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# Strengthening the Bretton Woods Institutions to Meet 21st-Century Global Challenges

A Publication from the Bretton Woods Committee's  
Multilateral Reform Working Group

## Executive Summary

Two challenges currently threaten the 80-year record of rising global living standards and poverty reduction. First, it is widely recognized that crises in the global commons—used here in a broad sense to include various cross-border challenges that do not fall within national jurisdictions, such as climate, pandemics, and cyber risks—are having an increasingly negative global impact. Without effective collective action, these challenges risk becoming even more urgent over time. Second, despite this recognition, most agree that progress in addressing them has been too little and too slow.

Understanding the reasons for this impasse, and finding a path toward a resolution, is the motivation behind this Bretton Woods Committee Multilateral Reform Working Group (MRWG) Report.

Neither the public sector nor the private sector—alone—can solve these challenges. Thus, there is merit in identifying the specific shortcomings in the entire system—public and private—that are impeding progress. According to the analysis presented here, a set of specific gaps in both the public and the private sectors—encompassing governance, implementation, and accountability—need to be tackled to break this impasse. Finally, focusing the gap analysis on the system that surrounds climate finance, rather than more broadly, allows the analysis to be more specific and concrete about the changes needed to make sustainable progress. However, other areas such as public health, digital public infrastructure, and trade could also benefit from a similar gap analysis, and some recommendations of this report apply beyond the bounds of climate finance.

The report takes the starting point that the World Bank and the International Monetary Fund (IMF)—given their global membership, shareholding model, and weighted voting structures—are best placed to fill the global leadership role to make progress. But are they fit for purpose with respect to governance, resources, and expertise to effectively tackle these global commons challenges? And how can incentives facing the private sector be managed to

ensure that the public and private sector goals are well aligned and that the private sector can fully contribute to them?

## Defining the Problem

A consensus exists that of all the global challenges, climate change is among the most pressing. At the same time, technical advances over the past few decades have improved the feasibility of making more rapid progress. In particular, innovation has dramatically improved the economics of reducing carbon emissions. Thus, the problem no longer is whether it is technically feasible to stabilize and then bring down global carbon emissions, but instead how to do this quickly, equitably, and at scale. This means that the focus needs to shift toward coordinating actions that will help set priorities for mitigation and adaptation, and mobilize the requisite financial resources. Timeliness is of the essence, as delays will lead to a bigger rise in global temperatures, more volatile weather, and greater negative social, environmental, and economic consequences.

## Taking a Gap-Based Approach

The Group's analysis suggests that a gap-based framework can be usefully applied to challenges of the global commons. With respect to climate change specifically, three substantive gaps exist in both the public and the private sectors: governance, implementation, and accountability. Both sets of gaps must be addressed, as filling the public sector gaps will create an enabling environment for filling private sector gaps.

### For the public sector, the gaps in the architecture are as follows:

- **Governance:** Despite the existence of the United Nations Framework Convention on Climate Change (UNFCCC), no institutions have the overall responsibility to coordinate the global climate change policy and systemwide financial effort. This includes assessing and coordinating the necessary financing, as well as fiscal policies. Without this, the effort necessarily must be disjointed and inefficient, slowing progress.
- **Implementation:** There are no public institutions effectively leading and coordinating implementation in a transparent manner using international best practices. In addition, there is a paucity of specific financing mechanisms focused on climate—and climate alone—that have appropriate safeguards and possess an effective surveillance framework.
- **Accountability:** Despite the increasing involvement of financial authorities, corporations and the third sector in the UN Conference of the Parties (COP) annual meetings, there is no permanent mechanism to ensure a periodic systemwide review of the progress of financing and implementation plans. The absence of such a mechanism precludes effective monitoring progress and enacting midcourse corrections.<sup>1</sup>

1. Each Party to the Paris Agreement is required to establish a nationally determined contribution (NDC) and update it every five years. There is not, however, much formal coordination in the setting of NDCs, nor is there accountability regarding the progress in meeting them. See "Nationally Determined Contributions," UNFCCC, 2024, <https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs>

**Similarly, for the private sector, these are the gaps in the architecture:**

- **Governance:** Mechanisms to establish transparent, effective decarbonization stocktaking, goals, and strategies are inadequate. Accurate data on the carbon footprint of the business sector and state-owned enterprises (SOEs) is lacking, impairing the effectiveness of the price discovery mechanism.
- **Implementation:** There are insufficient information, regulatory, and financial instruments to facilitate climate change investment at scale. Furthermore, little clarity exists regarding relative prioritization of activities for mitigation (e.g., expanding renewable energy, improving energy efficiency, and increasing carbon capture) and for adaptation of economies to climate change (e.g., through infrastructure, new production processes, and insurance), as well as to its impact on value chains in different geographies.
- **Accountability:** There is no mechanism to monitor and verify corporate commitments, trajectories and accompanying implementation strategies, nor is there any enforcement mechanism to reduce the risk of greenwashing.

### Filling the Gaps: Strengthening the Roles of the Bank and Fund

In contrast, the Bretton Woods institutions (BWIs)—with their global membership, shareholding model, and weighted voting structures—are best equipped to fulfill the key coordination role of the global commons. Recent global proposals such as the Bridgetown Initiative, G20 multilateral development bank (MDB) reports, and World Bank Evolution Roadmap<sup>2</sup> are evidence that policymakers see the BWIs as well-suited vehicles to address global commons issues.<sup>3</sup> The institutions themselves have already made determined progress in integrating climate into their missions (e.g., the World Bank’s new mission statement, approved in October 2023 and substantial lending to climate projects) and operations (e.g., the IMF’s nascent Resilience and Sustainability Trust and its comprehensive climate strategy).<sup>4</sup> There are also various levels of cooperation with other institutions in the system which are working in their areas of comparative advantage—like the OECD, FSB, IEA, UNFCCC, UN-DESA, FATF and others.

2. See “The 2022 Bridgetown Initiative for the Reform of the Global Financial Architecture,” Office of the Prime Minister of Barbados, 2022, <https://pmo.gov.bb/wp-content/uploads/2022/10/The-2022-Bridgetown-Initiative.pdf>; Making the Global Financial System Work for All, Report of the G20 Eminent Persons Group on Global Financial Governance, 2018, <https://www.globalfinancialgovernance.org/files/g20emg-full%20report.pdf>; A Global Deal for Our Pandemic Age, Report of the G20 High Level Independent Panel on Financing the Global Commons for Pandemic Preparedness and Response, 2021, <https://pandemic-financing.org/report/foreword/>; UN Secretary General’s High-Level Advisory Board on Effective Multilateralism, A Breakthrough for People and Planet, United Nations University Centre for Policy Research, 2023, <https://highleveladvisoryboard.org/breakthrough/>; The Paris Summit for a new Global Financial Pact, 2023, <https://pactedeparis.org/en.php#retoursommet>; Report of the Independent Experts Group to the G20: Strengthening Multilateral Development Banks—The Triple Agenda: Vol 1, Center for Global Development and Indian Council for Research on International Economic Relations, June 2023, <https://www.cgdev.org/publication/strengthening-multilateral-development-banks-triple-agenda>; Evolving the World Bank Group’s Mission, Operations, and Resources: A Roadmap, World Bank Group, December 2022, <https://documents1.worldbank.org/curated/en/09984510112322078/pdf/SECBOS0151975e0e809b7605d7b690ebd20.pdf>.

3. See A. Banga, “Remarks by World Bank Group President Ajay Banga at the 2023 Annual Meetings Plenary,” The World Bank, 2023, <https://www.worldbank.org/en/news/speech/2023/10/13/remarks-by-world-bank-group-president-ajay-banga-at-the-2023-annual-meetings-plenary>; “Resilience and Sustainability Facility—Operational Guidance Note,” International Monetary Fund, November 28, 2023, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/11/28/Resilience-and-Sustainability-Facility-Operational-Guidance-Note-541867>. See also this report’s Annexes 1 and 2, respectively, for a summary of IMF and World Bank actions.

4. See “Remarks by World Bank Group President Ajay Banga at the 2023 Annual Meetings Plenary” (2023), Resilience and Sustainability Facility—Operational Guidance Note” (2023), World Bank Climate Change response <https://www.worldbank.org/en/topic/climatechange> and “The IMF and Climate Change” <https://www.imf.org/en/Topics/climate-change>. See Annex 1 & 2 for a summary of IMF and World Bank actions.

...the BWIs' institutional mandates need to be augmented, not supplanted, and they need strengthened governance structures, operating models, and financial firepower.

Recognizing that the bulk of financing must come from the private sector, these institutions are also best positioned to help governments bring the private sector together around common standards, practices, and instruments to ensure their alignment with global goals. This is a process that corporate actors have demonstrated commitment to through the Glasgow Financial Alliance for Net Zero (GFANZ) but could be made more effective by being aligned with a global agenda. To do so effectively, the BWIs' institutional mandates need to be augmented, not supplanted, and they need strengthened governance structures, operating models, and financial firepower.

## Recommendations for filling the public sector gaps

### Governance

The MRWG recommends forming focused, ministerial-level Councils in both the IMF and World Bank with decision-making powers over issues pertaining to the global commons that will require international public sector action. Forming political bodies with decision-making authority could enable a quicker route to action than the current institutional governance structures whereby the boards of governors are powerful but diffuse, and the executive boards are active though fully occupied with the daily running of the institutions. Two institutional ministerial-level bodies already exist—the joint Development Committee (DC) and the IMF's International Monetary and Financial Committee (IMFC)—but these are advisory in nature and do not possess structured, binding decision-making authority.

In the case of the World Bank, for discussion purposes in this report, the proposed new body is named the Development and Sustainability Council (DSC). In the case of the IMF, its Articles of Agreement already contemplate the formation of a Council that could be activated. The two existing advisory bodies (the IMFC and DC) could be empowered to perform this role. Regardless of their form, the two Councils should meet together annually to enhance institutional collaboration.

The IMF's Council framework provides an additional global governance benefit that is crucial in an era of fractured multilateralism. In the current constituency-based framework at the IMF Board, each of the 24 Directors casts a vote as a block equal to the sum of the quotas of individual countries in that Director's constituency. In a Council, countries would vote proportionally to their quotas, but individually, rather than per Director. The proposed voting structure would empower countries to vote based on their own national priorities, enabling "coalitions of the willing"—alliances of countries interested in achieving a specific goal—to emerge to drive change while avoiding the pitfalls of consensus-based models.

### Implementation

While official multilateral money is critical, it will be very modest relative to

5. Selected programs include OECD Research Collaborative on Tracking Finance for Climate Action, FSB Supervisory and Regulatory Approaches to Climate-related Risks: Interim Report (2022), IEA Collaboration with UNFCCC on NDC Reporting (2024), and others.

6. See "Glasgow Financial Alliance for Net Zero," <https://www.gfanzero.com/our-work/>.

Global mandatory disclosure standards are needed to establish the carbon footprints of corporates, which account—directly and indirectly—for the bulk of greenhouse gas emissions.

the overall needs of middle- and low-income countries (MLICs).<sup>7</sup> However, the international financial institutions (IFIs) can play an important role in mobilizing financial resources to enable MLICs to address climate change. In this regard, global action should focus on four areas: (1) expanding the supply of clean energy and greening the economy, (2) phasing out coal in electricity generation, (3) promoting adaptation to the effects of global warming, and (4) protecting and expanding forests as means to capture carbon and protect life.

The World Bank would focus on financing adaptation in MLICs and on the design of financial instruments to facilitate climate mitigation actions, coordinating with other multilaterals and the private sector to develop and implement them—so that the overall system can deliver more than the sum of its individual parts. The IMF would focus on helping to build and assess the macro fiscal and financial frameworks that incorporate the policies and investments needed to transition to a low-carbon economy. The recent division of labor agreed upon between the two institutions was an important first step toward ensuring that their discrete roles are consistent with their respective strengths in combating climate change.<sup>8</sup>

To lead this effort, the World Bank and the IMF will need more financial resources to respond to the challenges of the global commons. The menu of options includes balance sheet optimization, new paid-in capital, borrowings from the market and official sources, and the issuance of special drawing rights. How and in what proportion this is done will have to be integrated with the change in their business models and will be the decision of the ministerial Council.

