DEVELOPMENT COMMITTEE
(Joint Ministerial Committee
of the
Boards of Governors of the Bank and the Fund
on the
Transfer of Real Resources to Developing Countries)

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

Attached is the document titled "Update: The Forward Look and IBRD-IFC Capital Package Implementation" prepared by the World Bank Group for the April 13, 2019 Development Committee Meeting.

Report to Governors at 2019 Spring Meetings

World Bank Group

Update: The Forward Look

and IBRD-IFC Capital Package Implementation

April 2019

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ACRONYMS AND ABBREVIATIONS

AIMM	Anticipated Impact Measurement and Monitoring
AMC	Asset Management Company
CPF	Country Partnership Framework
CPSD	Country Private Sector Diagnostic
DRM	Domestic Resource Mobilization
DSC	Deployable Strategic Capital
E/L	Equity-to-Loans Ratio
FCS	Fragile and Conflict-Affected Situations
FCV	Fragility, Conflict and Violence
FIF	Financial Intermediary Fund
FSF	Financial Sustainability Framework
FY	Fiscal Year
GCI	General Capital Increase
GDI	Graduation Discussion Income
GHG	Greenhouse Gas
GPG	Global Public Goods
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFFs	Illicit Financial Flows
IG&A	Institutional, Governance and Administrative
IMF	International Monetary Fund
LICs	Low Income Countries
MDBs	Multilateral Development Banks
MFD	Maximizing Finance for Development
MIGA	Multilateral Investment Guarantee Agency
MICs	Middle Income Countries
MTR	Mid-Term Review (IDA)
PGs	Practice Groups
PLR	Performance and Learning Review
PSW	Private Sector Window
RAS	Reimbursable Advisory Services
SALL	Sustainable Annual Lending Limit
SALL-adj	Buffer-adjusted Sustainable Annual Lending Limit
SBL	Single Borrower Limit
SCDs	Systematic Country Diagnostics
SCI	Selective Capital Increase
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
WB	World Bank
WBG	World Bank Group
We-Fi	Women Entrepreneurs Finance Initiative

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EXECUTIVE SUMMARY

1. **The Development Committee endorsed The Forward Look: A Vision for the World Bank Group in 2030 at the 2016 Annual Meetings.** The Forward Look serves as the overarching roadmap for how the WBG can best support its member countries to advance economic transformation and contribute to the attainment of the Sustainable Development Goals (SDGs). The 2016 Forward Look paper describes commitments agreed between the shareholders and Management on how the World Bank Group (WBG) will advance the Twin Goals of eradicating extreme poverty and promoting shared prosperity and its three priorities of sustainable and inclusive growth, investment in human capital, and strengthening resilience.

2. **WBG shareholders endorsed a transformative Capital Package for IBRD and IFC during the April 2018 Spring Meetings**, including a historic US$13 billion paid-in capital increase and an ambitious set of internal reforms and policy measures. The IBRD-IFC Capital Package was made possible by the overarching strategic framework and vision for the role of the WBG laid out in the Forward Look. The Capital Package is aimed at setting the WBG on a sustainable path to reach the ambitious global objectives of the strategic directions entailed in the Forward Look, including serving all clients, leading on global issues, creating markets, and improving the business model.

3. **While the Capital Package entails an implementation period that stretches until 2030, work commenced immediately after the 2018 Spring Meetings to implement the agreed measures.** In less than the span of a year, significant progress in implementation has been achieved. In response to the request by Governors at the 2018 Annual Meetings, this paper provides an update on this early progress in implementing the Capital Package commitments.

4. **Implementation of the Forward Look and the associated Capital Package policy commitments is on track, providing a solid foundation for reaching the Capital Package targets over FY19-30.**

- ***Serving all clients.*** Significant policy reforms have been undertaken to support the objective of engaging with all clients across the income spectrum, while prioritizing additional financing towards countries below the Graduation Discussion Income (GDI). As of July 1, 2018, IBRD's loan pricing and Single Borrower Limit (SBL) became differentiated based on borrower income. For clients in the upper range of the income spectrum, above the IBRD GDI, a new approach to Country Partnership Frameworks (CPFs) has also been implemented. A new Reimbursable Advisory Services (RAS) unit has been created to enhance the scale and impact of the program. IFC has fully implemented a revised additionality framework, enhancing its ability to selectively pursue impactful engagements with clients in the upper income range of countries. IFC is also making progress investing in and mobilizing private sector investments in IDA and Fragile and Conflict-Affected Situations (FCS) countries in line with its ambition to increase IDA/FCS share of annual commitments to 40 percent by 2030. Progress has also been made in enhancing support to small states.

- ***Leading on global issues***. The Capital Package enables the WBG to enhance its leadership role in promoting innovative responses to issues where coordinated global action is critical. Implementation actions are being taken in the key areas of crisis management and Fragility, Conflict and Violence (FCV), climate change including both adaptation and mitigation measures, gender, knowledge and convening, and regional integration. The WBG announced a major new set of climate targets for 2021-2025 in December 2018 and launched in January 2019 its Action Plan on Climate Change Adaptation and Resilience.

- ***Creating Markets***. Scaling private sector solutions is critical to achieving the Twin Goals and the SDGs. To harness the power of private sector solutions and enhance market creation, the WBG introduced the Maximizing Finance for Development (MFD) and Cascade approach. Implementation of the MFD and Cascade agenda is continuing through investment-enabling WB upstream policy operations and IFC market creation projects, aided by the increasing deployment of innovative investment platforms and products, as well as new processes and tools (including diagnostics, project assessments, risk mitigation, and mobilization platforms). Organizational re-alignment to implement this approach is ongoing: new WBG-wide sector and regional groups are being established to coordinate MFD and Cascade priorities, while IFC has set up Global Upstream Units inside industry departments to incubate upstream opportunities, focus resources, and coordinate initiatives.

- ***Improving the business model.*** The WBG business model continues to evolve with a commitment to improving financial sustainability and enhancing productivity, performance and agility. The implementation approach for IBRD's new Financial Sustainability Framework (FSF) was approved by Executive Directors in December 2018, with work under way for it to take effect from FY20. Management has continued to pursue efficiency measures and fully implemented the changes to the compensation methodology for HQ-appointed staff as of July 2018, in line with commitments under the Capital Package. IFC is successfully implementing a major work force planning exercise to rebalance its grade structure and generate substantial financial efficiencies for the redeployment of resources to strategic priorities and regions.

5. **Financing package measures that Management committed to are already either in place or well on track for implementation.** The differentiated increase in IBRD loan pricing and SBL was implemented as of July 1, 2018. The loan pricing measure is expected to contribute significantly to IBRD's income and reserve-building over FY19-30. The budget trajectory emerging for FY20-22 is consistent with the IBRD budget anchor target zone for FY19-21 and net annual savings from new efficiencies, over and beyond the savings achieved under the Expenditure Review, are being built into the annual budgets in line with the Capital Package commitment. IFC has introduced two new budget efficiency metrics and remains focused on efficiencies and productivity gains to ensure that the institution has sufficient resources to successfully implement IFC 3.0. IFC is also making steady progress on optimizing its balance sheet.

