INTERIM REPORT 2018

AFRICA GROUP I CONSTITUENCY

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EXECUTIVE DIRECTOR

Botswana – Burundi – Eritrea – Ethiopia – Gambia, The – Kenya – Lesotho – Liberia – Malawi – Mozambique – Namibia – Rwanda Seychelles – Sierra Leone – Somalia – South Sudan – Sudan – Swaziland – Tanzania – Uganda – Zambia – Zimbabwe

Table of Content

TABLES

FIGURES

ANNEXES

Acronyms and Abbreviations

CEMAC	African Economic and Monetary Community
D&I	Diversity and Inclusion
DPF	Development Policy Financing
DRM	Domestic Resource Mobilization
DSF	Debt Sustainability Framework
DTC	Developing and Transition Countries
EAP	East Asia and Pacific
ECA	Europe and Central Asia
EMDEs	Emerging Markets and Developing Economies
ESSF	Environmental and Social Safeguards Framework
FCS	Fragile and Conflict-Affected States
FCV	Fragility, Conflict and Violence
FDI	Foreign Direct Investment
FY	Fiscal Year
GCI	General Capital Increase
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPF	Investment Project Financing
LAC	Latin American and Caribbean
LICs	Low Income Countries
MCPP	Managed Co-Lending Portfolio Programs
MDBs	Multilateral Development Banks
MENA	Middle East and North Africa
MFD	Maximizing Finance for Development
MICs	Middle Income Countries
MIGA	Multilateral Investment Guarantee Agency
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PSW	Private Sector Window
SAR	South Asia Region
SCI	Selective Capital Increase
SDGs	Sustainable Development Goals
SMP	Staff Monitored Program
SSA	Sub-Saharan Africa
UN	United Nations
UNTAD	United Nations Conference on Trade and Development
US	United States
WBG	World Bank Group

Foreword by the Executive Director

I am pleased to present to you my 2018 Interim Report for the Africa Group 1 Constituency at the World Bank Group (WBG). This Report comes as an economic recovery sets in for most parts of the global economy, with the prospect for further growth over the medium term. Against a background of strengthening commodity markets and favorable financial conditions, growth in Sub-Saharan Africa rose to 2.7 percent in 2017, up from a twenty-year low of 1.4 percent recorded in 2016. As global economic prospects improve, opportunities are emerging to place Sub-Saharan African countries on a better footing to achieve their development aspirations. With the global economy poised to maintain momentum at a growth rate of nearly 4.0 percent in 2018-2019, a further strengthening in commodity prices and domestic demand, is expected to yield a consistent rise in regional growth to 3.5 percent by 2019.

Notwithstanding this favorable economic outlook, Sub-Saharan Africa still faces the stark reality that without a drastic change in effort, the region will continue to lag behind other regions on almost all economic and social indicators of human development. Much more, therefore, needs to be done to alter this narrative and materially change the lives for the region's one billion people. According to WBG data, while the incidence of extreme poverty in Sub-Saharan Africa fell to 41.0 percent in 2013, from 54.3 percent in 1990, nearly 400 million people still lived on US$1.90 per day or less, up from 276 million in 1990. With the population growing just below 3.0 percent, much higher economic growth rates will be required to sufficenctly raise per capita incomes to levels that would not only accelerate the decline in poverty rates, but see a decline in the overall poverty headcount. The urgency to do this will intenisfy as the vast number of the region's young population enters the job market.

Countries in Sub-Saharan Africa must, therefore, not relent in seizing emerging opportunities to accelerate inclusive growth and rebuild depleted policy buffers by undertaking necessary reforms, especially fiscal consolidation and the reform of State-Owned Enterprises. Continued improvements in the business environment, investing in infrastructure, particularly in energy, transport and agriculture, while improving health and education outcomes will remain important factors to transform the region. The sustainability of these efforts will certainly be crucial in safeguarding a consistent decline in the poverty headcount. For instance, the drive to close the infrastucture gap has seen a concomitant and worrying deterioration in debt sustainbility, especially as government revenues weakened in 2016 and 2017. It will remain important for African countries to strictly keep their borrowing limits within their capacities to properly manage this debt. Fiscal reforms to mobilize additional resources and rebuild buffers will therefore be essential to attain greater resilience and avoid disruptions and uncertainties that could emerge from a debt overhang. Further, countries will have to continue to build resilience to shocks arising from fragility, climate change, and insecurity, if they are to achieve the Sustainable Development (SDGs) and Africa's Agenda 2063.

The WBG, on its parts, is making efforts to respond to client demands. Through the *Forward Look* that was endorsed by the Development Committee at the 2016 Annual Meetings as the WBG's strategic plan to contribute to the attainment of the SDGs, progress is being made in the following areas: (i) providing services to all clients groups; (ii) scaling up resource mobilization, including through private sector solutions; (iii) taking stronger leadership on global issues; and (iv) building a more efficient and effective business model. Specifically, the WBG updated its leveraging framework by introducing the Maximizing Finance for Development (MFD) approach, which is an approach to systematically apply public development financing to facilitate private sector investments in tranformative WBG-supported programs and projects. The MFD has been designed to support upstream policy work to open sectors up to downstream private sector investment, with possible support through guarantees and other mobilization efforts.

This will be important for sectors such as the energy sector, which has traditionally been dominated by the public sector. So far, region-specific MFD strategies are being formulated, with the first one due to be launched in April 2018.

Further, the WBG continues to scale up investment, knowledge, and advisory services for countries facing Fragility, Conflict and Violence (FCV), and is aligning its resources and key partnerships with this strategic priority. Further, IDA18 ushered in special windows geared toward addressing fragility, while doubling the core allocation to FCV-affected countries to US$14.4 billion. Progress in being made in rolling out the maiden projects of the IFC-MIGA Private Sector Window (PSW) to help create markets in FCV-affected countries. To further spur private sector investments, IFC, through its *IFC 3.0 Strategy*, has introduced Country Private Sector Diagnostics to assess the state of the business landscape and scope for opportunities for private sector investment. The Agile Program, which seeks to improve internal processes, enhance efficiency in resource allocation and empower staff, is now it its second year of implementation and is showing early results of increased quality and saved time in World Bank operations.

