



Financing Mechanisms for the Multilateral Development Banks: Enhanced Callable Capital

Prepared by
Kathleen Cochrane

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between New Zealand and the United States of America Level 5, 26 The Terrace
PO Box 3465
Wellington 6011
New Zealand

Telephone +64 4 494 1506
E-mail info@fulbright.org.nz
axfordfellowships.org.nz

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Kathleen Cochrane
Wellington, April 2025

Executive Summary

The multilateral development banks (MDBs), including the World Bank's International Bank for Reconstruction and Development (IBRD) and the Asian Development Bank, play a critical role in providing development financing to reduce poverty and promote shared prosperity worldwide. The MDBs have implemented an Evolution Agenda in recent years to unlock greater value from their resources and better leverage contributions from shareholder countries to meet the intersecting challenges of developing countries, including fragility, conflict, and adaptation/resilience.

This report provides an overview of one of the newer voluntary support mechanisms adopted by the IBRD: enhanced callable capital. Enhanced callable capital allows countries to retrofit a portion of their existing callable capital to be called at an earlier stage: when the IBRD is facing an imminent threat of credit rating downgrade, rather than to avoid defaulting on bond and guarantee obligations (a very remote risk). Enhanced callable capital is expected to be provided with additional credit by the credit rating agencies such that it can underpin additional lending estimated at \$6 for every dollar committed by highly-rated shareholders like New Zealand and the United States.

I will also examine the budgetary and accounting treatment of enhanced callable capital in New Zealand and the United States. Enhanced callable capital is a particularly helpful mechanism because it improves the value of resources that have already been committed to the IBRD, allowing those improved resources to be leveraged, rather than requiring additional resources with budgetary costs in this tight fiscal environment. I argue that both New Zealand and the United States can subscribe to enhanced callable capital without incurring a budgetary cost and doing so would demonstrate their commitment to and leadership in the MDB system.

Finally, this report will review the effects of enhanced callable capital on Pacific Island countries, which are the focus of New Zealand's bilateral aid contributions. Enhanced callable capital could indirectly benefit Pacific Island countries by assisting IBRD-borrowing countries in Asia to make quicker progress in meeting their goals related to global public goods, including climate adaptation and mitigation, which is a particularly critical threat to many Pacific Islands.

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Introduction

In the past several years, the multilateral development banks (MDBs) have undertaken (at the urging of G20 Finance Ministers) an Evolution Agenda to modernise and enhance the ability of the MDBs to meet the development challenges of today and tomorrow by scaling up financing and developing innovative financial instruments.¹ This is especially critical because the development assistance needs of developing countries remain elevated given challenges with fragility, adaptation finance, capacity constraints, and interest rate shocks. Meanwhile, developed countries like the United States and New Zealand are facing tight budget environments due to elevated interest rates and fiscal pressures.

This paper will discuss usage of enhanced callable capital at the MDBs (in particular, the World Bank) for consideration of policymakers in New Zealand and the United States for increasing multilateral development resources in a cost-effective way, and will consider in particular how this could impact foreign policy considerations, specifically with respect to Pacific Island countries.

¹ ‘Innovative financing’ can take on a wide array of meanings in the context of development funding and may be used by borrower countries and others to refer to green or blue bonds (financial instruments used to support environmental or marine projects, respectively) and climate debt swap instruments. Here, by ‘innovative financing’ I am referring to the multipronged efforts by the MDBs to better utilise their balance sheet resources.

1 Background

The World Bank's lending arm for middle-income countries, the International Bank for Reconstruction and Development (IBRD) was set up in 1944, with the regionally-focused Asian Development Bank (ADB) following in 1966.² While the MDBs have evolved throughout their history to meet new challenges, since 2022 there has been an increased resource focus via the MDB Evolution Agenda to address new and evolving cross-border challenges such as fragility, conflict, and adaptation. The MDBs have implemented numerous internal and voluntary shareholder measures over the past several years to increase their lending capacity. For example, the World Bank lowered its minimum equity-to-loans ratio first from 20 per cent to 19 per cent, and then from 19 to 18 per cent.³ The World Bank also established a portfolio guarantee platform,⁴ developed a shareholder hybrid capital instrument,⁵ and increased bilateral guarantee limits by \$10 billion.⁶ The EBRD removed the statutory lending limit from its governing documents and the IBRD and ADB are in the process of doing the same,⁷ and the ADB approved capital management reforms to unlock significant new lending capacity, in addition to launching the Innovative Finance Facility for Climate in Asia and the Pacific (IF-CAP),⁸ a donor-backed guarantee facility to leverage loans for projects across Asia and the Pacific.

