

# Proactive Release

Date: 15 July 2020

The following Cabinet paper and related Cabinet minute have been proactively released by the Minister of Foreign Affairs:

***New Zealand Contribution to the World Bank International Development Association 19<sup>th</sup> Replenishment***

***(CAB-20-MIN-0260 refers)***

Some parts of this information release would not be appropriate to release and, if requested, would be withheld under the Official Information Act 1982 (the Act). Where this is the case, the relevant sections of the Act that would apply have been identified. Where information has been withheld, no public interest has been identified that would outweigh the reasons for withholding it.

Key to redaction codes:

- 6(a): to avoid prejudicing the international relations of the New Zealand Government.

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# Cabinet External Relations and Security Committee

## Minute of Decision

*This document contains information for the New Zealand Cabinet. It must be treated in confidence and handled in accordance with any security classification, or other endorsement. The information can only be released, including under the Official Information Act 1982, by persons with the appropriate authority.*

### New Zealand Contribution to World Bank International Development Association 19th Replenishment

**Portfolio**                      **Foreign Affairs**

On 2 June 2020, the Cabinet External Relations and Security Committee:

- 1        **noted** that the International Development Association (IDA), the World Bank's concessional fund for the poorest and most vulnerable countries, concluded negotiations for its next three-yearly replenishment (IDA19) in mid-December 2019;
- 2        **agreed** that New Zealand contribute NZ\$54.93 million to IDA19;
- 3        **noted** that this will consist of expenditure of NZ\$52.72 million over three years, and a further NZ\$2.21 million from investment income attributed to New Zealand by the World Bank;
- 4        **noted** that the cash payments will be funded from existing Vote Official Development Assistance baselines with no impact on operating balance and negligible impact on debt.

Janine Harvey  
Committee Secretary

**Present:**

Rt Hon Jacinda Ardern  
Rt Hon Winston Peters (Chair)  
Hon Grant Robertson  
Hon Andrew Little  
Hon David Parker  
Hon Stuart Nash

**Officials present from:**

Office of the Prime Minister  
Officials Committee for ERS



# Cabinet

## Minute of Decision

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### **Report of the Cabinet External Relations and Security Committee: Period Ended 5 June 2020**

On 8 June 2020, Cabinet made the following decisions on the work of the Cabinet External Relations and Security Committee for the period ended 5 June 2020:

OUT OF SCOPE

ERS-20-MIN-0010 **New Zealand Contribution to World Bank  
International Development Associate 19<sup>th</sup>  
Replenishment**  
Portfolio: Foreign Affairs

CONFIRMED

OUT OF SCOPE

Michael Webster  
Secretary of the Cabinet

## **New Zealand Contribution to the World Bank International Development Association 19<sup>th</sup> Replenishment**

### **Proposal**

1. To seek Cabinet's approval of a contribution by New Zealand of NZD\$54.93 million to the 19<sup>th</sup> replenishment of the World Bank's International Development Association (IDA).

### **Relation to Government Priorities**

2. The Coalition Government has indicated strong support for multilateralism. It has also indicated support for Pacific Island countries accessing quality finance as part of the Pacific Reset.

### **Executive summary**

3. IDA is the arm of the World Bank that provides grants and highly concessional loans to the poorest, most vulnerable countries, s6(a)  
Negotiations for the next three year replenishment, IDA19, concluded with a pledging session in mid-December 2019. Donors agreed to increase the replenishment from US\$75 billion to US\$82 billion with IDA19 taking effect from July 2020.
4. Contributing to IDA is an efficient means for New Zealand to contribute to global challenges and development efforts. For instance the World Bank has pulled together an initial USD\$14 billion package for developing countries in response to Covid-19, of which USD\$6 billion has come from IDA. This package focuses on health preparedness and mitigation of economic impact of the pandemic. As of 6 May 2020 nearly USD\$61 million has been approved for Pacific Island countries from IDA, with at least another USD\$65 million of financing under discussion.
5. IDA19 negotiation outcomes align well with New Zealand interests and provide significant opportunities for Pacific Island countries to benefit:
  - The IDA19 result will allow the World Bank to continue its global work in funding infrastructure development, improving public management (including addressing debt sustainability), and improving human capital (through work on health, education, gender and disability). In undertaking this work, IDA19 will have a strong focus on climate change.

