita income levels rise, the focus on climate would increase with countries increasingly (for some countries solely) drawing from the climate dedicated resources/window.

At the highest governance level, the climate window would require its own Board. The new window's Board could help cement ownership from both borrowing members and contributors. The new Board could provide oversight over the distribution of funds across countries and between adaptation and mitigation activities as laid out in the Bank strategy for climate (see below) and could have

66 Other considerations would include the adequacy of the policy/regulatory environment, stakeholder commitment to implement the program, social/environmental sustainability, political/security/governance risk, etc.). Methodologies for trading off small programs with high cost-effectiveness versus large programs with lower returns but bigger overall emissions reductions would need to be established.

67 Based on a notional global marginal cost abatement curve.

68 This approach would be the same for any of the Options under 3 (A, B or C).

similar responsibilities to the current Boards in terms of project approval and Bank policies that relate specifically to the climate window. As for IDA and IBRD, the new Board could share the same Executive Directors, although some country groupings could choose to appoint an Executive Director specifically for the new Board or additional advisors specializing in climate. Voting shares are likely to be subject to intense political discussion but could reasonably be based on the following principles:

- broad representation on Board of all borrowers (all shareholders could have minimum number of shares),
- recognition of size (GDP or population?) of countries, and
- contributions to new capital and grant resources.

A Bank strategy for climate that would indicate how to most effectively and efficiently allocate funds to achieve maximum impact and the underlying methodologies would be prepared and updated periodically by the Bank unit responsible for its engagement on global climate issues and would be reviewed by management and the climate window's Board.

Given the importance of expanding private sector investment and programs related to both mitigation and adaptation, concessional funding would also be allocated to IFC based on current principles for blended finance and expected impact on emissions reduction or adaptation. There has been ample reflection on mobilizing finance for private investment to address climate change[69] and this is not treated in detail here.

These reforms would require changes in governance, including the roles and responsibilities of internal Bank managers, institutional structure and, as noted above, global and country strategies. These changes would also involve the entire Bank Group, including IFC, recognizing that leveraging private investments and innovation would be necessary to fully address climate change challenges. Reforms to IFC and MIGA are not treated here.

Operational structure

Overall, authority for budget and funding allocations and lending decisions would shift from being the exclusive domain of the RVPs and CDs to being a shared responsibility with the GPVP and Global Practices. RVPs and CDs would retain budget and decision-making authority for regular Bank programs in LICs, LMICs and other MICs that continue to receive financing for poverty reduction.

69 For example:

Arame et al, *Enabling Private Investment in Climate Adaptation and Resilience: Current Status, Barriers to Investment and Blueprint for Action* (Washington: World Bank, 2021), https://openknowledge.worldBank.org/handle/10986/35203

Prasad et al, *Mobilizing Private Climate Financing in Emerging Market and Developing Economies* (Washington: IMF, 2022), https://www.imf.org/en/Publications/staff-climate-notes/Issues/2022/07/26/Mobilizing-Private-Climate-Financing-in-Emerging-Market-and-Developing-Economies-520585

Daouda Sembene, Ian Mitchell, and Hannah Brown, "What Is Holding Back Private Climate Finance in Africa and How Can It Be Unleashed?" *Center for Global Development*, August 11, 2022, https://www.cgdev.org/blog/what-holding-back-private-climate-finance-africa-and-how-can-it-be-unleashed

In this hybrid model, the Global Practice responsible for Climate would need to determine the kinds of instruments and the level of concessionality that is necessary to achieve the greatest climate impact. Both local public benefits and global public benefits resulting from the investment would need to be recognized, with concessionality (grants) provided to compensate largely for the global benefits and in lower income countries for the negative spillover effects resulting from public bads. The Climate GP would have to work closely with other sector units that have programs related to mitigation or adaptation.

Specific changes would involve the following.

