Report to Governors

World Bank Group

IBRD-IFC Capital Package and the Forward Look: Implementation Update

September 2020
### ACRONYMS AND ABBREVIATIONS

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<td>AfCFTA</td>
<td>Africa Continental Free Trade Area</td>
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<td>AIMM</td>
<td>Anticipated Impact Measurement and Monitoring</td>
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<td>AMC</td>
<td>Asset Management Company</td>
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I. INTRODUCTION

1. This paper updates World Bank Group (WBG) Governors on progress made in implementing the commitments made in the 2018 International Bank for Reconstruction and Development (IBRD) and International Finance Corporation (IFC) Capital Packages\(^1\) within the context of the Forward Look, since the last update in April 2019. While progress is reported to Executive Directors through the year via a range of corporate reports and tailored engagements, this paper synthesizes overall progress.

II. IMPLEMENTATION OF THE POLICY PACKAGE IN THE CONTEXT OF THE FORWARD LOOK

2. Significant progress has been achieved during the first two years of implementation of the Capital Package commitments across all four pillars of the Forward Look agenda: (i) serving all clients; (ii) leading on global issues; (iii) creating markets and mobilizing finance for development by expanding the use of private sector solutions; and (iv) improving the business model.

A. Serving All Clients

3. The WBG continued to engage in all client countries, while prioritizing support to countries at the lower to middle range of the income spectrum. WBG financing to client countries reached $74 billion in Fiscal Year (FY) 2020. IBRD and International Development Association (IDA) provided $58 billion financing in FY20, of which $51 billion was to below-Graduation Discussion Income (GDI) countries. World Bank (WB) financing to Sub-Saharan Africa (SSA) increased to 36 percent in FY20. Over the five years to FY20, IDA has more than doubled the volume of operations under implementation in fragile and conflict-affected situations (FCS) to $28 billion and has almost tripled the volume of operations in IDA Small States to $2.5 billion. For IBRD Small States, in addition to exempting them from its 2018 price increase, IBRD substantially increased financing from $191 million in FY17 and FY18 combined to $313 million in FY19 and FY20 combined. In FY20, IBRD financing to Small States reached its highest level since FY12, focusing primarily on preparedness and resilience to natural disasters and regional integration. IFC had a 15 percent increase over FY19 in program delivery with $11 billion in own account and $22 billion including core mobilization, out of which 28 percent was in IDA/FCS. The Multilateral Investment Guarantee Agency (MIGA) issued almost $4 billion in new guarantees in FY20, helping mobilize $7 billion in total financing, with 35 percent of issuance supporting projects in IDA/FCS countries. Reflecting its broad, fast action to support client countries in response to COVID-19, the WBG delivered an unprecedented $45 billion in financing in Q4 of FY20. Building on this momentum, the WBG is planning to deploy a total of $160 billion between April 2020 and June 2021, focusing on saving lives, protecting the poor and vulnerable, securing the foundations of the economy including sustainable private sector solutions to shorten the time to recovery, and strengthening policies and institutions for resilience based on transparent and sustainable debt and investments. WBG financing support and strategic engagements at the

country, regional, and global levels build on research, analytical work, and past experiences in addressing crises.

4. **IBRD continues to prioritize financing to below-GDI countries, while pursuing strong and selective engagements in above-GDI countries.** As part of the Capital Package, IBRD aims to increase its share of non-crisis lending to below-GDI countries to 70 percent by FY30, with an average of 67 percent over FY19-FY30. IBRD has reached this target for two consecutive years, with lending to below-GDI countries reaching 76 percent in FY19 and 72 percent in FY20, averaging 74 percent. To support recent IDA graduates and new blend countries, IBRD offers these countries its lowest loan pricing, while aiming to make available resources to fully replace IDA financing for new IDA graduates.\(^2\) In FY20, a total of $8.2 billion of IBRD financing was provided to recent IDA graduates and blend countries.\(^3\) The Capital Package commitment of introducing a higher increase in Single Borrower Limit (SBL) for below-GDI countries was implemented in FY19 and continues to guide annual SBL discussions. Meanwhile, IBRD pursued strong yet selective engagements in the above-GDI countries. IBRD programs increasingly focus on interventions to strengthen policies and institutions required for sustainable IBRD graduation and on areas contemplated in the Capital Package, such as mitigating crisis risks, delivering regional and global public goods (GPGs), innovative and scalable solutions to poverty and shared prosperity challenges, mobilizing private sector solutions, and creating knowledge. The WB’s knowledge and experiences drawn from its operations around the world provide unique value to above-GDI countries. In addition to the lending and analytical support, Reimbursable Advisory Services (RAS) continue to be valued by clients across regions, particularly for the global expertise the Bank brings to support niche activities.

