Statement by

Hon. Josh Frydenberg, MP
Treasurer of Australia

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On behalf of the constituency comprising Australia, Cambodia, Kiribati, Korea (Republic of), the Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Solomon Islands, Tuvalu and Vanuatu
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103rd Meeting of the Development Committee

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(VIRTUAL)

Overview

We are encouraged by the continued scale and speed of the response from the World Bank Group (WBG) to the immediate impacts of the pandemic, through supporting health systems, delivering balance of payments and budget support assistance, technical advice and capacity development. As the global economy rebounds from a deep recession, there remains considerable uncertainty about near and medium-term prospects, including in our own region. The Spring Meetings provide an important opportunity to consider the longer term effects of the pandemic, especially increased poverty levels, heightened inequalities and the reversal of a decade of development gains in some countries.

In a context where many fiscal positions are severely stretched, other drivers of long-term growth have weakened, and the pandemic has exacerbated the risks associated with a decade of global debt accumulation in emerging market and developing economies, the WBG’s work will be pivotal in supporting developing countries to navigate the formidable challenges ahead to establish a long term foundation for robust growth and sustainable development. Member countries will be looking for strong collaboration between the WBG and the International Monetary Fund to draw on each institution’s particular strengths, including working together, consistent with their mandates, on debt and climate change to support member countries.

Development Financing

For the poorest and most vulnerable countries, COVID-19 has compounded existing crises threatening prosperity, security and human well-being. We fully support the increase in assistance from the WBG to support economic and social recovery efforts, in particular the frontloading of IDA19 resources and advancing IDA20 replenishment discussions by one year. A successful twentieth IDA replenishment will support these countries, as they simultaneously address both the immediate and longer-term impacts of the pandemic.

Small states

The pandemic has proved to be a stark reminder of the vulnerability of small island states, such as the Pacific countries in this constituency, which have been disproportionately affected by the crisis. Their narrow economic base, and heavy reliance on tourism and remittances in particular, has resulted in deeper recessions with average real GDP contractions of roughly 8% in 2020; some have experienced double-digit contractions. These states remain susceptible to multiple exogenous shocks, with some having unsustainable debt burdens.
We welcome the WBG’s role in supporting these states as they rebound from the largest collective shock in their history. In some cases, these countries will require a significant shift from the pre-COVID development strategy, towards an economic model that more fully recognizes their underlying vulnerability due to their small scale, remoteness, exposure to natural disasters, climate change and fragile ecosystems. In this regard, the Bank’s role as convener and source of knowledge on development is paramount, in partnering with these countries to support viable economic pathways.

Vaccines

Equitable access to safe and effective COVID-19 vaccines, as part of a broader health system response, is critical to saving lives, reopening economies and societies. We welcome the Bank’s support for low and middle income countries to purchase and distribute vaccines, tests and treatments and to strengthen national systems for public health preparedness. In our constituency, the Bank has already approved a project in Mongolia and has vaccine projects in the pipeline for several constituency members. This support complements bilateral arrangements that will provide vaccines for other constituency members.

One particular challenge is that global demand for COVID-19 vaccines far outstrips supply, resulting in global manufacturing and distribution capacity being a significant constraint to vaccine access. We consider IFC to have an important role to play in expanding production capacity, with a view that such investments will also contribute to strengthening global manufacturing capacity for other vaccines or future pandemic responses.

We welcome the WBG’s collaboration with other multilateral organizations, including UN specialized agencies such as WHO and UNICEF, as well as with Gavi/COVAX, other multilateral development banks and pharmaceutical companies. At both the global and country levels, we have seen a new type of multilateralism emerge out of the pandemic, one which we hope will strengthen our collective preparedness for future pandemics. Looking ahead, we encourage the Bank to continue its co-operation with COVAX to facilitate equitable vaccine access across countries, and to work with a variety of stakeholders to help monitor the vaccine roll-out within countries.

