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World Bank Governor's Statement No. 12

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Statement by the Hon. **TIOFILUSI TIUETI**,
Governor of the IBRD for **TONGA**

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Governor of the IBRD for Tonga

1. Economic Outlook: Growth and its Challenges

Global economic outlook for 2024 remains uncertain, with projected growth of 3.2%. While inflation eases and monetary policy relaxes, high debt and interest rates may hinder growth. The Southeast Asia and Pacific region show relative strength due to domestic demand and export recovery. However, debt distress and structural challenges limit growth potential for many countries. Tonga's near-term outlook is favourable, but medium-term growth is weak due to debt, disasters, and limited scale.

Tonga's short-term outlook is positive, with projected growth of 2.4% driven by government investment and post-El Niño agricultural recovery. However, medium-term growth is limited to 1.2% due to liquidity concerns, rising debt, natural disasters, and scale constraints.

The 53rd Pacific Islands Forum Leaders Meeting (PIFLM53) and the 2024 Forum Economic Ministers' Meeting (FEMM) both prioritize building a transformative and resilient Pacific region. Both meetings emphasize the urgent need to address climate change adaptation and disaster resilience, as well as strengthen economic, financial, and fiscal systems to withstand shocks and secure a sustainable future for the Pacific people.

2. A Future-Ready World Bank Group

We commend the World Bank Group's effort in trying to implement several strategic measures to enhance its financial capacity, operational efficiency, and accountability in the past eight decades since its commencement. The evolution and adaptation of its mandatory function to an expanded vision of global development that "*leaves no one behind*" is also welcomed. The World Bank has approved policies to accelerate project timelines and implementation, a move that Tonga fully supports.

While we acknowledged the Bank's key initiatives in several developmental fronts, we would also like the Bank to continue its focus on enhancing areas that will help managed trade-offs effectively and become a more robust and impactful institution through its new vision that benefits the entire members, rich and poor countries alike: *a world free of poverty on a livable planet*.

To drive meaningful change and deliver impactful results, it is imperative to focus on key strategic areas. First, we must enhance the Bank's financial capacity to address global challenges. This requires innovative approaches to increase lending capabilities, such as purchasing hybrid capital or supporting the proposed Portfolio Guarantee Platform. Second, improving operational efficiency is critical. This involves refining the Bank's result measurement systems to ensure robust project monitoring and evaluation, utilizing tools like Corporate Scorecards and the IDA Result Measurement System. It is also essential

to reassess the Country Partnership Frameworks (CPF) to confirm that they continue to guide the prioritization and selection of program objectives, aligning interventions with the specific needs and priorities of each member country.

Finally, the Bank must emphasize its accountability through transparency in all operations and provide regular progress reports to member countries. This includes comprehensive reporting at corporate, country, and operational levels. The Bank's accountability relies heavily on stakeholder engagement. By involving stakeholders and citizens in project and program processes, we can ensure that development goals are met, and accountability is maintained at all levels.

3. Technical Preparations for the 2025 Shareholding Review

We firmly recognize the critical importance of conducting regular shareholding reviews every five years, as outlined in the Lima Shareholding Principles. As a member country, we understand that our shareholding rights and responsibilities are vital to the long-term sustainability of the World Bank Group. These reviews are essential for realigning shareholdings to establish an equitable balance of voting power across country groups and addressing underrepresentation. Furthermore, they ensure that the voices of all countries, particularly the smallest and poorest, are heard and protected from dilution.

Given the significance of this shareholding review, we strongly support implementing it through a shareholder-led process. This approach should include regularly updating the shareholding database and enhancing the capacity and knowledge of shareholding among both Bank staff and government officials of member countries. Such efforts are crucial for building the trust and support necessary for the review's success.

We welcome and endorse the development of a separate, IFC-specific formula for the IFC shareholding review. After six years of using the IBRD's formula as a benchmark in the 2018 IFC capital package, it is clear that the IFC's nature, especially in relation to the growing importance of private sector mobilization, necessitates a distinct approach. This provides an opportunity to better reflect the unique rights and responsibilities of IFC shareholding.

We also agree with the proposal to continue using the IBRD shareholding formula as a benchmark for the 2025 IFC shareholding review. However, we urge the Bank to explore a broader range of private sector indicators that capture various dimensions of the private sector. This will not only assist in the upcoming review but also guide future assessments, ensuring that the WBG remains responsive to the evolving global economic landscape.

4. From Vision to Impact: Implementing the World Bank Group Evolution

We support the World Bank Group's Evolution Roadmap which aims to better address global challenges while continuing efforts to end extreme poverty and augment shared prosperity. However, we look forward to more concrete proposals to implement a *One World Bank Group Approach* to maximize the value proposition of the Bank and to deepen its development impact. Thus, further efforts are also needed to attract investment to small island developing states is critical to unlocking opportunities for development.

Moreover, we appreciate the work currently undertaken by the Bank to progress the Evolution Roadmap with the key action plans to materialise the new Vision endorsed: *of a world free of poverty on a livable planet*. Hence, we welcome the progress thus far with the new **WBG Scorecard for FY2024-2030** approved by the Board in December 2023 which establish rigorous approach and framework to measure the WBG's collective results in a streamlined and outcome-oriented fashion and it will be implemented through a phased approach.

