



Eight Reasons to Support an International Green Bank

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Policy Note 8

June 2023

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Introduction

In an [interview with Foreign Policy magazine](#) following the World Bank and IMF 2023 Spring Meetings, Larry Summers¹ stated that the outcome of the meetings, and the boldness of the actions and plans, are not commensurate with the challenges that the world is facing, including the existential challenge of climate change. This is probably an understatement. The planned actions are just tinkering at the margin when major adjustments are required.

Tackling the climate agenda requires enlightened and courageous leadership. [In a recent paper I argued that the world needs a new international organization](#) --a Green Bank-- whose only mission would be to develop, finance and support the implementation of projects in the Global South to fight climate change. Green Bank's main instruments would be: (1) knowledge work to identify and develop green policies, programs and projects; (2) capital participation in private companies implementing green projects; (3) loans to private projects; (4) guarantees to private investors – foreign as well as domestic – against sovereign risk; (5) provide grants to support countries hit by extreme weather events; and (6) buying-down the interest on MDB loans that support green projects. Green Bank would not lend to governments and thus would not contribute to a worsening of the current sovereign debt problems facing several countries in the Global South.

The structure and governance of the proposed Green Bank would be different from that of existing international financial organizations (IFOs) and multilateral development banks (MDBs) in two important ways. First, in addition to sovereign states, Green Bank's capital would be open to private actors-companies, foundations and civil society organizations – who would also have a strong voice in its governance structures. Second, countries of the Global South, who are mostly borrowers/recipients, would have equal voice to countries of the Global North in Green Bank's governance structures.

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Capital contributions from sovereign states and private actors will not be sufficient to meet the huge financial flows required to implement the climate agenda. They will have to be complemented by borrowing from the markets, selling green bonds. But even that will probably not be enough. Green Bank would also need grants or grant-like financing in order to buy down the interest on other MDB loans and to finance reconstruction post climate shocks. Those could be mobilized through voluntary contributions, the sale of carbon credits, and through a "green tax" on polluting industries such as oil and gas, shipping, aviation, etc.

¹ Former US Secretary of the Treasury, Director of the National Economic Council, President of Harvard University, and Chief Economist of the World Bank.

In the remainder of this note I present eight reasons to support the proposed Green Bank. The eight reasons can be divided under four headings: urgency, institutions, finance and geopolitics.

Reason 1 reminds of the urgency and the need for a true revolution in climate finance. It would send a strong signal that the international community is ready to tackle the huge and urgent needs for climate action.

The following three provide the institutional and political rationales: Bretton Woods Institutions simply to not have the mandate, nor the credibility to undertake such a drastic effort. (2) Green Bank would provide a platform for governments, private sector and civil society to dialogue and work together, hence it would mobilize strong political support across the North and South to advance the climate agenda; (3) commitments by international organizations on climate change matters may be prone to shift to reflect political changes in their host country, the Green Bank's governance structure would protect it from such changes; (4) by providing a strong voice for countries of the South in its governance, and by separating funding for climate--and thus protecting general development funding by MDBs--it will ensure the South's buy-in and full implementation of needed reforms, programs and projects.

Reasons 5 to 7 make the financial case for a green bank. The essential challenge which faces recent proposals, including for instance the proposed "Mitigation Trust", is the ability to mobilize the private capital needed to reach sufficient scale. (5) private sector participation in Green Bank's capital means that less will be required from governments, and the presence of private sector representatives in governance structure should help inform decisions to attract private investments in countries of the Global South; (6) Green Bank could be the instrument for the international community to respond to the Bridgetown Initiative and the promise made at COP27 by making use of innovative financing like green bonds, interest rate buy-downs, carbon credits, and green taxes; (7) unlike most MDBs, Green Bank lending would not require a sovereign guarantee and thus would not add to sovereign debt.

Reason 8 concludes with the geopolitical rationale: in the present geopolitical climate of superpower competition, an institution focused on a single issue that is important for all humanity could be a useful platform for international cooperation.

