

Proactive Release

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The following Cabinet papers and related Cabinet minutes have been proactively released by the Minister of Foreign Affairs

Title	Reference
<i>Cabinet Minute of Decision – Report of the Cabinet of Foreign Policy and National Security Committee: Period Ended 14 February 2025</i>	CAB-25-MIN-0027
<i>New Zealand's contribution to the World Bank's International Development Association (IDA) 21st Replenishment</i>	

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Cabinet

Minute of Decision

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Report of the Cabinet Foreign Policy and National Security Committee: Period Ended 14 February 2025

On 17 February 2025, Cabinet made the following decisions on the work of the Cabinet Foreign Policy and National Security Committee for the period ended 14 February 2025:

FPS-25-MIN-0004 **New Zealand's Contribution to the World Bank's
International Development Association (IDA) 21st
Replenishment**
Portfolio: Foreign Affairs

CONFIRMED

Rachel Hayward
Secretary of the Cabinet

~~RESTRICTED~~

Office of the Minister of Foreign Affairs

Cabinet Foreign Policy and National Security Committee

New Zealand's contribution to the World Bank's International Development Association (IDA) 21st Replenishment

Proposal

That Cabinet approve a New Zealand contribution of NZ\$65 million, at a net cost of NZ\$58 million over three years, to the 21st replenishment of the World Bank's International Development Association (IDA21).

Relation to government priorities

- 1 The Pacific receives significant financing from the World Bank, which draws on IDA to provide grants and low or interest-free loans to finance high quality, transparent operations, ^{s6(a)}
^{s6(a)} The current IDA replenishment, IDA20, is expected to deliver NZ\$1.8 billion to the Pacific in the three years to June 2025.
- 2 Pacific leaders recently commended IDA's record of practical impact and called for a robust IDA21 replenishment¹. New Zealand's support for IDA provides a platform for advocating Pacific interests, ensuring credibility as a partner and voice for the region.
- 3 Wider New Zealand foreign policy interests served by IDA financing include support for South and Southeast Asia and for global response to human-induced crises, natural disasters, slow-onset crises and climate change.
- 4 More broadly, support for IDA aligns with traditional likeminded partners like Australia, the US and the UK, who have pledged for IDA21. It underscores New Zealand's support for the rules-based order and multilateral institutions.

Executive Summary

- 5 IDA is the World Bank's concessional finance facility offering grants and low-interest or interest-free loans to the poorest and most vulnerable countries, including most Pacific Island countries.
- 6 IDA relies on donor grant contributions to provide it a strong financial foundation. New Zealand has supported IDA since 1975 and contributed NZ\$55 million to its current replenishment (IDA20, over 2022/23 – 2024/25). IDA20 is delivering NZ\$154 billion² in development finance globally and NZ\$1.8 billion to the Pacific.

¹ See Pacific Island Leaders Call For Bold Action To Replenish IDA | Scoop News

² Values are expressed in NZ Dollars. IDA negotiations and financing are denominated in US Dollars, with the equivalent in NZ Dollars calculated by applying the World Bank reference exchange rate for the IDA21 period of NZ\$1.6514 to US\$1.000.

- 7 Negotiations for replenishing IDA's next cycle (IDA21) concluded in early December 2024. Donors have pledged NZ\$39 billion, supporting a replenishment of NZ\$165 billion (US\$100 billion), an increase of 7.5% on IDA20, which is sufficient to maintain delivery of IDA resources in nominal terms.
- 8 IDA has now embedded vulnerability in its system for allocating finance to countries. Pacific access to finance, mainly grants, is protected in nominal terms under IDA21 with a provisional allocation of NZ\$893 million. The Pacific will also access special funds for regional and global public goods and climate change.
- 9 IDA21 will prioritise assistance for attaining the Sustainable Development Goals (SDGs) through a focus on job creation, infrastructure investment, digitalisation and enhancing public sector capabilities, while also addressing fragility and vulnerability and climate change.
- 10 The pledge of NZ\$65 million, subject to Cabinet endorsement, would be New Zealand's contribution to the IDA21 replenishment. This level of support is commensurate with New Zealand's interests given the value and impact the World Bank delivers through IDA, including in the Pacific and Southeast Asia.
- 11 Should the Committee endorse this pledge, a contribution of NZ\$65 million to the IDA21 replenishment would be expensed through payments totalling NZ\$58 million over financial years 2025/26 to 2027/28. This is only NZ\$4 million more than New Zealand contributed to IDA20. The difference of NZ\$7 million arises from a discount for paying over three, rather than the usual nine, years, which will be added back into the pledge.
- 12 This contribution will be funded from the multilateral allocation in MFAT's International Development Cooperation (IDC) Programme, the first two annual payments falling in the current triennium and the last in the next triennium.

