

Constituency Newsletter

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EDS09 OFFICE OF THE EXECUTIVE DIRECTOR FOR

Australia, Cambodia, Kiribati, Korea, Marshall Islands, FS Micronesia, Mongolia,
Nauru, New Zealand, Palau, PNG, Samoa, Solomon Islands, Tuvalu, Vanuatu



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FOREWORD FROM EXECUTIVE DIRECTOR



Greetings once again as we conclude the 2024 Spring Meetings. I hope this newsletter finds you in good health. I was grateful to have had the opportunity to speak with some of you at our virtual constituency meeting and to have met some of you in person last week. I hope these meetings assisted with your preparations for your engagements last week.

The Spring Meetings were convened against the backdrop of a difficult global environment. Despite some modest improvements in economic activity in the near term, global growth prospects remain subdued. While inflation continues to moderate, it is slower than expected. In our region, economic growth in developing countries continues to be faster than other parts of the world. It is, however, still below pre-pandemic levels and many of our members continue to feel the effects of COVID-related lockdowns, the slow recovery in tourism, and fluctuations in commodity prices. Moreover, climate related shocks have slowed economic recoveries.



In this context, the World Bank continues to drive the Evolution agenda to make the Bank bigger, better, and more effective. The Framework for Financial Incentives will provide additional lending capacity and create incentives for IBRD borrowers to address global challenges which have cross border externalities. The enhanced Crisis Response Toolkit will provide additional tools to facilitate swifter responses to natural disasters and other crises, while strengthening crisis preparedness and response capacity. Enhanced operational efficiency and effectiveness of the Bank will also see projects approved more quickly, with streamlined internal approval processes.

President Banga has been vocal about the need for speed, scale, and replicability of World Bank projects. While supporting these ambitions, we have cautioned that speed, scale, and replicability need to be suited to country circumstances and, in particular, for small countries, projects may need to be scaled down with continued support for project implementation.

A clear message that came out of Governors' meetings with senior World Bank management last week was the scarcity of IDA resources and the need for countries to ensure that their IDA allocations are being used to support short and medium-term priorities. Where projects are not advancing, management is recommending resources be directed to areas that are performing better and where there is capacity to implement. I expect you will hear this messaging as you engage with the Bank on your IDA programming.

The IDA21 replenishment is now underway and is a key priority for us. I am pleased that Vanuatu has agreed to be one of two borrower representatives from the East Asia and Pacific region. This is an important role to ensure the

needs of the poorest and most vulnerable countries in our region are effectively prosecuted during the negotiations. Our office will support our IDA21 deputies and representatives, including to advocate for our common interests. In May, the upcoming 4th International Conference on Small Island Developing States will take place in Antigua and Barbuda. With the Conference convening only once every 10 years, it will be important that Pacific SIDS actively participate and shape the future trajectory of SIDS related policy.

The Bank is working on a proposal to stem the decline of Correspondent Banking Relationships in the Pacific and convened a meeting with the Pacific Island Forum Secretariat in Australia in March. This is an important regional initiative for the Pacific, and we will continue to engage with the Bank on progress.



I was pleased to host a group of Executive Directors in their first visit to Samoa earlier this year. Board members were able to see first-hand some of the challenges faced by SIDS. I hope this visit will generate strong support from across the Board for SIDS-related issues. I was also pleased to visit Vanuatu for a productive set of meetings with the authorities.



My Alternate Executive Director, Kerstin Wijeyewardene, met with authorities in the Federated States of Micronesia in February to discuss the World Bank program and challenges faced. The rich information that we gather from these visits greatly enhances our ability to reflect your interests to Bank Management and in Board discussions.



I would like to thank members who have completed their 2018 Capital Increase subscriptions. For those who have not yet initiated or completed this process, I urge you to consider this as a matter of urgency. The World Bank is your development partner in addressing economic and social challenges and for many of you has provided significant support in the form of concessional loans or grant financing. Moreover, improvements in development

outcomes of countries in our region and indeed more broadly has important spillovers impacts. Our ability to credibly prosecute your interests is greatly assisted where you have met your commitments. Please reach out to our office if you need support with this process.

