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WBG Financing for Green, Resilient and Inclusive Development – Towards A Post Pandemic Approach

Attached is the document titled "*WBG Financing for Green, Resilient and Inclusive Development – Towards A Post Pandemic Approach* " prepared by the World Bank Group for the October 15, 2021 Development Committee Meeting.

WBG Financing for Green, Resilient and Inclusive Development:
Towards A Post-Pandemic Approach

Development Committee

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List of Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
BSO	Balance Sheet Optimization
CARE	Cooperative for Assistance and Relief Everywhere
CCAP	Climate Change Action Plan
CCDR	Country Climate and Development Report
CEB	Council of Europe Development Bank
CF	Common Framework
CIF	Climate Investment Funds
COVID-19	Coronavirus Disease 2019
CO2	Carbon Dioxide
CPAT	Carbon Pricing Assessment Tool
CPSD	Country Private Sector Diagnostic
CY	Calendar Year
DFI	Development Finance
DRM	Domestic Resource Mobilization
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
DSSI	Debt Service Suspension Initiative
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia
EDGE	Excellence in Design for Greater Efficiencies
EIB	European Investment Bank
EMDEs	Emerging Market and Developing Economies
FAO	Food and Agriculture Organization
FCS	Fragile and Conflict-affected Situations
FCV	Fragility, Conflict and Violence
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Programs
FY	Fiscal Year
G20	Group of Twenty
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GEP	Global Economic Prospects
GHG	Greenhouse Gas
GIF	Global Infrastructure Facility
GPGs	Global Public Goods
GRID	Green, Resilient, and Inclusive Development
IaDB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDA18	IDA18 Replenishment
IDA19	IDA19 Replenishment
IDA20	IDA20 Replenishment
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
InfraSAP	Infrastructure Sector Assessment Programs
IPCC	Intergovernmental Panel on Climate Change
IRENA	International Renewable Energy Agency
IsDB	Islamic Development Bank
JCAP	Joint Capital Market Advisory Program
JET	Jobs and Economic Transformation
LAC	Latin America and the Caribbean
LICs	Low-Income Countries
MCPP	Managed Co-lending Portfolio Program
MDBs	Multilateral Development Banks
MICs	Middle-Income Countries
MIGA	Multilateral Investment Guarantee Agency
MOPAN	Multilateral Organisation Performance Assessment Network
NDB	New Development Bank
NDCs	Nationally Determined Contributions
OCHA	Office for the Coordination of Humanitarian Affairs
PCM	Private Capital Mobilization
PPP	Public-Private Partnership
PSW	Private Sector Window
RRA	Risk and Resilience Assessment
SAR	South Asia Region
SCD	Systematic Country Diagnostic
SDFP	Sustainable Development Finance Policy
SDG	Sustainable Development Goals
SIDS	Small Island Developing States
SME	Small and Medium-sized Enterprises
SOEs	State-Owned Enterprises
SSA	Sub-Saharan Africa
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
WAPP	West African Power Pool
WB	World Bank
WBG	World Bank Group
WFP	World Food Programme

How national governments, the private sector, and international institutions respond to the challenges of poverty, inequality, and climate change as we emerge from a crisis that has affected us all will be defining choices of our age. We need to act forcefully to address these challenges and to pursue green, resilient, and inclusive development.
– David Malpass, WBG President

Introduction

1. **Carrying forward the enabling framework for Green, Resilient and Inclusive Development (GRID) presented in the 2021 Spring Meetings,[1] this paper discusses the unprecedented financing needs of developing countries for ensuring durable recovery consistent with Global Public Goods (GPGs).** Increasingly pressing GPG priorities include renewed progress on poverty reduction, enhanced crisis preparedness and the transition to a low-carbon future. The paper accompanies the 2021 Annual Meetings Development Committee (DC) paper entitled, *Prevention, Preparedness, and Response: The WBG's Role in Future Crises*. It reflects the recently launched Climate Change Action Plan 2021-2025 (CCAP), which sets out the ambition and objectives of World Bank Group (WBG) leadership on climate change adaptation and mitigation (Box 1). The CCAP aims to advance the climate change aspects of the WBG's GRID approach, which pursues poverty reduction and shared prosperity with a sustainability lens.

Box 1. Enabling Country-Level Action: The Role of the WBG Climate Change Action Plan (CCAP) 2021-2025
The urgency to reduce GHGs and boost adaptation and resilience to mounting climate impacts is intensifying for all countries. However, effective action must be differentiated in line with specific country needs and circumstances. For example, LICs and SIDS bear the brunt of climate impacts and need massive support for adaptation; while MICs, which account for a growing share of GHG emissions, face complex *just transitions* with high up-front costs to a more sustainable low-carbon future. The new CCAP represents a paradigm shift towards a systematic approach that helps countries address climate and development challenges simultaneously – applying a climate lens across all sectors and aspects of development towards transformative results. <u>It focuses on integrating climate and development, identifying and prioritizing action on the largest mitigation and adaptation opportunities, and using those to drive WBG climate finance and leverage private capital in ways that deliver the most results</u>. Stepped-up support for NDCs is crucial, including transparent and accurate reporting on commitments. Coordinated implementation of the Paris Agreement and the post-2020 global biodiversity framework, expected to be adopted in October 2021at COP15 of the Convention on Biological Diversity, will also be important. Under the CCAP, key WBG objectives include: (i) aligning its financing with the Paris Agreement; (ii) increasing climate financing targets to 35% on average in FY 2021-2025 with at least 50% of IBRD/IDA financing for adaptation; and (iii) improving climate diagnostics, metrics and analytics – introducing the new Country Climate and Development Report (CCDR) to support countries in aligning climate action and development efforts. The WBG will produce a Paris alignment implementation plan with clear timelines and deliverables.

2. **Developing countries are calling for a shift to GRID but face enormous fiscal and financial constraints alongside escalating demands from their populations hard-hit by impacts of COVID-19.[2]** GRID promotes economic progress through a recovery path that is inclusive, consistent with environmental and social sustainability, and that addresses GPGs at the country level. While the WBG continues to help countries navigate the COVID-19 crisis, integrated, longer-horizon GRID planning aims to repair the structural damage caused by the crisis, build resilience and accelerate climate action, while restoring momentum on inclusive economic development, poverty reduction, and shared prosperity. GRID prioritizes the creation of opportunities for poor and vulnerable populations in the recovery from COVID-19 -- recognizing that the challenges of poverty, inequality, and sustainability are interrelated. It aims to scale up interventions and investments to match the urgency of addressing the compounding impacts of the pandemic, climate change and other crises. Since these impacts are global, effective responses require international

[1] *From COVID-19 Crisis Response to Resilient Recovery: Saving Lives and Livelihoods while Supporting Green, Resilient and Inclusive Development (GRID)*, World Bank Group, Washington, DC, 2021.
[2] "The Coalition of Finance Ministers for Climate Action steps up calls for green growth investments as part of a global shift toward an inclusive and resilient recovery from the COVID-19 pandemic." (Press Release, April 6, 2021). Membership of the Coalition is global, bringing together countries from all regions and levels of economic development. Member countries represent about 39% of global CO2 emissions and 63% of global GDP (2018 figures).

cooperation while remaining tailored to country circumstances and operationalized through country programs. International solidarity is critical, including for delivering on the pledge of $100 billion annually for climate finance.