Background

- 13 IDA is the World Bank's concessional financing facility, offering grants and concessional loans (interest-free or at low interest-rates and maturities of up to sixty years) to 78 poor and vulnerable countries, including in the Pacific. IDA works with the World Bank's International Finance Corporation and Multilateral Investment Guarantee Agency to support private sector development in IDA countries.
- 14 Ten Pacific Island countries are eligible to access IDA financing. The smallest receive grant financing only, while Vanuatu, Solomon Islands and Fiji receive a mix of grants and concessional loans, and Papua New Guinea receives only concessional loans. Nauru and Palau have per capita incomes too high to be eligible for IDA assistance, while the Cook Islands and Niue are not members of the World Bank.
- 15 IDA delivers strong leverage value for donors such as New Zealand. IDA financing relies on donor contributions to provide a strong financial foundation. Donor contributions are supplemented by loan repayments from IDA borrowing countries, income transfers from the Bank's other operations, and borrowing by

IDA on international financial markets. These together provide a leverage of four dollars on every dollar contributed by donors.

- 16 New Zealand has contributed to IDA since 1975. New Zealand contributed NZ\$55 million to the current replenishment, IDA20, which over 2022/23 - 2024/25 is delivering NZ\$154 billion in development finance globally and NZ\$1.8 billion to the Pacific. Negotiations for the IDA21 replenishment commenced in March 2024 and concluded in early December.

Analysis: IDA21: the Policy Framework

- 17 Negotiations for IDA21 were undertaken in the context of an increased global imperative to attain the SDGs while also addressing climate change and a gamut of natural and man-made crises. The agreed IDA21 policy framework largely met New Zealand priorities and interests which include development priorities in the Pacific.
- 18 Assisting IDA-eligible countries to achieve the SDGs remains the foundation of IDA's work under IDA21. This prioritises job creation (including education and private sector development), infrastructure (especially water and electricity), digitalisation (especially connectivity and services), and enhancing the capability of public institutions, especially in fiscal and debt management.
- 19 Cross-sectoral themes will focus on supporting vulnerable and fragile states and on addressing gender inequality and disability. Under IDA21 increased attention will be given to supporting the development of the private sector in IDA countries and to scaling-up private investment in development globally.
- 20 A new Global and Regional Opportunities Window will address the impact of cross-border challenges, applying lessons learnt from, for example, the COVID-19 pandemic and food insecurity arising from conflict. Crisis response will feature in IDA's policy and financial framework alongside climate action.
- 21 The priority given to addressing climate change reflects the World Bank's role, including through IDA, as the largest multilateral climate financier for developing countries. IDA21 tags at least 35% of its financing to climate action (including support for meeting Nationally Determined Contributions under the 2015 Paris Agreement), a target likely to be exceeded as IDA20 is on-track to achieve 37% by June 2025.
- 22 World Bank initiatives responding to the G20 call for development bank reform will be applied to IDA. Especially important are enhancements to operational agility and speed. For example, process streamlining has already seen average project preparation time fall from 19 to 16 months. Measures to better leverage capital are also being adopted for IDA, including use of guarantees and hybrid capital financial instruments.

IDA21: the Financing Framework

- 23 Enhanced leveraging of IDA's balance sheet along with reduced loan concessionality for some middle-income countries will, over time, add up to

NZ\$45 billion to IDA's resources. These measures help offset donor reticence for an ambitious IDA21 replenishment, which reflects domestic fiscal pressures; the strength of the US Dollar against their currencies; and the competing demands to provide more humanitarian, crisis response, and development assistance, and for climate financing.

- 24 Donors were presented with four financing scenarios, ranging from NZ\$163 billion (sufficient to deliver the same level of nominal financing as IDA20) to an ambitious replenishment of NZ\$199 billion, built on donor contributions ranging from NZ\$39 billion to NZ\$55 billion. In the event, donors pledged a total of NZ\$39 billion (including a provision for those not yet pledging), sufficient to support a replenishment of NZ\$165 billion. The sum of pledges amounted to an increase of 1% over donor contributions to IDA20, though this enables a 7.5% increase in the size of the replenishment owing to balance sheet enhancements.
- 25 A number of our likeminded partners pledged increased amounts. ^{s6(a), s6(b)(i), s6(b)(ii)}
s6(a), s6(b)(i), s6(b)(ii)

Alignment with New Zealand Priorities

- 26 IDA delivers development impact at scale, with considerable financial leverage. For each dollar of support from donors IDA generates some four times that amount in development financing, largely through borrowing on international financial markets. Further, New Zealand's contribution of NZ\$55 million to IDA20 is leveraging over NZ\$1.8 billion in financing for the Pacific, mostly as grants. IDA also delivers significant support in South and Southeast Asia.
- 27 Advocacy by New Zealand, in concert with Australia, has supported – and in the Pacific, instigated – reforms in the way the World Bank operates. The World Bank has been responsive to such advocacy, especially on issues important to New Zealand, such as enhancing the quality of infrastructure investment and procurement practices. IDA has also embedded vulnerability in its system for allocating finance to countries.

