

Leverage

The World Bank Group has several entities. The International Development Association (IDA) is its window for concessional funding. It is essentially a vehicle for channelling periodic replenishments of official development assistance from its richer members to its poorest members. The International Bank for Reconstruction and Development (IBRD), its window for commercial lending to governments, is funded with borrowings from capital markets against the security of its share capital and jealously guarded credit rating. The fight against poverty will require significant investment for making the poorest countries resilient to climate change. To help the Bank preserve its poverty-fighting credentials and deliver on the climate mandate, the Global North must increase contributions to the IDA, which should focus on delivering adaptation finance to the poorest countries. To address mitigation, the Bank must in parallel have a laser-like focus on helping 20 of its current not so poor borrowing countries — excluding China and Russia — that belong to the group of the world's top 35 emitters with hundreds of billions of additional funding for their respective energy transitions.

There has been much debate about how to do this, but little progress. One reason is rating-agency restrictions on acceptable levels of leverage on the Bank's AAA-rated IBRD balance sheet. It is doubtful that these agencies would ever be comfortable with a gearing of much more than the existing five times its usable equity. IBRD could sweat its existing equity more if it changed its product mix from loans to guarantees. But this has been resisted by the staff with a rigid mind and skill sets. IBRD may not be the right vehicle for scaling up the Bank's climate agenda. Two other entities in the Bank Group are better suited for the task.

The Multilateral Investment Guarantee Agency (MIGA) was set up precisely to provide guarantees for mobilising cross-border capital into emerging economies. It is fit for purpose. Compared to IBRD, it makes much more economical use of shareholders' capital. *For every \$1 in equity, it underwrites \$17 in guarantees. And it could stretch its capital further if it made greater use of credit enhancement and partial guarantee products and were willing to take more risk.* It would require only \$15 billion in additional shareholder capital for MIGA to mobilise \$300 billion in incremental debt financing. But for now, it is unwilling to even provide guarantees for sub-national entities without a counter-guarantee from the government concerned. As a result, quite shockingly, it does no business in India. The Bank would be hugely effective in mobilising climate finance if it worked on increasing MIGA's risk appetite and expanding its capitalisation, rather than IBRD's.

The writer is with the Singapore Green Finance Centre, Singapore Management University

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