

Submission to Australia's Foreign Policy White Paper consultation

February 2017



Introduction

The World Bank Group (WBG) is pleased to contribute to Australia's consultations for its foreign policy White Paper. This submission focusses on the following questions posed by the consultation:

Question 3: *“Australia is an influential player in regional and international organizations. Which regional and global organizations matter most? How should we support and shape them? How can we maximize our influence?”*

Question 5: *“Australia confronts a range of strategic, security and transnational challenges. How can it best deal with instability beyond its borders? How can Australia's foreign policy, including its overseas development assistance program support a more prosperous, peaceful and stable region?”*

Key messages:

- International development assistance plays an essential role in promoting peace, security, and economic prosperity worldwide and in Australia's geographic region
- The WBG is one of the world's premier organizations that seeks to address global and regional issues, including through significant efforts to deal with their local impacts; it brings together capital and world-class knowledge directly aimed at overcoming challenges that are at the core of Australia's foreign and defense policy – balanced economic growth, individual well-being, and support for political stability and for a sustainable environment
- The WBG is one of the foundational institutions of a rules-based international order that offers the greatest potential for peace, stability, and economic prosperity to the international community
- The WBG is an effective and influential linchpin of the global aid architecture, and helps deliver Australia's global and regional policy objectives/priorities
- The WBG plays an important role in addressing some of the root causes of instability, both worldwide and in Australia's geographic neighborhood. For example, it has renewed its focus on fragile and conflict-affected states – which are often at the source of refugee flows – and has stepped-up its commitment to tackling climate change and addressing natural disasters.
- The WBG's country, regional and global efforts help countries to enhance their investment climates, improve competitiveness in key sectors and boost trade with other states. The WBG does this through a range of initiatives, including efforts aimed at strengthening the private sector and through trade-related technical assistance. This helps countries in the region grow their economies and contributes to greater regional integration – something that has economic benefits for Australia and also contributes to greater stability in the Asia-Pacific. In 2016, the WBG's Trade & Competitiveness portfolio featured close to 102 projects, totaling USD 7.8 B in lending as well as 421 advisory services in the Indo-Pacific
- Australia is a valued member of the WBG – both for its contributions to policy development and its generous financial support. Australia plays an influential, strong and constructive role at the WBG, which is reflected in the influence Australia has had on the WBG, particularly in helping it focus more resources, more effectively in the Asia-Pacific region.

Australia and the WBG

Australia is a strong and highly valued partner of the World Bank Group¹ and a member of all five WBG institutions. The WBG is Australia's largest multilateral development partner in terms of funding. Australia, through its Department of Foreign Affairs and Trade (DFAT), provides core support to the Bank through its contributions to IDA (the WBG's fund for the poorest countries). It is currently the 11th largest donor to IDA, and pledged AUD 774.45 million to the 18th replenishment of IDA (IDA is replenished every 3 years). Australia is also an important and strategic donor to WBG Trust Funds, with its trust fund support strongly aligned with Australia's priority sectors for development; over 80 percent of its trust fund contributions are targeted on the Indo-Pacific region. Australia generally ranks as the 5th largest donor to IFC and about 90 percent of its contributions support activities in the Indo-Pacific.

Australia is a valued partner of the WBG not only for its financial contributions, but also for its strong thought leadership within the WBG. Australia has made significant contributions to the WBG's efforts to optimize the balance sheet and to advance new, innovative approaches to support private sector-led growth. Australia's expertise also enriches the Bank's work in areas such as addressing the needs of fragile and small-island states, women's economic empowerment, trade facilitation and international competitiveness, and infrastructure investment, among others. Australia is an active and influential member of the WBG's Executive Board and other committees (it is currently chairing the Committee on Governance and Administrative Matters, COGAM), and a close partner to IDA and IFC in the Asia-Pacific region.

Global and regional trends

The international community has made remarkable progress in alleviating global poverty over the years. Since 1990, nearly 1.1 billion people have escaped extreme poverty, with 100 million people moving out of extreme poverty between 2012 and 2013 alone. As a result, today millions of people live longer, healthier, and more prosperous lives, and many nations that were previously aid recipients are now self-sufficient.