Reason 1: The Needs are Urgent, Huge and Nowhere Near Being Met

The United Nations Environment Program (UNEP)'s [latest emission gap report](#) indicates that the world is far from achieving the Paris Agreement's goal of limiting global warming to well below 2° Celsius, and preferably below 1.5°C. Policies currently in place point to a 2.8°C temperature rise by the end of the century. Implementing current pledges will only reduce this to 2.4-2.6°C. UNEP argues that only an urgent system-wide transformation can deliver the enormous cuts needed to limit greenhouse gas emissions by 2030: 45% compared with projections based on current policies in order to get on track to 1.5°C.

According to the [Intergovernmental Panel on Climate Change \(IPCC\)](#), the next few years are critical. The IPCC argues that limiting warming to around 1.5 degrees Celsius requires greenhouse gas emissions to peak before 2025 - that is less than two years away. Business as usual has not worked in the past and will not work in the future. Decisive and courageous action is needed now to make this happen.

[In a recent interview, US Climate Envoy John Kerry](#) stated that the main constraint to climate action is a lack of money. In order to meet the climate goals, countries of the Global South (outside of China) will need to spend more than one trillion dollars a year by 2025, and more than two trillion dollars a year by 2030 on adaptation and mitigation. This is between 4 and 7 percent of their GDP.² It is hard to see how low- and middle-income countries can come up with those kinds of climate expenditures given other pressing needs in health, education and infrastructure.

It is not reasonable to expect that countries of the Global North will be able to provide low- and middle-income countries with some 2 trillion dollars a year to meet their needs for climate finance. According to Organization for Economic Cooperation and Development (OECD) data, total official development assistance amounts to less than 200 billion dollars a year. And this is funding that goes to overall economic development and to the social sectors. Even if OECD countries decide to stop all funding to general economic development and focus only on financing climate change activities, they will need to increase their funding by a factor of 10. This is difficult to imagine under all circumstances, but especially today when government budgets all over the world are stretched and increasing interest rates are raising the cost of public debt.

Could the World Bank be the solution? I do not think so. In its fiscal year ending June 2022, total World Bank Group financing was about 115 billion dollars, of which it counted about 32 billion dollars as climate financing. There are questions about how the MDBs measure those “climate co-benefits”. But even if we accept the 32-billion-dollar figure, it is miniscule when compared to the trillions of climate finance the world actually needs. Recently proposed reforms of the World Bank and an increase of its lending capacity are useful and should be implemented. But they are far from sufficient. The “evolution roadmap” presented in April 2023 would increase the World Bank’s lending capacity by \$50 billion over 10 years, or \$5 billion a year, when more than \$1 trillion is needed every year to tackle climate change.

Trying to reform large and unwieldy organizations to carry out the urgent task of fighting climate change will simply lead to more wasted time.

Increasing the International Bank for Reconstruction and Development’s (IBRD)³ sustainable annual lending to \$100 billion (i.e., tripling it) would require a reduction in its equity/loan ratio from 22 to 15 percent, which many argue

² For estimates of the financing needs see Songwe, Stern et al (2022) at: <https://www.lse.ac.uk/granthaminstitute/publication/finance-for-climate-action-scaling-up-investment-for-climate-and-development/>

³ IBRD is the arm of the World Bank that finances middle income countries.

would weaken its credit rating, and an increase in its capital from \$50 billion to \$150 billion,⁴ which its shareholders are unwilling to do. Moreover, as will be explained throughout this note, the World Bank's governance and its operating model will need to be completely overhauled if it is to focus on climate finance.

Trying to reform large and unwieldy organizations to carry out the urgent task of fighting climate change will simply lead to more wasted time. It would be easier and less time consuming to start from a clean slate. We need to act now, and to act bravely. This is one time when creating a new international organization makes sense.