Progress has also been made in strengthening the WBG's financial capacity. The Board, in April 2018, concluded deliberations on a capital package for IBRD and IFC, which consists of policy measures and a capital increase. The proposed package, which will be presented for Governors' consideration at the 2018 IMF/WBG Spring Meetings, includes a paid-in capital of US$7.5 billion for IBRD (US$5.0 billion for GCI and US$2.5 billion for SCI) and paid-in capital of US$5.5 billion for IFC (US$4.6 billion for GCI and US$0.9 billion for SCI). As part of this package, the WBG prioritizes its support to IBRD clients at the lower end of income spectrum, while strengthening operations in FCV countries.

Notwithstanding this progress, the WBG has to cover further ground in assisting Sub-Saharan African countries transform their economies. Commitments made by the WBG to lend support to strengthening Domestic Resource Mobilization and combating Illicit Financial Flows remain largely outstanding. There is scope to improve the engagement on the WBG in promoting the transformation of Africa's agriculture sector and in seeing that large scale infrastructure projects, especially in energy, receive sufficient support.

The Constituency Office continues to voice out these issues on behalf of its member countries. Guided by its work program, Agenda 24, the Office is advocating for greater engagement of the WBG in strategic areas of economic transformation. The Office has called on the WBG to deepen its engagement with Constituency countries in the development of the renewable energy and agriculture transformation at both the country and regional level. Noting the rising levels of external debt, the Office continues to call on the WBG to step up its work on Domestic Resource Mobilization. The Office also sees scope for strengthening the work program on job creation and is seeking to have the WBG undertake more jobs diagnostics in our Constituency countries. The Constituency Office continues to seek progress with the re-engagement of four of our Constituency countries (State of Eritrea, Federal Republic of Somalia, Republic of the Sudan, and Republic of Zimbabwe) with the WBG. I am pleased to report that some progress has been made since October, 2017, especially regarding Somalia, Sudan and Zimbabwe.

This Interim Report provides highlights on these, and other, issues pertinent to our economic transformation agenda. I hope Honorable Governors and other interested shareholders will find the 2018 Interim Report both informative and useful.

Andrew N. Bvumbe
Executive Director

Executive Summary

The growth of the global economy continued to gain momentum, as economic activities in both advanced economies and Emerging Markets and Developing Economies (EMDEs) picked up. A rebound in investment, manufacturing activity and trade induced global Gross Domestic Product (GDP) growth of 3.7 percent in 2017, up from 2.4 percent in 2016, and making this the fastest growth since 2011. On the back of benign financial conditions, accommodative policies and improved confidence, the global economic expansion is projected to edge up to 3.9 percent in 2018 and 2019. Downside risks, however, remain due to policy uncertainties, geopolitical risks, as well as protectionist trade policies and slow growth in productivity.

Sub-Saharan Africa (SSA)'s economy is estimated to have grown by 2.7 percent in 2017, from 1.4 percent in 2016, as commodity prices firmed up, financial markets remained favorable and slowing inflation induced household demand. While the growth recovery in 2017 was accompanied by an improvement in current account deficits, headline inflation, and fiscal deficits, the region's debt indicators continued to deteriorate. Over the medium term, growth in SSA is set to propel forward, reaching 3.3 percent in 2018 and 3.5 percent in 2019. The growth outlook for economies in Africa Group 1 Constituency in 2018 remains divergent, but broadly favorable, as only six of the 22 countries are expected to grow below the SSA average of 3.3 percent.

In the first half of Fiscal Year 2018 (FY18), total commitments by the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) increased by 13.0 percent or US$1.9 billion to US$16.2 billion, largely reflecting the scaled-up IDA envelope. In line with commitments, total disbursements by IBRD and IDA in the first half of FY18 increased by 3.4 percent or US$0.5 billion, from US$14.6 billion in the corresponding period of FY17. The increase in total disbursements was also due to a robust start to the implementation of IDA18.

The performance of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) declined in the first half of FY18. IFC Commitments in SSA dropped to US$0.7 billion from US$1.4 billion, mainly due to longer maturation of projects in the pipeline, while investments approved by the IFC Board dropped to US$6.4 billion, from US$7.2 billion. Disbursements, however, increased slightly from US$5.3 billion to US$5.5 billion, marking a 3.8 percent increase. MIGA's operations declined in the first half of FY18, with new guarantees dropping to US$1.75 billion, from US$2.5 billion in the corresponding period of FY17. MIGA supported six projects in the SSA region, of which four were in the Africa Group 1 Constituency.

During the first half of FY18, the WBG made progress in implementing key strategies and policies, including the Forward Look, the Environment and Social Framework and the agenda on Diversity and Inclusion. Progress was also made on the 2010 and 2015 Shareholding Reviews and the Capital Adequacy for IBRD and IFC. The WBG registered progress in implementing the Forward Look across all its four pillars. First, the WBG continued efforts to serve all client groups, following the scale up of IDA resources under IDA18, and the adoption of a new corporate strategy by IFC,"IFC 3.0 Strategy". Second, the WBG moved forward in its commitment to support the creation of markets, including through the strengthening of the Maximizing Finance for Development approach to crowd-in private sector participation in development. It also continued to develop the *Country Private Sector Diagnostic* – a tool to identify opportunities to create markets. Third, the WBG is making efforts to lead on global issues where is has a comparative advantage, including on climate, crisis response and jobs. Fourthly, under the Agile Program, the WBG continued to press for greater efficiency by, among other things, streamlining its internal processes, while implementing measures to meet its target of US$300.0 million in savings by the end of FY18. Regarding the new

Environmental and Social Framework, the WBG is on schedule to launch the Framework in the second half of 2018 as preparations conclude. Preparations have included the development of a full range of procedures, tools and templates, as well as training. On the pursuit of regional diversity in its staffing, the overall indicator for the WBG reached 12.4 percent of staff from the SSA and the Caribbean in 2017, just shy of the target of 12.5 percent. Notwithstanding this progress, diversity gaps remain at the managerial level.