Notwithstanding these achievements, some 800 million people still live on less than \$1.90 a day, and the global community is facing a number of significant new development challenges. These include the many risks associated with globalization, such as spillovers from economic crises and fragility; international migration flows; growing inequality within countries; and the threats posed by pandemics and climate change. The global economy is also seeing significant

¹ The World Bank Group comprises 5 separate legal entities: 1) The **International Bank for Reconstruction and Development (IBRD)** lends to governments of middle-income and creditworthy low-income countries; 2) the **International Development Association (IDA)** provides interest-free loans and grants to governments of the poorest countries; 3) the **International Finance Corporation (IFC)** is the largest global development institution focused exclusively on the private sector; 4) the **Multilateral Investment Guarantee Agency (MIGA)** provides guarantees against losses caused by non-commercial risks to investors in developing countries; and 5) the **International Centre for Settlement of Investment Disputes (ICSID)** provides international facilities for conciliation and arbitration of investment disputes. For more detailed information, please see Annex.

challenges and is marked by stagnant global trade, subdued investment, and heightened policy uncertainty.

Australia, like other countries, feels the impact of these issues globally, but perhaps feels them most deeply within its own geographic neighborhood. Australia resides in a region of the world that has experienced the greatest growth over the past several decades. This growth has benefited Australia's economy, and has also given it a greater stake in assuring economic stability and poverty reduction in the region. While the record in this region has been good overall – extreme poverty rates have fallen dramatically, with poverty in East Asia and the Pacific falling from 80 percent in 1981 to 4 percent in 2015 – significant challenges remain, particularly in the Pacific. Some 90 million people in East Asia and the Pacific still live in extreme poverty – and another 300 million are vulnerable to falling back into poverty as a result of climate change, natural disasters, disease, and economic shocks. The region includes 13 of the 30 countries most vulnerable to climate change, and bears the brunt of 70 percent of the world's natural disasters, with the Pacific Island countries experiencing rising sea levels that are threatening coastal areas and atoll islands. Eight Pacific Island countries are among the 20 countries in the world with the highest average annual disaster losses. Greater economic integration, more equitable natural resource agreements, more open labor markets and adaptation to climate change will be vital for the long-term future of the Pacific Islands. South Asia, which remains home to one-third of the world's poor (around 300 million people), is also seeing new threats, including the increasing divergence in economic performance between the western and eastern parts of South Asia, as well as increased fragility, political tensions, and a growing incidence of conflict.

Political instability in parts of Asia directly affects Australia's well-being - for example, in the flows of international migrants seeking to escape poverty and conflict. Environmental sustainability - particularly efforts aimed to mitigate climate change and its effects on water scarcity, natural disasters, and small island states - is also important to Australia's security and well-being. And economic integration means that all states have an interest in poverty reduction, balanced growth and the avoidance of economic shocks. Australia's national security and economic interests, therefore, clearly have much to gain from effective aid programming, including from the World Bank Group, that helps advance economic opportunities and political stability in the region.

The WBG's comparative advantage

The WBG as an institution is well-placed to help tackle challenges of global and regional scale. It offers the powerful combination of in-depth country knowledge, and global breadth. It can deploy public and private sector instruments and relationships, multi-sector knowledge, and has the ability to mobilize and leverage finance. The WBG has over 14,000 employees in more than 130 offices worldwide and brings together 189 states in its membership. It is unique among multilateral development banks in having a truly global footprint, enabling successes and lessons learned in one country or region to be adapted and replicated in other countries and regions. Together, these factors endow it with considerable comparative advantages:

Financing & leveraging for greater impact

The WBG is the world's largest source of development financing. In 2016, it committed approximately USD 64.2 billion in development financing in the form of loans, grants and guarantees, to clients in the public and private sectors from low and middle-income countries. Under the 18th replenishment of IDA, USD 75 billion will be made available to the world's poorest countries over the period 1 July 2017 to 30 June 2020 through highly concessional loans and grants.