6. **Systems for monitoring and reporting on the progress against the Forward Look and Capital Package ambitions have been put in place.** Updates on the implementation status and timeline are provided regularly to the Board. Changes are being made to the WBG, WB and IFC Corporate Scorecards and to other corporate reports to capture progress on long-term,

ongoing measures, such as the share of climate-related and gender-tagged financing. IFC's Corporate Scorecard has been fundamentally revised to specifically reflect its capital increase commitments and a three-year trajectory has been added to show progress against long-term targets.

7. **In addition to IBRD and IFC, IDA and MIGA are critical to the achievement of Forward Look objectives.** IDA18 is delivering record levels of financing and making strong progress toward meeting policy commitments under its special themes. MIGA is making an increasing contribution and is now the third-largest MDB in terms of private capital mobilized.

8. **Shareholders' authorization and subscription to the capital increase are essential to the WBG's ability to deliver on the ambitious Forward Look vision and the associated policy and financing targets agreed under the Capital Package**. The capital increase, including US$13 billion of paid-in capital for IBRD and IFC and US$52.6 billion of callable capital for IBRD, is the most critical component of the package. The IBRD capital subscription process is now open, with a 5-year subscription period; IFC's resolutions, however, are yet to reach the necessary threshold of votes. The benefits of this historic Capital Package will only be truly realized after the capital increase is fully subscribed, providing the WBG with the essential resources required to support our client countries in boosting sustainable and inclusive growth, building human capital, and increasing resilience.

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I. INTRODUCTION

1. **The Development Committee endorsed “The Forward Look: A Vision for the World Bank Group in 2030” at the 2016 Annual Meetings** cementing the unprecedented commitments agreed between shareholders and Management about the strategic directions of the World Bank Group.[1] The Forward Look strategy describes how the WBG will deliver on the Twin Goals of eradicating extreme poverty and promoting shared prosperity and its three priorities of sustainable and inclusive growth, investment in human capital, and strengthening resilience and support the 2030 development agenda and the Sustainable Development Goals (SDGs). The Forward Look rests on four pillars: serving all clients; creating markets, maximizing finance for development, and expanding the use of private sector solutions; leading on global issues; and improving the business model. It sets clear corporate goals and the strategy to achieve them and continues to serve as the overarching roadmap on how the WBG can best support the full range of its member countries in economic transformation and achieving inclusive growth.

2. **In April 2018, WBG shareholders endorsed a transformative Capital Package[2] for IBRD and IFC** to set the WBG on a sustainable path to accomplish the ambitious strategy set out in the Forward Look. This followed a record IDA18 replenishment and enhanced MIGA financial capacity through expanded use of reinsurance. The 2018 Capital Package includes ambitious policy commitments and internal effectiveness measures supporting the four pillars of the Forward Look, as well as a package of financing measures, including both internal measures and a landmark capital increase for IBRD and IFC, to support implementation of the policy commitments. The strengthening of financial capacity will help WBG institutions to better support development challenges across the full range of country clients, deploy private sector solutions at scale, and deliver on the Global Public Goods (GPG) agenda in support of the SDGs and the Twin Goals.

3. **The aim of this paper is to update Governors on progress in the Forward Look agenda, with a focus on implementation of commitments agreed under the IBRD and IFC Capital Package**. It includes four sections. Following the introduction in Section I, Sections II and III report on the implementation status of the policy and financing packages respectively. Section IV discusses the monitoring and reporting mechanisms for implementing the IBRD-IFC Capital Package. The paper also addresses certain key areas under the Forward Look which are not part of the IBRD-IFC Capital Package.

4. **It is important to highlight IDA’s essential role in delivering on the Forward Look agenda.** At the Mid-Term Review (MTR) in November 2018, IDA Deputies and Borrower Representatives took note of the strong start of IDA18, through which record levels of financing were committed, particularly in Africa and for countries facing fragility, conflict and violence (FCV). IDA is integral to the WBG commitment to serve all clients while prioritizing places with the most need. Through the special themes of FCV, climate change, and gender – for which over three-quarters of policy commitments are approaching completion – IDA contributes to the

[1] “Forward Look: A Vision for the World Bank Group in 2030”, September 20, 2016, DC2016-0008.
[2] “Sustainable Financing for Sustainable Development: World Bank Group Capital Package Proposal”, April 17, 2018, DC2018-0002/2 (hereinafter referred to as the “DC paper”).

WBG's leadership on global issues. Climate co-benefits have increased in absolute terms and as a share of overall financing, and all IDA projects are now being screened for climate and disaster risk. Additionally, through the implementation of the new Private Sector Window (PSW), WBG Management is learning valuable lessons regarding additionality, governance, minimum concessionality, and risk, as part of a Group-wide approach to creating markets, maximizing finance for development, and expanding the use of private sector solutions. Strong progress has also been made in the other two IDA18 special themes of Jobs and Economic Transformation and Institutions and Governance. Similarly, MIGA plays a fundamental role in delivering across the Forward Look pillars, as represented in its Medium-Term Strategy for FY18-20.[3]

II. IMPLEMENTING THE FORWARD LOOK: IBRD-IFC CAPITAL PACKAGE UPDATE

5. **The Capital Package sets out a major shift in approach and scale of engagement to advance each of the four dimensions of the Forward Look agenda:** Serving All Clients; Leading on the Global Public Goods Agenda; Mobilizing Capital and "Creating Markets"; Continually Improving Effectiveness and the Internal Operational Model. While the Capital Package entails an implementation period that stretches over FY19-30, significant policy actions have been taken in the first year to lay a strong foundation for achieving the long-term policy targets across these areas. This section provides highlights of the early implementation progress across these areas.[4]

A. Serving all clients

6. **The WBG will stay engaged with all clients while continually ensuring that its resources are strategically deployed to meet global and country needs and targeted to areas of the world that most need financing.** The Capital Package set out policy ambitions for engaging with clients across the income spectrum, while prioritizing additional financing towards countries below the IBRD GDI. Immediate measures have been taken to support these goals through reforms to IBRD loan pricing and Single Borrower Limit (SBL) policies and adopting a new approach to CPFs for countries above the GDI.

7. **Under the Capital Package, IBRD will prioritize support to IDA graduates and new blends[5], coupled with a significant scale-up by IFC in IDA and FCS countries.** IBRD will aim to make available resources to replace 100 percent of IDA financing for IDA graduates. IDA-eligible countries will also continue to receive support via the record IDA18 and subsequent replenishments. In addition, as part of the new income-based differentiated IBRD loan pricing

[3] MIGA Strategy & Business Outlook FY18-20. While MIGA did not seek a capital increase alongside IBRD and IFC in 2018, MIGA was very much part of the Forward Look for the WBG.
[4] While recognizing that, as set out in the DC paper, the full implementation of the Capital Package ambitions will be over the period through FY30. This is particularly the case for the deployment of the projected additional financial capacity that will be built up as a result of the capital increase.
[5] Blends are those countries determined: (a) by IDA to be eligible for IDA Credits; and (b) by IBRD to be creditworthy for borrowing IBRD loans.

that became effective from July 1, 2018 (see Section III), blend countries are exempt from the maturity premium increase. Support to IDA-eligible countries and new graduates will be reported annually as part of the periodic Operations Updates to the Board, starting in FY19. IFC aims to increase the share of annual commitments in IDA[6] and FCS countries to 40 percent by FY30 and is continuing efforts to put in place a number of tools to increase the program in these countries.