A Stronger Climate Global Practice would have an Enhanced Role including:

- Taking a lead role in setting Bank priorities for delivery of climate programs
- Working closely with the CD and country team to understand country context, priorities, implementation capacity, politics and culture, relevant policies and regulations and risks in making decisions
- Defining programs and priorities for delivery of climate programs, both through country investments and global support—where and how to have most efficient and effective delivery
  - This would require development of analytics, criteria and metrics on which to make determinations, taking into account the wider international climate architecture and agreements
- Deciding which country investments would best deliver climate results
- Allocating climate funds and budgets and determining activities to be supportive consistent with agreed criteria
  - If a country declines an "offer" to engage with the Bank on a priority climate investment, or the risks/challenges to that investment are prohibitive, identifying the next investment opportunity (which may or may not be in same country)
  - At present, operational budgets for country workflow through RVPs and CDs to the RDs. With the focus on climate, a significant proportion of the operational budget would flow through the GPVP and the Global Director to the RDs. In UMICs and MICs where the Bank would focus exclusively on climate, most if not all the operational budgets would flow though the GPVP and Global Director.
- Continuously reviewing analytics, feedback from global systems and country experiences
- Overseeing development of analytical tools, knowledge, global standards and regulations, and accountability frameworks at both country and global level to help meet delivery of climate goals

The Role of CDs would be broadly similar to the present but modified to include:

- Continuing their lead role in promoting strong working relationship with their country (ies)
- Retaining their current role in countries which continue with regular country programs focused on poverty reduction
  - In an IDA country, the expectation is that country program would be primarily focused on poverty reduction and sustainable economic growth, with key decision-making continuing to be vested in the CD[70]
- Facilitating country policy dialogue and engaging with country on "climate offers" and trade-offs supported by the Global Practices
- Providing continuous coordination with country ministries on regular Bank programs and climate funding
  - As noted above, as average per capita income increases, Bank funding would become more focused on climate priorities and climate funding would increase as a share of Bank support. In some countries (UMICs), climate funding may be the only Bank support. In such countries, the role of the CD in agenda setting would have to be reviewed since intervention choices would be a-priori more limited. For instance, there may be more countries with programs limited to climate, and the CD may be able to have more countries in her/his portfolio. The experience of some MDBs that have a narrower sector focus and that do not have country offices or CDs could be analyzed for lessons.

Country programs

With a new climate mandate, the analytical foundations, priorities and results framework of country programs would have to change significantly:

- The analytical foundations of CPFs could also increasingly rely on CCDRs. In the countries where the Bank's mandate is exclusively climate, these could be the main analytical basis for the program. In those countries, CPFs could become joint products of Country Directors and Global Directors.
- In most countries, the new climate mandate would require CPFs to carefully assess complementarities and tradeoffs between the two mandates. The CPF could include a discussion of the government's domestic priority programs, as well as those it is interested in implementing as part of its climate program.

70 As noted, before, there is a good case for IDA to play a stronger role on GPGs, in particular health and climate change. This could include a substantial and over time growing ring-fenced window, including more resources for regional projects. See Mark Lowcock and Bernat Camps Adrogue, "What Next for IDA?," CGD, November 15, 2021, https://www.cgdev.org/publication/what-next-ida.

- Since a considerable proportion of resources would only be available for climate interventions, the magnitude of the Bank's program in terms of lending resources would be dependent on the expected implementation of climate interventions. If a country for whatever reason delays its climate program, those resources would not be available for other country priorities. This is not the case today where delays in program implementation in one sector/program can be compensated in a country by accelerated delivery in others
- At the global level, the GP would develop strategies with metrics and a results framework to maximize the delivery of climate programs. Country programs would need to include at a minimum one or more indicators measuring the impact and efficiency of the delivery of climate programs at the country level.

