

# What's The World Bank Good For?

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# Introduction

- “What’s the World Bank Good For? Global Public Goods and Global Institutions”, 2017  
[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2988848#](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2988848#)
- (Published in French): “Biens Publics Mondiaux Et Institutions Internationales: Quel Avenir Pour La Banque Mondiale?” *Revue d'économie du développement*, 2016/3, Vol. 24, pages 9 à 24.
- “The World Bank in the Era of Trump.” VoxEU, 13 June 2017.  
<https://cepr.org/voxeu/columns/world-bank-era-trump>

- Big picture question: How is the global multilateral institutional architecture to be reformed to better address current global problems?
- More specific question: How is the World Bank to be reformed?
- Even more specific question: What does it mean for the Africa Region(s) of the World Bank?

- In answering this question, a constant interplay between:
  - Tabula Rasa, de novo, ideal design of global institutional architecture.  
vs
  - Realpolitik of taking institutions as they are and moving from there in feasible directions.

- Introduction
- The Tabula Rasa of 1944
- 1944 and 2024
- IPG Theory and the World Bank
- The Dangers of Climate Change (for the World Bank)
- Conclusion

# The Tabula Rasa of 1944

- The D-Day landings started on 6 June 1944.
- The British Delegation to Bretton Woods, led by John Maynard Keynes, sailed from Britain on 16 June 1944, 10 days after the D-Day landings.
- On board for a week, they worked on what have become known as the “Boat Drafts” of the British proposals, one on the IMF and one on the Bank, in response to the latest versions of the American proposals which they had just received.

- “....almost single-handedly, Keynes was writing a detailed proposal for the shape of the World Bank...Keynes suddenly found himself possessed with a new-found enthusiasm for the Bank—to the extent that his colleagues started to wonder if he had forgotten about the Fund entirely.” (Ed Conway, *The Summit*).
- In fact, there was another reason for this focus on the Bank.

- The detailed work at Bretton Woods was to be done through “Commissions.”
- Commission I was on the IMF. Rightly thinking that this would be the most important, the Americans insisted it be chaired by their man Harry Dexter White (himself the right hand man of Treasury Secretary Henry Morgenthau).
- Commission II was on the Bank. Keynes was appointed Chair of this (largely to get him out of the way of Commission I).
- [Commission III, now forgotten, was on Other Means of International Financial Cooperation, and was chaired by Eduardo Suarez of Mexico.]

- Keynes, opened Commission II on the Bank for Reconstruction and Development, on 3 July, 1944.
- His opening remarks are quite extraordinary. They are only three pages long, but they combine soaring rhetoric with a clear analytical diagnosis of the problem, a sharp conceptual solution, and some operational principles as well.
- The central problem was of course the sharp mismatch and barriers between the sources and uses of investment funds. A platform was needed to intermediate.

- “...it will be authorised in proper cases and with due prudence to make loans to the countries of the world which have suffered from devastation of war, to enable them to restore their shattered economies and replace the instruments of production which have been lost or destroyed.”
- “...as soon as possible, and with increasing emphasis as time goes on, there is a second primary duty laid upon it, to develop the resources and productive capacity of the world, with special attention to the less developed countries....”

- “Herein lies the novelty of the proposals which will be submitted to you....The proposal is....that all the member countries should share the risk in proportions which correspond to their capacity. The guarantees will be joint and several, up to the limit of any members' subscription.”

- “...I fancy that the underlying conception of a joint and several guarantee of all the member countries throughout the world, in virtue of which they share the risks of projects of common interest and advantage even when they cannot themselves provide the lump sum loan original required, thus separating the carrying of risk from the provision of funds, may be a contribution of fundamental value and importance ....”

- “The bonds [issued by the World Bank] will be good for several different reasons. In the first place, they will have behind them the vast resources of the Bank available in gold or free exchange. In the second place, the proceeds will be expended only for proper purposes and in proper ways, after due enquiry by experts and technicians....In the third place, they will carry the guarantee of the borrowing country....the consequences of improper action and avoidable default to so great an institution will not be lightly incurred.”