We also take note of the progress made in implementing of the new **WBG Playbook** specifically in two areas namely, the *Doubling down on Impacts* which put in place innovative operational enhancements to achieve scale, speed, and replicability for the Bank's clients and *Modernising the Approach to Delivery to Clients*, which focus on using new Guarantees Platform as key vehicles to deliver client impact by operationalising the One WBG approach. Hence, we asked the Bank to give special consideration towards the challenges that the small island developing states are facing as they house approximately half of the poverty population in the member countries.

The Bank has acknowledged the ongoing implementation and advancement of Climate Resilient Debt Clauses (CRDCs), which offer support to borrowers facing climate-related emergencies and natural calamities. We also commend the Bank's effort in aligning its operations with the goals of the Paris Agreement and call on the Bank to increase its climate ambition and update its forward-looking climate targets accordingly.

We strongly support the Bank's Evolution Roadmap, which seeks to address global challenges more effectively while maintaining its mission to end extreme poverty and enhance shared prosperity. However, we urge the Bank to present more concrete proposals for implementing a unified One World Bank Group Approach. This is crucial for maximizing the Bank's value proposition and amplifying its impact on development.

Furthermore, it is imperative to focus on attracting investment to small island developing states, as this is key to unlocking development opportunities. We commend the current efforts by the Bank to advance the Evolution Roadmap, aligned with the vision of a world free of poverty on a liveable planet. The progress made with the new WBG Scorecard for FY2024-2030, approved by the Board in December 2023, is noteworthy. This scorecard establishes a rigorous and outcome-oriented framework to measure the Bank's collective results, to be implemented through a phased approach.

We acknowledge significant strides in the implementation of the new WBG Playbook, especially in two critical areas. The "Doubling Down on Impacts" initiative is introducing innovative operational enhancements to achieve greater scale, speed, and replicability for the Bank's clients. The "Modernising the Approach to Delivery to Clients" focuses on leveraging the new Guarantees Platform as a vital instrument in delivering client impact by operationalizing the One WBG approach. We urge the Bank to pay particular attention to the challenges faced by small island developing states, which are home to about half of the poverty-stricken population in member countries.

We also acknowledge the ongoing advancements in Climate Resilient Debt Clauses (CRDCs) at the Bank. These clauses offer crucial relief to borrowers dealing with climate crises and natural disasters. We commend the Bank's alignment of its operations with the

goals of the Paris Agreement and strongly encourage an increase in climate ambition, including updating its forward-looking climate targets.

5. IDA21 Replenishment

We recognize the challenging circumstances confronting IDA countries and consider that IDA should continue to focus on the needs and priorities of the poorest and the most vulnerable countries, while supporting the country-led model as the foundational pillar of the Bank's approach. Also, given capacity constraints in many borrowing countries, efforts to further enhance hands-on implementation, build capacity and provide technical assistance must continue to be scaled up. This is crucial for investment effectiveness in IDA countries.

Given the pressure on IDA funds, and the substantial investment needs and financing gap in IDA countries, the review of IDA's Capital Adequacy Framework (CAF), building on the results of the recent IDA Mid Term Review, will be important to underpin its medium to long term sustainability. In addition, private sector led growth and investment in IDA countries can play a pivotal role in lifting economic development. We therefore urge the Bank to step up its efforts to help IDA countries build an enabling environment for the private sector and capital investment, and greater utilization of IDA Private Sector Window to leverage the capacity of IFC and MIGA.

We welcomed the measures to enhance IDA's Capital Adequacy Framework, which are anticipated to increase IDA's Deployable Strategic Capital in the medium to long-term, and later increase IDA's financing capacity. We call for decisive actions and steadfast efforts from existing and new donors and the Bank to position IDA21 to help IDA countries face crises while continuing to focus on long-term development goals, increasing the countries' resilience, and achieving impactful results. We also ask the Bank to use the results from the shareholding review, scheduled for 2025, as a basis to further explore possibility of establishing a review process to assess the alignment of IDA capital resources with IDA countries' ambitions. This will be vital to underpin the medium to long-term sustainability of the IDA assistance.

Given the difficult situations experienced by IDA countries, it is crucial for IDA to maintain its focus on addressing the needs of the most impoverished and vulnerable nations, while upholding the country-led approach as the foundation of the Bank's strategy. Many borrowing countries face capacity constraints, necessitating a sustained and enhanced effort in hands-on implementation, capacity building, and technical assistance. This is vital for the effectiveness of investments in IDA countries.

With the increasing pressure on IDA funds and the significant financing gap, the review of IDA's Capital Adequacy Framework (CAF), following the recent IDA Mid Term Review, is crucial for ensuring its sustainability in the medium to long term. Furthermore, private sector-led growth can significantly bolster economic development in IDA countries. It is essential that the World Bank Group intensifies its efforts to cultivate an environment conducive to private sector investment and capital inflow, including the greater use of the IDA Private Sector Window to leverage the expertise of the IFC and MIGA.

While we welcome the measures to enhance IDA's Capital Adequacy Framework, which are expected to boost IDA's Deployable Strategic Capital and subsequently its financing capacity, decisive action from current and new donors, alongside the Bank, is crucial. This will position IDA21 to support IDA countries in facing crises while maintaining a focus on long-term development goals, resilience building, and achieving meaningful outcomes.

We urge the Bank to utilize the results of the 2025 shareholding review as a foundation to explore the establishment of a review process that assesses the alignment of IDA capital resources with the aspirations of IDA countries. This alignment is vital for sustaining the effectiveness of IDA assistance in the medium to long term.