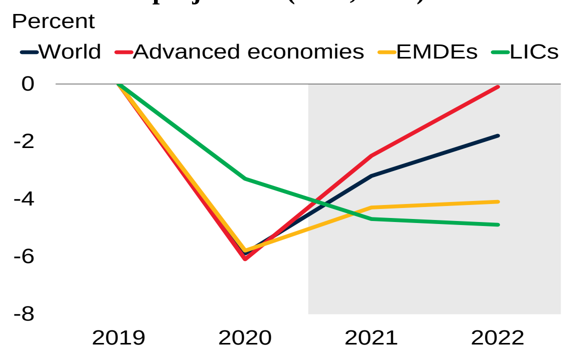
3. **This paper proposes a post-pandemic approach for the WBG focused on helping to mobilize domestic resources, private capital, official public finance and knowledge at scale, including developing options to further step up the WBG's role in leveraging climate finance.** Based on the experience in implementing GRID, this paper identifies the need for differentiated approaches across countries in line with emerging client demand, expanding on the role of the WBG in fostering incentives and client demand for GRID interventions – of which financing is a key element, particularly for affordable energy transition. Given the scale and global nature of the challenges, the approach is anchored in deepening partnerships around financing, knowledge and capacity building; the WBG is working closely with the IMF, including on finance, debt and debt transparency.

4. **It comprises five sections**: (I) the impacts of the continuing COVID-19 crisis for developing countries; (II) the scale and complexity of post-pandemic recovery through GRID; (III) the need for coordinated and catalytic financing approaches and the critical role of the multilateral development banks; (IV) proposed post-pandemic approach for the WBG, with focus on mobilizing domestic resources, private capital, official public finance and knowledge at scale to support GRID; and (V) conclusion and questions for discussion.

I. Impacts of COVID-19 and Compounding Crises

5. **Led by the advanced economies, the global recovery from the economic downturn triggered by the COVID-19 pandemic has been highly uneven.** Following deep contraction in 2020, the global economy is set to expand 5.6 percent in 2021 – its strongest post-recession pace in 80 years – owing largely to rebounds in a few major economies buoyed by fiscal support, vaccination rollouts, and reduced lockdowns.[3] For many emerging market and developing economies (EMDEs), by contrast, the benefits of increased external demand and elevated commodity prices have been largely offset by surging COVID-19 caseloads, obstacles to equitable access and deployment of vaccines, and dwindling macroeconomic support. Global prospects for 2022 and beyond remain highly uncertain. The impact of new virus mutations and obstacles to widespread vaccine rollout render the duration of the pandemic unclear. These and other uncertainties may jeopardize the recovery. Debt Sustainability Analyses (DSAs) for low-income countries (LICs) in unsustainable or near unsustainable debt situations show large breaches of liquidity indicators, and several bond-issuers face high redemptions over the medium term. A sudden tightening of financing conditions or other shocks could expose financial vulnerabilities, particularly in developing countries with fragile banking sectors, weak corporate insolvency regimes, and/or large stocks of private debt. As discussed in the companion DC paper on *Prevention, Preparedness, and Response: The WBG's Role in Future Crises*, these risks pose enormous challenges and necessitate forceful policy action. While advanced economies may be on track to recover pandemic-induced output losses, in aggregate, developing countries face a potentially permanent output loss of over 4 percent of GDP (Figure 1).

Figure 1. Deviation of output from pre-pandemic projections (GEP, 2021)



Source: World Bank. Note: EMDEs = emerging market and developing economies; LICs = low-income countries. Aggregates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. Figure shows percent deviation between the levels of June 2021 and January 2020 baseline World Bank projections. 2021 and 2022 are forecasts.

[3] *Global Economic Prospects*, June 2021, World Bank, Washington, DC.

6. **Gaping inequities in access to COVID-19 vaccines across countries are compounded by high pandemic-induced poverty, increasing food insecurity and surging humanitarian needs.** Roughly 100 million people have slipped into extreme poverty due to impacts of the pandemic, with over 250 million jobs equivalent lost in 2020, rising food insecurity, and widespread disruptions in essential services. Some 31 percent of the pandemic-induced poor in 2020 live in IDA-eligible countries, a share that could increase to 42 percent in 2021due to projected increases in extreme poverty in LICs and Sub-Saharan Africa (SSA) in 2021. The share of people living under $3.20 per day – nearly a quarter of the world's population, mostly in middle-income countries (MICs) – has also increased. The new poor are more likely to be urban, better educated and employed in the informal sector.[4] The pandemic has also disproportionately impacted women, girls and the most vulnerable, including the forcibly displaced. Humanitarian needs in fragile and conflict-affected situations (FCS) have surged, with an estimated 34 million people – predominantly in IDA FCS – at risk of famine in 2021.[5]

7. **Equitable and sustained global recovery demands stepping up international cooperation to tackle the challenges posed by COVID-19, climate change and natural resources depletion, and macro-financial risks in developing countries.** The still-unfolding pandemic, uneven recovery, and the sharply escalating impacts of climate change[6] – as well as ecosystem degradation and declining biodiversity – show the potency and wide reach of risks to global prosperity and stability. In addition to broad-based COVID-19 vaccination, resilient and inclusive global recovery hinges on improved preparedness and successful transitions to low-carbon, more resilient and inclusive economies in developing and developed countries alike. As EMDEs account for roughly half of global GDP, they are also at the forefront of building back better through green, resilient and inclusive development. Populous, highly urbanized MICs that have been successful in sustaining economic growth, reducing poverty and building shared prosperity have been hit hard by additional COVID waves; several are now among the world's top greenhouse gas (GHG) emitters in absolute terms, though industrialized countries are the largest contributors to GHG emissions historically. Complex and urgent *just transitions* to green, resilient and inclusive development – including expanded investments in people, communities (rural and urban) and economies – are essential for promoting sustained, broad-based gains in prosperity and well-being.

8. **Sustained high levels of support from the international community, encompassing both public and private sectors, are essential to building a better post-pandemic future for all.** Strengthening global governance and mobilizing needed levels of investment in GPGs as set out in the 2030 Agenda for Sustainable Development are vital for enabling durable recovery.[7] Clearly, developing countries cannot meet these unprecedented challenges on their own. The economic crisis from COVID-19 has reduced investment activities in EMDEs, especially in the infrastructure sectors and some manufacturing sectors due to project cancellations and postponements. Notably, private investment commitments for infrastructure projects in low and middle-income countries fell by 52 percent in 2020, and the pipeline of bankable projects remains scarce. The COVID-19 crisis has negatively impacted the credit standing of many countries (for example, Fitch has downgraded 33 sovereigns since the start of the crisis). Overall external financing needs for developing countries are exceptionally high and likely to remain elevated in the medium term. The estimates indicate that external financing needs in LICs over the IDA20 period (FY 2023-25) will be $429 billion; it is further estimated that LICs would require an additional $310 to $376 billion over that period to return to a path of convergence with advanced economies.[8]

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[4] See *Poverty and Shared Prosperity Report 2020: Reversals of Fortune*, Washington, DC: World Bank.

