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Foreword from Executive Director

Colleagues,

I hope that this newsletter finds you and your families in good health. The Spring Meetings have just concluded, and I was pleased to have had the opportunity to meet with some of you in person for the first time since commencing as Executive Director last November. I look forward to meeting many more of you over the coming months as I begin visits to your countries, and when we come together for the Annual Meetings in Marrakesh in October.



The focus of discussions at the Spring Meetings was the unprecedented confluence of crises that the world is facing, growing uncertainty, fragmentation, and mounting challenges. Global growth continues to slow at a time when many countries are still recovering from the impacts of the COVID-19 pandemic, and as they simultaneously tighten both monetary and fiscal policy. This is weighing on growth which is essential to accelerate poverty reduction and achieve the Sustainable Development Goals, progress towards which was slowing before it was knocked off-track by the pandemic. Contracting fiscal space has also impeded critical investments needed for the energy transition and climate change adaptation.

Now more than ever, multilateralism and global cooperation matters. For many countries in this constituency, the World Bank Group (WBG) is their major development partner, a source of finance, knowledge and convening power. Now the world is looking to the WBG to play a greater role in investing in global public goods (GPGs) to deal with the biggest transboundary global challenges - the existential threat of climate change, pandemic preparedness and rising fragility and conflict. Indeed, as we approached the end of the Meetings, we were deeply troubled to learn of the outbreak of violence in Sudan and the devastating loss of lives, including amongst staff from UN and NGO partners of the WBG.

The WBG Board and Management are responding to these and other global challenges through the WBG *Evolution Roadmap*. This aims to strengthen the WBG's ability to respond to global challenges by reforming its mission and operating and financial models. This work matters to our constituency, as it will result in a greater focus on, and more financing for, climate change action. This newsletter includes more information about progress so far, and what will be the focus ahead of the Annual Meetings.

In addition to the Evolution Roadmap, the WBG continues to implement its Global Crisis Response, a commitment to provide \$170b in financing from April 2022 – June 2023. In calendar year 2022, the Bank delivered a record \$75b in financing, bringing total support to clients since the onset of the COVID-19 pandemic to \$330b.

In terms of the office here in Washington, we farewelled Benjamin Tokataake from Kiribati and welcomed Winfred Giyopo from Papua New Guinea in February. We will welcome three new Advisors to the team over the coming months as we farewell our colleagues, Sakuntala Akmeemana from Australia, Chance Douglas from Palau, and Luyna Ung from Cambodia. Along with my Alternate Executive Director, Kerstin Wijeyewardene, we will continue to advocate for the interests of our members during discussions on the Evolution Roadmap and more broadly as we engage in the WBG's business.



Please do not hesitate to contact the relevant advisor in the office or your local country representative if you would like further information on our work or would like to raise any specific issues with us.

Il Young Park

Development Committee

The 107th meeting of the Development Committee on April 12th, 2023, focused predominantly on the compounding global crises and slowing economy, and the WBG's Evolution Roadmap. As has been the case since the Russian invasion of Ukraine in February 2022, no consensus was reached on the wording of a communiqué. The Development Committee Chair, Mohamed bin Hadi Al Hussaini of the United Arab Emirates, issued a Chair's statement instead. This outcome is symptomatic of the growing fragmentation of the global community.



The Development Committee was an opportunity for Governors to express their appreciation for the WBG's record levels of commitment under the Global Crisis Response as countries face the impact of compounding crises, mounting debt, and a slowing global economy. To sustain these levels of financing, the WBG is seeking donor support for the IDA Crisis Facility and will need to implement financial innovations under the Evolution Roadmap. The focus is now on what can be achieved before the Annual Meetings in Marrakesh in October 2023.

Policy Issues

❖ The Evolution Process

An unprecedented confluence of global crises has upended development progress and threatens the planet. The WBG has a long history of evolving and innovating in response to a changing world. At the 2022 Annual Meetings, many Governors asked the WBG Board and Management to identify how to accelerate the WBG’s evolution, given the vast and increasing needs related to poverty reduction and shared prosperity, as well as responding to accelerating global challenges such as climate change, pandemic risk, and fragility and conflict.

Management and the WBG Board have had intensive engagements since January 2023 as part of a Board-led process. We have seen enormous progress which was reflected in the Report to Governors at the Development Committee¹, including proposing ways to enhance the WBG’s mission to emphasize sustainability and resilience, strengthen its operating model whilst preserving the strengths of the country-based model, and adapt its financial model towards regaining lost ground and helping countries achieve the SDGs. The report lays out actions that be taken in the short term and others for further considerations after the 2023 Spring Meetings.

