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Loan Reform

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Introduction

What would you do if you needed half of your income to pay for your water supply? Specifically, what would you do if the high costs were sprung upon you by a large multinational corporation and an institution that pushed for the privatization of public goods?

State privatization *– transfer of government services or assets to the private sector*

After the fall of the Soviet Union in 1991, the World Bank advocated for an agenda of **state privatization**, where a for-profit company manages utilities, such as garbage collection, which advocates argue to be more "efficient" than a government-funded service. For example, a prominent example of state privatization in the United States is the system of privately run prisons, which are widely criticized for having an incentive to jail and house more inmates (Weybright, 2020).

However, in the case of Bolivia, the World Bank refused to loan to a water co-operative in the city of Cochabamba. Instead, the World Bank awarded Aguas del Tunari, an international company, the right to manage the city's water system. Price hikes soon followed as the company sought to capture a 15% profit while being able to negotiate with the Bolivian government as the sole contractor of the project. Because of the bargaining power, the company put little emphasis on its public image or the welfare of the citizens accessing the water (Kingsley).

The protests in Cochabamba became known as the "Water War," leading to marches and demonstrations throughout the city.
Source: Terra Justa

In early 2000, nearly ten thousand protestors marched in Bolivia and protested for the reversal of privatization. Soon, the government agreed to the protestors' demands to cut the exorbitantly high water prices faced by the cities. The World Bank's policy, intended to lift the community, failed.

The World Bank found itself in many similar thorny development instances in the 1980s and 90s, leading developing countries to question the institution's integrity as a Western-run manipulation tactic to advance **neo-liberal** and globalist policies. As the economic

balance of the world's axis continues to sway away from Europe and the West, many question the institution's efficacy in achieving its main goal: economic development.

Neo-liberal – a political approach that favors free-market capitalism, deregulation, and reduction in government spending.

The future of the World Bank, specifically related to potential loan reform, remains a pressing question. Many states desire systematic changes to prevent situations like the Cochabamba "Water War."

EXPLANATION OF THE ISSUE

Historical Development

Formation

The World Bank, known originally as the International Bank for Reconstruction and Development (IBRD), was established in 1944 during the Bretton Woods Conference in New Hampshire, United States, during the end of World War II. The conference brought together representatives from 44 nations, including the United States, the Soviet Union, and Great Britain, to devise a system that would foster economic stability and reconstruction after the devastation of World War II. John Maynard Keynes, one of the most famous economists of the 20th century, witnessed the negotiations of the Treaty of Versailles after World War I, and he sought to prevent the same economic policies put in place, such as the **Dawes Plan**. Keynes noticed that Germany, part of the Central Powers, could not pay the extensive reparations after World War I, which could lead to economic turmoil, such as hyperinflation. The World Bank was one of the conference's key outcomes, and its primary goal was to finance the reconstruction and development of war-torn countries. (Kirshner, 2019).

***Dawes Plan** – The arrangement for Germany's payment of reparations after World War I.*

Pedagogical Approach

In its early years (1946-1967), the World Bank primarily focused on providing financial assistance to reconstruct war-ravaged Europe through loans and grants. However, once the United States enacted the Marshall Plan, a $13.3 billion aid package to Europe, the Bank's mandate expanded to include supporting the development efforts of developing countries across the globe, including supporting sectors such as power, irrigation, and transportation. The Bank established the International Finance Corporation (IFC) and the International Development Association (IDA) to provide resources to the private sector and credit-risk members (World Bank, 2021).

The Bank began to shift its attention to addressing poverty in the period 1968-1981. Robert McNamara, former president of the World Bank, advocate a dual mandate of "[accelerating] economic growth

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and [reducing] poverty." McNamara shifted away from the Bank's focus on infrastructure to lending into new sectors, including water sanitation, education, and rural development. This renewed focus on development largely mirrors the mission of the Bank today rather than an infrastructure-based approach, such as China's **Belt and Road Initiative** (World Bank, 2021).

McNamara also served as the Defense Secretary of the U.S. during the Vietnam War.