Each country's individual contribution to the WBG is pooled with contributions from other countries. This creates a larger capital base, which increases the ability of the WBG to borrow on the markets. This pooling means that the impact of an investment in the Bank far exceeds the amount of any one country's contribution. The WBG has a *multiplier* effect for its members. The WBG has been seeking new and innovative ways to make donor funds go even further, and under IDA18 (the 18th replenishment of IDA, the WBG's fund for the poorest countries) it has further enhanced its ability to leverage funds by introducing the most radical transformation in its 56-year history. IDA will now leverage its equity by blending donor contributions with internal resources and funds raised through the debt markets. As a result, every USD 1 in joint partner contributions will leverage USD 3 in spending authority – one of the most concrete and significant commitments to date on the Addis Ababa Action Agenda, and critical to achieving the 2030 Sustainable Development Goals.

The WBG also leverages the contributions for its private sector work. By investing alongside the private sector, IFC mobilizes far more than its own balance sheet would typically allow. As a result, for every USD 1 of IFC's investment, an average of USD 6 flows into private sector projects in developing countries.

Leveraging world-class knowledge

In addition to financial leveraging, a country's investment in the WBG also allows it to leverage the WBG's considerable expertise and multi-sectoral knowledge. Working as "One World Bank Group", the institution uses the combined resources and expertise across the Bank – IBRD/IDA, IFC and MIGA. It also uses the strengths and expertise of its 14 Global Practices and five cross-cutting solutions areas² to serve clients with in-depth knowledge in key development sectors and more integrated programming that addresses the multiple factors that lead to poverty. By drawing on all of its resources, the WBG is able to produce strong results and maximize development impact. Working with other stakeholders of the WBG, member countries also leverage the partnerships, resources, and expertise of other development actors, thus further maximizing development impact.

² The global practices and cross-cutting solutions areas were designed to improve the way Bank Group staff share knowledge and solutions with clients and with each other, enrich the global knowledge base with lessons from work in specific countries, and better integrate country, regional and global work – to better serve clients with more integrated programs. The 14 Global Practices include: Agriculture; Education; Energy & Extractives; Environment and Natural Resources; Finance & Markets; Governance; Health, Nutrition and Population; Macroeconomic & Fiscal Management; Poverty; Social Protection & Labor; Trade & Competitiveness; Transport & ICT; Urban, Rural & Social Development; and Water. The 5 cross-cutting solutions areas: Climate change; Fragility, Conflict & Violence; Gender; Jobs; and Public-Private Partnerships.

International convening power around global challenges

The WBG, as a global development institution, plays a central role both in helping advance global policies that support trade, openness, and free markets as essential conditions for growth and poverty reduction, and in leading a global agenda to address and mitigate the risks of globalization. The value of the WBG is in its ability to work at the nexus of global and local issues, complementing policy work with operational responses and financing, and engaging with both the public and private sectors. It helps advance global policies that are consistent across the global, regional and national levels and across the public and private sectors, all of which are essential for inclusive growth and poverty reduction.

These comparative advantages have made the WBG the premier international development institution for tackling global, regional, and ultimately, local challenges that undermine social and economic progress and sow the seeds for conflict and instability.

The WBG, together with its partners:

- Delivers strong development results: Investments in the WBG have helped hundreds of millions of people escape poverty and lead healthier lives. In recent years, WBG operations have supported clients to: reach 14.9 million people, and micro-, small, and medium enterprises with financial services; construct or rehabilitate 113,600 kilometers of roads; generate 4,287 megawatts' capacity of conventional energy and 2,461 megawatts' capacity of renewable energy; recruit or train 6.6 million teachers; provide 377 million people with essential health, nutrition, and population services; and support 36 countries in institutionalizing disaster risk reduction as a national priority. Last year, in East Asia and the Pacific, IFC and its clients facilitated 117 million non-cash transactions, totaling \$366 billion; supplied 49.3 million people with gas; and provided \$184.8 billion micro, small, and medium loans to enterprises. And through IC contributions to South Asia, 5.9 million people are expected to receive improved access to infrastructure and health services, and 225 million customers have been supplied with phone connections.
- Promotes inclusive, sustainable economic growth: By improving the business environment, supporting private sector development, and fostering growth and jobs, the WBG helps ensure that the global economy is inclusive and prosperous for all. The WBG draws on the comparative advantage of its complementary institutions to promote inclusive, sustainable economic growth in developing countries and emerging markets. On average, nine out of ten jobs in the developing world are provided by the private sector. Through IFC, the WBG finances private sector investment, mobilizes capital in international financial markets, and provides advice to developing country governments around reform priorities to help the private sector in developing countries grow and create jobs. Through IDA, it also helps developing country governments strengthen the enabling environment for private sector growth, and through MIGA, the WBG helps reduce the overall risk profile of an investment, thus helping to attract private financing. By expanding economic opportunities in developing and emerging economies, the WBG helps countries reach their potential and, at the same time, builds new markets in the regions in which it works.
- Counters instability and promotes security: War, crime and violence can condemn people to poverty and/or sweep away decades of progress and lead to instability. By creating economic opportunities, the WBG is at the forefront of promoting peace and prosperity in fragile and conflict-affected states. The WBG is leading international thinking on aid effectiveness in fragile environments, building on its 2011 World Development Report *Conflict, Security, and Development*. Working closely with member states, such as Australia, the WBG is developing innovative initiatives to support countries experiencing conflict and fragility. Australia is recognized at the WBG for its significant expertise in addressing the issues of small-island and fragile states, and the WBG has been working closely with Australia to take advantage of its experience in this and other areas.