### Accountability

The IMF and the World Bank could establish a permanent mechanism that would conduct a systematic review of the progress of global financing and implementation plans. This could be located within the Independent Evaluation Offices (IEOs) of these institutions and those of the regional multilateral development banks (MDBs). The collective of IEOs would track progress toward climate change goals, assess the progress toward implementing systematic methodologies, and help to manage datasets at the global scale.

## Recommendations for filling the public sector gaps

### Governance

Global mandatory disclosure standards are needed to establish the carbon footprints of corporates, which account—directly and indirectly—for the bulk of greenhouse gas emissions. The first step would be to harmonize current voluntary standards. Once that has been accomplished, the next step would

7. V. Songwe, N. Stern, and A. Bhattacharya, *Finance for Climate Action: Scaling Up Investment for Climate and Development*, The London School of Economics, 2022, <https://www.lse.ac.uk/granthaminstitute/publication/finance-for-climate-action-scaling-up-investment-for-climate-and-development>. All estimates of needed financing for these countries are in the neighborhood of \$3 trillion to \$4 trillion annually, the bulk of which is expected from domestic revenue mobilization and foreign direct investment by the private sector.

8. See 'Joint Statement of the IMF Managing Director and of the World Bank President' International Monetary Fund, September 7, 2023 <https://www.imf.org/en/News/Articles/2023/09/06/pr23305-joint-statement-imf-managing-director-world-bank-president#:~:text=We%20will%20step%20up%20our,the%20G20%20Roadmap%20to%20enhance>.



be to transition to mandatory disclosure requirements that are consistent across national regimes, as well as to converge different measurement methodologies. This disclosure could be based on the International Sustainability and Standards Board standard or national standards that are judged by an expert third party as broadly equivalent.<sup>9</sup> These standards would, over time, necessarily need to be broadened to help identify the emissions of entities such as nonlisted SOEs and others with activities that have meaningful climate impacts.

To support this effort, the IMF could include monitoring the adoption of such standards as part of its surveillance and technical assistance work. Market regulators would enforce the disclosure requirements and ensure their comparability across national regimes.

### **Implementation**

Proper price signals consistent with the true costs of fossil fuels are essential to align public and private goals and incentives. Toward this end, the public and private sectors should work toward establishing global, high-integrity markets for carbon emissions. Two key instruments are needed to encourage private sector participation at scale: (1) global carbon trading schemes that facilitate increased voluntary compliance and the integration of nature-based solutions in firms' decarbonization (net-zero) strategies, and (2) the introduction of carbon taxes, including cross-border adjustment taxes, together with appropriate policies that would help MLICs adapt to such taxes to ensure a level playing field and to reduce the incentives for free-rider and beggar-thy-neighbor outcomes.

The IMF and the World Bank should help support the development of global carbon markets and assist in the development of carbon taxes and mechanisms for countries to cope with a cross-border adjustment regime. A regime that allows the real price discovery of carbon in advanced and developing economies would allow for instruments such as green bonds, loans and grants, and carbon credits. It would also increase both the incentives and the ability of businesses to meet their voluntary objectives.

### **Accountability**

Market regulators should verify that mandatory sustainability disclosures are consistent with corporate financial statements and should ensure that divestment policies that simply shift high-emission activities to jurisdictions or investors with lower standards or economic strength are clearly identified. The regional MDBs, which have a presence on the ground in many countries and regions, can play a prominent role in financing clean energy investments and should collectively develop a framework that helps reduce risks to investors, including greenwashing.

9. For an overview of developments on the disclosure front, see 'IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information,' International Sustainability Standards Board, June 2023, <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/>; 'IFRS S2 Climate-Related Disclosures,' International Sustainability Standards Board, June 26, 2023, <https://www.ifrs.org/supporting-implementation/supporting-materials-for-ifrs-sustainability-disclosure-standards/ifrs-s2/>. See also 'SEC Adopts Rules to Enhance and Standardize Climate-Related Disclosures for Investors,' press release, US Securities and Exchange Commission, March 6, 2024, <https://www.sec.gov/news/press-release/2024-31>

While some of these recommendations will be difficult to implement, the existential nature of the climate challenge, coupled with the lack of progress in effectively addressing it, requires collective and urgent action. Given the current global architecture, the IMF and World Bank are the only global institutions with the potential to mobilize public and private sector action at the substantially increased level that is required.

## Background

**As we look back over the last 80 years, it is clear that multilateralism—spearheaded by the international financial institutions (IFIs)—has helped enable periods of high growth fueled by the expansion of globalization in goods, services, information flows, and people-to-people exchanges, which have benefited large parts of the global population.** While serious financial crises did occur, they were ultimately addressed by national authorities with the support of multilateral institutions. With the economic pie growing, most countries benefited, and large swaths of the global population were lifted out of poverty. As globalization deepened, parts of the population also faced fewer employment opportunities in both advanced economies and middle- and low-income countries (MLICs), with negative consequences for incomes and social cohesion. The support for the multilateral system also weakened.

**In the last five years, two developments stand out.**

**First, crises in the global commons have dominated and had a profoundly negative effect on the world economy.** There is broad agreement that the effective management of the global commons represents the most significant and pressing challenge facing both national governments and the multilateral institutions.<sup>10</sup>

**The pandemic led to a painful loss of life, and necessary Covid-related expenditures in many countries strained the public finances.** The closing of schools led to setbacks in education for the young, resulting in a worsening of the educational divide and a further significant drop in productivity. Estimates of the future loss of earnings are about \$17 trillion.<sup>11</sup> The defenses around the virus proved weak, and coordination across jurisdictions was almost absent, including with respect to access to vaccines. The weaker segments of the population were hit disproportionately.

**The existential threat to humanity posed by climate is becoming increasingly evident, while fossil fuel consumption remains despite increasing alternatives available for its partial replacement.** The climate crisis has reached a tipping point, with record temperatures and extreme weather events on the rise. Greenhouse gas (GHG) emissions continue to increase and, if left unchecked, will foster famines, floods, and fires.

10. See Making the Global Financial System Work for All, Report of the G20 Eminent Persons Group on Global Financial Governance, 2018, <https://www.globalfinancialgovernance.org/files/g20epg-full%20report.pdf>; A Global Deal for Our Pandemic Age, Report of the G20 High Level Independent Panel on Financing the Global Commons for Pandemic Preparedness and Response, 2021, <https://pandemic-financing.org/report/foreword/>; UN Secretary General's High-Level Advisory Board on Effective Multilateralism, A Breakthrough for People and Planet, United Nations University Centre for Policy Research, 2023, <https://highleveladvisoryboard.org/breakthrough/>; The Paris Summit for a new Global Financial Pact, 2023, <https://pactedeparis.org/en.php#retoursommet>; Report of the Independent Experts Group to the G20: Strengthening Multilateral Development Banks—The Triple Agenda: Vol 1, Center for Global Development and Indian Council for Research on International Economic Relations, June 2023, <https://www.cgdev.org/publication/strengthening-multilateral-development-banks-triple-agenda>

11. World Development Report 2022: Finance for an Equitable Recovery, World Bank, 2022, <https://www.worldbank.org/en/publication/wdr2022>



**Taken together, not only have developments during the last five years eroded hard-won gains in health, education, and productivity, but in addition, almost every indicator of progress toward achieving the UN Sustainable Development Goals (SDGs) has seen a setback.**<sup>12</sup> These developments also threaten our future generations. In many instances, migration may be the only option for survival for the vulnerable segments of society in an inhospitable landscape, pointing to the magnitude and urgency of an integrated approach to address this global commons risk.

**Second, despite the agreement that action is needed urgently, substantive progress in addressing these challenges has been slow.** In particular, the private and public sectors have not mobilized resources at the levels necessary to address issues of the global commons. The current international architecture—designed in the aftermath of the Second World War—is structured primarily around individual nations. As designed, the existing architecture has been successful in dealing with both country- and region-specific crises. However, it has demonstrated severe limitations in managing crises of the global commons. No single country is responsible for a global crisis, and no single country can redress the situation on its own. Additionally, no institution has the mandate nor the staffing to worry about problems of the global commons, let alone solve them.

## The Challenging Global Context

**The inability of the global architecture to act in time and at scale has its roots in two important dimensions that are proceeding in parallel.**

**First, challenges in managing the global commons have grown more numerous and more pressing.** While climate change is, perhaps, the most pressing issue and for that reason is the focus of this report, there are many other demanding challenges in the global commons. These include health (e.g., the coronavirus pandemic), trade (e.g., increased protectionism and higher trade barriers), security (including cyber), digital public infrastructure, and other environmental issues (e.g., sustaining biodiversity).

**Second, the global economy has become more fragmented, and geopolitical tensions have increased, making collective action very difficult.** We are coming off decades of supportive geopolitics, demographics, globalization, and advances in technology that resulted in a period of high growth. Many of these positive trends, however, have been reversed of late, as a result of factors including weaknesses that arose during the boom years and were not addressed. Moreover, the tailwinds to global growth, such as growing markets, increasing trade, expanding supply chains, and financial globalization, were disrupted by the pandemic. The war in Ukraine has ruptured the rules that governed the international order. International cooperation is at its lowest point since the Cold War period. The peace dividend has evaporated as defense spending has risen across the globe. These developments have increased geopolitical tensions, leading to a

12. To date, only 12 percent of the SDGs are on track to be achieved. "G20 New Delhi Leaders' Declaration," India Ministry of External Affairs, September 2023, <https://www.mea.gov.in/Images/CPV/G20-New-Delhi-Leaders-Declaration.pdf>

While globalization, even if weakened, is here to stay, multilateralism is being severely tested.

rush for energy and food security, a nearshoring of supply chains, and adoption of protectionist policies.<sup>13</sup>

Strategic competition, geopolitical tensions, and the knock-on effects of armed conflicts are exacerbating the risk of global fragmentation. Full decoupling—such as alternative payments and financial, trading, and technological ecosystems—while a possibility, remains unlikely. However, the cost of fragmentation is high.<sup>14</sup> Both multilateralism and globalization were intertwined in the initial stages but are now moving in different directions.

While globalization, even if weakened, is here to stay, multilateralism is being severely tested. Most observers agree that, for now, support for multilateralism is significantly decreasing and is at risk of being replaced by an ad hoc system whereby countries banding together will drive change.

### Managing Climate Change: Defining the Problem

#### **Adverse climate events are increasing in both frequency and severity.**

Emissions and climate change affect the entire planet, the cost of mitigation is substantial, speed matters, and superior outcomes can be achieved only through a broad global coalition across the public and private sectors that operates effectively.

**At the same time, technical advances over the past few decades have improved the feasibility of making more rapid progress.** Innovation has dramatically improved the economics of reducing carbon emissions. The cost of alternative energy sources, such as wind and solar, has plummeted, and the cost of energy storage alternatives to deal with the intermittent nature of these energy supplies is also falling. Significant progress has also been achieved in reducing emissions connected with mobility on the heels of further plant automation and artificial intelligence (AI) development. Thus, the problem no longer is whether it is technically feasible to stabilize and then bring down global carbon emissions, but instead how to do this quickly, fairly, and at scale. This means that the focus needs to shift toward coordinating actions that will mobilize the requisite financial resources as well. Timeliness is of the essence, as delays will lead to a bigger rise in global temperatures, more volatile weather, and greater negative social, environmental, and economic consequences.

This is especially true for MLICs, which often face near-term problems that become more pressing priorities and may not have the resources to respond to new climate-related (trade) requirements.