5. **IFC is making progress on its Capital Package commitments of reaching 40 percent of annual own-account program in IDA and FCS countries and reaching $25 billion in annual own account commitments across all countries by 2030, while maintaining a sharpened focus on development impact and additionality.** Achieving these ambitions requires both strategic growth to IFC’s mainstream business as well as in-country policy and regulatory reforms to enable IFC’s Upstream work to build a pipeline of bankable projects to attract private sector solutions to development priorities, especially in IDA-FCS markets. IFC achieved 25 percent of own account long-term financing (LTF) commitments in IDA countries and FCS economies and 10 percent of own-account LTF commitments in IDA FCS and LIC-IDA in FY20. The IDA Private Sector Window (PSW) has matured into an important tool to support IFC and MIGA in mobilizing private investment in LIC-IDA and IDA FCS countries: PSW funding supporting IFC commitments reached $598 million in FY20, more than double the $252 million used in FY19, and enabled over $1 billion of IFC’s own-account investments. The PSW funding supported a number of sectors in FY20, with a strong pipeline for IDA19. Furthermore, IFC has earmarked 40 percent of its $8 billion Fast Track COVID-19 Facility to IDA and FCS countries to align IFC’s crisis response efforts and its long-term strategic commitments. Meanwhile, IFC continues to see strong demand from middle-income countries (MICs) to address ongoing developmental challenges. With the revised additionality framework in place, IFC is highly

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2 As part of the income-based IBRD loan pricing differentiation that became effective from July 1, 2018, blend countries and recent IDA graduates are exempt from the pricing increase, along with Small States and FCS.

3 Recent IDA graduates refer to countries that graduated in the two most recent IDA replenishments (i.e. IDA17 and IDA18).
selective in MICs and focuses on areas such as innovation, inclusion, frontier regions, climate change and regional integration. Staying relevant in environments of greater market pressure impels IFC to innovate and share knowledge and disruptive business models to help MICs leapfrog traditional pathways. In turn, MICs offer a platform to incubate solutions and technologies that can be scaled up and replicated in more challenging markets.

B. Leading on Global Issues

6. The World Bank Group continues to play a leadership role in promoting innovative responses to global development issues. One such area is support to fragile and conflict affected countries. In FY20, the WBG launched its first comprehensive FCV Strategy, which aims to enhance the WBG’s effectiveness to support countries in addressing the drivers and impact of FCV and strengthening their resilience, especially for the most vulnerable populations. The Strategy outlines a suite of operational measures to improve policies, programming, personnel, and partnerships, that are complemented by a tailored financing toolkit to support FCV. IDA more than doubled its financing to IDA FCS from IDA17 to reach $23 billion in IDA18, exceeding the initial IDA18 target. The Global Concessional Financing Facility approved five projects in FY20, which combined leveraged $110 million in grants to unlock more than $1 billion in development assistance for refugees and host communities in Jordan, Lebanon, Colombia and Ecuador. To address the COVID-19 crisis, the WBG has provided rapid support to more than 25 FCS, with interventions that aim to strengthen and protect human capital, support the most vulnerable and marginalized groups, and lay the foundations for inclusive, resilient and sustainable recovery including collaborating on opportunities to support private sector. On the institutional side, the WB continues to increase its staff presence in IDA FCS, meeting its IDA18 policy commitment of increasing net staffing by at least 150 staff. IFC is deepening its engagement in FCS countries through in-country presence, regional hubs, a strengthened role of its FCV global unit, and by leveraging WB staff. During FY20, IFC opened three new offices in IDA FCS in SSA and established a joint presence with the WB in Somalia. An MOU signed between IFC and the WB will enable IFC to broaden its reach in six more SSA countries. MIGA also opened a second office in SSA to better serve clients, many of which are FCS.

7. The World Bank is playing a leading role on the global development issue of debt sustainability and transparency. The WB is continuing to provide a very large net positive flow to developing countries. To increase fiscal space, the WB has called for debt stock relief where appropriate. The WB, together with the IMF, championed and supported the G20’s suspension of debt payments for the world’s poorest countries. The WB is urging the G20 to extend the moratorium through 2021; and has argued that reduction in the stock of debt needs to be high on the international agenda. The WB has made substantial progress in 2020 by publishing more information on debt, debt contracts, the collateral that has been restricted, and the non-disclosure clauses that burden sovereign contracts. The WB will continue our focus in FY21 on debt sustainability and transparency. The moratorium itself has provided some fiscal space for participating countries, but much more needs to be done in order to achieve a more equitable outcome for people in developing countries.