This year we welcomed three participants from the Federated States of Micronesia, Kiribati, and Mongolia to the Voice Secondment Program. The VSP is a significant platform for building the capabilities of government officials to understand the Bank's operations, knowledge, and services. The program aims to develop a cadre of professionals who can contribute to their countries' development agendas. I urge all members to consider their participation in this program in the future.

Last but not least, I would like to recognize the work of staff in the office. It is a team effort to manage the volume and complexity of the work of the constituency and the Bank. There are high expectations and demands on staff to meet their responsibilities. Over the past six months, we said farewell to Niuatui Niuatui from Tuvalu and Doyoung Kim from Korea and welcomed Seokchae Hwang from Korea. We look forward to welcoming Litara Kerina Taulealo from Samoa, who will join our office in the coming weeks. Sadly, our former colleague from Kiribati, Benjamin Tokataake, passed away in March this year. Ben served as an Advisor from March 2021 to March 2023. On his return to Kiribati, Ben was elected to Parliament representing Betio in December 2023. From his EDS09 family here in Washington DC, we offer our deepest condolences to his family, friends, and colleagues in Kiribati.

DEVELOPMENT COMMITTEE

The 109th meeting of the Development Committee on 19 April focused on the global economic outlook, the ongoing pressures in many countries to secure good development outcomes and the ambition of the World Bank to be bigger, better and more effective.

Six months on from the meetings in Marrakech, President Banga outlined some of the key deliverables under the Evolution agenda, including the streamlining of approval processes and initiatives to bring IFC, MIGA, IBRD and IDA closer together through joint country representation in 20 countries (including PNG and Korea) and the streamlining of the Bank's guarantee business. Lending capacity through balance sheet optimization and countries' contributions to innovative financing instruments will provide much needed funds to address global challenges. The Bank is seeking to strengthen partnerships with other MDBs by standardizing processes where possible and co-financing projects.

Recognizing that governments alone will not be able to address development challenges, there has been a strong focus on mobilizing private sector investment. The Private Sector Investment Lab has helped identify initiatives to draw in more private capital to support investment in developing countries. Alongside simplifying the guarantee business, the Bank is also examining how to address foreign exchange risk and the creation of a securitization platform. Ensuring that countries have in place the fundamentals to support private sector opportunities will also be in sharp focus.

Despite the achievements, there is recognition that more still needs to be done and the IDA21 replenishment is a key priority.

POLICY ISSUES

EVOLUTION UPDATE

Financing Update

During the [Spring Meetings in 2023](#), the World Bank announced initial measures to add up to \$50 billion in IBRD lending capacity over ten years. Later in 2023 the Bank [announced](#) the launch of two innovative financial instruments, hybrid capital and the portfolio guarantee program (PGP), which can leverage shareholders'

contributions for additional lending capacity, and the Livable Planet Fund (LPF), a trust fund for donor grant contributions to provide concessional finance for IBRD countries.

Since Marrakech, the Board and Management have been working to determine how the additional IBRD lending headroom and the LPF will be allocated to address global challenges with cross border externalities. The Framework for Financial Incentives (FFI) is the agreed vehicle. It proposes the establishment of the Global Solutions Accelerator Platform (GSAP), where 100% of PGP and hybrid capital contributions, plus the lending capacity they generate, will be used to provide volume incentives. The LPF will be used to finance the price incentives for IBRD clients.

During the Spring Meetings, [eleven countries announced](#) commitments of \$11 billion to these new instruments, which will leverage up to \$70 billion in financing over the next ten years.

Callable Capital

In parallel, Management have been working with capitals on an exercise to provide increased clarity on the process and governance surrounding IBRD's callable capital, which was a key recommendation from the G20 Independent Review of MDB's Capital Adequacy Frameworks. The objective of this work is for callable capital to be given greater recognition and value by the credit rating agencies as a way of lifting lending capacity.

There have also been early discussions on exploring the concept of enhanced callable capital (ECC). The objective of ECC is to develop a new instrument that provides capability to increase lending while preserving the Bank's triple-A rating and preferred creditor treatment (PCT), and which could be added to the menu of innovative financing instruments alongside hybrid capital and PGP. These will be explored further beyond the Springs.

Operations Update

The Bank has committed to improve the efficiency and effectiveness of operational delivery for clients. Operational reforms to deliver a "better Bank" are complex and will take years to fully embed but are central to ensuring Evolution has impact.