So far, the WBG Board has expressed support for measures that have the potential to add up to US\$50b of IBRD financing capacity over the next ten years, while continuing to protect IBRD’s triple-A rating, long-term financial sustainability, and preferred creditor status. Given the gaps between global needs and current amounts of development finance, this enhanced capacity – a 15 percent increase over current IBRD financing levels – would be an important first step in securing additional resources for development.

Discussions with members will continue after the Spring Meetings on additional measures to further enhance financial capacity, including for IDA given the sharp decline in its lending capacity (see below). This is needed as none of the measures proposed under the Evolution Roadmap to date would provide additional concessionality beyond what current sources of financing offer, which is needed to incentivize actions to address GPGs and to scale up blended finance for the private sector. A key principle is that additional concessionality for GPGs cannot come at the expense of concessional resources for IDA countries.

❖ Addressing Debt Vulnerabilities

Global debt levels increased sharply after the pandemic and compounding crises and are at a 50-year high. Many developing countries are at risk of, or are in, debt distress, and the rising costs of debt servicing will further erode their limited fiscal space. The need for greater multilateral coordination on

¹ https://www.devcommittee.org/sites/dc/files/download/Documents/2023-03/Final_DC2023-0002%20evolution%20paper%20for%20DC%20website.pdf

debt sustainability has become more important than ever. Both borrowing countries and creditors, public and private, need to work together to ensure debt sustainability.

The WBG and the IMF provide technical support to the G20's Debt Service Suspension Initiative (DSSI) and the G20's Common Framework (CF) for debt treatments. The CF can be used to address a wide range of sovereign debt challenges by providing a deep debt restructuring, including debt reductions, and rescheduling where necessary. While the CF is a positive development, there have been ongoing delays in finalizing debt treatment agreements for Zambia, Ghana, and Ethiopia.

In conjunction with the IMF and G20, the WBG took part in the Global Sovereign Debt Roundtable during the Spring Meetings, gathering all stakeholders together to discuss ways to speed-up the debt restructuring process and make it more efficient. The Roundtable agreed on the need to improve information sharing, including on macroeconomic projections and debt-sustainability assessments. The WBG and IMF are expected to issue staff guidance on information sharing at each stage of the restructuring process.



IDA's role in providing positive net flows and its implicit debt relief through increased concessionality and grants to countries facing higher risks of debt distress was welcomed.

The methodology in assessing and enforcing comparability of treatment will be clarified to support the predictability and fairness of debt restructuring. Moreover, further work is required on the principles regarding cut-off dates, formal debt service suspension at the beginning of the process, treatment of arrears, and parameters of debt to be restructured.

❖ Climate Change

The WBG is mid-way through implementation of the Climate Change Action Plan 2021-2025 (CCAP). In calendar year 2022, the WBG achieved its highest ever level of climate financing, at \$29b and 39 percent of total financing. Adaptation financing comprises 49 percent of climate operations by volume.

The WBG published its Paris Alignment methodology², along with individual sector notes, setting out how it will ensure all operations are Paris aligned from 1 July 2023.

The Bank has published 21 Climate Change and Development Reports (CCDRs) covering 25 countries. The reports cover countries responsible for 36 percent of global emissions. If all the recommendations were followed by client countries, this would result in a 70 percent reduction of emissions by 2050.

² See <https://www.worldbank.org/en/publication/paris-alignment>



The CCDR for Cambodia is underway and work will begin shortly on a joint CCDR across three atoll countries in the Pacific: Marshall Islands, Kiribati, and Tuvalu. CCDRs take a “whole of economy” approach that genuinely integrates climate and development in policy, operations, and partnerships, and is an analytical product that can inform government policy and investments.

In small countries in particular, we see value in ensuring there are high levels of country ownership of CCDRs, so that they can form a platform for multilateral, bilateral and private sector investment. For those countries where CCDRs will be undertaken, this office is advocating for the WBG to start a dialogue with you early, and to engage widely, with an emphasis on supporting your governments to formulate policy recommendations as well as estimating investment needs.

Finance and Governance

❖ Capital Increase Subscriptions

Almost all countries in our constituency voted to support the 2018 Capital Package. The Package includes ambitious policy commitments and internal effectiveness measures that support the four pillars of the Forward Look. It also includes financing measures, including the capital increase for IBRD and IFC, to support implementation of policy commitments. The subscription process has, however, been slow. Only between half and two thirds of the membership have subscribed so far to the general and selective capital increases for IBRD and IFC. This has led to the extension of some deadlines.