- IDA has been valuable for the Pacific due to its special provisions for small island states, and emphasis on fragile and vulnerable states. IDA's wide donor base has brought greater volumes of finance into the Pacific.
6. This paper seeks Cabinet approval to commit a contribution by New Zealand of NZD\$54.93 million to IDA19.

### **Background**

7. New Zealand has been involved in IDA since 1975 and has successfully used it as a platform to advocate for the Pacific. New Zealand reviews IDA's work and participates in setting the level of funding to be provided to recipient countries under a negotiating mandate approved by the Minister of Foreign Affairs.

### **Key Features of the IDA19 Replenishment**

8. The IDA19 negotiations were framed by concerns about the ability to reduce global poverty levels given a weakening global growth outlook, rising debt levels, and global challenges such as climate change. All of these are likely to hit IDA recipient countries the hardest.
9. Each replenishment negotiation determines the main focus of IDA support to its recipients and the rules around access to funds. Donors have agreed that IDA19 should focus its efforts on:
- good governance issues;
  - increasing jobs and encouraging economic transformation;
  - the impact of climate change;
  - gender; and
  - disability issues.
10. This focus will be supported by further effort on debt management and technology. These settings are strongly consistent with New Zealand interests
11. Donors are expecting ambitious results from the record USD\$82 billion total replenishment package (up from USD\$75 billion for IDA18). Agreed commitments include:
- Infrastructure
    - Enhanced access for broadband internet for 50 to 60 million people.
    - An additional 10 GW of renewable energy generation capacity.
  - Improved public management
    - Better governance in up to 60 countries through improved statistical capacity.
    - More and better tailored support in fragile and conflict affected situations, including a greater focus on prevention.

- Greater focus on crisis preparedness and earlier responses to slow onset crises (such as drought and emerging pandemics).
- Improving human capital
  - Essential health, nutrition, and population services for up to 370 million people.
  - Safe childbirth for up to 80 million women through provision of skilled health personnel.

### **Covid-19**

12. While the negotiation concluded before the Covid-19 threat emerged, the World Bank has responded quickly and substantially to address both health system preparedness and the economic impact of the pandemic. It has pulled together an initial package of USD\$14 billion, of which USD\$6 billion comes from IDA. The World Bank is currently working on plans to redistribute remaining IDA18 funding (which will expire on 30 June 2020) and frontload new IDA19 funding so that a substantial proportion is available in the next financial year for immediate use. An additional USD\$8 billion will be available globally to support the private sector through a separate arm of the World Bank - the International Finance Corporation.
13. The Bank has modified its normal processes to ensure that approval of projects and disbursement of funds happens at speed. As of 6 May 2020, nearly USD\$61 million had been approved for Pacific Island countries from IDA with at least another USD\$65 million under discussion.

### **Importance of IDA to the Pacific**

14. The World Bank is one of the largest donors to the Pacific and supplements its investments with technical assistance, analytics, and policy advice. It has increased the value of its total operations in the Pacific from NZD\$1.5 billion in 2016/17 to NZD\$2.4 billion in 2019/2020. The Bank's presence in the Pacific helps crowd out other, lower quality, lenders.
15. The World Bank is delivering well in the Pacific and has a range of special provisions aimed at the unique development challenges facing small island developing states. The Bank has focused its assistance in the Pacific on primary sector development, trade, health, and connectivity. Examples of the latter include projects such as airport developments in Samoa and Tuvalu, and Tonga's fibre optic cable connection.

