

Headline: World Bank's Banga faces pressure on resources, shareholder schisms

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Ajay Banga, World Bank president, participates in global infrastructure and investment forum in New York, Thursday, Sept. 21, 2023. Seth Wenig/Pool via REUTERS/File photo

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MARRAKECH, Morocco – World Bank President Ajay Banga will come under pressure this week to focus on climate change, but the former Mastercard CEO first needs to get shareholders in line on how to grow the bank.

Banga, just 130 days into the job, has a mandate to broaden the multilateral development lender's mission to tackle global crises including climate change, pandemics and fragile states.

But with annual climate transition finance needs estimated at up to \$3 trillion for emerging market and low-income economies by 2030, development advocates are calling on him to make tackling global warming the priority at his first World Bank and International Monetary Fund (IMF) annual meetings.

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A G20-commissioned panel of experts recommended in July that the World Bank and other multilateral development banks (MDBs) increase annual lending by \$260 billion, more than three times their current pace, to help meet climate needs.

"We'd love to see shareholders come out with a strong endorsement of that target and a plan to push that forward," said Amy Dodd, development policy director at ONE Campaign.

Banga, however, has said the major step from the meetings in Morocco will be the long-awaited shareholder endorsement of modifying the bank's anti-poverty mission statement.

The move to add "on a livable planet" has been in process for a year, and the development community is eager for next steps to maintain momentum and scale up financing quickly.

The World Bank in April lowered its equity-to-loan ratio to boost lending by \$50 billion over 10 years. But many further steps are more complicated and need countries to decide how much taxpayer funds they are willing to contribute or put at risk.

"I'm very skeptical that there's going to be a big step forward on the size of the institution in Marrakech," said Clemence Landers, a former U.S. Treasury official now with the Center for Global Development in Washington.

This group on Monday published a new scorecard for MDB reforms, saying that broad changes are "firmly in play" but progress in implementing them has been limited.

For now, the U.S. wants countries to back loan guarantees by the World Bank, with President Joe Biden pushing a request that Congress approve \$2.1 billion in new funding that could unlock \$25 billion in new concessional loans over a decade.

A World Bank report to be considered in Marrakech estimates that \$10 billion in guarantee commitments could boost lending by \$60 billion over that period.

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But no other major shareholders have joined the U.S. move, which is viewed as a more palatable alternative for U.S. lawmakers to a general capital increase as this would likely lead to a bigger Chinese shareholding at the bank.

British officials have expressed support for a capital increase, but Germany has favored more issuance of hybrid capital, a debt-like instrument, that the World Bank estimates could add another \$40 billion in new lending over a decade.

A bigger move would boost lending against the World Bank's "callable capital," a cushion of emergency funds pledged by shareholders but not paid-in, but this would require some countries to change laws.

Banga has said the move is complex and will take time to negotiate. But the payoff could be huge, with the Rockefeller Foundation estimating a lending increase of some \$900 billion over a decade if ratings agencies modified their evaluations.

A U.S. Treasury official told Reuters that the department is working to develop rules for callable capital so that decisions could be made by April 2024.

Banga has played down the lending increases and emphasized his efforts to make the 16,000-strong organization more nimble and focused on projects with measurable impacts, saying he wants "to fix the plumbing".

Other World Bank presidents, including Jim Yong Kim, were unable to meaningfully reform the bank, which Banga has called "dysfunctional", despite a talented and dedicated staff.

"He is shaking things up," said a senior official at the U.S. Treasury, which nominated him for the job.

While the Indian born American citizen's approach has caused some internal friction, according to bank staff, Banga, 63, has received high marks for pushing the envelope.

"Banga had a good start," said Michael Krake, who represents Germany on the World Bank's executive board.

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"Let Banga be Banga. Good leaders take thoughtful risks and also make some mistakes," Krake added.