Several problems are evident. First, **the current resources of the BWIs are not sufficient** to both perform their historical missions—for the World Bank, project finance and economic development, and for the International

13. In 2023, global trade growth is projected at 1.7 percent, with emerging market and developing economy (EMDE) trade growth projected at 3.3 percent. By comparison, in the decade preceding the Covid-19 pandemic (2010–2019), annual world trade growth averaged 4.6 percent, while annual EMDE trade growth averaged 4.9 percent.

14. M. A. Bolhuis, J. Chen, and B. Kett, "Fragmentation in Global Trade: Accounting for Commodities," IMF Working Paper No. WP 23/73, 2023, <https://www.elibrary.imf.org/view/journals/001/2023/073/001.2023.issue-073-en.xml>. The authors estimate that the cost of fragmentation could rise to around 2.3 percent of global GDP, with full decoupling raising the cost to 7 percent of global GDP in the short run.

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Monetary Fund (IMF), adjustment finance and macroeconomic policy expertise—and to fund a large portfolio of climate-focused investment. Proposals to shift resources from the BWIs’ historical objectives to climate change are often resisted because priorities differ among countries and because there is a fear that “mission creep” by the multilateral institutions will undermine their effectiveness in core areas.

**Second, in many MLICs, the critical role that the private sector needs to play in terms of funding and investment generally has not yet materialized to its potential.** And in the advanced countries, investment has been held back by distortions in pricing that undermine the incentives to pursue new technologies. These include both outright subsidies for fossil fuel production and the failure to ensure that fossil fuel prices reflect their full environmental costs.

**Third, the absence of reliable and consistent data about the carbon footprint of the private sector makes it more difficult to make progress.** Without an accurate picture of the current state of play and its future trajectory, it is hard to get the appropriate capital allocation and monitor progress.

### Strengthening the Bretton Woods Institutions

**To address these challenges, the Multilateral Reform Working Group (MRWG) proposes strengthening the role of the IMF and the World Bank to tackle crises in the commons.** International financial institutions such as the IMF and World Bank, together with the regional multilateral development banks (MDBs) and national development agencies, can play a key role in helping to close the critical gaps, if they are made fit for purpose with respect to governance, resources, and expertise. Moreover, by helping to ensure that the incentives facing the private sector are appropriate—so that public and private goals and actions are well aligned—they will facilitate the private sector to contribute more to the resolution of these global challenges.

There are two basic reasons for rejecting the alternative of creating a new institution: First, it would be very difficult to reach a consensus with respect to a new institution’s role, charter, and funding; second, even if that could be overcome, it would take many years for such an institution to gain the necessary scale and expertise to have an impact.

In the absence of a new institution, the BWIs—with their global membership, shareholding model, and weighted voting structures—are best equipped to fulfill the key coordination role of the global commons. They are best positioned to effectively mobilize the official sector around a shared global agenda. They are also best positioned to bring the private sector together around common standards, practices, and instruments to ensure their alignment with global goals. To do so effectively, their institutional mandates need to be augmented—not supplanted—and they need strengthened governance structures, operating models, and financial firepower.

Considerable progress has been made toward this end. The World Bank is one year into a multiyear effort to integrate the global commons into its

mission, operating model, and lending portfolio via its Evolution Roadmap (Box 1). Furthermore, both the World Bank and the IMF have made significant strides in recent years in integrating climate into their activities. The IMF has done so primarily through augmenting its surveillance and policy support activities and lending through its Resilience and Sustainability Trust. The World Bank is aligning its Country Climate and Development Reports, policy support, and funding with the Paris Agreement sustainability objectives (Annexes 1 and 2 provide a summary of these actions).

**As part of the forward effort, effective governance will be an essential ingredient for success.** Effective governance has two key parts. One, it must strive to adequately represent the weight of shareholders in its decision-making processes. Two, defining the roles of the institutions in relation to the challenge of the global commons is crucial. Much has been written by other observers about correcting the underrepresentation of MLICs in these institutions, and the MRWG strongly endorses the need for a rapid correction. The MRWG also endorses the recent division of labor agreed upon between the two institutions, whereby the IMF focuses on the macro-critical aspects of climate change and the World Bank on sustainable growth and structural transformation in client countries.<sup>15</sup>

### Box 1. The World Bank Evolution Roadmap

In January 2023, The World Bank announced a document titled *Evolving the World Bank Group’s Mission, Operations, and Resources: A Roadmap*.<sup>16</sup> The document affirmed the intention to reevaluate the Bank’s ability to address modern development challenges and chart a path forward to evolve.

This evaluation includes three steps:

- Review the Bank Group’s vision and mission
- Review the Bank Group’s operating model
- Explore options to enhance the Bank Group’s financial capacity and model, taking into account recommendations made in the capital adequacy framework review by the G20

The evolution process has focused on the global commons, with climate being a significant element. The following key reforms took place in the first year:

- The World Bank added “livable planet” to its mission and vision statements.
- It adopted eight global challenges, including “climate change adaptation and mitigation” and “energy access.”
- Working across adaptation, mitigation, and energy transition, the Bank recently pledged 45 percent of its annual financing to mitigation and adaptation projects while also pledging to support the formation of carbon markets and the energy transition.<sup>17</sup>

15. See K. Georgieva and A. Banga, ‘Joint Statement of the IMF Managing Director and of the World Bank President,’ International Monetary Fund, September 7, 2023, <https://www.imf.org/en/News/Articles/2023/09/06/pr23305-joint-statement-imf-managing-director-world-bank-president#:~:text=We%20will%20step%20up%20our,the%20G20%20Roadmap%20to%20enhance>.

16. *Evolving the World Bank Group’s Mission, Operations, and Resources: A Roadmap*, World Bank Group, December 2022, <https://documents1.worldbank.org/curated/en/099845101112322078/pdf/SECROS0151975e0e809b7605d7b690ebd20.pdf>

17. ‘World Bank Group Doubles Down on Financial Ambition to Drive Climate Action and Build Resilience,’ press release, World Bank Group, December 1, 2023, <https://www.worldbank.org/en/news/press-release/2023/12/01/world-bank-group-doubles-down-on-financial-ambition-to-drive-climate-action-and-build-resilience>

## Multilaterals and the Private Sector: Enablers of Systemwide Actions

**Replacing fossil energy to achieve zero carbon dioxide (CO<sub>2</sub>) emissions by 2050 will require an accelerated expansion of renewable energy sources, which needs an exceptional mobilization of capital.** Estimates from the Network for Greening the Financial System suggest that the volume of energy investments in a zero-carbon scenario may not be much larger than those in a fossil energy scenario over the next 30 years.<sup>18</sup> However, the demand for capital, for example to triple the capacity of renewable energy, is expected to be higher in the short term, offset by lower operating costs later. Major capital outlays are also needed for the hard-to-decarbonize sectors such as steel. The infrastructure associated with an accelerated electrification of the transport sector would further increase the up-front cost of the energy transition, making affordability a challenge for many MLICs.

**Several governments have developed substantial programs to support technological innovation and investment in energy transition,** most notably the Green Deal launched by the European Union before the Covid pandemic and, more recently, the Inflation Reduction Act in the United States.<sup>19</sup> Governments in China and India are also supporting the expansion of renewable energy in partnership with the private sector. China has accounted for close to 40 percent of the growth in the global installed capacity of renewable energy (over 1,400 gigawatts to date), while India has already achieved 180 gigawatts of renewables with the participation of the private sector and support from the public sector.<sup>20</sup>

Official sector financing has played an important role in addressing climate change in advanced economies and will be a key element for doing the same in MLICs. But it is insufficient.

**The private sector is the key to solving the climate challenge for two reasons.** One, the bulk of emissions are emanating from listed corporates and state-owned enterprises.<sup>21</sup> The commitment of large global corporations to net-zero trajectories is key to substantially reducing GHG emissions by 2030–2035, and these trajectories will impact economic activities in advanced economies and MLICs. Two, while official multilateral money is critical, it will be very modest relative to the overall needs of MLICs. Importantly, estimates of needed financing for these countries are in the neighborhood of \$3 trillion to \$4 trillion annually, the bulk of which is expected from domestic revenue mobilization and foreign direct investment

18. See 'NGFS Climate Scenarios for Central Banks and Supervisors,' Network for Greening the Financial System, June 2021. [https://www.ngfs.net/sites/default/files/media/2021/08/27/ngfs\\_climate\\_scenarios\\_phase2\\_june2021.pdf](https://www.ngfs.net/sites/default/files/media/2021/08/27/ngfs_climate_scenarios_phase2_june2021.pdf).

19. See 'Communication on The European Green Deal,' European Commission, December 2019. [https://commission.europa.eu/publications/communication-european-green-deal\\_en](https://commission.europa.eu/publications/communication-european-green-deal_en); Building a Clean Energy Economy: A Guidebook to the Inflation Reduction Act's Investments in Clean Energy and Climate Action, The White House, January 2023. <https://www.whitehouse.gov/cleanenergy/inflation-reduction-act-guidebook/>.

20. Renewables 2023 Report.' International Energy Agency, 2023. <https://www.iea.org/reports/renewables-2023>.

21. Previous work at the Bank for International Settlements has demonstrated that 1 percent of publicly listed companies are responsible for 40 percent of GHGs. A team from the University of Chicago has recently estimated that the cost to society of the emissions from 15,000 listed companies around the world would be equivalent to 44 percent of their profits.

The World Bank can have the greatest impact by using capital and financing capacity to support adaptation efforts.

by the private sector.<sup>22</sup> While various proposals are under discussion for public intervention to reduce the cost of capital in MLICs, they are unlikely to be a substitute for efficient carbon pricing by corporations, as well as improving local market conditions and cost recovery mechanisms to sustain investments in MLICs. This is because MDB's do not have the financial capacity to substitute commercial risk investments in MLICs.<sup>23</sup>

**The World Bank can have the greatest impact by using capital and financing capacity to support adaptation efforts.** These actions often involve construction projects, with long maturities and dependency on public sector transfers. Long-term loans are key to initiating these investments, with the technical capacity of the World Bank and other development institutions crucial in the selection, supervision, and management of these projects, as well as in supporting adaptation of production processes and market structures, e.g., in agriculture, to the increasing consequences of climate change.

**Multilateral institutions will also need to serve as platforms for knowledge sharing and dissemination of best practices,** helping countries to leverage each other's experiences and implement effective strategies for growth, sustainability, and attracting private capital. Facilitating technology transfer from developed countries to MLICs will be crucial to avoiding a deeper technological divide as economic systems and corporations adapt at a quick pace.

### Key Gaps: Governance, Implementation, Accountability

**The MRWG has considered the gaps that need to be filled for multilaterals to operate efficiently and at scale to solve the challenges outlined above.** Our conclusion regarding the current global architecture is that the public and the private sector face gaps on governance, implementation, and accountability.

#### Public Sector

**For the public sector, the gaps in the architecture are as follows:**

**Governance:** Despite the UNFCCC-led process of establishing nationally determined contributions (NDCs)—and revising them—under the Paris Agreement, no institutions have the overall responsibility to coordinate the global climate change policy and systemwide financial effort. This includes assessing and coordinating the necessary financing as well as fiscal policies. Without overall coordination, the effort necessarily must be disjointed and inefficient, slowing progress.

22. Report of the Independent Experts Group to the G20: Strengthening Multilateral Development Banks—The Triple Agenda: Vol 1, Center for Global Development and Indian Council for Research on International Economic Relations, June 2023, <https://www.cgdev.org/publication/strengthening-multilateral-development-banks-triple-agenda>

23. Total assets across all MDBs are less than 14 percent of the cumulative gross capital formation in EMDEs, based on data from the World Bank Group. Gross capital formation (current US dollars), World Bank national accounts data, and Organisation for Economic Co-operation and Development national accounts data are from A. Todd, J. Rivera, and D. McNair, "Data Dive: Unlocking a Trillion Dollars for Development," ONE Campaign, 2024, <https://data.one.org/data-dives/unlocking-a-trillion-dollars-for-development/#how-much-cash>



**Implementation:** There is a lack of public institutions to effectively lead and coordinate implementation in a transparent manner using international best practices. In addition, there is a paucity of specific financing mechanisms that are focused on climate—and climate alone—and that have appropriate safeguards and possess an effective surveillance framework.