The 2010 Shareholding Review for IBRD concluded in March 2018, with 96.9 percent of the 484,486 shares offered under a General Capital Increase (GCI) subscribed to by its members. Out of the 7,197 new shares offered to Africa Group 1 Constituency, 4,495 were subscribed, amounting to US$32,535,259.50. Consequently, the voting power for the Constituency declined to 1.937 percent from 2.03 percent. Meanwhile, discussions on the 2015 Shareholding Review continued with a view to reaching agreement on a balanced package for the GCI and Selective Capital Increase (SCI) by the 2018 IMF/WBG Annual Meetings. For IBRD, the Board converged on using a GCI to allocate 250,000 shares, distributed in line with the Dynamic Formula. On Capital Adequacy, different options to enhance the WBG's financial capacity were considered and packages of measures for IBRD and IFC have been developed. The proposed package for IBRD includes a paid-in capital of US$7.5 billion (US$5.0 billion for GCI and US$2.5 billion for SCI), while for IFC the package involves paid-in capital of US$5.5 billion (US$4.6 billion for GCI and US$0.9 billion for SCI).

Constituency Governors held their 15th Statutory Constituency Meeting on October 12, 2017, on the sidelines of the 2017 WBG and IMF Annual Meetings. Governors approved their statement to the Development Committee, which called for operationalization of the Maximizing Finance for Development approach; timely completion of the 2015 Shareholding Review; and enhanced support for climate resilience and human capital development. The statement also underscored the need for increased support to priority transformative and strategic regional projects through an Africa Region Integration Strategy. Governors also discussed the WBG's Scaling Solar Initiative, which provides an efficient and competitive approach in the procurement of renewable energy.

Kenyan Farmer in Kisumu

Lesotho Water Project – Maseru Maqalika Water Intake

Chapter 1

Economic Developments and Prospects

- Global Economic Performance
- Economic Performance in Sub-Saharan Africa
- The Global Medium-Term Outlook

Chapter 1

Economic Developments and Prospects

1.1 Overview

This Chapter presents an overview of the recent economic developments, medium-term outlook and risks thereof to the Global Economy. It also focuses on the economic performance and outlook on the Sub-Saharan Africa (SSA) region.

1.2 Global Economic Performance

Global economic performance continued to strengthen in 2017, as the world economy registered its fastest growth since 2010. Global output grew by an estimated 3.7 percent in 2017, up from 3.2 percent in 2016, on the back of a rebound in investment, manufacturing output, and world trade growth (Table 1.1). Much of the momentum was attributable to strong investments that were driven by favorable financing conditions, rising profits, and improved business sentiments. The expansion was notably broad-based, with half of the world's economies registering an uptick in economic activity.

Advanced economies grew by an estimated 2.3 percent in 2017, reflecting the combined effects of the pickup in investment and strengthening external demand. Growth in the U.S. is estimated to have picked up to 2.3 percent in 2017, up from 1.5 percent in 2016. This expansion was driven mainly by strengthening private investment and robust external demand. The pace of economic activity in the Euro Area surprised on the upside, expanding by an estimated 2.4 percent in 2017, from 1.8 percent in 2016. Policy stimulus and strengthening global demand were the main drivers of this growth acceleration. Japan's economy grew from 0.9 percent in 2016, to an estimated 1.8 percent in 2017, on the back of firming domestic demand Despite strengthening global demand, the net trade contribution to growth remained flat, as both imports and exports accelerated.

In Emerging and Developing Economies (EMDEs), economic activity grew by an estimated 4.7 percent in 2017, compared to 4.4 percent in 2016, amid firming activity in commodity exporters and continued robust growth among commodity importers. Improved economic activity among commodity exporters, such as Brazil and the Russian Federation drove a large part of this upswing. However, growth in EMDEs commodity exporters, at a low 1.8 percent in 2017, was insufficient to improve average growth in per capita incomes required to ultimately make significant inroads into poverty reduction.

Despite fluctuations throughout the year, oil prices firmed up in late 2017 (Figure 1.1, Panel b). Through mid-2017, the crude oil price was US$46/barrel, reflecting a rebound in U.S. crude oil output and rising production from Libya and Nigeria, which were exempt from production targets. This increase in production output partly offset the dampening effect of the cut by OPEC and some Non-OPEC producers. Towards the end of 2017, the price stood at US$60/barrel, reflecting the combined effect of strengthening demand, falling inventories, and the extension of production cuts to the end of 2018. Overall, the price of crude oil rose to US$53/barrel in 2017, a 24.0 percent increase on the 2016 prices.

Metal prices strengthened in 2017, with the index adding 22.0 percent, due in part to China's

robust demand (Figure 1.1, Panel c and d). The pickup was also driven by; low inventories of some metals, such as aluminum and zinc; China's efforts to curtail surplus production capacity, as well as industrial pollution. On the other hand, prices of agricultural commodities remained broadly stable, albeit with marginal decline. The agricultural price index shed about one percentage point between 2016 and 2017. The softening of the agricultural prices largely stemmed from reduced energy-related production costs, dissipated fears of supply disruptions as well as improved supply supported by favorable weather conditions. Going forward, these prices are projected to stabilize.

Global inflation picked up in 2017, rising to 2.3 percent, from 1.5 percent in 2016 (Table 1.1). Despite rising energy prices, inflation in most advanced economies remained subdued and below most central banks' targets, due to transitory and structural factors inherent in these economies. On the other hand, inflation eased slightly to 3.4 percent in 2017, from 3.5 percent in 2016, in the commodity-exporting EMDEs, allowing them to pursue a more accommodative monetary policy stance to stimulate their economies. In contrast, inflation inched up for the rest of the EMDEs, reaching 3.2 percent in 2017, from 2.7 percent in 2016.

Table 1.1: Global Economic Performance and Outlook

	2015	2016	2017[e]	2018[f]	2019[f]
Real GDP Growth (%)[1]					
World	2.7	3.2	3.7	3.9	3.9
Advanced Countries	2.1	1.7	2.3	2.2	1.9
Emerging Market and Developing Economies (EMDEs)	3.6	4.4	4.7	4.9	5.0
Commodity Exporting EMDEs	0.4	0.8	1.8	2.7	3.1
Inflation (%)[2]					
World	1.4	1.5	2.3	-	-
Emerging Market and Developing Economies (EMDEs)	2.4	2.7	3.2		
Commodity Exporting EMDEs	3.7	3.5	3.4	-	-
Other EMDEs	1.0	1.1	3.0	-	-
Commodity Prices					
Non-Energy Commodity Price Growth	-15.0	-2.6	4.9	0.6	0.8
Oil Price (US$ Per Barrel)	50.8	42.8	53.0	56.0	59.0
Oil Price Changes (Percentage Change)	-47.3	-15.6	23.8	9.4	1.7
Interest Rates					
US Dollar, 3-Months	0.3	0.7	1.3	-	-
Euro, 3-Months	0.0	-0.3	-0.3	-	-

Source: World Bank

Notes: e=estimate, f=forecast

(1) Real aggregate GDP growth rates are calculated using constant 2010 US dollar GDP weight.
(2) Inflation figures for 2017 are up to November.