Reason 2: Mobilizing Political Support

Our inability to act decisively enough on climate change reflects a political failure. There are two reasons why our political systems are failing us⁵. First, leaders around the world, whether in democracies or autocracies, prioritize actions that produce quick and tangible results for their constituents. Climate change is an intangible long-term issue, and our political systems are not well equipped to deal with it. Second, climate mitigation will require actions that will hurt some important groups in society, like coal miners or oil companies. Thus, powerful coalitions are forming at country level to block policies that would help mitigate climate change. There is consensus that losers from climate policies need to be compensated, to ensure a "just transition", but so far little has been achieved.

The rise in populist anti-environmentalism and declining trust in democratic institutions is an important obstacle to mobilizing political support. The two best examples of this are former Presidents Trump of the United States and Bolsonaro of Brazil. President Trump took the world's largest economy and greatest greenhouse gas emitter out of the Paris Agreement, and President Bolsonaro refused to provide adequate protection to the Amazon Forest, the world's most important carbon sink. Both presidents Trump and Bolsonaro are out of power right now, but they continue to represent an important group of "populist climate deniers" in their countries and around the world.

The relationship between states, markets and civil society must be at the center of a system of global climate governance.

Effectively responding to climate change would require some form of international governance. Some may argue that international governance already exists. After all, we have so many technical meetings and important summits to discuss climate. And there are scores of special funds around the world to finance climate related projects. The response to this argument is simple: where are the results? The crowded global institutional terrain is just a façade. There is no comprehensive

⁴ The calculation is from: <https://www.brookings.edu/wp-content/uploads/2023/04/KharasBhattacharya-2023.pdf>

⁵ For more on the political economy of climate change see Pickering et al (2020): <https://www.tandfonline.com/doi/full/10.1080/1523908X.2020.1703276>, and Nowell (2008):

global governance of climate change. And that is why the results are so discouraging. The last thirty years or so of multilateral summitry have had insufficient impact, if any.

The relationship between states, markets and civil society must be at the center of a system of global climate governance. That is why the proposed Green Bank should have private sector and civil society actors as shareholders, in addition to states. Moreover, the private sector and civil society shareholders should have an important voice in Green Bank's governance structures. Thus, Green Bank would provide a global platform for key stakeholders to agree on climate action and start implementing it.

Green Bank will have to face two challenges: (1) to create a strong global political coalition for fighting climate change that is only focused on the long-term goal, and is protected from different interest groups, and that can support change at the country level; and (2) to develop policies to implement mitigation measures, while compensating potential losers, and ensure their implementation.

Green Bank would be a key advocate for climate policies. Building global and national coalitions for the climate would be an important function of Green Bank. It would work in close partnership with the United Nations and other MDBs. The presence of civil society and private companies in its capital and governance structures--something that no other MDB has--would give it a clear comparative advantage. It would have to use this advantage to organize outreach activities at the global and country levels to build strong coalitions for climate. This would be necessary to inform the global public of the science of climate change, encourage politicians to take decisions that are important for the long-term survival of humanity, and counter the arguments of special interests and of populist climate deniers.

To be successful, Green Bank's advocacy would have to be based on credible science and good policy analysis. Green Bank would have to partner with the IPCC, universities and research centers and the United Nations. On the policy side, Green Bank would partner with the Bretton Woods Institutions and other MDBs.

It is important that policy work be cognizant of two important facts. First, the climate transition must be just. Green Bank should advocate for policies that protect the planet, but it must also develop social policies that support those who may be negatively impacted. Second, climate policies should not be seen as inconsistent with economic development and growth. Countries of the Global South prioritize development and poverty reduction. Green Bank would need to prioritize policies, programs and projects that are good for the environment and good for growth.

Reason 3: Protection from Host Country Politics

Most MDBs are impacted by political changes in their host country. This is especially the case for the World Bank where the host country, the United States, is also the largest shareholder and the one who nominates the Bank's president. Politics in the United States have an important impact on World Bank policies. Increasing political polarization in the United States--as in many other countries around the world--and widely divergent views on climate among leading political parties, makes this particularly problematic.

Green Bank's narrow mission, focused only on climate action, and its structure as a public-private partnership, should protect it from the types of political shocks that affect the World Bank.