In the 1980s and 90s, the Bank started to promote structural adjustment loans, meaning that aid distributed by the World Bank would come with certain conditions, such as fiscal or tax reform. A similar program, spearheaded by the IMF, is known as "conditionality" loans. The Bank also became involved in investment in former member-states of the USSR after 1991, created the Global Environment Facility to focus on the environment, and launched the Heavily Indebted Poor Countries debt initiative in 1996 to reduce poverty further. Many of the Bank's controversial lending practices, such as the case for Bolivia, occurred during this period of the Bank's history (World Bank, 2021).

After structural reform, the World Bank pivoted to "conflict prevention, post-conflict reconstruction, and assistance for countries to redirect their economies after major political change" in the mid-1990s. The Bank also tackled government corruption and recently started expanding Sustainable Development Goals to tackle climate change with community-based development to protect vulnerable populations (World Bank, 2021).

***Belt and Road Initiative** - global infrastructure development program developed by the Chinese government in 2013 to invest in more than 150 countries and international organizations.*

Criticisms

However, the World Bank has also been criticized over the years regarding its loan programs. One common critique is that the institution's loans prioritize economic growth and infrastructure development over social and environmental concerns. Critics argue that these projects sometimes result in adverse environmental impacts, displacement of communities, and inadequate consideration of social welfare. Bolivia's water crisis would also be a prime example of this argument.

Another criticism is that the Bank's loan programs have been accused of perpetuating a cycle of debt for developing countries. Concerns about the conditions attached to loans have been raised, often requiring recipient nations to implement specific economic policies and reforms. Detractors argue that these conditions may lead to economic austerity, worsen income inequality, and limit the sovereignty of borrower countries in decision-making processes. This debt crisis is especially accentuated by higher interest rates (debt service payments) and inflation after the COVID-19 pandemic (Wheatley, 2022).

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Scope of the Problem

The Bank's busy history since the cumulation of World War II and broad mission raises many questions about the practices of the Bank, but also many areas to reform. When examining World Bank loan reform, it is critical to understand the context behind conditionality, leadership representation, and climate change.

Conditionality

The World Bank's period of promoting structural adjustment loans started in 1989 with the **Washington Consensus**, which promoted privatization and receding state interventionism in economies, especially in Latin America. The Washington Consensus, in effect, set the "conditions" of structural adjustment loans, including, but not limited to, reforming tax policy, reducing national budget deficits and trade frictions, and abolishing barriers to foreign direct investment. An example of these neo-liberal policies being implemented similarly by the IMF occurred in Thailand after the Asian Financial Crisis. In exchange for a loan to aid economic recovery, the IMF conditions included implementing a floating currency, increasing interest rates, and strengthening Thai financial institutions. Subsequently, the hardship of the financial crisis and resentment towards the IMF as "neocolonialism" led Thaksin Shinawatra into power, who was eventually displaced by a coup in 2006. (Irwin and Ward, 2021).

***Washington Consensus** – a set of ten economic policy recommendations to "standardize" for crisis-wrecked developing countries in the 1980s and 90s*

After criticism from Latin America and Southeast Asia, the World Bank remains largely pivoted away from conditionality today. A paper by Cormier and Manger (2018) finds through quantitative text analysis that elements of the Washington Consensus were eliminated uniformly across loans for over 20 years. Cormier and Manger find that these neoliberal policies do not even appear for the lowest-income countries as the most significant targets of structural reform (Cormier and Manger, 2018).

Thaksin Shinawatra, former Prime Minister of Thailand, wanted to soften the conditionality of loans given to his country after the Asian Financial Crisis.
Source: Bangkok Post

Since 2008, the arguments over conditionality divorced into four positions: economic liberal, "altermondialism," developmental state, and economic nationalist. The economic liberals continue the tradition of neoliberalism, while the altermondialists support open economies but want regulation to reduce income inequality between countries. The developmental state advocates are torn between whether countries should develop export or import-heavy economies, while economic nationalists prefer protectionism and insulating economies from global interactions. In short, even though the Washington Consensus is over, there remains much debate over the future of World Bank loans (Peterson, 2022).

