DEVELOPMENT COMMITTEE
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Boards of Governors of the Bank and the Fund
On the
Transfer of Real Resources to Developing Countries)

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REVIEW OF IBRD AND IFC FINANCIAL CAPACITIES - WORKING WITH PARTNERS TO SUPPORT GLOBAL DEVELOPMENT THROUGH THE CRISIS AND BEYOND

Attached for the October 5, 2009, Development Committee Meeting is a background document entitled " Review of IBRD and IFC Financial Capacities - Working with Partners to Support Global Development through the Crisis and Beyond", prepared by the staff of the World Bank.

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REVIEW OF IBRD AND IFC FINANCIAL CAPACITIES

Working with Partners to Support Global Development through the Crisis and Beyond

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Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
AMCs	Advanced Market Commitments
BOP	Balance of Payments
bp	basis point
CAPRI	Capital, Pricing and Risk
CIF	Climate Investment Funds
CPF	Carbon Partnership Facility
DFI	Development Financial Institution
DDO	Deferred Drawdown Option
DIME	Development Impact Evaluation Initiative
DOTS	Development Outcome Tracking System
DPL	Development Policy Loan
DTC	Developing and Transition Countries
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
E/L	Equity-to-loans and long-term investment assets
EU	European Union
FCPF	Forest Carbon Partnership Facility
FPCR	Food Price Crisis Response
FSAP	Financial Sector Assistance Program
FY	Fiscal Year
GAC	Global Anti-Corruption
GAP	Gender Action Plan
GCI	General Capital Increase
GDF	Global Development Finance
GDP	Gross Domestic Product
GFDRR	Global Facility for Disaster Reduction and Recovery
GFRP	Global Food Crisis Response Program
GTLP	Global Trade Liquidity Program
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
ICF	Infrastructure Crisis Facility
ICSID	International Center for the Settlement of Investment Disputes
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IFI	International Financial Institution
IFFIm	International Finance Facility for Immunisation
IFL	IBRD Flexible Loan
IJS	Internal Justice System
IMF	International Monetary Fund
INFRA	Infrastructure Recovery and Assets Platform
IsDB	Islamic Development Bank
LIC	Low-Income Country

LLP	Loan Loss Provision
LTIP	Long-Term Income Portfolio
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
MEF	Microfinance Enhancement Facility
MIC	Middle-Income Country
MIGA	Multilateral Investment Guarantee Agency
NCPIC	National Currency Paid-in Capital
PCG	Partial Credit Guarantee
PPP	Public-Private Partnership
PRG	Partial Risk Guarantee
QAG	Quality Assurance Group
RDB	Regional Development Bank
ROSC	Report on the Observance of Standards and Codes
RSR	Rapid Social Response
SBL	Single Borrower Limit
SCI	Selective Capital Increase
SLL	Statutory Lending Limit
WBG	World Bank Group

REVIEW OF IBRD AND IFC FINANCIAL CAPACITIES

Working with Partners to Support Global Development Through the Crisis and Beyond

Executive Summary

STRATEGIC CONTEXT

1. As the impact of the crisis on economies and livelihoods unfolds, the need for international coordination and partnership is more pressing than ever. The advancement of an inclusive and sustainable globalization has taken on a new importance as the world community risks reversing the positive achievements of global integration. The current state of the global economy and short- and mid-term prospects call for a bigger role for the World Bank Group (WBG) in addressing these challenges.

2. The WBG is well positioned to take on this task. Unique among international institutions, its comparative advantage lies in five broad areas:

- A global, local and cross-sectoral presence with the competence to work with public and private sectors, and with middle- income and low-income countries, in partnership with developed countries;
- A repository of best practice in development combining global implementation experience, research and learning;
- World-class risk management and banking competencies and the capabilities to leverage a strong balance sheet;
- A leadership role in the growing global public goods agenda;
- Worldwide catalytic and convening powers, which set it apart from regional organizations.

3. The current crisis and the resulting shrinkage in private capital flows is creating a large gap in external financing needs for developing countries estimated between $350 billion and $635 billion for 2009 alone, expected to continue into 2010 and beyond. The WBG has leaned into the crisis and significantly scaled up its operations.

4. Beyond the crisis, four key drivers are likely to shape the WBG's role in the post-crisis world.

1) Demand for the WBG's long-established role as a source of development finance to help build multiple poles of global growth and reduce poverty. Support for the private sector as an engine of growth will be especially important;
2) Demand for practitioner knowledge and innovation in development, combining global implementation experience, research and learning;
3) Pressing global challenges, such as climate change that require an institutional response that is multi-sectoral, combines policy advice and investments, and a global reach grounded in country programs; and

4) Future crises, those that we don't foresee today, but know will happen — in response to which the WBG can mobilize its full range of skills and instruments for the benefit of its shareholders.

5. The WBG will be best positioned with

- strong and more credible governance,
- a more open, agile, client-oriented and responsive organization, and
- a financially strong and well-capitalized set of institutions that can provide more support in an increasingly volatile and unpredictable future.

6. To achieve this, management will

- strengthen operational capabilities—moving closer to clients while also strengthening global networking and identifying development solutions - and work closely with other multilateral development banks (MDBs) and development partners, and
- stay cost-conscious and improve internal governance, such as risk management mechanisms, as well as anti-corruption and internal control measures.

7. In addition, shareholders will need to

- engage in constructive dialogues on the voice and participation reform to ensure that the WBG's legitimacy is enhanced as a global development institution that is positioned to have a credible voice on contentious global challenges, and
- fully back the WBG's finance, knowledge, convening and advocacy functions with the financial strength to offer the best development solutions and services to its clients.

FINANCIAL CAPACITY ASSESSMENT

IBRD

8. Ahead of the 2009 Spring meetings, management had communicated that the IBRD had capacity to make lending commitments of $100 billion over the three years of FY09 to FY11 in response to the global crisis. This response would stretch IBRD's balance sheet with the result that lending capacity in the following years would be limited to the size of projected loan repayments -- about $10 billion per annum (compared to an annual average program over the last 20 years of closer to $19 billion in real terms).

9. With commitments of $33 billion already made in FY09 and the strong pipeline development for FY10, current expectations for crisis lending are now beyond IBRD's existing financial capacity. Under a reasonable forecast for lending demand (referred to as the "expected scenario" in this paper), total new commitments are projected to reach about $136 billion over FY09-12. In a more prolonged recession scenario, lending commitments could be closer to $150 billion over FY09-12. Looking beyond the crisis, the analysis of the World Bank's Development Economics Research unit suggests that financing gaps will remain high into the future, particularly because many important long-term development projects will have been delayed. In addition, IBRD financing will be needed to address the increased numbers of new poor in middle-income countries

and preserve progress on the Millennium Development Goals (MDGs). In this context, significant shrinkage in IBRD's post-crisis lending capacity would be inconsistent with global development finance needs. It would also be inconsistent with the aim of ensuring that shareholders retain all the options associated with a strong WBG, including the ability to support the global public goods agenda and respond to future crises. For the purposes of constructing a plan to address financial capacity concerns, assuming an annual commitment level of $15 billion per annum post-crisis would appear to be a conservative approach. This capacity would be approximately equivalent in real terms to the annual program over the last decade.

10. To begin expanding its financial capacity to support these higher scenarios of lending, the IBRD has already adopted various measures aimed at stretching the use of its existing capital to support lending. It is important to note that the type of capital needed to support expansion of financial capacity is usable equity, comprised of usable paid-in capital and accumulated reserves. This is because it is usable equity which directly benefits IBRD's income and equity-to-loans and long-term investment assets (E/L) ratio. In addition, as a result of the crisis, rating agencies and markets are increasingly focusing on usable equity in assessing the creditworthiness of the multilateral development banks. Actions to stretch the use of this capital include leveraging IBRD's balance sheet, allowing reasonable flexibility in its main capital adequacy measure, the E/L ratio, relative to its long-term strategic range; introducing a new exposure management framework that makes more efficient use of existing capital through the allocation and reallocation of credit limits among countries; and diverting risk capital intended for the Long-Term Income Portfolio (LTIP) to support loan growth. These measures support IBRD's strategy of leaning into the crisis, while at the same time, are balanced with the need to ensure that IBRD's AAA rating status remains intact.

11. At the same time, the IBRD has been actively working with relevant shareholders to release their national currency paid-in capital (NCPIC)[1] so that it can be used as risk capital in support of lending operations; of the total unreleased NCPIC of $2 billion, the IBRD has thus far obtained indications for the release of $0.5 billion.

12. In addition, the IBRD instituted a 20-basis-point general loan price increase pursuant to its annual loan pricing review at the end of FY09. While the objective of this pricing increase was to improve the institution's financial sustainability, it would also gradually enhance IBRD's capital position as higher income is added to reserves over time. It is projected that this pricing increase would enhance IBRD's end-FY19 usable equity by about $2.0 billion under the expected scenario.

13. Following these efforts, and consistent with maintaining IBRD's AAA rating status, actions would be required to fill a remaining gap in IBRD's equity capital base of

[1] Under the Articles of the IBRD, members need to only contribute 10% of their paid-in capital in USD, which can be freely used by the IBRD in its operations. The remaining 90% can be paid-in in the national currency of the subscribing member. The use of this national currency paid-in capital is subject to significant restrictions absent further member consents that allow this capital to be usable for the Bank in its operations.

about $4.8-6.3 billion by FY19 if shareholders wish to ensure adequate financial capacity to meet the expected scenario on lending commitments, and about $9.6-11.1 billion if they wish to protect against a more prolonged recession (with the range dependent on success in obtaining release of national currency capital). The potential actions to fill this gap are a Selective Capital Increase (SCI), a General Capital Increase (GCI) and a further price increase for long maturity loans; and if such actions are taken, it will be important that they be combined in a manner that allows for burden-sharing across shareholders.

- A SCI would contribute to the extent that it generates usable paid-in capital.[2] The amount of this contribution is yet to be determined as the scale and modalities of the SCI are currently still being discussed among shareholders.

- With a GCI, every $1 billion paid-in capital increase implemented at the beginning of FY12 and encashed over a 5-year period would generate sufficient income to grow IBRD's equity base by about $1.3 billion[3] by the end of FY19. Consistent with IBRD's strategic capital adequacy framework, this would support additional lending of about $5.6 billion[4]. Given the uncertainties ahead, the possibility of a contingent feature could be explored whereby encashments under a general capital increase would not occur until IBRD's E/L ratio drops to a certain threshold; the capital increase could potentially also be redeemable when IBRD's E/L ratio reaches a healthy level.

- Increasing pricing for longer maturity loans could add about $1.2 billion to IBRD's equity base by end FY19 in the expected lending scenario and about $1.4 billion in the "prolonged recession" scenario.

IFC

14. The financial crisis has adversely affected IFC's profitability and capital position in FY09. As a result, even though it has been innovative and effective in mobilizing external resources, IFC now faces a clear capital constraint. After exploring various capital management options, Management presents in this paper a two-step approach as a possible solution to address this need. In the first step, hybrid capital would offer an interim opportunity for shareholders to provide early support to IFC's growth strategy. In the second step, additional paid-in capital from IFC's shareholders would replace the hybrid capital and provide the strongest, most flexible long-term capital management option for IFC to pursue its long-term developmental role.

15. Increased capital for IFC would be a highly effective way for shareholders to leverage their resources to maximize development impact. By showing continued leadership in private sector development and in innovations such as the crisis response

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[2] Usability of paid-in capital refers to any national currency paid-in capital portion that is released by shareholders for lending or investment purposes.

[3] Correspondingly, every $1 billion in equity gap at the end of FY19 could be filled by about $0.8 billion of paid-in capital increase implemented at the beginning of FY12.

[4] This $5.6 billion refers to disbursed and outstanding loans. The level of additional new commitments will be higher with the amount depending on when the additional new commitments occur.

initiatives, IFC has demonstrated that its capabilities extend well beyond increasing the impact of its own activities. IFC can also create platforms on which other development institutions can build their growing private sector activities. In addition to mobilizing resources from third parties, IFC can supplement its capital base with additional debt finance so that every dollar of shareholder funds used to increase IFC's capital can support many dollars worth of investment to private sector clients in emerging markets.

REVIEW OF IBRD AND IFC FINANCIAL CAPACITIES

Working with Partners to Support Global Development Through the Crisis and Beyond

Introduction

1. The Communiqué of the Development Committee at the 2009 Spring meetings confirmed support for "making optimal use of IBRD's balance sheet with lending of up to $100 billion over three years." Given the possibility of a slow recovery and the potential need to deploy additional resources, the Development Committee asked the World Bank Group (WBG) to "review the financial capacity, including the capital adequacy of IBRD and IFC" for "further consideration at the 2009 Annual Meetings." This paper responds to the Committee's request.

2. Given the importance for the future of the WBG and the potentially significant implications for all shareholders, the financial capacity discussion in this report was developed in close coordination between the Board and the management, with Board meetings at the end of May, the end of June, early August and mid-September, all meetings involving the highest levels of Board representation and chaired by the President.

3. The paper is divided into two chapters. The first chapter provides context to the review of financial capacity by providing an overview of WBG's development activities. It first lays out the broad areas of WBG engagement as well as the modalities of this engagement. It then describes the WBG's response to the global crisis and how the WBG can play an expanding role in addressing the development challenges in the post-crisis world. It finally outlines a number of important internal reforms underway to improve the WBG's legitimacy, efficiency, effectiveness and accountability.

4. The second chapter assesses IBRD and IFC's financial capacity with part A devoted to the IBRD and part B to IFC. The IBRD section of the chapter first assesses IBRD's capital adequacy outlook and the gap between the institution's current level of capitalization and the level that would be required to fulfill its role in addressing the development challenges during and beyond the crisis. It then describes the steps that the IBRD has already taken to expand its financial capacity. Finally, it presents potential options to fill the remaining gap. Part B of Chapter 2 assesses IFC's financial capacity in light of the significant increase in the demand for external financing by the private sector in emerging markets as a result of the crisis, as well as expectations for future strong demand. It describes how IFC will be facing a capital constraint and how a two-step approach could be a potential solution to address this need.

Chapter 1. World Bank Group: Responding to Development Needs during the Crisis and Beyond

I. THE WORLD BANK GROUP AT THE ONSET OF THE CRISIS

The World Today

5. Globalization has helped sustain high economic growth in many countries and lifted hundreds of millions out of poverty. Yet the growing linkages between economies have also played a central part in turning a financial crisis in the developed world into a global crisis that is driving hundreds of millions back into poverty. The pace of climate change is accelerating, with poorest countries hardest hit. Security is an increasingly important issue facing many countries. Diseases such as Severe Acute Respiratory Syndrome (SARS) in 2004, or this year's H1N1 virus, start as localized outbreaks, yet quickly become global threats. Their virulence has only been helped by increased travel, open borders and mobile labor markets.

6. Today's threats quickly become international in scale. The reality is that no government today, even in the developed world, has the resources to cope with these threats alone. International cooperation is more imperative than ever, not only in responding to crises as they arise, but also in implementing lessons learned to prevent future crises. Today's coordinated response by governments to the crisis, working through the Group of Eight and Group of Twenty, illustrates the positive benefits of international cooperation. Yet these efforts have not prevented a huge withdrawal of liquidity. Net private debt and equity flows to developing countries are projected to decline from a record high of 8.6% of gross domestic product (GDP) in 2007 to just under 2.5% in 2009, a bigger drop than during the Latin American debt crisis in the 1980s, and the combined East Asian and Russian crises of the 1990s.

7. Tomorrow's threats will also be international in scale, but the likelihood is that they will be far more complex. With greater inter-connectedness, financial crises, communicable diseases, and environmental threats can sweep across the globe at ever-increasing speeds. Policy responses must be made in real time. Policy frameworks must be agreed and set, teams of experts assembled and deployed, financing mobilized – and all at a rapid pace.

8. In today's world, this already means coordinating a multitude of players, from governments, international institutions, civil society organizations, to the private sector. Tomorrow's world is likely to have even more actors, increasing the cost and complexity of coordinating policy responses. Climate change, with its global impact, political controversies, and financial and technological challenges, represents many of the attributes of these new and more complex threats. Current approaches risk being inadequate to deal with such threats. The world will need to rely on more flexible networks that maximize the strengths of interconnecting actors and institutions, public and private.

The World Bank Group Today

9. Formed in 1944, the WBG is a corner-stone of the multilateral system. It is the sole development agency whose reach is truly global. It plays a leading role in supporting global economic growth and the fight against poverty. It also contributes to key global actions such as addressing climate change, sound governance and anti-corruption, assisting fragile states, combating global diseases and promoting trade. Its growth over the years, from a single agency – the International Bank for Reconstruction and Development (IBRD) – to a Bank Group of five institutions serving specialized client needs, is testimony to its ability to adapt to new development challenges.

Box 1. Members of the World Bank Group and Their Respective Mandate

- the International Bank for Reconstruction and Development (IBRD): supports government economic and social investments in lower-middle and middle-income countries;
- the International Development Association (IDA): supports economic and social development in the world's 79 poorest countries;
- the International Finance Corporation (IFC): supports private sector development in emerging and low-income economies;
- Multilateral Investment Guarantee Agency (MIGA): guarantees foreign direct investment against political risk;
- International Center for the Settlement of Investment Disputes (ICSID): leading international arbitration institution devoted to investor-state dispute settlement.

Instruments for Delivering Value

10. The value of the WBG as a cooperative to its members rests on its global membership and engagement in all developing regions, its endowment of capital and reserves, and its wide range of products and services. Considered individually, these features are not exceptional. Together, they are unique. They enable the WBG to raise funds competitively, diversify risks, and combine many services to address development problems.

11. The services of the WBG fall in three categories: finance, knowledge, and coordination.

- **Financial services** encompass a wide range of products – loans, equity investments, guarantees, sovereign risk and wealth management, and trust fund administration. With its innovative financing, the WBG can leverage capital to levels unmatched by any other MDB.
- **Knowledge service**s include country analytical work and technical assistance, global data and research, and gathering and dissemination of experience with implementing development projects in different contexts.
- **Coordination services** include working with development partners to overcome failures of collective action (both in countries and in areas of global concern), providing vehicles for cofinancing and developing new products. The WBG has

been increasingly called upon by the international community to help address global and regional issues and to contribute to delivering the Regional and Global Public Goods agenda.

Box 2. World Bank Group Leveraging Its Capital

IBRD's strategic capital adequacy framework was developed in 2008 and reviewed by a panel of external financial experts, including both practitioners and regulators. Under this framework, the institution can prudently leverage $1 of paid-in capital into up to $5 of lending. Additionally, operations are highly leveraged though partnerships between the Bank and private investors for IBRD debt offerings for sustainable investment, the pooling of contributions from private and sovereign donors under World Bank Trust Funds, as well as IBRD-managed bond issues for the International Finance Facility for Immunisation (IFFIm). Through carbon funds, the Bank is playing an early catalytic role in mobilizing additional flows to developing countries.

IFC is able to leverage its own capital via the Corporation's successful efforts in crowding in private-sector finance and mobilizing external funds. Every $1 of capital typically leverages approximately $17.5 in project costs and generates about $11.5 of benefits over and above project costs plus a risk free return. In addition to fund mobilization with the crisis response initiatives, IFC's B loan and securitization programs have mobilized more than $18 billion in external private sector funding during FY04-09, while private equity funds supported by IFC have mobilized an additional $18.7 billion in equity and quasi-equity investments through FY08. IFC's success in mobilizing funds means that the Corporation is able to leverage its capital to meet development objectives, above and beyond investments for IFC's own account.

Strategic Directions

12. The vision of the WBG is to contribute to an inclusive and sustainable globalization – to overcome poverty, enhance growth with care for the environment, and create individual hope and opportunity. The internationally-agreed Millennium Development Goals (MDGs) lay out a road map for setting priorities and measuring results. In 2007, President Zoellick presented six broad Strategic Directions to further these goals:

- Help overcome poverty and spur sustainable growth in the poorest countries, especially in Africa;
- Address the special challenges of states coming out of conflict or seeking to avoid breakdown of the state;
- Develop a competitive menu of development solutions and customized services for middle-income countries;
- Support development and opportunity in the Arab world;
- Play a more active role in regional and global public goods; and
- Expand the WBG's role in global knowledge management and learning.

13. These Strategic Directions have served as the guiding principles for the WBG's activities, particularly in emphasizing the need for tailored approaches to meet specific needs. The Group has made significant progress in operationalizing this differentiation, including through the establishment of South-South partnerships leveraging the

capabilities of selected middle-income and Arab country partners to contribute to development initiatives.

Comparative Advantage

14. Among international financial institutions, the WBG's comparative advantage lies in five broad areas:

- a global, local and cross-sectoral presence with the competence to work with public and private sectors, and with middle- income and low-income countries, in partnership with developed countries;
- a repository of best practice in development combining global implementation experience, research and learning;
- world-class risk management and banking competencies and the capability to leverage a strong balance sheet;
- a leadership role in the growing global public goods agenda; and
- worldwide catalytic and convening powers in international arenas, which set it apart from regional organizations.

Collaboration with Other International Financial Institutions

15. In addition to utilizing its core competencies to deliver development impact through its own operations, the WBG further builds on its comparative advantage via close collaborations with other international financial institutions, including the Regional Development Banks (RDBs) and the International Monetary Fund (IMF).

WBG and RDBs

16. In broad purpose, mandate and structure, the WBG and the Regional Development Banks (RDBs) follow similar models. They are all client-based providers of development finance, knowledge and advice. They all have market-based lending windows for middle-income country clients, and concessional windows for low-income country clients. Some of them lend directly to the private sector; others have a specific institution for that purpose.

17. A key distinction between the WBG and the RDBs is the global character of the WBG – its global membership, and a global reach and strength in client base, development knowledge and finance. The five comparative advantages of the WBG summarized in the paragraph above all derive, in varying measure, from this characteristic.

18. Coordination, cooperation and collaboration between the WBG and the RDBs is intense and extensive, taking place at all levels, and in all regions, sectors and themes. Its nature is strongly influenced by country and sector specific factors. MDB working groups exist on a wide range of cross-cutting issues such as aid effectiveness, fragile states, safeguards, financial management, gender, sanctions, and managing for results. In many countries, there is a strong harmonization of operational policies – e.g., procurement documentation and project financial planning and auditing. IFC is also

playing a leading role in supporting RDBs to develop their own private sector financial operations, via the crisis response initiatives and through enhanced cooperation in investment and advisory work, thereby further increasing external flows to IFC's emerging market clients.

The World Bank and the IMF

19. The World Bank and the IMF are the only global international financial institutions (IFIs). They have distinct mandates and, for the most part, distinct core competencies and financing models. The Bank has primary responsibility for "the composition and appropriateness of development programs and project evaluation, including development priorities," while the IMF has primary responsibility for "exchange rates and restrictive systems, for adjustment of temporary BOP disequilibria, and for evaluating and assisting members to work out stabilization programs as a sound basis for economic advance."[5] Areas of common interest include financial systems, domestic savings generation, debt sustainability, and the financial implications of economic development programs.

II. THE WORLD BANK GROUP RESPONDING TO THE CRISIS

20. The global crisis threatens to reverse a decade-long trend of steady growth in developing countries. Though the global recession appears to have bottomed out, significant weaknesses and fragilities remain. Largely driven by a combination of fiscal stimulus and easy monetary policy, the rising tide is not lifting all boats.

21. The global economy appears to be recovering broadly along the lines laid out in the "weak recovery" scenario in the latest Global Development Finance (GDF) - cautious households and firms and cautious banks leading to cautious cross-border lending and an only gradual return in private-sector confidence. Global GDP is now expected to decline by 3.1% in 2009 and to rebound only slowly, rising by 1.9% in 2010. As the growth impact of the inventory cycle and of fiscal stimulus plans wanes in mid 2010, growth is projected to improve only marginally in 2011. Importantly, levels of unemployment will remain high in many industrial countries, continuing to dominate economic conditions and weigh on government finances. Given that stimulus has played such an important role in the recovery, there is a real risk that without a recovery of the private sector, growth could slow once again if rising debt burdens and interest rates force governments to cut back on stimulus measures.