The World Bank's position on climate has shifted twice over the last five years, reflecting the outcomes of United States elections. Under the Obama administration, when Jim Yong Kim was president of the World Bank, climate change was seen as a priority for the Bank, and it mobilized resources and efforts for climate action. After the election of Donald Trump, Jim Kim resigned and Mr. Trump selected David Malpass --who some accuse of being a climate denier--as president of the World Bank. The World Bank's support for the climate agenda declined during the Trump presidency, reflecting the US administration's position. After the United States pulled out of the Paris Agreement, World Bank documents stopped all mention of that agreement. The situation changed again after the election of Joe Biden. Now the World Bank is once more active on the climate agenda, even before a new president takes over from Mr. Malpass. But are we sure that this is going to last? What will happen if Mr. Trump or another populist climate denier wins the next American presidential elections?

Green Bank's narrow mission, focused only on climate action, and its structure as a public-private partnership should protect it from the types of political shocks that affect the World Bank. Moreover, it would be important to carefully select the host country, and/or the method of appointing Green Bank's president to minimize the impact of host country politics on its work.

Reason 4: Buy-in from the Global South

The countries of the Global South consider that climate change is a problem created by the Global North who are responsible for resolving it. Expanding the mission of the World Bank and other MDBs to climate financing is seen as a cause for concern by many in the Global South. The concern is that resources that would have been used for development will be diverted to climate. For people in the Global South, this is seen as the North trying to avoid responsibility and to make them pay, indirectly by diverting development assistance, for a problem that the North has created.

The issue is especially important because countries of the Global South have a weak voice in the governance structures of the great international financial institutions. They worry that expanding their mission will open the door for the Global North to push those institutions to finance mitigation

projects--that normally the North should have financed-- at the expense of health, education and food security projects that are much needed in the South.

It is useful to consider how the votes are divided in the World Bank, the largest and most important MDB. The G7 countries control nearly 40% of votes at the World Bank's Board of Directors.⁶ If we include the votes of smaller western donor countries⁷, we find that western donors control about 55% of votes at the World Bank. Compare this with the fact that the ten largest African shareholders--by far the largest borrowers--only control 3.5% of votes at the World Bank.⁸ Ethiopia, the second largest African country by population, only has 0.08% of the Bank's votes. Other countries of the Global South, outside of Africa, do not have much voice either. The largest group of emerging countries, the BRICS, only controls 14.29% of votes,⁹ less than the USA's 15.5%.

The creation of Green Bank as the main source of financing for climate, while maintaining the MDB's mission as fighting poverty, would provide a strong signal to the Global South that the Global North is not trying to shy away from its promise to provide adequate financial support for climate action.

This signal would be strengthened by ensuring an important voice for the Global South in the governance of Green Bank. A possible approach would be to divide the shareholders of Green Bank into three groups: (1) sovereign states of the Global North (donors); (2) sovereign states of the Global South (beneficiaries); and (3) private sector companies and civil society organizations (implementers). Voting rights within each group would be divided according to participation in capital. To be approved, any decision would need to be supported by a majority of each of the three groups. This approach is similar to the system used for electing the president of the African Development Bank, which requires a majority of regional members as well as a majority of non-regional members, thus giving non-regionals a de facto veto on the selection of the president.

The proposed system would provide the South with a much bigger voice in running Green Bank than what they have now at the World Bank. If countries holding a majority of shares in the Global South group disagree with a decision, they can block it. Donors and private actors would also have the same power. To be adopted, decisions would not require a consensus, which often blocks decision-making at some UN organizations. But they would require agreement between major donors, beneficiaries and private actors.

Many projects and programs fail because of a lack of ownership by the beneficiaries. I believe that by assuring countries of the Global South that development finance would not be diverted to climate, and by giving them greater voice in decision-making, the creation of Green Bank would help ensure greater buy-in by the South. North and South would be united in the fight against climate change.

⁶ USA (15.5%), Japan (7.3%), Germany (4.19%), France (3.85%), UK (3.85%), Canada (2.59%), Italy (2.53).