- Keynes concluded his Chairman's remarks by the type of flourish he was well known for, saying that the Bank would be central to “those difficult, almost overwhelming tasks which lie ahead of us, to rebuild the world when a final victory over the forces of evil opens the way to a new age of peace and progress after great afflictions.”

- So, what did we get from the 1944 Tabula Rasa?
  - The brilliant intermediation design of the sovereign loan backed up by “joint and several” guarantees and credible conditionality, to address the dominant problem of the time—the barriers between sources and uses of investment funds.
  - A single global institution as the platform, whose governance reflected the economic (and military) power structure of 1944.

# 1944 and 2024

- If Keynes were to set sail today and produce the proverbial boat draft, what would he see in the world of today versus that of 80 years ago?
  - Massive flows of private funds from sources to uses.
  - Plethora of multilateral development banks alongside the World Bank, for all of whom the core instrument is still the sovereign loan as envisaged by Keynes.
  - And, of course, a host of cross-border spillovers not envisaged at all by Keynes in 1944.

- No particular problem **at an aggregate level** of barriers to flows of funds between sources and uses—trillions of dollars of private sector flows.
- However:
  - For a small number of, typically the poorest, countries it is still 1944. For these countries, an intermediation platform is still needed.
  - For the next rung up of countries, access to private funds is better but the platform can still help by giving additional confidence.
  - For some countries, there might be too easy an access to private funds, leading to recurring debt crises.

- Many if not most countries in sub-Saharan Africa satisfy one of these conditions, so the intermediation platform role envisaged by Keynes is still relevant for this part of the world.
- All of the “standard” issues will continue to be relevant, for example and importantly, the interplay between lending and knowledge. [This could be the topic for a seminar all by itself].

- How would the Keynes of 2024 view the proliferation of institutions, all of them deploying the same instrument in the same country?
- He would be guided by the principle of subsidiarity, which says that location of an institution to address a problem should be as close to the problem as possible.
- From this perspective, a Tabula Rasa for 2024 would find it difficult to justify having an Africa Region of the World Bank and an African Development Bank.
- But of course we do not have a Tabula Rasa and we have to move from where we are. From this perspective we should use the global institution best we can while strengthening regional institutions.

- Of course what Keynes would see today, totally missing from his otherwise brilliant 1944 statement, are the range of cross-border spillovers which structure our discourse now.
- There is no mention in 1944 of climate change, common forest cover, river systems, infectious diseases, financial contagion, migration etc etc.
- Let us turn now to this question.

# IPG Theory and the World Bank

- Consider a group of economic agents each of whose actions impact on others. In other words, externalities (negative or positive).
- This coordination failure means **aggregate wellbeing** across all agents could be much higher if they coordinated and undertook actions which internalized the externality.
- However, note that this is true only of aggregate wellbeing. There could well be losers and gainers—it is just that the gains of the gainers exceed the losses of the losers.
- So if the losses of the losers are to be made good, the gains of the gainers will have to be “taxed” in some fashion and transferred to the losers.

- It is the coordination platform—which assesses the problem, allocates the actions, and undertakes the compensation, which is the Public Good (technically, it is non-rival and non-excludable).
- No single agent has the incentive to wholly set up the platform, so there is underinvestment in the coordination platform.
- Hence the call for an institution which does the job.
- When the agents are countries, enter the World Bank?

- Not so fast! Two issues:
  - Subsidiarity—the institution should in principle be closest to the problem. No particular reason, in terms of Tabula Rasa design, why a four-country forest cover problem, or a six-country river basin problem, should jump straight to a global institution. Regional institutions should be the first step. Of course, pragmatically we have the institutions we have as of now, etc etc.....
  - Sovereign loan instrument: Not particularly well suited to situations where benefits are diffuse and not easily identified as accruing to a particular country. Grant instrument is better suited in this situation. Again, we have the dominant instrument we have, so pragmatically how to modify it appropriately?