The upshot of these programs has been a significant increase in MDB lending capacity, with the hybrid capital and portfolio guarantee platforms expected to expand lending at a 1 to 8 ratio and 1 to 6 ratio respectively, with the adjustment of the minimum equity-to-loans ratio adding \$70 billion in additional capacity over 10 years. The strong credit ratings of the MDBs have underpinned lending at favourable interest rates for many

² The World Bank includes other institutions, importantly for this report, the International Development Association (IDA), which was established in 1960 and provides grants and concessional loans to help low-income countries develop. The Asian Development Fund (ADF) provides grants to the Asian Development Bank's lower-income developing member countries.

³ World Bank (15 October 2024)

⁴ This guarantee platform is housed at the World Bank's Multilateral Investment Guarantee Agency as of 1 July 2024, aiming to provide a condensed structure, simplified and comprehensive set of guarantee offerings, and a streamlined process. MIGA (April 2024)

⁵ Hybrid capital falls between senior debt and equity (shareholder capital), and shares characteristics of both. Hybrid capital pays a fixed interest rate return and would trade on a secondary market, but are junior to normal bonds and can therefore absorb losses like equity. Humphrey, Chris, ODI Emerging Analysis, November 2023

⁶ World Bank (19 April 2024)

⁷ 'IBRD Board has approved and is preparing for Governor's voting on a resolution to remove the statutory lending limit from the Articles. EBRD governors approved at the May 2023 Annual Meeting to relocate the bank statutory capital ratio from the Articles establishing the bank to a Board level policy. . . ' G20 Roadmap, July 2023

⁸ Asian Development Bank (30 October 2024)

years, but the Evolution Agenda has encouraged the MDBs to more effectively unlock additional value from their current resources without taking undue risks.

Donor countries have a choice between providing direct bilateral development aid and aid through the multilateral system. Although bilateral aid may be appealing to countries because it provides greater control over specific projects and could confer foreign policy benefits, the World Bank and other multilateral development banks provide unique advantages with development finance that should also be considered. Multilateral development banks have a breadth of expertise, technical knowledge and ability, and financial capability to deliver large-scale projects around the world. MDBs also provide significant value for money for donor countries in pooling resources, reducing the administrative costs and burdens for any particular project, increasing purchasing power, and spreading risk. Finally, MDB development finance also has the potential to crowd out low quality, nontransparent bilateral lending, which has contributed to increased debt vulnerabilities in many developing countries and may be subject to unusual confidentiality clauses, collateral arrangements, and policy influence.⁹

⁹ Gelpern, Anna (April 2023)

2 Background on MDB Capital

The MDBs have two types of capital: paid-in capital and callable capital commitments. Paid-in capital is provided to an MDB by governments (which are the shareholders of those banks) during a capital raise. Callable capital constitutes legally binding commitments by MDB shareholders to meet bond and guarantee obligations in the case of a large adverse shock, a winddown, or liquidation situation to support the Bank in case of potential default.¹⁰ Callable capital commitments are unique to the MDBs,¹¹ while paid-in capital is common to commercial banks and development banks. The large majority of MDB capital resources is callable capital: as of June 2023, the IBRD has US\$296 billion of callable capital and US\$22 billion of paid-in capital, so the callable capital represents 93% of capital commitments.¹² The ADB has nearly 95 per cent of its capital commitments via callable capital (US\$135.6 billion in callable capital and US\$7.2 billion in paid-in capital).¹³

Historically, the credit rating agencies (CRAs) have limited the level of credit they grant for callable capital in their MDB rating methodologies.¹⁴ This is due in part to the lack of clarity about triggers for the calling of callable capital. In addition, given the differing political and legislative processes needed at MDB shareholder countries to respond to a call on capital, the CRAs consider the timing to be quite uncertain for those funds to be provided and available for usage by the MDBs. Finally, the MDBs themselves do not traditionally incorporate callable capital into their capital adequacy frameworks because of conservative accounting approaches. Therefore, if MDBs were to leverage callable capital to grow their lending, it could pose risks to their strong credit ratings.