⁷ This includes countries such as the Netherlands, Spain, Switzerland, Belgium, Korea, Denmark, Sweden and Norway.

⁸ South Africa (0.76%), Nigeria (0.74%), Algeria (0.51%), Egypt (0.42%), Morocco (0.32%), Angola (0.18%), Cote d'Ivoire (0.18%), Kenya (0.15%), Senegal (0.14%), Ghana (0.11%).

⁹ China (5.65%), India (3.01%), Russia (2.90%), Brazil (1.97%), South Africa (0.76%).

Reason 5: Increasing Private Sector Funding

Business as usual that emphasizes public solutions and public money will not work. The vast majority of the needed climate financing will have to come from the private sector. Table 1 shows that close to 80 percent of the annual investment needs for climate will be for the energy transition and for agriculture and natural capital, and both are sectors where private actors should take the lead.

Table 1: Distribution of Annual Financing Needs (as of 2030 in billions of dollars)

	Lower Bound	Upper Bound
Energy Transition	1,290	1,745
Agriculture, Natural Capital	275	400
Loss & Damage	200	400
Adaptation & Resilience	200	250
Mitigating Methane	40	60
Totals (\$ billion)	2,005	2,855

Source: Songwe, Stern et al (2022)

Most of the investments needed for climate mitigation are private in nature, although of course they provide global positive externalities. These are projects for green energy, or for protecting the rain forest, or for agriculture that is resilient to climate change. These types of projects, which are most of the climate investments needed, can and should be done by the private sector. However, because of the positive externalities, public support in terms of guarantees or interest subsidies may be warranted. The World Bank's track record in attracting private investment is not brilliant. Over the last 20 years World Bank guarantees have only mobilized 42 billion dollars of private financing; that is a little bit more than 2 billion dollars a year. Other MDBs do even worse.

The creation of Green Bank will be helpful in two ways. First, by getting private actors to participate in the capital of the Bank, less would be required from governments. A possible target would be to have participation in Green Bank's capital shared 50-50 by sovereigns and private actors. This would reduce the pressure on governments' budget by half. Second, private participation in the governance of Green Bank would help guide the bank's activities to attract private investment to the Global South. Having business leaders on the Board of Directors of Green Bank would ensure that policies and programs correctly respond to the constraints to private investment in the Global South.

The presence of civil society representatives on the Board of Directors of Green Bank would ensure that social, environmental and governance concerns are discussed and well covered by the bank. It would increase the credibility of Green Bank and reduce the risk that it would end up basically serving the interests of large multinationals.

It is important that private businesses and civil society from the Global South are also represented in Green Bank. There are many successful businesses and active non-governmental organizations in the South, including in Africa, and they would have a great deal to offer financially, as well as in

terms of knowledge and political credibility to Green Bank. Hence a real effort should be made to encourage them to participate in Green Bank.

Reason 6: Innovative Financing, Responding to Bridgetown and the Promises of COP27

Green Bank would provide three types of funding: (1) capital participation and loans in support of private projects; (2) grants to countries hit by an extreme weather event based on a United Nations damage assessment;¹⁰ and (3) grants to other MDBs to subsidize the interest on adaptation loans. The first item--capital participation and loans in support of private projects--will comprise most Green Bank's activities and would be mainly financed by the sale of green bonds. The second and third items will need to be financed through grants from public and private donors, the sale of carbon credits, or the proceeds of an international green tax.

All MDBs finance their activities through bond sales. Green Bank will do the same. However, given the nature of its activities it will be selling green bonds, that should attract buyers with lower interest rates than regular bonds.¹¹ It will be important to get the general public, in the North as well as in the South, involved with climate work and supportive of what the bank is doing. By buying green bonds, and accepting lower yields, members of the public will feel involved and will be contributing to the effort to save our planet.