The growth momentum in the global economy is projected to continue over the medium term, as economic activity in both advanced economies and EMDEs signal steady expansion. The global economy is projected to accelerate to 3.9 percent in 2018 and 2019, from an estimated 3.7 percent in 2017. Over this time horizon, a rebound in investment and trade, favorable financial conditions and a supportive policy mix are expected to support growth. This growth also reflected the expected impact of the recently introduced U.S. tax policy changes on investments. In addition, firming commodity prices are expected to add to growth rates of the commodity exporting EMDEs.

In 2018, growth in developing and emerging Asia is expected to keep the pace seen in 2017, at 6.5 percent. The region continues to account for over half of the World GDP. In 2018, growth in China is expected to moderate gradually to 6.6 percent. Indian economy is expected to boost South Asia Region's growth rate, as it picks up to 7.4 percent, from an estimated 6.7 percent in 2017. In emerging and developing Europe, growth is expected to slow down to 4.0 percent in 2018, from an estimated 5.2 percent in 2017, but remain stronger than expected, reflecting higher growth for Poland and Turkey. The region's economy will expand on the back of a favorable external environment, characterized by easy financial conditions and stronger than export demand from the Euro area, as well as an accommodative policy stance in Turkey.

Growth the Middle East and North Africa Economies are expected to pick up by a percentage point to 3.6 percent in 2018, up from an estimated 2.5 percent in 2017. This pickup in growth is mainly due to stronger oil prices, which are supporting recovery in domestic demand in oil exporters, including Saudi Arabia. Latin America and the Caribbean region stands to benefit from improved outlook for Mexico due to stronger U.S. demand and a firmer recovery in Brazil. However, the prospects in each region are subject to common downside risks such as disorderly adjustment of financial market conditions, policy uncertainty, geopolitical risks, increased restrictions to trade, and a slowdown in potential growth.

In SSA, growth is projected to pick up to 3.3 percent in 2018, from an estimated 2.7 percent in 2017, and progressively expand to 3.5 percent in 2019 and 3.6 percent in 2020 (Table 1.3). However, SSA's growth prospects are prone to specific risks, which, on balance, are tilted to the downside.

Table 1.2: Real GDP Growth in Advanced Economies

	2015	2016	2017[e]	2018[f]	2019[f]
Advanced Economies	2.2	1.7	2.3	2.2	1.9
Euro Area	2.0	1.8	2.4	2.2	2.0
Japan	1.1	0.9	1.8	1.2	0.9
United States	2.9	1.5	2.3	2.7	2.5

Source: International Monetary Fund

Notes: e=estimate, f=forecast

Figure 1.1: Commodity Prices

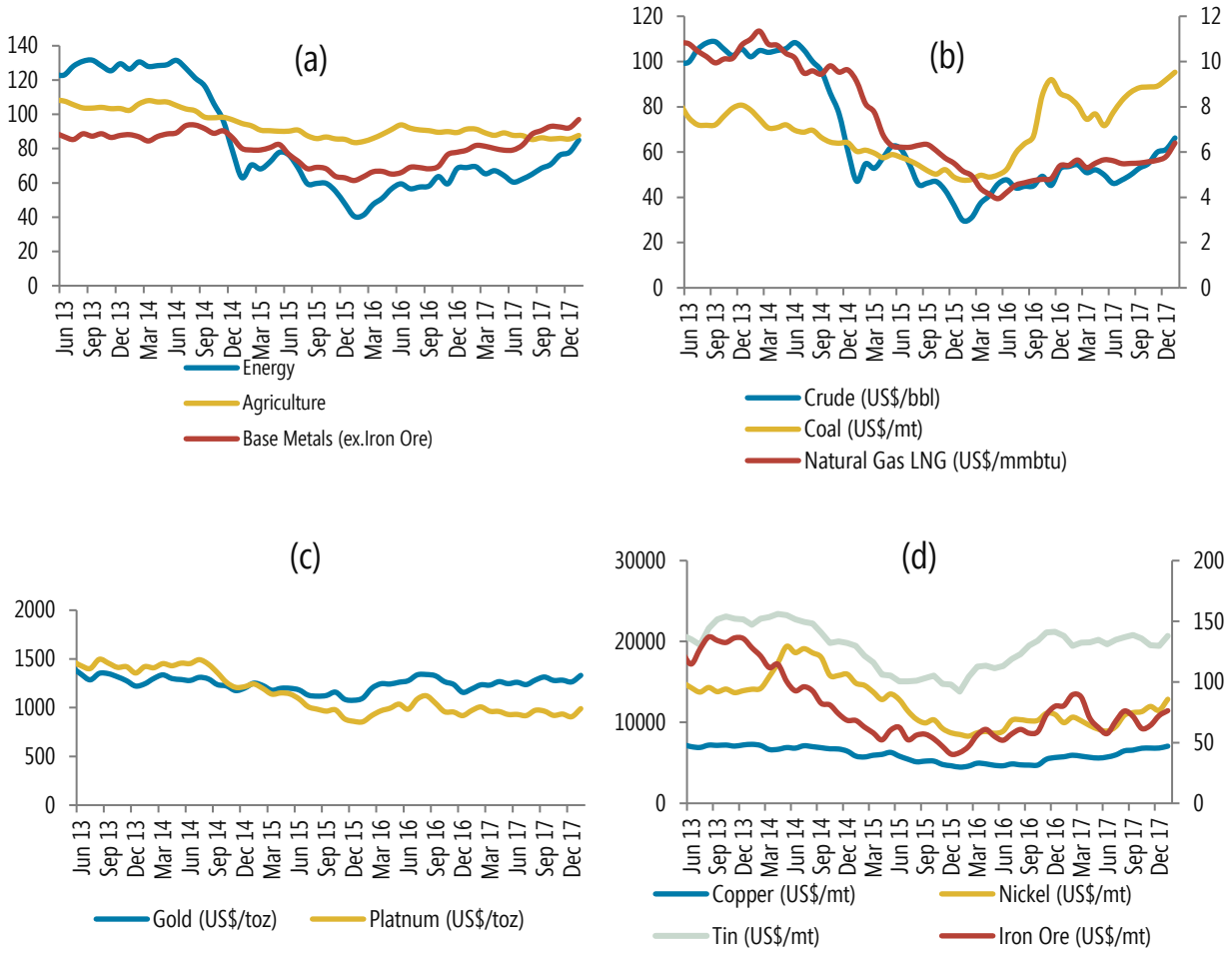
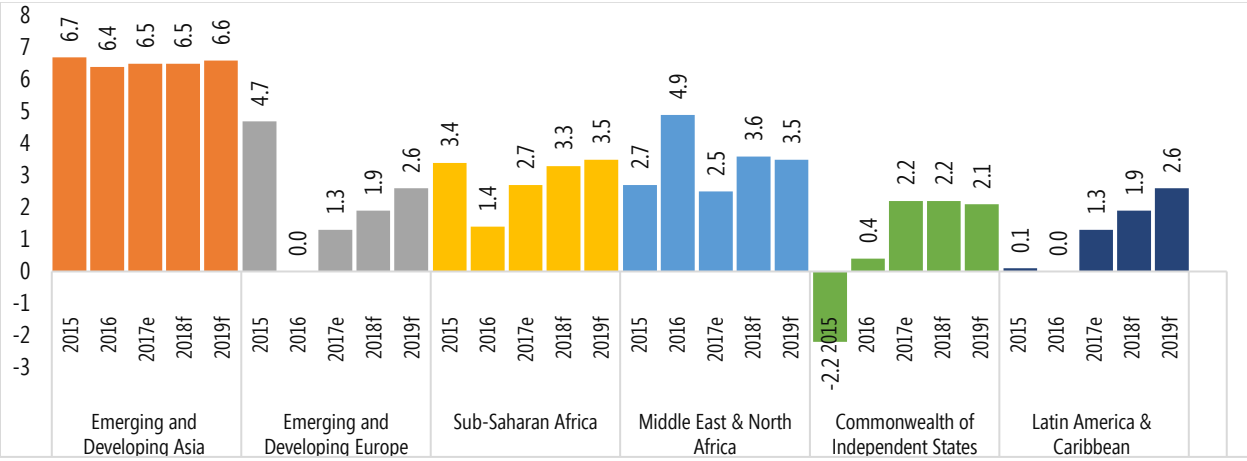