8. **Countries in the lower to mid-range of the IBRD income spectrum will see a significant scale-up in the support they receive from the WBG**. For IBRD, the share of non-crisis lending to countries below the GDI is targeted to rise to 70 percent by FY30. Progress towards this target is to be reported annually through the periodic Operations Updates to the Board starting in FY19. Countries in the lower to mid-range of the IBRD income spectrum have also been supported in the implementation of the IBRD loan pricing measures made effective as of July 1, 2018. IBRD borrowers with income below the GDI, receive a discount on the applicable maturity premium increase. Exemptions from the price increase also apply to recent IDA graduates (for two replenishment cycles after graduation, or six years starting from FY19 for IDA17-18 graduates), as well as small states and fragile and conflict-affected countries on the Harmonized List.[7] In addition, countries below the GDI have been supported by a higher increase in the IBRD SBL. This differentiated approach to the SBL was implemented in July 2018 in the FY19 SBL and will be reflected in future annual SBLs.

9. **Engaging all clients remains vital for IFC, as the private sector is central to addressing development challenges in all income groups**. IFC aims to expand commitments in IDA and FCS countries and reach up to 40 percent of all IFC commitments by FY30. Achieving this will be facilitated by leveraging advisory services and upstream efforts to create markets in these challenging environments through the use of recently developed advisory and de-risking tools. These tools will help IFC mobilize the private capital required to meet the ambitious target set for investments in IDA and FCS countries.

10. **IFC aims to utilize blended finance solutions, including IDA18 PSW resources, to increase own account annual commitments in Low Income Countries (LIC)-IDA[8] and IDA FCS countries to 15-18 percent and 15-20 percent of total annual commitments by FY26 and FY30 respectively.** Blended finance tools, such as the PSW, the Global SME Finance Facility, the Women Entrepreneurs Finance Initiative (We-Fi), and the Global Agriculture and Food Security Program are integral to scaling up IFC support to FCS and LIC countries. IFC's blended finance platforms complement IDA-supported country-level interventions aimed at strengthening the business environment in FCS and LIC-IDA countries and the work of IFC's Advisory Services that focuses on project preparation and capacity-building by providing de-risking at the transaction level.

11. **The Policy Package supports a strong, yet selective, WBG engagement in the upper income range of clients and this has been reflected recently in a new approach to**

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[6] IDA countries are those eligible for IDA financing as of July 1, 2016, including Blend and GAP countries as per prior commitments of November 2016, FCS list may vary overtime.
[7] See http://www.worldbank.org/en/topic/fragilityconflictviolence/brief/harmonized-list-of-fragile-situations.
[8] Low-Income Country and IDA countries are those categorized as such as of July 1, 2016 as per IFC Commitments of November 2016.

CPFs for such countries. For countries above the IBRD GDI, in close cooperation with the borrower country, there will be a systematic analysis and assessment of the key elements of the IBRD graduation policy, reflected in the CPFs and updated in Performance and Learning Reviews. In consultation with the borrowing country, new IBRD activities will have a primary focus on interventions to strengthen policies and institutions required for sustainable IBRD graduation. These commitments have been incorporated into the updated WBG Guidance, issued in September 2018, for preparing Systematic Country Diagnostics (SCDs) and CPFs. All new SCDs and CPFs for countries above the GDI are now being prepared in accordance with the updated Guidance.

12. **Reimbursable Advisory Services (RAS) are an important tool to serve all clients**. RAS supports countries across the income spectrum, focusing on upper middle- and high-income countries, on core development challenges including global public goods. In these countries the WBG's focus is gradually shifting towards non-lending products, policy advice and institutional building. These countries are also themselves generators of development knowledge, which the WBG can apply elsewhere. The new Global RAS unit supports Bank teams to enhance strategic fit, client responsiveness and impact, and is formulating arrangements for better risk management, business development and sustainable growth, program diversification, and staff training while ensuring that lessons from RAS are widely available across the WBG.

13. **IFC has fully implemented a revised additionality framework in FY19, enhancing its ability to selectively pursue impactful engagements with clients in upper income countries**. This framework places increased emphasis on providing empirical evidence of financial additionality and on introducing more rigor in assessments of non-financial additionality. In these countries, IFC will continue to prioritize areas of engagement where interventions can have significant development impact, including global public goods, frontier regions, capital markets, and south-south partnerships. Accordingly, a narrowing of the scope of projects supported in these countries, in line with specifically identified priorities on a country specific basis, is expected.

14. **The scaling up of WBG support for small states is another area of focus under the Capital Package.** The IBRD pricing measures implemented in July 2018 supported small states by exempting them from the maturity premium increase.[9] The Capital Package also supports a doubling of the access of small states to IBRD resources, subject to prudential limits. This is to be implemented in FY19 with updates provided to the Board through regular risk reports. Private sector-led growth can be difficult for small states to achieve, underscoring the need for increased support to private sector engagements in these countries. In small states affected by Fragility, Conflict and Violence (FCV) and in lower-income small states, private sector players can face higher risks due to political and social vulnerabilities, inadequate capital, and foreign currency risk. IFC's deployment of the range of blended finance tools to engage in lower-income and fragile small-states is yielding results. Additionally, capacity building in eligible FCS and IDA small states will continue under the Creating Markets Advisory Window.

[9] Small states defined as countries with a population of 1.5 million or less, as in Bank Directive, Financial Terms and Conditions of Bank Financing.

B. Leading on global issues

15. **The Capital Package enables the WBG to enhance its leadership role in promoting innovative responses to issues where coordinated global action is critical**. Implementation actions are being taken in the key areas of crisis management and FCV, climate change including both adaptation and mitigation measures, gender, knowledge and convening, and regional integration. WBG support for creating more and better jobs, a key area under the Forward Look, is also discussed.

(1) Crisis management and Fragility, Conflict and Violence

16. **The WBG is scaling-up its efforts to support FCV situations, including by developing the first comprehensive and WBG-wide strategy for FCV.** The strategy, to be completed in FY20, will aim to provide a road map for the WBG to engage more effectively in FCV and increase its impact in these countries. The strategy will focus on both low- and middle-income countries and identify opportunities for the Bank to enhance its effectiveness in its four main areas of engagement on FCV, namely pivoting to prevention, remaining engaged in crisis and conflict situations, mitigating spillover effects at regional and global levels, and helping countries to escape the fragility trap. With regards to crisis management, the World Bank is operationalizing the Global Crisis Risk Platform – an approach that seeks to strengthen the Bank's ability to prevent and respond to both emerging and escalating crisis risks, and in particular multidimensional risks (e.g. conflict, pandemics, financial sector risks, climate risks, etc.). The World Bank has scaled-up its support to middle-income countries impacted by forced displacement shocks, notably, through partnership with the Global Concessional Financing Facility.