[5] WFP and FAO. 2021. *Hunger Hotspots. FAO-WFP early warnings on acute food insecurity: March to July 2021Outlook*, Global Humanitarian Overview 2021, OCHA.

[6] IPCC 2021 Report.

[7] *A Global Deal for Our Pandemic Age*, Report of the G20 High Level Independent Panel, June 2021.

[8] IDA20 Overview Paper, June 2021. Report No. 161270.

II. Complex Transitions for Green, Resilient and Inclusive Development

9. **Developing countries face multiple short and longer-term challenges in embedding green, resilient and inclusive development into their structural transformation and growth strategies.** As outlined in the *From Crisis Response to Resilient Recovery* paper presented to the Development Committee in April 2021,[9] GRID entails building resilience and inclusion across all facets of the economy and society by investing in people and their communities; boosting preparedness for future shocks such as pandemics, natural disasters and financial crises; and carrying out low-carbon transitions in critical systems. It requires transparently funded investments in all forms of capital while strengthening governance and institutional capacity. At the country level, increased emphasis on growth-enhancing green jobs and economic transformation (JET) is crucial – investing in human and social capital, facilitating the workforce shift toward high-growth sectors through *just transitions* that are also affordable and in line with national objectives, ensuring a stable and inclusive financial system, increasing digital technology and connectivity, and greening the economy. GRID emphasizes a comprehensive approach that systematically addresses the interrelationships among macroeconomic and structural policies; people and communities; and climate change policies and investments.

10. **GRID prioritizes restoring progress on eliminating poverty, both extreme poverty in LICs and growing urban poverty in MICs and building shared prosperity.** Strategic investments in people and public service delivery along with support for sustainable private sector activities are critical for both the GPGs agenda and country-level development priorities. Investments are needed to reduce inequality and build more inclusive societies, including restoring progress on poverty reduction, gender equality (Box 2), and equitable access, voice and accountability. Strengthening citizen participation, addressing social tensions, and building cohesion are important complements to targeted efforts to improve protection for vulnerable and disadvantaged groups, including the disabled, through development of risk-based safety nets and needs-based protection to avoid permanent human capital losses due to the pandemic and positioning workers for the future. Priorities for securing a better future for youth include protecting young children from disease, malnutrition and other harm; tackling the global education crisis by bringing children back to school and recovering learning losses; strengthening social protection systems;[10] and supporting new income opportunities. For example, the expansion of childcare worldwide to meet current needs could create 43 million new jobs while facilitating women's economic empowerment. The need for systems strengthening

Box 2. Towards Inclusion: WBG Support for Gender Equality

Gender equality is a core dimension of inclusion under GRID and a key pathway to realizing the WBG twin goals and the 2030 SDG Agenda. Operationalization of gender equality involves ensuring that all WBG diagnostics are informed by high quality social inclusion/exclusion diagnostic/assessments that identify for each country context the excluded groups – including women – and formulate appropriate results indicators to assess progress in reaching these groups. Systematic Country Diagnostics (SCDs) play a key role in embedding a cross-cutting, multi-sector approach to gender equality in country engagement guided by the four objectives of the WBG Gender Strategy (2016-2023), namely (i) improving human endowments of health, education and social protection; (ii) removing constraints to more and better jobs; (iii) removing barriers to women's ownership of and control over assets; and (iv) enhancing women's voice and agency and engaging men and boys. Informed by the SCD, the recent Nigeria CPF (FY 2021-25) highlights need for concerted action on gender gaps to close the north-south divide in human capital outcomes; reduce fragility, conflict and violence; accelerate per-capita income growth; and improve Nigeria's overall development trajectory. Preliminary estimates put the share of WB operations in FY 2021 that help close gender gaps (i.e., are "gender tagged") at 79% overall, with 80% in IBRD and 79% in IDA -- well above the corporate commitment for both IBRD (at least 55% by FY 2023) and IDA (60%).

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9 *From COVID-19 Crisis Response to Resilient Recovery*. 2021.

10 Reflecting a large scale-up of support over the past year, World Bank lending for Social Protection in Fiscal Year (FY) 2021 was $10.5 billion (up from $5-6 billion in preceding FYs), reaching more than 1.2 billion people.

encompasses health systems for pandemic preparedness with integrated and people-centered primary health care systems; better education service delivery that reaches the poor, disadvantaged and underserved including through technology; social protection and labor systems that adapt to changing needs and emergent crises; financial inclusion including expanded digital access; and an emphasis on nature-based solutions.

11. **GRID will require large public and private sector investments including inclusive investment in human and social capital, strengthening resilience of communities and economies, and tackling climate change mitigation and adaptation.** The cost of the preparedness agenda (including through the One Health approach) is estimated at $75 billion over the next five years (or $15 billion annually). This investment in building resilience would require doubling current preparedness funding levels in order, for example, to boost infectious disease surveillance; improve resilience of national health systems; and increase global capacity to supply and deliver vaccines – all of which are integral to building back better (Box 3).[11] Developing countries are estimated to need $4 trillion per year in investments up to 2030 to build climate-smart infrastructure.[12] This is a huge challenge given that total gross fixed capital formation in developing countries is currently about $10 trillion per year. The costs of meeting growing energy demand while transitioning aggressively to low-carbon pathways in large MIC economies in Asia alone could be in the range of $650 billion annually or $13 trillion over 20 years (Box 4). The UN Environment Programme estimates $70 billion in annual adaptation costs in developing countries, with expectations that this could increase to $140-300 billion in 2030.[13]

Box 3. Sharpening the WBG Focus on Resilience
As of July 2021, WBG SCDs now require a discussion of sources of resilience in FCVs, including by building on Risk and Resilience Assessments (RRAs) and other relevant diagnostics. In discussing the impact of climate change on a country's development path, climate resilience, along with adaptation and mitigation related measures need to be formulated in the SCD. In addition, an assessment on how shocks (e.g., natural disasters), trends (e.g., declining agricultural yields), and the lack of socioeconomic resilience affect high-level development priorities and the achievement of twin goals can be used to prioritize resilience investments and identify the most important risks and threats for the country in the SCD.

Financing for Vaccines. Equitable access to vaccines is a critical aspect of resilience. As of end-July 2021, the World Bank approved $4.6 billion in financing for vaccine acquisition and/or deployment in 54 countries. In June 2021, the Bank financing envelope for COVID-19 vaccine was increased to $20 billion over the next 18 months, adding $8 billion to the previously announced $12 billion.

12. **Developing countries need support in defining and implementing policies that promote low-carbon and resilient growth while boosting green competitiveness, job creation and disaster preparedness.** This includes LICs where climate adaption needs are overwhelming government capacities to respond and in MICs facing urgent transitions to greener development pathways. Without aggressive measures, CO_2 emissions from the transport sector alone are expected to grow by 60 percent between 2015 and 2050. While industrialized countries have historically been the largest contributors to GHG emissions, several large and highly populous emerging economies are now among the top emitters in absolute terms. In 2019, China and India collectively contributed 35.1 percent of global CO_2 emissions; all other IBRD borrowing countries combined: 23.4 percent; non-IBRD and non-IDA borrowing countries: 34.4 percent; and IDA-eligible countries only 3.6 percent.[14] Aggressive action is needed, especially for the highest-emitting emerging economies, to decouple emissions from growth critical to poverty alleviation and shared prosperity.

