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Wanted: A Climate Agency for a Bottom-Up World—A Proposal for a New Arm of the World Bank

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From the signing of the Kyoto Climate Protocol in December 1997 until the Copenhagen Climate Conference in 2009, everybody assumed that collective action to address climate change required a top-down approach: a binding international treaty that would cover both emissions reductions and climate finance. When that proved to be politically impossible, world leaders tried to put a good face on failure by adopting a bottom-up approach: all countries were encouraged to announce targets for emissions reductions, and rich countries were asked to also announce aspirational goals for how much money they would provide to help developing countries lower emissions and cope with the impact of climate change already underway.

Since then, much of the discussion of the climate challenge at the international level has focused on the need for financial transfers to developing countries for mitigation and adaptation—now to be a key function of the newly created Green Climate Fund. Financial support to developing countries is important, to be sure, as is setting a global price on carbon emissions to create incentives for reductions and for the technological innovations that would enable reductions.

But finance for developing countries, bottom-up actions by rich and poor countries alike, and whatever market-based carbon pricing arises within and across nations will all be less effective and ultimately harder to sustain politically in the absence of an institution with a clear, transparent, and internationally agreed mandate to carry out a wide range of nonfinancial technical, legal, verification, and policy activities.[1]

1. An example is the limited resources and the perception of its limited impact of the Clean Development Mechanism

Summary

Climate negotiations have focused on reaching a top-down international agreement and, in recent years, on mobilizing a pool of financial resources, now to be channeled through the Green Climate Fund. There has been little discussion of the institutional arrangements for provision of nonfinancial services that would be seen as objective, technically sound, and politically credible—analogous to the research, policy, data, and poverty measurement at the World Bank, or the macroeconomic and financial reports of the IMF. Yet a range of nonfinancial, knowledge-based services are critical to maximize the effectiveness of whatever steps individual nations and the corporate sector take. This brief explains why the need for a new entity to provide these services has become urgent, describes the services that it would provide, and explores one possible path for filling the gap: the creation of a new arm of the World Bank.

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The functions listed below are classic public goods—in this case *global* public goods—in the sense that no nation or other single entity can fully capture all the benefits that would flow from investing in them. Without convergence among key players on an institutional arrangement to provide the functions, they will, as is typical of public goods, be undersupplied, and the bottom-up approach will be at risk of deteriorating into tiresome rounds of unmet and unmeasured commitments.

The functions include but are not limited to the following:

- data creation, collection, acquisition, management, and dissemination (analogous to the World Bank's role creating and disseminating the World Development Indicators)
- research and policy recommendations at the country and global levels
- third-party monitoring, reporting and ideally verification of greenhouse gas emissions at the country level (analogous in some ways to the surveillance functions carried out at the International Monetary Fund of members' domestic macroeconomic and financial-sector issues relevant to global stability)
- tracking of governments' financial contributions to international climate funds and to energy and climate-relevant research and development
- supervisory and regulatory functions to support the emergence of private markets in emissions rights at national, regional, and global levels
- new product development (e.g. advance market commitments for creation of publicly open technologies and creation of endowment funds to finance forest people's protective services)
- organization and facilitation of third-party financing of technology transfers to low-income countries where new technologies are protected by intellectual property rights
- making the case for increased government funding of basic and applied research on clean energy and forest conservation
- provision of arbitration functions, operational insurance, and dispute resolution when and if there is an international market in emissions rights (analogous to the role of the World Trade Organization in trade disputes)

Many governmental and nongovernmental organizations are already actively involved in the provision of one or more of these services. None, however, has a clear global mandate to do so, or the solid financial footing necessary to provide these activities globally and at appropriate scale. We believe that it makes sense for the international community to identify or create an entity that would take the lead in ensuring the consistent, high-quality provision of these services. For the sake of convenience and clarity, we will refer to this proposed entity as a "global climate agency," though the actual name could take many possible forms.