Debt

We continue to be concerned by the problem of unsustainable debt or the risk of it, which has been exacerbated by the pandemic, in many of the poorest countries. Unchecked, this problem will constrain growth and development. We strongly support IDA’s Sustainable Development Financing Policy (SDFP), yet recognize that changes will be needed to accommodate the application of the SDFP across a truncated IDA19 and an early IDA20 replenishment.

We encourage ongoing collaboration between the Bank and the Fund to implement their multi-pronged approach that seeks to strengthen debt transparency, including among creditors, to enhance debt analytics, to support capacity development on debt and fiscal risk management and to explore how their lending policies can better address debt risks and the resolution of debt crises. We encourage the Bank to intensify its efforts on creditor outreach, particularly in support of enhanced debt transparency and responsible lending by official bilateral creditors. We encourage both institutions to continue supporting the G20 to implement the Debt Service Suspension Initiative and to ensure a smooth transition to more permanent debt treatments under the Common Framework. We hope that a positive legacy of this pandemic will be broader participation by all private and official bilateral creditors in existing debt service relief efforts and improved debt transparency practices that overcome secrecy in debt contracts and enhance disclosure of public and publicly guaranteed debt.
Climate Change

While the impact of COVID has been unprecedented, climate change remains the single greatest threat to long-term livelihoods, security, and well-being of the peoples of the Pacific. We look forward to receiving the WBG’s Climate Change Action Plan for 2020-2025, and its work on laying the foundation for a green, resilient and inclusive recovery and improving access to electricity and clean cooking, in line with SDG7.

Amongst our constituency, adaptation measures are often the most pressing to respond to both slow onset and acute disasters exacerbated by climate change. This includes infrastructure investments to protect against climate impacts; supporting the critical role coastal and terrestrial ecosystems play in building resilience; shifts in agricultural crops and practices; and the relocation of vulnerable populations and strengthening the resilience of affected communities. Accordingly, we welcome the WBG’s significant scale-up of climate finance and its operational commitments, which include increasing its climate finance target to 35% on average in FY21-25, with at least 50% of IBRD/IDA climate finance for adaptation. We also support the WBG’s focus on the opportunities for biodiversity co-benefits through nature based solutions.

Human capital and impacts on the most vulnerable

Amongst the most significant long-term scarring of this crisis has been its impacts on human capital accumulation, through lost schooling for well over a billion learners and degraded health and nutrition outcomes. It is a matter of grave concern that the most vulnerable in society have been disproportionately hurt, including women and girls, people with disabilities, those in poverty and those working in the informal economy. In particular, the pandemic risks advances in human capital that have underpinned women’s social and economic advancement. Women and girls have seen their rights and freedoms rolled back by this crisis, their safety threatened, with girls far less likely to return after missing school.

Given the mutually reinforcing interaction between human capital development, social protection and domestic resource mobilization, we strongly support the Bank’s efforts to support these most vulnerable people through tax and expenditure policies that promote inclusive growth and alleviate poverty, and improve the efficiency and transparency of public spending. This dual approach of rebuilding public finances and investing in human capital is critical to improving human wellbeing, increasing productive capacity and preparing workers for emerging demands for new skills brought about by technological change.

Concluding remarks

Our economic prospects remain diverse. There are uncertainties about the path of the virus, differences in vaccine access and the viability of pre-COVID development paths, including in many of the Pacific island states in this constituency that have faced severe economic impacts. The challenges ahead call for ongoing support for health outcomes, sustained financial and technical support for the policy response, with strong coordination amongst bilateral and multilateral actors. The post-pandemic world will be a new one, and the policy discussion will not be about the return to a pre-COVID development path. Rather, it will involve new opportunities and challenges as we rebuild and apply lessons learnt during the past year. The Bank in particular is uniquely positioned to take on the challenges ahead through its convening power and global reach, and its combination of financing, technical assistance, and knowledge.

We are living through history, and the World Bank Group has a critical role to play in helping shape the future.