13. **Achieving the global ambition of a low-carbon future demands concerted action across the five key systems that generate over 90 percent of global GHG emissions – transport; manufacturing;**

[11] G20 High Level Panel, *op. cit.*

[12] *The Sustainable Infrastructure Imperative: Financing for Better Growth and Development*. 2016.

[13] UNEP Adaptation Gap Report 2020.

[14] World Bank Group Climate Change Action Plan (CCAP), 2021.

Box 4. Financing the Energy Transition: Progress and Prospects

Renewable energy investment reached $322 billion globally in 2018, with modest growth continuing in 2019. However, the pace must accelerate sharply for the world to meet internationally agreed climate goals. The private sector remains the main provider of capital for renewables, accounting for 86% of investments between 2013 and 2018. Public finance comes mainly via development finance institutions. Public finance is crucial to reduce risks, overcome initial barriers, attract private investors and bring new markets to maturity. In the United States, for example, federal tax subsidies lower the "level" cost of wind power by some 35% on average compared to the unsubsidized cost and many states offer additional subsidies.

At the country level, accelerating the energy transition is exceptionally complex with high up-front costs due to wide-ranging factors – from vested interests (e.g., public and private equity, domestic financing exposures, linked industries) to social and public stakeholder concerns such as labor impacts and implications for regional economies. There are also significant legal and regulatory risks. Aggressive decarbonization also requires technological and commercial breakthroughs along with new funding models that promote innovation and affordability.

In six major Asian economies (China, India, Indonesia, Pakistan, Philippines, and Vietnam) that rely heavily on coal, Bank staff estimate that $9 trillion is needed by 2040 to achieve current NDC targets – $2 trillion more than current investment trends which include major new investments in capacity to meet growing energy demand. An additional $4 trillion would be required to reduce power sector emissions by 65% below NDC levels by 2040. On an annualized basis, this represents an increase from about 1.5-3.0% of GDP (current investment trend) to 3-5% of GDP in energy infrastructure investments. This unprecedented increase in financing needs includes investments required to substitute planned new fossil-based generation capacity with cleaner renewable alternatives and to increase the scope of power grid networks to absorb generation from new renewable energy facilities, as well as investments to switch to more efficient industrial processes and appliances. In addition, there are costs associated with buying-out and closing existing carbon-intensive assets.

In many of these countries, the average cost of energy could increase by 20-25% from current levels due to upfront investments required for aggressive decarbonization. Moreover, workers and communities that have depended on carbon intensive energy production will face major disruptions. This could result in severe distributional impacts on vulnerable populations and pose difficult policy tradeoffs for authorities. *Just transitions* that are fiscally affordable and aligned with national goals are essential.

Blended financing from the international community, deployed at meaningful scale and including concessional finance where appropriate, can play a catalytic path-breaking role in accelerating the Asian energy transition, improving affordability and mitigating social impacts. Private sector solutions and private capital mobilization will also be critical to managing the energy transition. The MDBs, including the WBG, can play a scaled-up role in this crucially important effort by leveraging growing capital markets and private financing.

Sources: *Global Landscape of Renewable Energy Finance, 2020*, IRENA; *Levelized Cost of Energy Analysis*, Lazard, October 2020; *Global Trends in Renewable Energy Investment, 2019*, UN Environment Programme; WBG staff estimates

energy; agriculture, food, water, and cities. Transforming ***transport*** requires investments in urban mobility and accessibility as well as logistics and freight, including maritime transport, while transformation in the ***manufacturing*** sector and in the production of materials used for manufacturing requires supporting resource efficiency, low-carbon solutions and circularity.[15] ***Energy*** sector transformation calls for supporting power sector planning, energy subsidy reforms, improving the operational and financial performance of utilities, investing in projects to increase energy access through renewable energy and improved energy efficiency. Regional solutions such as the West African Power Pool (WAPP), supported by the IDA Regional Window, accelerate energy transformation through scaled-up financing for interconnection infrastructure – including increased grid connections in fragile areas of the Sahel – and reforms aimed at developing a regional electricity market. Transforming ***agriculture, food, water and land*** involves reducing food loss and supporting climate-smart agriculture that emphasizes appropriate landscape approaches to maintain biodiversity and ecosystems services across value chains (for example, see the Sudan Sustainable Natural Resources Management Project).[16] It also encompasses support for the blue economy, especially important

[15] A circular economy is a regenerative system in which resource input and waste, emission, and energy leakage are minimized by slowing, closing, and narrowing energy and material loops (UNFCCC).

[16] The Sudan project (P129156) aims to adopt sustainable land and water management practices while increasing communities' resilience and capacity to cope with climate impacts. It promotes biodiversity and has rehabilitated the *Um-Jur* natural reserve with various ecosystem services.

for Small Island Developing States (SIDS). Transforming ***cities*** entails supporting policies, regulations, standards such as IFC's EDGE[17] green buildings certification system; and investments for improvements ranging from better urban air quality, to promoting integrated solid-waste management and circular-economy approaches, to urban water supply, sanitation, wastewater treatment, and better urban land use planning and regulation, as well as green building development and construction.

14. **Fostering a conducive investment climate is integral to promoting green transformation of the private sector through policies and regulation that support the transition to low-carbon sectors and value chains.** Improving the enabling regulatory framework and removing policy barriers to foster green and resilient economies, including for small and medium enterprises (SMEs), is vital. Policy reforms to decarbonize trade and position the private sector to support the transition towards more competitive, sustainable, and resilient value chains will be essential. For example, IFC's Upstream approach as outlined in the IFC 3.0 strategy focuses on ensuring an enabling environment combined with the development of sustainable private sector projects in support of creating new resilient markets across EMDEs. Recent WBG survey evidence suggests that three in four multinational affiliates operating in developing countries are increasingly focused on sustainability and decarbonization of production since the onset of the pandemic. Provided mechanisms to ensure transparency and fairness are in place, appropriate carbon pricing can incentivize green private investments and provide fiscal space to the public sector. <u>The WBG is implementing several initiatives to support client countries and the private sector on carbon pricing, including development of a new Carbon Pricing Assessment Tool (CPAT) and hosting initiatives such as the Carbon Pricing Leadership Coalition.</u>[18] The transition is facilitated by trade, both in goods that can be produced in some countries with lower environmental impact (i.e., high water content agricultural products in water abundant areas; energy-intensive goods in geothermal rich areas) and in critical environmental goods and services that reduce emissions and support better environmental management. Global trade in environmental goods is estimated at over $1 trillion annually and rising. As importing countries increasingly mandate that exporters verify carbon emission reductions, many developing countries will need help to improve testing and certification.