In order to clarify the technical processes and governance issues relating to callable capital, the World Bank published a detailed public report in April 2024 about how the IBRD's callable capital would be called, if needed.¹⁵ Similarly, the Asian Development Bank clarified the status of its callable capital in a public report that same month, which included responses from shareholder countries about the details of any domestic

¹⁰ IBRD Callable Capital (April 2024); Callable Capital of the Asian Development Bank (April 2024)

¹¹ Callable capital is not the only feature supporting multilateral development bank lending. The MDBs (along with the International Monetary Fund) benefit from a *de facto* status called preferred creditor treatment or preferred creditor status. This means that these institutions continue to be repaid even when a debtor country defaults and restructures its private sector or bilateral debts, because MDBs generally provide the lowest-cost source of funds and may be the only source of financing available during times of stress.

¹² IBRD Callable Capital (April 2024), p.1

¹³ Callable Capital of the Asian Development Bank (April 2024), Executive Summary and Appendix 1

¹⁴ S&P provides up to three levels of ratings uplift from callable capital, while Fitch counts 10 per cent of callable capital as equity in its assessment. Moody's values capital capital as a form of shareholder support. Bermel, Lily and others, MIT CEEPR (June 2024), p.6 n.4

¹⁵ IBRD Callable Capital (April 2024)

processes needed to respond to a call on capital.¹⁶ These reports provided a helpful baseline for shareholders, credit rating agencies, and the larger public to understand callable capital, and helped pave the way for the World Bank's enhanced callable capital proposal later in 2024.

3 Enhanced Callable Capital

In October 2024, the World Bank was the first MDB to announce that shareholders may sign up to provide enhanced callable capital to the IBRD.¹⁷ Importantly, enhanced callable capital does not require any new funding from participant shareholders. ECC permits shareholders to permanently alter a portion¹⁸ of their existing callable capital so that it can be called at an earlier stage, when the IBRD faces an imminent threat of a ratings downgrade. In its current form, callable capital could only be called if the IBRD were at risk of defaulting on its bonds or guarantees, a very remote risk. In conjunction with the ECC proposal and as mentioned in the table below, the World Bank has also adopted a Framework for Restorative Measures (FRM) to set up a systematic Board-approved approach to restoring capital adequacy when the IBRD's AAA credit rating comes under threat. The FRM provides a 10-year monitoring period and sets out three specific stages of risk to allow the Bank and its shareholders to respond early to any emerging threats. This should reduce the likelihood of a credit rating downgrade, especially one that was unforeseen, by keeping an ongoing view to potential risks to the IBRD's capital position.

Enhanced callable capital would only be called if the IBRD's AAA rating were under imminent threat, and initial defence lines established with the FRM have failed to restore the IBRD's capital adequacy.

Enhanced callable capital can be implemented via a bilateral agreement between the contributing shareholder country and the IBRD (without any changes needed to the IBRD's Articles of Agreement). In the event that an ECC call is made, the ECC payment will be recorded as paid-in capital shares of the shareholder and can count towards paid-in capital requirements in a subsequent capital increase. ECC (at both the time of retrofitting or at the time of call) will not impact shareholding or voting rights of either the contributing shareholder or other shareholders. The World Bank estimates that every \$1 of enhanced callable capital from highly-rated shareholders like New Zealand and the United States (those rated at or above AA-) would leverage additional

¹⁶ Callable Capital of the Asian Development Bank (April 2024)

¹⁷ World Bank (15 October 2024)

¹⁸ The IBRD's Articles of Agreement provides in Section 5 that eighty per cent of a member's capital should be callable capital, while many member states have callable capital levels higher than eighty per cent. For example, New Zealand's callable capital currently constitutes approximately ninety-three per cent of its overall capital commitments. Therefore, New Zealand would be able to convert that additional thirteen per cent into enhanced callable capital, leaving it with a total of eighty per cent callable capital, thirteen per cent enhanced callable capital, and seven per cent paid-in capital. The United States could also convert approximately thirteen per cent of its current callable capital to ECC.

IBRD lending capacity six times over a 10 year period.¹⁹ Additional lending would be unlocked via the enhanced callable capital proposal and could either be contributed to the IBRD's general lending capacity, or could be targeted toward particular projects with positive cross-border externalities with a focus toward environmental protection and/or mitigating scarcity risk (such as energy access; protecting biodiversity and nature; food, nutrition, and security; or water security and access, among others).