**Accountability:** Despite the increasing involvement of financial authorities and corporations in the UN Conference of the Parties (COP) annual meetings, there is no permanent mechanism to ensure a periodic systemwide review of the progress of both policies and financing and implementation plans. The absence of such a mechanism precludes monitoring progress and enacting midcourse corrections.<sup>24</sup>

### Private Sector

**Similarly, for the private sector, the gaps in the architecture are these:**

**Governance:** The mechanisms to establish transparent, effective decarbonization stocktaking, goals, and strategies are inadequate. In addition, accurate data on the carbon footprint of the business sector is lacking, impairing the effectiveness of the price discovery mechanism.

**Implementation:** There are insufficient information, regulatory, and financial instruments to facilitate climate change investment at scale; this deficiency is exacerbated by a lack of clarity about the relative prioritization of strategies for mitigation (e.g., expanding renewable energy, improving energy efficiency, and increasing carbon capture) and for the adaptation of economies to climate change (e.g., through infrastructure, new production processes, and insurance), as well as about the impact of climate change on value chains in different geographies.

**Accountability:** There is no mechanism to monitor and verify corporate commitments and accompanying implementation strategies, nor is there an enforcement mechanism to reduce the risk of greenwashing.

## Filling the Public Sector Gaps

### Governance

**Recommendation 1: Constitute ministerial-level decision-making bodies (“Councils”) at the World Bank and the IMF to serve as high-level permanent organs of the institutions to oversee issues pertaining to the global commons that require coordinated international public and private sector actions.**

In broad terms, the BWIs are unique in their combination of universal membership, clear mandates, and access to substantive financial resources, together with their strong executive structures and talented staff. In short, they are designed to be effective and active. However, their key governing

24. See “Nationally Determined Contributions,” UNFCCC, 2024, <https://unfccc.int/process-and-meetings/the-paris-agreement/nationally-determined-contributions-ndcs>

These Councils  
would bring a  
decisive agenda-  
setting function to  
issues of the global  
commons...

bodies—the Boards of Governors and the Executive Boards—are, in the case of the Governors, powerful but diffuse, and in the case of the Executive Boards, active but fully occupied with the daily running of the institutions.

Although the Governors have created two intermediate bodies at the ministerial level—the Development Committee (DC) that spans both the Fund and the Bank, and the Fund’s International Monetary and Financial Committee (IMFC), which, in principle, could help—these bodies are hampered by their status as advisory bodies that do not possess binding decision-making authority.

The MRWG recommends that focused, ministerial-level Councils be formed in both institutions with decision-making powers over issues pertaining to the global commons that will require international public sector actions granted by and operating under the authority of their respective Boards of Governors and acting within the framework of the institutions’ existing constitutional arrangements. These Councils would bring a decisive agenda-setting function to issues of the global commons, including climate and not undertake the current operational role of the Executive Boards.

In the case of the Bank, this would involve the formation of a new body—named for discussion purposes the Development and Sustainability Council (DSC). In the case of the IMF, the Fund’s Articles of Agreement already contemplate the formation of a ministerial Council (see Box 2). As a result, establishing a governing body within the Fund that would possess the appropriate combination of focus, credibility, and political force would require only the activation of a governance arrangement that has already been contemplated.

Achieving this critical governance function could be through a strengthened version of the existing DC and the IMFC. The MRWG suggests that the DC and the IMFC could appoint a group of experts to help make the Councils operational soon.

## Box 2: The IMF Council

The IMF's Articles of Agreement (Article XII, Section 1) provide the IMF with the authority to activate a Council upon approval of an 85 percent majority of the voting power, with details concerning the operation of the Council set out in Section D of the Articles. The Articles mandate that the Council shall supervise the management and the adaptation of the international monetary system, including the continuing operation of the adjustment process and developments in global liquidity, and in this connection shall review developments in the transfer of real resources to developing countries.

Section D of the Articles mandates that each member or group of members that has the number of votes allocated to it or them cast by an Executive Director shall appoint to the Council one Councilor, who shall be a governor, minister, or person of comparable rank, and may appoint not more than seven associates. Furthermore, each Councilor shall have the ability to cast the number of votes allotted under Article XII, Section 5, to the member or group of members appointing him or her. A Councilor appointed by a group of members may cast separately the votes allocated to each member in the group.

With a Council set up in this manner, all countries would have representation and participate in decisions that affect their futures. In addition, each country would be able to cast its voting share according to its own national priorities. This enables distinct groups of countries to join hands and form a critical mass to drive change. Carving it out in this manner will leave the role of the Executive Board unchanged, as it will continue to be responsible for the operational aspects of the institution, ensuring the institution's operational efficiency

The creation of the IMF's Council has been discussed several times in the Fund's history, with two main aims: (1) to establish the IMF as the de facto decision maker at the center of the international financial architecture, thereby granting it increased legitimacy, and (2) to grant representation to all Fund members in that decision making process (see Annex 3).

**For the World Bank, the immediate task of the DSC would be to design the overall architecture and coordinate the implementation of climate actions in MLICs.** The global coordination of multilaterals, regional MDBs, bilaterals, philanthropy, the private sector, and the disclosure/regulatory authorities will be essential. This coordination should include (1) aligning investment priorities in individual countries so that the goal of poverty reduction on a livable planet is achieved; (2) increasing the collaboration of MDBs with the private sector, with a view to expanding bankable projects in MLICs; and (3) internalizing the operation of corporate climate disclosure requirements. In this context the World Bank will be able to devote a substantial part of its climate and general resources to adaptation projects, while also leading in mitigation efforts.

**On the side of the IMF, the immediate task of the IMF Council would be to balance and align IMF's surveillance, capacity building, and lending activities,** working in cooperation with other bodies, so as to devise technical and financial support to address the challenges in the commons, and in the first instance, the climate transition. Of particular importance will

be the coordination of the macro policy agenda as public sector and private sector actions (see below) are implemented. This will require the assessment of financial risks and the coordination of policies and financing across jurisdictions. It is crucial that financing the commons not undermine the critical role that the IMF plays in financial crisis prevention and resolution.

**The Council framework provides an added governance benefit that is crucial for management of the commons.** In the Council, each country, with its voting power equal to its quota share has the option of casting its own vote individually but proportionally, based on its own national priorities, rather than collectively through a constituency framework, as is the case now at the IMF Board. Currently, at the IMF Executive Board, each of the 24 Chairs casts a vote as a block equal to the sum of the quotas of individual countries in that Chair’s constituency. Not only does the Council voting structure provide stronger ownership of collective decisions but, importantly, it **allows the possibility for “coalitions of the willing” to emerge** across advanced economies and MLICs, and to garner the critical mass to drive change. This robust voting system will also enable the Councils to avoid the inaction that often characterizes consensus-based processes.

Carving it out in this manner will leave the role of the Executive Board unchanged, as it will continue to be responsible for the operational aspects of the institution, ensuring the institution’s operational efficiency.

## Implementation

**Recommendation 2: Focusing Multilateral Action.** Design instruments and institutional arrangements to finance the means to face the most relevant climate challenges and opportunities confronting MLICs in the next 10 to 15 years. Focus on the following four areas: (A) expanding the supply of clean energy and greening the economy, (B) phasing out coal in electricity generation, (C) promoting adaptation to the effects of global warming, and (D) protecting and expanding forests and other nature-based solutions as means to capture carbon and protect biodiversity.

Although a significant part of the stock of CO<sub>2</sub> in the atmosphere came from advanced economies, emissions are increasingly concentrated in MLICs, reflecting their growing share in the global economy and the associated energy consumption underpinning it. MLICs’ populations, especially in tropical zones, are also the most vulnerable to climate change. Concerted action to achieve material progress in a few areas most relevant for the climate in the next 10 to 15 years will therefore have a significant impact on whether the 1.5°C goal will be met<sup>25</sup> and on the livelihoods of hundreds of millions of people in MLICs. The four most relevant challenges in this regard are (A) expanding the supply of clean energy and greening the economy, (B)

25. Report of the Independent Experts Group to the G20: Strengthening Multilateral Development Banks—The Triple Agenda: Vol 1, Center for Global Development and Indian Council for Research on International Economic Relations, June 2023, <https://www.cgdev.org/publication/strengthening-multilateral-development-banks-triple-agenda>

phasing out coal in electricity generation, (C) promoting adaptation to the effects of global warming, and (D) protecting and expanding forests as means to capture carbon and protect biodiversity.

**Of course, additional finance from multilateral institutions to MLICs will be most effective if blended with changes within MLICs that include strengthening institutions and the rule of law, and deepening domestic capital markets in synchrony with net-zero paths of global companies.<sup>26</sup>**

These steps will help in de-risking investments and economies so that the hurdle rate to attract foreign capital is lowered, leveraging the impact of official flows. Additional sources of public financing will, nonetheless, be needed to confront the climate challenge.

#### **A. Expanding the supply of clean energy and greening the economy**

**The bulk of global energy demands in the next three to four decades will occur in the MLICs, which will account for most of future global growth and where the challenge of improving the economic outlook of the 2 billion people at the bottom of the global wealth distribution is more present.** Ensuring that this expansion happens in a sustainable way, compatible with the goal of countries moving toward net-zero economies, is a matter of common interest.

**The capital requirement of such an energy transition, however, exacerbates all the challenges normally related to development and infrastructure investment in MLICs.** Many of these countries have low capital stock, insufficient savings rates, and a lack of deep capital markets to support this transition. In addition to macroeconomic and financial challenges, many of these countries have weak cost-recovering mechanisms in energy markets, increasing the riskiness of private investments, especially those with large sunk costs. In these circumstances, although electricity from renewable energy can be cheaper than from fossil fuels in many MLICs, financing its expansion can be daunting, especially with high interest rates in advanced economies and the current external and domestic debt difficulties facing many MLICs. Focusing on the materiality of energy choices and their actual impacts on climate change will therefore be crucial for countries with large development demands and scarce resources.

#### **B. Phasing out coal in power generation**

**The phasing out of coal in MLICs is urgent.** Coal accounts for 15 billion tons of CO<sub>2</sub> emissions per year, a substantial part coming from electricity generation, notably in Asia. Also notably, the reduction of coal usage has accounted for most of the drop in US CO<sub>2</sub> emissions in recent years and will reduce the time to peak CO<sub>2</sub> emissions in China, bringing it to before 2030, with support from the sustained growth of renewable energy and moderation in the construction sector. If Europe soon returns to its focus on phasing out

26. As a proxy for financial market depth, the market capitalization of listed domestic companies is around 169 percent of GDP for high-income countries, compared to an average of approximately 61 percent of GDP for Brazil, China, India, Indonesia, and Nigeria. World Bank Group DataBank, World Development Indicators, 2022. <https://databank.worldbank.org/source/world-development-indicators>

coal, the key question—already flagged by the Fair Energy Transition Partnership—is how to promote an accelerated phasing out of coal in some key MLICs without harming their development and the livelihoods of a significant swath of their populations.<sup>27</sup>

- Removing from 1.5 to 2.0 gigatons of CO<sub>2</sub> from the atmosphere annually by phasing out coal in Asia (excluding China) and in South Africa in the next 5–10 years would make a significant dent in global emissions and convincingly demonstrate how the challenge of the commons can be met with the support of the entire international community.
- To achieve this goal, the cost of the transition must include resources to deal with the impact on livelihoods of dismantling the current production chain in several MLICs that are coal producers. Significantly reducing emissions between 2030 and 2035 with global support is efficient and can be done fairly, considering the reference price (advocated by the IMF) of \$85 per ton of CO<sub>2</sub>.