Why the WBG matters to Australia

Regional benefits

Through its partnership with the WBG, Australia is able to leverage not only its funds, but also its knowledge and capabilities for greater impact on poverty reduction and sustainable development worldwide, including significant benefits to Australia's region and sectors of development focus. The WBG's work in both the Indo-Pacific and South Asia supports and complements Australia's bilateral and regional programs and helps ensure that Australia's neighborhood and region of focus is stable, secure and prosperous.

Increased focus on the Indo-Pacific region

Over the past 10 years, the WBG has been working closely with development partners, particularly the government of Australia, to grow the Bank's program and footprint in the Pacific. As a result, it has significantly scaled up its program in the region, quadrupling its portfolio – from about USD 207 million in 2009 to USD1.09 billion to date, mostly with concessional resources from IDA. Over the same period, IFC has more than doubled its investments in the region. Under IDA18, USD75 billion will be made available to client countries to advance sustainable economic growth. Pacific countries, in particular, will benefit significantly from a further doubling of resources available to Pacific Islands in the next three years. The IDA18 replenishment represents a huge opportunity for the Pacific and will enable the WBG to support transformational investments in the region.

Global engagement

The WBG's global footprint means that Australia – while focusing on its immediate neighborhood through its bilateral interventions – is also able to contribute to global development challenges or crises in countries outside its immediate scope of influence, such as through its support for the WBG's response to the Ebola crisis. As a vocal and active member of the WBG, Australia ensures that its role as 'good global citizen' is maintained beyond its region of bilateral development focus. For its part, the WBG recognizes Australia as a steadfast partner in the effort to achieve the WBG's twin goals of ending extreme poverty and boosting shared prosperity. This has translated into real influence for Australia at the WBG.

Ability to influence policies and priorities

Australia's membership in the WBG allows it to influence the priorities, policies and strategic directions of the institution. Through its role on the Executive Board, Australia helps guide the funding provided by IDA and IBRD, the investments of IFC, and the WBG's approval of policies and programs. One of Australia's key objectives has been to ensure that the WBG targets its activities on development priorities in the Indo-Pacific region, and increases its efforts in small island states, including in the Pacific. Australia supports economic development in this region through contributions to IDA and IFC, and through its strategic use of WBG trust funds that bring attention and focus to the needs of the region. These contributions allow Australia to have a strong say in how the resources are used; as a result, IDA and IFC activities in the region are closely aligned with Australia's aid priorities. Australia's active participation in the IDA replenishment

process every three years is also a source of influence and has been instrumental in shaping the policies, priorities and directions of IDA. Through Australia's support and influence, the WBG has been able to scale up its support to the Pacific to record levels.

The government of Australia also exerts influence by holding regular senior-level discussions with WBG senior management at the Bank's spring and annual meetings. These meetings strengthen Australia's engagement with the WBG in key programs and sectors, and help identify areas for further collaboration. Australia also influences the WBG's programming in the region through annual partnership meetings with the WB's Vice President for East Asia and the Pacific. Discussions at these meetings focus on regional and thematic priorities, as well as performance and delivery of results in the region. Finally, Australia engages with the WBG and influences its work and directions on an ongoing basis through its strong representation and active membership on the Board and on committees. Australia's Executive Director at the WBG is currently chairing the WBG's Committee on Governance and Administrative Matters (COGAM), and is overseeing discussions on a review of the overall shareholding structure of the WBG.