Many people are willing to forego part of the return on their investment, or put it at risk, if they believe that their funds will be used to support an important cause in which they believe. The [Rhino bonds issue in South Africa](#), which was supported by the World Bank, is a good example of how to attract this type of impact investment. This was a USD 150 million bond sale where bond buyers gave up a fixed return for a success payment at maturity based on the project's success at protecting the rhinos. The maximum that investors could expect to receive is the market rate. That is, investors bought those bonds not to make profit, they had much better alternatives if their only motive was profit. They bought the bonds because they believed in the cause that the funds will be supporting. The fact that their principle was guaranteed certainly helped. Investors were willing to risk the coupon payment in order to save the rhinos.

Green Bank could issue this type of "outcome bond" where the return on the bond is linked to the success of projects in reducing greenhouse gases. Using the same structure that has been used successfully in the case of the Rhino bonds, the cost of financing Green Bank's projects would be reduced significantly below the AAA borrowing rates at which the MDBs finance their activities now. Moreover, maintaining a AAA credit rating would not be a priority for Green Bank, allowing it to make a better use of its balance sheet and to take more risks. People will not be buying Green Bank bonds

¹⁰ Green Bank would not finance reconstruction projects, it would disburse budget support to countries hit by climate disasters.

¹¹ For an analysis of green bonds see: <https://www.imf.org/en/Publications/staff-climate-notes/Issues/2022/06/29/Sovereign-Climate-Debt-Instruments-An-Overview-of-the-Green-and-Catastrophe-Bond-Markets-518272>

because they provide a good rate of return. They will buy Green Bank bonds because they want to participate in the battle against climate change.

Green Bank would need access to grant financing for damage and loss—which would be the same as the trust fund that is called for by the Bridgetown Initiative, or the Loss and Damage Fund approved at the most recent United Nations Climate meeting, COP 27. Thus, Green Bank would be the instrument by which the international community can respond positively to the Bridgetown Initiative and fulfill the promises made at COP27. Moreover, Green Bank will also need grants to support public sector adaptation projects through buying down the interest on loans of other MDBs. Two grant funds, managed by Green Bank, would be established, and shareholders would be asked to contribute to them. Given the support for climate activities from the general public, Green Bank would also carry out general contribution drives—learning from the experience of organizations like UNICEF in this area.

Given the huge needs, it is probable that private and public voluntary contributions to the two grant funds will not be sufficient. Two additional sources of finance would be explored. First, Green Bank could sell international carbon credits. The mitigation projects financed by Green Bank would generate carbon credits, one credit for each ton of greenhouse gases reduced, avoided or destroyed. Some of those carbon credits could then be sold and the proceeds used to finance new mitigation projects. Two questions will need to be resolved here: (1) what proportion of the carbon credits that it is generating will Green Bank be allowed to sell—presumably the more carbon credits it sells the less will be its net effect on the environment? (2) How will the carbon credit be verified—a neutral outside agency will probably be needed to ensure that the accounting of carbon credits is correct and that the greenhouse gas reductions are additional and permanent.

Second, international green taxation could be used to finance Green Bank. The case for an international tax to support climate action is very strong. Fighting climate change is a global public good and it would make sense to finance it through a global tax. Moreover, it should be a tax on polluters. There are several possible candidates, including taxes on: (1) hydrocarbon production, (2) maritime transport, or (3) plane tickets. Those are huge global sectors with very high turnover. Hence, a small tax in percentage terms could yield a large revenue that could be used for climate action.

Green Bank would successfully mobilize voluntary and involuntary financing because people around the world want to protect their as well as their children's futures from the vagaries of climate change. Most people would willingly buy green bonds, make voluntary contributions and pay green taxes. For this strategy to succeed, people must be convinced that Green Bank is using their funds for the purposes agreed, and that the projects that it finances are making real contributions to the fight against climate change. The presence of civil society organizations in the governance structures of Green Bank could provide some assurance. In addition, it would be important for Green Bank to prioritize outreach activities to inform the public of its work and assure them of the efficient use of funds. Transparency will be essential.