The idea of 'enhancing' callable capital aims to better use callable capital to enhance the IBRD's lending capacity and to address three issues that previously limited CRAs from giving callable capital 'equity treatment,' as per the table below:

	Existing Callable Capital	Enhanced Callable Capital
1. Timing of call	It can only be called to prevent IBRD from defaulting to bondholders, when IBRD may no longer be a going concern.	ECC will be called when IBRD is facing an imminent threat of credit rating downgrade, well before the point at which IBRD may no longer be a going concern.
2. Process	Previously, there was a lack of clarity on the process for the call to be triggered and related governance issues.	<p>ECC will be called when IBRD enters Stage Three of the IBRD Framework for Restoration Measures for Capital Adequacy (FRM), which is the most severe. The three stages of the FRM are as follows:</p> <p>Stage 1: The IBRD is projected to enter the Warning Zone in the next five years (non-accrual ratio reaches 4%; credit rating agency metrics approach triple-AA thresholds; internal financial indicators suggest a significant and broad deterioration in IBRD's overall financial position).</p> <p>Stage 2: The IBRD is projected to enter the Hazard Zone in the next three years (non-accrual ratio exceeds 5%; credit rating agency metrics reach triple-A thresholds; internal financial indicators show severe stress).</p>

¹⁹ Hay, Jon, Global Capital (23 October 2024). In addition, commitments from countries rated A- to A+ can be leveraged 4.5 times.

		Stage 3: The IBRD is projected to enter the Hazard Zone in one year.
3. Payment expectations	Lack of clear, specific timetable for payments, creating uncertainty of timely payment.	Payment is expected within two to three months after a call is made.

4 Budgetary and Accounting Treatment of Callable Capital in New Zealand

New Zealand currently has callable capital commitments to the IBRD of US\$1.2 billion and has provided US\$90.2 million of paid-in capital. Additional legislative action is not required in order for New Zealand to respond to a call on callable capital at either the IBRD or the ADB, because permanent legislative authority exists to authorise capital contributions to MDBs²⁰ of both paid-in capital and callable capital pursuant to the International Finance Agreements Act 1961. However, New Zealand reports that it would seek the endorsement of Cabinet to respond to a call on capital since such an action would have an effect on the government's financial position.²¹ In the event of a future call on callable capital, the payment would be fiscally neutral: it would increase gross debt, but the additional shares New Zealand receives are a financial asset, and therefore would be technically neutral for New Zealand's net debt position. A future call on ECC would equally be fiscally neutral.

New Zealand treats callable capital as a "possible" quantifiable contingent liability. This is defined as a liability that has a 20 per cent to 50 per cent likelihood of occurring, which for callable capital means a 20-50 per cent chance of being called.²² Risks associated with a future event outside of the New Zealand government's control involves judgement which "is informed by factors such as how often similar events have happened in the past."²³ However, the IBRD has never previously called its callable capital, nor has any other MDB. In addition, the IBRD has never faced a ratings downgrade, which would be a precursor event to a possible call on capital.²⁴ It therefore

²⁰ The one exception noted by New Zealand is its callable capital contributions to the European Bank for Reconstruction and Development, for which there is not permanent legislative authority. Callable Capital Exercise – Shareholder Information Template, New Zealand, p. 2

²¹ Callable Capital Exercise – Shareholder Information Template, New Zealand, p. 2

²² The Treasury, Half Year Economic and Fiscal Update (17 December 2024), p. 56 n. 14

²³ The Treasury, Half Year Economic and Fiscal Update (17 December 2024), p. 83

²⁴ Neither the IBRD nor the Asian Development Bank have faced a credit ratings downgrade from the credit rating agencies. The African Development Bank lost its "AAA" credit rating from Standard & Poor's (S&P) in 1995 because of what S&P described as "increasing politicization of the bank's corporate governance and management in recent years." *Journal of Commerce* (30 August 1995). After implementation of governance changes and an improvement in the performance of certain borrower

appears that New Zealand is taking a highly conservative approach to consider the possibility of its IBRD callable capital being called to be within the 20-50 per cent likelihood range, given that such a call has never occurred in the history of the institution.²⁵