### C. Adapting to the effects of global warming

**Adaptation will become urgent and crucial for intertropical regions, which will suffer most from climate change.** Many of the MLICs in Africa, Asia, and Latin America and the Caribbean are particularly vulnerable to droughts or rising ocean levels (for example, the Sahel, several island economies, and Bangladesh). Adaptation efforts often involve major construction works as well as extensive changes in economic processes and the ways in which the populations earn their livelihoods. In such cases, public policy and public spending will have a prominent role in MLICs, as these structural changes may not be promoted by market forces alone and it can be difficult to charge individuals for the benefits of certain kinds of civil works. The World Bank can take the lead in financing the construction and upgrading of climate-resilient infrastructure, as well as supporting sustainable agriculture, by means including facilitating access to climate-resilient agricultural technologies and undertaking capacity-building actions.

### D. Protecting and expanding forests

**Protecting forests is another example of defending the global commons, with conservation and reforestation perhaps being the most effective technology for carbon capture today and in the near future.** These and other nature-based solutions also contribute to preserving biodiversity, another resource of the global common. Eliminating deforestation and promoting reforestation in South America, equatorial Africa, and Asia can avoid or sequester 1.5 gigatons per year of CO<sub>2</sub> emissions, with a cost that is generally far less than the IMF reference price of \$85 per ton of CO<sub>2</sub> and with significant social and biodiversity co-benefits as well as little risk to national or global food security. The challenges here involve monetizing the global benefits associated with new forests, prevention of deforestation, and

27. Fair Energy Transition for All—How to Get There, Fair Energy Transition for All, November 2022, [https://fair-energy-transition.eu/wp-content/uploads/2022/11/FETA\\_SYNTHESIS\\_final.pdf](https://fair-energy-transition.eu/wp-content/uploads/2022/11/FETA_SYNTHESIS_final.pdf)



promotion of sustainable land use practices through, for example, a global carbon market. From the supply side, robust monitoring of these actions is now available through satellite imagery and community-based monitoring, by strengthening land tenure rights of local communities and indigenous populations. Better methodologies to measure carbon sequestration in trees and in the soil are also making forest projects more robust, strengthening the integrity of a carbon market based on these solutions. There are, however, issues on the demand side—that is, how to incorporate these alternatives in state and nonstate actors’ net-zero trajectories, helping, inter alia, to reduce transition costs and their impact on consumers while not reducing incentives for technological innovation and investment in new facilities and industrial processes.

**Recommendation 3: Expanding climate-linked financial**

**instruments.** The World Bank could issue climate-related financial instruments, and part of new paid-in capital could specifically support the issuance of climate-linked bonds. Hybrid debt subscribed by governments, institutional investors, or philanthropies with preferences for climate matters would be examples of such instruments and could help anticipate those capital increases.

**Financial innovation can continue to expand the lending capacity of multilateral institutions.**

Multilaterals are already accustomed to issuing bonds with specific use of proceeds, which can create the necessary prioritization without the need for changes in the bylaws. Regarding the World Bank, this practice can be matched with nonvoting hybrid structures and can be less costly than the transfer of World Bank country risks to the private sector, given that the World Bank portfolio is very diversified and benefits from the preferred credit status enjoyed by the Bank. The use of special drawing rights (SDRs) to fund development institutions may merit some attention and may signal support from main shareholders (as a lever to sustain the quality of their credit rating), but it is not simple, given SDRs’ original role as mechanisms to shore up short-term current account deficits.<sup>28</sup> As with other approaches to increase MDBs’ leverage, they will not replace significant capital increases in coming years but can provide interim breathing space.

**The World Bank has already been invited to be the interim trustee of the loss and damage fund established at COP28, to which more than \$600 million has already been pledged by close to 20 nations and the EU Commission.** Such a fund may eventually also be funded by global taxes, such as those on fossil fuels.

28. See the recent proposal from the African and Inter-American Development Banks regarding the rechanneling of SDRs, “Leveraging the Power of Special Drawing Rights: How Developed Countries Can Help Boost Africa’s Development,” interview with Hassatou Diop N’Sele, African Development Bank Group, May 2022, <https://www.afdb.org/en/news-and-events/interviews/leveraging-power-special-drawing-rights-how-developed-countries-can-help-boost-af-ricas-development-51910>.

**Recommendation 4: The World Bank should have an increasingly important role in coordinating climate policies and development institutions across MLICs to enhance the transparency and effectiveness of the system.**

The World Bank could expand the production of Country Climate and Development Reports (CCDRs), with the participation of the IMF, using them as the basis for Country Strategy Papers (CSPs). These would reinforce the pathway agreed upon with countries to provide a framework for surveillance, lending, and financial support by the official sector, including the IMF. CSPs can also be produced for advanced economies by the IMF, the Organisation for Economic Co-operation and Development (OECD), or other partners. Regional MDBs should continue to promote de-risking activities.

**Years of experience have shown that the system delivers more than the sum of its parts when it follows common international best standards. In this vein, a country platform enhances the transparency and effectiveness of the multilateral system.**

Since 2021 the World Bank has been producing CCDRs, with 26 documents covering 30 countries already available and another 20 in preparation. These papers can be the basis for a climate strategy commonly agreed upon by Bank clients, becoming CSPs that will inform country platforms, helping mobilize resources from the regional MDBs and other institutions, as well as the private sector. They should reflect a common framework, balancing mitigation and adaptation needs, and blending global and countries' priorities for climate and development. The CSPs will serve also as bases for surveillance, lending, and financial support by the official sector, including the IMF, which should equally contribute to them, and will provide a clear articulation of the path ahead for the private sector. In keeping with the type of arrangement used in the production of joint World Bank-IMF Financial Sector Assessment Programs, CSPs can be prepared for advanced economies too, with the support of the IMF, the OECD, and the relevant regional institutions.

**Harmonization of operational procedures across multilateral and bilateral institutions would increase the effectiveness of their disbursements.**

Procedures across the IFI system must be streamlined and consolidated into one country-led platform that can enhance the transparency and effectiveness of the multilateral system under internationally agreed upon standards. This approach, repeatedly suggested by international panels, has at least two benefits: (1) It reduces the burden on country authorities of having to deal with multiple stakeholders on similar topics again and again, and (2) it promotes transparency of actions among external and internal stakeholders, with the potential of greatly reducing the transaction cost of private sector investors, notably international investors, lowering the cost of climate and development finance.

**The power of regional MDBs—which have substantial presence on the ground—should be fully harnessed to help countries to de-risk investments in mitigation projects carried out by the private sector.** For this purpose, regional MDBs should also support reforms to strengthen countries' institutions and the rule of law, deepening domestic capital markets and promoting the dialog with international corporates and investors.<sup>29</sup> Regional MDBs will be key to foster collaboration among member countries, sharing best practices and lessons learned in addressing climate change. Together with the World Bank, they can also collaborate with other development institutions and organizations to coordinate efforts, promote regional climate action, and support resilient infrastructure, including water management systems that can withstand the impact of climate change as well as other adaptation-linked activities such as flood protection, coastal zone management, drought-resistant agriculture, and sustainable land use.

**Recommendation 5: Strengthening the surveillance and lending capacity of the IMF. Lending and surveillance activities of the IMF can be further strengthened to support action to mitigate climate change.**

On the lending side, financing for climate should be ring-fenced with climate conditionality, ensuring that these resources are not diverted for other purposes. The new IMF facility—the Resilience and Sustainability Trust—is an important first step and could evolve to embrace these goals. Furthering climate analysis in some or all of the IMF's semiannual publications—the World Economic Outlook, Global Financial Stability Report, and Fiscal Monitor—as well as expanding climate coverage in its country-specific Financial Sector Assessment Programs (FSAPs), including with respect to progress on climate market regulations, disclosures, and statistics, would have great value for the private sector and enhance the transparency of public policy across constituencies.

**The IMF can further strengthen its activities to support global action against climate change.** As noted, coordination is key to address climate change, and the integration of the discussion of climate policies in the Fund's mainstream surveillance work and global macroeconomic analysis is rather natural, especially regarding the interfaces with the financial sector and global capital flows. Expanding on its current climate work (see Annex 2), the IMF could deepen the analysis of climate risks in the FSAPs and continue to mainstream climate in bilateral surveillance, e.g., regarding the adoption of standards for mandatory disclosure of emissions by companies. This would benefit the private sector decisions, as well as the transparency of public policy globally.

The financing of countries' actions with global impact as well for addressing the impact of physical and transition climate risks on their own economies, will likely have an increasing role among the IMF's activities. It would

<sup>29</sup> See note 23, concerning market capitalization.

therefore best be developed within a clear mandate and framework, as afforded by the creation of the aforementioned Council.

Recognizing that money is fungible, on the lending side, **climate resources could be ring-fenced through the use of carbon conditionality** to ensure that money made available is spent on climate-friendly policies—mitigation and adaptation measures. IMF's flagships—the World Economic Outlook, Global Financial Stability Report, and Fiscal Monitor—can further their role as effective tools for global surveillance and policy guidance, continuing to raise awareness about the economic risks of climate change, promote the adoption of carbon pricing mechanisms, and encourage countries to implement sustainable fiscal policies that support climate action.

### Accountability

**Recommendation 6: The Independent Evaluation Offices (IEOs) of the IMF, the World Bank, and the Regional MDBs periodically conduct an integrated assessment of the progress of the financing and implementation plans.**

**The global commons represents issues that are broadly conceived as important to the international community, that for the most part cannot be adequately addressed by individual countries acting alone, and that are defined through a broad international consensus and a legitimate process of decision making.** These factors have led to periodic reassessments of challenges in the global commons, with accompanying recommendations. As crises of the global commons have intensified, so has the frequency of these assessments. Recent assessments include the G20 Eminent Persons Report (2018), the G20 Report on the Pandemic Architecture and Its Financing (2021), the UN Secretary General's High-Level Advisory Board on Effective Multilateralism (2023), the Paris Summit (2023), and the G20 Independent Experts Group on the Reform of the Multilateral Development Banks (2023).<sup>30</sup>

**While these assessments are welcome, they are not a substitute for establishing a permanent mechanism for conducting a systematic systemwide review of the progress of financing and implementation plans.** Such a mechanism would address the absence of information on climate goal-related advances, slippages, and forgone opportunities based on consistent methodologies and practices. The IEOs of multilateral institutions have gained sufficient experience in conducting ex-post assessments of their respective institutions. Since each of these institutions is now effectively engaged in helping to address the global commons

30. Making the Global Financial System Work for All, Report of the G20 Eminent Persons Group on Global Financial Governance, 2018, <https://www.globalfinancialgovernance.org/files/g20epg-full%20report.pdf>; A Global Deal for Our Pandemic Age, Report of the G20 High Level Independent Panel on Financing the Global Commons for Pandemic Preparedness and Response, 2021, <https://pandemic-financing.org/report/foreword/>; UN Secretary General's High-Level Advisory Board on Effective Multilateralism, A Breakthrough for People and Planet, United Nations University Centre for Policy Research, 2023, <https://highleveladvisoryboard.org/breakthrough/>; The Paris Summit for a new Global Financial Pact, 2023, <https://pactedeparis.org/en.php#retoursommet>; Report of the Independent Experts Group to the G20: Strengthening Multilateral Development Banks—The Triple Agenda: Vol 1, Center for Global Development and Indian Council for Research on International Economic Relations, June 2023, <https://www.cgdev.org/publication/strengthening-multilateral-development-banks-triple-agenda>

challenges, **the appropriate permanent mechanism for conducting regular assessments should be the collective of various IEOs, with adequate interaction with existing evaluation bodies like the IPCC.** The participation of regional MDBs in such exercises can provide a strong backstop for climate action. Done in this manner, a permanent database would be established while sharing the burden of system-wide exercises, thereby providing the basis for mid-course correction.