President Banga has committed to delivering a new "operational playbook", "doubling down on impact", and modernizing the Bank's approach to improve speed and operational efficiency for the benefit of clients.

The operational reform agenda is an opportunity to shift focus and incentives away from the Bank's "approval culture" towards implementation and outcomes. While it promises to improve how the Bank delivers for clients, it will be important that there is clear recognition of how this agenda impacts small, fragile, and low-capacity countries. Individual characteristics of countries will need to be taken into account and close hands-on implementation support will be needed.

CLIMATE CHANGE

Country Climate and Development Reports (CCDRs) are diagnostic tools to support clients to mainstream climate into development, by focusing on the greening of *whole economies* rather than individual projects. Cambodia's CCDR was published in October 2023 and found that without proper adaptation and mitigation measures, climate change could cost up to nine percent of Cambodia's GDP by 2050 while increasing the poverty rate by up to six percentage points by 2040. However, Cambodia can achieve its development goals and address climate change with actions summarized as "three Rs:" reducing significant exposure and vulnerability to climate change; realigning its emissions trajectory; and reorienting its economy to seize new opportunities afforded by a global green transition. Work is underway on a CCDR for Mongolia and a combined CCDR for the three atoll countries in our constituency, Kiribati, Marshall Islands, and Tuvalu.

After many decades of discussions on the financing for loss and damage associated with the adverse effects of climate change, arrangements are now firming up to operationalize the fund. The Bank will create a Financial Intermediary Fund (FIF) for Loss and Damage for an interim period of four years and ensure that conditions specified in the COP28 decision are met. Further work is underway to settle the detailed arrangements and the Bank

will continue its discussions with the Board of the Fund for Loss on Damage to ensure there is alignment of views on this issue.

CRISIS RESPONSE TOOLKIT

In February the World Bank launched enhancements to its Crisis Preparedness and Response Toolkit. This is a crucial step in the Bank's Evolution agenda, to achieve the resilience objectives of the new vision and mission. The four elements of the enhanced toolkit include more flexible funding reallocation to respond to crises, scaled-up access to contingent-financing, expanded disaster risk transfer products, and climate-resilient debt clauses for small states. Alongside financial support will be a focus on strengthening countries' crisis preparedness and response capacity.

As a package, the enhancements will offer a greater menu of tools and options than at present, which will facilitate more rapid response and encourage countries to undertake crisis preparedness reforms. The Bank will in parallel present proposals to the Board for simplifications to the approval of additional financing to 'top-up' the financing gap from undisbursed project funds being redirected to crisis response, which would go some way towards addressing these concerns and build borrower confidence in repurposing their portfolio.

FINANCE AND GOVERNANCE

IDA21 REPLENISHMENT

A big focus for our office this year is to support our representatives in the negotiations to replenish IDA, which take place every three years. The IDA21 negotiations started in March and will finish in December. We have two borrower representatives for our East Asia and the Pacific region – from Vanuatu and Fiji. We encourage you to engage with your borrower representatives over the course of the year.

We want to ensure IDA can continue to deliver for the poorest and most vulnerable countries in our constituency, particularly to ensure it is responsive to the needs of SIDS. IDA's financial sustainability is under pressure with increasing debt distress among IDA countries, and donor countries' facing budget pressures. We expect negotiations will be difficult and trade-offs will need to be made. We will continue to coordinate closely, including to amplify our common interests.

CAPITAL INCREASE SUBSCRIPTIONS

In April 2018, World Bank shareholders voted in support of the 2018 Capital Package. This ambitious package included a \$13 billion paid-in capital increase, a series of internal reforms, and a set of policy measures that greatly strengthen the institution's ability to tackle rising global challenges.

The commitment in the package to serve all clients was particularly beneficial to the small states in this constituency. It included the doubling of access to IBRD, exemptions from IBRD price increases, and an expansion of IFC's blended finance tools to engage in fragile and conflict-affected situations and small states.

The deadlines for completing the IBRD and IFC subscriptions have been extended:

- For IFC subscription documents and payments must be received by April 16, 2025
- For IBRD subscription documents and payments must be received by October 1, 2025

Please contact the office if you need more information about your country's subscription status.