15. ***Just transitions* to a more resilient, inclusive and low-carbon future must take account of country-level development priorities as well as the full GPG agenda embodied in the SDGs.** <u>These include meeting the needs of the 760 million people in Sub-Saharan Africa and South Asia lacking access to electricity, as well as the nearly 3 billion people globally who lack access to clean cooking energy</u>. The poor and vulnerable are not only at risk from climate change impacts themselves, but also from the consequences of actions to address climate change. For example, shutting down coal mines and coal power stations can impact whole communities who count on them economically. Crucially, *just transitions* are needed with due attention to people and distributional effects. A *just transition* in line with national objectives must integrate sustainability, including environmental remediation, as well as decent work, social inclusion, and poverty reduction. This requires the financing to build new skills, create jobs, and develop a more equitable and resilient economy. In East Africa, for example, IDA is supporting the Skills for Transformation and Regional Integration Project, which focuses on improving Technical and Vocational Education and Training programs, including geothermal, hydropower, and railways. Extensive capacity building is also essential for carrying out such complex transitions. For example, IDA's Climate Adaptation and Resilience for South Asia (CARE) project in Bangladesh, Nepal and Pakistan aims to build and strengthen the necessary capacity, tools and collaboration for climate-resilient policies and investments.

16. **Achieving meaningful climate action within the broader GRID framework will require a massive scale-up of finance.** This demands more catalytic public finance and transformational approaches to scaleup mobilization of private financing and investment, building on progress to date. Countries will need to boost public domestic resources and increase mobilization of international and domestic capital, including catalyzing domestic private capital. <u>The World Bank issued the world's first green bond in 2008 and created</u>

[17] EDGE refers to 'Excellence in Design for Greater Efficiencies,' a highly regarded IFC program to design and certify resource-efficient and zero-carbon buildings.
[18] WBG Climate Change Action Plan (2021-2025).

the blueprint for the overall green bond market,[19] which is set to top $1 trillion in 2021, yet still represents only one percent of the global fixed income market. Emerging markets account for under 15 percent of sustainable debt issuances, led by China, Chile, Turkey and Mexico.[20] Building on its pioneering Green Bond Program, under which IFC has issued $10.6 billion across 178 bonds since 2010, IFC is currently leading private sector efforts to develop blue bonds, a new capital market instrument for ocean sustainability and clear water resources. Credible structural reforms to improve oversight, integrity and accountability, including more transparency regarding public debt and investments, and enhance the investment climate will be important for improving countries' risk-return profile to levels acceptable to private investors. While concessional finance is not typically deployed to MICs, achieving *just transitions* that are timely, affordable and in line with national objectives requires concessional financing from public and international sources, including well-targeted support for MICs. International solidarity will be vital for meeting the goal of $100 billion annually in climate finance for developing countries.

17. **Developing countries across the income spectrum are increasingly looking for integrated solutions that address the complexities of climate change alongside their wider development goals.** Integrated, multisector approaches are the kinds of operations that MDBs, especially the WBG, have comparative advantage to deliver. In June 2021, the WBG adopted a new Climate Change Action Plan (CCAP) to guide its support for countries and private sector clients to address climate and development challenges together (Box 1).

III. Catalyzing Just Transitions: The Role of Multilateral Development Banks

18. **From COVID-19 response to pandemic preparedness and climate change, the MDBs and the WBG provide unique value-added by supporting national development goals, GPGs, and scalable responses to crises – while maximizing the impact of scarce public funds.** This includes supporting ambitious policy reforms with knowledge and direct financial support, as well as helping to catalyze expanded financing across all sources: domestic resource mobilization; private capital mobilization and official development finance. In the context of preferred creditor status, the unique value proposition of MDBs encompasses country-based engagement; long-term financing, including concessional financing and grants for the poorest and most vulnerable countries and blended financing in middle-income countries to de-risk projects and encourage sustainable transitions; high standards for project delivery from design to implementation and monitoring; social and environmental safeguards; and technical and analytical support for clients – among others. The WBG, with its extensive country presence, global footprint, strong balance sheets and track record as the largest private capital mobilizer amongst MDBs through IFC and MIGA, plays a central role in linking action on global issues to country-level engagement and financing.

19. **The MDBs delivered $250 billion, including $157 billion from the WBG, to support developing countries since the onset of the COVID-19 pandemic in April 2020 (Figure 2).** Backed by robust analytical and advisory services, the record WBG support between April 2020 and

Figure 2. Multilateral Financing since April 2020
($ billion)

	WBG	MDBs	IMF
1. Lending to IBRD Countries	45	---	43
2. Lending to IDA Countries	39	---	14
3. Lending to Blend (IBRD/IDA) Countries	15	---	9
4. TOTAL LENDING TO COUNTRIES (1+2+3)	99	---	66
5. Undrawn Flexible Credit Lines to IBRD Countries	---	---	47
6. TOTAL SOVEREIGN GUARANTEED (4+5)	99	---	113
7. Non-sovereign guaranteed	50	---	---
8. TOTAL LENDING (6+7)	149	93	113
9. Trust Funds	8	---	1
10. GRAND TOTAL (8+9)	**157**	**93**	**114**

Note: Data are through June 2021 for the WBG and IMF and through May 2021 for the MDBs, which include ADB, EBRD, IsDB, NDB, AIIB, CEB, AfDB, IaDB and EIB. Breakdown of MDBs financing by lending category is not currently available. IMF financing includes $52b in flexible credit line arrangements to 3 LAC countries of which $5b has been drawn. IMF trust funds include debt service relief of $727m. WBG total includes $7.6b in MIGA guarantee issuance.
Source: World Bank Group

[19] The World Bank Impact Report 2020: Sustainable Development Bonds & Green Bonds.

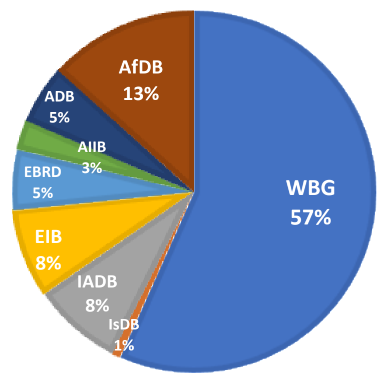
[20] *Sustainable Debt Monitor: A Record-Breaking Year*. Institute for International Finance, July 2021.

June 2021 includes IBRD/IDA commitments of $98.9 billion, of which $54.7 billion was directly for COVID-19 crisis response. Of the total IDA commitments, $16.0 billion was in grants to poor countries at moderate or high risk of debt distress, $19.9 billion went to FCS and $1.3 billion to Small States. Seventy percent of IBRD commitments went to below-graduation-discussion-income countries. IBRD/IDA disbursements reached $63.6 billion. IFC delivered $42.7 billion in financing. This includes $5.8 billion from the IFC Fast-track COVID-19 Facility as well as $10.1 billion in other COVID-19 response projects. For IFC, over 49 percent of the COVID-19 interventions were deployed to support existing clients in IDA/FCS. MIGA, over the same period, provided $7.6 billion in guarantees, including $5.6 billion for projects to mitigate the impact of the crisis under its COVID-19 Response Fast-track Facility. <u>WBG support emphasizes selectivity to advance critical policy reforms that deliver measurable results, leveraging limited public funds and fostering private investment.</u>

20. **MDBs have been at the forefront of global efforts to support developing countries' efforts to pursue ambitious climate action for over a decade.** The MDBs collectively committed $41.5 billion in climate finance to low and middle-income countries in 2019 – $27.5 billion for mitigation and $14 billion for adaptation.[21]

21. **In 2020, the WBG accounted for 57 percent of total MDB climate finance commitments (Figure 3), and the WBG delivered more than two thirds of total MDB adaptation finance.** <u>IBRD/IDA climate financing reached a record $21 billion in FY 2021 – an increase of nearly 25 percent compared to FY 2020 ($17 billion) and up 50 percent from FY 2019 ($14 billion).</u> WBG support includes leveraging concessional finance through the donor-funded Global Environment Facility (GEF) which enables risk-taking by piloting new technologies and the Climate Investment Funds (CIF) which operate through partnerships that promote collaboration between MDBs and country authorities. The WBG also collaborates with the Green Climate Fund (GCF) in supporting the transition towards climate resilient pathways.[22]

Figure 3. MDB Climate Finance to LICs & MICs (2020)



Source: Joint Report on MDB's Climate Finance 2020.