The New Zealand Treasury's view is that converting a portion of its existing callable capital to enhanced callable capital would have a fiscally neutral impact on net core Crown debt and therefore incur no budgetary cost under the Government's fiscal management approach. ECC would only be called if two events occur conjunctively: 1. IBRD suffers severe stresses that put its triple-A credit rating under imminent threat, and 2. Earlier steps taken pursuant to the FRM have failed to restore IBRD's capital adequacy. The IBRD estimates that the joint probability of both events occurring is extremely low, potentially in the range of one to four per cent. Because New Zealand's conservative accounting for the contingent liability risks of callable capital currently estimates a 20-50 per cent chance of a capital call occurring, the risk of ECC being called would still be well within the currently assessed risk level. ECC would be disclosed in New Zealand's financial statements as a contingent liability the same way that callable capital is. ECC represents a unique opportunity for New Zealand to increase the lending capacity of the IBRD with no additional funding or budgetary cost required. If New Zealand chooses to convert the maximum amount of US\$175 million of its current callable capital into ECC, that would translate into approximately an additional US\$1 billion of on-lending capacity by the IBRD. The ADB has not yet announced an enhanced callable capital initiative, so there is not a current framework or on-lending expectations for enhanced callable capital at the ADB.

5 Budgetary and Accounting Treatment of Callable Capital in the United States

Similarly, if the United States were to consider how to provide additional support to the World Bank without additional funding, it may be possible for the United States to convert a portion of its existing callable capital to enhanced callable capital without incurring a budgetary cost or needing additional Congressional authorisation or appropriations. The United States has paid-in capital to the IBRD of approximately US\$3.7 billion and callable capital commitments of US\$49.2 billion, so its callable commitments constitute 92.5 per cent of its current support.²⁶ Generally, in order for

countries, the African Development Bank reestablished its AAA credit rating by the early 2000s, where it has remained ever since.

²⁵ Certain other similarly-situated shareholders recognise that a call on callable capital is unlikely or remote. The United Kingdom classifies callable capital as a remote contingent liability due to its assessment that the capital is unlikely to be called, since no call has ever been made on the IFIs' callable capital. Callable Capital Exercise – Shareholder Information Template, United Kingdom, p. 5. Meanwhile, Canada classifies callable capital as contingent liabilities with no valuation (i.e., expense) associated with them given that the probability of a call on callable capital is estimated to be “unlikely” (which means a less than 30 per cent probability that a liability may exist). Callable Capital Exercise – Shareholder Information Template, Canada, p. 5

²⁶ IBRD Callable Capital (April 2024), p.1. These numbers may differ slightly from those provided in US financial statements because of the use of different exchange rates by US Treasury and the IBRD.

the Executive Branch to participate in a capital stock increase at an MDB, Congress must authorise and appropriate those funds, as Congress has the “power of the purse” under the US Constitution. Prior to 1981, Congress would both authorise and appropriate funds for US callable capital subscriptions. Since 1981, Congress’s practise has changed and appropriations acts will generally specify the amount that is authorised for the callable capital subscription, but refrain from actually appropriating those funds.

For those pre-1981 funds, because Congress already authorised and appropriated the full amount of US callable capital subscriptions, if there was to be a capital call at the IBRD, the United States could respond to that capital call without any additional act of Congress. The total amount of appropriated callable capital subscriptions pre-1981 is over \$12 billion, which includes \$7.66 billion for the IBRD and \$748 million for the Asian Development Bank.²⁷ The US Treasury would need to work with the Office of Management and Budget (OMB) to approve use of funds through an apportionment if the funds were to be called. However, if there were to be a capital call requiring more than the amounts available from pre-1981 subscriptions, Congress would need to adopt additional legislation providing the needed appropriation.

Currently, US paid-in capital at the MDBs is considered to be a non-marketable equity investment valued at cost. The United States’ callable capital subscriptions at the MDBs are reported at Note 27 in the US Treasury’s Agency Financial Report as “Other Commitments and Contingencies” that are functionally equivalent to contingent liabilities.²⁸ In general, US Treasury recognises material contingent liabilities that meet the following criteria:

- A past event or exchange transaction has occurred;
- A future cash outflow is probable; and
- A future cash outflow is measurable.