Global programs

The additional climate mandate would require the Bank to significantly increase its activities at the global level:

- Climate funds provided through the Bank could support international activities that reinforce collaboration and collective action among countries by strengthening the global system and institutions essential to advancing the attainment of climate goals, such as support for knowledge generation and dissemination, standard setting, data collection and monitoring, as well as support for global platforms that aim to address climate change.
- The Bank could provide analytics, capacity building and intellectual leadership and convening services to advance the delivery of climate programs. The Climate Global Practice would need to determine what products (policies, regulations, standards and supporting analytical work) are needed for priority setting and metrics.
- The Climate Global Practice could be expected to link implementation priorities and funding decisions to agreements reached through other international processes for setting climate priorities (for example, UNFCCC agreements, NDCs, and NAPs are being incorporated into CCDRs). The Global Practices would use the experiences across countries and regions to increase the effectiveness of Bank activities, including identifying linkages and synergies between GPGs.

The role of RVPs/GPVPs and regional and global directors

- RVPs and GPVPs would need to coordinate closely, ensuring continuous communications of opportunities and challenges.
- One important way to create more working relationships and incentives for such collaboration could be to unify the reporting of the GPVPs and the RVPs to one Managing Director to oversee all operations. This arrangement has worked well in the past. The World Bank has just announced a change in its senior management structure, but this point does not seem to have been addressed.

- As noted above, the Climate GPVP, along with Climate Global Director, would determine country allocations of climate funds, along with the budget for project preparation and supervision.
- Again, as noted above, budgets would be allocated to the Regional Director units responsible for the country and sector receiving the investment funds.
- Regional Directors could ensure quality preparation and supervision of climate projects.

Staffing arrangements

Currently, there is one Bank staff, with staff working across both IBRD and IDA windows as needed and costs allocated to IDA and IBRD proportionally to the size of the work programs according to a Board approved methodology.[71] With the proposed climate focus, a number of options for staffing and reporting could be considered:

- Staff would continue to work across all three windows as needed, and the cost allocation methodology could be expanded to take into account the climate window.
- With the introduction of the climate window, there would be several options for organizing staff in terms of reporting requirements and numbers of sectoral staff. In making this decision, Bank management would need to consider factors such as the relative sizes of the work programs of the three windows, the mandate of the Bank in terms of the climate focus (including global work), and how to most efficiently and effectively deliver on the agreed mandate. Staffing numbers in the Global Practice would likely increase.
- Since work programs for the climate window would be determined at the global level, it could be more efficient for the Global Practice to have significant numbers reporting globally and hence be able to redeploy staff across regions more easily than at present when the large majority of staff report to a specific Region.

Working within the Bank Group

Progress on the climate agenda, in particular on emissions reduction, will require encouraging and redirecting private investment and lending to accelerate sector transitions in developing countries (e.g., energy, manufacturing, construction, Banking). The IFC as noted above is already increasing investments in mitigation projects, but the financial flows needed are many orders of magnitude larger than current financial capacity.[72]

71 For example, see p, 14 of the Management Discussion of the 2022 IBRD Financial Statements Management's "Discussion & Analysis and Financial Statements (Fiscal 2022)," *IBRD and IDA*, June 30, 2022, https://openknowledge.worldbank.org/bitstream/handle/10986/37972/AR2022v2.pdf

72 Vera Songwe, Nicholas Stern, and Amar Bhattacharya, "The global climate finance challenge."

IFC investments with private partners would also benefit from additional grants that would allow improved lending terms and mitigation of private risks as is already done with current blended finance programs for climate.[73] Concessional funds could be channeled through the Bank and then a share allocated to the IFC on the basis of expected impact operations on emissions reductions. This would require well-functioning joint planning between the different parts of the Group. Cost sharing arrangements would need to be devised. In addition to improving financial terms, private investment would be encouraged by more appropriate regulatory environments and contractual arrangements. The IFC would have views about the countries in which these reforms would be most needed. Identifying what should be reformed, and how, would be the responsibility of the relevant Global Practice and would be defined in the CPF. Once these reforms are identified, the Bank could support the authorities to implement these reforms though policy-based lending from the climate window.

More thought is needed on the reforms that would be required to enhance collaboration across the Bank Group to best support the attainment of climate goals.

Reform 5: Increase collaboration with other institutions on climate change, with the World Bank playing a lead role and being held responsible to support and promote collaboration among MDBs on climate finance.