For IBRD, the General Capital Increase (GCI) and Selective Capital Increase (SCI) subscription documents and payments must be received by October 1, 2023. The documentation deadline for the IFC GCI has been extended to April 16, 2024, the payment deadline is April 16, 2025. For the IFC SCI, Governors have approved an extension of the deadline for documentation and payment to April 16, 2025. The extension is to provide countries with additional time (i) to complete pending payments and subscription documents, and (ii) adjust the priorities that have shifted due to the pandemic, and (iii) facilitate the widest possible participation in the capital increase showing the strong support by member countries.

Member countries are encouraged to accelerate their subscriptions and payments. Timely subscriptions will solidify the strength of the capital base as shareholders, the Board and Management discuss how the WBG can better address climate change mitigation and adaptation, and other development challenges. Please contact the office if you need more information about your country’s subscription status.

❖ IDA Update

Nine months into the implementation of the IDA20 replenishment (FY23-25), its financing package of \$93b is facing pressure in addressing multiple crises, some of which were unanticipated when the replenishment was concluded. While IDA20 includes a focus on climate change, pandemic preparedness, and fragility and conflict, these core global challenges have continued to intensify. Russia's invasion of Ukraine has had severe effects on IDA countries through spikes in food, fuel, and fertilizer prices.



Crisis financing has been directed towards addressing immediate challenges despite many of the SDGs remain off-track. The frontloading of IDA20 resources to FY23 (with a projected record \$37b) means there is significantly lower financing in the outer years of IDA20 (about US\$26b p/a in FY24 and FY25).

The WBG is seeking to soften the decline in lending, with the aim of sustaining IDA's financing capacity for FY24 and FY25 at IDA20's originally planned annual level of US\$30b. These issues have been discussed with IDA Deputies and Borrower Representatives during the Spring Meetings and initiatives include:

- Fundraising through a proposal for a special Crisis Facility, which aims to leverage new donor resources using IDA's balance sheet through two dedicated channels: support to Ukraine and Moldova (Special Program for Ukraine and Moldova Recovery or SPUR); and additional support to IDA countries' crisis response (CRW+), including strengthening the Early Response Financing to support IDA countries address food insecurity. Additional financing through CRW+ would ensure there is adequate funding to respond to additional crises, including natural disasters, and will also help soften the short-term financing cliff.
- Repurposing resources in FY24-FY25, with the aim of securing additional volumes (\$1-2b per year) for countries through recommitments of cancelled balances from projects that are low-performing or no longer a priority.
- Balance sheet optimization measures to strengthen capital adequacy. Besides traditional support via grants and CPLs from donors, Management will also explore the feasibility of adapting some of the measures being considered for IBRD under the Evolution Roadmap, such as Donor Guarantees and Hybrid Capital, in a manner appropriate for IDA's concessional model.

Beyond IDA20, the deterioration in the debt situation of IDA borrowers is expected to result in IDA providing more grants and loans on more concessional terms than assumed during IDA20 negotiations. This will have adverse implications for IDA's longer-term financing capacity at a time when IDA needs to remain financially viable and well positioned to address client needs arising from the impact of overlapping crises on the poorest. As part of the Evolution Roadmap, Management will explore additional measures to enhance IDA's long-term financial capacity, as well as during the IDA20 mid-term review in December 2023 and through the IDA21 replenishment.

Voice Secondment Program



The 18th cohort of the Voice Secondment Program (VSP) started on 6 March 2023, and the office was pleased to welcome Chunn Sokha from Cambodia to headquarters for a six-month period. Established by the WBG in 2005, the VSP has become one of the most significant platforms for building the capabilities of government officials to understand the WBG's operations, knowledge, and services. The program aims to develop a cadre of professionals who can contribute to their countries' development agendas. Participants are required to serve at least two years in their home country's sending agency to ensure that the skills and knowledge acquired during the program are put to practical use, resulting in long-term benefits for the home country's administrations.

This year's cohort and program include 30 government officials. The easing of COVID-19 restrictions has allowed the program to return to its pre-pandemic form, providing participants with a much more comprehensive learning experience than remote secondments. Our constituency office supports the VSP program every year by providing timely information and soliciting nominations from constituency members. We strongly encourage governments to consider future opportunities to nominate their officials for the program.