IV. Scaling-up Financing for Implementing GRID: A Post-Pandemic Approach for the WBG

22. **Achieving durable post-pandemic recovery and advancing global goals demands intensified WBG support to help clients put GRID into practice, including by integrating climate action with development.** Implementation of the GRID approach is grounded in the WBG country-based model, which enables differentiated and selective engagement in countries across the spectrum – including LICs, MICs, SIDS, and FCSs – in close collaboration with development partners.[23] In the Western Balkans and Ukraine, for example, the World Bank is working with European Commission, European Bank for Reconstruction and Development (EBRD), and Poland to launch a knowledge platform to support coal region transitions. Customized approaches aligned with national development goals are essential for prioritizing key issues at the sectoral and sub-sectoral levels, addressing policy tradeoffs, and managing political economy considerations unique to each country. WBG support for GRID aims to optimize *One WBG* synergies in line with the Cascade approach, with the focus on delivering measurable results embedded in country-level

[21] Joint Report on Multilateral Development Banks' Climate Finance 2019, August 2020.

[22] *Lessons in Multilateral Effectiveness, Pulling Together: The Multilateral Response to Climate Change*, MOPAN, July 2021.

[23] The WBG updated Guidance on Country Engagement issued in July 2021 enhances outcome orientation in WBG's country engagement. One of the key aspects of the new guidance is to more explicitly acknowledge that achieving high level development outcomes requires contributions from multiple development partners.

documents such as Country Partnership Frameworks (CPFs) as well as in the CCAP. The recently launched CPFs for Indonesia and Iraq, built around GRID principles, encapsulate this approach and a similar approach is being developed in Nepal and Vietnam among other countries.[24] Leveraging global knowledge and integrating lessons learned is integral to supporting well-informed policymaking, including to identify and address binding constraints to transition such as high population growth, structural economic constraints, conflict and fragility and weak human capital development, drawing on WBG analytics and core diagnostic tools such as the Systematic Country Diagnostic (SCD) and the new Country Climate and Development Report (CCDR).

23. **Expanded access to development financing is a vital aspect of operationalizing GRID.** Client demands have underscored the scale and complexity of post-pandemic recovery, including the financing needs of climate transitions. The Coalition of Finance Ministers for Climate Action, which aims to help Members in the design of recovery policies that enable inclusive, sustainable, low-carbon, and climate-resilient growth, has highlighted the challenges ahead: "*Our immediate efforts as Ministers of Finance are to deploy human and financial resources to combat the pandemic and save lives. The economic and fiscal impacts of the crisis will be vast. We will have to reshape fiscal policy while addressing climate change in a more comprehensive way. This will be a challenging task, but it must be one of our top priorities.*"[25]

24. **Towards addressing client demands for exceptional support for durable post-pandemic recovery including climate action, the WBG is developing a multi-pronged approach involving:**

- Scaled-up support for domestic resource mobilization (DRM) including IDA20 Policy Commitments.
- Scaled-up private co-financing and private capital mobilization (PCM) through investment platforms under the Cascade approach for portfolios of public and private sector projects as well as individual projects. Some projects will require de-risking or blending through donor funds or other mechanisms, including to enhance affordability of sovereign or other bond issues that co-finance WBG-led projects.
- Scaled-up GRID and climate financing through IFC, MIGA, IDA (early IDA20 Replenishment) and IBRD; including partnerships through co-financing with MDBs and key bilaterals, and other consolidated financing mechanisms, that facilitate an efficient use of concessional resources. The WBG will also pursue scaled-up support for climate-smart trade through trade finance to promote global trade in energy efficiency and renewable energy goods.
- Knowledge and advisory services including good carbon transition policy reforms, capacity-building for client countries, and support for addressing the social impacts of the transition.
- Scaled-up deployment of private sector solutions is key. Supporting low-carbon investments through COVID-19 recovery financing has the potential to generate $10 trillion in investment opportunities for the private sector, resulting in 213 million cumulative jobs and the equivalent of 4 billion tons of CO2 reduction[26]. IFC's Upstream approach is focused on building these private sector solutions, including with public-private partnerships (PPPs), working across the WBG, creating the enabling environment for private sector projects as well as developing support, along with MIGA, for sustainable projects aligned with GRID.

25. **Strengthening Domestic Resource Mobilization in both LICs and MICs is increasingly urgent, including addressing the challenges of boosting domestic savings and developing local financial markets.** For an increasing number of countries, tax-to-GDP ratios in 2021 are expected to fall below 15 percent, considered an indicative minimum ratio for governments to provide essential public services. The fall in tax revenues since the onset of the pandemic has been particularly sharp for low middle-income countries and LICs. In line with the GRID agenda, WBG support (including through IDA20 policy commitments) will include deepening structural tax reforms and modernizing administration systems to

[24] WBG Country Partnership Framework for the Republic of Indonesia (FY21 – FY25). April 2021. WBG Country Partnership Framework for the Republic of Iraq (FY22-26). July 2021.

[25] The Coalition of Finance Ministers for Climate Action Annual Report 2020.

[26] IFC, 2021. *A Green Reboot for Emerging Markets: Key Sectors for Post-COVID Sustainable Growth.*

broaden tax bases, enhance equity and progressivity, boost transparency and promote better environment outcomes.[27] Policy efforts include eliminating inefficient tax expenditures, taxing the digital economy fairly, more progressive taxation of income and wealth, and introducing green taxes. Action is also required to address weaknesses in the international tax system to reduce harmful tax competition; tackle tax avoidance; and enhance the fight against illicit financial flows. The WBG is supporting countries to accelerate digitalization of revenue administration for enhancing access to taxpayers' services, tax compliance, and enforcement. WBG support for local financial market development is discussed below.