Many actors at the global level are contributing to the achievement of GPG goals (IFIs, the UN, NGOs, and the private sector among others). Recognizing that addressing climate change successfully requires collective action across countries, MDBs and other international institutions, collaboration among these actors is imperative.

The World Bank is uniquely positioned to be an important partner with other global actors in the climate arena, including, but not limited to the UNFCC, the GCF, UNDRR, UNREDD and others, as well as with the institutions developing global platforms such as those related to carbon markets, those dedicated to improving the capture of data on earth systems and those undertaking global analytical work. At present, engagements are informal and ad hoc. Bank leadership to formalize and systematize these interactions could further improve the efficiency and effectiveness of all parties.[74]

Among the MDBs, active partnership and collaboration would contribute to better planning, reduced transactions costs for shareholders, recipient countries and the MDBs themselves, as well as improved sharing of knowledge and lessons.

73 "Blended Concessional Finance for Climate," IFC, https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/bf/focus-areas/bf-climate.

74 *Making the Global Financial System Work for All*, Report of the G20 Eminent Persons Group on Global Financial Governance, October 2018, https://www.globalfinancialgovernance.org/assets/pdf/G20EPG-Full%20Report.pdf.

The Bank, with its global scope, size and analytical and knowledge capacity is well placed to lead an MDB collaborative partnership on climate change finance. Such a partnership could be structured to ensure the following.

- Regular meetings and consultations could be held with the heads of the MDBs on the climate change strategy and agenda. MDB leaders currently meet twice a year on the margins of the Bank/IMF Spring and Annual Meetings. These meetings could include a standing agenda item on climate change with significant time and preparation to ensure meaningful oversight of a joint climate change strategy and its implementation. The bi-annual reviews would be an opportunity for MDB leadership to provide recommendations to strengthen the collective agenda through action by the MDB Boards, MDB staff and the global community.
- Agreement should be reached by the MDB heads on a shared strategy for their contributions to net zero emissions and other aspects of the Paris Agreement, and climate change adaptation and resilience. In preparing a collective strategy to be endorsed by the Board of each MDB, consideration should be given to experience, knowledge and lessons learned from past MDB collaboration in climate finance, especially experience gained through multi-MDB Financial Intermediary Funds, such as the Global Environment Facility and the Climate Investment Funds. The strategy could usefully consider, among other things:

  – identifying useful collaboration among MDB staff for developing climate analytics.

  – setting collective climate change outcomes and outputs.

  – agreeing on common definitions and measurement of outcomes for global climate.

  – establishing collective monitoring capacity and strengthening collective reporting to the MDB boards and the international community.

  – harmonizing MDB climate finance standards and processes.

  – providing opportunities and means to share transaction costs to scale the pipeline of projects and investments, in particular through joint consultations at the country level.

  – ensuring regular consultations and information sharing amongst MDB management and staff working on climate. These consultations could be expanded on a regional basis (i.e., Boards of large MDBs working in a region) to selected committees of the Boards of the MDBs.

As the MDB partnership deepens and collaboration is strengthened, consideration could be given to sharing access to the pool of grant financing aimed at climate action, similar to the Climate Investment Fund operations. This would be particularly easy under Option 3 C (creation of an omnibus climate FIF).

The UNFCC and the World Bank should work together to identify gaps in the global response and to coordinate and leverage key players. Clearly delineated roles can lead to strengthened impacts. The UNFCCC is well best placed to assume a normative function (defining goals, setting standards and providing political legitimacy) while the MDBs collectively are best positioned to mobilize finance[75].

Conclusions

The Bank's vision and focus have evolved over time to meet changing global circumstances, from the financing of reconstruction in post-war Europe, to infrastructure projects in developing countries, to broader, multi-sector economic development, to ending extreme poverty and boosting shared prosperity.

While the Bank has contributed to the achievement of significant progress in poverty reduction and sustainable development, the global community is now confronting interconnected global crises stemming from the covid pandemic, military conflicts, increased debt, and threat to stability in the earth's climate. The challenges of the 21st century are much more interconnected and will require an institution with a global perspective to address them.