Reason 7: Avoiding a Worsening of the Debt Problem

Many countries of the Global South are facing sovereign debt risks. MDBs, like the World Bank, lend directly to governments. Thus, increasing climate financing using existing MDBs could potentially exacerbate the debt problem. On the other hand, Green Bank would only finance private projects without sovereign guarantees, or it would provide grants. It will not add to existing sovereign debt.

Foreign debt risks in the Global South have been rising for several years,¹² and the World Bank and other international institutions have been calling for debt restructuring for the most vulnerable countries. Debt stocks remain relatively low, but the cost of servicing the debt is increasing fast because of the rise in real interest rates and the appreciation of the US dollar—since most debts are denominated in dollars. As a result, Albinet and Kessler (2022), estimate that thirty-five countries—of which eighteen are in sub-Saharan Africa—will cross the debt risk threshold in the coming two years. Lower-middle-income countries tend to be the most vulnerable, with the median debt service to revenue ratio for this group of countries reaching 15 percent. Countries will need to roll over their debt, usually by selling bonds. However, as a result of the overall financial situation and worries about a sovereign debt crisis, many countries are cut off from the bond market.

In the past—e.g., during the 1980s debt crisis—debt restructuring was relatively straightforward because it involved negotiations with the Paris Club of official creditors and the London Club of banks. But today, the debt structure of the Global South is quite different. It includes non-Paris Club official creditors (e.g., China) who often hold a larger share of sovereign debt than Paris Club creditors. It also includes large numbers of private bond holders. Getting agreement among those disparate official and private creditors on a debt restructuring can be quite difficult, as the negotiations on the Zambian debt has shown.

Asking the World Bank and other MDBs to increase lending for climate would probably make a difficult debt situation even worse. Green Bank would help in two ways. First, by financing only private projects it would finance climate actions without adding to sovereign debt. Second, by buying down the interest on MDB loans for climate adaptation it would lower the cost of those loans and thus help make countries' debt more manageable.

Reason 8: Enhanced International Cooperation

In a recent [Project Syndicate article](#), George Soros summed up the current state of the world as follows: “while two systems of governance are engaged in a fight for global domination, human civilization is in danger of collapse because of the inexorable advance of climate change.” Soros may be a polarizing figure, and quite a few people—especially some on the populist political right—tend to disagree with him. But this statement does ring true.

¹² This section relies heavily on the work of Kessler and Albinet (2022) which can be found here: <https://findevlab.org/the-coming-debt-crisis/>

Competition between Western countries and China has led to a move towards de-globalization and calls for near-shoring and friend-shoring--mainly calls to reduce the West's reliance on Chinese industry. Russia's invasion of Ukraine has led to an open conflict between the West, as it provides arms and training to the Ukrainians. The world appears to be moving back to something resembling the cold war era, although the war in Ukraine is anything but cold.

This rivalry between western democracies on one side and China and Russia on the other side is also playing out in the Global South. China has become a major source of finance and technology to countries in the South and, in return, Chinese companies have access to mines and to important government contracts, replacing western companies and businesses from former colonial powers. Russia has become a major source of defense equipment for countries in the South, and its Wagner Group of mercenaries is very active in Africa, especially in the Sahel and the Central African Republic where it is replacing French military cooperation.

Under the circumstances it is hard to see how the two sides can agree on development policies and a joint approach to supporting countries in the Global South. Their goals and approaches are so different. Relations on the boards of the MDBs are bound to be adversarial. In most cases, since the West's voice in the various governance structures is much stronger, decisions are made with minimal consultation with Russia and China. The goal of global partnership and coordination is not being served.

Climate change is a challenge for all of humanity East and West, North and South. It is a possible area where all countries can put their rivalries aside and focus on cooperating to save human civilization. Green Bank could be a platform for cooperation between rival powers, and thus make a small contribution to better understanding and a reduction of tensions.

Concluding Remarks: Four FAQs

Four questions are often raised whenever the idea of a Green Bank is discussed, these are: (1) don't we already have many climate funds? (2) can we really separate development from climate? (3) won't it take too long to set up a new institution? and (4) can Green Bank be set up as part of the World Bank Group?