If one or more (but not all) of the above criteria for recognition are met, along with a reasonable possibility of loss, then the US Treasury will disclose (if material) the nature of the contingent liability, a range of possible loss if that can be estimated, and a description of the nature of the contingency. As US callable capital commitments to the MDBs do not meet all three criteria, they are not included as liabilities on the Agency Financial Report, and the Report notes that “There has never been, nor is there anticipated, a call on the US commitment for these [callable capital] subscriptions.”

Pre-1981 appropriations for callable capital were not assigned a cost based on the expected outlay (i.e., those funds were not “scored” in that year’s budget). This is because “a call has never been made, and it has been recognized that the likelihood of a call is remote.”²⁹ If the United States chooses to participate in the IBRD’s enhanced callable capital proposal, OMB is likely to consider that such a decision should be

²⁷ Callable Capital Exercise – Shareholder Information Template, United States, p. 6

²⁸ US Department of the Treasury Agency Financial Report FY2024, p. 157; Callable Capital Exercise – Shareholder Information Template, United States, p. 7

²⁹ Callable Capital Exercise – Shareholder Information Template, United States, p. 8

consistent with the provisions of the 1990 Federal Credit Reform Act³⁰ (FCRA), which reformed and modernised the government's budgeting practises, despite the availability of appropriated funds pre-dating FRCA.

Congress enacted FCRA in order to provide for consistent accounting and budgeting rules on credit programs, loans, and loan guarantees. Prior to FCRA, the US government accounted for credit programs on a cash basis, which made loan programs appear artificially costly (since the government would obligate the entire loan amount, even though the loan was likely to be repaid) and loan guarantees appear artificially costless (since the obligation to pay would only materialise if the loan defaulted). With FCRA, government agencies must determine the subsidy cost of a loan or guarantee based on the net present value of that loan or guarantee, and Section 504(b)³¹ states that Congress must have provided budget authority in advance in an appropriations act. FCRA also provides that an outstanding direct loan or guarantee "shall not be modified in a manner that increases its costs unless budget authority for the additional cost has been provided in advance"³² in an appropriations act.

My view is that the United States could retrofit a portion (the maximum the United States could retrofit would be \$6.8 billion) of its \$12 billion appropriated pre-1981 IBRD callable capital into ECC consistent with the strictures of the FCRA and without additional action needed by Congress. First, Congress has already provided authorisation and appropriation of these funds, satisfying FCRA's requirement that Congress have provided budget authority in advance for loan guarantees. Second, converting a portion of callable capital into ECC would not be modifying the commitment "in a manner that increases its costs" under Section 504(e) of FCRA. ECC does not increase the overall costs or amount of shareholder contingent liability, because IBRD shareholders are already legally liable for the entire amount of their callable capital subscriptions.³³ ECC will slightly increase the possibility that such capital will be called in the future, but that is not an increase in costs and the likelihood of a capital call will remain a very low probability event. Participation in ECC would not make a future capital call either probable or measurable, so it would be appropriate for the United States to account for ECC on Treasury's Agency Financial Report the same way it reports callable capital commitments—in the "Other Commitments and Contingencies" section; functionally, as an unlikely contingent liability. If the United States were to participate by retrofitting the full \$6.8 billion of its IBRD callable capital into ECC, that could enable the IBRD to make \$40.8 billion in additional lending to meet development goals, with arguably no additional costs to US taxpayers.

³⁰ Codified in the U.S. code at 2 U.S.C. § 661.

³¹ 2 U.S.C. § 661c(b)(1).

³² 2 U.S.C. § 661c(e).

³³ "U.S. callable capital subscriptions that are authorized by the U.S. Congress are binding commitments backed by the full faith and credit of the United States. . . . The full faith and credit of the United States is the highest assurance of payment the U.S. Government can provide, and also backs U.S. Treasury securities." Callable Capital Exercise – Shareholder Information Template, United States, p. 8

A more difficult question is whether the United States could retrofit a portion of callable capital into ECC from post-1981 callable capital. Because those funds have not yet been appropriated, OMB may take the view that converting those funds into ECC would violate Section 504(b) of FCRA, since Congress would not have provided budget authority in advance in an appropriations act. Of course, the US Treasury could always seek such budget authority from Congress, but it seems unlikely that this course would be pursued given the availability of currently authorised and appropriated funds from before 1981.