8. The WBG continues to make a leading contribution to the global climate agenda and has substantially scaled up its financing to address climate change and its impacts. In FY20,
IBRD climate co-benefits reached 28 percent of total financing including COVID-19 operations and 31 percent excluding COVID-19 operations—strong progress toward the Capital Package commitment to reach an average of at least 30 percent over FY20-FY23. World Bank Group climate co-benefits reached record amounts. IDA’s climate co-benefits reached 31 percent of total financing including COVID-19 operations and 32 percent excluding COVID-19 operations in FY20. The $17.2 billion FY20 co-benefits for the WB were 21 percent higher than in FY19. IFC continued to increase its climate investments, accounting for 30 percent of own-account LTF commitment in FY20, which in volume represents $0.7 billion more than in FY19. IFC’s Upstream work program will be key to more climate business in FY21 and beyond. MIGA is making progress, with its climate portfolio standing at a record $5.45 billion and over 20 percent climate co-benefits in FY20. Addressing climate change and supporting the move to a lower-carbon economy, is a key consideration in the WBG’s longer term focus to Build Back Better, post-COVID-19. IBRD and IFC are delivering on the Capital Package commitment that all operations be screened for climate and disaster risk. IBRD reached 100 percent compliance with climate risk screening in FY20.\(^4\) IFC completed a climate risk screening pilot for ports, waterways, airports, roads, insurance, forestry, and pulp and paper, and mainstreamed physical climate risk screening in these seven sectors in FY20.\(^5\) In addition, IBRD and IFC investment operations in key emission producing sectors incorporated the shadow price of carbon in economic analyses and applied Greenhouse Gas (GHG) accounting, with annual disclosure of GHG emissions.\(^6\) MIGA is now undertaking GHG accounting and incorporating the shadow price of carbon in its economic analysis. Recognizing the opportunity to accelerate the transition to low carbon economies as countries recover from the COVID-19 pandemic, the WBG is working with partners to focus on building sustainable infrastructure in the wake of COVID-19. A new umbrella trust fund, the Climate Support Facility (CSF), will support the consolidation and focus of climate and disaster risk considerations in IBRD projects, including in post-COVID-19 green stimulus projects. IFC also examines climate-related financial risk and was the first development finance institution (DFI) to use the Taskforce on Climate-related Financial Disclosure guidelines to disclose its approach. The WBG is also working with other Multilateral Development Banks (MDBs) to identify areas of improvement in the adaptation methodology and on articulating principles for the development of resilience metrics. The Bank is advancing work in this area by developing and piloting a ‘Resilience Rating System’ to complement the climate adaptation finance methodology, with a view to better monitor adaptation- and resilience-related actions. As part of its broader focus on sustainable development, the WBG is also expanding its engagement on biodiversity and global development issues such as marine plastics.

9. **The WBG continues to support clients to close gender gaps, though the COVID-19 crisis presents new challenges.** IBRD exceeded the Capital Package target of 55 percent of its operations contributing to narrowing gender gaps (“gender-tagged”) by FY23, achieving 60 percent in FY20 and 71 percent excluding COVID-19 operations. IDA achieved 62 percent gender-tagged operations in FY20, with the ratio increasing to 74 percent excluding COVID-19

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4 COVID-19 health emergency response operations were not required to undertake screening in FY20.
5 In FY21, IFC is expanding risk analysis to other vulnerable sectors as identified by industry experts and investment teams, including railways, urban transport, financial institutions, mining, and hydropower.
6 IBRD, IDA and IFC GHG emissions will be disclosed at an aggregate level in the Corporate Scorecard. IBRD also provides disclosure on its climate risks through its annual response to the CDP (formerly known as Carbon Disclosure Project), the largest public database of climate-related disclosures that investors reference.
operations, compared to 67 percent in FY19. Furthermore, the share of IBRD operations with financial sector components that include specific actions to close gender gaps reached 64 percent in FY20, against a target of 60 percent by FY23. Examples of IBRD operations that focused on closing gender gaps included a Development Policy Operation (DPO) in Albania that supports reforms to increase property ownership among women and measures to reduce discrimination against female employees in the private sector; and a COVID-19 response DPO in Uruguay that includes policy actions to strengthen the institutional response to gender-based violence. As part of the Capital Package, IFC agreed to quadruple the amount of annual financing dedicated to women and women-led Small and Medium Enterprises (SMEs) and in FY20 delivered 34 percent of its $1.4 billion 2030 target. IFC has also made significant progress on the other gender metrics; IFC has exceeded its FY20 target of investing in financial institutions targeting women by increasing commitments to $1.8 billion in FY20 (70 percent of the 2030 target) and increased the share of women nominee directors on boards of companies into which IFC invests equity to 44 percent, aiming to achieve 50 percent by 2030. COVID-19, however, is waging a heavy toll, especially for women and girls. The WBG is analyzing the gender dimensions of the crisis and working to ensure that projects responding to the pandemic are considering gender impacts.