A New World Bank Arm as One Path to a Global Climate Agency

What international institution(s) could provide these services? Is a new global climate agency needed? Many international agencies are already working on various aspects of the climate issue. These include the United Nations Framework Convention on Climate Change (UNFCCC), the UN Environmental Program (UNEP), the United Nations Development Program (UNDP), the Global Environmental Facility (GEF), the International Energy Agency (IEA), and the World Bank and regional development banks, to name just the most prominent. Each already plays an important role and some are engaged already in one or more of the functions described above. However, none of the existing organizations' core activities focus squarely on the needed functions, which would be easier and less costly to execute were all combined in a single institutional setting. Similar activities would continue in other organizations; the goal is not for the World Bank to have a monopoly on them but to complement and leverage existing nonfinance activities, with the added credibility of doing so in an arm independent from financial operations.

Creating a new global entity might be the most efficient solution, if the nations of the world could agree to do so. However, such a start-up is a heavy political lift—perhaps requiring the very top-down treaty that has so far eluded negotiators. As the GEF, with the very modest leverage of its balance sheet, has shown, new entities are not certain to live up to the initial expectations. Moreover, getting a new international agency up and running is costly time-consuming. The experience of launching of the Green Climate Fund (GCF) is a case in point. Negotiators at the 2009 climate summit in Copenhagen agreed to establish it as a vehicle to help mobilize hundreds of billions of dollars in climate finance, and the past three years have been devoted to devising governance rules, selecting a board, and choosing a city to host the fund. In October 2012, the GCF provisional secretariat selected Songdong, a gleaming new satellite city next to South Korea's largest airport as the GCF home, but they are still far from agreeing on how it will raise capital and disburse funds.

Many of the international entities named above might provide a suitable home for one or more of the functions of a global climate agency. Arguably, however, the World Bank is foremost among them. Notwithstanding important concerns about the bank's legitimacy and governance (more on that below), it enjoys a solid reputation for getting things done, with strong research, policy, technical, and advisory capacities.

When the nations of the world agree to jointly address a global problem, more often than not they turn to the World Bank to work out the details and deliver the promised action. The many examples include the 1988 creation of the Multilateral Investment Guarantee Agency (MIGA), a part of the World Bank Group; the CGIAR (formerly Consultative Group on International Agricultural Research), an independent consortium housed within the bank; and the Consultative Group to Assist the Poorest (CGAP), an independent policy and research center working to improve poor people's financial access that is also housed within the bank. On top of this, more than 205 donors have established trust funds at the bank to underwrite specific activities they would like to see undertaken. Often these involve the provision of global public goods.[2]

Equally important, the World Bank, as the world's premier development agency, has a strong institutional imperative to participate in some form. Without an effective international response, climate change will unwind decades of development progress. Successive World Bank presidents have recognized this challenge and have urged global leaders to mount an effective response. The bank's 2010 World Development Report asserted that development and climate change are "inextricably linked and together demand immediate attention." Indeed, it's difficult to imagine continued progress on the bank's mission of global poverty reduction in a world of runaway climate change, plunging agricultural productivity, and mass dislocations across the developing world.

Despite the bank's potential strengths, its ability to undertake these functions is hindered by two important obstacles. The first is the lack of a mandate to address global public goods, and the related problem of an institutional culture that focuses on country loans. When the bank was created in the aftermath of World War II, its purpose was to channel capital to countries that needed it, first to war-ravaged Europe and Japan then to newly independent developing countries. More than 60 years later, its mandate and institutional culture remain overwhelmingly oriented toward loans to sovereigns. As a result, the bank lacks a clear mandate and the capital base to finance non-income-generating policy, research, and advisory activities relevant to climate. Climate and other planetary commons issues have been *ad hoc* and funding has been limited almost entirely to trust funds.

The second obstacle is a lack of legitimacy arising from the bank's outdated governance arrangements. Because the high-income countries, especially the United States, continue to dominate the bank's board (in the case of the United States, by naming the bank's president), developing countries, especially the large emerging-market countries whose participation is crucial to addressing climate change, have been reluctant to give the

2. http://ieg.worldbankgroup.org/content/dam/ieg/tf_chap2.pdf

bank a leading role in addressing the problem.

Both problems could potentially be addressed by creating a new arm of the World Bank with a clear mandate to address climate and other global-commons issues, new functions, and—perhaps most importantly and significantly—separate governance and financing.

How Would a New Arm of the World Bank Come Into Being?