[Alignment with Australia's development priorities](#)

Australia's priorities for engagement with the WBG include delivering strong development outcomes for the Indo-Pacific region, improving support for fragile and conflict affected states, achieving better gender equality outcomes, and ensuring innovation and value for money. Projects co-financed by Australia have focused on infrastructure, health, nutrition, education, social protection, and private sector development.

With its strong focus on poverty reduction; transformational growth and infrastructure; climate change; women's economic empowerment; private sector development; crisis response; and enhanced support for fragile and conflict-affected states, including the specific needs of small island states, the WBG's work is well-aligned with Australia's development priorities.

Alignment with Australia's development priorities:

- **Fragile and conflict-affected states:** Addressing fragility, violence and conflict is a renewed focus of the WBG and is critical to achieving its goals of ending extreme poverty and promoting shared prosperity. Fragile and conflict-affected countries are home to 17 percent of the world's extreme poor, a number that is expected to rise to 46 percent by 2030. Building on its experience in conflict-sensitive development, the WBG is taking a new differentiated approach to address the full spectrum of situations, from prevention and crisis response to transition and recovery. The WBG is also working to strengthen the response to forced displacement, and is exploring new innovative financing solutions, including with private sector involvement, to ensure rapid response to global crises.
- **Small states:** The WBG's resources for small states have increased over the years; under IDA18, the WBG is greatly enhancing its support to small states, many of which are vulnerable and fragile, including increasing the amount of financing available to small states and providing funds on highly concessional terms. The WBG is the single largest provider of climate and disaster-resilience-related investment finance, providing on average nearly US\$152 million annually in recent years. The Pacific Island States have very particular needs related to their geographic isolation, small and dispersed populations, long distances, and vulnerability to natural disasters and economic shocks. The WBG is working closely with Australia and other partners, such as the AsDB, on regional, innovative and joint approaches to address these particular needs.
- **Trade & Competitiveness:** Trade has delivered high growth and technological progress in the developing world and, since 1990, helped to halve the number of people living in extreme poverty. Economic integration through trade and improved competitiveness is central to achieving the WBG's twin goals, which depend on rapid, broad-based economic growth producing more and better jobs. Governments, private firms, and international partners seek assistance from the WBG's Trade and Competitiveness (T&C) global practice for global, regional and country engagements. Australia is working closely with the WBG's T&C global practice to address the particular challenges of its region. In 2016, the T&C portfolio featured close to 102 projects, totaling USD 7.8 billion in lending as well as 421 advisory services for the Indo-Pacific region.
- **Gender:** Gender equality is central to the WBG's twin goals. Closing gender gaps can help countries to increase productivity and improve economic prospects for the next generation. In 2016, the WBG launched its new gender strategy aimed at helping countries close gender gaps, while also taking aim at emerging challenges such as ageing populations, climate change, slowing economic growth, and the global jobs crisis. The WBG works with public and private sector clients to close gender gaps by getting and keeping girls in school, helping women gain access to land titles and other vital assets, and ensuring they can obtain financing to start businesses. IDA/IBRD and IFC work together to increase female labor force participation, an issue that is a particular threat to economic progress in South Asia. Gender issues reflect the diversity of country contexts, and the WBG programming in the Indo-Pacific and South Asia takes a country-specific approach to addressing gender disparities.