Figure 1.2: Real Output Growth in Emerging Markets and Developing Economies (%)



Source: International Monetary Fund and World Bank

Table 1.3: Real Output Growth in Emerging Markets and Developing Economies (%)

	2015	2016	2017[e]	2018[f]	2019[f]
Emerging Market and Developing Economies (EMDEs)	4.2	4.4	4.7	4.9	5.0
Commonwealth of Independent States	–2.2	0.4	2.2	2.2	2.1
Russia	–2.8	–0.2	1.8	1.7	1.5
Emerging and Developing Europe	4.7	3.2	5.2	4.0	3.8
Latin America and Caribbean	0.1	-0.7	1.3	1.9	2.6
Brazil	–3.8	–3.7	1.1	1.9	2.1
Mexico	2.6	2.9	2.0	2.3	3.0
Middle East and North Africa	2.7	4.9	2.5	3.6	3.5
Saudi Arabia	4.1	1.7	–0.7	1.6	2.2
Emerging and Developing Asia	6.7	6.4	6.5	6.5	6.6
China		6.7	6.8	6.6	6.4
India	7.9	7.1	6.7	7.4	7.8
Sub-Saharan Africa	3.4	1.4	2.7	3.3	3.5
Nigeria	2.7	-1.6	0.8	2.1	1.9
South Africa	1.3	0.3	0.9	0.9	0.9
Memo:					
Low Income Developing Countries (LICs)	4.6	3.6	4.7	5.2	5.3

Source: International Monetary Fund (IMF)

Notes: e=estimate, f=forecast

1.3 Economic Performance in Sub-Saharan Africa

Growth in SSA is estimated to have picked up to 2.7 percent in 2017, after slowing down sharply to 1.4 percent in 2016, as commodity prices recovered, global financing conditions remained favorable, and slowing inflation lifted household demand. However, the recovery in the region's largest economies, Angola, Nigeria, and South Africa, was modest. Continued recovery of oil prices supported economic activities in Angola and Nigeria. In Angola, a challenging operational environment limited investment in the oil sector. A modest recovery of the oil sector in Nigeria, partly due to a decline in militant attacks on oil pipelines, helped bring back positive GDP growth. In South Africa, GDP growth was upgraded from 0.6 percent in 2016, to 0.9 percent in 2017, as economic activity strengthened more than expected in the second half of the year. Prolonged low growth and high unemployment weighed on social progress in all three countries, with per capita GDP falling and the poverty headcount rising in Nigeria and South Africa. Excluding these three economies, growth in SSA is estimated at 4.5 percent in 2017, with Ethiopia and Tanzania growing at rates above 6.0 percent.

Elsewhere in the region, activity was weak among oil producers in the Central African Economic and Monetary Community (CEMAC), as they continued to deal with the effects of the earlier oil price shocks. In contrast, growth rebounded in the metals-exporting economies, as mining output and investment responded positively to a rise in metal prices and agricultural sector recovery. Nonetheless, their rebound was weaker than expected, owing to the effects of a

poor business environment in the non-metals sector. Growth in non-resource intensive countries, which consist mostly of agricultural exporters, was broadly stable, supported by infrastructure investment and high crop production. Economies in the West African Economic and Monetary Union (WAEMU) and East Africa expanded at a robust pace. However, activity slowed in some countries, due to lower cocoa prices (Côte d'Ivoire), drought (Kenya and Uganda), and weak execution of the capital expenditure budget (Tanzania).