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Leadership Representation

One of the chief factors driving low- and middle-income countries to discontentment with the World Bank is the Western-dominated status of the organization, which advances feelings of neo-colonialism and economic exploitation. The legacy of Bretton Woods forming the institution means that the World Bank President is always a US citizen, and the US and other G7 countries control more than half of the votes in the agency. Voting power was originally allocated according to each country's financial shares. Since the West was the most economically advanced in the 20th century, this manifested in a power imbalance between the Global North and South. Both the power structures in the World Bank and IMF draw a stark contrast to the United Nations, which led UN Secretary-General António Guterres to call for voting reform at both agencies in 2020 (Hickel, 2020).

UN Millennium and Sustainable Development Goals *– a policy implemented by the UN in September 2000 that committed to a set of eight measurable goals, ranging from halving extreme poverty and hunger to promoting gender equality and reducing child mortality by the target date of 2015.*

A paper by Weaver et al. (2022) finds that even with a push to diversify the leadership of the World Bank, the mid-level bureaucrats remain largely from high-income countries and receive training at Anglo-American institutions. The main officials also largely remain man-dominated, and there exists little background of officials with multi-diverse perspectives by factoring in gender, country of origin, and economics training. These statistics indicate that the World Bank remains behind tenets of the **UN Millennium and Sustainable Development Goals**, which advocated that development economics should become more interdisciplinary and include non-economic objectives (Weaver et al. 2022).

Some of the criteria that the World Bank lists for employment are a wide geographical basis of the candidate, usually a master's or Ph.D. degree, and relevant work experience. Though the criteria appear open-ended, economics academia is still dominated by US and English institutions, which are also the primary research hubs for professors and aspiring academics (World Bank).

Climate Change

In line with the UN Sustainable Development Goals, the World Bank has been more vocal about climate change, particularly in developing its Climate Change Action Plan (CCAP) for 2021-2025. Again, deviating from the Washington Consensus, the Bank is committed to supporting climate finance through energy, agriculture, food, and cities. The World Bank first focused on climate change financing through the Global Practice for Urban, Disaster Risk Management, Resilience and Land (GPURL) in 2011, which included financing 234 projects amounting to nearly $35 billion from 2011-2021. These climate policies support the Bank’s Green, Resilient, and Inclusive Development (GRID) approach, which pursues poverty eradication and shared prosperity (World Bank, 2021).

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The World Bank estimates that the world needs $90 trillion of climate financing.

However, although the Bank reports high amounts of climate financing, it needs more attention over transparency in its lending practices. One concern over transparency is the Bank's budget loans, which the Bank provides to countries that are not specified for any specific project, and the Bank subsequently does not track how the money is utilized. Also, the Bank faces critique for financing projects, including gas power plants, which the Bank considers a transition from dirtier energy sources, such as coal. Worse yet, the World Bank projected that the world needs $90 trillion to transition to a low-carbon economy, aligning with the Paris Agreement (Andreoni, 2022).

Free rider *– someone who wants others to pay for a public good (such as the mitigation of climate change) but does not want to contribute themselves to the solution (e.g., by reducing their own pollution)*

One of the most significant issues of climate agreements is compliance, especially the economic concept of **free riding**. Since international functions rely on cooperation, countries are incentivized not to comply and benefit from other countries reducing their climate admissions, pushing the world further towards a climate-safe environment. For example, assume that two countries, one with a heavy carbon-heavy economy and another with a moderate fossil-fuel economy, agree to reduce carbon emissions. Since there is no penalty for not complying with the agreement, the heavy-carbon country would rather not de-carbonize and instead benefit from the moderate fossil-fuel economy reducing its carbon emissions. In essence, the carbon-heavy economy is free-riding off the compliance of the average fossil-fuel economy.