# The Dangers of Climate Change (for the World Bank)

- The IPG theory and framework could be applied to a number of different topics—tax competition, labor flows, financial contagion, knowledge, etc
- But here I want to focus on Climate Change.

- Consider the now common place distinction between adaptation and mitigation.
- I would argue, as others have, that adaptation is a “standard” development issue, akin to one that would arise if a country’s terms trade moved against it for exogenous reasons, or there was a tourism collapse because of change in preferences, or technological trends made earlier reliance on labor intensive development more difficult, or portfolio capital flows were impacted, or new developments in health technology.....etc etc.

- Climate Change will have country specific effects and these will change tradeoffs and will need to be thought through carefully, but presumably as carefully as other tradeoffs and options were always thought through.
- And the sovereign loan instrument is as useful (or as problematic) as it ever was and in similar ways, as the key instrument of an intermediation platform between sources and uses of funds for countries where the barriers continue to dominate.
- For adaptation, then, the role of the World Bank, its challenges, scope for improvements etc remain in the same frame, albeit specificities are altered this way or that, perhaps even considerably.

- The real issues for the World Bank arise from the mitigation part of the story.
- Emissions from each country are a true global externality.
- IPG theory then says that there is the need for a global platform to mitigate this externality by assessing the actions (emissions reductions) needed by each and every entity to maximize overall global benefit, to implement these actions in each entity, and to compensate appropriately those who lose in the short term for the long term gain of the whole.

- Can the World Bank be the institution that steps into this global role?
- In answering this question the issue is raised again of the appropriateness of the sovereign loan instrument for this task, and the importance of expanding grant instruments.
- We can and should debate the instrument issue. For example, on grants, (i) as now, extent of transfer of lending income to grant making capacity and (ii) the acknowledged capacity of the Bank as a steward of trust fund resources, are important components of design.
- But there is another issue which is perhaps more fundamental.

- Consider the following.
- A ton of carbon is a ton of carbon no matter which entity emits it. And a ton reduction is a ton reduction in the global total no matter which country does the reduction.
- But the costs of reduction are very different from country to country.
- Global equity requires that the reductions be focused on those who can best bear the burden of that reduction—even after everything possible has been done to lower the costs per unit of reduction.

- More generally, what is needed is a global institution that assesses and implements the reduction burden on EVERY country of the world.
- The World Bank as currently constituted and as it currently operates is NOT that institution.
- The World Bank has operations ONLY in developing countries (Part I/Part II divide).
- It does NOT have operations in or policy dialogue with the richest countries of the world, which together are significant emitters currently and have certainly been dominant historically.

- Recall that a ton reduction from any country is equivalent to a ton reduction from any other country as far as the global stock of carbon is concerned.
- In this frame there is a real danger that the World Bank is seen once again as the water carrier for the rich countries of the world, using its leverage on financing other, non-climate change related, development investments to get emissions reductions from poor countries, thereby letting rich countries off the hook.
- [I say “once again” in reference to the 1990s when, before HIPC and other debt relief initiatives, the World Bank and the IMF were seen on the ground, especially in Africa, as the debt collectors of the rich world]

- Of course the counter is that each country sets its own NDC and the Bank is merely helping the country to attain the goals it has set.
- But the spectre of greater pressure on poorer countries to achieve their NDCs, and indeed to increase their NDCs as part of their national plans and dialogue with the Bank, with no corresponding process between the Bank and rich countries, will sow distrust.

- The pressure can come from the CO<sub>2</sub> emissions component of the Corporate Scorecard, which only applies to Bank supported countries.
- China, India and Brazil can tell the Bank to get lost.
- Poor African countries are another story.
- The disgraceful situation of an African country attempting to bend the arc of emissions towards its NDC by shifting from coal to natural gas, and yet criticized by a rich country for not doing enough to eliminate emissions, even while that rich country is itself bringing back coal fired power stations to deal with current exigencies, is not good on substance and certainly not good on optics.