22. In responding to the crisis, major fiscal stimulus packages have been put in place around the world to complement monetary policy. But most developing countries are constrained by either fiscal space and/or foreign exchange reserves, and are not in a position to implement counter-cyclical policies. Many low-income countries, already hit hard by the food and fuel crises, entered the current crisis with fiscal deficits. About 30% of developing countries are expected to have current account deficits of 10% of GDP or more in 2009. Many are being forced to cut spending.

[5] "Bank-Fund Collaboration in Assisting Member Countries," R89-45, dated March 30, 1989.

Global Financing Gap

23. The implications of events over the last two years for private capital flows to developing countries have been dramatic. In 2008, total private capital flows dropped to $707 billion, reversing the strong upward surge that began in 2003 and reached a peak of $1.2 trillion in 2007. For 2009, the most likely scenario is that, as global equity markets regain momentum and credit markets heal, net private flows to developing countries will remain positive – but only barely. Much of the $1.2 trillion external debt raised by emerging market banks and firms between 2003 and 2007 is now maturing, putting pressure on borrowers' finances at the time when the average cost of external borrowing (a simple average of the cost of emerging market bank and bond debt) was about 9.5% during the first 8 months of 2009, almost 50% higher than the 6.4% cost that was paid in the pre-crisis years when the debt now being rolled over was contracted. Overall, capital flows from private sources will fall short of developing countries' financing needs in 2009 by between $350 billion to $635 billion. The situation is of particular concern in countries which entered the crisis with large deficits, countries that relied on commodity exports, countries with large share of remittances in GDP, and countries with underdeveloped local capital markets for domestic borrowing.

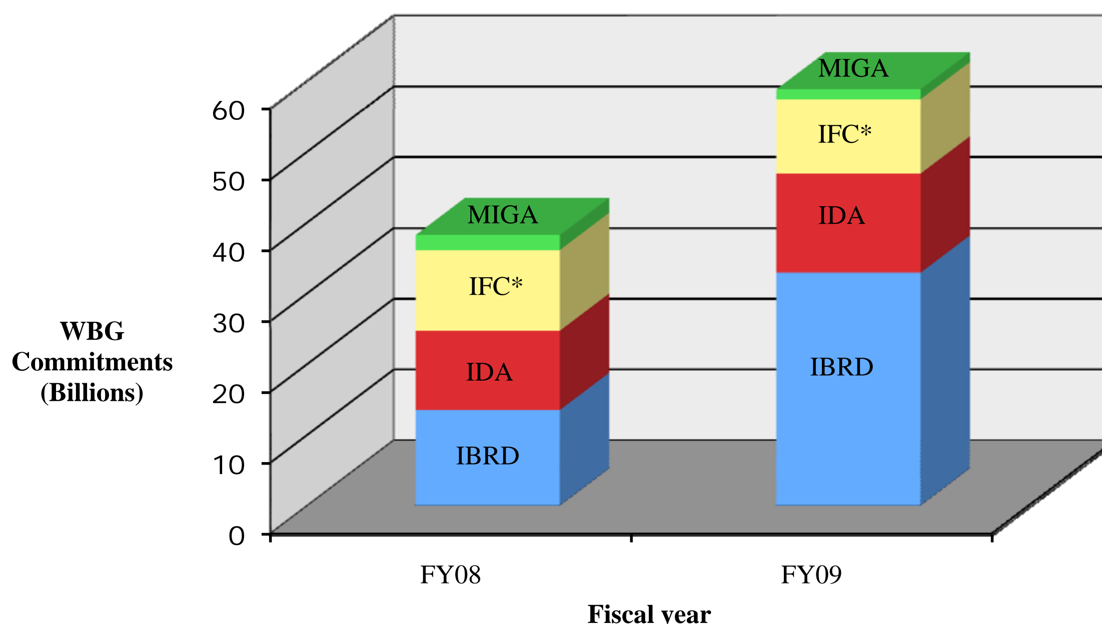
24. Already under severe strain, low-income countries face increasingly grave economic prospects if the dramatic economic and financial deterioration is not reversed soon. As the macroeconomic and distributional impact on low-income countries worsens, many face significant reversals in poverty reduction and in progress made toward meeting the MDGs. With so many people clustered around the poverty line, the impact on poverty will be severe. A rough estimate suggests that a 1% drop in global growth pushes 20 million into poverty. Updated estimates suggest that the crisis will push some 89 million people into extreme poverty by the end of 2010.

25. The demand for external financing by the private sector in emerging markets has also increased significantly with the current global financial crisis. Private investment flows into emerging markets have dropped sharply, and in most emerging markets, governments lack the capacity to provide ample support to the private sector.

Scaling up WBG Support

26. Starting from a position of financial strength, the WBG, guided by its Strategic Directions, has been able to respond forcefully to the crisis. The Group has rapidly scaled up and accelerated the delivery of its financial assistance to record levels. In fiscal year (FY) 2009, the Group's new commitments increased by 54% over the previous year to reach a record high of $60 billion, supporting economic growth, fighting poverty, and assisting private businesses. Among these, a total of $20.7 billion was provided for infrastructure, a critical sector to provide the foundation for rapid recovery and job creation. In addition, the WBG also enhanced its support for reforms that will better prepare its clients for the future.

Chart 1. WBG crises response brings commitments to record levels



*Own account only. Excludes $4 billion in FY09 and $4.7 billion in FY08 mobilized through syndications and structured finance, plus crisis initiatves in FY09

Support to Middle-Income Countries (MICs)

27. IBRD's lending to MICs almost tripled in FY09, to $32.9 billion—a new record—from $13.5 billion in 2008, of which fast-disbursing Development Policy Loans (DPLs) comprised about 45% of the total. Lending in the first quarter of FY10 is projected to be a record high of $8-11 billion. For FY10, the demand for IBRD lending is now projected to be in a range centered above $40 billion with another $55-60 billion projected over the following two years.

28. In August 2009, the IBRD increased its Single Borrower Limit (SBL) by $1 billion, to $16.5 billion, to be effective in FY10. This limit applies to IBRD's largest borrowing countries that have achieved investment-grade status. A flexible mechanism has also been put in place within the overall limit set by the SBL to allow countries with expressed demand above their allocated exposure share to go above their limit when demand from other countries is below their allocated exposure.

29. The IBRD also continues to explore new ways to use its balance sheet to help create the conditions for a reestablishment of private capital flows. Recent efforts include formation of lender coalitions, and the expanded use of guarantees, insurance instruments and risk management products. The IBRD is also continuing an ongoing dialogue with

major underwriters of emerging market bond issuance and liability management experts to identify innovative cofinancing opportunities.

Box 3. Examples of IBRD Cofinancing Innovations in Responding to Crisis

- **Lender coalitions:** An example of how the IBRD is leveraging its balance sheet in a non-traditional way can be seen in the design of the financial support provided to Indonesia to help access capital markets. The IBRD extended the government a $2 billion Development Policy Loans (DPL)-Deferred Drawdown Option (DDO), which formed the core of a larger $5.5 billion standby package, with additional commitments from Asian Development Bank (ADB), Japan and Australia. The mechanism allowed Indonesia to raise $12 billion of private funds, including 5-year and 10-year maturities, under difficult market conditions during the first eight months of 2009.

- **Partial Guarantees:** The IBRD has a number of programs that provide Partial Risk and Partial Credit Guarantees to mitigate risk for private lenders and sponsors to public-private partnership (PPP) infrastructure projects or debt issuance by sovereign (or sub-sovereign) entities, in combination with a government counter-guarantee. An internal working group has been formed to streamline this work.

Support to Low-Income Countries (LICs)

30. To mitigate the negative impact of the crisis on the poorest countries in the world, the WBG has significantly scaled up its assistance to LICs via a variety of instruments, including the provision of concessional financing by IDA, lending and guarantees by the IBRD for eligible infrastructure and natural resource projects, and private sector financing and technical assistance by the IFC.

31. IDA commitments hit a record level of $14 billion in FY09, 25% higher than a year earlier. DPLs represented around 20% of the total. Over half of the overall commitments went to sub-Saharan Africa and one third to South Asia. To rapidly support countries affected by the crisis, $990 million of FY09 lending was provided under the IDA Fast-Track facility. Following its record 15th replenishment, IDA has resources to make commitments of $42 billion over fiscal years 2009-11. Commitments for FY10 are projected to reach $12.4-16.4 billion.

Box 4. IDA's Response to the Crisis and its Financial Capacity

Seventy-nine of the poorest and least creditworthy countries are currently IDA eligible, receiving highly concessional credits and outright grants. IDA finances its commitments through contributions from donor countries, IBRD net income, IFC grants, and internal resources including credit reflows and investment income. The Fifteenth Replenishment of IDA (IDA15) covers FY09-11 and is about 30% larger than IDA14, and nearly twice as large as IDA13. Total funds available in IDA15 equal SDR 27.8 billion ($42.3 billion, or some $14 billion per year). In FY09, IDA commitments totaled a record $14 billion, including $11.2 billion in credits and $2.6 billion in grants, supporting 177 operations. Africa and South Asia were the largest regions accounting for 56% and 30% of total commitments, respectively. For FY10 and FY11 combined, IDA can deliver another $28 billion in further financing.

IDA donors are on track in providing their financing commitments for IDA15. As of June 30, 2009, IDA has received nearly all of the expected written commitments from donors (SDR 16.4 billion), from 42 of the 45 countries supporting IDA15. Receipt of financing from IBRD and IFC for IDA15 also remains on track to date: IDA has received $583 million from IBRD and $950 million from IFC; IBRD will transfer $783.3 million and IFC $200 million in FY10, with the remaining transfer balances expected in FY11, subject to Board approvals.

Donor financing commitments for MDRI debt relief, however, still fall short of the amounts required for the IDA15 disbursement period. As of June 30, 2009, donors have provided firm commitments representing 54 percent (USD 5.3 billion) of projected MDRI costs through the IDA15 disbursement period (FY07-19). To achieve full compensation over that period, an additional USD 4.6 billion of firm donor commitments will be needed. The MDRI financing modalities and options will be reviewed at the IDA15 Mid-term Review in November 2009.

IDA's resources are finite and constrained by the total size of the replenishment. Despite significant increases in overall replenishment levels, funds available necessarily fall short of country needs (e.g. as measured by the costs of meeting the MDGs), even more so since the onset of the food and fuel crises nearly two years ago and the subsequent global financial crisis. In response, IDA's resource allocation system provides exceptional resources for countries facing certain types of crises (e.g. for countries emerging from conflict or otherwise re-engaging with the Bank). Furthermore, IDA provides outright grants to countries at high risk of debt distress.

IDA's Fast-Track Facility has additionally helped respond to increased demands caused by the financial crisis. It provides front-loading of up to 50% of country allocations and could fast-track an initial $2 billion of IDA15 resources. The Facility also shortens the review periods for eligible operations, consistent with crisis response provisions under the Bank's operational policy. Moreover, IDA plans to adjust the implementation of its Non-Concessional Borrowing Policy to further enhance financial flexibility at the country level and ensure consistency with guidelines on debt limits in IMF-supported programs.

The impact of the financial crisis on low-income countries is elaborated in a paper recently prepared for the G-20 and issued to the Bank's Board ("*Protecting Progress: The Challenge Facing Low Income Countries in the Global Recession*"). Donors will review the impact of the financial crisis on low-income countries at the IDA15 Mid-term Review, including possible proposals for a dedicated Crisis Response Window in IDA, to be supported by additional donor resources and re-allocation of IDA15 funds.

32. To help tap the considerable potential for commercially viable and fiscally attractive foreign exchange-earning projects in many IDA countries, the IBRD is developing an approach to expand the use of IBRD resources for specific projects in IDA countries based on the IBRD Enclave framework for loans and/or partial risk guarantees for critical infrastructure and natural resource projects. IFC has also scaled up its work in low-income countries, particularly in Africa. In FY09, half of all IFC's investments were in IDA countries.

33. In addition, in spite of the impact of the crisis on IFC's resources and the resulting deferment of $200 million of IFC's planned FY09 IDA transfers to FY10, the WBG still fully fulfilled its indicative end-FY09 group contributions by front-loading part of IBRD's FY10 IDA15 undertaking in FY09, demonstrating its commitment to supporting the poorest that have been hit the hardest by the global crisis.

Box 5. IBRD and IFC's Support to Low-Income Countries (LICs)

IBRD

While lower-middle and middle-income countries are the IBRD's primary client group, the IBRD also provides substantial assistance to LICs, such as through income transfers to IDA, enclave lending and guarantees, and knowledge and research work.

- The IBRD has been transferring income to IDA since 1964. IBRD's contributions have become an important part of IDA's concessional financing resources used to assist LICs. As of end FY09, the IBRD has transferred a total of about $13 billion of its income to IDA*. At 46% (average over the last three years), the IBRD has the highest share of net income transferred to the poorest of any MDB.
- The IBRD provides loans and/or partial risk guarantees for commercially viable and fiscally attractive foreign exchange-earning projects in many LICs under its Enclave framework for critical infrastructure and natural resource projects. The Bank is also continuing an ongoing dialogue with major underwriters of emerging market bond issuance and liability management experts to identify innovative cofinancing opportunities.
- IBRD's extensive knowledge about best practice in development benefits LICs. In addition, the IBRD's ability to facilitate South-South knowledge flows helps LICs learn from MICs' experience in addressing similar development challenges.
- The treasury functions required by IBRD's market-based funding model have also benefited LICs. For example, they have provided hedging of IDA's donor currency risks and offered market intermediation of weather derivatives for IDA client countries. IBRD leveraged its market access to provide a financial platform as Treasury Manager for the IFFIm, which funds immunization programs in LICs. And with the Bank as trustee to the new Adaptation Fund under the Kyoto Protocol, IBRD's market activities allow monetizing of the Certified Emissions Reductions to fund climate change adaptation.
- As an example of innovative use of its balance sheet in support of LICs, IBRD placed the pilot AMC mechanism directly on its balance sheet. The AMC is designed to create market incentives for the rapid production scale-up and introduction of priority vaccines.

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IFC

- *IDA Focus:* Sub-Saharan Africa is a particular focus. The number of countries in the region in which IFC is active with investment and advisory services increased from 21 in FY02 to 37 in FY09. IFC's volume in the region reached $1.8 billion in 92 projects.
- *Development Results:* IFC's development results also show its increasing reach to those most in need: in 2008, IFC portfolio clients provided 2.1 million jobs, served 5.5 million health patients, helped educate 1.2 million students, reached 200 million water, power and gas customers and provided 9.8 million MSME loans totaling $100 billion.
- *Crisis Initiatives:* Recognizing that a strong private sector is vital for job creation in emerging markets, IFC launched a series of initiatives to help private enterprises cope with the crisis. These initiatives are expected to provide significant funding over the next three years especially in LICs, combining IFC funds with contributions mobilized from other sources. Major initiatives include:
    - Trade: IFC has expanded its Global Trade Finance Program to $3 billion. In addition, IFC launched the Global Trade Liquidity Program, bringing together governments, development finance institutions and commercial banks to support up to $50 billion in trade in the developing world over the next three years.
    - Infrastructure: IFC launched the Infrastructure Crisis Facility, which will include debt and equity components providing short- to medium-term financing for infrastructure projects, and will also include Advisory Services for governments.
    - Microfinance: IFC's Microfinance Enhancement Facility is designed to address the challenges faced by microfinance institutions encountering difficulties in refinancing their debt. It is expected to provide refinancing to more than 100 microfinance institutions in up to 40 countries, including 20 of the world's poorest countries.
    - Bank Capitalization: The IFC Capitalization Fund is designed to support banks considered vital to the financial system of an emerging market country. $2 billion has already been raised, in addition to IFC's $1 billion, and IFC is exploring expanding the reach of the Fund by developing parallel funds dedicated to investment in banks in Africa and Eastern Europe.

*including to the HIPC Trust Fund.

Support to the Private Sector

34. IFC provided $12.9 billion in financing for private sector development in FY09 (including B loans and structured finance), in addition to the funds mobilized for crisis initiatives. With its current capital base, IFC is projecting an investment volume of about $12 billion per year over the next three years. In addition, IFC has launched a series of crisis response initiatives to meet client needs in key areas, such as trade finance, bank capitalization, microfinance, agriculture and infrastructure financing. These initiatives have been structured to focus on mobilizing funds from other development partners to

better leverage IFC's capital, increase international coordination, and significantly enhance overall impact. IFC has so far mobilized almost $6 billion of resources, with a further $5 billion in advanced stages of negotiations.

35. IFC's focus on development impact ensures that capital is employed to meet the Corporation's development mandate: both in FY08 and FY09, 71% of IFC's projects have had high developmental outcomes, substantially exceeding IFC's long-run average and target. In 2008, IFC clients provided 2.1 million jobs, served 5.5 million health patients, helped educate 1.2 million students, reached 200 million water, power and gas customers, provided phone connections to 220 million people, and provided 9.8 million MSME loans totaling $100 billion.

36. MIGA issued $1.4 billion in guarantees in FY09 and is increasing its support to systemically important financial institutions seeking political risk insurance for cross-border investments in their subsidiaries in emerging markets.

Box 6. MIGA's Response to the Crisis and its Financial Capacity

MIGA's capital position does not currently pose any serious constraint to the Agency's capacity to write new guarantee business or to launch new initiatives in response to development needs following the financial crisis. The latest five-year capital adequacy outlook was presented to the Audit Committee in the FY09 paper on risk management and provisioning and discussed by the Committee on July 29, 2009. This exercise indicated that, supported by available operating capital, MIGA will be able to grow its guarantee portfolio volume from the current level of $7.3 billion to around $10 billion, while at the same time significantly decreasing the level of reinsurance, from currently 46% of gross exposure to 20% (a doubling of net exposure from $4.0 billion to around $8 billion). In addition, the exercise indicated that current capital would be sufficient to allow for significant increases in country concentrations of exposure and deteriorations in country risk. The capacity to use its balance sheet for demand where it arises positions MIGA well to support – by itself or as part of joint initiatives – development projects through and beyond the current crisis.

In terms of MIGA's ability to have an impact on development by introducing new and innovative products and meeting clients' needs, constraints exist in terms of operational rather than financial capacity. Its Convention imposes restrictions on the types of products MIGA may offer that are not suitable for the evolving political risk landscape. MIGA's management is currently working on ways to address these issues, and plans to hold discussions with shareholders during this year's Annual Meetings.

World Bank Group's Support to Vulnerable Groups

37. The WBG has also responded with a strong focus on initiatives to protect the most vulnerable in the poorest countries and sustain the potential for private sector-led economic growth and employment creation. Support for safety nets and other social protection programs totaled $4.5 billion in FY09. Commitments from the WBG to sub-Saharan African countries—the Bank's top priority—also rose to $9.9 billion in FY09, up 36% from $7.3 billion in FY08. The WBG has also created a Vulnerability Framework to help developing countries weather the impacts of the crisis (Box 7).

Box 7. WBG Vulnerability Framework

The WBG's operational crisis response includes targeted initiatives to protect the most vulnerable against the fallout of the crisis, maintain planned infrastructure investment, and sustain private sector-led economic growth and employment creation, particularly through SMEs and microfinance. The Vulnerability Framework organizes under one umbrella the following programs:

- Global Food Crisis Response Program (GFRP): The GFRP encompasses the Food Price Crisis Response (FPCR) Trust Fund, which was funded by $200 million from IBRD's FY08 allocable net income, as well as $1.8 billion in IDA resources. Total Bank-funded GFRP projects currently amount to $1.2 billion, with disbursements of $790 million in over 30 countries.

- Rapid Social Response (RSR): WBG support for safety nets and other social protection programs totaled $4.5 billion in FY09. To date, pledges by donors to RSR Trust Fund for Capacity Building total over $80 million. The RSR is designed to help countries finance immediate interventions in the areas of:
    - access to basic social services, emphasizing services for maternal/infant health and nutrition and school feeding programs;
    - building, or scaling up pre-existing targeted safety net programs; and
    - labor market policies to provide income support to the unemployed.

- Infrastructure Recovery and Assets Platform (INFRA): INFRA is a multi-donor program designed to provide coordinated support to developing countries in their efforts to maintain their infrastructure sectors as economic drivers in the face of the current global crisis. The Bank has committed to:
    - scale up IBRD/IDA assistance targeted for infrastructure to $15 billion per year from the earlier target of $11-13 billion per year, IBRD/IDA/IFC infrastructure lending for FY09 totaled $20 billion, up from $11.9 billion in FY08,
    - mobilize parallel and concessional financing from development partners, and
    - raise awareness about the adverse impacts of the crisis on infrastructure.

- IFC-led initiatives for the private sector: As of July 2009, the IFC Board has approved several initiatives mobilizing more than $10 billion in financing.
    - Global Trade Liquidity Program (GTLP): The GTLP has received commitments of more than $2.5 billion including $1 billion from IFC. An additional $3 billion has been committed by donors through a parallel facility and through a private placement. Commitments from commercial banks to GTLP to date total $2.25 billion. On the transaction side, IFC is finalizing an initial wave of transactions amounting to $1.75 billion to be disbursed through four banks by the end of August. The next wave of transactions is being processed with expected bank commitments of additional $1.3 billion and partner commitments of close to $500 million.
    - IFC Capitalization Fund: IFC has closed the first transaction under the IFC Capitalization Fund, which aims at providing additional capital for banks in developing countries. The Fund is also designing advisory programs in risk management and non-performing-loans management. The Japanese government, a founding partner, has invested $2 billion.
    - Microfinance Enhancement Facility (MEF): IFC approved and disbursed funding to 36 microfinance institutions for investment from the MEF, a $500 million facility launched by the IFC and the German development bank (KfW) to support microfinance institutions facing refinancing difficulties.

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- Infrastructure Crisis Facility (ICF): The ICF aims to bridge the gap in available financing for viable, privately funded or PPP projects that face financial distress as a result of the crisis. France and Germany are planning to contribute €1 billion and €500 million respectively to the fund and discussions are under way for contributions from other donors. IFC is also engaged in discussions on the launch of the equity fund.

Working with the IMF and the other MDBs

38. The WBG actively collaborates with partners, including the IMF and other MDBs, and continues to deepen the collaboration as is further discussed in Section III. These partnerships have been further strengthened in the global response to the current crisis as the sheer magnitude of crisis-related challenges calls for collective and complementary actions by the IMF and the MDBs.

39. At a meeting in Tunis in February 2009, the MDBs and the IMF pledged to work together based on each institution's strategic priorities and comparative advantage. Working closely with the IMF, MDBs have developed complementary and collective crisis-response programs that take into account their respective strengths and regional specializations.

- In Central and Eastern Europe, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the WBG pledged to provide up to €24.5 billion ($31 billion) to support banking sectors and businesses hit by the global economic crisis.
- The IMF, European Union (EU), EBRD, EIB and the WBG worked closely together to support crisis response programs in Ukraine, Romania, Latvia, and Hungary.
- In Latin America and the Caribbean, the World Bank, the Inter-American Development Bank (IADB), the Inter-American Investment Corporation, and the Corporacion Andina de Fomento announced their intention to coordinate their crisis response initiatives and collectively provide up to $90 billion over the next two years in a joint effort to spur economic growth in the region.
- In Africa, there are ongoing collaborative efforts between the IMF, the African Development Bank (AfDB) and the World Bank to support countries affected by the crisis.
- IFC, EBRD, AfDB, EIB, Islamic Development Bank (IsDB), KfW and the Development Bank of Southern Africa have established a joint action plan for crisis response initiatives for Africa, with leadership of particular initiatives agreed according to the strengths of the participating institutions. IFC has also agreed on areas of cooperation with other MDBs for Latin America and the Caribbean as well as Eastern Europe and Central Asia.