## Filling the Public Sector Gaps

### Governance

**Recommendation 7: The relevant regulatory agencies should make the disclosure requirements of the International Sustainability Standards Board (ISSB), or comparable requirements, mandatory for companies listed on key stock exchanges.** Thereafter, these standards should also be applicable to state-owned enterprises. The World Bank should be involved in this endeavor. The IMF should include the adoption of such standards as part of its surveillance and technical assistance work, with the support of the regional MDBs where applicable.

**The current system of voluntary disclosures enforced by shareholders is unmanageable.** First, there are no mechanisms to verify the consistency of corporate disclosures with the corresponding financial statements. In addition, the varying regulatory requirements across jurisdictions provide an incentive to shift high-emission activities to lesser-regulated jurisdictions. A move to a system of mandatory disclosures that integrate current emissions, net-zero trajectories, and the required investment with financial statements is essential.

### Making price discovery work through disclosures

**One of the key roles of markets is to price risk, based on all available information, to support efficient capital allocation decisions.** In the absence of timely and accurate information, risk will be mispriced, leading to a misallocation of capital. In 2015, the Financial Stability Board created the Task Force on Climate-Related Financial Disclosures (TCFD), which in 2017 released climate-related financial disclosure recommendations structured around four core elements of how companies operate: governance, strategy, risk management, and metrics and targets. Following COP26 (in 2021), the ISSB was created with the purpose of extending accounting standards to the sustainability field. The ISSB has set out four key objectives: (1) to develop standards for a global baseline of sustainability disclosures, (2) to meet the information needs of investors, (3) to enable companies to provide comprehensive sustainability information to global capital markets, and (4) to facilitate interoperability with disclosures that are jurisdiction-specific and/or aimed at broader stakeholder groups. The work of the ISSB is to bring under one umbrella several disparate endeavors of the past. The impact of these

measures on capital allocation and international flows can be significant and benefit from investors' discipline, facilitating a lower-cost and possibly more inclusive global transition to net zero.

**The first two ISSB standards, S1 and S2, have been released.**<sup>31</sup>

International Financial Reporting Standard (IFRS) S1 requires an entity to provide disclosures about its governance process and strategy for managing sustainability-related risks and opportunities; how these are identified, assessed, prioritized, and monitored; and how much the entity has moved toward any sustainability targets it has set or is required to meet by law or regulation. IFRS S2 sets out specific climate-related disclosures, being designed to be used with IFRS S1. Both IFRS S1 and S2 fully incorporate the recommendations of the TCFD, and S2 is effective for annual reports as of 2024.

**Key stock exchanges—Frankfurt, Hong Kong, London, New York, and Tokyo—have already announced plans to require corporate disclosures along TCFD lines with a phase-in period.**<sup>33</sup>

However, mandatory disclosures and the consistent application of one standard across the five exchanges is necessary. Exchanges in Johannesburg, Lagos, and Santiago de Chile, as well as the ASEAN (Association of Southeast Asian Nations) Capital Markets Forum, have supported IFRS S1 and S2. More recently, the US Securities and Exchange Commission has adopted rules to enhance and standardize climate-related disclosures by public companies and in public offerings, very much along the lines of the ISSB framework, although limited to direct emissions or those from purchased energy (Scopes 1 and 2 emissions).<sup>34</sup>

**Ensuring that disclosures can be efficiently processed**

**It is likely that despite the guidelines in IFRS S1 and S2, disclosures may initially be the equivalent of “data dumps,” making efficient data processing impossible.**

It is thus in the interest of the global community to support the development of a digital public infrastructure that translates disclosures, including those made in financial statements, into machine-readable data. Philanthropies and third-party institutions have shown some

31. "IFRS S1 General Requirements for Disclosure of Sustainability-Related Financial Information," International Sustainability Standards Board, June 2023, <https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements/>; "IFRS S2 Climate-Related Disclosures," International Sustainability Standards Board, June 26, 2023, <https://www.ifrs.org/supporting-implementation/supporting-materials-for-ifrs-sustainability-disclosure-standards/ifrs-s2/>

32. Japan Exchange Group, "Environmental Information (TCF Disclosure)," November 1, 2023, <https://www.jpex.co.jp/english/corporate/sustainability/jpx-esg-environment/index.html>; Deutsche Börse Group, "ESG Reporting and Ratings," 2024, <https://www.deutsche-boerse.com/dbg-en/responsibility/sustainability/esg-reporting-ratings>; HM Treasury, "Task Force on Climate-Related Financial Disclosure (TCFD)-Aligned Disclosure Application Guidance—Phase 1 and Phase 2," March 21, 2024, <https://www.gov.uk/government/publications/tcf-aligned-disclosure-application-guidance/task-force-on-climate-related-financial-disclosure-tcf-aligned-disclosure-application-guidance#:~:text=The%20UK%20government%20formally%20endorsed,entities%20in%20the%20private%20sector>; Hong Kong Exchanges and Clearing, "ESG in Practice," 2024, [https://www.hkex.com.hk/Listing/Sustainability/ESG-Academy/ESG-in-Practice/Climate-Change?sc\\_lang=en#:~:text=The%20TCFD%20recommendations%20recommend%20disclosure,assess%20and%20manage%20climate%20related,see also note 9, concerning SEC standards](https://www.hkex.com.hk/Listing/Sustainability/ESG-Academy/ESG-in-Practice/Climate-Change?sc_lang=en#:~:text=The%20TCFD%20recommendations%20recommend%20disclosure,assess%20and%20manage%20climate%20related,see also note 9, concerning SEC standards).

33. On March 15, 2024, the US Court of Appeals for the Fifth Circuit granted an administrative stay of the SEC climate-related disclosure rules, responding to a petition filed by certain oilfield services companies, while it continues to review the legal challenges to the SEC rules. R. Ramonas, "SEC Climate Reporting Rules Revived after Court Lifts Hold (I)," Bloomberg Law, March 2024, <https://news.bloomberglaw.com/esg/sec-climate-reporting-rules-revived-after-court-lifts-hold>

34. See Note 31 on IFRS Disclosures



action in this direction with incipient results,<sup>35</sup> and advances in technology and AI are helping to translate corporate data into corporate sustainability ratings.

### **Enabling corporate boards, shareholders, and civil society to act**

**With reliable and consistent data, shareholders and civil society will be able to channel resources toward their preferences and hedge their risks more efficiently.** Such data will also provide the means for corporate boards to develop effective long-term plans for their corporations. In addition, large money managers will have the necessary data to act on their stated goals with respect to sustainability, and new insurance products may emerge in the wake of better climate risk pricing models.

**The development of a common, interoperable digital public infrastructure to translate disclosed data into machine-readable data will enable markets to rate and price corporates on the sustainability front, enabling money managers and shareholders to exercise their respective mandates.** Proportionality should inform the adoption of such disclosure requirements and net-zero strategies by smaller companies, which when acting as suppliers to large companies are likely anyway to be pressured by the latter when these have adopted decarbonization plans.

**This standardized rating system would encourage corporate boards to develop effective long-term carbon reduction plans, knowing that capital would flow to the most efficient and effective programs and projects.** Improved information will also help MDBs to better align their lending programs, financial instruments, and funding strategies with sustainability goals, facilitating sustainable private investment in MLICs. In the absence of such a system, corporates will be more subject to government regulations.

**Enhanced disclosure of emissions data in both advanced and developing economies will influence the technologies used by corporates in different markets globally.** It can also have a bearing on investment decisions, especially those of large companies, as certain activities are phased in and out. It would also likely promote the development of numerous financial products to hedge future physical and transition (regulatory) risks, facilitating the price discovery process for climate change. This effort encompasses, but also goes beyond, the current climate rating done by rating agencies.

**As climate disclosure requirements are implemented across jurisdictions, corporates in the real economy and the financial sector in MLICs will feel pressure on their balance sheet as well as face new opportunities.** The regulatory capacity of MLICs will need to develop in tandem with their development strategies and the achievement of their NDCs.

35. Although more than 20,000 companies, representing more than 50 percent of global market capitalization, report some emissions and about half of them have announced net-zero goals, only a small fraction specify their investments to get there and even fewer identify carbon-intense assets to be phased out ("Net Zero Stock Take 2023," Net Zero Tracker, 2023, <https://zerotracker.net/analysis/net-zero-stocktake-2023>). Meanwhile, proof of concept for the Net-Zero Data Public Utility was launched at COP28 (<https://nzdpu.com/home>), aiming at becoming a global, centralized, open repository for private sector climate transition-related data freely accessible to all, thereby increasing the transparency of private sector climate data, which is critical for a successful net-zero transition.

## Implementation

**Recommendation 8: A strengthened IMF and World Bank would be best placed to take the lead in the analysis, design, and promotion of global voluntary and regulated carbon markets, aimed at helping to finance key decarbonization actions and at supporting nature-based solutions.** The two institutions should also assess the climate effectiveness and macroeconomic and development impact of cross-border carbon taxes, developing instruments to help MLICs deal with such taxes, including through the redistribution of values levied by them. Together with other IFIs, the BWIs should continue to support green financial instruments as well as impact bonds and other initiatives from philanthropies.

**Financing the transition for corporates requires green financial instruments aimed at supporting environmentally sustainable projects, initiatives, and businesses.** These instruments must be designed to encourage and promote activities that have positive environmental impacts. They may include green bonds, loans, and grants, as well as impact funds. In addition, carbon markets can help price fossil fuel emissions and will be crucial to generate capital flows in the magnitude required to support of phasing out coal and implementing nature-based solutions aimed at carbon avoidance and sequestration, with co-benefits for human livelihoods and biodiversity.

The IMF and the World Bank should take the lead in the design of global (voluntary and compliance-based) carbon markets, as well as in the study of the global impact of cross-boundary carbon adjustment taxes. These two mechanisms are likely to increase in prominence, given the potential of the former to provide substantial capital flows and the latter to promote a “level playing field” for economies more committed to net-zero targets. Voluntary global carbon markets can have a great role in the short term, while a substantive part of the global economy and multinational corporations are not subject to mandatory reduction targets and will require high integrity on the supply side and a full integration to net-zero corporate plans. A global compliance-based carbon market may also evolve, inter alia, as an alternative or supplement to carbon taxes. The introduction of carbon taxes, including cross-border adjustment taxes, to enable enforcement of sustainability standards and national/global climate targets for noncompliant firms or jurisdictions is likely to create substantial economic dislocation at the global level. Assessing the impact of such taxes on MLICs, and devising a mechanism to cushion it without penalizing emission reductions, together constitute a top macroeconomic and development issue for the coming years. It may also be worth considering the possibility of, at least in part, directing the receipts of carbon taxes to global transition funds, including the loss and damage fund established at COP28.

Recognizing that neither the public nor the private sector alone can resolve the current impasse, this report proposes a systemwide approach as a way forward.

## Accountability

**Recommendation 9: Market regulators should verify the consistency of mandatory sustainability disclosures with corporate financial statements and monitor divestment policies that simply shift high-emission activities to lesser-regulated jurisdictions or their local investors.**

**The current system of voluntary disclosures enforced by shareholder actions is unmanageable, as a framework is lacking to verify the consistency of corporate disclosures with the corresponding financial statements.** In addition, with varying regulatory requirements across jurisdictions, there is an incentive to shift high-emission activities to lesser-regulated jurisdictions. A move to a system of mandatory disclosures with enforcement of decarbonization trajectories by regulatory agencies is essential.

### Disclosure framework impacting MDBs

Multilateral institutions will need to study the impact of these disclosures on corporate behavior across markets. Disclosures by listed (and eventually nonlisted) companies will be helpful for multilateral institutions to infer the incentives and hurdles international investors may face in different jurisdictions as they try to implement low-emission strategies and trajectories.

Resolute action on this front will lower the cost of investing in MLICs, including by expanding clean energy availability, which very often will be a factor for locational decisions of global corporations.