The World Bank prevents free riding by directly earmarking funds for certain sectors, but free riding remains a complex problem in the Kyoto Protocol (1997) and the Paris Climate Agreement (2015). One Nobel Prize Professor, William Nordhaus, proposed his concept of a "climate club." In this climate club, each country would agree to a set level of carbon emissions, and tax penalize non-member countries by taxing imports. This penalty would induce nations to join the climate club and allow for strict climate change protocol adherence (Nordhaus, 2015).

Since the World Bank retains control over how they distribute funds, the organization has enormous sway in influencing climate financing or supporting a policy such as a climate club.

World Bank Action

With conditionality, leadership representation, and climate change challenges, the World Bank has faced significant pressure to pursue structural reforms, tasked by U.S. Treasury Secretary Janet Yellen in a speech in October 2022. This "evolution roadmap" would "[reconsider] the mission, operations, and financing of the institution to better provide the global public goods that are so lacking in the world economy today." (Boston University Global Development Policy Center, 2023).

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In a policy briefing published in early 2023, Gallagher and Bhandary outline conversations with development experts, and they argue that the Bank should reform around a mission-driven approach, a better operational model, and amplify the voices of marginalized populations (Gallagher and Bhandary, 2023).

Gallagher and Bhandary argue that the new mission of the World Bank should be oriented around developing low-carbon and resilient economies, specifically through investing in new capital stocks, targeting the largest emitters, and propping up climate-vulnerable economies. In line with the operational model, Gallagher and Bhandary further outline that the investments mitigate environmental risk, limiting incurred debt and pricing in climate shocks and vulnerabilities (Gallagher and Bhandary, 2023).

The key to reform is a mission-driven approach, a better operational model, increased funding, and a rethinking of representation within the World Bank.

Gallagher and Bhandary also outline that these climate-centered projects require more capital but simultaneously reduce the risks of the flow of private money to participating nations. Furthermore, the briefing also advocates shifting more attention to climate change stakeholders, such as community leaders, and having more transparency in electing the World Bank President (Gallagher and Bhandary, 2023).

The ideas outlined in the briefing for the World Bank were drafted by a diverse group of academics, ranging from the West to Africa and China. Though their proposal is not binding for the Bank, Gallagher and Bhandary are one of many in the conversation as the Bank tackles its “evolution roadmap.”

Other Policy Action

The IMF, the institution formed alongside the World Bank at the Bretton Woods Conference, faces the same criticism to modernize their lending practices instead of focusing on reforms outlined in the Washington Consensus. Much of the same rhetoric, including more of a focus on climate financing, diversifying leadership within the organization, and debt restructuring, is as applicable to the IMF as it is to the World Bank. While the World Bank is traditionally viewed as an American-dominated institution, developing countries consider the IMF to be associated with Europe. However, the US also holds 16.75% voting power in the organization (Bouissou, 2022).

John Maynard Keynes (pictured middle), is widely regarded as one of the most famous economists at the Bretton Woods Conference in 1944.
Source: The American Prospect

One example of a climate-financing project pursued by the IMF is the Resilience and Sustainability Trust Fund (RST). The fund is intended for low and middle-income countries to build resilience against climate shocks, continue growth, and foster long-term payment stability. Instead of emergency financing, the fund is focused on long-term payback, which still addresses urgent shocks, such as climate change and pandemics. It is crucial to note that the RST deviates from traditional IMF policy as the international **lender of last resort**. Still, the organization argues that its emphasis on

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addressing long-term structural challenges aligns with its mission (IMF).

***Lender of Last Resort** – financial institution that provides capital to an institution that has exhausted all other ways to obtain capital*

IDEOLOGICAL VIEWPOINTS

When considering loan reform within the World Bank, it is crucial to note that there are not two "factions" of interests in the traditional sense, such as Republican or Democrat. A country might have a complex and nuanced stance. For example, while the U.S. is the largest stakeholder in the Bank (with 16.75% of its capital shares), it still supports major reforms, and even though the country is a large polluter, U.S. Treasury Secretary Janet Yellen is pushing for more climate financing. Thus, it is imperative to consider your individual countries' perspectives, stakeholders, and past positions. However, the large debate over loan reform can be divided into two sides: G7 and developing economies.