40. The relationship between the World Bank and the IMF has evolved substantially in the last five years, reflecting the Development Committee's request that the Bank and

the Fund ensure that their institutional responsibilities continue to cover all critical issues relating to the MDGs. A key milestone in the evolution of this relationship was the Report of the External Review Committee on World Bank–IMF Collaboration, or Malan Report. The report concluded that "there are many examples of good collaboration between the Bank and the Fund and there have been significant improvements over the years…there is scope for further improvement in how the two institutions work together." An example of the work of the two institutions to address this agenda lies in various improvements identified through the review of the joint IMF-World Bank Financial Sector Assessment Program (FSAP).

41. As the crisis unfolded, the Bank and Fund team worked closely to ensure that program design, financing, technical assistance needs, and supporting policies such as social safety nets were fully synchronized. Good examples of close and effective collaboration include Mexico, where playing to the core competencies of each institution, the Fund has focused on macroeconomic policy issues and the Bank has supported actions to address poverty and inequality and global priorities including climate change, catastrophe risk management, and trade integration.

42. As part of IFC's crisis response initiatives, IFC in partnership with other institutions of the WBG has taken a leadership role in developing Joint IFI Action Plans with other IFIs and development financial institutions (DFIs) for Eastern Europe and Central Asia, Latin America and Africa. The primary objectives of these Joint IFI Action Plans are to create a platform of collaboration to develop priority focus, coordinate implementation of specific actions, and to harmonize the process of engagement. IFC has worked with its partner IFIs to agree on specific divisions of labor based on comparative strengths of each partner. For example, the Joint IFI Action Plan in Europe includes the EIB Group and EBRD, with a commitment to support Eastern Europe banking system of approximately $26 billion. IFC focused on developing the strategy, approach, and leading the engagement with the various partners. IFC's investment contribution focused on equity capital to banks in line with the IFC Bank Capitalization Fund, trade finance under the Global Trade Liquidity Program, and debt restructuring and distressed asset resolution under the Debt and Asset Recovery Program.

III. THE WORLD BANK GROUP BEYOND THE CRISIS

43. While the current crisis will eventually end, its impact will still be felt long after it is over. World Bank projections suggest that growth rates for many low- and middle-income countries will have regained their trend rates by 2011, but several years of below-trend growth will mean that output gaps, unemployment, poverty and government deficits are likely to remain very high (Table 1).

Table 1: Even in 2011 economic conditions will remain depressed

	Actual less trend growth rate	Output Gap	Current Account %GDP	Fiscal Deficit %GDP
East Asia and Pacific	-0.5	-4.5	6.6	-3.7
Europe & C. Asia	-1.1	-10.9	0.0	-2.3
Latin America and Caribbea	0.1	-6.7	-0.7	-1.2
Middle East and N. Africa	-0.9	-5.4	-0.7	-3.9
South Asia	-0.1	-4.7	-2.2	-9.4
Sub-Saharan Africa	0.3	-3.9	-5.8	-1.6
High Income	0.8	-6.5	-0.5	-7.1
Low Income	0.1	-2.1	-6.2	-4.9
Middle Income	-0.3	-6.1	1.9	-3.3

Source: World Bank (DECPG) estimates

Moreover, while conditions in global financial markets are expected to improve – private sector financial flows to developing countries will be much weaker than pre-crisis levels and developing countries will continue to face difficult financing conditions.

Box 8. Post-Crisis Global Context for WBG Operations

- There will be a heightened role for the WBG's public and private sector support to generate new drivers of growth in Asia, Latin America, and in Africa. Support for the private sector as an engine of growth will be especially important in moving from an era of geographically concentrated economic power to one characterized by multiple centers of economic and business activity.
- Responding to the global crisis will keep the WBG engaged with the Bank's more than 20 investment grade borrowers for the immediate future. It is essential to use this opportunity to provide value and stay relevant in these countries. These countries will also remain important clients for non-lending services.
- Particular attention will go to countries unable to achieve several MDGs and to communities in fragile and conflict afflicted states that risk becoming further disconnected from global society. Responding to these challenges will require new innovative financing instruments that combine sustained funding with incentives to promote results.

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- Global public goods issues (such as climate change, communicable diseases, water management, trade, and migration) and national and local issues will become more deeply intertwined. The WBG will be expected to make greater use of its convening power to increase awareness of issues, to help raise and administer funds, seek and coordinate collective agreements, design and pilot products and market approaches that can be scaled up, and facilitate integration of agreed collective actions into country programs at the national and community level.
- Establishing a deeper knowledge base and becoming a recognized conduit for connecting global and local knowledge will be key to improving the WBG's development effectiveness including the quality of lending services. Countries will seek advice on post-crisis development frameworks, how to make their institutions more successful in an increasingly globalized world, how to better protect their citizens from the negative effects of globalization, and whether policies that are successful in wealthy countries can be successfully adapted to their own circumstances. Fee-based services for analysis, advice and capacity building will continue to expand in middle-income countries.
- As the development arena becomes more congested and fragmented, development partners will look to the WBG to take greater leadership on the broader international aid effectiveness agenda - including on strengthening country systems, and harmonizing and enhancing collaboration. Development partners will increasingly use the Bank's development platforms for technical design, fiduciary management, and implementation support.
- Greater emphasis will be placed on development impact, increasing the focus on the results agenda. This will include expanding the WBG's knowledge base and strengthening the Group's accountability for development effectiveness.

Four Key Drivers

44. Against this backdrop, four key drivers are likely to shape the WBG's role in the post-crisis world.

1) **Driver #1: Traditional and innovative development finance**. This driver relates to the WBG's long-established role as a source of development finance. There is a strong demand from the Group's clients for the institution to come out of the crisis well-capitalized and able to sustain the delivery of a critical mass of financing to support global economic growth and poverty reduction. Support for the private sector as an engine of growth will be especially important.
2) **Driver #2: Knowledge products**. This driver is related to the WBG's comparative advantage as a repository of global best practice in development combining implementation experience, research and learning. Clients are looking to the WBG to connect and customize multiple sources of practitioner knowledge and innovation.
3) **Driver #3: Scaling up the global public goods agenda**: This driver stems from pressing global challenges, such as climate change and communicable diseases that require an institutional response that is multi-sectoral, combines policy advice

and investments, and a global reach grounded in country programs—of the kind the WBG is set to provide.

4) **Driver #4: Responding to future crises**. This driver is related to future crises, those that we don't foresee today, but know will happen—a pandemic, a natural or man-made disaster, an economic or social crisis, in response to which the WBG can mobilize its full range of skills and instruments for the benefit of its shareholders.

Box 9. Demand for WBG Assistance from Different Client Groups

Poorest Countries

Demand for development investments from low-income countries will remain high. Per capita GDP growth in LICs is forecast to decline in 2009 and 2010 with zero per capita growth for Sub-Saharan Africa for the next two years. Failure to address the serious challenges facing low-income countries as a result of the global crisis will jeopardize years of progress in combating poverty and improving the foundations for economic growth, pushing back attainment of the MDGs. The needs in these countries will require continued, and in many cases scaled-up, concessional financial support from IDA. To maximize development impact, many of these countries will also need scaled-up regional investments and the IBRD is well positioned to take on these tasks. In addition, there is also increasing demand for innovative approaches for providing IBRD financing for selected interventions in IDA countries. Having implemented 50% of its new projects in IDA countries in FY09, IFC also plans to continue scaling up its work in low-income countries. In addition, income transfers from IBRD and IFC have served as an important component of IDA's financial resources to support low-income countries.

Fragile and Conflict-Affected Countries Group

One billion people, including about 340 million of the world's extreme poor, are estimated to live in fragile states. In 2007 the World Bank created the Fragile and Conflict-Affected Countries Group consolidating its work on post-conflict and fragile states in order to deliver effective programs in support of sustainable growth and economic and social development, peace building, and sound governance. Between July 2007 and June 2008, Bank commitments to fragile and post-conflict countries exceeded $2.2 billion. IFC has significantly increased its activities in fragile and conflict-affected situations. Last fiscal year, IFC investments reached over $638 million, or 6% of total IFC commitments. WBG operations in this area are considered best practice. Demand from fragile and conflict-affected countries is projected to remain high after the crisis. The World Bank stands ready to scale up its operations in these countries, including supporting innovative public-private investment in basic services, such as electricity generation, in partnership with IFC.

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<u>*Middle-Income countries*</u>

The middle-income countries are home to 70 percent of the world's population living in extreme poverty. Even by 2030, the majority of poor people in developing countries are projected to continue to be living in China, India and other middle-income countries. Despite the tremendous achievements over the last decade, middle-income countries face complex development challenges. Some of them have only sporadic access to capital markets, with many lacking the investment grade to tap private sector sources of finance. The crisis has only emphasized the vulnerability of these countries to sudden withdrawals of liquidity. While IBRD's lending role remains important, partner countries are also demanding more rapid and flexible delivery of risk management tools, global expertise, and strategic policy advice and convening capacity. Middle-income countries are also an increasingly important partner for the WBG through their own successful experiences in overcoming poverty, as well as through their role in addressing Global Public Goods such as climate change, trade and communicable diseases. The WBG will seek to further facilitate South-South cooperation by developing partnerships with selected middle income countries capable of contributing to new development initiatives.

Driver #1. Traditional and Innovative Development Finance

45. Throughout its history, the WBG has been called upon to deploy its financial products for transformational impact. In the aftermath of the crisis, the WBG can use traditional and innovative finance to play its role in three main ways:

- First, by contributing to fiscal stimulus, and protecting core spending in countries that are not in a position to implement counter-cyclical policies;
- Second, by playing a role in helping to boost global demand to support global recovery; and
- Third, through investments to build multiple poles of growth, with responsive public sectors and dynamic private sectors. Supporting the private sector as an engine of growth will be especially important.

46. Most economists expect the global recovery to be slow in the absence of new sources of global demand; if provided with access to finance, developing countries can very well stimulate global demand and boost global recovery. In the medium and long term, the world would also benefit from multiple poles of growth. The WBG can facilitate both.

47. Private sector activity, framed by good regulation and tested by competitive pressures, would also become an increasingly important engine of growth. In times of crisis, the chances of a robust and inclusive recovery depend critically on the ability of the private sector to regroup, re-mobilize assets, and create new jobs. Private sector investments in emerging markets are necessary to build the productive capacity for growth in the emerging world.

48. Table 2 presents estimates of the expected evolution of the financing needs and financing gaps for developing countries consistent with the slow recovery scenario presented in the latest GDF. The analysis suggests that while developing country demand for WBG assistance in the medium term will decline from recent peaks, it will likely remain high. Prolonged recession and accumulated financing gaps will mean that many important long-term development projects will have been delayed. In addition, IBRD financing will be needed to address increased numbers of 'New Poor' in middle-income countries, and preserve progress there on the MDGs. (Middle-income countries account for about 85% of the financing gap in 2009, and this proportion would rise in subsequent years.) In poor countries, the need to make up shortfalls will likely be even more acute. There will be increased demand for the IBRD to develop innovative approaches to scale up its assistance to its poorest member countries.

Table 2: Broad estimates of expected financing gap for developing countries (2009-15)

Source: DEC Prospects Group, 2009

External Financing (for 59 countries w/ a gap) *(US$ billion)*	2009	2010	2011	2012	2013	2014	2015
Ext fin needs	-959	-971	-991	-1,103	-1,120	-1,245	-1,385
Private capital flows	607	668	781	876	952	1,088	1,246
Financing gap	-352	-303	-211	-228	-168	-157	-139
External Financing (for 59 countries w/ a gap) *(as a share of GDP, percent)*	2009	2010	2011	2012	2013	2014	2015
Ext fin needs	-10.5	-9.7	-8.8	-8.7	-7.9	-7.8	-7.7
Private capital flows	6.6	6.7	6.9	6.9	6.8	6.8	6.9
Financing gap	-3.9	-3.0	-1.9	-1.8	-1.1	-1.0	-0.8

49. While the financing gap obviously cannot be filled by the WBG alone, clients, shareholders and partners expect the Group to continue playing a leading role in the post-crisis international aid architecture. Based on historical experiences, a $15 billion post-crisis annual commitment level would be a conservative estimate for the contributions required from the IBRD to address the post-crisis financing needs of its developing country members.

50. As the rapid scale-up in crisis lending is projected to significantly constrain the Group's ability to address clients' long-term development challenges after the crisis, the Group has been continuously developing innovative financial services to maximize the use of its balance sheet at the same time as it explores options to enhance its financial capacity. The global crisis has further highlighted the demand for innovative risk management services and guarantee instruments. Longer-term changes in the structure of development finance will accelerate the demand for these financial services.

Box 10. WBG's Financial Innovations to Support Client Needs

In supporting innovative finance, the WBG has used all its corporate units, such as IBRD, IDA, MIGA and IFC and a variety of business processes and instruments, including lending/grant-making, risk management, and advisory and intermediation services.

- The IBRD has been responding to client requests to provide instruments to help them manage exogenous shocks (such as natural catastrophes, commodity price volatility, or financial contagion) and to develop financial innovations that can help with capital market development. A good example is the area of natural disaster risk where the Bank has developed a policy and operational framework, and designed a supporting suite of innovative instruments. Food and fuel crises highlighted for many countries the importance of managing commodity price volatility and an increasing demand for advisory services in these areas. The Bank has continued to seek solutions for providing local currency financing to member countries where sufficient hedging markets exist. For example, in Uruguay, the Bank has issued a Uruguayan Peso IBRD bond to allow for back-to-back disbursement of programmatic loans.
- IFC pioneered many of the first country equity funds for developing countries as well as introducing many advanced products and innovative initiatives, such as local currency bond issues, securitizations, commercial microfinance lending, as well as lending for small- and medium-sized enterprises, Sharia compliant financial instruments, and carbon emissions credits, greatly extending the reach of global finance to private enterprises in developing countries. For instance, IFC pioneered in the early 1990s new commercial microfinance institutions, transformed non-governmental organizations into regulated microfinance institutions and encouraged commercial banks to engage in microfinance. IFC's microfinance portfolio now stands at $1.3 billion.
- MIGA is seeking to increase its reach through a wider array of political risk mitigation products, including coverage of sovereign financial obligations, state-owned enterprise breach of contract, and temporary business disruptions due to war or civil disturbance, particularly in frontier markets and the poorest countries where market risk mitigation instruments are ordinarily not available. Examples of MIGA's innovative approaches include umbrella agreements for private equity investors targeting Africa, and partial credit enhancements for bonds and private placements issued to finance developmental projects in emerging economies.

Subnational Finance has been another important area for innovation, bringing IFC and IBRD together in serving the needs of municipal and sub national authorities on the ground. IFC brings expertise in financial due diligence, pricing and structuring deals, while the Bank contributes public sector knowledge and operational strengths in appraising, and supervising sector investments.

Driver #2. Knowledge Products

51. The external environment and client demands for knowledge products and services have changed fundamentally over the last 10 years and are expected to continue evolving beyond the crisis. The WBG will have a key role to play in helping formulate the international community's post-crisis development paradigms. Countries will seek advice on post-crisis development frameworks, how to make their institutions more successful in an increasingly globalized world, how to better prepare themselves and their citizens for globalization, and the most appropriate policy and reform options to support and facilitate growth and economic freedom.

52. The WBG will increasingly connect and customize multiple sources of practitioner knowledge and innovation across countries through proximity to clients for quick, responsive service delivery and through mobilizing and connecting cutting-edge global knowledge. Through its global reach and local presence, the Group will synthesize the best in practitioner knowledge, add depth and perspective, and deliver highly-customized solutions to the clients' doorstep in real time, together with a competitive package of innovative financing where needed. The WBG will leverage a far more multi-source environment for knowledge that flows South-South, South-North, and North-South. In so doing the Group will retain its capacity to generate and deliver knowledge related to all aspects of development and cross-country and regional experiences. The Group's ability to connect, contribute and customize multiple sources of practitioner knowledge and innovation across countries and sectors will constitute an enduring source of competitive advantage and value-added.

Driver #3. Scaling up the Global Public Goods Agenda

53. With a comparative advantage rooted in its financial leverage, global presence, multi-sectoral skill base, and country level platform, the WBG is well positioned to play an expanding role in the Global Public Good agenda.

Environmental commons

54. The WBG's shareholders have endorsed a strong commitment for the institution to help its clients tackle the threat to natural and man-made environmental resources. The WBG has already shown leadership in three key areas:

- *Financial resources:* The WBG has been on the forefront of mobilizing resources and fostering partnerships to address climate needs, both in mitigation and adaptation.

Box 11. World Bank Group Initiatives to Mobilize Resources to Address Climate Needs

Together with the other MDBs, developed and developing countries and other stakeholders, the WBG has developed

- the Climate Investment Funds (CIF) that deliver highly concessional resources to developing countries for large scale, transformative investments to reduce greenhouse gas emissions and adapt to climate change impacts;
- the Carbon Partnership Facility (CPF) to target investment programs that have the potential to transform emission intensive sectors in client countries;
- the Forest Carbon Partnership Facility (FCPF) which is piloting systems for making success payments for reducing emissions from deforestation; and
- new funds to promote renewable energy for countries with limited energy access, particularly in Africa, and for forests are also under development.

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IFC has also developed a number of initiatives:

- the Cleaner Production program is supporting energy efficiency, renewable energy, recycling and water efficiency projects;
- a Carbon Delivery Guarantee assures delivery of carbon credits from companies in developing countries to buyers in developed countries; and
- the GEF/IFC Earth Fund funds a portfolio of projects that contribute to climate-friendly market transformation.

MIGA has also developed an innovative non-commercial insurance instrument to mitigate a series of risks to carbon finance project performance, and has deployed this instrument to support investors in clean energy projects in emerging economies.

- *Transformative impacts of technology transfer:* The WBG can also play a key role in technology transfer by facilitating investments in clean energy and innovative transport solutions, such as bus rapid transit. This is already happening with funding under the CIFs. The WBG's lending to clean and renewable energy and energy efficiency is expected to increase by 20% per year. Other innovative operations help countries mitigate climate change risks.

- *Research and dissemination*: In response to requests by clients, the WBG is working with several developing countries on low carbon growth strategies, with outputs including the forthcoming World Development Report on "Development in a Changing Climate", a major study on the Economics of Adaptation to Climate Change, a Screening Tool (ADAPT) for assessing development projects for potential sensitivities to climate change, and a "Climate Change Portal" containing climate-related and socioeconomic data which is being developed in collaboration with UNDP and other UN agencies.

Strengthening health systems

55. Few other development partners are able to address systemic constraints (including developing responses to global pandemics) related to the large private markets in health, or to civil service reform in the public sector, both critical to the delivery, regulation, and financing of services, and the WBG is committed to scale up this important work.

56. The World Bank is already working with partners to provide strategic leadership in advancing health systems strengthening for improved results, in line with the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. The Bank is enhancing its efforts to strengthen health systems in its client countries. For example, the Bank is supporting a new framework for global partnership in health through the International Health Partnership, implementing innovative approaches to use financial incentives to generate desired health results at national and sub-national levels through Results-Based Financing mechanisms, and using results-oriented SWAPs to strengthen country ownership and harmonization and alignment of development partners. In Africa,

the Bank and IFC are working together to leverage existing private sector service delivery channels to boost health outcomes for the poor.

57. The Bank can also advance innovative financing mechanisms. For example, the Advanced Market Commitments (AMCs) program is designed to create market incentives for the rapid production scale-up and introduction of priority vaccines. AMCs address a longstanding development problem of markets with persistent failures to develop and produce products needed in poor countries.

Global financial architecture

58. The Bank together with the IMF has been implementing new tools for diagnosing the risks to counties financial markets, such as FSAP (Financial Sector Assessment Program) and ROSC (Report on the Observance of Standards and Codes). The need for these and other technical assistance products by the Bank to help countries develop resilient financial systems will become only greater, especially in relation to lessons learnt from this crisis. One of such areas is a need for convergence of national regulatory frameworks and global financial standard setting. A number of WBG programs help countries benefit from financial integration through increasing access to finance.

Trade and economic integration

59. Trade is at heart of the WBG's inclusive and sustainable globalization agenda. The G20 has committed to ensure the availability of at least $250 billion over the next two years to support trade finance through export credit and investment agencies and through the MDBs. With its capacity and knowledge on trade-related issues, the WBG is ready to increase its role in trade finance.

60. The WBG supports numerous trade-related country programs, including Aid for Trade activities, to strengthen competitiveness and support diversification. WBG commitments in this area totaled $20.1 billion in 2008, including trade-related infrastructure projects.

- The Bank has been working closely with the World Trade Organization on the Aid for Trade agenda and has participated in several sub-regional gatherings in Latin America, Africa and Asia that addressed the competitiveness challenges facing each region.
- The Bank is an active partner in the Enhanced Integrated Framework for Trade-Related Technical Assistance, a global mechanism that coordinates Aid for Trade in LDCs. Bank staff are currently conducting IF diagnostics in Afghanistan, DRC, Timor-Leste, and Togo, and are intensively engaged in follow-up technical assistance in Cambodia, Lao PDR, and Tanzania.
- The Bank Group has developed a number of datasets and tools that enable policy-makers to benchmark trade and competitiveness: the World Bank Institute has developed the "World Trade Indicators," a unique interactive database; the Bank's Trade Department produces the "Logistics Performance Index," which measures the quality of trade facilitation institutions and maintains a global anti-dumping

and safeguards database; and the "Trading Across Borders" component of the WBG Doing Business report identifies cumbersome trade regulations and procedures.

- The IFC Global Trade Finance Program issued over $1.4 billion in guarantees to support more than 2,000 individual trade transactions, with IDA countries - most of them in Africa - accounting for 51% of the total volume of guarantees issued in FY08. In March 2009, the Board approved a $1 billion IFC investment in the Global Trade Liquidity Program, whereby funds mobilized from governments and DFIs are channeled via a group of private bank partners (utilization banks) to their trade finance networks of emerging market banks (issuing banks).
- In 2009 the Bank's Trade Department launched the Trade Facilitation Facility, a multi-donor trust fund that is financing technical assistance that helps countries improve trade facilitation institutions, policies, procedures, and regulation of markets for trade logistics services that enable firms to conduct international trade on time and at lower costs. The facility currently has pledges of $40 million over four years. Work will focus on low-income countries, especially in Africa.

Driver #4. Responding to future crises

61. Two particular features of globalization are 1) the extent to which countries and economies have become interconnected; and 2) the increasing speed with which problems that develop in one part of the world can spread to others. They are evident in the transmission of a financial crisis from the industrialized countries to the rest of the world; in the spread of communicable diseases; and in the accelerating pace of global climate change. More often than not, it is developing countries that are most vulnerable to the globalization of financial, environmental, epidemiological and other threats.

62. In the past decade or more, the WBG has been called upon by the international community to play a lead role in responding to various crises. The group has demonstrated its ability to quickly redirect human and financial resources where they are most needed. Examples include:

- Financial crises such as in Mexico in 1994, East Asia in 1997, and the current global crisis;
- The spread of communicable diseases such as SARS in 2004 and H1N1 in 2009; and
- Natural disasters such as the Indian Ocean tsunami in 2004 and the Pakistan earthquake in 2005.

63. In recent years, the WBG has continued to strengthen its efforts in crisis response and crises prevention (see examples in the box below). As part of an expanded crisis agenda, the WBG will also scale up its work in post-conflict and fragile countries. This will include building on recent partnership agreements with the UN and EC, expanding interventions by IFC and MIGA, and exploring additional customized policy and financing options.

64. While crises are unpredictable, the WBG must be positioned to continue to respond effectively and quickly to the crises that will undoubtedly arise. Meeting unanticipated needs requires an institution that is agile, scanning the horizon for new danger, and working with partners.

65. The Group will also need to take care not to erode core competencies that would undermine its ability to respond to critical client needs. The Bank's scaling back of development assistance in infrastructure and agriculture is now widely recognized as having been short-sighted.