10. **The WBG continued to strengthen its knowledge and convening role to support the design and sharing of development solutions for greater impact.** As part of the Capital Package, the WB is updating the strategic framework for knowledge to enhance impact at the country level and contribute to knowledge as a GPG. The framework, which will be presented to the Executive Directors in FY21, will consider achievements to date and opportunities to further leverage knowledge for lending, client capacity, and development policy dialogue at national, regional, and global levels. IFC is contributing to global standards setting as part of the IFC 3.0 Strategy. IFC’s Operating Principles for Impact Management, approved in FY19, have garnered over 100 private sector signatories, representing institutions that manage an estimated $300 billion in impact assets in FY20. IFC also launched the Ethical Principles in Healthcare (EPIHC), while the Principles for Education are under development. IFC’s Anticipated Impact Measurement and Monitoring (AIMM) contributes to global understanding of how to assess impact of private sector operations. MIGA has established a partnership program, has hosted two MDB guarantees conferences, and continues to serve as co-chair of the Insurance Development Forum Steering Committee. Across the WBG, knowledge, learning and innovation have been shaping the WBG COVID-19 response, and are central to scaling up development impact in a post COVID-19 world.

11. **The WBG continued its strong support for regional integration and trade facilitation.** The WBG’s toolkit includes analytical work, convening power, advisory services and analytics (ASA), lending and investing, and private capital mobilization. FY20 was a strong year for regional analytic work. The *Handbook on Deep Trade Agreements* complements the launch of a related database and will enable analysis of the benefits from regional integration initiatives, which reach beyond trade. A study on the distributional impacts of the *Africa Continental Free Trade Area* (AfCFTA) is part of Bank analytical support to the dialogue on AfCFTA. *Belt and Road Economics* provides an assessment of the risks and opportunities. In FY20, the Board approved the $170 million *Lake Chad Region Recovery and Development Project* that will support recovery through regional coordination and crisis monitoring, connectivity, and agricultural livelihoods. This is part of the Bank’s commitment to promote collective action to address the risks of regional fragility, economic contagion, and climate change. The $94 million *Caribbean Digital*
Transformation Project will lay the foundations for an inclusive digital economy in the Eastern Caribbean by increasing internet access, digital banking, online public services, and digital skills. The project is the first large-scale digital transformation program in the Caribbean with World Bank (WB) IDA financing, and also the WB’s first regional digital economy project. In IDA19, IDA will continue to leverage the Regional Window, increasing its size by 50 percent to $7.6 billion. In LCR, IFC has been supporting regional capital market integration through two regional funds, Kandeo and HMC capital. IFC has also continued to support global initiatives with regional footprints, such as the WBG Joint Capital Markets Program (J-CAP), which helps develop markets that would eventually become regional financial centers. IFC continues its support for global and regional trade through the Global Trade Finance Program (GTFP) which has covered over 68,000 trade transactions and supported over $66.5 billion in emerging market trade in FY20 out of which over $3 billion was in IDA countries.

12. **IBRD continues to support the delivery of GPGs.** In line with its Capital Package commitment, IBRD launched the Fund for Innovative GPG Solutions (the “GPG Fund”) in June 2019 as a three-year pilot, and in FY20 completed its first year of implementation. Also, in line with the Capital Package commitment, on October 1, 2019, IBRD’s Board of Governors approved a transfer of $45 million from surplus to the GPG Fund. During FY20, three projects that promote innovative solutions to addressing climate change mitigation and adaptation and preventing spillover effects of FCV situations were selected to receive the $45 million allocation. Projects were selected based on additionality, innovation, replicability and sustainability criteria. Allocation decisions will be finalized as the projects obtain Board approval. In August 2020, Governors approved a $20 million transfer from IBRD surplus to the GPG Fund as part of FY20 surplus allocation for new IBRD projects with innovative GPG components in FY21. Management intends to learn from the pilot implementation to improve the design of the GPG Fund and to contribute to global knowledge on effective GPG delivery.