There are many possible ways that the new arm could be created. All require vision and leadership from the bank's president to win the trust of key stakeholders, most notably the big emerging market countries and the high-income countries whose support—or at least acquiescence—will be crucial to success.

The president would seek agreement on the creation of an entirely new arm of the bank, with an explicit mandate to be a key player in providing the types of services outlined above. The new arm would need its own leadership and governance structure distinct from the bank's three major lending windows, the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC). More than half of its capital would ideally be provided by emerging-market and developing countries such as China, Brazil, India, Korea, and Mexico, who would then naturally have the lead in shaping the new arm's mandate, governance, location, staffing, leadership, and other rules that in the medium term would make for a credible and effective institution or not. For example, symbolic of these significant departures from past practice, the new arm would almost certainly be headquartered in a thriving emerging-market city that is not the capital of any of the world's major powers—Hong Kong, Shanghai, Sao Paulo, Mumbai, or perhaps Songdong, the newly selected home of the GCF.

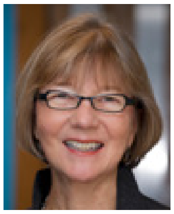
This new arm would address the two problems above, lack of an adequate mandate and legitimacy. It would have the advantage of providing a mechanism for the major middle-income borrowers to obtain increased voting power and influence at the bank overall. It could help to ameliorate many developing countries' current lack of trust in and engagement with the bank. And it would also take advantage of the confidence from the bank's traditional donors in its research, policy, technical, and advisory capacities.

Governance and Financing of the New World Bank Arm

To ensure legitimacy, the new arm's governance should be based upon fresh capital contributions, independent of the contributions previously made to the various parts of the World Bank Group. Voting rights in the new arm would presumably be determined independently of current arrangements. Depending on its founding members' agreement, they could, for example, give greater weight to early contributions from countries with lower per capita income and greenhouse gas emissions, and they could exempt countries below some income level from any contribution.

To break cleanly with the bank's institutional culture of focusing too much on country loans and to avoid confusion and competition with the newly established GCF, the bank's new arm should not seek to mobilize or disburse large-scale climate finance. Instead it should forswear such activities and focus on the crucial nonfinancial services described above. Of course, the mainstream work of the bank (IBRD, IFC, and IDA) would continue, including sovereign and nonsovereign lending and guarantees dealing with climate issues. The bank's new arm would support these activities, just as it would be entirely appropriate that the new arm of the bank would lend research, legal, and other staff to the new GCF if the leadership there requested it.

The main cost of the new arm would be funding staff salaries and related indirect costs and paying for commissioned technical, legal, data, measurement, and other activities, including in, by, and for developing countries. Initial capital of $10 billion would be sufficient to generate an annual budget of approximately $300–$500 million. A portion of the initial capital—or all of it—might be invested to provide a stream of income to finance a core operational budget indefinitely, with noncore discretionary activities financed via periodic contributions and subject to budgeting and approval by the board.



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China alone has ample reserves to put up a considerable portion of a capital base of $10 billion or more, and could jumpstart commitments of other middle-income countries, which in turn might be matched by the developed-country members of the G-20. The bank president would, as in the case of IDA, play a role in bringing together, nurturing, and backstopping the kind of negotiation among bank members that is typical, for example of the periodic IDA replenishments, but in this case with initial direct engagement of key emerging market members.

A Dramatic Initiative for a Dire Time

The proposal above represents a dramatic departure for the bank and for the global community. Any serious move in this direction is sure to stir controversy, including from civil-society groups and other international agencies that may be uncomfortable with the bank's taking a leading role in the global response to climate. However, in evaluating whether or not to proceed, it is important to take into account the urgent need for action to address climate change and the intimate association between the bank's development and poverty-reduction mandate and the challenge of climate change.

By actively seeking a mandate to lead in the provision of services to underpin collective action on climate, the bank can put itself at the forefront of addressing the world's biggest problem. The global demand for such leadership—from the bank or from other entities—is sure to heighten as more and more policymakers and the citizens they represent become aware of the dire situation confronting the planet. The time to start preparing is now.

This brief is based in part on Nancy Birdsall, "The World Bank and Climate Change: Forever a Big Fish in a Small Pond?," CGD Policy Paper 007 (Washington: Center for Global Development, 2012).

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