Box 12. Examples of WBG's Crisis Response and Prevention Effort

In 2007, the Bank adopted a new Framework for Rapid Response to Crises and Emergencies, which transformed its approach to dealing with crises, disasters, and conflict situations. The framework provided for greater speed and flexibility in delivering Bank assistance, recognized the challenges of operating in weak capacity environments, and underlined the value of closer partnerships with development partners in delivering integrated recovery programs that appropriately link recovery, security, and development.

The World Bank and the Global Facility for Disaster Reduction and Recovery (GFDRR) have been promoting a proactive and strategic framework for disaster risk management. The underlying principles of the strategic framework are that both the loss of life and the economic impact of disasters can be reduced by advance planning and cost-effective investment.

The WBG has developed innovative products and services to assist countries develop tailor-made catastrophe risk financing strategies. Examples include the introduction in 2007 of a contingent loan product that allows IBRD countries to secure immediate liquidity and budget support following a major natural disaster, development of a weather derivatives intermediation program to provide crop insurance to Malawi, establishment of a facility to provide hurricane reinsurance to Caribbean countries. The WBG also works with member countries to create competitive insurance markets and increase catastrophe insurance penetration.

66. The lending capacity that the Bank enjoyed moving into the current financial crisis played a crucial role in permitting it to respond rapidly with additional lending during the crisis. However, stretching to respond to the current crisis will deplete this cushion so that, should further extraordinary demand arise in the coming decade, the WBG will be unable to respond unless financial capacity has been enhanced. The second chapter of this paper will provide more detail on this.

Building Partnerships

67. A post-crisis world will call for much closer alliances between governments, corporations in developing countries, and international investors and the WBG can play a key role in brokering such partnerships. The WBG will build on and deepen existing collaborations with partner institutions as well as with the civil society. Box 10 below illustrates examples of WBG's cooperation with the other MDBs.

Box 13. Examples of WBG Cooperation with the other MDBs

Assistance to Governments

- The World Bank/African Development Bank Strategic Partnership focuses on specific sectors and themes. As part of the focus on infrastructure, e.g., MDG action plans in the water sector have been finalized for 17 countries and several joint financing operations are planned in high priority countries. AfDB co-financing of regional infrastructure projects is expected to increase substantially to about $700 million (from about $420 million under IDA13 and IDA14 combined). To assist fragile states, the Bank and the AfDB have collaborated extensively on country programs in Central African Republic, Democratic Republic of Congo and Liberia, and are preparing for a post-conflict needs assessment in Zimbabwe.
- The Asian Development Bank (ADB) and World Bank health sector technical assistance and lending projects are aligned to support the Philippines government's reform agenda. In Cambodia, sectoral division of labor provides for the ADB to lead the dialogue on oil and gas, while the WB and the ADB jointly undertake annual portfolio reviews and work on climate change. In Lao PDR, following joint work of the Bank, the ADB and AusAid identifying ten components to support water resource management, the Bank will lead on four components and the ADB will lead on the other six.
- In Latin America and the Caribbean, there is a large amount of co-financing in major infrastructure projects given the required loan size (e.g., several metro projects). In six of the larger countries in the regions, alignment of procurement documentation has been completed.
- In Morocco, the WB is working with the AfDB, the EIB and the EBRD on improving rural roads. More widely in the Middle East and North Africa Region there are many important partnerships with various Arab financial institutions.
- The World Bank, the EC, EIB and EBRD are currently working, in close collaboration with the IMF, on a joint package to support gas sector reform in Ukraine.

Global Public Goods

- The World Bank, IFC and IADB have worked closely in supporting the Mexico Clean Technology Fund. The World Bank and the IFC are currently working with the ADB, the UN and bilateral partners on the investment plan for a Clean Technology Fund for Thailand.

Knowledge Activities

- The World Bank is collaborating with the AfDB on a comprehensive study of migration, remittances and development in Sub-Saharan Africa, and with the IsDB on transferring knowledge, tools and know-how in macroeconomic forecasting as well as in developing country strategies.
- Monthly meetings of the Council of Chief Economists of Multilateral Development Institutions allow for the timely sharing of information and views.
- The Bank has provided data management systems to the AfDB and the IsDB and is collaborating with other MDBs on building data management capacity in client countries.

Improving the World Bank Group's Delivery Capacity

68. To serve the tasks ahead, the world needs agile, nimble, competent, and accountable institutions. The WBG will improve its legitimacy, efficiency, effectiveness

and accountability in order to improve the achievement of its development objectives. In addition, it will further expand its collaborations with the United Nations, the IMF, the MDBs, donors, and the civil society.

Legitimacy

69. The world has changed dramatically since the creation of the IBRD in 1944. The international system needs a WBG that represents the international economic realities of the 21st century, recognizes the role and responsibility of growing stakeholders, and provides a larger voice for Africa. Last year, the WBG shareholders embarked on a Voice reform to advance the role of Developing and Transition Countries (DTC) in the governance of the institution. The first stage of reforms agreed a 44% voting power for DTC members and added a third elected Chair at the Executive Board for Sub-Saharan Africa. A second stage of reforms currently being discussed aims at a further realignment of IBRD shareholding, to move over time towards equitable voting power between developed and developing members. The Development Committee has set a target of Spring 2010 for agreement on this second phase. IDA and IFC are also included in this review.

Efficiency

70. Over the past decade, the Bank has made a number of structural and other changes to improve its efficiency and free up funding for priority work programs and changes in business model. Looking forward, the Bank is committed to continue its focus on improving cost efficiency, and is working on an ambitious program to identify and implement cost efficiency opportunities. The program will systematically review expenditure line items, such as salaries and travel, business processes, such as investment lending, and organizational clusters.

Box 14. World Bank's Historical Reforms to Improve Cost Effectiveness

- In the late 90's the Bank undertook structural reforms of compensation, benefits, and pensions, with estimated savings in the order of $120 million a year.
- In 2003, the Bank introduced a productivity tax, benchmarking each unit's efficiency across a range of activities and expense lines against their peers, as a way of driving year on year improvement in efficiency. By 2009, this freed up some $48 million a year for internal redeployment to priority activities.
- Since 2006, with the support of its Board, the Bank has maintained a flat budget in real terms and consistently under-run its budget approval by around 2% every year, with annual savings of about $30 million.

Effectiveness

71. The WBG will continue its pursuit of improved effectiveness to better serve its development mission. These efforts include:

- Further develop its *results framework* to integrate the full range of financial and advisory services.

Box 15. World Bank Group Results Framework

As guardian of a public trust, the WBG is focused on delivering results. Though it is a global leader in setting benchmarks and measuring and reporting development results, more needs to be done. The WBG is continuing to develop a results-based framework that links development objectives and program outcomes in order to deliver larger impact from its development activities, working with partners to disseminate what it has learned and to adopt best practices.

Through its Action Plan on Aid Effectiveness, the WBG is a leading participant in the 2008 Accra Agenda for Action. The Action Plan highlights:

- Strengthening country ownership, with a particular focus on capacity development and increasing the use of country systems;
- Effectively engaging in fragile/post-conflict situations;
- Improving partnerships, especially promoting the inclusion of non-DAC donors and funds; and
- Improving management for development results, transparency, governance and accountability.

The Development Impact Evaluation Initiative (DIME) aims to strengthen the role of impact evaluation in institutional development. With 132 evaluations completed, the initiative has the potential to become an important new business line for the Bank.

IDA's innovative Results Measurement System has established clear linkages between results in IDA-eligible countries with its country programs and country activities. This system is being replicated in other MDBs. The World Bank is also chairing the MDB Working Group on Managing for Development Results and specific work with the AfDB involves development of results frameworks, focusing both on IDA and ADF replenishment indicators and sector indicators.

IFC is a leader in development results management reporting through its Developmental Outcome Tracking System (DOTS). IFC is working with other development financial institutions to share expertise and knowledge in this regard.

- Improve its *products and service delivery* to clients. 1) Continue investment lending reform to deliver efficiency gains, speed up project processing, and change the focus of project activity from preparation to implementation support; 2) Emphasize the role of policy lending in supporting country-owned programs through its focus on policy implementation and institutional strengthening, rather than policy setting, and on promoting long term growth and employment and ensuring safety nets for vulnerable segments of population; 3) Expand its use of guarantees, local currency products, sub-national and regional operations to more effectively respond to client needs; and 4) Expand its use of fee-based services.

- Further its *decentralization* movement. The Bank's internal architecture, much of which was designed over a decade ago to support the first phase of decentralization, will need to support a more fluid transfer of resources around the institution. This may include improved incentives for taking on new assignments and working in priority regions, including a stronger linkage with career development; developing a more senior technical professional stream; better

performance evaluation, succession planning, and career development tools; and more flexible internal contracting arrangements.

- Advance its *knowledge agenda*. Progress on the knowledge agenda is one of the most important preconditions for further decentralization and a stand-alone challenge in itself. Strong global practices will need to emerge to foster the acquisition of knowledge, develop stronger in-house capability, and deliver better and more customized responses to development partners. As advice and capacity building become a major business line in more countries, the Bank's strategic knowledge partnerships will expand, with greater emphasis on South-South partnerships and local think-tanks.

- Further its *information technology (IT) and human resource reform.* The Bank will require an IT infrastructure that supports a more decentralized and flexible operating environment, including the introduction of platforms for enhancing search capabilities, knowledge transfer, and collaboration and social networking. The Bank is addressing capacity constraints in global connectivity, pursuing enhancements in task team productivity through the Operations and Knowledge System Program, improving country office services and enhancing IT solutions for mobile staff. Progress has already been made in human resource reform as well including more use of term-limited contracts. Additional measures will be taken to allow greater flexibility in ensuring the right skills mix for the institution.

Accountability

72. The WBG will continue its effort to advance good governance and anti-corruption, improve accountability for results, and advance social and environment performance.

- *Advancing good governance and anti-corruption*: The WBG has made significant efforts in advancing the governance and anti-corruption agenda both internally and in its client countries. These efforts will be further strengthened going forward.
    - The WBG has led the advance in governance and accountability standards in both the public and private sectors, mainstreaming good governance and anticorruption activities into its sector and country operations and programs, and working to strengthen country-led governance and anti-corruption efforts.
    - Internally, the Group is implementing the reforms agreed by the Board in Spring 2009 with focuses on increased effectiveness, stronger oversight and risk management, and greater transparency. The High Level Commission on the Modernization of World Bank Group Governance, chaired by former Mexican President Ernesto Zedillo is also working on a range of governance issues and is expected to complete its report later this year.

Box 16. World Bank Group's Governance and Anti-Corruption Effort

The WBG's Global Anti-Corruption (GAC) strategy of 2007 takes a comprehensive approach that involves working at the country, operational, and global levels to enhance and integrate governance and anticorruption measures, deploying the full range of WBG activities to assist partner countries in achieving demonstrable results for sustained poverty reduction.

Efforts to improve governance have yielded notable results. In the DRC, Bank support to the government combining demand and supply approaches to governance, led to the replacement of the colonial forest law, cancellation of 25.5 million hectares of illegal logging contracts, and the establishment of a moratorium on new contacts. The Governance Partnership Facility, funded by $65 million from the Netherlands, Norway, and the United Kingdom, has enabled a range of initiatives to mainstream governance and anticorruption activities into their operations.

The Integrity Vice-Presidency (INT) investigates allegations of corruption and fraud in WBG operations, as well as allegations of possible staff misconduct. The WBG has implemented all of the Volcker Commission recommendations, including ensuring the independence of the INT. INT also provides staff with training and advice so that they are better able to detect—and prevent—fraud and corruption, and works closely with an Internal Justice System (IJS) that offers World Bank Group staff support ranging from informal counseling to formal review of concerns to preserve fairness in the workplace formal review of concerns to preserve fairness in the workplace. IFC's anticorruption stance is incorporated into the legal documentation governing its investments.

The WBG has also been reforming its sanctions process to further enhance its effectiveness. For example, WBG has put in place an Early Temporary Suspension procedure whereby a company under investigation can be provisionally debarred from doing business with the institution. Another practical innovation is the Company Risk Profile Database which is used to screen bidding companies to determine if they are under investigation. There are also other reforms underway which are expected to be cleared by the Board later this year.

- *Accountability for results:* The World Bank ensures accountability to its various stakeholders through an internal culture of awareness supported by specialized mechanisms. It will continue to enhance its accountability mechanisms to ensure their effectiveness.

Box 17. World Bank's Accountability Mechanisms

Following are some of the mechanisms that the World Bank utilizes to build an internal culture of awareness to ensure accountability to its various stakeholders:

- An independent Inspection Panel investigates claims for harm in IBRD/IDA projects resulting from failure to meet the Bank's social and environmental safeguards policies. The Inspection Panel reports directly to the Board to ensure that issues it identifies are corrected. An independent Compliance Advisor/Ombudsman addresses social and environmental complaints by those affected by IFC and MIGA.
- An Independent Evaluation Group (IEG), which also reports directly to the Board, assesses the results of the World Bank Group's work to provide accountability in the achievement of World Bank Group's objectives. It also improves World Bank Group's work by identifying and disseminating lessons learned from its evaluation findings.

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- The World Bank has in place an extensive disclosure policy and has launched a comprehensive review of its disclosure policy which will ensure that it is best practice among MDBs**.**
- The World Bank Group has a substantive Internal Audit function which reviews efficiency, effectiveness and control over WBG's operations and reports these findings independently to the Audit Committee.
- The World Bank Group entities, pioneering among other international financial institutions, receive an attestation from their external auditors on the quality of controls underlying their financial reporting under the rigorous COSO framework.
- The Quality Assurance Group (QAG) promotes excellence in Bank performance through accountability for operational quality and results in real-time. It focuses on three areas: quality of newly-approved projects, quality of supervision of ongoing projects, and quality of the Bank's analytic and advisory services.

- *Advancing social and environmental performance*: The WBG was among the first to develop social and environmental standards for its projects. It has become a leader in strengthening global standards, integrating social and environmental concerns into operational and analytical activities, identifying and assessing sensitive projects, and ensuring the disclosure of project information and consultations with affected populations on project design and implementation.

Box 18. World Bank Group's Gender Work

Women continue to trail men in formal labor force participation, access to credit and infrastructure, entrepreneurship rates and income levels. There is compelling evidence that agricultural productivity in sub-Saharan Africa could be raised by as much as 20%, simply by reallocating existing agricultural inputs more equally between men and women.

A World Bank Group Gender Action Plan's (GAP) prescribes four activity areas for contributing to women's economic empowerment: policy interventions, projects on-the-ground, building partnerships, research and gender analysis of broad economic issues. The GAP is beginning to show results both in terms of reaching women on the ground and influencing Bank operations more widely as evidenced by the demand for GAP funding by Bank staff, motivating "new" work on gender, and leveraging additional financial resources. As of January 2009, the GAP had allocated $29.3 million to initiatives in its four main action areas, funded 149 mainstreaming initiatives in 72 countries. WBG is fully committed to continuing implementation of the GAP especially through increasing gender-responsive actions in lending operations.

73. With this chapter as background, the next chapter considers IBRD and IFC's financial capacities respectively. Chapter 2 describes how, in both cases, financial capacities would need to grow to allow the institutions to avoid capital constraints in responding to the crisis and to be able to remain strong vehicles for responding to the evolving development challenges of the future.

Chapter 2. IBRD and IFC Financial Capacity Assessment

A. IBRD Financial Capacity and Capital Adequacy

I. IBRD'S CAPITAL ADEQUACY OUTLOOK

74. **IBRD's Strategic Capital Adequacy Framework.** The IBRD assesses its capital adequacy under a strategic capital adequacy framework that was developed in FY08 as a result of a review of IBRD's strategic capital adequacy. The framework was also reviewed by a panel of external financial experts, including both practitioners and regulators, who concurred with the reasonableness and prudence of its formulation. The framework established a target risk coverage range based on evaluating the IBRD stress test using the historical average and highest modeled unexpected shock size as well as the historical circumstances under which the IBRD had taken actions to augment its capital adequacy. While the IBRD stress test continues to measure IBRD's short-term risk-bearing capacity based on the current risk profile of the loan portfolio, the 23-27% target risk coverage range for the E/L ratio established under the framework represents a reasonably conservative and flexible range for management of the Bank's long-term capital adequacy.[6] Under the strategic capital adequacy framework, it was envisaged that, when the IBRD's E/L ratio approaches or falls below the bottom of the target range, a review would be conducted to consider options to restore the E/L ratio to the target range via actions such as adjusting loan prices, limiting transfers and considering capital increases. The lower the E/L ratio should fall in comparison to the range, the more urgent would be the actions to restore capital adequacy.

75. **IBRD Lending in Response to the Crisis.** The strong capital adequacy that the IBRD has built up in recent years has allowed the institution to adequately respond to the surging demand for loans from its clients in FY09 as a result of the global financial crisis. Compared to the $14 billion new commitments in FY08, new commitments in FY09 more than doubled to reach about $33 billion. Moreover, demand is projected to remain high through FY12. Compared to the average pre-crisis new commitment level of $14 billion p.a. over FY05-08, the IBRD is projected to lend on average about $34 billion p.a. over FY09-12 with new commitments projected to reach over $40 billion in FY10, $33 billion in FY11 and $26 billion in FY12 under the expected scenario. These lending levels are clearly moving significantly beyond the crisis response of $100 billion over FY09-FY11 called for in the Development Committee's Spring Communiqué.

76. **Potential Demand for IBRD Lending in the Decade Ahead.** Beyond FY12, current projections assume that lending will return to $15 billion p.a., which, in real terms, is similar to the average level in the last decade, but lower than the average level of about $19 billion over the last 20 years. This $15 billion level represents a conservative assessment of lending capacity required to meet the first driver described in chapter 1, traditional and innovative development finance. As was described there,

[6] The top of the range – 27% - is based on the historically highest modeled unexpected shock size and the bottom of the range- 23%- is derived based on the average modeled unexpected shock size of the last 10 years.

demand for WGB assistance, including IBRD lending, is expected to remain strong beyond the crisis, in particular, to fund important long-term development projects delayed by the crisis and to address the increased numbers of 'New Poor' and sustain progress on the MDGs. Infrastructure lending, for which there is and will be a strong unmet demand, would be an important component of this driver. Relative to historical levels, demand for IBRD loans is also expected to be strengthened by the World Bank's strategy to enhance engagement with IBRD partner countries, including through reducing the non-financial costs of doing business with the Bank. And while lending commitments in the three years preceding the global financial crisis (FY06-08) averaged $13.5 billion per annum, this was linked to historically lowest levels of emerging market bond spreads which are not expected to return anytime soon.

77. While Knowledge Products, the second driver, do not typically require risk capital, their support does require income. To the extent that such activities generate externalities and cannot be appropriately charged to individual parties, they need to be funded. Capital is currently the primary source of funding for the Bank's knowledge activities. At present, there is no assumption in the capital requirements that would allow for additional income for expanding funding to this driver.

78. Scaling up the GPG agenda (the third driver) would add to the demand for IBRD lending, potentially most significantly in the area of climate change. However, it is premature to try to quantify the potential impact of a scaled up agenda that will largely be determined by negotiations taking place elsewhere.

79. Finally, responding to future crises, the fourth driver, would also increase the required lending capacity. The capital cushion that IBRD had built up prior to the crisis has allowed for a substantial and rapid increase in crisis lending. It would be prudent to build into any strengthening of the IBRD's financial capacity a buffer that could be used to respond to unforeseen crises that fall within the WBG's mandate.

80. The basic conclusion, then, is that there is a case for providing the IBRD with a sustained annual lending capacity of at least $15 billion, and greater than that to the extent that shareholders wish the institution to play the stronger role indicated by the four drivers.

81. With the conservative assumption of $15 billion in annual lending capacity after FY12, Chart 2 below shows the historical and projected new commitment levels both in nominal and real terms for the expected crisis-lending scenario as well as alternative scenarios.[7] The chart also shows the resulting loan exposure, including both disbursed and outstanding loans and undisbursed commitments.

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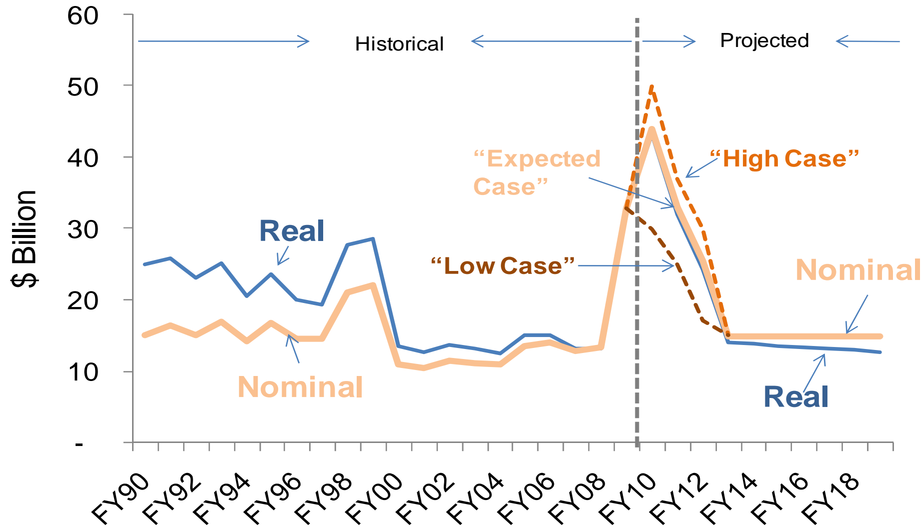
[7] See Box 19 and Annex 1 for assumptions underlying the expected scenario, "prolonged recession" scenario, and "quick recovery" scenario.

Chart 2. IBRD's Historical and Projected Commitments
in Nominal and Real (FY09 US Dollar) Terms



Nominal Commitments ($b)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Expected Case	44	33	26	15	15	15	15	15	15	15
High Case/"Prolonged Recession" Scenario	50	37	30	15	15	15	15	15	15	15
Low Case/"Quick Recovery" Scenario	30	25	17	15	15	15	15	15	15	15

Disbursed and Outstanding Loans + Undisbursed Commitments ($b)	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Expected Case	191	211	225	227	233	237	240	243	245	247
High Case/"Prolonged Recession" Scenario	197	221	239	242	247	251	254	256	257	259
Low Case/"Quick Recovery" Scenario	177	189	194	197	202	207	211	215	217	221

Box 19: Key Assumptions Underlying the Expected, "Prolonged Recession", and "Quick Recovery" Scenarios

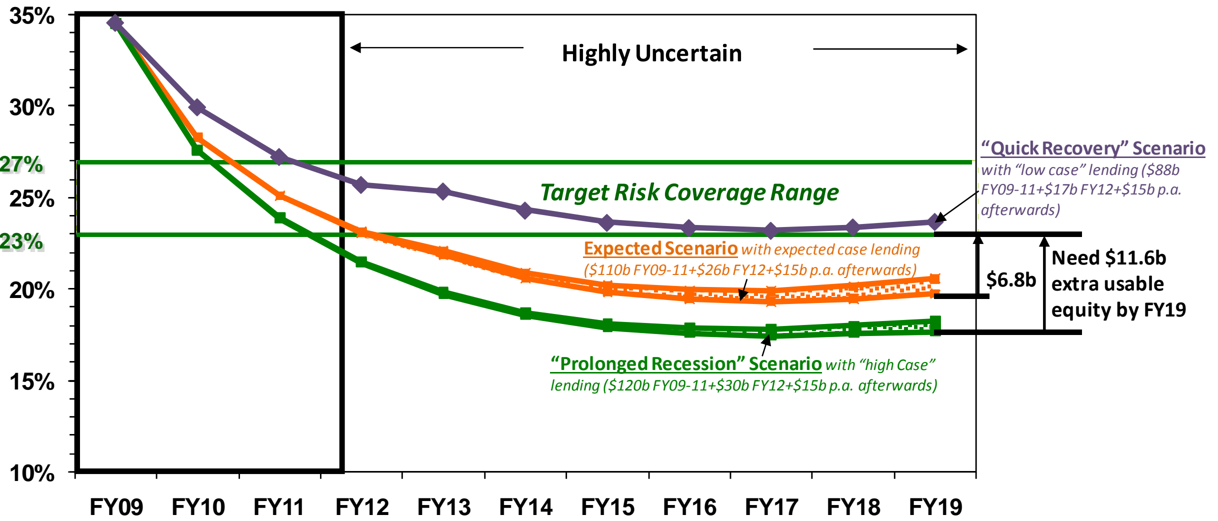
- *Expected Scenario Range*: assumes (1) expected case lending which projects new commitments at $44 billion in FY10, $33 billion in FY11, $26 billion in FY12, and $15 billion p.a. afterwards, (2) expected level of interest rates, with the lower bound of the range defined by the market implied forward interest rates and the upper bound of the range defined by Oxford Economics Forecasts (OEF), an econometric modeling and forecasting service used by the Bank, which currently projects a faster interest rate rebound than the market implied forwards, and (3) current portfolio credit risk ratings.
- *"Prolonged Recession" Scenario Range*: assumes (1) high case lending with new commitments projected at $50 billion in FY10, $37 billion in FY11, $30 billion in FY12, and $15 billion p.a. afterwards, (2) market implied forward interest rates for the upper bound of the range and a simulated 30% probability low interest rate path for the lower bound of the range, and (3) portfolio credit risk ratings gradually deteriorating to FY02 levels by the end of FY12.
- *"Quick Recovery" Scenario*: assumes (1) low case lending with new commitments projected at $30 billion in FY10, $25 billion in FY11, $17 billion in FY12, and $15 billion p.a. afterwards, (2) OEF interest rates, and (3) current portfolio credit risk ratings.