### **IDA19 – outcomes for the Pacific**

16. Positive outcomes for the Pacific from the IDA19 negotiation include:

- protection of the current financing allocation per country of approximately USD\$21 million each per annum (this outcome has been the focus of New Zealand advocacy):
- allowing countries that do not have access to IDA (such as Fiji) to participate in regional projects with IDA financing;
- widening support for regional integration, including direct financing for regional organisations such as the Pacific Islands Forum;
- a more nuanced approach to debt management and debt sustainability that recognises vulnerability and the impact of natural disasters; and
- a greater focus on adapting to the effects of climate change.

### **New Zealand Contribution**

17. Donor contributions to IDA are voluntary. When considering their contribution, countries generally start from the practice of maintaining their share of aggregate donor contributions to the previous replenishment in US dollar equivalent terms. New Zealand's share of IDA18 was 0.12% of all donor contributions.
18. On the basis that there are positive outcomes for the Pacific, and in recognition of the continuing and increasing development challenges faced by IDA countries, this paper seeks approval to commit NZD\$54.93 million to IDA19. This is NZD\$3.05 million higher than our IDA18 contribution. This increase is driven by a change in exchange rates (between New Zealand and US currencies), makes allowance for inflation over the past three years, and acknowledges population increases in recipient countries.
19. New Zealand's share of total donor contributions will nevertheless decrease slightly from 0.12% to 0.11%. This is the result of significant increases in the contributions of some other (larger) donors relative to New Zealand's contribution during the pledging process late last year.

### **Other Donor Contributions**

20. The pledging session saw some notable changes in contributions from other donors. China doubled its previous IDA18 contribution and pledged USD\$1.2 billion, making it the sixth largest donor to IDA19. Saudi Arabia also significantly increased its pledge, from USD\$82.86 million to USD\$400 million.
21. There were two notable decreases :
  - Australia's contribution (AUD\$499.18 million) will be s6(a)  
s6(a)

s6(a)

- The US's contribution s6(a) USD\$3.0 billion s6(a) it is still the third largest donor. s6(a)  
s6(a)

22. The described increases in funding from other donors, as well as stability in European donor contributions, s6(a)

### **Financial implications**

23. Cabinet agreement to contribute NZD\$54.93 million to IDA19 will have no impact on the operating balance and a negligible impact on debt. This contribution will be funded from within existing baselines from Vote ODA: Non Departmental Other Expense – International Development Cooperation (Multi-Year Appropriations).
24. We will opt to pay over three years to take advantage of the World Bank's early payment facility. New Zealand will pay NZD\$52.72 million with the balance of the contribution (NZD\$2.21 million) being generated by investments made by the World Bank but directly attributable to New Zealand.

### **Legislative implications**

25. There are no legislative implications.

### **Impact Analysis**

#### Regulatory Impact Statement

26. Not required.

#### Climate Implications of Policy Assessment

27. IDA19 programmes and projects will contribute positively to addressing the impact of climate change in recipient countries. A proportion of New Zealand's replenishment contribution will count towards New Zealand's climate change commitment.

### **Population Implications**

28. Gender and disability will be given special emphasis as a theme and a results measurement in IDA19.



### **Human rights**

29. There are no Human Rights Act (1993) or New Zealand Bill of Rights Act (1990) implications.

### **Consultation**

30. The Treasury was consulted in the preparation of this paper and supports its recommendations.

### **Communications**

31. The World Bank will publicise the size of the IDA19 replenishment and how donors have agreed to use the funding. Media interest in New Zealand's contribution to IDA19 is not anticipated.

### **Proactive Release**

32. This Cabinet paper will be proactively released.

### **Recommendations**

33. The Minister of Foreign Affairs recommends that the Committee:

- **Agree** that New Zealand contribute NZD\$54.93 million to IDA19.
- **Note** that this will consist of expenditure of NZD\$52.72 million over three years and a further NZD\$2.21 million from investment income attributed to New Zealand by the World Bank.
- **Note** that the cash payments will be funded from existing Vote Official Development Assistance baselines with no impact on operating balance and negligible impact on debt.

Rt Hon Winston Peters

Minister of Foreign Affairs