26. **Private Capital Mobilization is integral to meeting the massive financing needs associated with green, resilient and inclusive recovery – including women's economic empowerment.** Working together through the Cascade approach of prioritizing private investments where feasible, the WBG will give precedence to private sector investments wherever possible to ensure scarce fiscal resources are used to support GRID projects that cannot be financed through private sector solutions or finance. The WBG will continue to: (i) directly mobilize commercial finance into *priority public sector projects* through WB and MIGA guarantees and indirectly mobilize private co-financing to support these projects as well as specific government programs; and (ii) mobilize commercial finance for *private sector projects* through guarantees from MIGA which can support both debt and equity and WB guarantees. For private sector projects, IFC will scale up the use of existing and new mobilization programs and platforms (such as the Managed Co-lending Portfolio Program, MCPP) in conjunction with the deployment of loan and equity financing from its own account. Over the four years that PCM has been reported (2016-2019),[28] the WBG has been responsible for 46 percent of total PCM achieved by the MDBs in low- and middle-income countries, averaging $31 billion of PCM per year. Of this, IFC has contributed an average of 60 percent, with the remainder evenly shared between the WB and MIGA. Mobilizing investors is a cornerstone of the IFC 3.0 strategy, and IFC has worked with a wide range of market counterparts to develop mobilization platforms and products. MIGA has also been among the MDB leaders in mobilizing private sector finance as all its instruments guarantee private debt or equity, and hence add to PCM. MIGA's use of private sector re-insurance further increases MIGA's crowding in of the private sector. WBG support for private investment in IDA and FCV benefits from the backing when appropriate of the Private Sector Window under IDA18 and IDA19. Under the 2018 Capital Package, IBRD targets a 25 percent PCM ratio on average between FY 2019 and FY 2030, while IFC targets a 92 percent core mobilization ratio by 2030.

27. **The WBG further supports mobilization of private capital by helping countries improve policies, institutions and regulatory frameworks, and develop local financial markets.** Diagnostic tools such as Financial Sector Assessment Programs (FSAPs), the Infrastructure Sector Assessment Programs (InfraSAP), the Country Private Sector Diagnostic (CPSD) and the Joint Capital Market Advisory Program (JCAP) propose policy and regulatory reforms and standards at the country level that enhance private capital flows and domestic capital mobilization – including measures to underpin financial sector stability and inclusion. The WBG is also working with clients to <u>expand the pipeline of bankable projects</u> which has been a barrier to private sector mobilization to date, including through supporting the Global Infrastructure Facility (GIF).[29] IFC and the WB have led the design of market frameworks, such as the Green Bond Principles and the Green Loan Principles, which have successfully catalyzed billions of dollars of private finance into sustainability and impact-focused investment. The WBG also supports social and sustainability-linked bonds and loans, and the development of these markets, with a view to expanding opportunities for private sector investors to contribute to sustainable and resilient recovery. This includes Bank support for global breakthroughs, including the world's first emerging market sovereign green bond in Fiji, the world's first green Islamic bond in Malaysia, and the world's first blue bond in Seychelles. The WBG is actively scaling up efforts to green the financial sector through its work with financial institutions (including in the case of IFC helping establish Ukrgasbank as the first green finance bank in Ukraine), expanding local currency solutions, in addition to innovative capital markets products to mobilize commercial capital and impact investors.

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[27] For example, the Tajikistan Tax Reform Operation (May 2021) supports modernizing the tax administration in line with international practice and includes support for digitization.
[28] *Mobilization of Private Finance by Multilateral Development Banks and Development Finance Institutions*, January 2021.
[29] The GIF is a WBG and G20 initiative. To date, the GIF has approved more than 100 projects in 52 countries, which are expected to mobilize more than $50 billion in private investment and financing.

28. **To scale up PCM, the WBG is developing new approaches that take account of lessons learned (Box 5).** WBG teams are pursuing ideas to scale up public private solutions for clean energy, water and transport. Teams are developing programs for post-crisis support for SOEs' creditworthiness improvement and asset recycling to maximize access to long-term financing for WB clients. IFC continues to deepen its upstream activities which are crucial to increase the pipeline of bankable projects while concurrently scaling up mobilization platforms and other mobilization solutions to crowd in private sector capital. The WB, IFC and MIGA are coordinating efforts to (i) leverage domestic or regional financial intermediaries through bespoke risk-sharing facilities for green infrastructure for SMEs (e.g., rooftop solar, e-mobility); and (ii) to increase IDA PSW window support for IFC/MIGA operations in IDA countries and FCVs. To incentivize teams to maximize aggregate WBG PCM in a consistent fashion, the WBG is working on proposals to (i) recognize private capital crowded-in via lending activities that improve the enabling environment for expanding private investments and (ii) develop a measure to allow IFC, MIGA and the WB to identify and track collaborations across the WBG and enhance recognition of upstream interventions on the policy and regulatory fronts. Additional steps are planned to further mainstream PCM activities through the development of: (i) programmatic approaches to crowding-in institutional investors, (ii) scalable solutions to mobilize capital for the GRID agenda, and (iii) expanded use of existing products such as guarantees to mobilize private capital for the public sector in the context of credit downgrades due to the crisis.

Box 5. Private Capital Mobilization: Lessons Learned from WBG Experience

PCM approaches are highly relevant to achieving the SDGs. In 2021, an Independent Evaluation Group (IEG) review found that WBG approaches to PCM have been relevant and mostly effective for client countries. World Bank guarantees had positive outcomes. IFC syndicated loans had positive effects on client firms' access to finance while IFC debt mobilization platforms were effective in meeting client and investor expectations. Equity platforms such as the Asset Management Company showed mixed results in meeting IFC's development objectives. PPP advisory projects have resulted in a substantial role for domestic and South-South bidders from other emerging markets. MIGA has also been successful and has positioned itself well among MDBs in addressing PCM thanks to its new products (e.g., credit enhancement) and the share of its exposure that gets reinsured allowing MIGA to offer more guarantees.

IEG found that both external and internal constraints limit PCM. Business environment constraints limiting PCM include poor governance and regulatory barriers to investors. Enabling environment reforms are often success factors for PCM and should be sustained. WBG–supported reforms that address both sector and macroeconomic constraints are more successful than other, less comprehensive reforms.

Drawing on the evaluation's findings and IEG's recommendations, the WBG is adapting its PCM strategy to increase the relevance and effectiveness of PCM approaches:

(1) **Develop new products and improve product alignment with the needs of new investor groups and partners.** IFC's experience has shown that effective mobilization platforms need to be designed jointly with investors and borrowers. (2) **Prioritize client countries for PCM approaches, with corresponding targets cascading to the regional units and Global Practices.** Tailor programs to countries' individual characteristics and target mobilization efforts at specific types of private capital flows. Upstream sector and policy work to support reforms remain critical to PCM and investors' interest. Ensure that reforms are supported over time—including after private capital is mobilized. (3) **Expand PCM platforms, guarantees, and disaster risk management products commensurate with project pipeline development.** Expand PCM approaches to support policy reforms and disaster risk financing, leveraging Treasury and advisory capabilities.

Source: *Scaling Up Private Capital Mobilization for Development: Lessons from WBG Experience*, IEG, 2021

29. **The Sustainable Development Finance Policy (SDFP) introduced under IDA19 is helping countries to mitigate debt vulnerabilities and boost debt transparency in support of GRID**. The SDFP promotes critical reforms in the areas of debt management, fiscal sustainability and debt transparency challenges. In collaboration with the IMF, IDA is supporting implementation of the G20 Debt Service Suspension Initiative (DSSI) that has temporarily freed up critical resources for poor countries severely affected by the COVID-19 crisis. As of end-June 2021, 47 countries have requested to join the DSSI and 43 DSSI eligible[30] countries have been provided with much needed liquidity and fiscal space, amounting to

[30] DSSI eligible countries refers to active IDA countries as of FY 2020 and Angola.