17. **IFC will strengthen its partnership with the WB in the development of the coordinated WBG strategy for FCV.** The strategy will aim to define the important role of the private sector across different types of FCV situations, ranging from conflict prevention to crisis response to mitigating spillovers of conflict such as forced displacement. It will also aim to articulate how IFC, the WB and MIGA, in collaboration with other partners, can leverage the private sector and private investment in addressing FCV challenges.

18. **The new IBRD Financial Sustainability Framework (FSF) reinforces the ability of the WBG to respond to crises**. As discussed below, the Board has approved the implementation approach for the FSF which will take effect from FY20. The FSF will enhance IBRD's financial response to a variety of crises from natural disasters to economic or financial shocks. In relation to the latter, rising public debt vulnerabilities are one source of crisis risk and, as highlighted to the Development Committee at the 2018 Annual Meetings, the IMF and the World Bank are pursuing a wide-ranging approach to help countries contain such vulnerabilities.[10]

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[10] "Debt Vulnerabilities in Emerging and Low-Income Economies" prepared by the World Bank Group and the International Monetary Fund for the October 13, 2018 Development Committee Meeting, DC2018-0011, September 18, 2018. https://www.devcommittee.org/sites/www.devcommittee.org/files/download/Documents/2018-09/DC2018-0011%20Debt%20Vulnerabilities.pdf

(2) Climate change

19. **The Capital Package enables the WBG to substantially scale up its financing to tackle climate change and to continue to lead on this global agenda**. For IBRD, the package supports increasing the climate co-benefit target of 28 percent by FY20 to an average of at least 30 percent over FY20-FY23, with this ambition maintained or increasing to FY30. Progress achieved against these targets will be reported annually in the WB Scorecard. IFC aims to increase climate investments, including mitigation and adaptation projects, to 35 percent of commitments by 2030 and reach an average of 32 percent between FY20 and FY30.

20. **In addition to the enhanced climate financing target, the Capital Package included commitments that all operations be screened for climate risk.** For IBRD, by the end of FY18, 100 percent compliance with risk screening had been achieved. IFC is piloting the systematic screening of projects for climate risk in the seven most affected industry sectors in FY19. IFC aims to extend this systematic screening of projects beyond these seven sectors and prioritizing other vulnerable sectors in FY20. In addition, IBRD and IFC investment operations in key emission producing sectors were to incorporate the shadow price of carbon in economic analysis and to apply Greenhouse Gas (GHG) accounting, with annual disclosure of GHG emissions. IBRD and IFC achieved 100 percent compliance in FY18, with all applicable IBRD and IFC investment projects applying GHG accounting and incorporating the shadow price of carbon in the economic analysis. IBRD/IDA and IFC GHG emissions will be disclosed in the Corporate Scorecard. Climate change is a central pillar of the MIGA FY18-20 Medium Term Strategy; the Agency is now undertaking GHG accounting and is incorporating the shadow price of carbon in economic analysis.

21. **The WBG is working with the MDBs on reviewing the joint MDB methodology for tracking climate related finance**, aiming to provide greater consistency and granularity. For mitigation co-benefits, this involves revisiting the positive list of activities that qualify for mitigation related finance based on sector and sub-sector taxonomies of activities. For financing associated with adaptation co-benefits, joint MDB efforts have commenced on scoping principles for the development and use of metrics for climate resilience results, which will build on the WBG's initiative to establish a resilience rating system. These efforts will complement adaptation finance tracking by informing a more comprehensive approach for capturing adaptation and resilience results.

22. **Since the agreement on the Capital Package, the WBG has announced a major new set of climate targets for 2021-2025.[11]** In December 2018 at the 24th annual UN Climate Change Conference of Parties, the WBG announced its new climate targets for 2021-2025. These targets, which build on the WBG's 2016 Climate Change Action Plan, more than double its current 5-year investments to around US$200 billion in support for countries to take ambitious climate action, with a strong focus on increasing adaptation, leveraging private sector finance and supporting increased systemic climate action at the country level.[12]

[11] World Bank. 2018. The World Bank Group 2025 Targets to Step Up Climate Action. http://pubdocs.worldbank.org/en/368601543772742074/2025-Targets-to-Step-Up-Climate-Action.pdf

[12] The target of US$200 billion is made up of approximately US$100 billion in direct climate-related finance from IBRD/IDA, approximately US$33 billion of direct climate-related finance from the IFC and MIGA, and

23. **As part of the 2025 targets, the WBG subsequently launched in January 2019 its Action Plan on Climate Change Adaptation and Resilience.**[13] The Action Plan lays out a strategy to boost our efforts on adaptation and resilience, with three areas of focus. First, boosting direct adaptation financing to US$50 billion over FY21-25, more than double what was achieved during FY15-18. This puts adaptation finance on par with investments in climate change mitigation. Second, supporting countries to take a mainstreamed approach to adaptation so that climate risks are managed at every phase of policy planning, investment design, and implementation. Third, the development of a new rating system to create incentives for, and improve the tracking of, global progress on adaptation and resilience.

(3) Gender

24. **The Capital Package supports the WBG to significantly step up its financing to help close gender gaps**. For IBRD this includes a focus on designing and implementing operations aligned with the four key pillars of the Gender Strategy: addressing gaps in education and health, removing constraints for more and better jobs, improving women's access to and control over assets, and enhancing women's voice and agency. Progress against the target to increase the proportion of IBRD operations that narrow these gender gaps ("gender tagged" operations) from 42 percent to 55 percent by FY23, with ambition maintained or increasing to FY30, will be reported annually in the WB Corporate Scorecard. Progress in increasing the share of IBRD operations with financial sector components that include specific actions to close gender gaps in access to and use of financial services from 55 to 60 percent by FY23, again with ambition maintained or increasing to FY30, will be reported annually as part of the periodic Operations Updates to the Board.

25. **IFC has made four capital commitments related to gender**. IFC has developed a comprehensive approach to strengthening the role of women on the boards of its investee companies and aims to progressively build a strong cadre of internal and external women nominated by IFC to sit on the boards of companies where IFC has an equity investment, aiming to reach 50 percent of women nominee directors by FY30. Building on the experience of IFC's Banking on Women business, IFC continues to expand its investment and advisory services programs with financial institutions to target women customers. IFC is also taking action to quadruple the amount of annual financing dedicated to women and women-led SMEs. Lastly, IFC aims to flag IFC investment and advisory projects with gender components (as applicable) by 2020.

26. **IBRD operations are helping to meaningfully address gender gaps related to jobs, assets and entrepreneurship.** Promoting women's access to jobs is particularly important in middle-income countries where female labor participation rates have fallen or remained stagnant. IBRD projects now help support various initiatives to remove barriers to women's access to jobs by providing financing for both child and elderly care service provision, enabling investment in women's enhanced productivity and towards breaking patterns of occupational sex-segregation, and improving mobility by safe transport through various means. For instance, IBRD projects

approximately US$67 billion of private finance mobilized by the entire WBG.