## Conclusion

Crises of the global commons are overarching challenges that transcend national borders and pose perhaps the greatest challenge of our 21st-century world. Climate change is the most glaring and urgent example. While many important national and international efforts have been made, it is universally recognized that progress so far has been too limited and too slow. Increasing geopolitical tensions and economic fragmentation risk further exacerbating the problem.

While policymakers and practitioners alike are paying closer attention to the salience of these growing, borderless problems and the urgent need to address them, critical governance, implementation, and accountability gaps in both the official and private sectors are preventing necessary progress.

To accelerate momentum, this report calls for strengthened roles for the World Bank and IMF as a specific recommendation for action and as a means of filling these gaps. Recognizing that neither the public nor the private sector alone can resolve the current impasse, this report proposes a systemwide approach as a way forward.

As part of this effort, effective governance will be an essential ingredient for success. Augmenting the governance arrangements within the IMF and the World Bank by establishing ministerial-level decision-making “Councils”—for assessing, mobilizing, and coordinating the necessary financing, as well as fiscal policies, and the implementation of the broadened climate-related mandate—offers a promising means of filling a key gap. This arrangement may be achieved through the transformation of existing advisory boards, reflecting quota-based individual voting powers and without the creation of a new layer of governance. It would also envisage that the IMF would focus on helping to build and assess the macro fiscal and financial frameworks that incorporate the policies and investments needed to transition to a low-carbon economy. The World Bank would focus on coordinating with other multilaterals and the private sector to implement climate mitigation actions—so that the overall system can deliver more than the sum of its individual parts. To play these roles, it is recognized that both the Fund and the Bank would need additional financial capacity—with possible options to include further leveraging the existing potential in their current balance sheets as well as possible future paid-in capital support from their shareholders.

The other essential ingredient for success is additional climate-related financing at scale. Recognizing that the bulk of financing must come from the private sector, the report’s recommendations include a transition to mandatory disclosure standards for more accurate measurement of the private sector’s carbon footprint and their future emission trajectories; price signals that are more consistent with the true cost of fossil fuels; and joint work between the public and private sectors toward establishing a global, regulated market for carbon emissions.

The recommendations presented in this report are intended to spur meaningful work on necessary multilateral reforms that will enable better policy outcomes. Given the magnitude and urgency of the climate crisis, modest and incremental action will not suffice. Thus, the deliberate aim of this report is to offer best-fit, ambitious recommendations that can meet the scale of the challenge—even while recognizing the difficulty of implementing them. Now is the time for bold action.

## Annexes

### Annex 1: IMF Response to Climate Change Challenges

Climate change risk (physical and transition-related) will impact these areas:

- Fiscal management and public debt sustainability: There will be economic losses consisting of revenue losses and spending pressures.
- Financial stability: Expect large revaluations of the assets and liabilities of financial firms, stemming from physical and transition risk. Financial firms are also exposed to physical risk through their underwriting activity, lending, and portfolio holdings. Liquidity risk can materialize if there are fire sales.
- Monetary policy: Greater volatility in output and prices from physical risk as well as persistent shifts in relative prices can press on monetary policy, with long-term effects on real interest rates.
- Trade, exchange rates, and exchange rate regimes: Changes in relative prices and redistribution of income across the globe will affect trade flows and exchange rates. Higher volatility will impact managed exchange rate regimes.

Climate change risk gives rise to the following macroeconomic and financial challenges:

- Adaptation and resilience building is costly. For Asia, it typically is in excess of 3 percent of GDP annually—with costs falling up front and benefits occurring over time. Usually this high cost is most pressing in countries with elevated public debt levels and limited revenue generation capacity. This challenge will require domestic revenue mobilization and international support.
- Mitigation and a transition to a low-carbon economy typically requires significant changes to tax, spending, and regulatory systems. Accompanying social and structural policies are needed to ensure a just transition, repurpose human and physical capital, and build infrastructure for a low-carbon economy. Such policies can include incentives for low-carbon research and development as well as targeted support for households and workers. While the nature of the transition will differ across countries, it will involve higher energy prices everywhere. It may also require the implementation of new development and industrial policies.
- Climate mitigation is an undertaking in the global common, and one country cannot go it alone. Hence the need for international coordination. Coordination is also needed to ensure the use of best practices and the availability of technological and financial resources.
- A global transition to a low-carbon economy is an existential challenge for fossil fuel exporters. Financial and real diversification will be needed, which will impact fiscal, structural, and exchange rate policies.

The IMF's response has thus far consisted of the following four approaches:

#### I. Article IV consultations

- IMF staff's evaluation reports presented to the Executive Board are to cover climate-related policies whenever climate issues are macro-critical.
- The IMF targets 60 Article IVs annually, enabling coverage of adaptation and resilience-building measures for the most vulnerable countries every three years.

- The climate change mitigation policies for the countries most critical for mitigation efforts will also be covered every three years.
- Transition risk management will be covered every five to six years for all member countries.

## II. Direct country engagement

- **Climate change adaptation and resilience building.** Sixty countries—many of which are low-income countries (LICs)—are particularly vulnerable to climate change. Adaptation requires strategies to build both physical and financial resilience. In-depth coverage in Article IV consultations requires, inter alia, an assessment of country-specific climate vulnerabilities, adaptation policies, and financing needs. The Fund is implementing a Climate Macroeconomic Assessment Program (CMAP) to provide such analysis and inputs.
- **Climate change mitigation.** The mitigation policies of the 20 largest emitters of GHGs will be assessed every three years. The Fund refrains from assessing mitigation objectives per se, including a comparison of domestic mitigation objectives with those of peers.
- **Managing the transition to a low-carbon economy.** This is a macro-critical policy challenge for each member and includes domestic policy efforts to achieve NDCs under the Paris agreement. Meeting these targets requires changes in tax regimes, regulatory frameworks, and accompanying social and investment policies. There are 33–34 assessments per year, with 8–9 going in depth—in particular for carbon exporters—plus 25 assessments with more standardized methodologies. This schedule will cover transition risks for most members every five or six years.
- **Exposure to climate risks and policy options in FSAPs.** As comprehensive and in-depth assessments of a country’s financial sector, FSAPs present bespoke-to-country options for policy recommendations, and recent FSAPs have assessed the implications of transition risk in various countries. In 2022, the IMF released a Staff Climate Note detailing the Fund’s approach to incorporating climate risks in FSAPs.<sup>36</sup> Topics to be covered include stress testing on physical and transition risks, and assessment of climate-relevant financial regulation and supervision. There has been a call to implement a standardized approach to assessing financial stability risks from climate change and to assessing the concomitant need for adaptation in the financial sector, in addition to sector-specific guides (bank and insurance). The FSAP is a three-stage template including, first, a climate financial risk diagnostic to determine the scope of various risks; second, creation of climate scenarios; and third, standard P horizon explorations of three to five years as well as long-term scenarios to 2100.
- **Climate-specific review.** A 2021 background paper made a compelling case to focus the Article IV consultations process on mitigation policies for the 20 largest emitters.<sup>37</sup>
- **IMF lending programs.** Lending programs, including the Resilience and Sustainability Trust, are incorporating energy subsidy reform, carbon pricing, and climate resilience building.
- **Capacity development.** Capacity development has several components—CMAP reports for climate-vulnerable countries, climate-related single-country capacity development frameworks, and external training. The Fund is planning to conduct a range of CMAPs and single-country

36. T. Adrian, P. Grippa, M. Gross, V. Haksar, I. Krznar, S. Larnichhane, C. Lepore, F. Lipinsky, H. Oura, and A. Panagiotopoulos, “Approaches to Climate Risk Analysis in FSAPs,” Staff Climate Note 2022/005, International Monetary Fund, July 14, 2022, <https://www.imf.org/en/Publications/staff-climate-notes/issues/2022/07/12/Approaches-to-Climate-Risk-Analysis-in-FSAPs-519515>

37. International Monetary Fund, “2021 Comprehensive Surveillance Review—Background Paper on Integrating Climate Change into Article IV Consultations,” Policy Paper No. 2021/032, May 2021, <https://www.imf.org/en/Publications/Policy-Papers/issues/2021/05/18/2021-Comprehensive-Surveillance-Review-Background-Paper-on-Integrating-Climate-Change-into-460303>



capacity-development reports annually, including coverage of fiscal issues such as assessment of carbon taxes, green tax reform, green budgeting, and climate-related public investment management. Financial sector issues will also be covered, including climate risk stress testing, financial sector regulation and supervision, monetary policy and central bank operations, and climate-related debt management issues.<sup>38</sup>

- **Financial Sector Stability Reviews.** These vehicles are extremely useful for delivering climate-related risk assessments to LICs and small states.
- **The IMF Climate Change Indicators Dashboard.** The Dashboard facilitates evidence-based economic decision making by collecting and reporting indicators on a range of issues including GHG emissions, mitigation, adaptation, the transition to a low-carbon economy, climate finance, and weather.
- **Legal and financial integrity issues.** The Coalition of Finance Ministers for Climate Action, with a secretariat managed by the IMF and the World Bank, can tackle institutional efforts toward climate change through its work of helping countries mobilize and align the finance needed to implement their national climate action plans, establishing best practices such as climate budgeting and strategies for green investment and procurement, and factoring climate risks and vulnerabilities into members' economic planning.

### III. Multilateral surveillance and policy

- **Reporting.** Flagship reports (one or two chapters per year) and regional surveillance reports (one or two chapters per year) will continue to focus on disseminating the institution's analytical work.
- **Policy and analysis guidance for staff and stakeholders.** Policy papers (one to three per year) on climate finance topics, including, inter alia, adaptation, integrating climate risks into debt sustainability analysis, the transition risk for fuel exporters, climate adaptation in disaster-prone countries, international coordination of mitigation policies, the political economy of climate mitigation, a methodology for assessing the financial regulation and supervision of climate risks, broadening and deepening the assessment of physical and climate risks, and assessing the implications of climate risk for financial stability. In addition, three to seven Staff Climate Notes per year provide analysis related to the impact of climate change on macroeconomic and financial stability, including the impacts of mitigation, adaptation, and transition.
- **Guidance Note for Surveillance.** In 2022, the IMF published a Guidance Note on surveillance under Article IV consultations.<sup>39</sup> It covers the scope and requirements of the consultations, outlines best practices for enhancing the traction of advice, and offers guidance for sharpening the focus and selectivity of reports.
- **Debt sustainability analysis.** The IMF is working to incorporate stress scenarios and the average impact of such disasters into long-term baseline projections. The debt sustainability framework for LICs (LIC DSF) already does so. The new sovereign risk and debt sustainability framework for market access countries (MAC SRDSF) will also include a similar stress test and will also account for the fiscal cost of climate change adaptation and mitigation policies.

38. "Building Capacity for Climate Action," International Monetary Fund, 2023, <https://www.imf.org/-/media/Files/capacity-development/Brochures/climate-cd-brochure.ashx#:~:text=The%20IMF%20will%20address%20the%20analytical%20tools%20and%20modeling>

39. "Guidance Note for Surveillance under Article IV Consultations," Policy Paper No. 2022/029, International Monetary Fund, June 23, 2022, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2022/06/23/Guidance-Note-for-Surveillance-Under-Article-IV-Consultations-519916>

- **Tool kits and templates.** The IMF gives country desks straightforward-to-use instruments for policy analysis. An example is the IMF spreadsheet tool that quantifies carbon pricing and other policies concerning Paris pledges and energy subsidies for 150 countries.<sup>40</sup> Planned tool kits include analysis of the macroeconomic effects of natural disasters and adaptation policies, as well as analysis of the macroeconomic, external sector, and distributional implications of climate-related policies.

