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Growth at any cost is not an option

To combat the climate crisis and other global challenges, the World Bank – the largest development financer – must adapt its business model

Individual countries alone can do little to address climate change, biodiversity loss and pandemics. The impacts of these crises do not stop at country borders. This is why the world community must fight these issues together. That costs money – which is where the World Bank comes in. After all, it is the largest development financer and thus has considerable influence on mobilising funds to combat the climate crisis and other global challenges.

The World Bank needs to adapt its present business model to the enormous global challenges and broaden its focus. It must support countries worldwide in adopting more sustainable modes of life, production and consumption. The aim is to also be better prepared for climate hazards, future pandemics and other crises. Growth at any cost is not an option. There needs to be *sustainable* growth whose profits are fairly distributed.

Global public goods are things which everyone, everywhere needs to survive. A clean environment, a stable climate, peace and global health. Providing or protecting global public goods in the Global South will cost an annual estimated $2.4 trillion by 2030. This figure may sound rather alarming. But as the World Bank rightly points out, these are small costs compared to the expenses which doing nothing would entail. The earlier the world community takes on these challenges, the more negative impacts and costs can be avoided. Studies demonstrate that every dollar invested in prevention and sustainability saves four dollars in crisis response in the long run. This shows that thinking ahead and investing in prevention pays off.

Changing the World Bank's *modus operandi*

But how can the World Bank access the necessary capital? By modifying

its structures and modes of operation. By leveraging more private funds. And by changing its lending criteria, and offering, for example, more favourable loans for the protection of public goods.

The World Bank should change its business model. The five institutions of the World Bank Group – including the International Bank for Reconstruction and Development (IBRD), which focuses on medium-income countries, the International Development Association (IDA), addressing the poorest countries, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) – need to cooperate more closely. So far, these institutions were concentrated on either the public or the private sector. There is a lack of cooperation among them. But what we need are coordinated public-private approaches.

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The 'One World Bank Group' concept, which I support, states that all institutions provide borrower countries with coordinated support. They would base their action on common or complementary analyses. For example, they would consult new private sector analyses and country reports focusing on climate and development challenges. And they ought to apply their respective instruments to complement each other where gaps remain. But for the private sector to invest in projects addressing climate change, it needs not only well-prepared projects by the IFC and risk insurance by MIGA, but also an improvement in the policy framework by IBRD and IDE. Regulatory measures and government incentive structures have to be revised accordingly. Such an approach would help the Bank to better identify obstacles to private investment and effectively tackle them.

By increasing efficiency, existing funds can be better used. But how can the substantial financing gap of an annual $2.4 tn be filled? Obviously, no single institution can achieve this on its own. Neither the World Bank nor all multilateral development banks together. The capital needed for a sustainable development policy can only be obtained by mobilising more public and, above all, more private finance. So far, international development cooperation has failed to mobilise private-sector investment to an adequate extent, especially in climate-relevant areas. In 2020, a mere $13.1 bn of private capital was mobilised for climate financing – this is

less than 0.5 per cent of the $2.4 tn referred to above. And sadly, instead of gathering speed, mobilisation is actually slowing down.

Political obstacles

Investing in renewable energies is worthwhile, for they are increasingly becoming the cheapest and, at least theoretically, the best economic option. But additional and better incentives to invest in global public goods are still needed. Private investment will not come about automatically. Rather, it has to be viable and lucrative for the investors. This is where politics comes into play, because private investors need to be convinced that investing their assets in sustainability is the right thing to do. Governments have to set climate-friendly framework conditions, and risks need to be lowered too. That is why I am backing the new President Ajay Banga's plan to guide the World Bank towards 'informed risk-taking'. This could enable the World Bank to safeguard against risks that are potentially too big for private investors.

However, not only the safety of investments is an issue. So is the need for sending a clear political signal that sustainability is the only way forward. This requires political reforms in the context of decarbonising the energy, transport and agricultural sectors. Because so far, the wrong incentives have been set for investment. In 2021, governments throughout the world spent around §577 bn on direct subsidies for fossil fuels, contributing to air pollution, inefficiency and rising debt burdens. In many countries, tariffs on sustainable goods are significantly higher than those on less environmentally friendly goods. In some cases, the way sectors are regulated complicates investing in renewable energies or renders it not worthwhile.

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These political obstacles, which are hampering private-sector investment in sustainable business options, have to be categorically eliminated. Incentives need to be created for investments which protect global public goods and thus simultaneously benefit other countries or the world community. Development banks are currently using only a small share of their budget to promote political reform. Yet, it would be possible to achieve a whole lot more by combining policy counselling and lending. Counselling could be linked even more specifically to major loans such as budgetary aid, supporting countries in reducing harmful fossil fuels subsidies, or in making the energy

transition socially just.

Transformative reforms offer many advantages. However, there are few incentives for individual countries to protect public goods. Especially when the financing for such measures has to be paid back. Why? Because climate reforms often represent a political challenge, even if they are smart economically-speaking. And because some countries are concerned that funds approved for climate change investments will then no longer be available for other urgent national development goals, such as combating hunger or poverty. In order to relieve partner countries of such concerns and motivate them to invest in global public goods, appropriate policy-based loan programmes are needed. And investments protecting the global climate simultaneously support efforts to eliminate hunger and poverty in the long run. Favourable loans to finance global public goods should also generally be made available to medium-income countries. After all, countries like Brazil and India are vital in promoting efforts supporting the protection of biodiversity and the climate. Supporting them in this course is in the global interest.

As Germany's Governor to the World Bank, and together with World Bank President Ajay Banga, I will intensively work to achieve these reforms. And I hope that at the next World Bank Annual Meeting in Marrakesh in October, all stakeholders will agree to take concrete steps to implement these recommendations. Because we cannot afford to lose any time. We must make the World Bank Group fit for the future and help it realise its full potential. We have to turn it into a transformation bank that facilitates sustainability.



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