Recommended New Zealand Contribution

- 28 It is recommend the Committee endorse the pledge of NZ\$65 million as a New Zealand contribution to the IDA21 replenishment, pitched at maintaining New Zealand's burden share at 0.166% of total donor contributions. This contribution is 18% higher than New Zealand's contribution to IDA20 which largely reflects exchange rate depreciation since IDA20 pledging. This contribution, if approved, will be expensed through payments totalling NZ\$58 million due to a discount for early payment (see paragraph 33 below).

- 29 The pledge, maintaining New Zealand's burden share, will underpin New Zealand interests, standing and level of influence with the World Bank as a top financier to the Pacific.

Risks and Mitigations

- 30 IDA, which is managed by the World Bank, is considered a low-risk investment. The World Bank is well managed and governed, being subject to day-to-day oversight by its resident Board of Directors, has strong safeguards, integrity, prudential and fiduciary frameworks, and effective monitoring and independent evaluation systems. The World Bank attracts very good performance ratings from development-oriented think tanks and the OECD-hosted Multilateral Organisations Performance Assessment Network (MOPAN).
- 31 New Zealand monitoring of, and influence in, the World Bank and IDA centres on the role of the Minister of Finance as a Governor on the World Bank's Governing Board, through a seconded Senior Adviser position in our constituency office for the Board of Directors, and through attendance at World Bank meetings.

Cost-of-Living Implications

- 32 There are no cost-of living implications.

Financial Implications

- 33 Cabinet agreement to contribute NZ\$65 million to IDA21 will have no impact on the operating balance or on debt. A contribution of NZ\$65 million will be expensed through payments totalling NZ\$58 million. The difference of NZ\$7 million arises from a discount (added back into the contribution) for making payments over three, rather than the standard nine, years. This level of expensing is marginally higher than for IDA20 (NZ\$54.6 million) owing to a substantial increase in the discount offered. This accelerated payment arrangement has been used since IDA19.
- 34 Payment of the contribution will be expensed over financial years 2025/26 to 2027/28. The expenditure on IDA21 will be met from existing baselines of Vote Foreign Affairs Non-Departmental Other Expense — International Development Cooperation (Multi-Year Appropriation).

Legislative Implications

- 35 There are no legislative implications.

Impact Analysis

Regulatory Impact Statement

- 36 No Regulatory Impact Statement is required.

Climate Implications of Policy Assessment

- 37 There are no direct climate implications. Climate change is, however, a focus for IDA financing which targets 35% of financing commitments for climate action, on average. In addition, all new IDA21 operations will align with the Paris Agreement.

Population Implications

- 38 There are no population implications.

Human Rights

- 39 There are no inconsistencies with the New Zealand Bill of Rights Act 1990 or the Human Rights Act 1993.

Use of external Resources

- 40 There is no use of external resources.

Consultation

- 41 The Treasury are overall supportive of the paper and the recommendations.

Communications

- 42 Media interest in IDA21 is not anticipated. Officials will work with the Office of the Minister of Foreign Affairs to manage any interest that may arise.

Proactive Release

- 43 This Cabinet paper, or parts of it, will be released proactively.

Recommendations

- 44 The Minister of Foreign Affairs recommends that the Committee:
- 1 **Note** that the World Bank's International Development Association (IDA) is the World Bank arm that provides concessional finance to the poorest and most vulnerable countries, including in the Pacific.
 - 2 **Note** that donor countries have agreed to an IDA21 replenishment requiring contributions from them of NZ\$39 billion, which, combined with capital market financing, repayment of IDA loans by borrowing countries and the World Bank's own resources, will finance a total IDA21 replenishment of NZ\$165 billion for the three-years from July 2025.
 - 3 **Agree** that New Zealand support the IDA21 replenishment with a contribution of NZ\$65 million over its three-year replenishment which will maintain our shared IDA funding.
 - 4 **Note** that the proposed contribution of NZ\$65 million is made up of:
 - 4.1 cash payments totalling NZ\$58 million over the three years from 2025/26, to be funded from existing baselines of Vote Foreign Affairs Non-Departmental Other Expense — International Development Cooperation (Multi-Year Appropriation); and
 - 4.2 a contribution through a discount of NZ\$7 million for making our IDA21 payment over three years rather than the standard nine years.
 - 5 **Note** that New Zealand's contribution is pitched at maintaining a 0.166% share of aggregate donor contributions to IDA21.

Authorised for lodgement.

Rt. Hon Winston Peters
Minister for Foreign Affairs