$5.7 billion in 2020. Recognizing that more action is needed, the G20-endorsed Common Framework (CF) promotes a coordinated effort to find timely and durable solutions to address unsustainable debt situations.

30. **The IDA20 Replenishment is a powerful signal of international solidarity with the poorest and most vulnerable countries.** With negotiations underway, IDA20 will define an ambitious and catalytic policy and concessional financing package to help position poor countries to undertake green, resilient and inclusive development. The IDA20 policy framework will target support through a sharpened focus on reaching the poorest and most vulnerable; build resilience by providing cushioning against future shocks and strengthening crisis preparedness; accelerate green, climate-friendly development by stepping up ambition on climate change; and invest in people by addressing inequalities and boosting investments in human capital. IDA20 will also involve scaling up ambitions under the Special Themes of Climate Change, Gender and Development, Fragility, Conflict and Violence, and JET, as well as the Cross-Cutting Issues of Debt and Technology. Towards providing a stronger foundation for inclusive and resilient recovery in IDA countries, Human Capital is a new Special Theme along with the new cross-cutting issue of Crisis Preparedness. Underpinned by a broadened focus on strengthening Governance and Institutions across Special Themes, the IDA20 Replenishment will allow IDA to build on the strong progress made in the two-year timeframe of IDA19, while innovating and targeting support to meet recovery needs, restore progress on eliminating extreme poverty, and move forward on the longer-term development priorities of the world's poorest countries.

31. **On the financing side, IDA20 proposes to maximize volumes of concessional finance to IDA countries, while prioritizing grants for the poorest countries at high risk of (or already in) debt distress.** Building on the IDA financing architecture, which has proven robust in delivering support to IDA countries with scale, speed, and selectivity since the onset of the COVID-19 crisis, IDA20 proposes important refinements to make IDA's financing system even more effective. IDA is innovating to optimize its balance sheet to make the most of donor contributions and IDA resources, while preserving IDA's triple-A rating. Donors and borrowing representatives have encouraged the Bank to explore ambitious scenarios comprising a blend of internal resources, new partner contributions, leveraging through market debt, and balance sheet optimization options. Together with IDA20's ambitious policy package, this would place IDA in a strong position to make an impactful contribution to the world's poorest and most vulnerable populations.[31] Continued support for the Private Sector Window remains a focus of IDA20 in support of development of sustainable private sector economic opportunities.

32. **Given the urgent need to step up climate financing in the context of GRID, shareholders are in a position to decide the extent to which they wish to scale-up use of IBRD's proven leveraging capacity.** To successfully achieve climate and development objectives, the world must mobilize trillions of dollars in the coming decade, demanding more catalytic approaches to bridge the gap between available resources and needs. The strategic leveraging capacity of MDBs can be expanded to accelerate progress on climate goals including in MICs which have been hard-hit by COVID-19 and face daunting challenges in transitioning their economies to a low-carbon future. Alongside IDA, IFC and MIGA, IBRD will continue to play a critical role in mobilizing finance at scale for climate action, based on its well-established financial model of issuing triple-A rated bonds in the capital markets to leverage scarce shareholder capital with substantial private capital mobilization. Since inception, IBRD has directly mobilized capital market resources to provide development financing volumes that are 40 times the amount of capital provided by shareholders. Looking forward, each $1 billion increase in IBRD's paid-in capital can support an estimated $10 billion additional climate financing over a 10-year period by leveraging commercial credit from the debt markets via sustainable development/green bonds.

[31] IDA20 Overview Paper, June 2021. Report No. 161270.

V. Conclusions and Questions for Discussion

33. **Sustained global recovery from the COVID-19 pandemic and the compounding impacts of climate change and natural resources depletion requires comprehensive and innovative approaches that scale-up financing and knowledge for GRID.** Durable post-pandemic recovery demands coordinated action to invest in all forms of capital; implement macroeconomic and structural policies, strengthen preparedness (see the companion paper on *Prevention, Preparedness, and Response: The WBG's Role in Future Crises)*, and implement institutional strengthening and technological innovation to enable *just transitions* in line with national objectives; and mobilize capital at scale especially from the private sector. Existing public, private, and concessional climate finance needs to be deployed in more transformative and catalytic ways – leveraging additional capital to bridge the gap between available resources and needs. International solidarity – including delivering on the, so far unrealized, aim to provide $100 billion annually in climate finance for developing countries – will be decisive. The WBG will continue its efforts with partners to raise and utilize concessional finance including through several umbrella trust funds which can be strategically deployed to de-risk climate finance, provide technical assistance, and support flagship analytical and knowledge work that contributes to countries' climate and development policies and plans. Transformative results at the country level will depend on effective cooperation with clients and development partners to maximize financing, promote innovation, implement policy reform, ensure transparency and accountability, and boost institutional strengthening.

34. **The WBG intends to maintain an exceptional level of support in FY 2022, working in partnership with global, regional and local actors.** The WBG is targeting a total of $109 billion in new commitments by stretching its balance sheets as much as possible within the financial sustainability frameworks of its respective agencies. This includes $71 billion in new IBRD/IDA commitments and a combined $38 billion from IFC and MIGA. Yet, achieving a greener, more equitable and resilient future demands much more. <u>The proposed post-pandemic approach for scaling up WBG support for resilient recovery for all brings together (i) enhanced support for domestic resource mobilization; (ii) amplified private capital mobilization under the Cascade approach, including for climate change, through scaling up existing PCM platforms and developing new platforms, (iii) scaled-up GRID and climate financing through IFC, MIGA, IDA (early IDA20 replenishment) and IBRD to accelerate progress on country priorities and GPGs; and (iv) knowledge and advisory services for country capacity building to support good policy reform, enhanced regulatory frameworks and addressing the social impacts of the transition (see paragraph 24)</u>. WBG engagement will aim to maximize the impact of climate finance for measurable improvements in adaptation and resilience in line with corporate commitments and measurable reductions in GHG emissions. As noted in the CCAP, the WBG will present an approach for implementation of its commitment to Paris alignment at COP26 in November 2021.

35. **While there are major risks and uncertainties, the stakes could not be higher, and risks can become opportunities for GRID through knowledge and foresight.** Global trends and other factors such as the pace of technological progress and the extent of conflict versus cooperation will affect the ability of countries, communities and the private sector – as well as the WBG and its partners – to achieve success in building a green, resilient, and inclusive world. The scope of international cooperation and private sector participation required is unprecedented. Recent experience with the COVID-19 pandemic has demonstrated how crises can derail development progress and dampen private investment. Strong and sustained commitment by the international community will be the most critical determining factor in the years ahead.

<u>Questions for Discussion</u>:

- *What are Governors' views on the proposed Post-Pandemic Approach for the WBG towards scaling up support for green, resilient and inclusive recovery?*
- *What are Governors' views on the development of additional options and mechanisms to increase the WBG's climate finance and impact?*