G7 Advanced Economies

***G7** – intergovernmental political forum organized around shared values of pluralism, liberal democracy, and representative government*

G7 advanced economies refer to the group of France, the United States, the United Kingdom, Germany, Japan, Italy, Canada, and the entire EU, who were the major stakeholders in the World Bank's founding and early development. These countries are adamant about the Bank supporting increased climate investment and making more use of the Bank's existing funds and infrastructure. Treasury Secretary Janet Yellen is one of the largest proponents of restructuring the Bank's capital to meet the current needs. However, all G7 countries are not necessarily unified in wanting to contribute significantly more to the organization, with the EU most opposed to the new capital infusion (Colman and White, 2023).

Developing Economies

Developing countries within the World Bank (e.g., Chad, Myanmar, Ghana, Nepal) are covered by the IDA (International Development Association). Middle- to high-income countries receive loans from the IBRD (International Bank for Reconstruction and Development). These countries want more funding to tackle the effects of COVID-19, tightening global financing conditions, and extreme weather events. Some of these developing economies also worry that new climate financing could distract from much-needed poverty-reducing measures. The countries most worried about a decrease in funding are in Africa, but most developing countries are also at significant risk of climate shocks. The desire for financing is universal, but how they will receive it is the dividing factor among developing economies (Colman and White, 2023).

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AREAS OF DEBATE

Green Capital Increase

A green capital increase of $32 billion yields $100 billion through 2030.

Diverting more funds to address climate financing is imminent, and the G7 countries are expected to pay the increased costs since they are responsible for higher emissions per person. The increased funding was first agreed upon at the Copenhagen Climate Conference in 2009 at $100 billion per year, and the OCED estimates that there was an overall amount of $78 billion in climate financing in 2018 (Kenny and Morris, 2021).

A green capital increase of $32 billion would yield $100 billion in additional lending through 2030, meeting the initial figures proposed at the Copenhagen Climate Conference. The major investments would go toward the IBRD (middle-income) countries, which would see nearly a $5 billion pay-in from high-income countries to finance the solution (Mathiasen and Landers, 2023).

Arguments favoring the green capital increase point toward the threshold of meeting the goal of $100 billion in climate financing, especially helping the financial security of the countries most affected by climate change. This increased financing would also meet the Bank's push toward sustainability and non-structured loans.

Sticky Inflation *– a sustained increase in wages and prices on certain consumer goods that do not change frequently or drastically*

Arguments against the green capital increase point out that the main financers of the project would be the U.S.—who would contribute an estimated $6 billion—and other G7 countries. Particularly the trend of **sticky inflation** puts most advanced countries in a difficult position to contribute more to global development, especially with the increased sovereign debt since the beginning of the COVID-19 pandemic.

Political Perspectives on this Solution

The G7 countries would be initially opposed to the increased calls for capital. Janet Yellen recently argued that the Bank could increase efficiency by "stretching its existing resources and being more innovative," delaying any capital increase. The developing economies would be most likely to support a capital infusion, citing the drastic need for climate financing on top of poverty reduction (Gelles and Rappeport, 2023).

One complication to calls for increased financing is the role China plays in borrowing from the World Bank. Typically, lending from the World Bank is not intended for well-established economies, so it is likely to raise concerns about fairness if China does not contribute to the capital increases. In 2016, China established a separate institution, the **Asian Infrastructure Investment Bank**, which serves the same role as the World Bank for its Belt and Road Initiative (Gelles and Rappeport, 2023).

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Reform Bank Leadership

Asian Infrastructure Investment Bank – *the world's second largest multi-lateral development institution; it aims to improve economic and social outcomes in Asia*

Addressing the Western-dominated slant of the World Bank is essential to ensuring that developing countries have a stake in climate financing. Not only has the President of the World Bank always been a U.S. citizen, but the U.S. remains the largest stakeholder in the Bank, along with other G7 allies. This American legacy stretches back to the formation of the Bank and throughout the 20th century, as the U.S. was known to convince the Bank not to grant loans to countries that would compete with U.S. exports (Toussaint, 2020).