[13] World Bank. 2019. The World Bank Group Action Plan on Climate Change Adaptation and Resilience. Washington, DC: World Bank. http://pubdocs.worldbank.org/en/519821547481031999/WBG-Action-Plan-on-Climate-Change-Adaptation-and-Resilience-FINAL.pdf

now help address women's mobility constraints including higher risks of sexual harassment in public transportation. Innovative IBRD operations now also address broader issues by focusing on women's increased access to and use of key assets, especially technology and finance.

27. **The Capital Package supports IFC's steps to integrate gender in its business operations and engage clients in closing gaps between men and women**. This is evident through IFC's commitment to strategic gender integration and gender standalone investment and advisory services. IFC has expanded its engagement on closing gaps between men and women beyond entrepreneurship, to include employment, a wider range of assets such as insurance, housing and technology where gender disparities are vast. In addition, IFC is engaging in cross-cutting themes such as childcare, which can be a key barrier to more women entering and staying in the labor force.

(4) Knowledge and convening

28. **The Capital Package supported a strengthening of the WBG's knowledge and convening role to support the design and sharing of development solutions for greater impact.** As part of the package of policy measures, the World Bank is developing a Strategic Framework for Knowledge Generation and Sharing to build on the Bank's historical strengths in this area while enhancing impact. This will be based on a diagnosis of the strengths and areas for improvement of the Bank's knowledge activities, and their relationship with lending services. The Framework will aim to reposition the strategic direction of knowledge for development and propose reforms for enhancing the quality and development impact of knowledge work. The Framework will be presented to the Board before the end of FY19. The synergies between the Development Economics Group and operations are also being strengthened.

(5) Regional integration

29. **The Capital Package also outlined the WBG support for inclusive and sustainable regional integration.** This includes efforts on complementary policy and institutional reforms that are needed to ensure that gains from regional cooperation on infrastructure materialize fully, to foster growth of businesses and create good local jobs (see Box 1) and value addition in all participating countries in an inclusive and sustainable manner. The WBG's toolbox to support regional cooperation and integration includes analytical work, convening power, advisory services, and lending, investing, and mobilization. For example, a recent report on *Critical Connections* in Europe and Central Asia analyzed the impact of different types of connectivity on growth to help policy makers maximize the economic benefits of these connections across the region.[14] These connections, through trade, investment, migration, communications, and transport, work together to help firms become more productive through knowledge and technology transfers. Progress on regional integration goals will be summarized, where relevant, in Board engagements/papers including region and practice group annual updates and other relevant documents.

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[14] See, Gould, David Michael. 2018. *Critical Connections: Promoting Economic Growth and Resilience in Europe and Central Asia.* Europe and Central Asia Studies; Washington, DC: World Bank https://openknowledge.worldbank.org/handle/10986/30245.

Box 1: WBG Support to the Jobs Agenda

Creating more and better jobs is a critical development challenge and a focus of the WBG across the income spectrum, particularly for youth and women. On the demand-side this requires maximizing the creation of good jobs through boosting private investment and growth and on the supply-side enhancing the skills and capabilities of workers and entrepreneurs. Building human capital is critical to this agenda, for example to help workers prepare for the future world of work by developing in-demand skills.

WBG interventions on the demand-side to support improvements in policy and regulatory environments are helping to unlock private investment in job-creating activities while the provision of critical infrastructure facilitates firms' access to markets. On the supply-side, the WBG is supporting foundational improvements in human capital, the strengthening of the skills of workers, and reforms to social protection. The WBG is implementing an integrated approach to the jobs agenda across more than 40 countries, via Jobs Diagnostics to identify country-specific opportunities for improving employment and productivity levels, and new strategies and platforms to highlight policies and programs that can generate better jobs for the available workforce. The Bank now has 580 active projects with a jobs angle, representing investments of US$75 billion. These investments are raising productivity and earnings of informal workers and informal SMEs, with a particular focus on women, youth, and fragility. Jobs and Economic Transformation is also one of IDA18's special themes. IFC will support increased private solutions by continuing to provide advisory services to, and invest, in Public-Private Partnerships to strengthen service delivery in the health and education sectors in addition to creating the Human Capital Impact Platform to invest in commercially viable enterprises with high impact for families at the base of the pyramid.

(6) IBRD concessional financing to support Global Public Goods (GPGs)

30. **Progress has been made to implement the proposal for providing concessional IBRD financing to support the provision of GPGs.** The Capital Package proposed that a portion of IBRD surplus resources, subject to annual approval by Governors, be used to provide direct support to GPG projects, including those addressing climate change and/or mitigating crisis risks and FCV through mechanisms such as interest rate buydowns. This recognizes the prominent role GPGs plays in IBRD's Forward Look objectives and the importance of providing concessional resources for supporting GPG projects where benefits spill across national borders. A technical briefing was provided to the Board in December 2018 on design principles and features of a potential pilot facility. Following this, Management is now preparing a paper on the establishment of a three-year pilot facility for discussion with Executive Directors in May 2019. The experience of the pilot will be systematically assessed to inform the design of future phases of the facility, and the broader approach to concessional financing for GPG projects.

C. Creating markets

31. **Another important pillar of the Forward Look and the IBRD-IFC Capital Package is creating markets to broaden the reach and impact of the private sector, in order to support economic growth by Maximizing Finance for Development (MFD), leveraging WBG resources, and enhancing productivity.** This includes the adoption of a systematic

approach to creating markets through the Cascade approach across the WBG and an ambition of mobilizing additional private finance. IBRD aims to increase its mobilization ratio to 25 percent on average over Y19-FY30 and progress against this goal will be reported annually in the WB Corporate Scorecard. IFC continues to make significant strides in increasing its mobilization ratio through key platforms such as the Managed Co-Lending Portfolio Platform and Asset Management Company (AMC) in addition to enhancing its focus on green and social bonds. IFC has developed the Operating Principles for Impact Management (and to be finalized in 2019), designed to provide a reference point to assess the impact management systems of funds and institutions, thereby enhancing the scope of opportunity to mobilize both public and private capital. For IBRD, project-based and policy-based guarantees continue to be the key instruments for mobilizing private capital.

32. **The MFD and Cascade approach have continued to gain momentum**. The Cascade is the operating algorithm of MFD. It directs teams to assess the optimal mix of public and private engagements by asking first, whether a project can be delivered through sustainable private sector solutions while limiting public liabilities, and if not, whether WBG support for an improved investment environment or risk mitigation could help achieve such solutions. Many important processes and tools have been put into place to deliver on the MFD and Cascade agenda, and progress has been made. New WBG-wide sector groups are being established to coordinate MFD and Cascade priorities. Building on the nine MFD pilot countries identified in FY18, IFC and the Bank have jointly developed a pipeline of FY19 MFD priority markets. MIGA is fully embracing this approach and is now the third-largest MDB in terms of private capital mobilized.

