Banga Hype at the Springs*

C.P. Chandrasekhar

Less than a year back, a former chief executive of Mastercard, Ajay Banga, was in a surprise move picked to head the World Bank. Putting a Wall Street player addicted to profits in charge of a development institution claiming to help lift poor countries out of their underdevelopment seemed incongruous. Given that the Bank was and is seen my many as an institution with a disappointing track record and a governance structure unfit to meet the development challenges of the current epoch, a person with demonstrated concern with social purpose was the needed choice. Banga's appointment too was a disappointment. But if reports on an otherwise uneventful set of Bank-Fund spring meetings held mid-April are to be believed, less than a year down the line, Banga has begun transforming the global development financing landscape in the required manner.

However, a close look at what Banga has managed to push through points in a different direction. His agenda seems to include three elements. First, moves to increase the funds made available to the Bank through country contributions and guarantees, ostensibly to extend its grant, concessional and commercial financing, to meet old (SDG) and new (climate/Green) challenges. Since this is a period when overall development financing from the rich nations is being curtailed, that involves an increase in the Bank's share and influence in the development and climate financing space. So, a related objective seems to be to make the Bank the principal conduit for flows of official developmental finance to poor countries. Second, 'reform' to increase the Bank's flexibility and respond to demands that it should leverage its own resources to mobilise additional funds and provide larger volumes of financing. Since this is to be done without damaging the Bank's AAA rating, support in the form of guarantees from sovereigns and a pooling of the resources mobilised and risks borne by regional development banks is being seen as crucial to advance this objective. Centralisation of official financial flows under a US controlled agency seems to be the motive. Third, attempts to refocus the Bank as an entity that through innovative, hybrid or blended financing will incentivise private investors to divert a significant share of assets under their management to SDG-related projects and those that facilitate mitigation and adaptation. The justification for this is that the scale of the financing challenge is far larger than even an expanded resource base of multilateral banks can support. As Banga reportedly put it: "The reality is government money and multilateral bank money alone will not get to those trillions of dollars . . . that's why the private sector is really important."

Despite the hype, the progress at the spring meetings, held in a year critical for enhanced commitments of climate finance, had been marginal in all of these areas. The commitment from the rich nations that the media headlined was a $11 billion contribution from eleven rich nations to new financing mechanisms set up by the Bank. One is the Portfolio Guarantee Platform, which the Bank claims provides "a shared approach to risk", in the sense that 'donor' contributions are leveraged to borrow additional funds, potentially at lower cost, to fund socially relevant projects. Another is a hybrid capital instrument which offers shareholders and partners a channel to invest in bonds with "special leveraging potential". The third is the Livable Planet Fund targeted at governments and philanthropies to mobilise funds meant to address common challenges such as pandemic prevention and preparedness. In all these cases, the exact nature of the mechanism and its effectiveness is still unclear, and the total resources that can be mobilised with the $11 billion promised so far is placed only at around $70 billion. Given estimates of development finance needs over the next few years of anywhere between $500 billion and a few trillion dollars a year, this is small change.

The other major 'achievement' being touted is the announcement by ten different institutions—regional multilateral development banks and the World Bank—that they would set up a global co-financing arrangement. Under the arrangement they would share information on project pipelines and co-financing opportunities that facilitates decision making on joint financing, as well as the sharing of ideas on best practices. This is expected to facilitate efficiency and transparency in the co-financing space. Besides the fact that it is surprising that much is being made of a norm that should follow from the need to coordinate activities and seek coherence in the activities of MDBs, often receiving funding from common sources, this in itself is unlikely to lead to additional financing.

The real issues on the financing front are already known. Development financing must be massively enhanced, especially the mandatory annual contributions that would be made under the New Collective Quantified Goal for climate finance currently under negotiation. A large chunk of this additional financing should be concessional flows through existing channels like the Green Climate Fund, the Adaptation Fund and the recently established Loss and Damage facility.

Another crucial issue this year is the size of the 21st replenishment of IDA, the soft-lending window of the World Bank. Replenishments occur once in three years. The last 20th replenishment was finalized in December 2021, with the term of that financing package stretching to June 2025. It is the norm that financing size increases with each replenishment but given current challenges the Bank is looking to a substantial step up in funding from the $93 billion level reached in the 20th round, built on $23.5 billion from donors. However, as of now there is much pessimism that, with competing demands for funds, development assistance being diverted to financing countries in war such as Ukraine, and allocations to manage migrant refugee populations, the prospect of a huge increase is dim.

Finally, Banga's own contribution has thus far been minimal—a decision, backed by a G20 committee report, to lower the Bank's equity-to loan ratio from 20 to 19 per cent, which is expected to release additional resources to the tune of around $4 billion a year.

Put all of this together and the hype surrounding Banga and the transformative impact he is having on the Bank is difficult to swallow. But that hype is easy to explain. Banga was chosen to hold the position he does by the United States government that has retained the right to decide the leadership of the Bank. But the US government alone cannot make that choice, but must yield to the demands of powerful economic interests.

The most powerful such force today is globalised US finance, the representatives of which are working to subordinate for profit the large sums that governments are being prodded to allot to development financing. Their aim is to divert a larger share of socalled development aid to forms of financing, identified as “innovative instruments”, in which the private sector shares in or takes all profit, whereas the risk is carried and losses borne by the multilateral development banks using public resources. That is the agenda that the World Bank President has been chosen to implement. Which explains the hype over Banga.

*** This article was originally published in Frontline on May 1, 2024.**