Detailed assumptions underlying these scenarios are provided in Annex 1.

82. **Implications of Projected Lending for Capital Assessment.** The rapid scaling-up in lending in FY09 and the projected growth in FY10-12 period is projected to lead to significant declines in IBRD's E/L ratio to below the bottom of the target strategic capital adequacy range over the medium term. Chart 3A below shows IBRD's projected E/L trajectory over the next 10 years under the expected scenario as well as the "prolonged recession" and "quick recovery" scenarios, while Chart 3B presents these trajectories under an alternative E/L definition which includes undisbursed commitments in the denominator of the E/L ratio, as adopted by some other MDBs, including IFC. [8] Projections in both charts have incorporated the effect of the 20-basis-point loan pricing increase implemented in August 2009. Charts 3A and 3B also indicate when the associated loan exposure is projected to exceed IBRD's statutory lending limit (SLL), which is defined under the IBRD's Articles of Agreement as the sum of IBRD's total subscribed capital, reserves and surplus.

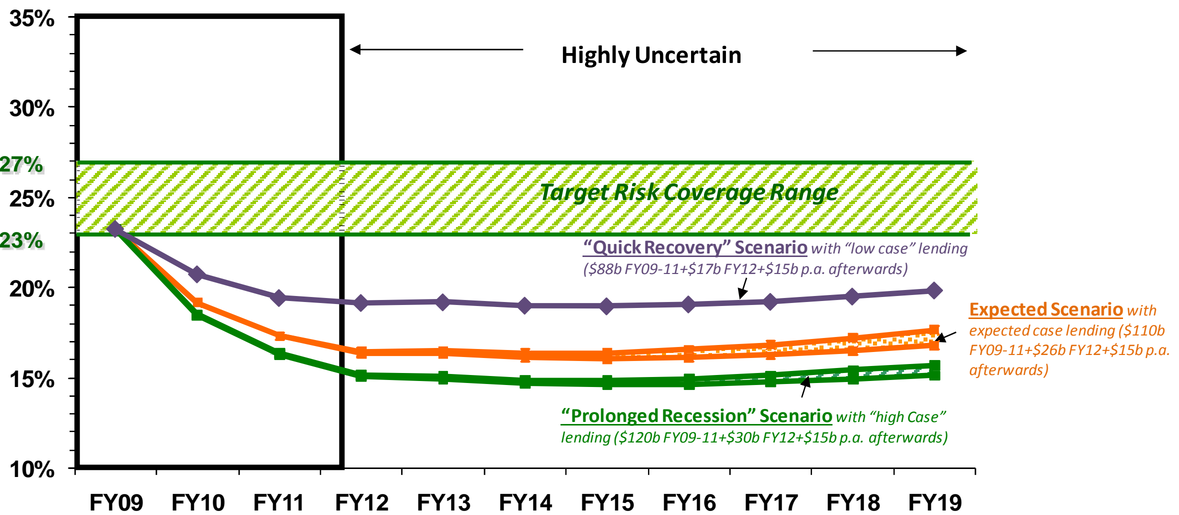
[8] For countries that are current on their debt service, IBRD is legally obligated to disburse on the remaining undisbursed loan commitments unless doing so would exceed IBRD's statutory lending limit (SLL). However, because of the normal time lag in the disbursement of loan commitments, the IBRD has traditionally defined its target risk coverage ratio in terms of disbursed and outstanding loans on the ground that the risks represented by the undisbursed loans that might disburse faster than expected are small. These risks, however, might be greater in a crisis situation with large increases in the borrowers' needs for funding. The risk can also arise from the actual share of slower-disbursing investment loans being lower than projected.

Chart 3A. IBRD's Projected E/L Ratio



Loan Exposure Measures	Lending Scenario	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	
Disbursed and Outstanding Loans ($b)	Expected Case	106	130	146	160	170	182	192	199	205	208	211	
	"Prolonged Recession" (High Case Lending)	106	132	152	169	184	197	206	213	218	221	223	→ Reaching SLL
	"Quick Recovery" (Low Case Lending)	106	123	135	145	149	159	166	172	178	182	186	

Chart 3B. IBRD's Projected E/L Ratio (including undisbursed commitments in denominator)



Loan Exposure Measures	Lending Scenario	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Disbursed and Outstanding + Undisbursed Commitments ($b)	Expected Case	157	191	211	225	227	233	237	240	243	245	247
	"Prolonged Recession" (High Case Lending)	157	197	221	239	242	247	251	254	256	257	259
	"Quick Recovery" (Low Case Lending)	157	177	189	194	197	202	207	211	215	217	221

→ Reaching SLL

83. As Chart 3A shows, under the expected scenario, IBRD's E/L ratio is projected to rapidly decline from about 35% at the end of FY09 to 28% by end FY10, 23% by end FY12, and further down to around 20% (three percentage points below the bottom of IBRD's strategic capital adequacy range) by FY19. Under alternative scenarios, IBRD's E/L ratio is projected to decline to around 18% by end FY19 under the "prolonged recession" scenario and to around 24% by FY19 under the "quick recovery" scenario. Thus, in all but the "quick recovery" scenario, IBRD's E/L ratio is projected to drop below the bottom of the strategic capital adequacy range over the medium term. As the table in Chart 3A shows, IBRD's total disbursed and outstanding loan volume is also projected to approach or reach the level of its SLL from FY17 onwards under the "prolonged recession" scenario.

84. Chart 3B shows an alternative version of the E/L ratio measure, computed with undisbursed loan commitments included in the denominator, which as noted earlier is a definition adopted by some other MDBs. Under this definition, the E/L ratio would be projected to drop lower to 17% under the expected scenario, to 15-16% under the "prolonged recession" scenario, and to about 20% under the "quick recovery" scenario by FY19. If undisbursed loan commitments were to be included in IBRD's total loan exposure measure, the IBRD would be projected to approach or reach the level of its SLL as early as in FY12 under the expected scenario and in FY11 under the "prolonged recession" scenario, as shown in the table in Chart 3B. Even though the SLL, as defined in the Articles, only relates to the disbursed and outstanding loans, some shareholders have expressed concerns that the fact that the sum of disbursed and outstanding loans and undisbursed commitments is projected to approach the SLL as early as FY11-12 may soon start to constrain the Bank's lending decisions. As it is, the IBRD is already constrained in its ability to meet requests for new lending beyond the FY10 period.

85. Thus, even though the IBRD is currently well capitalized in relation to the risks in its existing loan portfolio, IBRD's ability to continue adequately supporting developing country growth in the global recovery and to assist with the "New Normal" beyond the crisis would be constrained in the absence of an increase in its financial capacity. Specifically,

- Most economists expect the global recovery to be slow in the absence of new sources of global demand. If provided with sufficient access to finance, developing countries can very well provide the new engines for global growth and hence help speed up the global recovery.
- Over the medium and long term, the world would also benefit from multiple poles of growth, with increasing contributions from developing countries.

With these increasing roles expected of developing countries in the global economy, it is important that the IBRD remains well capitalized to adequately carry out its catalytic role to help foster the global growth.

86. Under the expected scenario, IBRD's E/L ratio is projected to drop to approximately 20% by the end of FY19, about three percentage points lower than the bottom of the target capital adequacy range; as a result, the IBRD would need an

additional $6.8 billion in usable equity by FY19 to support the expected case loan growth projected under the expected scenario. Similarly, an additional $11.6 billion of usable equity would be needed by FY19 to support the "high case" loan growth under the "prolonged recession" scenario. Only under the "quick recovery" scenario with "low case" lending and quick rebound of interest rates, market asset returns and IBRD funding cost, is the IBRD not projected to be in need of additional usable equity to support the assumed lending growth.

II. ACTIONS UNDERTAKEN OR BEING UNDERTAKEN TO ENHANCE IBRD'S FINANCIAL CAPACITY

87. In order to alleviate the impact of the financial crisis on developing countries and facilitate their contributions to global recovery, the IBRD has been leaning forward since the outbreak of the crisis, to address the needs of its client countries while maintaining its own financial soundness. On the one hand, the IBRD has continued to maintain budget discipline and improve efficiency; it has maintained a flat budget in real terms since 2006, which was achieved even when the institution scaled up its lending to record levels in FY09. On the other hand, the IBRD has also taken a number of options to boost its financial capacity by stretching its existing resources.

88. **Stretching the Use of Existing Capital**. The IBRD has adopted various measures aimed at stretching the use of its existing capital to support lending. These measures include leveraging its balance sheet more than the RDBs, allowing reasonable flexibility in its E/L ratio relative to the strategic capital adequacy range, introducing a new exposure management framework that makes most efficient use of existing capital given country and portfolio risks through the allocation and reallocation of credit limits among countries, suspending the continued implementation of its LTIP program to boost risk capital in the short term, and actively working with relevant shareholders to release their national currency paid-in capital. While these actions allow the IBRD to make optimal use of its balance sheet to respond to the crisis, they remain consistent with the prudent financial management approach that is a key factor in IBRD's AAA rating status.

- *Leveraging IBRD's balance sheet:* Even though IBRD's current E/L ratio is still higher than its strategic capital adequacy range, a comparison of the E/L ratios of the IBRD and RDBs shows that IBRD's E/L ratio is already among the lowest, indicating the highest leverage. The IBRD can operate at a lower E/L ratio and therefore leverage higher relative to the RDBs because of the global diversification of its portfolio.

Table 3: Comparison of E/L ratio with RDBs

	IBRD	IDB*	ADB*	AfDB*
FY09 (as of June 30, 2009)	35%	35%	35%	75%
FY10 (projected, as of June 30, 2009)	28%	31%	31%	70%

* Internal estimates.

- *Allowing reasonable flexibility in E/L ratio:* While IBRD's strategic capital adequacy range requires 23-27% as the long-term target risk coverage range for its E/L ratio, the IBRD has applied this framework flexibly. The Bank has been able to speedily lean into the crisis, with a large surge in its lending program, by allowing its forecasted E/L ratio to fall below 23% over the next 10 years, while it has been exploring options to enhance its financial capacity over the medium term. However, for prudence and to ensure continued access to borrowing markets at the finest terms, the Bank has also been cognizant of the need to demonstrate a clear path to restore its forecasted E/L ratio back to the target range over time. This is why the IBRD has targeted eventually getting back to an E/L ratio of 23% by end-FY19 in the capital management options that it has been discussing with shareholders.

Box 20. Could IBRD Target a Lower E/L Range?

Some shareholders have asked why IBRD cannot target a lower E/L ratio, for example 17%, so that it can deliver more for the countries that are in need for funding during the current crisis. Allowing IBRD's E/L to drop below the range, such as to 17%, for an extended period of time would be detrimental to IBRD's financial health and its ability to continue playing its intermediation role effectively for the following reasons:

- Historically, IBRD's E/L did stay at 17% for a short period of time (during 1986-1988); however, that was in the context of a capital increase that had already been approved. In addition, IDA transfers were also suspended for three years at that time, which would be difficult to implement now considering the critical role the World Bank Group currently plays in contributing to IDA resources as shareholders have desired. The World Bank Group has undertaken a total of $3.5 billion transfers to IDA over IDA15, compared to $1.65 billion in IDA14.
- Under the current crisis environment, most financial institutions are de-leveraging and reduced risk tolerance in the markets mean that historically acceptable balance sheet risks are no longer considered acceptable.
- Allowing its E/L to stay at a low level such as 17% could significantly raise IBRD's borrowing costs, even if IBRD were still able to maintain its AAA rating. Given the large influx of government-guaranteed AAA bond issuance by financial institutions, the markets are increasingly looking beyond the AAA rating and focusing on the actual financial strength of institutions.

- *Introducing new exposure management framework:* We introduced a new model-based exposure management framework in FY09. We updated the framework to establish the maximum level of IBRD's portfolio consistent with its capital base and country and portfolio risks. Its aim has been to improve consistency in allocating exposure across IBRD's diverse group of eligible borrowing countries and to improve responsiveness to changes in IBRD's internal and external environment. The framework ensures that all of the capital available to support IBRD's lending is deployed to support IBRD borrowers through credit allocations that are fully consistent with the basic principles of IBRD lending and with the IBRD Board-approved capital adequacy stress test. Moreover, by incorporating a mechanism to potentially reallocate credit limits when required, the framework

allows the IBRD to respond flexibly to actual demand from IBRD borrowers. In FY09 the framework allowed the Bank to respond effectively and efficiently to the dramatic surge in demand faced by the institution. The framework will continue to be used dynamically to support IBRD borrowers to the maximum level given IBRD's capital, country and portfolio risks and the demand for lending from its borrowing countries.

- *Suspending continued implementation of LTIP:* The LTIP portfolio was approved by the Board in March 2008 as a way to increase IBRD's allocable net income through investing some of its equity capital in a diversified portfolio of risk assets. Among other things, this would help the IBRD better support IDA and special needs, e.g., such as IBRD's catalyzing of extra support for the food crisis fund. The original plan was to implement a $3 billion pilot LTIP program over a period of 3 years with a gradual phase-in approach. A total of $1 billion has been implemented in FY09. The suspension of the LTIP program at the invested amount of $1 billion instead of proceeding with the full 3-year program of $3 billion would provide the IBRD with about $600 million additional risk capital in the near term, which could support about $2.6 billion additional lending in the short term.

- *Working with relevant shareholders to release their NCPIC*: Under the Articles of the IBRD, members need to only contribute 10 percent of their paid-in capital in USD, which can be freely used by the IBRD in its operations. The remaining 90 percent can be paid-in in the national currency of the subscribing member. The use of this national currency paid-in capital is subject to significant restrictions absent further member consents that allow this capital to be usable for the Bank in its operations. The IBRD currently has about $10 billion of national currency paid-in capital on which a number of members have released $8 billion, leaving $2 billion yet to be released. Of the $2 billion in unreleased NCPIC, $1.3 billion is from 10 members, and the IBRD has been actively working with these ten shareholders to release their NCPIC. In this first phase of seeking greater NCPIC release, the IBRD has thus far made progress with some of these countries for the release of $0.5 billion of their NCPIC, in a phased manner.

89. **Loan Pricing Increase**. In addition to stretching its existing balance sheet and making the most efficient use of its existing capital, the IBRD also instituted a 20-basis-point general loan price increase pursuant to its annual loan pricing review at the end of FY09. While the objective of this pricing increase was to improve the institution's financial sustainability, it would also gradually enhance IBRD's capital position through higher income generation. The 20bp pricing increase is projected to enhance IBRD's end-FY19 usable equity by about $2.0 billion under the expected scenario, $2.3 billion under the "prolonged recession" scenario, and $1.5 billion under the "quick recovery" scenario. The E/L trajectories shown in Charts 3A and 3B reflect the impacts of the 20bp pricing increase.

90. **Selective Capital Increase for "Voice."** At the April 2009 Development Committee meeting, the Committee agreed to accelerate work on the second phase of the

"voice" reform with a view to reaching agreement by the 2010 Spring Meetings. There is an emerging consensus that a SCI would be the means for an IBRD shareholding realignment to enhance the voice and participation of developing and transition countries (DTC) in the WBG. While financial capacity enhancement is not the purpose of the "voice" discussion, the resulting SCI would directly enhance IBRD's financial capacity. The scale and modalities of the SCI are currently still being discussed among shareholders. Each one percent change in DTC voting share would require an increase in subscribed capital of about $3.5 billion; however, as mentioned earlier, for E/L ratio augmentation purposes, it will be the paid-in and usable portion of such increase that will be important. And, as a result of the crisis, rating agencies and the markets are increasingly focusing on usable paid-in capital and reserves in assessing the creditworthiness of the multilateral development banks. For illustration purposes, assuming the current average 6% paid-in ratio, each one percent change in DTC voting share would result in an increase in paid-in capital of about $210 million.

91. Table 4 below summarizes the contributions of the above actions to enhancing IBRD's financial capacity. As the table shows, after the loan pricing increase approved at the end of FY09 and the potential NCPIC releases currently being pursued, the IBRD would have a remaining usable equity gap in FY19 of about $4.8-6.3 billion under the expected scenario and $9.6-11.1 billion under the "prolonged recession" scenario. These amounts would be lower after the selective capital increase for "voice."

Table 4. Capital Contributions of Actions Undertaken or being Undertaken

Actions*		Expected Scenario	"Prolonged Recession" Scenario
FY19 usable equity gap before approved pricing increase**		$8.8b	$13.9b
Action already undertaken	Loan pricing increase at end FY09	$2.0b	$2.3b
FY19 usable equity gap **after approved pricing increase**		**$6.8b**	**$11.6b**
Actions being undertaken or discussed	NCPIC release	$0.5-2b	$0.5-2b
	Selective capital increase for "voice"	TBD	TBD
Remaining FY19 usable equity gap **after approved pricing increase and potential NCPIC releases (before SCI for "voice")**		**$4.8-$6.3b**	**$9.6-11.1b**

*While the suspension of the continued LTIP implementation would increase IBRD's risk capital available to support loans in the near term, it is not projected to increase usable equity at the end of FY19 as LTIP is expected to generate its own risk capital in the medium –to-long term. As a result, this action is not included in this table.
**The effect of allowing reasonable flexibility in the E/L ratio assessment relative to the strategic capital adequacy range and the introduction of the new exposure management framework has been incorporated in the assessment of usable equity gap.

III. POTENTIAL OPTIONS TO FURTHER ENHANCE IBRD'S FINANCIAL CAPACITY

92. Further to the actions that have been undertaken or are currently being actively pursued, a series of discussions have taken place at the Board since May 2009 regarding other potential options to further enhance IBRD's financial capacity. These options broadly consist of general capital increase, alternative capital-enhancing instruments such as subordinated debt, and pricing for longer loan maturities.

93. **General Capital Increase (GCI).**[9] A paid-in capital increase is the most direct and effective way to enhance IBRD's capital position and financial capacity, and is perceived by rating agencies and the markets as the strongest indication of shareholder support to the Bank. It would allow the IBRD to expand its lending capacity to support developing country growth in the global recovery and to assist with the "New Normal" beyond the crisis. It would also provide the IBRD with the flexibility to develop innovative approaches for providing IBRD financing for selected interventions in IDA countries. The additional income generation from the paid-in capital increase would also increase IBRD's ability to make transfers to IDA to assist its poorest members, to expand its role with Global Public Goods, including Global Climate Change, and to assist investments in fragile and post-conflict states. In addition, a capital increase is considered by many as the fairest approach in terms of burden-sharing among shareholders.

Box 21. Financial Capacity Augmentation and IBRD's Assistance to Low-Income Countries (LICs)

As discussed in Box 4, in addition to its MIC clients, IBRD also provides substantial assistance to its poorest members in the forms of income transfers to IDA, enclave lending and guarantees, and knowledge work and research. Capital constraints could affect IBRD's ability to transfer income to IDA, as it did during the late 1980s when, in response to low capital ratios, the IBRD had to suspend IDA transfers for three years in addition to a capital increase. Capital increases would enhance IBRD's risk-taking ability and hence allow the institution to scale up its assistance to LICs with weak credits, such as through expanded enclave lending program and other innovative approaches for providing IBRD financing for selected interventions in LICs. Additional income generation from the capital increase would also enhance IBRD's ability to make income transfers to IDA.

94. While preferred from the IBRD's perspective, a paid-in capital increase usually requires budget appropriations and legislative approval from member countries, which would likely require substantial effort particularly when many governments are currently faced with significant budget constraints in the midst of the global recession. Nevertheless, for those members who plan to participate in the SCI for "voice", which,

[9] The analysis in this paper focuses on increases in usable paid-in capital while recognizing that under the IBRD's Articles of Agreement, a capital increase requires increasing callable capital as well. Even though both callable and paid-in capital are important to rating agencies and provide reassurance to IBRD's bond holders, usable paid-in capital, which directly benefits IBRD's income and E/L ratio, is what the Bank is in most urgent need of at present as the level of its usable capital relative to loan exposures is projected to fall significantly to a low level.

by itself, would require the same legislative process as a GCI, the simultaneous inclusion of a GCI may not represent significant extra procedural burdens to these shareholders if the timing is aligned.

95. Given the high level of uncertainty in the global economic outlook and the associated projections of borrowers' lending requirements for the IBRD, a contingent feature could potentially be built into a general capital increase so that the capital increase would not be paid in unless the projected lending growth materializes and IBRD's E/L ratio drops to a certain threshold, such as 23%, the lower end of the target strategic capital adequacy range. The capital increase could potentially also be redeemable when IBRD's E/L ratio reaches a pre-set margin above the higher end of the target strategic capital adequacy range.

96. Assuming all interest earnings from the capital increase are retained and used to further grow usable equity, every $1 billion paid-in capital increase implemented at the beginning of FY12 and en-cashed over a 5-year period would increase IBRD's usable equity by about $1.3 billion by the end of FY19. Correspondingly, every $1 billion in usable equity gap at the end of FY19 could be filled by about $0.8 billion of paid-in capital increase implemented at the beginning of FY12.

97. **Subordinated Debt**. At the request of some shareholders, the IBRD has explored raising low or non-interest bearing subordinated loans from shareholders, potentially with contingent pay-in and redemption triggers tied to IBRD capital adequacy, as a potential alternative to a capital increase. It was thought that such a quasi-equity instrument could enhance IBRD's lending capacity to cope with a temporary lending surge while possibly impacting member country budgets more favorably than a capital increase. Management's consultations with rating agencies and feedback from a few major shareholders (received thus far in response to draft term sheets submitted via the Executive Directors to capitals) indicates that the subordinated debt/hybrid capital option is not suitable for the IBRD, for the following reasons:

- In the context of the 20 basis point loan price increase already implemented with respect to IBRD borrowers in August 2009, participation by major IBRD shareholders would be required to meet the IBRD shareholders' criterion for fair burden sharing.

- However, the features that would make a subordinated debt instrument attractive from a budgetary treatment perspective for major shareholders, including interest-bearing at or near Government rates, and shorter maturity, conflict with

    - the features that rating agencies require for according high capital equivalence (50 year or perpetual terms preferable, and zero or below-market interest rate that may be skipped in certain circumstances); and,

    - the crucial role of capital in generating income for the IBRD, because of its ongoing commitment for IDA transfers as well as other grants (e.g., West

Bank/Gaza, Kosovo, food security crisis support) combined with its non-profit-maximizing approach to loan pricing;

98. IFC has also explored the option of subordinated debt/"hybrid capital" with interested shareholders. It is a more suitable approach for IFC than the IBRD because of IFC's income generation model and because the faster timing of raising funds through hybrid capital is of more benefit to IFC, which is facing a very near-term capital constraint on investment activities. As described later in this chapter, rating agencies would expect an expression of support from shareholders for a paid-in capital increase before IFC issues hybrid capital.