1.3.1 Current Account Deficits and Financing

Current account deficits narrowed in SSA, but remained elevated, with the median current account deficit estimated at 7.0 percent of GDP. Oil exporters saw a significant decline in their deficits on account of subdued imports and improved terms of trade. Deficits narrowed moderately among metal exporters, but were still high in the non-resource intensive countries, due to strong import growth. Generally, accommodative international capital market conditions helped finance these deficits.

Although firmer commodity prices encouraged foreign investments in the hydrocarbon and mining sectors, foreign direct investment (FDI) to the SSA region is estimated to have increased moderately in 2017 (UNCTAD, 2017)[1]. The level of foreign exchange reserves in the SSA region remained low, with the median level of reserves registered at an equivalent of three months of import cover in 2017. This level was similar to the 2016 level but below its peak of 3.9 months of import cover in 2014, highlighting the need for countries across the region to rebuild their external buffers.

1.3.2 Inflation

Headline inflation slowed across the SSA region in 2017, amid stable exchange rates and slowing food price inflation due to higher food production. Notably, in South Africa, headline and core inflation moved closer to the mid point of the central bank's target range. Easing price pressures also created space for several central banks in the SSA region to cut interest rates. However, inflation remained elevated in some countries (Angola and Nigeria). In the case of Nigeria, this reflected the effects of poor harvests on food prices in some parts of the country. A continued moderation of food price inflation and exchange rate stability are expected to push headline inflation down further, which could provide room for further easing of monetary policy in the SSA region.

1.3.3 Fiscal Balances and Government Debt

Fiscal deficits in the SSA region narrowed slightly in 2017. In CEMAC countries, large spending cuts reduced overall deficits. However, in some oil exporting countries, fiscal policy was loosened in response to improving oil revenues. Fiscal deficits declined in non-resource intensive countries, but remained high in some countries, partly reflecting infrastructure investment in countries like Burundi and Ethiopia. Likewise, deficits narrowed moderately in metals exporters, as they continued to struggle to mobilize domestic revenue.

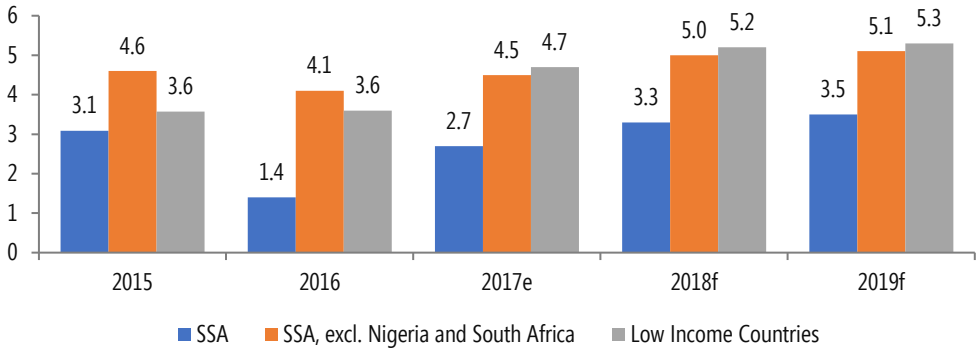
Government debt indicators continued to deteriorate in the SSA region in 2017, with the median debt-to-GDP ratio rising to 53.0 percent, from 48.0 percent in 2016. Consistent with the trend of government debt, the number of low-income countries in debt distress or facing high

1 United Nations Conference on Trade and Development, 2017, *World Investment Report 2017 - Investment and Digital Economy*, Geneva

risk of debt distress, jumped to 12 in 2016, from seven in 2013. In South Africa, government debt rose further, owing to fiscal slippages. Concerns about the debt outlook prompted Standard & Poor's to downgrade South Africa's local currency debt to sub-investment grade, bringing it in line with its foreign currency rating. Debt ratios edged up in non-resource intensive countries, as they continued to borrow (Burundi and Ethiopia), including on international capital markets (Côte d'Ivoire and Senegal), to finance public investment. Measures to curtail public spending helped slow the increase in debt-to-GDP ratios among oil exporters in CEMAC, but government debt in Equatorial Guinea is expected to rise sharply, due to a build-up in domestic arrears. Fiscal sustainability gaps in the SSA region remain sizable, contributing to the growing debt to GDP ratios.

On average, fiscal sustainability gaps widened between 2007 and 2016 by four percentage points, reflecting both widening fiscal deficits and rising debt levels. The erosion of fiscal sustainability was widespread, with about 80 percent of the countries experienced sizable deterioration in sustainability gaps (i.e., worsened by one percentage of GDP or more) over 2007-16. Weakening government debt dynamics in the SSA region was also accompanied by an increase in private sector debt. In 2016, private sector credit by domestic banks averaged 29.0 percent of GDP. An increase in private sector debt across the region suggests the possibility of growing contingent liabilities for the public sector.

Figure 1.3: Real Output Growth for Sub-Saharan Africa (%)



Source: International Monetary Fund and World Bank

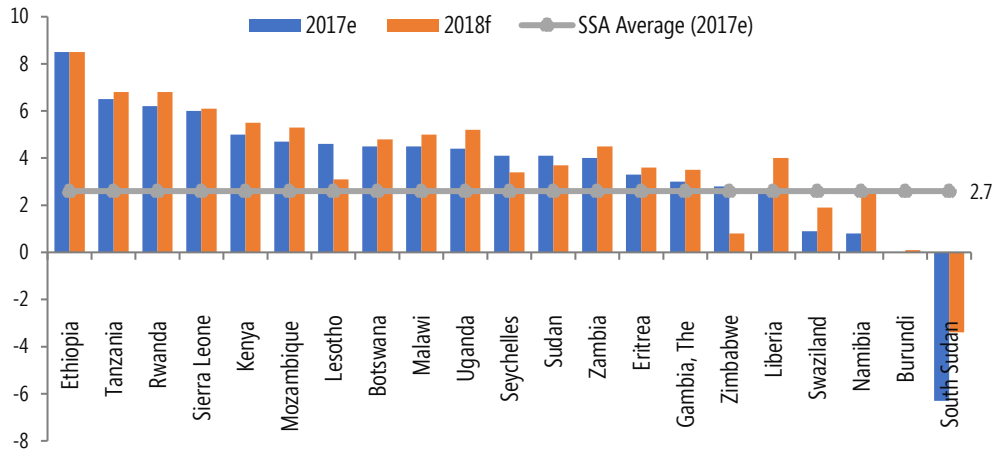
Table 1.4: Selected Indicators for Sub-Saharan Africa (%)