C. Creating Markets

13. **The WBG continues to help create markets at scale, by combining a thorough understanding of the constraints to private sector solutions and the strategic targeting of interventions coordinated across the WBG.** IFC Country Strategies are helping to move IFC towards more strategic country engagements. Working off priorities outlined in these strategies, the newly formed Global Upstream Units are becoming incubators and integrators to design new projects linked to policy reforms in strategic sectors. IFC has also produced 13 Sector Deep Dives, which develops new business while improving alignment between IFC’s investment and advisory engagements and strengthening collaboration across the WBG.

14. **Even as the COVID-19 pandemic unfolds, IFC has continued to develop a long-term pipeline of projects across regions and industries.** Against the backdrop of the largest outflow of capital from Emerging Market and Developing Economies (EMDEs) in recent history, IFC’s Upstream work program becomes even more important. By building a pipeline of impactful investment projects that will accelerate recovery, Upstream will be key to IFC’s effectiveness in the post-COVID-19 world. Advisory Service (AS) efforts are increasingly focused on the Upstream agenda, with AS teams playing an important role in the creation of markets and opportunities, developing the right enabling environments on the ground, and building a pipeline
of bankable projects, especially in IDA and FCS countries. To finance a portion of its Upstream work, IFC will use a targeted country-driven budget allocation to directly link its Country Strategies with the Upstream pipeline and resource allocation, thus giving Country Managers greater control over IFC resources.

15. **The WBG has deepened collaboration for supporting policy reform to eliminate obstacles to private investment.** Country Private Sector Diagnostics (CPSDs) are highlighting sectoral opportunities where the private sector can generate growth, create employment, and contribute to competitiveness. CPSDs bring together WBG knowledge and expertise by incorporating findings from relevant diagnostics and tapping into expertise across the Bank Practice Groups and IFC Industry teams. To date, IFC has produced 45 CPSDs, of which 23 were completed in FY20. Both the CPSDs and Sector Deep Dives feed into Systematic Country Diagnostics (SCDs) and Country Partnership Frameworks (CPF) and provide an analytical basis for policy and regulatory reforms that can be supported through WB financing and technical assistance.

16. **IBRD will redouble its efforts, in close collaboration with MIGA and IFC, to increase its private capital mobilization ratio to 25 percent on average over FY19-FY30, as envisioned in the Capital Package.** In FY19, private capital mobilized by IBRD was 11.3 percent of IBRD commitments. In FY20, the ratio fell to 6.5 percent, as the COVID-19 crisis severely disrupted private investment, putting financial pressure on existing Public-Private Partnerships (PPPs), drying up access to financing and insurance products, and delaying finalization of new PPP projects. Looking ahead, IBRD will redouble its efforts, working jointly with MIGA and IFC, to provide advisory support for the preparation and structuring of projects, and develop scalable products and platforms targeted to sector specific development challenges. IBRD will also work, jointly with other MDBs, on a more comprehensive methodology to assess the support that mobilizes private capital. The methodology will aim to better capture the impact of support for regulatory reforms through policy-based lending and ASA, which help create an enabling environment for the private sector. IFC continued its strong delivery on mobilization with a mobilization ratio of 0.97x achieved in FY20 and leveraging its own account commitments with funds from other investors in support of private sector projects.

D. Improving the Business Model

17. **The WBG is making progress towards a “Better WBG” in line with the Capital Package commitment of improving financial sustainability and achieving productivity gains while also addressing rising cost pressures in an expanding business context, particularly in Low-Income Countries (LICs), FCS, and Small States, as well as more complex operations including those in response to the COVID-19 crisis.**

18. **The Bank has restructured the Practice Groups and Regions to enhance the alignment of accountability for country program outcomes, simplify decision making, sharpen our focus on knowledge, and better harness its technical capacity and knowledge to**

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The current MDB definition of private sector mobilization is restricted to WB financing that leverages private capital and does not include upstream work and extensive government engagement that is a pre-condition to attract private sector solutions for development.
support country clients and contribute to the GPGs. In addition, two Vice Presidencies for SSA have been created to enhance management attention for the growing work program in that region. Measures are being taken to promote innovative, high quality global expertise and knowledge in regional and country programs; and enhance the operations delivery model for more effective mix of global expertise and local knowledge. Moreover, Management continues to strengthen the Bank’s field presence to support clients, particularly in IDA FCS.

19. **In FY20, Management also implemented changes in the compensation methodology approved by the Board both for Headquarters (HQ) and Country Office (CO)-appointed staff.** The Board approved a proposal for structural adjustments, which inform increases of WBG staff salaries. Management also curtailed the increase in senior management pay in FY20. In the wake of the pandemic, Management also simplified performance evaluation for FY20.