6 Asian Development Bank-Specific Aspects

Unlike the IBRD, the Asian Development Bank has not publicly introduced a plan to incorporate enhanced callable capital into its existing capital base. Instead, the ADB may have been more focused on using the headroom created from its capital reforms, as well as operationalising the IF-CAP financing facility that was announced in October 2024 since it is the first leveraged MDB guarantee mechanism. The ADB released a Capital Utilization Plan in February 2025, a 10-year operational plan that aims to increase ADB's financing commitments by more than 50 per cent over the next decade, building on the ADB's Capital Adequacy Framework review in September 2023.³⁴ The Capital Utilization Plan states that ADB's Capital Adequacy Framework is designed to protect ADB's lending capacity during crises and shocks “without relying on callable capital.”³⁵

However, the similarities of the capital and governance structure of the Asian Development Bank and the IBRD, along with existing work the Asian Development Bank has completed to clarify its current treatment of callable capital, should make the process of adopting enhanced callable capital an achievable goal, if the Asian Development Bank chooses to pursue it. As the second largest MDB source of funding for Asia after the IBRD, ADB participation in ECC would be an appealing way to leverage increased funding to meet the development and infrastructure needs of countries in Asia and help to fill financing gaps.

Similarly, shareholders including New Zealand and the United States can begin to consider whether they would participate in an Asian Development Bank ECC program if one were to be announced. It should also be helpful for the Asian Development Bank and its shareholders to carefully review the IBRD's experience with enhanced callable capital as a way of determining any best practices that should be utilised.

7 Effects of Enhanced Callable Capital Usage, Including for Pacific Island Countries

Overall, enhanced callable capital offers an attractive combination of boosting lending capacity at the IBRD and demonstrating support for the IBRD's important development

³⁴ Capital Utilization Plan, Asian Development Bank (February 2025)

³⁵ *Id.* at 1

work while retaining a low risk profile for shareholder funds and no increase of overall contingent liability.

The usage at IBRD (and potentially ADB in the future) of enhanced callable capital by New Zealand and other shareholders is likely to have only a limited direct effect on Pacific Island countries. Most Pacific Island countries receive concessional loans and grant financing from the World Bank's International Development Association (IDA), which helps low-income countries and small states, rather than IBRD lending for middle-income countries. However, both Palau and Nauru are IBRD countries, though they have not borrowed in recent years. Papua New Guinea and Fiji are considered to be "blend" countries, meaning they are IDA-eligible but also creditworthy for IBRD lending. Fiji has borrowed nearly US\$177 million from the IBRD and has six World Bank-supported projects focused on investments in the environment/natural resources, transport, macroeconomics/trade/investment, and social protection/jobs. Papua New Guinea, with a population that is estimated to be more than 10 million people, has implemented eleven World-Bank supported projects (including two current IBRD loans worth \$80 million) in areas including energy/extractives, health/nutrition/population, social protection/jobs, transport, agriculture/food, social sustainability/inclusion, and water. This support has improved the skills, market access, and productivity of coffee and cocoa farmers; provided employment opportunities and life skills training for youth in Port Moresby; worked with Papua New Guinean health authorities to address the spread of multi-drug resistant tuberculosis and strengthen the delivery of health services at clinics and health centres; rehabilitated over 50 bridges and restored more than 236 kilometres of critical roads; and connected six key rural towns to clean, reliable water supply services. In addition, some of the largest IBRD borrowers (such as India, Indonesia, and the Philippines) are in the South Asian and Southeast Asian regions that were identified by New Zealand's Government and Ministry of Foreign Affairs and Trade as key areas for New Zealand to increase focus on in 2024.³⁶ Therefore, New Zealand's participation in ECC would be consistent with current foreign policy objectives.

Pacific Island countries that are IDA-only borrowers would not directly receive additional financing flows from New Zealand's participation in ECC. However, the World Bank has rapidly increased its presence in the Pacific over the past decade, and the IBRD provides financing flows into IDA,³⁷ so an increase in such flows could indirectly lead to benefits for Pacific Island countries. In addition, there could be Pacific Island countries graduating from IDA to become IBRD borrowers in the coming years. Finally, Pacific Island countries are some of the most exposed and vulnerable to adaptation-related concerns caused by extreme weather events and climate change, so an increase in IBRD financing that allows other borrowing countries to better meet their goals relating to global public goods including climate mitigation would provide a corresponding benefit to adjacent Pacific Island countries.