In 2016, the Center for Global Development first touted the idea to create an entirely new institution between the World Bank's IBRD and IDA. This new bank could form an entity with its separate balance sheet, leadership, and oversight, providing emerging markets an outlet for representation. However, establishing the bank would take significant time, corporation, and organization, all rare qualities in an increasingly multi-polar and isolationist globe (Mathiasen and Landers, 2023).

Advocates for establishing the new financial institution argue that the World Bank has long been a Western institution and new representation is needed, particularly for the emerging Asian economy. Proponents could point toward the New Development Bank, which was established by emerging economies in 2014, as an example that there could be a major financial lender that is not the World Bank.

The New Development Bank, created by Russia, India, Brazil, China, and South Africa, was created in 2014.
Source: The Third Pole

Those against establishing the new financial institution argue that the World Bank can provide higher levels of capital than a newly established bank, and this re-organization risks a distraction from the imminent issue of climate change. Forming the new institution requires a level of resource mobilization that could divert funding from the IDA, which already benefits low-income countries (Mathiasen and Landers, 2023).

Political Perspectives on this Solution

The G7 countries would likely oppose the idea of forming another financial institution, citing the weakened power of the World Bank and loss of control over the world order. The New Development Bank, formed in 2014 by emerging economies such as China, India, and Brazil, directly challenged the World Bank and IMF as too-domineering. However, the West has criticized the New Development Bank for being as discreet and ineffective in distributing loans as the World Bank (Andreoni, 2019).

The developing countries would be more likely to support the formation of the financial institution, but there would have to be shared consensus on transparency, structure, and types of

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investment. Also, some IDA countries could prefer the World Bank since it has a significant source of financing from wealthy donors.

Merge Climate Funding

The World Bank currently oversees 81 different climate funds, each serving varying purposes.

Since first addressing climate change, the World Bank has experienced the creation of various funds, including the Green Climate Fund, the Climate Investment Funds, and the Global Environment Facility; in total, the Bank has 81 climate funds. The various funds provide an inefficient solution for financial distribution as the bureaucratic process creates inefficiencies, and each provides around $4 billion a year in financing (Mathiasen and Landers, 2023).

One potential solution would be to merge the 81 avenues of climate funding into one financial intermediary fund (FIF), which would operate as the standard office for distributing climate finance. The newly created FIF could manage through various financing structures, increasing the amount of funding without asking nations for more capital. However, like the issues involved in forming new Bank leadership, the project would take massive cooperation and coordination for an organization that is notoriously slow to reform (Mathiasen and Landers, 2023).

Arguments in favor of merging climate funding cite that a universal climate fund would reduce the inefficiencies in the current structure and promote a more significant impact on fund distribution. This increased organization can leverage the World Bank to blend private and public climate financing and create new financial mediums, such as **green bonds** (Li, Natalucci, and Ananthakrishnan, 2022).

***Green Bonds** – a fixed income financial instrument which is used to fund projects that have environmental benefits*

Arguments opposing merged climate financing echo similarly to the geopolitical complications of establishing new Bank leadership. Though this combined funding source would provide a more robust avenue for IDA and IBRD countries to access funding, the political complications risk distracting from maximizing access within the current infrastructure.

Political Perspectives on this Solution

Both G7 and developing economies will likely support the imitative behind merging climate financing as the reform benefits both perspectives.

For the G7 economies, a uniform structure for funding makes it easier to track the budget, assess impact, and have a clear destination for capital raised at home. Also, increasing the financial instruments within this new climate fund would mirror promises made at the Conference of the Parties (COP) international climate change discussions, such as financing green bonds (Friedman and Nelson, 2021).

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For developing economies, this strengthened fund provides a clearer path for funding, especially since the fund would have more financial leverage. However, developing economies would likely want to see a greater leadership role in the fund, building off arguments about the Western domination of the World Bank.