20. **WBG Facilities, Health, and IT units have adapted and expanded their service offerings to meet the needs of a more decentralized organization, with a focus on FCV locations.** Through investments in technology, staff across the WBG have delivered a strong response to the COVID-19 crisis primarily through home-based work. ITS continues to improve productivity while providing high-speed connectivity to COs and HQ and managed devices for staff. Meanwhile, investments in facilities have enabled the Bank to strengthen its presence in IDA FCS. Furthermore, an increased presence of security and health professionals in each region strengthens the on-the-ground network of local knowledge to provide expert advice and assistance as needed.

21. **WB trust fund (TF) reforms continue to improve strategic alignment, increase efficiency, and enhance oversight of the TF portfolio to deliver solutions for clients while providing the best value for donors.** In FY20, the Bank reviewed its portfolio of TFs and identified opportunities for consolidation in the form of proposals for Umbrella 2.0 programs, which will serve as the basis for the majority of the future fundraising efforts. The WB also updated its Financial Intermediary Fund (FIF) Management Framework to strengthen future selectivity by articulating a menu of options for responding to global calls for collective action, combined with more systematic internal review processes that take alternatives into consideration, better lifecycle management of FIFs, and greater clarity around WB roles and the applicability of policies. The WB is also taking measures to contain the growth of external funds for strategic alignment with key priorities and increase cost recovery, including increasing cost recovery and establishing caps on use of external funds at corporate and VPU level. IFC has embarked on a reform to improve the governance and allocation process for IFC’s Donor Partner TFs to more strategically align partnerships with the 2030 goals, including Upstream.

22. **IFC’s business model continued to evolve with a commitment to improving its financial sustainability, optimizing its staffing mix and enhancing productivity, performance, and agility.** The FY19 workforce planning exercise freed up capacity to bring onboard new skillsets. Efforts in FY20 have focused on: (i) realignment of staff resources to priority areas, including IDA and FCS markets, (ii) acquiring or developing skillsets essential for Upstream, industry expertise, environmental and social management and equity; and (iii) filling junior roles to better leverage senior staff. Regarding operational processes, IFC established a framework to simplify approval processes for repeat business with strategic, long-term partners by
creating client envelopes with pre-set credit ceilings. IFC also began implementation of
differentiated processing, which will focus resources to deals that carry the highest (financial and
non-financial) risk. Meanwhile, IFC continues to roll out its Portfolio Approach, comprising a
quantitative metric for development impact (AIMM) and a financial sustainability metric. In FY20,
MIGA fully implemented its Impact Measurement and Performance Assessment Comparison Tool
(IMACT).

23. In FY20, IBRD started to implement the Financial Sustainability Framework (FSF),
which proved to be timely. The FSF aims to use capital efficiently to support predictable lending
levels aligned with strategy in a prudent manner that safeguards IBRD’s triple-A rating, while also
setting aside capacity to respond to unanticipated crises. Following approval of the implementation
approach in FY19,\(^8\) FY20 saw the approval of a $10 billion crisis buffer which yielded a $28 billion
non-crisis lending ceiling, or sustainable annual lending level adjusted for crisis buffer (“SALL-
adj”). The FSF has guided IBRD’s response to COVID-19, allowing IBRD to lean forward to
counter the negative effects of the crisis for IBRD borrowers, while at the same time ensuring
long-term financial sustainability. In June 2020, the Executive Directors approved a $10 billion
crisis buffer for FY21. Combined with a $25 billion SALL-adj, this will allow IBRD to increase
new lending to $35 billion in FY21. In light of the exogenous and widespread nature of the crisis,
the Executive Directors also approved the two adjustments to the financial terms for FY21 lending:
i) regular pricing for access to the crisis buffer (instead of the default higher pricing per the original
framework); and ii) aligning the maturity limit for fast disbursing operations\(^9\) under the regular
program with the default shorter maturity limit of the crisis buffer. These adjustments allow for an
integrated framework for managing FY21 lending, while also ensuring that the crisis buffer will
be rebuilt at a similar speed as under the original framework. Given the unfolding nature of the
 crisis, a mid-year review is planned for December 2020 to assess the potential for supplementing
the FY21 crisis buffer based on the updated IBRD financial outlook.

24. IFC has continued to use operational and financial strategies to optimize use of
capital. IFC’s FSF aims to preserve the Corporation’s triple-A rating, using capital efficiently to
support investments aligned with strategy, and provide sustainable income to cover operating
expenses. IFC uses economic capital as a common currency of risk, and as a measure to reflect the
different risk profile of its different investment products. In addition to its internal capital adequacy
framework, which uses Deployable Strategic Capital (DSC) as the primary metric, IFC also
monitors its capital adequacy position under the rating agencies’ methodologies. Furthermore, a
balanced portfolio enables IFC to ensure sound financial footing and long-term sustainability. As
projects in MICs have historically demonstrated higher return on capital, a robust and continuing
program in MICs enables IFC to take on intrinsically riskier ventures in IDA countries and FCS
markets.