³⁶ *Ministry of Foreign Affairs and Trade* (16 July 2024)

³⁷ The transfer amounts vary depending on the IBRD's earnings, but the IBRD transfer to IDA for the IDA21 replenishment period is estimated to be approximately \$2.7 billion. IDA Report to the Board of Governors (17 March 2025)

New Zealand's bilateral development aid has primarily focused on the Pacific Island region, reflecting New Zealand's cultural, geographic, and historical connections to the Pacific as a Pacific Island country itself. New Zealand is also an active contributor to several of the international financial institutions,³⁸ and a strong supporter of the global rules-based system and multilateralism. An early contribution to enhanced callable capital at the IBRD would nicely complement New Zealand's bilateral aid work in the Pacific and would provide New Zealand with additional political capital at the World Bank to advocate for policies that prioritise the interests of the Pacific, including the unique vulnerabilities of many Pacific Island countries to the effects of climate change. It would also signal New Zealand's strong support for the MDBs and the rules-based order during a period of uncertainty, pressure, and geopolitical change.

The United States' bilateral development aid has not had a specific regional focus on the Pacific, but the US has provided bilateral development aid to many Pacific Island nations, with the largest amounts provided to the Federated States of Micronesia and the Marshall Islands.³⁹ The broader Asia region (where many of the largest IBRD borrowers are located) is seen by many across the American political spectrum as being a key geopolitical region and focus of US diplomatic, security, and development work. Strengthening multilateral development finance and the World Bank's presence in the Pacific will help to uphold democratic values and the rule of law as the region becomes increasingly geostrategically contested. US participation in enhanced callable capital at the IBRD would show a continuing and renewed commitment to the multilateral system that could reassure partners and allies, while being unlikely to have a fiscal cost for the United States.

³⁸ New Zealand is a member of the International Monetary Fund, as well as the World Bank, Asian Development Bank, European Bank for Reconstruction and Development, and the Asian Infrastructure and Investment Bank.

³⁹ The Lowy Institute, an independent, nonpartisan international policy think tank located in Sydney, Australia, publishes a Pacific Aid Map to track development finance flows to the Pacific Island region to improve aid efficiency and coordination.

Conclusion

My recommendation is that New Zealand and the United States should seriously consider subscribing to enhanced callable capital at the IBRD for several reasons. First, it would show a commitment to the World Bank and the broader multilateral framework that has done so much important work over the past 80 years in helping countries to develop, and that continues to evolve to meet present-day challenges. The expertise and scale of the World Bank and other development banks provides a complement to bilateral aid contributions, which for New Zealand have tended to focus on Pacific Island nations. MDBs are an important source of high quality development finance for the Asia-Pacific region that provide value for money, economies of scale, and strong technical capabilities.

Second, the opportunity to subscribe to enhanced callable capital represents a unique opportunity to increase lending for important development goals with no additional fiscal costs to New Zealand or the United States as shareholder governments. The MDB Evolution Agenda has successfully unlocked additional value for the MDBs from existing internal resources along with optional shareholder support mechanisms. The MDBs now have increased headroom to meet the financing needs of developing countries, which remain elevated post-COVID and facing higher interest rates. Nevertheless, significant additional funding is needed to address cross-border challenges such as climate change, global health, and the energy transition. Enhanced callable capital is a particularly attractive instrument to help to bridge that gap since it is leveraging and obtaining value out of the existing, currently underutilised resource of callable capital.

Indeed, converting part of the existing callable capital base to ECC could ultimately reduce the (already minor) chances that existing callable capital would be called. The framework set up with the FRM will provide stronger early warning capabilities to avoid currently unexpected stress scenarios and better protect the remaining 80 per cent of remaining callable capital from being needed to be deployed in future scenarios.

Participation in ECC by New Zealand and the United States would demonstrate support for the multilateral, rules-based system and provide foreign policy benefits of being leaders in this area, all without the difficult trade-off decisions that must inevitably be weighed when considering development financing options that come with a fiscal cost.

The MDBs are a critical component in the global effort to meet the sustainable development goals and other global public goods to lift people out of poverty and increase international prosperity. Enhanced callable capital can play a role in this critically needed work.

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