Staff Reductions

The World Bank faces heavy scrutiny for arming a massive body of technocrats, employing over 10,000 employees, 25 executive directors, two executive vice presidents, three senior vice presidents, and 24 vice presidents. A Bank employee's average salary ranges upwards of an average of $100,000, and the Bank last experienced a 500-position cut nearly ten years ago (BW Business World, 2014).

Current World Bank President Ajay Banga was appointed by U.S. President Joe Biden in 2023.

The Bank is a bureaucracy, with officials stationed in every member country. Since COVID-19, the Bank accelerated hiring, allowed a lax work-from-home policy, and only started calling workers back to the office with the appointment of President Ajay Banga. A former Mastercard executive, President Banga has been insistent on raising the productivity of the Bank workforce through the return to the typical office (Gold, 2023).

Arguments in favor of reducing the Bank's footprint argue that one of the easiest ways to increase climate financing is to reduce the size of the Bank workforce. These proponents cite that the Bank needs to be more efficient, with unchecked hiring that cannot be corrected like the private sector. This over-staffing could make bureaucratic hurdles more unnecessary and complicated.

Arguments against reducing Bank staff cite that the reductions in the workforce would create internal disruption and chaos and ultimately distract from the needed reforms to pursue climate financing. Also, a reduced staff count can make it harder for officials to build relationships, primarily with IDA and IRBD members.

Political Perspectives on this Solution

Both G7 countries and developing economies would support the plan for staff reduction with reservation. Particularly, both would enjoy the increased funding toward the climate investment but would also be apprehensive about the potential effect on Bank performance and delivery.

America First Agenda *– a policy stance in the United States that generally emphasizes American exceptionalism and non-interventionism*

Isolationism is rising in the West, particularly in the U.S. and U.K. While Janet Yellen has supported increased funding for the Bank, the current Republican Party has typically been opposed to development policy, especially under former President Donald Trump's **America First Agenda**. Recently, Inder Sud, a former World Bank Senior Staffer, penned a letter to the Financial Times arguing for decreased Bank overhead to increase efficiency (Sud, 2023).

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Developing countries would focus less on bank headcount and more on potential benefits from more directed climate investments. As long as the developing countries can continue their activism for more funding, they will support the structure of the Bank.

Focus More on Adaptation Finance

Adaptation finance *– finance for actions that help communities reduce the risks they face and harm they might suffer from climate hazards like storms or droughts*

As the World Bank focuses its vision on the future of meeting the U.N. Sustainability Goals, most climate financing is still directed toward mitigation rather than adaptation. The Bank contributes under 50% of climate funding to **adaptation finance**, which still amounts to around $13 billion. While mitigation addresses the immediate impacts of climate change, adaptive finance builds long-term resilience through community financing. This format was employed in the IMF's RST (see above), which deviated from its normal position as a lender of last resort (Schmidt and Thwaites, 2023).

Pivoting toward adaptation financing could soften criticism against the Bank for not investing enough in climate sustainability. Still, the Bank would then face many needs, including poverty alleviation. These limited resources echo similar arguments for a general fund increase, meaning that the Bank is already stretched financially and balances many competing priorities. Adaptation finance is a promising avenue but also presents another nuance the Bank must consider when shaping its portfolio.

Experts predict that Bangkok, the capital of Thailand, will be underwater in the next 100 years.

Arguments for adaptation finance call that this financing largely "gets ahead" of climate change and would build long-term sustainable communities. If the Bank only focused on current mitigation, this long-term problem, such as Southeast Asian cities sinking, would be left unsolved.

Arguments against adaptation finance would stress that the Bank already balances many competing priorities on a limited budget. With more capital, the Bank would be able to utilize adaptation finance, but currently, the Bank cannot extend its current financial capacities.

Political Perspectives on this Solution

The G7 economies would be less likely to support increased adaptation finance, particularly under the current budgetary constraints (see above). Though prominent figures, such as Janet Yellen, have called for increased capital, the World Bank seeks to boost adaptation finance through more private-sector financing. The Bank stresses that only 1.6% of all funding for adaptation finance comes from the private sector, which makes the system highly dependent on funding from member countries (World Bank, 2021).