It is true that there are many climate funds, in fact too many, and most should be closed.¹³ Today, there are some 99 climate funds operating around the world.¹⁴ The picture that comes from

¹³ See: <https://ferdi.fr/en/publications/climate-funds-time-to-clean-up>

¹⁴ For a review of climate funds see OECD at: <https://qdd.oecd.org/subject.aspx?subject=climatefundinventory>

reviewing the panorama of climate funds is of many small activities that are not coordinated and do not add to anything near what is needed to deal with the climate crisis.¹⁵

Green Bank will not be just another climate fund. It would be different because it would be a bank, raising resources and operating at a much larger scale than any of the climate funds. In fact, Green Bank could be seen as replacing the existing system to ensure three results: (1) that climate activities are at scale, (2) that they are well coordinated, and (3) that governance of climate work is inclusive and transparent.

Development and climate are clearly linked and should not be separated. Extreme weather events impact people and infrastructure. They have negative humanitarian and developmental effects. Rising temperatures and increasing water scarcity affect agriculture development and food security. Rising sea levels are impacting cities around the Global South. At the same time, green projects in energy and agriculture have positive developmental impacts. Financing mitigation is win-win, win for the climate and win for development; and financing adaptation is clearly a win for development.

The creation of Green Bank does not imply that we are separating climate from development. Green Bank will work closely with the Bretton Woods Institutions and regional MDBs. The World Bank would continue taking the lead on development work and coordinating the work of other institutions—including Green Bank—through its support to country platforms. It will continue to produce Country Climate and Development Reports (CCDRs) that will set the overall framework for climate and development interventions at country level. The World Bank and regional banks will continue financing adaptation and resilience projects with interest rates that are subsidized through Green Bank. Moreover, the World Bank and the International Monetary Fund will continue taking the lead on policy work, including climate policies, with Green Bank playing a supportive role.

The idea behind Green Bank is to protect development finance while mobilizing additional resources for climate. It is not to separate climate and development work. The complementarity between climate and development would be ensured through the partnership between IFOs and Green Bank.

Setting up a new institution could take up a long time if an approval of all possible shareholders is required before starting operations. But it is not necessary to get the support of all the 193 member countries of the United Nations to start Green Bank. The support of a critical mass of countries in the Global North and Global South as well as private actors would be sufficient to begin operations, and hopefully others would join as Green Bank develops a track record of success. In addition to participating in Green Bank's capital, member countries will need to agree to the use of carbon credits by Green Bank and implement agreed green taxes. Moreover, Green Bank would not need to

¹⁵ For an analysis of why the current system is unable to mobilize sufficient private financing see: <https://ferdi.fr/dl/df-WgoecYd2Yzkf1M9sg4o3v4qV/p323-mustering-the-private-sector-for-development-and-climate-in-the-global.pdf>

develop new policies and processes from scratch. It could start by adopting policies and processes of existing MDBs while adapting them to its special needs.

Creating Green Bank within the World Bank Group has advantages, but also raises some concerns. The advantages are that it could start operations even faster as it would be supported by the World Bank's infrastructure, knowledge and staff. But it raises concerns around the governance structure and vulnerability to US politics. If it is possible to maintain (1) a shareholding structure open to the private sector and civil society, and (2) a governance system that gives equal voice to countries of the Global South, countries of the Global North and private actors, while shielding Green Bank from American politics then Green Bank could be made part of the World Bank Group. Otherwise, it is better for Green Bank to remain independent.

In the [press release accompanying the 2023 IPCC report](#), IPCC scientists said: "accelerated climate action will only come about if there is a many-fold increase in finance. Insufficient and misaligned finance is holding back progress." They also added: "Political commitment, coordinated policies, international cooperation, ecosystem stewardship and inclusive governance are all important for effective and equitable climate action."

Green Bank would be an important contribution to climate action. It would help increase climate finance many-folds. Perhaps as important it would mobilize political commitment, promote international cooperation and provide a framework for inclusive governance with a strong voice for countries from the South and the North, as well as for the private sector and civil society.

We need to act now before it is too late.

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