33. **WBG collaboration for supporting policy reform to eliminate obstacles to private investment has deepened.** A key analytic tool to enhance this collaboration is the Country Private Sector Diagnostic (CPSD). The CPSDs highlight sectoral opportunities where the private sector can generate growth, create employment, and contribute to the competitiveness and efficiency of a country's economy by looking systematically across its main sectors. CPSDs bring together the knowledge and expertise of the WBG by incorporating findings from relevant WBG diagnostics and tapping into expertise across the Bank GPs and IFC Industry teams. Ten CPSDs have been completed with an additional 19 in the pipeline as of the second quarter of FY19. In addition to the CPSDs, IFC has also launched Sector Deep Dives as a key tool to help assess the current state, growth potential, and development impact of each sector, and identify pathways to implement IFC 3.0 with a focus on sector reform. Both the CPSDs and Sector Deep Dives are designed to feed into the SCD and the CPF and to provide an analytical basis for policy reforms that can be supported through WB financing instruments. To support market creation efforts, IFC is launching new Global Upstream Units inside industry departments to incubate upstream opportunities, focus resources, and coordinate initiatives across IFC and the WBG.

34. **IFC has implemented its Anticipated Impact Measurement and Monitoring (AIMM) system, which provides metrics for assessing expected development impact of IFC interventions at both the project and market levels**. Following a pilot period in FY18, the AIMM system is now fully operational, scoring investment projects for development impact and market creation potential. Two metrics derived from the AIMM Framework have been added to IFC's Corporate Scorecard to allow for reliable reporting and monitoring of IFC's ex-ante

development impact. Work on backfilling AIMM scores for a sample of investment projects is also progressing. This effort will allow IFC to establish a new AIMM metric to assess its progress in delivering development outcomes during portfolio supervision. It will also help IFC better define its progress towards delivering a “portfolio approach” for investment decisions. Finally, IFC is developing a construct for applying the AIMM framework to its advisory services business, envisioning a pilot implementation period to be rolled out within the year. MIGA is also piloting its own expected development impact framework, the Impact Measurement and Performance Assessment Comparison Tool in FY19.

35. **To leverage these new diagnostic and measurement tools systemically and collaboratively, IFC’s newly created Global Upstream Units will be responsible for being the primary driver of upstream business and coordinating initiatives across IFC and the WBG**. Upstream Units will play the role of incubators and integrators, ensure connectivity between global and regional teams, and help coordinate upstream delivery by leveraging teams from across IFC and the WBG. They will anchor the development and implementation of upstream operations, ensuring internal alignment, leveraging relationships with the World Bank and MIGA. They will also be responsible for disseminating global and regional know-how to support adoption of best practices, in addition to leveraging cross unit skills and resources spanning across the whole of IFC.

Box 2: Supporting the Financing for Development Agenda: Domestic Resource Mobilization

The Addis Ababa Action Agenda of 2015 called on countries to step up their efforts to mobilize domestic resources, recognizing that much of the increased public financing to achieve the SDGs needs to be generated domestically. The Bank is the largest provider of development finance for Domestic Resource Mobilization (DRM), with total active lending commitments of US$1.7 billion. The Bank is engaged on DRM in 91 countries with a total of 295 DRM-related operations and activities (136 lending operations and 159 ASAs), and in 54 out of 75 poorest countries eligible to receive IDA funds. The Bank supports tax reform in some of the poorest and most fragile countries with low-tax collection and provides support to 28 out of 32 IDA countries with tax revenues below 15 percent of GDP or at risk of sliding below this threshold.

36. **The WBG remains firmly committed to advancing international tax transparency and minimizing the concealment of funds involved in Illicit Financial Flows (IFFs)** which may reduce government revenue and thus resources available for development purposes. IFFs remain a threat to many countries as different types of such flows are often linked in exchanges and relationships that involve corruption, tax evasion, organized crime, and international commercial fraud. The Bank is helping clients strengthen their legal framework and practices to ensure that they can effectively identify and tackle IFFs. Efforts also include IFC’s screening of projects to detect misconduct and illicit flows in addition to those requiring compliance with legal standards set by member states.

D. Improving the business model

37. **The WBG continues to progress toward a "Better WBG".** The WBG business model continues to evolve with a commitment to enhancing productivity, performance, and agility. The Agile Bank Program aims to enhance the way we work to bring greater quality, efficiency, and better value to our clients. An important aspect of the Agile approach is continuous piloting, testing, and evaluation of ideas generated by staff. More than 170 Agile project interventions have been tested across all Bank regions. From these pilots, 11 Agile interventions have been mainstreamed into operations, with adjustments made to operational policies, processes, guidance and systems. The team is focusing on strengthening country teams, providing coaching and training, and scaling/mainstreaming of already approved interventions. Generating and experimenting with new ideas through crowdsourcing are supported through a new Innovation Exchange platform. Management has taken further steps in flattening the organizational structure and removing decision layers. A wide range of administrative reforms is trimming bureaucracy, simplifying procedures, reducing decision layers by streamlining reporting requirements, and aiming to improve efficiency of shared services. In terms of the Bank's financing instruments, the new Multiphase Programmatic Approach (MPA) provides an agile and flexible way to address complex development challenges through a set of smaller linked operations that allow faster adaptability to emerging challenges during program implementation. Program-for-Results financing which disburses against results, not inputs, and uses country systems, has rewarded improvements in the quality, sustainability of and access to basic services. The new Environmental and Social Framework (ESF) has been rolled out to better manage environmental and social risks of projects and to improve development outcomes. The ESF makes important advances in areas such as transparency, non-discrimination, public participation, and accountability—including expanded roles for grievance mechanisms, and incentivizes countries to strengthen their own environmental and social policies. Procurement reforms are supporting countries to achieve value for money with integrity in delivering sustainable development. These reforms are guided by seven core procurement principles: value for money, economy, integrity, fit for purpose, efficiency, transparency, and fairness.

38. **At the heart of IFC's efficiency, or Agile, program is an effort to change behaviors and processes to enable IFC to make better, more timely decisions**. Key changes include: (a) identifying a single decision maker for investment decisions, (b) streamlining processes for repeat business, and (c) simplifying, abbreviating, and focusing documentation requirements on key issues. A new decision-making and accountability structure that supports these changes was introduced in September 2018 across IFC Investment and Advisory operations.

39. **Management has continued to pursue efficiency measures in line with the commitment to enhance productivity and improve financial sustainability while addressing rising cost pressures**. Management has launched multiple efficiency measures, and economies of scale are being pursued with both being built into the annual budget (see Section III C. "Administrative expense" for more information).

40. **The WBG trust fund and Financial Intermediary Fund (FIF) reform process is ongoing, with the end goal of aligning the mobilization and use of trust funds to WBG priorities and reducing transaction costs through a fundamental shift in the portfolio toward fewer, larger trust-funded programs ("umbrella 2.0") and standardized trust funds**

where activities cannot be associated with an umbrella. PGs and Regions are piloting umbrellas in various settings to enable lessons – including accommodating donor needs -- that will inform the Bank-wide rollout of umbrella instruments in FY20. In light of substantial growth in the number of FIFs (tripling over the past 10 years), the FIF management framework is being updated to encourage more selectivity. IFC is following the same broad principles, with reforms aiming to strengthen alignment with strategic priorities; better integrate trust funds into budgeting, planning, and portfolio management; and increase efficiencies in management and reporting. IFC and the Bank are also working to improve collaboration by ensuring that joint projects are supported by trust funds that are easily accessible by both institutions.