- Once this narrative takes hold it is difficult to shake off, and it will taint and poison the country dialogue, where even sensible suggestions from the Bank (on human development for example) can be rejected by vested interests on grounds of the Bank being a tool of rich countries.
- [As happened with debt in the 1990s].

- I see this scenario as being a clear and present danger to the ground level operations of the Bank, particularly in Africa.
- What can be done to address the issue, given that we are stuck with the institutional design we have, where the Bank does not have operations in rich countries?
- We need to discuss and debate this question, but here are three suggestions.

- First, the Africa Region(s) should take the lead in publicizing the fact of how small Africa is in the global flow (even less in the stock) of emissions. This would require one to be on top of the analytical work (not necessarily do the work itself) while doing proactive advocacy.
- Second, for emission reducing country programs and projects, the Region should be on top of the money metric global value of such reduction. Current estimates of the global social cost of carbon (hence the global benefit from reducing emissions) center around \$50 per ton, but the range can go as high as \$190 (latest EPA proposal).
- To set against global benefit, and perhaps most important, the full social cost of emission reductions for the country in question needs to be calculated by comparing the BAU scenario with the proposed emissions reduction path. The demand from the country and for the country from the Africa Region(s) has to be to meet this cost, PLUS payment for the global benefit of emission reduction.

# Conclusion

- Let me retrace the narrative of this talk.
- Compared to 1944, Keynes's brilliant design of an intermediation platform with a sovereign loan to bridge the barriers between sources and uses of funds for national purposes is still relevant, but only for a much smaller group of (largely the poorest) countries. For these countries, the “standard” issues, such as conditionality, lending versus knowledge, outcome orientation, etc, continue to be relevant.
- The spread of MDBs since 1944 raises the subsidiarity issue. With a tabula rasa design it is not clear why a global institution and a regional institution with the same core instrument should in effect be duplicating their activities.
- However, we are not now “present at the creation” as Keynes was in 1944. We are where we are in 2024 and have to move forward from there. The duplication with MDBs will have to be managed the best it can while the Regional Development Banks are strengthened to eventually take over country specific operations in the long run.

- Compared to 1944, when they were completely missing from Keynes's conceptualization, cross border spillovers are dramatically more prominent in 2024.
- Mechanisms to address these spillovers are International Public Goods and there is a need for these platforms.
- However:
  - The core instrument of the MDB system, the sovereign loan, is ill suited as the vehicle for actions whose benefits are diffused across borders. Far greater use of grant instruments will be needed.
  - Once again, in an ideal design, subsidiarity demands that institutions closest to the cross-border spillover handle that spillover. But the reality is that we will have to manage with the duplication that we have in the foreseeable future.

- The major cross-border global spillover is clearly Climate Change. The implications for the World Bank depend on adaptation versus mitigation.
- While there are of course major specificities, the adaptation part of the story is in the same frame as development in general, and the same considerations apply. The role of the Bank in a sense remains unchanged, perhaps even enhanced, and the debates and discussions on country specific interventions will continue apace (eg on conditionality, projects versus programs, results based financing, outcome orientation, knowledge versus lending, etc etc).

- What global mitigation needs is a truly global institution which can speak to and have operations in all countries of the world, rich and poor. But the World Bank by design only has operations in poor countries.
- The major danger to the Bank comes from being seen as, and being, an instrument for mitigation focused on poor countries, which then becomes seen as letting the rich countries off the mitigation hook. This perception and reality will significantly taint the World Bank's country-specific non-mitigation operations as well.

- If the Bank, and Bank staff, and particularly Bank Africa staff, are painted into the corner of having to show enhanced lending on mitigation to meet corporate score card targets, they will have to work pro-actively (albeit sensitively) to:
  - Show how small African countries' emissions are relative to the big rich country emitters.
  - Ask for payment for global benefits of emission reductions based on the social cost of carbon.
  - Ask for full compensation for the costs of emission reductions relative to the non-reduction trajectory.

Thank You!