Climate change and development are inextricably linked. The impacts of climate change are threatening past development gains, and these impacts are increasing in both scale and frequency. This paper focuses on the potential for the Bank to play a significant role in the transition to a net-zero economy while assisting developing countries to adapt to a changing climate.

The paper considers several ways in which the Bank could be reformed to make a truly transformative impact in this area. These reforms stem from a first premise that more financial resources will be provided, including additional capital and a significant amount of grant funding. To attract such funding donors would need to be reassured that their contributions are being used to achieve the greatest impacts in addressing climate change, and any new funding capacity would be accompanied by reforms in governance, incentives, and administrative systems in the Bank. We believe a fundamental addition to the mission of the Bank, from a country focused mission to one that would include global mandates, would require additional reforms to be fully implemented.

The intention behind this paper is to motivate a discussion of what is needed to make the Bank an efficient and effective platform for climate programs. The proposals are just that—proposals.

The five key recommended reforms have been limited to avoid unnecessary operational disruption and to prevent the inertia that can stymie large-scale institutional change. It is understood that these reforms would need to be accompanied by other changes to ensure that they are effective,

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and more work would be needed to ensure that the reforms are fine-tuned in the future and are implemented correctly.

Discussion is invited on the proposals presented in this paper, and it is hoped that other ideas to strengthen the proposals will be forthcoming.

Steps will need to be taken to achieve consensus on these and/or other key reforms, first, within World Bank shareholders, second, between the World Bank Board and its management, and finally within the World Bank management structure.

Discussion must advance quickly on these and other proposals so that early agreement can be reached among World Bank shareholders and other interested parties and additional scaled-up, effective global action on climate change can be initiated urgently. There is no time for further delay.

Annex. Data and methodology used in Box 3

How the sustainable lending ceiling (SLC) is calculated

The SLC is an annual lending ceiling (gross annual commitments) that is periodically estimated by Bank staff. In calculating the SLC, Bank staff use a horizon of 10 years during which exposure indicators must meet certain targets. First, the SLC should not bring the resulting equity to loan ratio below the 20% floor estimated by the Bank as necessary to maintain its AAA rating. Similarly, total exposure should remain below another limit, the statutory lending limit (approximately equal to the sum of callable capital and usable equity), over the projection period. Calculating the SLC also considers risks, and the estimated SLC should ensure an equity to loan ratio above 20% even if market conditions and portfolio parameters are worse than the baseline scenario: i.e., the SLC has an in-built buffer. This is because the Bank's equity is not static but depends on projected lending amounts and interest rates. Higher rates increase IBRD's future net income; hence, the recent increase in rates should have increased projected net income and the World Bank's future usable equity and the estimated SLC. The average term of IBRD's portfolio also impacts the SLC with a lower average maturity resulting in a larger SLC. In addition, the World Bank maintains a crisis buffer, reserving capacity to be able to respond to unexpected increases in lending demand in the future. The World Bank can lend amounts above the SLC for a temporary period using its crisis buffer, implying a decline in lending in the future to restore the buffer.

Given all this, it is not possible to estimate the World Bank's SLC without access to the information noted above and the underlying credit risk of the portfolio. The US$ 30 billion mentioned in the box is a rough estimate made by the authors based on recent annual lending amounts as shown in the World Bank's financial statements (see for example the 2022 financial statements).[76] Usable equity is also derived from the same source.

How the required grants are estimated

The amount of grants that would be required to support the climate window depends on the target concessionality as well as the SLC. Factors that most impact the potential concessionality of a World Bank loan are the terms of the loan, the disbursement pattern of the loan, and the discount factor used to estimate the grant equivalence. The authors are unaware of any estimates of the elasticity of demand for a World Bank climate loan with regard to the concessionality of a loan. The amount of grants required per dollar of loans to serve as an incentive to borrow for climate change purposes will require further analysis. The authors' estimates are presented to illustrate the potential magnitude of the grant requirements.

76 https://openknowledge.worldbank.org/bitstream/handle/10986/37972/AR2022v2.pdf