IBRD Financial Sustainability Framework

41. **The Capital Package proposed to strengthen the financial management tools of IBRD with the introduction of a new FSF** aiming at using capital efficiently to support predictable lending levels aligned with strategy in a prudent manner that safeguards IBRD's triple-A rating.

42. **On December 11, 2018, the Board approved the implementation approach for the FSF (taking effect from FY20)** that would enable IBRD to align its lending automatically to its long-term sustainable capacity, while retaining some flexibility to respond to crisis, consistent with the objectives and principles described in the Capital Package. Under the FSF, on an annual basis, Management will present the updated annual lending level that can be sustained over the long term in real terms ("Sustainable Annual Lending Level" or "SALL"), make a recommendation on crisis buffer to set aside, and derive the buffer-adjusted SALL (SALL-adj) as the following year's IBRD lending ceiling after Board approval of the crisis buffer. This annual decision-making process synchronizes with the Board's annual decision making around budget, loan pricing and income allocation.

43. **To plan for FY20 lending level, a discussion paper was presented to the Board in March, which Management is using to provide a preliminary update of the SALL, potential crisis response buffer size, and the resulting SALL-adj** that could serve as the upper bound for FY20 lending. Feedback and guidance from the Executive Directors will be incorporated into the year-end Board paper on the FSF.

44. **In June 2019, Management will present for Board approval the crisis buffer recommendation and the resulting SALL-adj that will serve as the upper bound for FY20 lending.** Once approved, Management's proposed utilization of the crisis buffer would be preceded by consultations with the Board. The Quarterly Operations Update to the Board will include monitoring of year-to-date approvals of lending operations against the SALL-adj, as well as utilization of the crisis buffer (when applicable).

IFC Financial Sustainability Framework

45. **IFC has continued to use operational and financial strategies to conserve capital**. IFC's financial sustainability framework 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.

46. **IFC incorporates several pricing and portfolio management principles to support its Financial Sustainability Framework**, including the use of risk adjusted and market-based pricing, active portfolio management to optimize the use of its balance sheet, and anticipation and early warning signals regarding specific pockets of risk. Ongoing improvements to this framework will be achieved through: (a) formal review and reaffirmation of the Deployable Strategic Capital (DSC) ratio policy range annually; (b) applying modifications to IFC's stress-testing framework and keeping abreast with evolving standards in risk and capital models; and (c) establishing more granular policy ratios. IFC introduced a new approach to equity investments in November 2018 with the aim of prudently increasing its level of equity investments in the mid-term as ongoing challenging market conditions underscore the need for a careful approach and ramp up – with a deeper capital cushion.

III. STATUS OF FINANCIAL PACKAGE IMPLEMENTATION

47. To support the ambitious policy commitments, the Capital Package includes a balanced financing package that consists of a significant capital increase and substantial internal measures for enhancing the financial capacity of IBRD and IFC. Over the past few months, major progress has been achieved in implementing all components of the financing package.

A. Capital increase

48. **Since the historic endorsement by the Development Committee of 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), and four authorizing IFC's Conversion of Retained Earnings, SCI, GCI and Amendment to IFC's Articles of Agreement.

- The IBRD GCI and SCI allocated 498,443 shares to members with a total of US$60.1 billion increase in capital, including a US$7.5 billion paid-in portion and a US$52.6 billion callable portion.

- The IFC GCI and SCI will allocate 5,499,993 shares to members with a total of US$5.5 billion increase in the authorized capital stock of IFC. An additional 16,999,998 shares will be allocated to members through the conversion of a portion of IFC's retained earnings into paid-in capital.

49. **On October 1, 2018, IBRD's Board of Governors adopted the two IBRD Resolutions (IBRD Resolutions No. 663 and 664, respectively)**. However, the four IFC Resolutions are yet to secure the requisite voting majorities and they have not met the other conditions of effectiveness set out in the Resolutions. In order to enable those members who have not yet voted on the IBRD and/or IFC Resolutions to submit their votes, the voting period was extended from October 1, 2018 to September 18, 2019.

50. **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. A number of

member countries have started the subscription process to ensure internal relevant legislative measures are taken to authorize both the subscriptions and the payments.

51. **The subscription and payment period of IFC's SCI will commence when the requirements for the effectiveness of the SCI Resolution (as set out in the IFC SCI Resolution) are met and will close on the third anniversary of the date of effectiveness.** Similarly, the subscription and payment period for IFC's GCI will commence when the requirements for the effectiveness of the GCI Resolution (as set out in the IFC GCI resolution) are met and will close on the fifth anniversary of the date of effectiveness.

B. IBRD loan pricing measures

52. **The Capital Package proposed to steepen maturity premium for IBRD clients, with discounts and surcharges adapted to client countries' income level and other circumstances.** The new loan pricing measures were approved by the Executive Directors on June 26, 2018 and went into effect from July 1, 2018. The new pricing measures introduce income-based differentiated loan pricing, for loans with an average maturity longer than 10 years. As a result, starting July 1, 2018, the maturity premium of IBRD clients now varies based on the income and circumstances of different country groups. While all borrowers retain access to the full range of IBRD maturities, as discussed in Section II on the Policy Package, new loans for lower-income borrowers, as well as countries in certain circumstances, e.g. blends, small states, FCS countries on the Harmonized List, and IDA graduates[15], are subject to lower loan charges due to discounts or exemptions as part of the Capital Package.

C. Administrative expense

World Bank

53. **Management remains committed to pursue efficiency measures and productivity gains to ensure budget discipline and financial sustainability, while addressing rising costs pressures from expanding services to low- and lower-income countries, fragile situations and small states**. Management has delivered on its commitment to achieve US$340 million savings under the Expenditure Review and has pursued other savings initiatives such as the Business Reviews of Institutional, Governance and Administrative (IG&A) units. Building on this track record, under the IBRD-IFC Capital Package the Bank has agreed to (a) achieve additional savings by FY30, from efficiency gains and economy of scale benefits; and (b) move the IBRD Budget Anchor (i.e., the ratio of IBRD administrative expenses over IBRD loan spread income) ceiling target zones steadily downwards by FY30 through a series of three-year progressively declining steps.

54. **While the institution is only a few months into the implementation of these 12-year commitments, progress has already been made**. Additional efficiency measures and economies of scale are being pursued and built into the annual budgets. These cover areas such as corporate procurement, staff compensation and workforce structure, real estate, and project portfolio. Changes to the HQ compensation methodology were approved by the Board and in

[15] New IDA graduates exempted for two replenishment cycles and recent IDA17-18 graduates exempted for six years starting from July 1, 2018.

line with the agreement reached during the capital increase discussion, Management fully implemented the changes to the compensation methodology for HQ appointed staff. Management also honored its commitment to curtail the increase in senior management pay. In addition, efforts are ongoing to modify the compensation methodology for Country Office appointed staff. Management is also enhancing staff performance management, reviewing the grading and job responsibilities architecture, and preparing workforce plans to optimize grade mix, and address future WBG business needs.