	2015	2016	2017e	2018f	2019f
Emerging and Developing Economies (EMDEs)	3.6	4.4	4.7	4.9	5.0
All SSA GDP Growth	3.1	1.4	2.7	3.3	3.5
All SSA GDP Growth, excl. Angola, Nigeria and South Africa	4.6	4.1	4.5	5.0	5.1
GDP Per Capita (Constant 2010 US$)	0.4	-1.4	-0.3	0.5	0.8
Private Consumption	5.5	1.4	2.1	2.6	2.7
Fixed Investment	1.3	1.6	5.2	6.8	7.1
Exports,	2.3	0.4	2.5	3.2	3.4
Imports,	0.7	0.0	2.3	2.9	3.1
Net Exports, Contribution to Growth	0.5	0.1	0.1	0.1	0.1

Source: International Monetary Fund and World Bank

Notes: e=estimate, f=forecast

Figure 1.4: Real Output Growth in Africa Group 1 Constituency (%)



Source: International Monetary Fund

1.3.4 Economic Performance in Africa Group 1 Constituency

The economic performance of countries in the Africa Group 1 Constituency has been varied, although most countries grew above the regional average since 2015. Ethiopia, Tanzania, Rwanda, Sierra Leone and Uganda grew steadily at levels above 5.0 percent, with Ethiopia and Tanzania leading at high growth rates above 6.0 percent. The main drivers of this growth were good agricultural performance which generated positive spillover effects on industrial and services sectors. In Uganda, however, growth took a slight knock as a result of private sector constrains and poor execution of the public-sector investment program. Sierra Leone also recovered from the twin shocks of Ebola and the collapse of iron ore exports.

Other countries have had very consistent and strong economic performance, with the recovery from drought and improved agricultural performance, increased mining activity,

increased investment in infrastructure, implementation of sound macroeconomic policies being some of the common drivers. A few outliers such as South Sudan and Swaziland have steadily had negative or extremely low growth rates, respectively over the period. In the case of South Sudan, the economy contracted by 6.3 percent due to political uncertainty, low oil production and disruptions in the agricultural sector. The slow recovery of the agricultural sector and escalating fiscal challenges are the main factors that affected the performance of the Swaziland economy. In spite of the positive growth rates, except Seychelles, there are still pockets of poverty and inequality throughout the region. Other prevalent challenges include increasing debt and fiscal instability resulting from increased borrowing from non-concessional sources.

Table 1.5: Real Output Growth in Africa Group 1 Constituency (%)

	2015	2016	2017[e]	2018[f]
SSA	**3.4**	**1.4**	**2.7**	**3.3**
Botswana	-1.7	4.3	4.5	4.8
Burundi	-4.0	-1.0	0.0	0.1
Eritrea	4.8	3.7	3.3	3.6
Ethiopia	10.4	8.0	8.5	8.5
Gambia, The	4.3	2.2	3.0	3.5
Kenya	5.7	5.8	5.0	5.5
Lesotho	2.5	2.4	4.6	3.1
Liberia	0.0	-1.6	2.6	4.0
Malawi	2.9	2.3	4.5	5.0
Mozambique	6.6	3.8	4.7	5.3
Namibia	6.0	1.1	0.8	2.5
Rwanda	8.9	5.9	6.2	6.8
Seychelles	5.0	4.5	4.1	3.4
Sierra Leone	-20.5	6.1	6.0	6.1
South Sudan	-0.2	-13.8	-6.3	-3.4
Sudan	4.9	4.7	4.1	3.7
Swaziland	1.5	1.3	0.9	1.9
Tanzania	7.0	7.0	6.5	6.8
Uganda	5.7	2.3	4.4	5.2
Zambia	2.9	3.4	4.0	4.5
Zimbabwe	1.4	0.7	2.8	0.8

Source: International Monetary Fund
Notes: e=estimate, f=forecast, na=not available

1.4 The Global Medium-Term Economic Outlook

Global broad based economic expansion is expected to gather strength over the medium term, as the cyclical upswings continue, reinforced by the rebound in investment, trade, and manufacturing activity. The outlook is further supported by the benign financial conditions, generally accommodative policies, improved confidence and the waning impact of the earlier commodity price shock. Jointly, these factors will help expand global output to by 3.9 percent in 2018 and 2019, as the global economy gravitates toward near or full employment capacity.

Growth in major economies is set to moderate marginally over the forecast horizon, as a cyclical upturn in investment and further normalization of monetary policy unwind. Growth in advanced economies is expected to inch up to 2.3 percent in 2018 and to 2.2 percent in 2019. In the US, real GDP is expected to expand by 2.7 percent in 2018, and moderate gradually to 2.5 percent in 2019[2]. The U.S. tax policy changes are expected to stimulate near term economic activity, especially in investments. The low labor participation and weak productivity trend could, however, cause a slowdown in U.S. growth over the longer term.

The Euro Area economy is set to continue expanding in 2018, albeit at a pace slower than in the preceding year, as the momentum of domestic demand slows and policy stimulus becomes less supportive. The Euro Area economy will, therefore, grow by 2.2 percent in 2018 and hover around the potential growth of an average 2.0 percent in 2019, as the slack in the labor market fades. After expanding by 1.8 percent in 2017, the growth of the Japanese economy is projected to slow to 1.2 percent and 0.9 percent in 2018 and 2019, respectively, as policies become less accommodative and export growth moderates. The planned consumption tax hike in 2019 is expected to lower growth further, albeit temporarily, to 0.5 percent, while the shrinking working-age population is expected to continue constraining long-term growth prospects. The Chinese economy is expected to expand by 6.6 percent in 2018, as policies tighten and the benefits of reforms wane. Growth is expected to average 6.4 percent in 2019.

Going forward, not every region is expected to sustain the gains of the broad-based upswing of the Global Economy seen in 2017 (Figure 1.2 and Table 1.3). Growth in Commonwealth of Independent States is projected to soften to 2.1 percent in 2019[3] as growth in Russia moderates to 1.5 percent. Growth will also moderate in Emerging and Developing Europe the recovery in Turkey slows down and expected improvement in commodity exporters, is offset by the gradual slowdown on the rest of the region. In Middle East and North Africa, growth is expected to slow down slightly as ongoing fiscal adjustments weigh on growth prospects.