III. IMPLEMENTATION OF THE FINANCIAL PACKAGE

25. To support the ambitious policy commitments, the Capital Package included a
balanced financing package that comprised a significant capital increase and substantial


\(^9\) Fast-disbursing operations include all DPOs, as well as those IFPs and P4Rs whose cumulative disbursements in
the first two years following commitment exceed 60% of the committed amount.
internal measures for enhancing the financial capacity of IBRD and IFC. Significant progress has been made in implementing all components of the financing package over the last two years.

A. Capital Increase

26. Since the Development Committee endorsed a capital increase for both IBRD and IFC at the 2018 Spring Meetings, six Resolutions were submitted to the Board of Governors for voting on June 7, 2018. These include two authorizing the IBRD General Capital Increase (GCI) and Selective Capital Increase (SCI) adopted by IBRD’s Board of Governors on October 1, 2018, and four authorizing IFC’s Conversion of Retained Earnings, SCI, GCI and Amendment to IFC’s Articles of Agreement adopted by IFC’s Board of Governors on April 16, 2020.

a. The subscription period for IBRD’s GCI and SCI commenced on October 2, 2018 and will close on October 1, 2023, five years from the Resolutions adoption date. As of June 30, 2020, just over 110,000 shares had been subscribed, adding $1.6 billion to IBRD’s paid-in capital and $11.7 billion to callable capital.

b. The subscription period for IFC’s GCI and SCI commenced on April 16, 2020 and will close on April 15, 2023, three years from the effective date of the Resolutions. As of June 30, 2020, 15 percent of the subscriptions have been received. IFC considers “received subscriptions” as the submission of completed Instrument of Subscription (IoS) and not necessarily the payment. For the SCI, payment must be completed by April 15, 2023, three years from the effective date of the SCI Resolution. For the GCI, payment must be completed by April 15, 2025, five years from the effective date of the GCI Resolution.

27. In light of the criticality of capital increase to IBRD and IFC’s ability to ramp up their financing to respond to the COVID-19 crisis, member countries are encouraged to accelerate their subscriptions and payments within the subscription periods. Members are encouraged to submit an indicative payment schedule for their subscriptions under both the IBRD and IFC Capital Increase before they submit subscription documentation.

B. IBRD Loan Pricing Measures

28. The Capital Package included a set of loan pricing measures aimed at boosting IBRD’s income and reserve retention, while introducing a differentiated approach based on country income levels. These pricing measures were approved by the Executive Directors and went into effect from July 1, 2018. Recent IDA graduates, blend countries, Small States, and FCS countries are exempt from the pricing increase. In FY20, the pricing measures contributed $13 million to IBRD’s income. In line with the Capital Package, these incremental revenues are...
excluded from the IDA transfer formula to contribute fully to building IBRD’s lending capacity until FY28.

C. Administrative Expense

29. **Management has developed a comprehensive monitoring framework to track the implementation of the Capital Package budget commitments.** Reviewed by the Executive Directors in FY20, the framework sets out a baseline against which budget commitments will be assessed (the Everything Else Being Equal trajectory), it defines the methodology and components for calculating efficiency savings and economies of scale, and presents a framework for reporting and monitoring. Based on this framework, progress on the administrative expense commitments will be reported to the Executive Directors after the end of each FY on a retrospective basis.

30. **Only two years in, the World Bank has made significant progress towards achieving the capital package budget commitments** through efficiency measures and economies of scale, and by containing expenditure growth despite increasing costs of doing business from expanding services to low- and lower-income countries, fragile situations and small states, and more complex operations. Building on the successful implementation of the Expenditure Review which achieved $340 million of savings by FY18, the Bank has committed under the Capital Package to (a) achieve additional efficiency and economies of scale savings by FY30; and (b) comply with tight targets of the IBRD budget anchor (the ratio of IBRD administrative expenses over IBRD loan spread income) which gradually fall until FY30. Gross efficiency savings achieved in FY19-20 amount to $147 million, with net\(^{13}\) efficiency savings of $40 million, and economies of scale achieved amounting to an additional $38 million. Actual efficiency savings and economies of scale realized for FY20 exceeded the planned amount by $20 million and $22 million, respectively. Management is committed to continue to deliver new efficiencies, economies of scale and productivity improvements. An aggressive effort to achieve further efficiency measures is already built in the FY21-FY23 WB budget trajectory, with the bulk expected to be achieved through net efficiencies. It is expected that economies of scale start low and build up over time as volume increase effects take time to work their way into operational programs.