99. **Pricing for Longer Loan Maturities**. In February 2008, the Board approved an increase in the maturity limits for IBRD loans as part of the strategy to strengthen the Bank's engagement with MICs. While recognizing that the loan maturity extension would lead to higher capital utilization overtime, no extra loan charges were proposed at that time considering IBRD's then strong capital adequacy position. In light of the recent changes in IBRD's capital adequacy outlook, one of the potential options to enhance IBRD's capital capacity would be to charge a higher contractual spread for all new loans with maturities longer than a notional "standard" maturity. For example, with a 12.5-year average loan maturity (roughly corresponding to 5-years grace period and a level repayment thereafter to a 20-year final maturity) as the standard maturity, the following premiums as shown in Table 5 could potentially be charged for new loans with longer maturities.

Table 5. Illustrative Maturity-based Pricing on New Loans

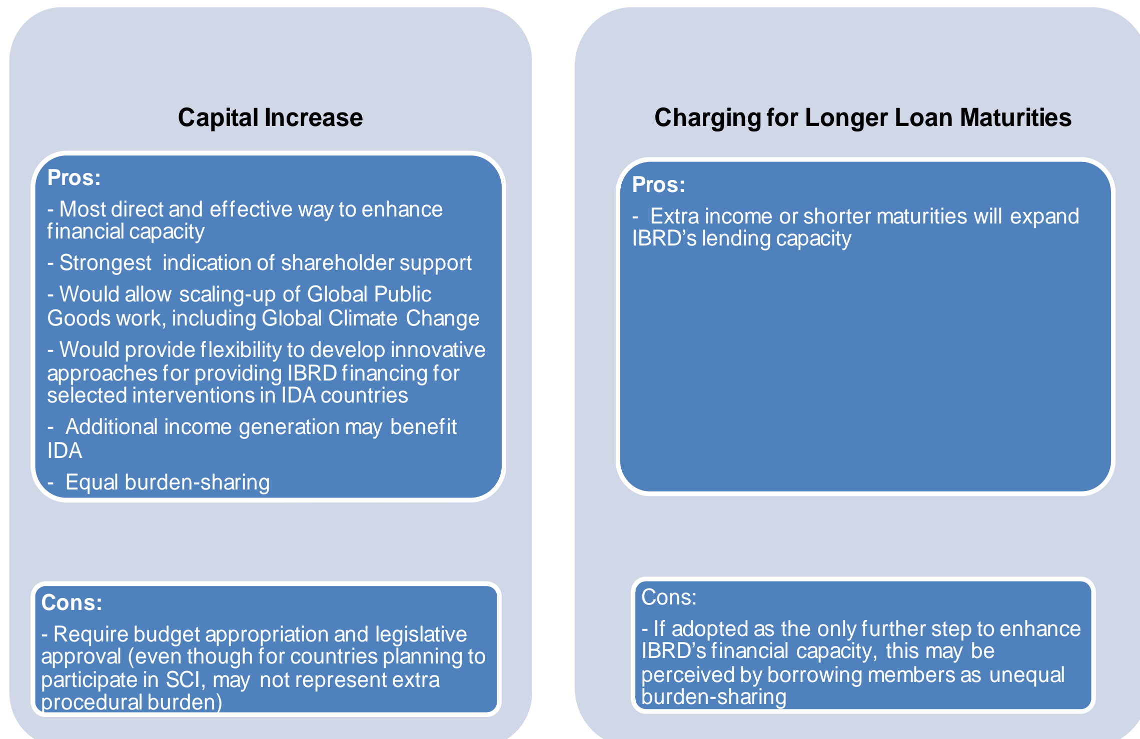
Average Maturity	Maturity Premium
Up to 12.5 yrs (5 yr grace, 20 yr final maturity)	0
12.5 yrs-15 yrs (5 yr grace, 25 yr final maturity)	10bp
15 yrs – 18 yrs (5 yr grace, 30 yr final maturity)	20bp

100. We estimate that this option, if implemented at the beginning of FY11, would increase IBRD's end-FY19 usable equity by about $1.2 billion under the expected scenario and about $1.4 billion under the "prolonged recession" scenario, assuming all borrowers pay the extra 20bp to keep the current maximum maturity. In the event that any borrowers decide to borrow at shorter maturities without paying the full premium, it would lead to similar expansion in IBRD's lending capacity via a shortening of the average maturity of the portfolio and the resulting release of risk capital.

101. Table 6 below summarizes the pros and cons of a capital increase and the option of charging for longer maturities as discussed above. In light of the extreme difficulty in

arriving at a subordinated debt instrument that would both represent an easier option to interested shareholders in terms of budgetary appropriation and meanwhile provide meaningful enhancement to IBRD's financial capacity and receive "capital-like" treatment from rating agencies, the subordinated debt option is not further considered. However, should there be shareholder interest in providing the IBRD with more capital-like subordinated loans, this option could be further evaluated.

Table 6. Pros and Cons of Potential Options to Further Enhance IBRD's Financial Capacity



102. Table 7 below provides the ranges of potential capital increase required to meet the projected usable equity gap if it were to be implemented as the only option or in combination with the option to charge for longer loan maturities. As the table shows, if a combination of GCI and SCI were to be used to meet the projected usable equity gap, a total of $3.7-4.9 billion in paid-in capital increase would be needed under the expected scenario and $7.5-8.7 billion would be needed under the "prolonged recession" scenario. If a combination of GCI and SCI were to be implemented together with charging for longer loan maturities, the required paid-in capital increase for GCI and SCI combined would be estimated at about $2.8-3.9 billion under the expected scenario and $6.4-7.6 billion under the "prolonged recession" scenario. Table 8 below provides illustrative figures for the corresponding annual paid-in capital contributions from IBRD's top 15 shareholders.

Table 7. Ranges of Potential Capital Increase Required

Actions	Expected Scenario	"Prolonged Recession" Scenario
FY19 usable equity gap after approved pricing increase and potential NCPIC releases (before SCI for "voice")	$4.8-$6.3b	$9.6-11.1b
Option 1: Capital increase alone (GCI +SCI)		
Required contributions from capital increase (end FY19)	$4.8-$6.3b	$9.6-11.1b
Required paid-in capital increase amount at beginning of FY12 (GCI +SCI)	**$3.7-4.9b**	**$7.5-8.7b**
Option 2: Capital Increase (GCI + SCI) combined with charging for longer maturities		
Increase in FY19 usable equity by charging for longer maturities	$1.2b	$1.4b
Required contributions from capital increase (end FY19)	$3.6-5.1b	$8.2-9.7b
Required paid-in capital increase amount at beginning of FY12 (GCI +SCI)	**$2.8-3.9b**	**$6.4-7.6b**

Table 8. Illustrative Top 15 Shareholder's Annual Contribution for a GCI*
(Annual contributions for a 5 year encashment schedule)

Member	Shareholding	GCI with Paid-in Capital		
	(% of total)	$3 bn	$4 bn	$5 bn
UNITED STATES	16.8	$101.0 mn	$134.6 mn	$168.3 mn
JAPAN	8.1	$48.4 mn	$64.6 mn	$80.7 mn
GERMANY	4.6	$27.6 mn	$36.8 mn	$46.0 mn
FRANCE	4.4	$26.5 mn	$35.3 mn	$44.1 mn
UNITED KINGDOM	4.4	$26.5 mn	$35.3 mn	$44.1 mn
CANADA	2.9	$17.1 mn	$22.8 mn	$28.5 mn
CHINA	2.9	$17.1 mn	$22.8 mn	$28.5 mn
INDIA	2.9	$17.1 mn	$22.8 mn	$28.5 mn
ITALY	2.9	$17.1 mn	$22.8 mn	$28.5 mn
RUSSIAN FEDERATION	2.9	$17.1 mn	$22.8 mn	$28.5 mn
SAUDI ARABIA	2.9	$17.1 mn	$22.8 mn	$28.5 mn
NETHERLANDS	2.3	$13.6 mn	$18.1 mn	$22.6 mn
BRAZIL	2.1	$12.7 mn	$16.9 mn	$21.1 mn
BELGIUM	1.8	$11.0 mn	$14.7 mn	$18.4 mn
SPAIN	1.8	$10.7 mn	$14.2 mn	$17.8 mn

* Based on current shareholding, which may change as a result of the "Voice" process

B. IFC Financial Capacity and Capital Adequacy

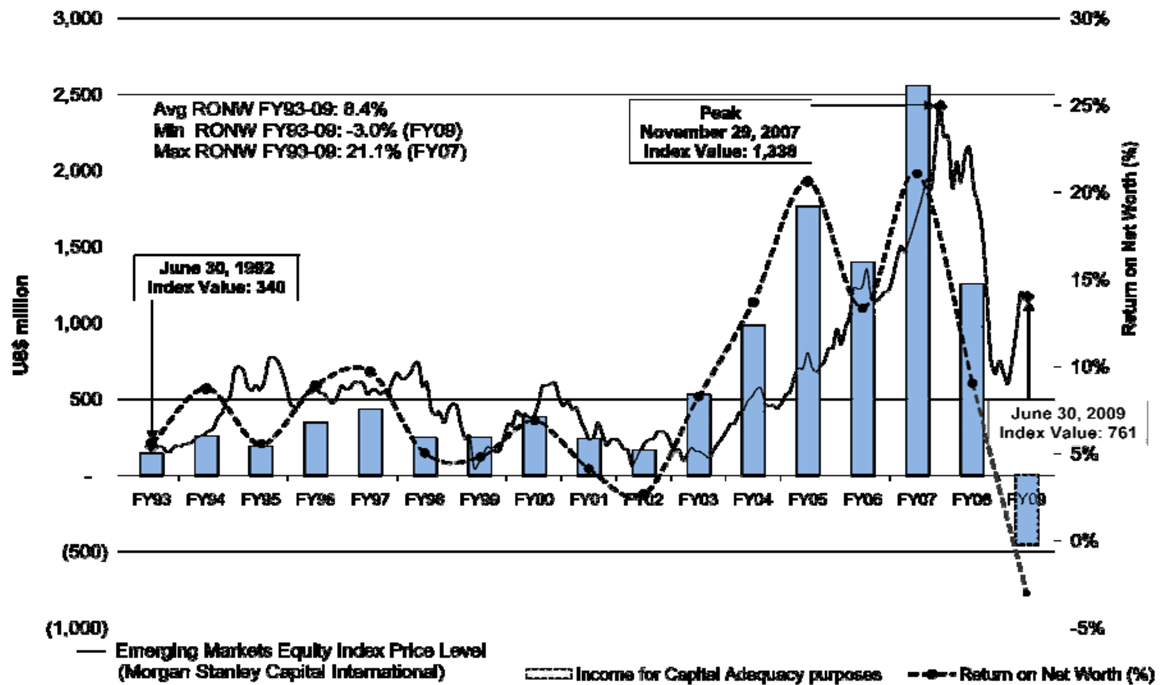
I. IFC'S CAPITAL ADEQUACY OUTLOOK

103. IFC's capital adequacy is assessed using the Board-approved CAPRI Framework. The economic capital requirements for various asset classes are differentiated based on their underlying credit and market risks. Additional capital is also required for operational risks. The specific levels of resource requirement ratios in the CAPRI framework are consistent with maintaining IFC's AAA credit rating, and designed to be flexible to adapt to IFC's changing business needs, product mix and risk profile. The CAPRI framework is used both for capital adequacy assessment at each quarter-end and for forward-looking assessments of strategic capital adequacy over the medium term. The latter assessments are done by extending the current period capital adequacy analysis over multiple years using estimates of commitments, portfolio, income and capital under different business and economic scenarios. These scenarios are aligned with strategic directions and budget plans to enable better understanding of the implications of IFC's strategic choices and developments in the external environment on the Corporation's financial and risk profile.

104. The financial performance and capital adequacy of IFC are not solely determined by the macroeconomic scenarios, but rather are significantly impacted by the financial market environment and by asset quality. In the case of IFC, financial markets - in particular equity markets – can have a significant impact on financial results. The overall impact of equity performance is seen fairly quickly, and can be a leading indicator of IFC's income levels. In contrast, the impact of deteriorating asset quality on IFC's loan loss levels is slower and usually lags by about 9-12 months.

105. In recent years financial performance and capital adequacy have been very strong, driven by strong emerging market equities. However, the sharp decline in equity markets, resulting from the global crisis, has led to a negative Return on Net Worth for fiscal year 2009. The Corporation's income trends and volatility are illustrated in Chart 4.

Chart 4: IFC's Income Volatility - FY93 to FY09

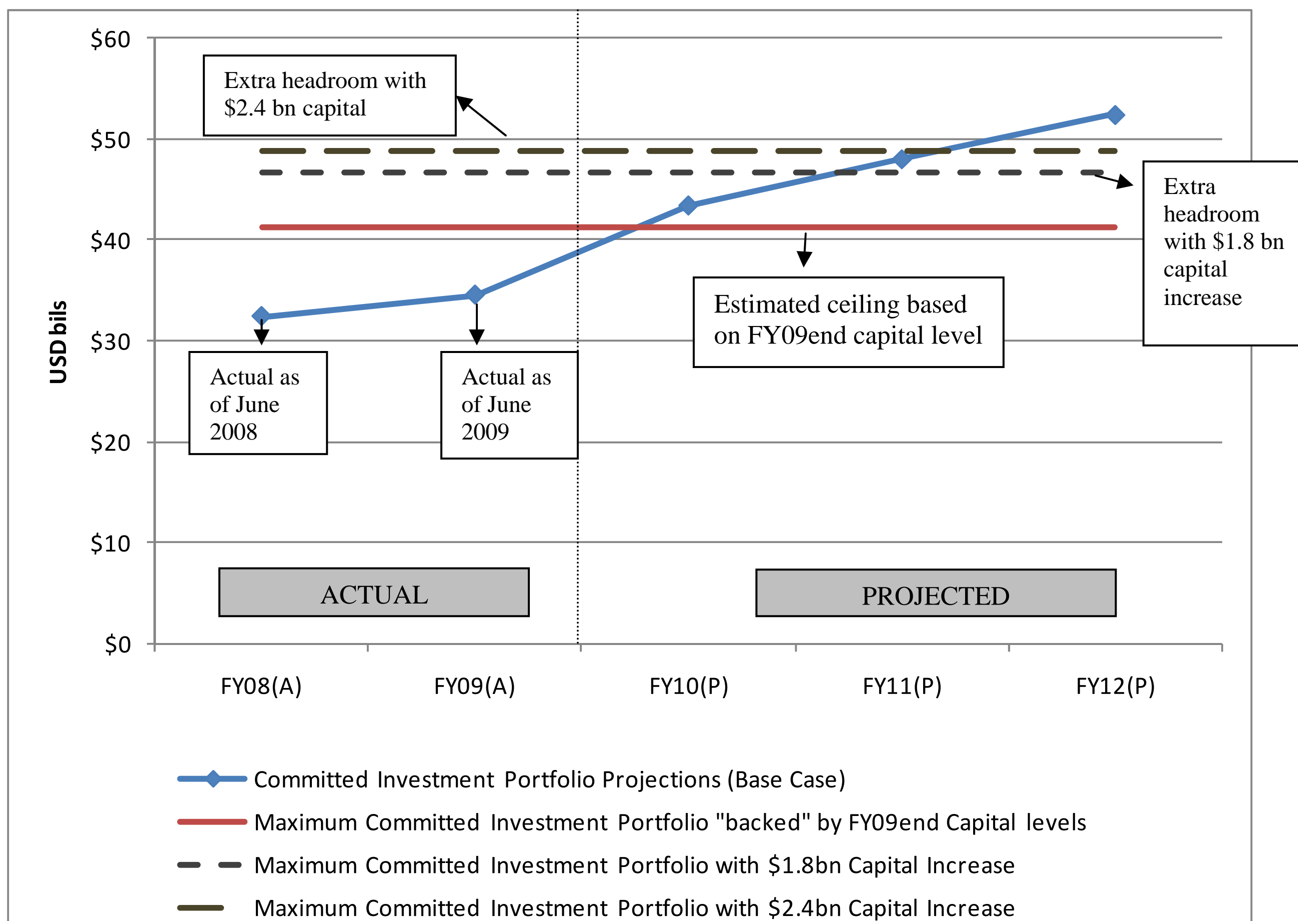


106. Given the volatility in IFC's financial performance IFC's strategic capital framework seeks to ensure adequate levels of capital to support its AAA rating. IFC's capital may be divided in different components to serve different purposes, such as, (i) sufficient backing for its existing committed investment portfolio; (ii) retaining capacity to withstand any future shocks; (iii) playing a countercyclical role as appropriate; and (iv)to maintain capacity for future growth.

107. While IFC has been innovative and effective in mobilizing external resources, it now faces a clear capital constraint. The total committed investment portfolio of $34.5 billion (as of the end of FY09) is currently "backed" by economic capital of about $11 billion, consistent with maintaining IFC's AAA rating. This, however, leaves only about $2.4 billion of available capital to support future growth (see Annex 3), in fact just enough capacity to "back" an increase of IFC's committed investment portfolio from its current level of $34.5 billion to about $41 billion. Increased capital in the range of $1.8 billion to $2.4 billion (equivalent respectively to 75% and 100% of IFC's authorized capital10) would provide additional "headroom" for growth and specifically enable IFC to grow the committed investment portfolio to about $47 - $49 billion over the next few years without jeopardizing its AAA rating (see illustration in Chart 5). Annex 3 presents a summary of key drivers and capital adequacy implications under both base case and prolonged recession scenarios.

[10] IFC's authorized capital stock is $2,450 million. On June 30 2009, IFC's total capital, as reported in the financial statements, was $16,122 million of which $2,369 million was subscribed and paid in capital, and $13,753 million was accumulated retained earnings.

Chart 5: Illustration of Potential Growth in Committed Investment Portfolio and Economic Capital "headroom" based on June 30, 2009 capital levels and no additional capital growth over medium-term*



*Illustrates levels of investment portfolio growth under an economic scenario similar to a prolonged recession, with no additional capital growth over medium term. The chart presents committed portfolio levels which could be supported by: (i) June 30, 2009 capital which is kept "static" and (ii) same June 30, 2009 capital plus a capital increase. Under IFC's capital adequacy framework (Annex 3) which is "dynamic", overall results of headroom and strategic capital levels are different.

FY10-16 Long-term Financial Capacity Outlook and Implications for IFC

108. The Corporation has run financial capacity projections for the "base case" and "prolonged recession" scenarios to gauge the longer-term effects and impact on its capital adequacy. The macroeconomic scenarios used to determine the key drivers for each scenario are parallel to the scenarios used by IBRD.

109. Under the 'base case' scenario, IFC could maintain average annual growth rates of about 6% over FY10-16, compared with a historic growth rate of around 14% achieved during FY93-08. Higher average growth rates of about 11% would lead to a

projected shortfall of deployable strategic capital of $2.5 billion. Under the 'prolonged recession' case, further market downturns would cause the Corporation to exhaust its deployable strategic capital sooner. Even with lower average growth rates of around 8% over FY10-16, IFC would exhaust its deployable strategic capital as early as FY11, and applying this growth rate over the longer term would lead to an estimated deployable strategic capital shortfall of $2.5 billion at the end of FY16.

II. ACTIONS UNDERTAKEN OR BEING UNDERTAKEN TO ENHANCE IFC'S FINANCIAL CAPACITY

110. IFC has undertaken several measures to manage and enhance its financial capacity, in light of the on-going crisis. During FY09, in response to the crisis, the Corporation focused more on strengthening its existing portfolio, and increasing its development impact and reducing its volume growth. Although IFC's commitment volume for FY09 is $10.5 billion, a 7% decline from FY08, the number of projects has increased from 372 to 447 in FY09 with increasing share of projects in IDA countries. The Corporation's strategic capital over the medium term is directly determined by aggregate program levels, product composition and financial performance. Financial capacity projections based on the program levels presented in IFC's FY10-12 Road Map (i.e. average commitments of about $12.5 billion per year under the middle-case) indicate that IFC will not have the financial capacity to sustain this estimated business program through FY12. IFC is currently managing its emerging capital constraint in part by reducing the overall program growth and changing the product composition, i.e. increasing volume in less capital intensive products, such as trade finance loans and guarantees.

111. In addition to reducing its overall program growth, the Corporation has sought to enhance income levels by reducing expenditures. Total administrative budget expenses were 11% below that of the FY09 budget, and for future years the Corporation will continue to manage its expenditures with the same fiscal discipline. The Corporation has also increased attention to realizing capital gains for projects where IFC's development role is nearing completion and increased focus has been placed on reviewing more rigorously and proactively the status of IFC's role as a shareholder in each investee company.

112. IFC is already implementing several crisis response initiatives and in doing so is leveraging external parties as much as possible to increase its reach and development impact during this time of crisis. In order to continue its leadership role in the private sector and maintain its credibility, IFC needs to maintain the ability to commit capital from its own funds to these initiatives. The constrained capital position of the Corporation could make this increasingly difficult.

113. The Corporation has also reviewed several other capital management options including callable capital and is now presenting a two-step process: (i) hybrid capital from shareholders; followed by (ii) paid-in capital increase, to enhance its financial capacity in order to continue playing its strong developmental role while addressing

capacity constraints. Below is a summary of the various rationales for a capital increase during and after the crisis, along with their applicability for IFC and the most appropriate form of a capital increase in each instance.

Reason for Capital Increase	*Applicable to IFC?*	*Appropriate Form*
1. To meet an immediate shortfall in capital, based on the capital needs of IFC's current portfolio	No	N/A
2. To allow IFC to increase its counter-cyclical response to the crisis in the short- to medium-term	Yes	Hybrid Capital
3. To protect IFC against further downturns in the short- to medium-term	Yes	Hybrid Capital
4. To allow IFC to provide increased support to the private sector, post-crisis and over the medium- to long-term	Yes	Paid-in Capital

III. POSSIBLE 2-STEP PROCESS TO ENHANCE IFC'S FINANCIAL CAPACITY

Step 1: Hybrid Capital from Shareholders

114. To offer more support to the private sector at a critical time, IFC has identified the possibility of raising "Hybrid Capital"[11] from its shareholders. If there is shareholder support for a capital increase, the hybrid capital will offer an interim opportunity for shareholders to provide early support to IFC's growth strategy. The issue of hybrid capital could be sized to the eventual capital increase with a mandatory prepayment – i.e., when capital is paid in under a GCI, this will trigger the repayment of the hybrid capital.

115. With the goal of expanding investments to strongly support global recovery though developing countries' growth, IFC faces an immediate capital constraint, at an earlier point than IBRD, which has financial capacity in the short term but will also be capital constrained thereafter. The time necessary for a GCI exercise for IFC to unfold (or SCI tied to "Voice" reform) would preclude key support IFC could offer in the recovery (and a SCI is likely to generate only a fraction of the additional financial capacity required).

116. Hybrid Capital offers the following advantages:

- Short time frame for execution (4-6 months)
- Participation open to all shareholders on a voluntary/optional basis
- Could be achieved without voting right/"Voice" implications
- Similar to the recent financial support provided to the IMF by the G20

117. Based on feedback from the rating agencies, they expect an expression of support from the shareholders for a capital increase before IFC issues hybrid capital. If IFC were

[11] "Hybrid" refers to a financial instrument that has some characteristics of both debt and shareholder's equity. IFC is structuring its hybrid capital with strong equity-like features.

to be granted a general capital increase, its implementation could take up to 3 to 5 years, at which point the hybrid capital issue would be paid off from the proceeds of the general capital increase. If a general capital increase were not to occur, IFC would begin to set aside funds towards a sinking fund at year 5, from which the hybrid capital would be repaid by around year 15, in consultation with the Board and contingent on IFC's financial situation.