The developing economies would universally support and hail adaptation finance as one of the paramount goals of reducing the harms of climate change. These countries could cite the pledges of

the IMF's RST fund (see above), which has proven successful in unlocking more financing for low and middle-income countries.

BUDGETARY CONSIDERATIONS

For further research and to obtain more figures relating to the proposed policy, consulting the World Bank website, especially their policy briefings, summaries, and proposals, is an excellent way to cite accurate measures used by the institution. Moreover, non-profit organizations like the Center for Global Development often contain extensive World Bank policy reviews and many reputable data points for reference.

CONCLUSION

The World Bank was a Western-formed, Western-dominated institution for much of the 20th century. However, the impending challenges of climate change and new emerging geopolitical powers forced the Bank to pivot into climate financing. Long gone are the days of the World Bank preaching a gospel of neoliberalism as considerations of climate change force the Bank into a position of newfound global development. The Bank must overcome its complicated past and forge a new pathway to achieve global triumph over climate change.

Though the science seems straightforward, the financing is far from it. The Bank lacks capital, representation of members, and internal organization, but the institution is still one of the most important parts of the post-Bretton Woods society. It is harder to imagine international finance without the World Bank, and member nations must look to the institution for pragmatic and forward-thinking reform.

Delegates are encouraged to read extensively on World Bank history, climate change policy, and current geopolitical tensions to prepare multi-faceted and creative solutions to climate change financing. There is no "correct" answer; delegates are encouraged to synthesize a wide range of information and combine multiple solutions. Ultimately, these solutions must answer to the failures of the World Bank's past but point toward the hope of the future.

GUIDE TO FURTHER RESEARCH

Researching developments in the World Bank can be difficult because the institution is less often reported on than a typical federal government. However, the author encourages delegates to read

climate financing, developmental goals, and briefings from the World Bank website. Policy briefings published by reputable institutions, such as the Center for Global Development, are highly respected and cover World Bank information in nuance. Regardless, the delegate must consider the source's or the authors' potential biases when confronting an outside source. The Chair looks favorably upon any delegate citing research papers or professors, particularly in the field of development economics. For a challenge, the Chair also recommends reading *Global Discord: Values and Power in a Fractured World Order* by Paul Tucker to brush up on the current geopolitical context.

GLOSSARY

Adaptation finance – finance for actions that help communities reduce the risks they face and harm they might suffer from climate hazards like storms or droughts.

America First Agenda – a policy stance in the United States that generally emphasizes American exceptionalism and non-interventionism.

Asian Infrastructure Investment Bank – The world's second-largest multi-lateral development institution aimed at improving economic and social outcomes in Asia.

Belt and Road Initiative – a global infrastructure development program developed by the Chinese government in 2013 to invest in more than 150 countries and international organizations.

Dawes Plan – arrangement for Germany's payment of reparations after World War I.

Free riding – someone who wants others to pay for a public good (such as climate change) but plans to use the good themselves for personal benefit (such as polluting).

Green Bonds – a fixed-income financial instrument which is used to fund projects that have positive environmental or climate benefits.

G7 – intergovernmental political forum organized around shared values of pluralism, liberal democracy, and representative government.

Lender of Last Resort – an institution that provides capital to a financial institution that exhausted all other ways to obtain capital.

Neo-liberal – a political approach that favors free-market capitalism, deregulation, and reduction in government spending.

State privatization – private entities are tasked with implementing government programs or performing government services.

Sticky Inflation – A sustained increase in wages and prices on certain consumer goods that do not change frequently or drastically.

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UN Millennium and Sustainable Development Goals – Policy implemented by the UN in September 2000 that committed to achieving a set of eight measurable goals that range from halving extreme poverty and hunger to promoting gender equality and reducing child mortality by the target date of 2015.

Washington Consensus – set of ten economic policy recommendations to "standardize" for crisis-wrecked developing countries during the 1980s and 90s.

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