31. **IBRD more than met its Budget Anchor targets (the ratio of administrative expenses over loan spread income) in FY19 and FY20 and is on track to meet the targets for FY21-23.** The IDA budget anchor has also improved and is expected to improve further by FY23 under the planned budget trajectory.

32. **IFC has contained growth in its administrative budget through WBG and IFC-specific expenditure control and efficiency measures, despite the increasing cost of doing business (CODB) resulting from implementation of IFC 3.0, particularly the expanding of operations in low-income IDA and FCS.** By FY18, IFC had realized substantial savings by focusing on cost reduction and cost optimization initiatives. Building on this strong track record, IFC has committed, under the Capital Package, to additional savings\(^{14}\) composed of efficiency

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\(^{13}\) Net of funding to absorb new cost pressures.

\(^{14}\) The efficiency agenda’s primary focus is on workforce structure and grade mix changes to achieve a more balanced pyramid by hiring more junior staff, increases in productivity and effectiveness of operational delivery and economies of scale.
savings and economies of scale over FY19-FY30. Since FY19, IFC has realized a total of $123 million of efficiency savings and expects to realize additional cumulative savings over FY21-FY23

D. Balance Sheet Optimization

33. The WB continued to pursue balance sheet optimization measures, to optimize existing resources while safeguarding the soundness of the Bank’s balance sheet. Available resources for lending are being freed up by reprioritization of the pipeline, realigning country programs to emerging priorities, and redirecting the portfolio where possible, including through cancellations and restructurings, allowing resources to be redirected towards COVID-19 response. Management is meanwhile continuing its effort to explore options to further optimize IBRD and IDA balance sheets.

34. For IFC, delivering on both the Capital Package commitments and IFC 3.0 requires further shifts to challenging and complex markets, and consequently, a higher CODB. To do this in a sustainable manner, IFC resources will be judiciously deployed toward creating markets, Upstream work and implementation of the Cascade. As such, the continuation of operational and financial strategies to optimize the Corporation’s balance sheet, including mobilization, asset sales, and the application of a “portfolio approach” to investments remain critical.

E. Income Transfers

35. As part of the Capital Package, shareholders agreed to extend the IDA18 formula for IBRD’s income transfers into the future, balancing WBG solidarity with financial prudence for IBRD. The formula approach more closely connects IBRD’s long-term financial strength with IDA transfer levels, allowing for higher transfers when IBRD is in a stronger financial position while also reducing the impact of downside income volatility on IBRD’s reserve retention.

36. A key component of the Capital Package was the suspension of IFC income designations to IDA after IDA18. IFC has not recognized expenditures against designations for grants to IDA from FY18 and FY19 income, and both transfers have been deferred to FY21, per the designation formula agreed with the Board in November 2016. In line with the formula, IFC will continue to include resolutions on annual designations to AS, including the Creating Market Advisory Window (CMAW), to further support IFC’s efforts to work upstream and in challenging environments.

IV. MONITORING AND REPORTING MECHANISMS

A. Ongoing Monitoring and Reporting

37. Systems for monitoring and reporting progress on the Capital Package commitments have been put in place. Updates on the implementation status, future plans and timeline for the key elements of Capital Package have been provided to the Executive Directors through the Corporate Scorecard (CSC), the Strategy and Business Outlook (SBO) paper, the Budget Document, and the World Bank and IFC’s Quarterly Operations Update. Over the last year, Management has sought guidance and input from the Executive Directors on ways to improve ongoing reporting for operational targets. This has resulted in an enhanced reporting matrix, that
shows each commitment along with specific targets and implementation status. The enhanced matrix now introduces progress against targets for longer-term operational commitments, such as the share of lending going to below-GDI countries and the share of financing with climate co-benefits. This reporting matrix will be updated annually after the close of each FY to capture FY-end reporting data.

38. **IFC’s CSC remains a critical tool for aligning IFC’s operations with its 2030 Capital Package commitments.** IFC will present its FY21 CSC covering FY21-FY23 to the Executive Directors during FY21 Q1 IFC Operations Report update. Additional updates and progress on the Capital Package are provided on an ongoing basis in the IFC SBO paper and the Budget paper.

**B. Independent Assessment**

39. **An independent assessment of progress on Capital Package commitments will be conducted five years after the capital increase.** This independent assessment will supplement ongoing monitoring by Management and Executive Directors.