- Private sector development: Through IFC, the WBG finances private sector investment, mobilizes capital in international financial markets, and provides advice to developing country governments to help the private sector grow and create jobs. Supporting inclusive growth is one of IFC's priorities in the Indo-Pacific, where its investments totaled USD 5.2 billion in 2016, including USD2.9 billion in funds mobilized from other investors. IFC invests in projects across sectors such as agribusiness and infrastructure, and works with financial institutions to further expand the reach of its work. IFC and Australia worked together on a Pacific Partnership Agreement for "Sustainable Economic Development in the Pacific", promoting inclusive growth and supporting global integration. The Partnership funded 31 projects in areas, such as trade and competitiveness, financing and markets, and extractives and fisheries. Under the IDA18 replenishment, the WBG introduced an innovative USD 2.5 billion Private Sector Window (PSW) to further scale up private investment in the poorest countries. This will enable IFC and MIGA to do even more private sector investment, helping to grow the private sector and create jobs; about 16 percent of the countries eligible for the PSW are in the Pacific.
- Climate change: Given the intrinsic link between climate change and poverty, the WBG has aggressively stepped up its climate action and will increase climate financing from 21 percent of the Bank Group's portfolio, to 28 percent by 2020. The WBG has developed a Climate Action Plan, laying out ambitious targets to be met by 2020, including helping client countries add 30 gigawatts of renewable energy – enough to power 150 million homes - to the world's energy capacity, and bringing early-warning systems to 100 million people. In the Pacific, the WBG is working with other partners to provide Pacific Island Countries with disaster risk assessment and financing tools for enhanced disaster risk management and climate change adaptation, including the development of insurance pools. A partnership between Tonga, Samoa, Marshall Islands, Vanuatu, the Pacific Community (SPC), the Pacific Islands Forum Secretariat and the WBG, uses a regional approach to disaster risk management to share expertise and increase economies of scale.
- Crisis response: Under IDA18, the WBG is doubling financial support to countries facing fragility, conflict and violence. The proposal includes financing that will allow the Bank to help refugees and their host communities. Additional financing is also available for crisis response, pandemic preparedness, and regional integration; and a new initiative aims at scaling up private sector activities, with a focus on fragile situations. The IDA Crisis Response Window will provide a new contingent financing instrument, which can provide the Pacific Islands access to additional resources in the case of emergencies and incentives for improving emergency preparedness.

ANNEX: Background on WBG

The WBG is a vital source of financial and technical assistance to developing countries around the world. It is not a bank in the ordinary sense, but a unique partnership of developed and developing countries working to reduce poverty and support development. Established in 1944, its goals are to end extreme poverty by decreasing the percentage of people living on less than US\$1.90 a day to no more than 3 percent by 2030; and to boost shared prosperity by fostering the income growth of the bottom 40 percent of the population in every country, and to do so in ways that are environmentally, socially and economically sustainable.

The WBG works to achieve these goals in partner countries by delivering customized development and financing solutions to its clients, be they public sector entities (state or regional governments) or the private sector. These services include the provision of financing, guarantees and insurance, as well as technical assistance and advice. In addition, the WBG contributes to the global development agenda through research, dialogue and action, helping advance knowledge about what works in development; and ensuring the sharing of best practices.

The WBG comprises five separate legal entities:

- The ***International Bank for Reconstruction and Development (IBRD)*** lends to governments of middle-income and creditworthy low-income countries;
- The ***International Development Association (IDA)*** provides interest-free loans (credits) and grants to governments of the poorest countries;
- The ***International Finance Corporation (IFC)*** is the largest global development institution focused exclusively on the private sector, and finances investments, mobilizes capital in international financial markets, and provides advisory services;
- The ***Multilateral Investment Guarantee Agency (MIGA)*** provides guarantees against losses caused by non-commercial risks to investors in developing countries; and
- The ***International Centre for Settlement of Investment Disputes (ICSID)*** provides international facilities for conciliation and arbitration of investment disputes.

Each of the WBG's 189 member countries appoint one Governor and one alternate Governor to the WBG. Corporate powers are vested in the Board of Governors, which delegates most powers to an Executive Board of 25 Directors based in Washington, D.C. Voting power on issues brought before the Executive Board is weighted according to the share of capital each Director represents. The Directors meet regularly to review and decide on loans, investments, development interventions, and to provide overall strategic guidance to WBG management.

- Jim Yong Kim is President of the WBG; he also serves as Chairman of the Board.
- The Hon. Scott Morrison MP, Treasurer, is Australia's WBG Governor. The Hon. Kelly O'Dwyer MP, Minister for Revenue and Financial Services, is Australia's Alternate Governor. Mr. Jason Allford is the Australian Executive Director, representing a constituency that includes: Australia, Cambodia, Kiribati, Republic of Korea, the Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Solomon Islands, Tuvalu, and Vanuatu.