#### IV. Partnering

- **Strengthen information architecture around climate risks.** IMF co-chairs the workstream on bridging data gaps, a project of the Network for Greening the Financial System (NGFS); participates in the NGFS Legal Task Force; and is an observer on the International Platform on Sustainable Finance. On climate disclosures and taxonomies, staff cooperates with standard-setting bodies like the IFRS and ISSB.
- **Strengthen financial stability.** Staff cooperated with the Financial Stability Board on financial stability risks as well as on prudential standards for climate risk. Staff participates in the NGFS workstream on microprudential and supervision, workstream on scaling up green finance (which covers central bank operations), and workstream on designing scenarios for climate physical and transition risks. It also collaborates with the Basel Committee on Banking Supervision, the Sustainable Insurance Forum, and the Bank for International Settlements on climate risk.

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40. "Climate Policy Assessment Tool," International Monetary Fund, 2022, <https://www.imf.org/en/Topics/climate-change/CPAT>.

## Annex 2: World Bank Response to Climate Change Challenges

Climate change poses several risks to development:

- Significant internal displacement of workforce. The World Bank estimates that climate change could drive 216 million people to migrate within their own countries by 2050. Expanding workforces in vulnerable areas may prove challenging while previously established workforces will be forced to relocate and thus harder to scale up.
- Damage to crop yields. A warming climate could cut crop yields by as much as 25 percent, creating higher food insecurity as the population continues to grow. Furthermore, extreme weather events can devastate farmers, their land, and their crops.
- Inability to follow traditional growth models. Climate change can impact long-term economic forecasts, making accurate estimates more challenging to create and outcomes more unpredictable.
- Exacerbation of institutional weaknesses. Countries with existing institutional weaknesses take longer to recover after shocks, and with more extreme weather events testing vulnerable institutions, deeper and longer growth decelerations are possible.
- Negative human capital concerns. Extreme heat can impact labor and learning capacity. Estimates project that, by 2050, work hours lost due to heat may be as high as 12 percent, meaning a 6 percent loss in annual GDP.
- Increased demand on poverty reduction funds. Climate change will force more people into poverty, thus creating higher demand for poverty reduction funds. It is estimated that by 2030, more than 100 million people will be pushed into poverty by climate change impacts, primarily in sub-Saharan Africa and South Asia.

The World Bank response has thus far consisted of the following five approaches.

### I. Institutional alignment with the Paris Agreement

- From 2023 on, all World Bank Group financial support will be consistent with the objectives of the Paris Agreement and a country's pathway toward low-GHG emissions and climate-resilient development.<sup>41</sup>
- From a practical standpoint, all Bank Group-financed operations will have to support the deployment of lower-carbon options as applicable and whenever technically and economically feasible, as well as prevent carbon lock-in; and ensure that material climate risks have been assessed and reduced to an acceptable level through the design of the operation. The Bank Group's Paris alignment approach recognizes that countries have differentiated circumstances in implementing the Paris Agreement. Accordingly, Paris alignment assessments will be operation-, context-, and time-specific, and for a given set of development objectives.
- Mainstreaming of climate change resiliency continues to be a top priority for the World Bank Group throughout its operations.

<sup>41</sup> "The World Bank Group and Paris Alignment," World Bank, 2024, <https://www.worldbank.org/en/publication/paris-alignment>.

## II. Policy support

- The World Bank Group lends its policy expertise to help countries meet international policy needs. These efforts are primarily broken down into NDCs and long-term strategies (LTSs).
- World Bank Group's Climate Support Facility (CSF) has so far supported 30 countries to implement or enhance NDCs and supported over 35 national or subnational governments in their efforts to put a price on carbon.
- CSF assistance goes beyond policy formulation to contributing expertise in strategy and legislation, budgeting and investment, and monitoring and evaluation frameworks. CSF also provides grants, contributing to a host of activities such as analytics and knowledge sharing, capacity building, and improving cross-sectoral coordination among government stakeholders, donors, and private sector entities.
- The World Bank Group is also working to support countries in their efforts to develop and implement climate LTSs, building on detailed analytical and operational work. This work incorporates expert analysis of rigorous macroeconomic modeling, in-depth sectoral analyses, and a structured assessment of interactions across sectors.
- World Bank Group policy learning is also set up to be public facing. The CSF has created publicly available tools for climate-fiscal risk assessments, a user guide, and pilot trainings for ministries in developing countries.
- The World Bank provides on-the-ground knowledge, deploys specialized economic advisors to support climate-informed recovery in countries including Albania, Antigua and Barbuda, Colombia, Jamaica, Jordan, and St. Lucia.<sup>42</sup>
- The World Bank Group offers general policy support that crowds in private sector funding at the national level. Policy innovations to attract private sector funding include comprehensive data availability, voluntary standards and certification of green products, and facilitation of climate-related research and development to support investment decisions. Additionally, the Bank can help facilitate the implementation of price setting measures that remove market distortions.

## III. Country and Climate Development Reports

- To date, 25 CCDRs have been published,<sup>43</sup> building on data and rigorous research to identify main pathways to reduce GHG emissions and climate vulnerabilities. The reports suggest concrete, priority actions to support a low-carbon, resilient transition.
- The recommendations in these 25 reports, if implemented, would drop emissions by 70 percent in their respective countries while costing only 1.4 percent of GDP on average.
- The recommendations hinge on private sector funding, particularly in LICs, where the cost can exceed 5 percent of GDP.

42. "Climate Support Facility," The World Bank, 2024, <https://www.worldbank.org/en/programs/climate-support-facility>.

43. "Country Climate and Development Reports (CCDRs)," The World Bank, 2024, <https://www.worldbank.org/en/publication/country-climate-development-reports>.

- The reports show opportunities for growth. Recently published CCDRs in the major global forest basins, covering 56 percent of the world’s tropical forests, show that action on land use in seven CCDR countries alone could increase forest cover by 63 million hectares compared with a business as usual. This would reduce global annual GHG emissions by 2.7 gigatons of CO<sub>2</sub> equivalent by 2050, representing almost 6 percent of today’s emissions.
- CCDRs identify good practices. Adaptation can reduce the identified impacts of climate change on GDP by 2–8 percentage points. Many of the adaptation and resilience actions identified in the CCDRs are “no-regret” investments, because the development benefits they deliver make them attractive even without considering avoided climate change impacts.
- CCDRs present an optimistic future for economic growth through embracing low-emission development. Economic growth is found to be similar—or in some cases, faster—in low-emission development scenarios, compared to reference scenarios. As well as reducing GHG emissions by 73 percent by 2050, the low-emission development scenarios explored in the CCDRs project that GDP by 2030 will be similar to or even higher than in the reference scenario.
- CCDRs offer innovative solutions for the public sector, such as lower fossil fuel subsidies and stronger carbon price signals to incentivize the private sector to shift to greener sources, or even blended finance, such as first-loss guarantees, political risk insurance, and subordinated loans.
- The CCDRs identify opportunities for countries to spend existing resources better by repurposing or redirecting inefficient fossil fuel subsidies, water tariffs, and agricultural subsidies, or by reforming tariffs and trade policies.

#### **IV. IDA/IBRD financing**

- All IDA/IBRD<sup>44</sup> financing must be aligned with the Paris Agreement.
- In 2022, \$31.7 billion of climate-related financing was delivered.
- At least 50 percent of all World Bank (IDA/IBRD) climate finance supports adaptation. This was \$12.9 billion for adaptation alone in 2023.
- All climate financing works to crowd in private finance, by means including de-risking instruments and innovative approaches such as sustainability bonds.
- The World Bank Group is the largest issuer of sustainability bonds. IBRD has issued a total of \$18 billion in green bonds through 214 bonds in 26 currencies.
- As of January 2023, green bonds have raised \$2.5 trillion globally to support green and sustainable projects.<sup>45</sup> Emerging market governments have raised \$74 billion, representing 2 percent of total green, social, and sustainability bonds issued globally.
- In 2018 IDA guaranteed, at \$5 million, the world’s first sovereign blue bond focused on ocean and marine sustainability, with the Seychelles. Since then, the Bank’s ocean portfolio has grown to be valued at over \$9 billion.

44. The International Bank for Reconstruction and Development (IBRD) lends to governments of middle-income countries and creditworthy LICs. The International Development Association (IDA) provides interest-free loans and grants to governments of the poorest countries.

45. “From India to Indonesia, Green Bonds Help Countries Move Toward Sustainability,” The World Bank, April 10, 2023, <https://www.worldbank.org/en/news/feature/2023/04/10/from-india-to-indonesia-green-bonds-help-countries-move-toward-sustainability>.

- In January 2024 IBRD financed an outcome bond worth \$100 million to provide investors with a financial return linked to Plastic Waste Collection Credits, Plastic Waste Recycling Credits, and Verified Carbon Units, which are expected to be generated by projects in Ghana and Indonesia.
- The World Bank Group delivered over \$83 billion in climate finance, reaching the highest levels ever in 2020 at \$21.4 billion, making it the largest climate financier for developing countries.

#### **V. Financing by other World Bank Group institutions**

- The International Finance Corporation (IFC) delivered \$7.6 billion in climate finance, representing 46 percent of its investment commitments for fiscal year 2023. The IFC further mobilized \$6.8 billion of private capital from other sources—making its total a record \$14.4 billion in climate finance.
- The Multilateral Investment Guarantee Agency (MIGA), the World Bank’s political risk insurance and credit enhancement arm, delivered \$1.5 billion in climate finance in fiscal year 2023.

### Annex 3: The History of a Ministerial Council at the IMF

The creation of a Council within the IMF has been discussed several times in the Fund’s history, with two main aims: (1) to establish the IMF as the de facto decision maker at the center of the international financial architecture, thereby granting it increased legitimacy, and (2) to grant representation to all Fund members in that decision-making process.

- A response to the International Liquidity Crisis (1969–1974)
  - In 1969, many Executive Directors expressed interest in establishing a committee that would have “fair representation of Fund members” and political weight, which would advise the IMF Board of Governors on issues affecting the international monetary system. In response, an Ad Hoc Committee on Reform of the International Monetary System and Related Issues (called the C-XX) was established.
  - The C-XX was generally seen as an improvement in expressing the needs of MLICs but as ultimately flawed, and the C-XX Rome Communiqué<sup>46</sup> called for a “permanent and representative Council of Governors” to be established.
- The Second Amendment to the IMF Articles and surveillance (1974–1980)
  - The Board of Governors asked the Executive Directors to include the creation of a permanent Council in the amendments to the Articles of Agreement. Pending this decision, the C-XX was replaced by the Interim Committee of the Board of Governors of the IMF (IC).
- A response to the Asian Financial Crisis (1998–1999)
  - Following the Asian Financial Crisis, there was renewed interest in establishing the Council.
  - Eventually the Board of Governors transformed the IC into the International Monetary and Financial Committee (IMFC), giving it a permanent advisory role but without the representation and political weight of a Council.
- Governance reform to address legitimacy of the Fund
  - Several international blue-ribbon panels have noted that the G20, while effective, does not have universal representation, leaving out the broad swath of emerging MLICs; such panels have recommended a strengthening of the governance framework of the IMF to provide these MLICs with effective voice and representation.
  - Importantly, the Trevor Manuel Committee on IMF Governance Reform (2009)—comprising Trevor Manuel (Chair), Michel Camdessus, Kenneth Dam, Mohamed El-Erian, Sri Mulyani Indrawati, Guillermo Ortiz, Robert Rubin, Amartya Sen, and Zhou Xiaochuan—convened by the IMF Managing Director, noted that the responsibility for global issues was becoming fragmented, endangering the traction and influence of the IMF.
  - To redress the situation, it proposed a package of measures to strengthen IMF governance (including the representation of MLICs), strongly advocating for timely and effective decision making by a ministerial-level body through the activation of a Council to provide a forum for coordinating and making strategic decisions. Such a Council would represent all IMF members.

In all the proposals for the activation of the Council, the operational activities of the IMF were to remain within the purview of the IMFC and the Executive Board.

46. See A. Abrams, *Studies of IMF Governance: A Compendium*, Chapter 3: The IMF Council of Governors, The International Monetary Fund, 2009, <https://jeo.imf.org/en/our-work/Books/Books/Studies-of-IMF-Governance-A-Compendium>