Step 2: Paid-In Capital Increase

118. Increased capital in the range of $1.8 to $2.4 billion would provide IFC with the capacity to continue its support for private sector in developing countries through the crisis and beyond.

119. This increased capital could be leveraged into additional investment commitments in the order of $5.4-$7.2 billion on a sustainable basis without jeopardizing the AAA rating.

120. Additional paid-in capital from IFC's shareholders would provide the strongest, most flexible long-term capital management option for IFC to pursue its mission at this time of global crisis. Additional paid-in capital would emphasize strong shareholder support, which is key to IFC's credit rating, and would also send the best positive signals to the market and IFC's partners, further enhancing the Corporation's strong reputation. A paid-in capital increase could be in the form of a SCI or a GCI or both. In the former case, shareholder consideration of this option could be also aligned with the ongoing Voice and Participation discussions. Such a SCI, however, would only provide a small fraction of the necessary increase in paid in capital for IFC. Paid-in capital is considered the highest quality form of capital by Rating Agencies, and such a capital increase would have the maximum impact on IFC's ability to leverage its capital fully, in challenging environments, including IDA countries, at a time when the availability of private sector financing is sharply reduced. See Annex 4 for IFC's shareholder contributions based on increased capital of $1.8 to $2.4 billion.

121. With increased paid-in capital, IFC would be able to support higher levels of investment portfolio to fulfill its long-term developmental role. A capital increase in the range of $1.8 billion to $2.4 billion would enable IFC to grow the investment portfolio to about $47 - $49 billion over the next few years without jeopardizing its AAA rating. Table 9 below provides illustrative figures for the corresponding annual paid-in capital contributions from IFC's top 15 shareholders.

Table 9. Illustrative Top 15 Shareholder's Annual Contribution for an IFC GCI

Member	Shareholding	Annual GCI contribution with Paid-In Capital (USD millions) over 5-yr period	
	(% of total)	$1.8 bn* ($0.36bn/yr)	$2.4 bn ($0.48bn/yr)
USA	24.03%	$86.50	$115.34
JAPAN	5.96%	$21.44	$28.60
GERMANY	5.44%	$19.58	$26.12
FRANCE	5.11%	$18.38	$24.52
UK	5.11%	$18.38	$24.52
CANADA	3.43%	$12.36	$16.48
INDIA	3.43%	$12.36	$16.48
ITALY	3.43%	$12.36	$16.48
RUSSIA	3.43%	$12.36	$16.48
NETHERLANDS	2.37%	$8.52	$11.38
BELGIUM	2.14%	$7.68	$10.26
AUSTRALIA	2.00%	$7.20	$9.58
SWITZERLAND	1.75%	$6.32	$8.42
BRAZIL	1.67%	$6.00	$8.00
ARGENTINA	1.61%	$5.80	$7.72

Annex 1. Assumptions Underlying IBRD Financial Projections

1. This annex presents the key assumptions behind the projections of the expected scenario as well as the "prolonged recession" scenario and the "quick recovery" scenario.

Expected Scenario

2. **Interest Rates.** Tables 1A and 1B below show the current expected scenario interest rate projections for six-month LIBOR and 10-year swap rates in US dollar, EUR and JPY, which are based on implied forward market rates as of June 30, 2009 and the June 2009 forecasts of Oxford Economics.

Table 1A: Interest Rate Assumptions Based on Implied Forward Market Rates (Percent)

USD	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
6 Month	2.30	1.47	2.64	3.66	4.23	4.57	4.72	4.58	4.52	4.83	5.02
10 Year	3.65	4.07	4.44	4.66	4.78	4.83	4.84	4.84	4.86	4.87	4.84

EUR	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
6 Month	3.27	1.49	2.72	3.31	3.76	4.02	4.30	4.47	4.56	4.62	4.73
10 Year	4.02	3.85	4.19	4.41	4.59	4.73	4.83	4.90	4.94	4.97	4.96

JPY	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
6 Month	0.90	0.58	0.86	0.86	1.09	1.32	1.55	1.77	2.03	2.21	2.35
10 Year	1.45	1.50	1.68	1.84	2.00	2.15	2.28	2.39	2.49	2.56	2.60

Table 1B: Interest Rate Assumptions Based on Oxford Economics Forecasts (Percent)

USD	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
6 Month	2.33	0.99	2.42	5.37	6.01	5.27	5.27	5.27	5.27	5.27	5.27
10 Year	3.61	3.62	4.79	6.61	6.56	5.53	5.53	5.53	5.53	5.53	5.53

EUR	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
6 Month	3.28	1.24	1.61	2.93	4.38	4.45	4.45	4.45	4.45	4.45	4.45
10 Year	4.02	3.87	4.23	4.64	4.82	4.85	4.85	4.85	4.85	4.85	4.85

JPY	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
6 Month	0.90	0.15	0.35	0.77	1.72	1.94	1.94	1.94	1.94	1.94	1.94
10 Year	1.44	1.25	1.79	2.35	2.38	2.38	2.38	2.38	2.38	2.38	2.38

3. **Loan Volume.** The expected scenario financial projections are based on the Expected Case of the Interim Update of the FY09 4th Quarterly Corporate Lending Projection.[12] This gives IBRD (loan and guarantees) commitments of approximately $44 billion for FY10, $33 billion for FY11, $26 billion for FY12, and $15 billion flat from

[12] The Quarterly Corporate Lending Projections reflect detailed, bottom up, country-by-country forecasts yielding a possible range (Expected, High and Low Cases) for the three years (FY10-12), which are approved by Regional Vice Presidents and Managing Directors. Traditionally, these projections are firmer in the current year of the projection period and less precise in capturing potential IBRD demand in outer years, especially given that DPO type operations usually appear in the pipeline closer to their approval dates, within the same fiscal year.

FY13 onwards. Outstanding loans are projected to increase at an average compound rate of about 7.2 percent per annum over the FY09 to FY19 projection horizon.

4. **Loan Composition.** Reflecting the recent trend in loan commitments, the current expected scenario projections assume that 100 percent of new loan commitments are variable-spread loans. The expected scenario projections assume that 85 percent of new commitments are in US dollar, with the rest in EUR, and that the composition between adjustment (fast disbursing) and investment (slow disbursing) loans is about 49:51 for FY10, 27:73 for FY11, and 22:78 from FY12 onwards.

5. **Loan Prepayments.** Prepayments are assumed to be about $0.20 billion in FY10, $0.25 billion in FY11, and $0.35 billion from FY12 onwards.

6. **Loan Loss Provisions (LLP).** Under expected scenario, LLP expenses are currently projected to be $181 million in FY10, $149 million in FY11, and $112 million in FY12. For FY13 and beyond, projected LLP expenses result in a ratio of loan loss provisioning to the accrual portfolio including the present value of guarantees of about 1.1 percent.

7. **Funding Cost.** It is assumed in the expected scenario projections that the cost of debt funding IBRD Flexible Loan (IFL) fixed spread product is 6-Month LIBOR + 25 basis points (bp), and the cost of debt funding IFL variable spread product and debt funding liquidity is 6M LIBOR flat over the forecast period.

8. **Administrative Expenses.** The expected scenario assumes that IBRD administrative expenses, including pension-related expenses and DGF (Development Grant Facility), IGP (Institutional Grant Programs) and SPBF (State and Peace Building Fund), are $1,189 million, $1,280 million, $1,346 million, and $1,377 million, respectively, for FY10, FY11, FY12, and FY13 as shown in Table 2 below. It is assumed in the expected scenario projections that from FY14 onwards, administrative expenses (excluding DGF/IGP/SPBF and pension-related expenses) stay flat in real terms, or increase at an annual nominal rate of 2.9 percent for price adjustments (the IBRD has maintained flat budget in real terms since 2006). Funding for DGF/IGP/SPBF is currently assumed to be $171 million for FY10 and $201 million from FY11 onwards.

Table 2: IBRD Administrative Expense Assumptions

$ Million	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
(1) IBRD Administrative Expenses, Excluding	845	905	919	935	962	990	1,019	1,049	1,079	1,110	1,143
Pension Related Expenses and DGF/IGP/SPBF	4.9%	7.1%	1.5%	1.8%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%	2.9%
(2) IBRD Pension Related Expenses	91	112	160	210	213	214	214	214	215	216	217
	-14.0%	23.7%	43.1%	30.8%	1.7%	0.1%	0.1%	0.2%	0.3%	0.4%	0.5%
(3) DGF (Development Grant Facility), IGP (International	200	171	201	201	201	201	201	201	201	201	201
Grant Programs) and SPBF (State and Peace Building Fund)	13.7%	-14.3%	17.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total IBRD Administrative Expenses	1,136	1,189	1,280	1,346	1,377	1,405	1,434	1,464	1,495	1,527	1,560
	4.5%	4.7%	7.7%	5.2%	2.3%	2.0%	2.1%	2.1%	2.1%	2.1%	2.2%

9. **Pension-Related Expenses.** In the expected scenario projections, IBRD contributions for the Staff Pension Plan (SPP), the Retired Staff Benefits Plan (RSBP) and the Post-Employment Benefit Plan (PEBP), which are included in administrative expenses, are assumed to be $112 million in FY10, $160 million in FY11, $210 million

in FY12, and $213 million in FY13 as shown in Table 2.[13] IBRD's share of contributions to pension plans averages $199 million through the FY10-19 period. IBRD's share of projected contributions to pension plans is based on preliminary estimates of CY08 returns of -21.3 percent for the SRP and -21.0 percent for the RSBP and projected returns going back to standard actuarial assumption of 3.5 percent real from CY09.

10. The expected long-term average return on the LTIP is currently projected at about 6.3 percent over the next 10 years, while the draw into allocable income from the LTIP is based on a long-term draw rate of 5.0 percent p.a. as approved previously by the Board.

11. **External Transfers.** It is assumed in the expected scenario projections that annual transfers to IDA from the IBRD will be $383 million for FY10 and $583 million from FY11 onwards. These transfers are assumed to be drawn down by IDA immediately upon annual Board approvals by the IBRD for the IDA15 replenish period (FY08-10), and on a pro rata basis with other IDA donors from FY11 onwards. The expected scenario also assumes that there will be no external transfers from the surplus account over the projection horizon, and the remaining surplus balance will be moved to the general reserve at the end of FY19.

12. **Exchange Rates**. Current expected scenario financial projections are based on exchange rates prevailing as of June 30, 2009: JPY against US dollar was 95.97, and US dollar against EUR was 1.4123. No exchange rate variations are assumed over the forecast period.

"Prolonged Recession" Scenario

13. Below are the key assumptions for the "prolonged recession" scenario that differ from those used in the expected scenario.

14. **Interest rates.** The "prolonged recession" scenario range uses the implied forwards as the upper bound of the range. In keeping with recent practice and to further test IBRD's income under a lower interest rate scenario, the 30 percent probability low path of forward rates is also used to derive the lower bound of the range.

15. **Loan Volume**. The "prolonged recession" scenario financial projections are based on the High Case of the Interim Update of the FY09 4th Quarterly Corporate Lending Projection. This gives IBRD (loan and guarantees) commitments of $50 billion for FY10, $37 billion for FY11, $30 billion for FY12, and $15 billion flat from FY13 onwards, with outstanding loans increasing at an average compound rate of about 7.6 percent p.a. for the FY09-19 period.

16. **Loan Loss Provisions (LLP).** The "prolonged recession" scenario assumes risk ratings gradually deteriorate to FY02 levels[14] by the end of FY12 with total accrual LLP requirement on average set at about 1.6 percent of total accrual portfolio over the FY09-19 period. Under "prolonged recession" scenario, LLP expenses are currently projected to be $539 million in FY10, $406 million in FY11, and $350 million in FY12.

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[13] These figures are the Bank's estimates of possible, middle of the range, future pension related payments for IBRD only and have not been reviewed or endorsed by the Pension Finance Committee (PFC).

[14] The credit ratings at end FY02 reflect a period of significantly elevated portfolio risk as measured by key measures of portfolio quality.

17. **Funding cost.** IBRD's new funding cost is assumed at the level of LIBOR+25bp on average.

18. **Pension-Related Expenses.** IBRD's share of projected contributions to pension plans assumes a net real investment return of 0 percent in each of CY09 and CY10, and returns of 3.5 percent real thereafter, in accordance with actuarial assumptions. IBRD's share of contributions to pension plans averages $220 million through the FY10-19 period.

19. **LTIP returns:** In line with the assumptions on pension portfolio return in this scenario, LTIP is assumed to have 0 percent return in FY10 and FY11 and thereafter return at the expected levels that average 6.3 percent over the long term as assumed under the expected scenario.

"Quick Recovery" Scenario

20. Below are the key assumptions for the "quick recovery" scenario that differ from those used in the expected scenario.

21. **Interest rates.** The "quick recovery" scenario uses the OEF interest rate forecasts, which are more optimistic than the implied forwards.

22. **Loan Volume**. The "quick recovery" scenario financial projections are based on the Low Case of the Interim Update of the FY09 4th Quarterly Corporate Lending Projection. This gives IBRD (loan and guarantees) commitments of $30 billion for FY10, $25 billion for FY11, $17 billion for FY12, and $15 billion flat from FY13 onwards, with outstanding loans increasing at an average compound rate of about 5.8 percent p.a. for the FY09-19 period.

23. **Loan Loss Provisions (LLP).** The "quick recovery" scenario assumes the same risk rating as the expected scenario. LLP expenses are currently projected to be $92 million in FY10, $118 million in FY11, and $85 million in FY12.

24. **Funding cost.** It is assumed that the cost of debt funding IBRD Flexible Loan (IFL) fixed spread product is 6M LIBOR flat, and the cost of debt funding IFL variable spread product and debt funding liquidity is 6M LIBOR-15bp over the forecast period.

25. **Pension-Related Expenses.** IBRD's share of projected contributions to pension plans assumes a rebound in pension portfolio asset value during CY09 and CY10 with net investment returns of 10 percent real during these two years, followed by returns of 3.5 percent real thereafter, in accordance with actuarial assumptions. IBRD's share of contributions to pension plans averages $156 million through the FY10-19 period.

26. **LTIP returns:** In line with the assumptions on pension portfolio return in this scenario, LTIP is assumed to have 10 percent per annum real return in FY10 and FY11 and thereafter return at the expected levels that average 6.3 percent over the long term as assumed under the expected scenario.

Annex 2. Illustrative Annual Shareholder Contributions for a General Capital Increase for IBRD, Assuming 5-Year Encashment of Paid-in Capital

(based on current shareholding, which may change as a result of the "voice" reform)

Member	Shareholding	GCI with Paid-in Capital		
	(% of total)	$3 bn	$4 bn	$5 bn
AFGHANISTAN	0.02	$0.1 mn	$0.2 mn	$0.2 mn
ALBANIA	0.05	$0.3 mn	$0.4 mn	$0.5 mn
ALGERIA	0.59	$3.5 mn	$4.7 mn	$5.9 mn
ANGOLA	0.17	$1.0 mn	$1.4 mn	$1.7 mn
ANTIGUA AND BARBUDA	0.03	$0.2 mn	$0.2 mn	$0.3 mn
ARGENTINA	1.14	$6.8 mn	$9.1 mn	$11.4 mn
ARMENIA	0.07	$0.4 mn	$0.6 mn	$0.7 mn
AUSTRALIA	1.55	$9.3 mn	$12.4 mn	$15.5 mn
AUSTRIA	0.7	$4.2 mn	$5.6 mn	$7.0 mn
AZERBAIJAN	0.1	$0.6 mn	$0.8 mn	$1.0 mn
BAHAMAS, THE	0.07	$0.4 mn	$0.6 mn	$0.7 mn
BAHRAIN	0.07	$0.4 mn	$0.6 mn	$0.7 mn
BANGLADESH	0.31	$1.9 mn	$2.5 mn	$3.1 mn
BARBADOS	0.06	$0.4 mn	$0.5 mn	$0.6 mn
BELARUS	0.21	$1.3 mn	$1.7 mn	$2.1 mn
BELGIUM	1.84	$11.0 mn	$14.7 mn	$18.4 mn
BELIZE	0.04	$0.2 mn	$0.3 mn	$0.4 mn
BENIN	0.06	$0.4 mn	$0.5 mn	$0.6 mn
BHUTAN	0.03	$0.2 mn	$0.2 mn	$0.3 mn
BOLIVIA	0.11	$0.7 mn	$0.9 mn	$1.1 mn
BOSNIA AND HERZEGOVINA	0.04	$0.2 mn	$0.3 mn	$0.4 mn
BOTSWANA	0.04	$0.2 mn	$0.3 mn	$0.4 mn
BRAZIL	2.11	$12.7 mn	$16.9 mn	$21.1 mn
BRUNEI DARUSSALAM	0.15	$0.9 mn	$1.2 mn	$1.5 mn
BULGARIA	0.33	$2.0 mn	$2.6 mn	$3.3 mn
BURKINA FASO	0.06	$0.4 mn	$0.5 mn	$0.6 mn
BURUNDI	0.05	$0.3 mn	$0.4 mn	$0.5 mn
CAMBODIA	0.01	$0.1 mn	$0.1 mn	$0.1 mn
CAMEROON	0.1	$0.6 mn	$0.8 mn	$1.0 mn
CANADA	2.85	$17.1 mn	$22.8 mn	$28.5 mn
CAPE VERDE	0.03	$0.2 mn	$0.2 mn	$0.3 mn
CENTRAL AFRICAN REPUBLIC	0.05	$0.3 mn	$0.4 mn	$0.5 mn
CHAD	0.05	$0.3 mn	$0.4 mn	$0.5 mn
CHILE	0.44	$2.6 mn	$3.5 mn	$4.4 mn
CHINA	2.85	$17.1 mn	$22.8 mn	$28.5 mn
COLOMBIA	0.4	$2.4 mn	$3.2 mn	$4.0 mn
COMOROS	0.02	$0.1 mn	$0.2 mn	$0.2 mn
CONGO, DEMOCRATIC REPUBLIC OF	0.17	$1.0 mn	$1.4 mn	$1.7 mn
CONGO, REPUBLIC OF	0.06	$0.4 mn	$0.5 mn	$0.6 mn
COSTA RICA	0.01	$0.1 mn	$0.1 mn	$0.1 mn
COTE D'IVOIRE	0.16	$1.0 mn	$1.3 mn	$1.6 mn
CROATIA	0.15	$0.9 mn	$1.2 mn	$1.5 mn
CYPRUS	0.09	$0.5 mn	$0.7 mn	$0.9 mn
CZECH REPUBLIC	0.4	$2.4 mn	$3.2 mn	$4.0 mn
DENMARK	0.85	$5.1 mn	$6.8 mn	$8.5 mn

Member	Shareholding	GCI with Paid-in Capital		
	(% of total)	**$3 bn**	**$4 bn**	**$5 bn**
DJIBOUTI	0.04	$0.2 mn	$0.3 mn	$0.4 mn
DOMINICA	0.03	$0.2 mn	$0.2 mn	$0.3 mn
DOMINICAN REPUBLIC	0.13	$0.8 mn	$1.0 mn	$1.3 mn
ECUADOR	0.18	$1.1 mn	$1.4 mn	$1.8 mn
EGYPT, ARAB REPUBLIC OF	0.45	$2.7 mn	$3.6 mn	$4.5 mn
EL SALVADOR	0.01	$0.1 mn	$0.1 mn	$0.1 mn
EQUATORIAL GUINEA	0.05	$0.3 mn	$0.4 mn	$0.5 mn
ERITREA	0.04	$0.2 mn	$0.3 mn	$0.4 mn
ESTONIA	0.06	$0.4 mn	$0.5 mn	$0.6 mn
ETHIOPIA	0.06	$0.4 mn	$0.5 mn	$0.6 mn
FIJI	0.06	$0.4 mn	$0.5 mn	$0.6 mn
FINLAND	0.54	$3.2 mn	$4.3 mn	$5.4 mn
FRANCE	4.41	$26.5 mn	$35.3 mn	$44.1 mn
GABON	0.06	$0.4 mn	$0.5 mn	$0.6 mn
GAMBIA, THE	0.03	$0.2 mn	$0.2 mn	$0.3 mn
GEORGIA	0.1	$0.6 mn	$0.8 mn	$1.0 mn
GERMANY	4.6	$27.6 mn	$36.8 mn	$46.0 mn
GHANA	0.1	$0.6 mn	$0.8 mn	$1.0 mn
GREECE	0.11	$0.7 mn	$0.9 mn	$1.1 mn
GRENADA	0.03	$0.2 mn	$0.2 mn	$0.3 mn
GUATEMALA	0.13	$0.8 mn	$1.0 mn	$1.3 mn
GUINEA	0.08	$0.5 mn	$0.6 mn	$0.8 mn
GUINEA-BISSAU	0.03	$0.2 mn	$0.2 mn	$0.3 mn
GUYANA	0.07	$0.4 mn	$0.6 mn	$0.7 mn
HAITI	0.07	$0.4 mn	$0.6 mn	$0.7 mn
HONDURAS	0.04	$0.2 mn	$0.3 mn	$0.4 mn
HUNGARY	0.51	$3.1 mn	$4.1 mn	$5.1 mn
ICELAND	0.08	$0.5 mn	$0.6 mn	$0.8 mn
INDIA	2.85	$17.1 mn	$22.8 mn	$28.5 mn
INDONESIA	0.95	$5.7 mn	$7.6 mn	$9.5 mn
IRAN, ISLAMIC REPUBLIC OF	1.5	$9.0 mn	$12.0 mn	$15.0 mn
IRAQ	0.18	$1.1 mn	$1.4 mn	$1.8 mn
IRELAND	0.33	$2.0 mn	$2.6 mn	$3.3 mn
ISRAEL	0.3	$1.8 mn	$2.4 mn	$3.0 mn
ITALY	2.85	$17.1 mn	$22.8 mn	$28.5 mn
JAMAICA	0.16	$1.0 mn	$1.3 mn	$1.6 mn
JAPAN	8.07	$48.4 mn	$64.6 mn	$80.7 mn
JORDAN	0.09	$0.5 mn	$0.7 mn	$0.9 mn
KAZAKHSTAN	0.19	$1.1 mn	$1.5 mn	$1.9 mn
KENYA	0.16	$1.0 mn	$1.3 mn	$1.6 mn
KIRIBATI	0.03	$0.2 mn	$0.2 mn	$0.3 mn
KOREA, REPUBLIC OF	1	$6.0 mn	$8.0 mn	$10.0 mn
KOSOVO	0.06	$0.4 mn	$0.5 mn	$0.6 mn
KUWAIT	0.84	$5.0 mn	$6.7 mn	$8.4 mn
KYRGYZ REPUBLIC	0.07	$0.4 mn	$0.6 mn	$0.7 mn
LAO PEOPLE'S DEMOCRATIC REPUBLIC	0.01	$0.1 mn	$0.1 mn	$0.1 mn
LATVIA	0.09	$0.5 mn	$0.7 mn	$0.9 mn
LEBANON	0.02	$0.1 mn	$0.2 mn	$0.2 mn
LESOTHO	0.04	$0.2 mn	$0.3 mn	$0.4 mn