55. In addition, **the economies of scale benefits are on track to be accrued by FY30**, through increases in average project size, containment of Institutional, Governance and Administrative (IG&A) units, as well as other cost avoidance measures (e.g., corporate procurement) and productivity improvements. While efforts are under way to reduce fragmentation in lending and carry out project restructuring in an agile way, the full impact on average project size is expected to materialize gradually as economies of scale flow through into a growing proportion of the portfolio.

56. **These efficiency gains and economies of scale benefits will help maintain budget sustainability and strengthen the Bank's financial position**. Measures being implemented are resulting in savings that have already been reflected in the FY19-21 budget trajectories. Further efficiency savings are being identified for the FY20-22 budget trajectories. These trajectories will result in the IBRD budget anchor being in line with the anchor target ranges agreed under the Capital Package for FY20-22. The IDA budget anchor (i.e., the ratio of IDA expenses over IDA net revenue) is also expected to remain below 100 percent and decline gradually over this period.

IFC

57. **IFC's updated Corporate Scorecard was the subject of an ED's Seminar in October 2018**. To align with the Capital Package commitment to achieve efficiency gains and economies of scale, this update included two new budget efficiency metrics: (i) Budget Coverage Ratio[16], and (ii) Target Savings through Efficiency Gains & Economies of Scale. Working together with IBRD and IAD, IFC is in the process of refining efficiency definitions, governance, savings initiatives and monitoring mechanisms.

58. **IFC Management will remain focused on efficiencies and productivity gains along with trade-off decisions to ensure sufficient resources to implement the IFC 3.0 strategy**. IFC's future budget increases will be informed by several factors: (i) savings from work force planning along with re-balancing of the staff pyramid and associated costs; (ii) ex-ante analysis of the expected Cost of Doing Business, resulting from additional resources being deployed to difficult markets; and (iii) the extent to which continued efforts towards efficiency gains will afford in off-setting the growth of resources.

59. **In FY18, IFC undertook several internal benchmarking studies, including in the areas of Facilities and Administration, Finance, Operations, and Corporate and Operational Support**. These studies identified opportunities to improve skills, standardize and

[16] Defined as Administrative Budget divided by Loan & debt security interest and fees, net.

simplify processes and organization, improve quality of service, and gain further economies of scale. Decisions informed by these efforts are expected to deliver efficiencies over FY19-21, to be redeployed internally. IFC is also pursuing a number of internal initiatives to drive further efficiency in areas such as global real estate, finance and corporate support, and advisory financial principles.

MIGA

60. For MIGA, significant portfolio growth has been achieved while also implementing budget discipline. The administrative expenses to net premium income ratio, a key measure of MIGA's cost efficiency, has been declining and is consistently well below the management-approved cap. This reflects MIGA's commitment to improving efficiency, and its sharp focus on the budget and close management of staff numbers and related costs.

D. Balance sheet optimization

61. **IBRD Management has continued to engage in active portfolio management and explore other balance sheet optimization measures**. Management will continue to engage the Board on options to further optimize shareholder capital investments in the WBG to maximize development impact.

62. **For IFC, delivering both the Capital Package commitments and IFC 3.0 requires further shifts to challenging and complex markets, and as a consequence, a higher cost of doing business**. 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 conserve capital and optimize its balance sheet, including mobilization, asset sales and the application of a "portfolio approach" to investments, remain critical.

63. **Maintaining IFC's financial sustainability through its balanced and diversified portfolio approach will become increasingly important as the risk profile of IFC's investments evolves**. Management has strengthened the governance of IFC's debt and equity portfolio through the formation of the Corporate Portfolio Committee. This has improved IFC portfolio management by monitoring macroeconomic key trends, monitoring capital deployment in strategic focus areas, identifying areas where corrective action can be taken ahead of time to enhance long term financial sustainability, and disseminating best practices and lessons learned.

64. **Equity investments are a key element of maintaining IFC's financial sustainability, driving development impact, and financing innovation**. Since 2017, IFC's approach to equity investments has been guided by prudence with the aim of improving efficiency and conserving capital during a period of uncertainty and diminishing capital reserves. To improve financial returns, further development impact, increase mobilization and prepare for a scale-up in equity investment in line with the Capital Package, IFC briefed the Board on its new approach to equity investments in November 2018. IFC expects to increase its equity investments judiciously, with due regard to both ongoing market volatility and its financial sustainability. In addition, the approach proposes various organizational, behavior and processes changes; implementation has

already begun through the appointment of Global Equity Heads, who will bring oversight and strategic focus to IFC equity investments.

65. **IFC continues to advance an active mobilization strategy with the goals of optimizing the use of its own capital and exploring innovative platforms and risk mitigation techniques to crowd-in capital from institutional investors.** IFC's Managed Co-Lending Portfolio Program continues to allow investors to invest with IFC on a portfolio basis. AMC is leading the development of mobilization options for institutional investors. IFC and AMC are also assessing the possibility of new mobilization products.

E. Income transfers

66. **As part of the Capital Package, shareholders agreed to extend the IDA18 formula for IBRD's income transfers into the future, maintaining the same balance between solidarity with poorest countries and financial prudence for IBRD that shareholders agreed to for IDA18.** 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. Under the formula approach, IBRD doubled its transfer to IDA from US$123 million in FY17 to US$248 million in FY18, as its allocable net income rose from US$795 million in FY17 to US$1.2 billion in FY18.

67. **A key component of the Capital Package was the agreement on the suspension of IFC income transfers to IDA**. This effective increase in IFC's retained earnings will strengthen the Corporation's capital position and support an increasing share of investments in riskier markets. IFC's updated formula for designations will continue including resolutions on annual designations to advisory services, including the Creating Markets Advisory Window, to further support IFC's efforts to work upstream and in challenging environments.

IV. MONITORING AND REPORTING MECHANISMS

A. Ongoing monitoring and reporting

68. **Systems for monitoring and reporting on the progress against the Capital Package ambitions 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 Board. These updates were initiated shortly following the Spring Meetings endorsement of the Capital Package, with the first update in June followed by updates in September and November 2018 and January 2019. Progress towards the policy targets is being monitored and reported via regular updates to the Board. The FY19 third quarter Operations Update to the Board will provide a report of financing to clients across the income spectrum, including progress towards the 70 percent target for IBRD lending shares to countries below the GDI. Revisions are being made to the WBG and WB Corporate Scorecards and other corporate reports to enable tracking of policy targets such as the IBRD share of climate-related financing and proportion of "gender-tagged" operations.

69. **IFC has hard-wired the policy commitments and internal effectiveness measures of the Capital Package into its Corporate Scorecard**, improving the alignment of its operational performance and strategic priorities in areas including climate, gender, and IDA/FCS, as well as Development Impact and internal efficiency. Progress against most scorecard targets is reported quarterly. The Budget Coverage ratio will be reported on a quarterly basis, and savings through efficiency gains and economies of scale will be reported annually on a retroactive basis in the first three years, and on a semiannual basis thereafter.

B. Independent assessment

70. **The Capital Package included an agreement to conduct an independent assessment of progress towards the targets under the 2018 Capital Package five years after the capital increase.** This will be an important supplement to the ongoing monitoring and tracking of progress by Management and Executive Directors.