Member	Shareholding	GCI with Paid-in Capital		
	(% of total)	**$3 bn**	**$4 bn**	**$5 bn**
LIBERIA	0.03	$0.2 mn	$0.2 mn	$0.3 mn
LIBYA	0.5	$3.0 mn	$4.0 mn	$5.0 mn
LITHUANIA	0.1	$0.6 mn	$0.8 mn	$1.0 mn
LUXEMBOURG	0.11	$0.7 mn	$0.9 mn	$1.1 mn
MACEDONIA, FORMER YUGOSLAV REPUI	0.03	$0.2 mn	$0.2 mn	$0.3 mn
MADAGASCAR	0.09	$0.5 mn	$0.7 mn	$0.9 mn
MALAWI	0.07	$0.4 mn	$0.6 mn	$0.7 mn
MALAYSIA	0.52	$3.1 mn	$4.2 mn	$5.2 mn
MALDIVES	0.03	$0.2 mn	$0.2 mn	$0.3 mn
MALI	0.07	$0.4 mn	$0.6 mn	$0.7 mn
MALTA	0.07	$0.4 mn	$0.6 mn	$0.7 mn
MARSHALL ISLANDS	0.03	$0.2 mn	$0.2 mn	$0.3 mn
MAURITANIA	0.06	$0.4 mn	$0.5 mn	$0.6 mn
MAURITIUS	0.08	$0.5 mn	$0.6 mn	$0.8 mn
MEXICO	1.19	$7.1 mn	$9.5 mn	$11.9 mn
MICRONESIA, FEDERATED STATES OF	0.03	$0.2 mn	$0.2 mn	$0.3 mn
MOLDOVA	0.09	$0.5 mn	$0.7 mn	$0.9 mn
MONGOLIA	0.03	$0.2 mn	$0.2 mn	$0.3 mn
MONTENEGRO	0.04	$0.2 mn	$0.3 mn	$0.4 mn
MOROCCO	0.32	$1.9 mn	$2.6 mn	$3.2 mn
MOZAMBIQUE	0.06	$0.4 mn	$0.5 mn	$0.6 mn
MYANMAR	0.16	$1.0 mn	$1.3 mn	$1.6 mn
NAMIBIA	0.1	$0.6 mn	$0.8 mn	$1.0 mn
NEPAL	0.06	$0.4 mn	$0.5 mn	$0.6 mn
NETHERLANDS	2.26	$13.6 mn	$18.1 mn	$22.6 mn
NEW ZEALAND	0.46	$2.8 mn	$3.7 mn	$4.6 mn
NICARAGUA	0.04	$0.2 mn	$0.3 mn	$0.4 mn
NIGER	0.05	$0.3 mn	$0.4 mn	$0.5 mn
NIGERIA	0.8	$4.8 mn	$6.4 mn	$8.0 mn
NORWAY	0.63	$3.8 mn	$5.0 mn	$6.3 mn
OMAN	0.1	$0.6 mn	$0.8 mn	$1.0 mn
PAKISTAN	0.59	$3.5 mn	$4.7 mn	$5.9 mn
PALAU	0	$0.0 mn	$0.0 mn	$0.0 mn
PANAMA	0.02	$0.1 mn	$0.2 mn	$0.2 mn
PAPUA NEW GUINEA	0.08	$0.5 mn	$0.6 mn	$0.8 mn
PARAGUAY	0.08	$0.5 mn	$0.6 mn	$0.8 mn
PERU	0.34	$2.0 mn	$2.7 mn	$3.4 mn
PHILIPPINES	0.43	$2.6 mn	$3.4 mn	$4.3 mn
POLAND	0.69	$4.1 mn	$5.5 mn	$6.9 mn
PORTUGAL	0.35	$2.1 mn	$2.8 mn	$3.5 mn
QATAR	0.07	$0.4 mn	$0.6 mn	$0.7 mn
ROMANIA	0.25	$1.5 mn	$2.0 mn	$2.5 mn
RUSSIAN FEDERATION	2.85	$17.1 mn	$22.8 mn	$28.5 mn
RWANDA	0.07	$0.4 mn	$0.6 mn	$0.7 mn
SAMOA	0.03	$0.2 mn	$0.2 mn	$0.3 mn
SAN MARINO	0.04	$0.2 mn	$0.3 mn	$0.4 mn
SAO TOME AND PRINCIPE	0.03	$0.2 mn	$0.2 mn	$0.3 mn
SAUDI ARABIA	2.85	$17.1 mn	$22.8 mn	$28.5 mn
SENEGAL	0.13	$0.8 mn	$1.0 mn	$1.3 mn

Member	Shareholding	GCI with Paid-in Capital		
	(% of total)	**$3 bn**	**$4 bn**	**$5 bn**
SERBIA	0.18	$1.1 mn	$1.4 mn	$1.8 mn
SEYCHELLES	0.02	$0.1 mn	$0.2 mn	$0.2 mn
SIERRA LEONE	0.05	$0.3 mn	$0.4 mn	$0.5 mn
SINGAPORE	0.02	$0.1 mn	$0.2 mn	$0.2 mn
SLOVAK REPUBLIC	0.2	$1.2 mn	$1.6 mn	$2.0 mn
SLOVENIA	0.08	$0.5 mn	$0.6 mn	$0.8 mn
SOLOMON ISLANDS	0.03	$0.2 mn	$0.2 mn	$0.3 mn
SOMALIA	0.04	$0.2 mn	$0.3 mn	$0.4 mn
SOUTH AFRICA	0.86	$5.2 mn	$6.9 mn	$8.6 mn
SPAIN	1.78	$10.7 mn	$14.2 mn	$17.8 mn
SRI LANKA	0.24	$1.4 mn	$1.9 mn	$2.4 mn
ST. KITTS AND NEVIS	0.02	$0.1 mn	$0.2 mn	$0.2 mn
ST. LUCIA	0.04	$0.2 mn	$0.3 mn	$0.4 mn
ST. VINCENT AND THE GRENADINES	0.02	$0.1 mn	$0.2 mn	$0.2 mn
SUDAN	0.05	$0.3 mn	$0.4 mn	$0.5 mn
SURINAME	0.03	$0.2 mn	$0.2 mn	$0.3 mn
SWAZILAND	0.03	$0.2 mn	$0.2 mn	$0.3 mn
SWEDEN	0.95	$5.7 mn	$7.6 mn	$9.5 mn
SWITZERLAND	1.69	$10.1 mn	$13.5 mn	$16.9 mn
SYRIAN ARAB REPUBLIC	0.14	$0.8 mn	$1.1 mn	$1.4 mn
TAJIKISTAN	0.07	$0.4 mn	$0.6 mn	$0.7 mn
TANZANIA	0.08	$0.5 mn	$0.6 mn	$0.8 mn
THAILAND	0.4	$2.4 mn	$3.2 mn	$4.0 mn
TIMOR-LESTE	0.03	$0.2 mn	$0.2 mn	$0.3 mn
TOGO	0.07	$0.4 mn	$0.6 mn	$0.7 mn
TONGA	0.03	$0.2 mn	$0.2 mn	$0.3 mn
TRINIDAD AND TOBAGO	0.17	$1.0 mn	$1.4 mn	$1.7 mn
TUNISIA	0.05	$0.3 mn	$0.4 mn	$0.5 mn
TURKEY	0.53	$3.2 mn	$4.2 mn	$5.3 mn
TURKMENISTAN	0.03	$0.2 mn	$0.2 mn	$0.3 mn
UGANDA	0.04	$0.2 mn	$0.3 mn	$0.4 mn
UKRAINE	0.69	$4.1 mn	$5.5 mn	$6.9 mn
UNITED ARAB EMIRATES	0.15	$0.9 mn	$1.2 mn	$1.5 mn
UNITED KINGDOM	4.41	$26.5 mn	$35.3 mn	$44.1 mn
UNITED STATES	16.83	$101.0 mn	$134.6 mn	$168.3 mn
URUGUAY	0.18	$1.1 mn	$1.4 mn	$1.8 mn
UZBEKISTAN	0.16	$1.0 mn	$1.3 mn	$1.6 mn
VANUATU	0.04	$0.2 mn	$0.3 mn	$0.4 mn
VENEZUELA, REPUBLICA BOLIVARIANA I	1.29	$7.7 mn	$10.3 mn	$12.9 mn
VIETNAM	0.06	$0.4 mn	$0.5 mn	$0.6 mn
YEMEN, REPUBLIC OF	0.14	$0.8 mn	$1.1 mn	$1.4 mn
ZAMBIA	0.18	$1.1 mn	$1.4 mn	$1.8 mn
ZIMBABWE	0.21	$1.3 mn	$1.7 mn	$2.1 mn
TOTAL	**100**	**$0.6 bn**	**$0.8 bn**	**$1.0 bn**

Annex 3 – Summary of Key Drivers for IFC Financial Capacity in the Medium Term (assuming No Capital Increase)

Program and Investment Portfolio Assumptions for Base and Prolonged Recession Scenarios	FY08(A)	FY09(A)	FY10(P)	FY11(P)	FY12(P)
Total Commitments ($ bil.)	**11.4**	**10.5**	**11.7**	**12.5**	**13.3**
o/w Senior Loans ($ bil.)	6.3	4.9	5.9	6.3	6.5
(%)	55%	46.2%	51%	50%	49%
o/w Equity ($ bil.)	2.2	2.1	2.8	3.0	3.3
(%)	19%	19.6%	24%	24%	25%
o/w GTFP ($ bil.)	1.4	2.4	2.1	2.8	3.4
(%)	13%	23%	18%	22%	25%
Total Commitments Growth (%)	39%	-7%	11%	6%	6%
Committed portfolio ($bil.)	32.4	34.5	43.4	48.0	52.4
Key Drivers and Capacity Implications under Base Case Scenario					
Income - capital adequacy purposes ($ bil.)	**1.3**	**(0.5)**	**(0.1)**	**1.2**	**1.6**
o/w Income from Equity ($ bil.)	1.7	1.3	0.9	1.0	1.2
o/w Income from Treasury Activities ($ bil.)	0.5	0.5	0.5	0.8	1.0
o/w Equity Write downs ($ bil.)	(0.1)	(1.1)	(0.3)	(0.3)	(0.2)
o/w Total Loan Loss Provisions ($ bil.)	(0.1)	(0.4)	(1.0)	0.1	(0.3)
Total Reserves as a % of disbursed Loan portfolio (including guarantees)	5.3%	6.8%	9.7%	8.4%	8.7%
Total Resources Required **(Economic Capital)**	10.3	10.9	13.6	15.3	17.1
Total Resources Available (TRA)	15.0	14.8	16.1	17.2	18.7
Strategic Capital (TRA less Economic Capital)	4.7	3.9	2.6	1.9	1.7
o/w Capital Buffer	1.5	1.5	1.6	1.7	1.9
Deployable Strategic Capital (remaining for growth)	**3.2**	**2.4**	**1.0**	**0.2**	**(0.2)**
Key Drivers and Capacity Implications under Prolonged Recession Scenario					
Income - capital adequacy purposes ($ bil.)	**1.3**	**(0.5)**	**(1.3)**	**0.1**	**0.3**
o/w Income from Equity ($ bil.)	1.7	1.3	0.6	0.6	0.6
o/w Income from Treasury Activities ($ bil.)	0.5	0.5	0.3	0.4	0.7
o/w Equity Write downs ($ bil.)	(0.1)	(1.1)	(0.9)	(0.7)	(0.7)
o/w Total Loan Loss Provisions ($ bil.)	(0.1)	(0.4)	(1.1)	0.1	(0.3)
Total Reserves as a % of disbursed Loan portfolio (including guarantees)	5.3%	6.8%	10.1%	8.5%	8.9%
Total Resources Required **(Economic Capital)**	10.3	10.9	13.1	14.6	16.0
Total Resources Available (TRA)	15.0	14.8	15.1	15.0	15.6
Strategic Capital (TRA less Economic Capital)	4.7	3.9	1.9	0.4	(0.4)
o/w Capital Buffer	1.5	1.5	1.5	1.5	1.6
Deployable Strategic Capital (remaining for growth)	**3.2**	**2.4**	**0.4**	**(1.1)**	**(2.0)**

*Base Case and Prolonged Recession scenarios based on macroeconomic forecasts published by World Bank in June 2009, as presented in IFC's FY09 Annual Report on Financial Risk Management and Capital Adequacy paper.

Annex 4 – Illustrative Annual Shareholder Contributions for a General Capital Increase for IFC

(based on current shareholding, which may change as a result of the "voice" reform)

Member	Shareholding	Annual GCI contribution with Paid-In Capital (USD millions) over 5-yr period	
	(% of total)	$1.8 bn* ($0.36bn/yr)	$2.4 bn ($0.48bn/yr)
AFGHANISTAN	0.00%	$0.02	$0.02
ALBANIA	0.05%	$0.20	$0.26
ALGERIA	0.24%	$0.86	$1.14
ANGOLA	0.06%	$0.22	$0.30
ANTIGUA AND BARBUDA	0.00%	$0.00	$0.00
ARGENTINA	1.61%	$5.80	$7.72
ARMENIA	0.04%	$0.16	$0.20
AUSTRALIA	2.00%	$7.20	$9.58
AUSTRIA	0.83%	$3.00	$4.00
AZERBAIJAN	0.10%	$0.36	$0.48
BAHAMAS, THE	0.01%	$0.06	$0.06
BAHRAIN	0.07%	$0.26	$0.36
BANGLADESH	0.38%	$1.38	$1.84
BARBADOS	0.02%	$0.06	$0.08
BELARUS	0.22%	$0.78	$1.04
BELGIUM	2.14%	$7.68	$10.26
BELIZE	0.00%	$0.02	$0.02
BENIN	0.01%	$0.02	$0.02
BHUTAN	0.03%	$0.10	$0.14
BOLIVIA	0.08%	$0.28	$0.38
BOSNIA AND HERZEGOVINA	0.03%	$0.10	$0.12
BOTSWANA	0.00%	$0.02	$0.02
BRAZIL	1.67%	$6.00	$8.00
BULGARIA	0.21%	$0.74	$0.98
BURKINA FASO	0.04%	$0.12	$0.16
BURUNDI	0.00%	$0.02	$0.02
CAMBODIA	0.01%	$0.06	$0.06
CAMEROON	0.04%	$0.14	$0.18
CANADA	3.43%	$12.36	$16.48
CAPE VERDE	0.00%	$0.00	$0.00
CENTRAL AFRICAN REPUBLIC	0.01%	$0.02	$0.02
CHAD	0.06%	$0.20	$0.28
CHILE	0.49%	$1.78	$2.38
CHINA	1.03%	$3.72	$4.96
COLOMBIA	0.53%	$1.92	$2.56
COMOROS	0.00%	$0.00	$0.00
CONGO, DEMOCRATIC REPUBLIC OF	0.09%	$0.32	$0.44
CONGO, REPUBLIC OF	0.01%	$0.02	$0.02
COSTA RICA	0.04%	$0.14	$0.20

*$1.8bn to $2.4bn, equivalent respectively to 75% and 100% of IFC's authorized capital

Member	Shareholding	Annual GCI contribution with Paid-In Capital (USD millions) over 5-yr period	
	(% of total)	$1.8 bn* ($0.36bn/yr)	$2.4 bn ($0.48bn/yr)
COTE D'IVOIRE	0.15%	$0.54	$0.72
CROATIA	0.12%	$0.44	$0.58
CYPRUS	0.09%	$0.32	$0.44
CZECH REPUBLIC	0.38%	$1.36	$1.80
DENMARK	0.78%	$2.82	$3.76
DJIBOUTI	0.00%	$0.00	$0.00
DOMINICA	0.00%	$0.00	$0.00
DOMINICAN REPUBLIC	0.05%	$0.18	$0.24
ECUADOR	0.09%	$0.32	$0.44
EGYPT, ARAB REPUBLIC OF	0.52%	$1.88	$2.50
EL SALVADOR	0.00%	$0.00	$0.00
EQUATORIAL GUINEA	0.00%	$0.00	$0.00
ERITREA	0.04%	$0.14	$0.18
ESTONIA	0.06%	$0.22	$0.30
ETHIOPIA	0.01%	$0.02	$0.02
FIJI	0.01%	$0.04	$0.06
FINLAND	0.66%	$2.38	$3.18
FRANCE	5.11%	$18.38	$24.52
GABON	0.05%	$0.20	$0.26
GAMBIA, THE	0.00%	$0.02	$0.02
GEORGIA	0.06%	$0.20	$0.28
GERMANY	5.44%	$19.58	$26.12
GHANA	0.21%	$0.78	$1.02
GREECE	0.29%	$1.04	$1.40
GRENADA	0.00%	$0.02	$0.02
GUATEMALA	0.05%	$0.16	$0.22
GUINEA	0.01%	$0.06	$0.06
GUINEA-BISSAU	0.00%	$0.00	$0.00
GUYANA	0.06%	$0.22	$0.28
HAITI	0.03%	$0.12	$0.16
HONDURAS	0.02%	$0.08	$0.10
HUNGARY	0.46%	$1.66	$2.22
ICELAND	0.00%	$0.00	$0.00
INDIA	3.43%	$12.36	$16.48
INDONESIA	1.20%	$4.34	$5.78
IRAN, ISLAMIC REPUBLIC OF	0.06%	$0.22	$0.30
IRAQ	0.01%	$0.02	$0.02
IRELAND	0.05%	$0.20	$0.26
ISRAEL	0.09%	$0.32	$0.44
ITALY	3.43%	$12.36	$16.48
JAMAICA	0.18%	$0.66	$0.86
JAPAN	5.96%	$21.44	$28.60

*$1.8bn to $2.4bn, equivalent respectively to 75% and 100% of IFC's authorized capital

Member	Shareholding	Annual GCI contribution with Paid-In Capital (USD millions) over 5-yr period	
	(% of total)	$1.8 bn* ($0.36bn/yr)	$2.4 bn ($0.48bn/yr)
JORDAN	0.04%	$0.14	$0.20
KAZAKHSTAN	0.20%	$0.70	$0.94
KENYA	0.17%	$0.62	$0.82
KIRIBATI	0.00%	$0.00	$0.00
KOREA, REPUBLIC OF	0.67%	$2.42	$3.24
KOSOVO	0.06%	$0.22	$0.30
KUWAIT	0.42%	$1.52	$2.02
KYRGYZ REPUBLIC	0.07%	$0.26	$0.34
LAO PEOPLE'S DEMOCRATIC REPUBLIC	0.01%	$0.04	$0.06
LATVIA	0.09%	$0.32	$0.44
LEBANON	0.01%	$0.02	$0.02
LESOTHO	0.00%	$0.02	$0.02
LIBERIA	0.00%	$0.02	$0.02
LIBYA	0.00%	$0.00	$0.02
LITHUANIA	0.10%	$0.36	$0.48
LUXEMBOURG	0.09%	$0.32	$0.44
MACEDONIA, FORMER YUGOSLAV REPUBLIC OF	0.02%	$0.08	$0.10
MADAGASCAR	0.02%	$0.06	$0.08
MALAWI	0.08%	$0.28	$0.36
MALAYSIA	0.64%	$2.32	$3.08
MALDIVES	0.00%	$0.00	$0.00
MALI	0.02%	$0.06	$0.10
MALTA	0.07%	$0.24	$0.32
MARSHALL ISLANDS	0.03%	$0.10	$0.14
MAURITANIA	0.01%	$0.04	$0.04
MAURITIUS	0.07%	$0.26	$0.34
MEXICO	1.16%	$4.20	$5.58
MICRONESIA, FEDERATED STATES OF	0.03%	$0.12	$0.16
MOLDOVA	0.05%	$0.18	$0.24
MONGOLIA	0.01%	$0.02	$0.02
MONTENEGRO	0.04%	$0.16	$0.20
MOROCCO	0.38%	$1.38	$1.84
MOZAMBIQUE	0.01%	$0.04	$0.06
MYANMAR	0.03%	$0.10	$0.14
NAMIBIA	0.02%	$0.06	$0.08
NEPAL	0.03%	$0.12	$0.16
NETHERLANDS	2.37%	$8.52	$11.38
NEW ZEALAND	0.15%	$0.54	$0.72
NICARAGUA	0.03%	$0.10	$0.14
NIGER	0.01%	$0.02	$0.02
NIGERIA	0.91%	$3.28	$4.38
NORWAY	0.74%	$2.68	$3.56

*$1.8bn to $2.4bn, equivalent respectively to 75% and 100% of IFC’s authorized capital

Member	Shareholding	Annual GCI contribution with Paid-In Capital (USD millions) over 5-yr period	
	(% of total)	$1.8 bn* ($0.36bn/yr)	$2.4 bn ($0.48bn/yr)
OMAN	0.05%	$0.18	$0.24
PAKISTAN	0.82%	$2.94	$3.92
PALAU	0.00%	$0.00	$0.00
PANAMA	0.04%	$0.16	$0.20
PAPUA NEW GUINEA	0.05%	$0.18	$0.24
PARAGUAY	0.02%	$0.06	$0.08
PERU	0.29%	$1.04	$1.40
PHILIPPINES	0.53%	$1.92	$2.56
POLAND	0.31%	$1.10	$1.46
PORTUGAL	0.35%	$1.26	$1.68
QATAR	0.07%	$0.26	$0.34
ROMANIA	0.11%	$0.40	$0.54
RUSSIA	3.43%	$12.36	$16.48
RWANDA	0.01%	$0.04	$0.06
SAMOA	0.00%	$0.00	$0.00
SAO TOME AND PRINCIPE	0.02%	$0.06	$0.08
SAUDI ARABIA	1.27%	$4.56	$6.10
SENEGAL	0.10%	$0.34	$0.46
SERBIA	0.08%	$0.28	$0.36
SEYCHELLES	0.00%	$0.00	$0.00
SIERRA LEONE	0.01%	$0.04	$0.04
SINGAPORE	0.01%	$0.02	$0.04
SLOVAK REPUBLIC	0.19%	$0.68	$0.90
SLOVENIA	0.07%	$0.24	$0.32
SOLOMON ISLANDS	0.00%	$0.00	$0.00
SOMALIA	0.00%	$0.02	$0.02
SOUTH AFRICA	0.67%	$2.42	$3.24
SPAIN	1.56%	$5.62	$7.50
SRI LANKA	0.30%	$1.08	$1.44
ST. KITTS AND NEVIS	0.03%	$0.10	$0.12
ST. LUCIA	0.00%	$0.02	$0.02
SUDAN	0.00%	$0.02	$0.02
SWAZILAND	0.03%	$0.10	$0.14
SWEDEN	1.13%	$4.08	$5.44
SWITZERLAND	1.75%	$6.32	$8.42
SYRIAN ARAB REPUBLIC	0.01%	$0.02	$0.04
TAJIKISTAN	0.05%	$0.18	$0.24
TANZANIA	0.04%	$0.16	$0.20
THAILAND	0.46%	$1.66	$2.22
TIMOR-LESTE	0.03%	$0.12	$0.16
TOGO	0.03%	$0.12	$0.16
TONGA	0.00%	$0.00	$0.00

*$1.8bn to $2.4bn, equivalent respectively to 75% and 100% of IFC's authorized capital

Member	Shareholding	Annual GCI contribution with Paid-In Capital (USD millions) over 5-yr period	
	(% of total)	$1.8 bn* ($0.36bn/yr)	$2.4 bn ($0.48bn/yr)
TRINIDAD AND TOBAGO	0.17%	$0.62	$0.84
TUNISIA	0.15%	$0.54	$0.72
TURKEY	0.61%	$2.20	$2.94
TURKMENISTAN	0.03%	$0.12	$0.16
UGANDA	0.03%	$0.12	$0.14
UKRAINE	0.40%	$1.44	$1.92
UNITED ARAB EMIRATES	0.17%	$0.62	$0.82
UK	5.11%	$18.38	$24.52
USA	24.03%	$86.50	$115.34
URUGUAY	0.15%	$0.54	$0.72
UZBEKISTAN	0.16%	$0.58	$0.78
VANUATU	0.00%	$0.00	$0.02
VENEZUELA, REPUBLICA BOLIVARIANA DE	1.16%	$4.20	$5.58
VIETNAM	0.02%	$0.06	$0.10
YEMEN, REPUBLIC OF	0.03%	$0.10	$0.14
ZAMBIA	0.05%	$0.20	$0.26
ZIMBABWE	0.09%	$0.32	$0.42
TOTAL	**100%**	**$0.36bn**	**$0.48bn**

*$1.8bn to $2.4bn, equivalent respectively to 75% and 100% of IFC's authorized capital