On the other hand, Emerging and Developing Asia and Latin American and the Caribbean regions are set to continue expanding at a solid pace. Growth in the Emerging and Developing Asia is expected to inch up to 6.6 percent in 2019,

[2] Growth rate of 2.1 percent is, according to the estimates of Congressional Budget Office 2017 and others, close to an upper range of potential output growth.

[3] World Bank Global Economic Prospects, January 2018

from 6.5 percent in 2018, reflecting a confluence of slower moderation of the Chinese economy, stronger growth in India and stable growth in the Association of Southeast Asian Nations (ASEAN) Region. Improving performance of commodity exporters due to firming commodity prices is projected to support growth in the Latin America and the Caribbean region. The region's economy is projected to expand edge up to 2.6 percent in 2019, from the projected 1.9 percent in 2018.

Growth in SSA is set to propel forward, reaching 3.3 percent in 2018 and accelerate further to a yearly average of 3.8 percent in 2019. This modest pickup would be supported by strengthening commodity prices, a recovery in the agricultural sector, and ongoing infrastructure investments in non-resource-intensive countries. Growth in Angola, Nigeria, and South Africa is projected to improve, although the political dynamics may dampen the expected growth momentum. The SSA outlook is, however, prone to downside risks, such as tightening of global financial terms; higher inflation pressure; stronger US dollar; lower equity prices; adoption of protectionist trade policies; geopolitical tensions; climate change risks, including extreme weather risks; trade barriers; and migration.

Countries should therefore use various policy levers at their disposal to mitigate the looming downward risks. These policies should aim at implementing structural reforms to increase productivity; fostering inclusive growth; strengthening fiscal buffers; improving public sector investment efficiency; improving public debt management; and pursuing fiscal consolidation while protecting and boosting the quality of public health.

Rwanda Access to Water through a Government sponsored Project

Chapter 2

World Bank Group Operations

- Overview
- IBRD and IDA Operations
- IFC Operations
- MIGA Operations

Chapter 2

World Bank Group Operations

2.1 Overview

This Chapter covers the lending operations of the World Bank Group (WBG), with a primary focus on the African Region. In general, lending operations to member countries have been increasing significantly during the past few years, reflecting increasing demand for WBG resources. The commencement of the implementation of the eighteenth replenishment cycle of the International Development Association (IDA18) in the first half of fiscal year ending June 2018, has seen commitments rise significantly. The Sub-Saharan Africa (SSA) region has been the largest beneficiary of this growth. Conversely, there has been a notable decline in commitments by the International Bank for Reconstruction and Development (IBRD) over the same period, reflecting the need to boost capital for meeting rising client demand.

2.2 IBRD and IDA Operations

The combined IBRD and IDA commitments rose in first half of Fiscal Year 2018 (FY18), to US$16.2 billion from US$14.3 billion during the same period in FY17, a 13.0 percent rise[4] (Table 2.1). The SSA region received the lion's share of the commitments at US$6.2 billion or 38 percent of the commitments.

The increase in total commitments was driven by the commencement of implementation of the historic IDA18 in July 2017. However, IBRD total commitments declined by 28.6 percent, from US$10.6 billion in the first six months of FY17 to US$7.6 billion in the corresponding period in FY18. The trend of declining IBRD commitments has been observed since the previous fiscal year, FY17, and is a function of the declining appetite for Development Policy Financing (DPF) and Management's cautious use of capital to preserve the Bank's Triple A status.

Meanwhile, IDA commitments rose, riding on the tailwind of the IDA18 scale up, especially for countries facing Fragility, Conflict-and Violence (FCV), many of which are in SSA. Beyond FY18, IDA's lending is expected to grow further with the continued implementation of IDA18. In contrast, the lending trajectory for IBRD is uncertain pending the completion of the capital increase discussions currently underway.

Total IBRD and IDA disbursements marginally grew by US$0.5 billion, or 3.4 percent during the first half of FY18, mimicking the upward trajectory reflected in the commitments during the same period in FY17 (Table 2.2). The Latin America and Caribbean (LAC) and the Middle East and North Africa (MENA) regions, however, recorded negative trends with their disbursements, shedding a combined US$2.3 billion from last year's US$6.0 billion of their half-yearly total. SSA disbursements were 29 percent of the total disbursed during the period.

[4] Legal obligation to provide financial products to clients for Board approved projects.

Table 2.1: Gross IBRD and IDA Commitments by Region (US$ billion)

Region	(US$ billion)		Share (%)	
	First Half	First Half	First Half	First Half
	FY17	FY18	FY17	FY18
Sub-Saharan Africa	2.4	6.2	16.8	38.3
East Asia and Pacific	1.7	1.1	11.9	6.8
Europe and Central Asia	3.3	0.9	23.1	5.6
Latin America and Caribbean	2.0	1.5	14.0	9.3
Middle East and North Africa	3.7	2.6	25.9	16.0
South Asia	1.2	3.9	8.4	24.1
Total	14.3	16.2	100	100

Source: World Bank

Table 2.2: Gross IBRD and IDA Disbursements by Region (US$ billion)

Region	(US$ billion)		Share (%)	
	First Half	First Half	First Half	First Half
	FY17	FY18	FY17	FY18
Sub-Saharan Africa	3.1	4.4	21.2	29.1
East Asia and Pacific	2.0	2.3	13.7	15.2
Europe and Central Asia	1.8	3.1	12.3	20.5
Latin America and Caribbean	2.6	2.1	17.8	13.9
Middle East and North Africa	3.4	1.6	23.3	10.6
South Asia	1.7	1.6	11.6	10.6
Total	14.6	15.1	100	100

Source: World Bank

2.2.2 IBRD Lending Operations

During the first half of FY18, commitments to IBRD totaled US$7.6 billion, reflecting a drop of 29.0 percent over the same period in FY17. In the prior year, the drop was 38.0 percent. This drop mainly resulted from a US$2.1 billion decline in Development Policy Financing (DPF), mainly for budget support, and a US$1.6 billion decline in Investment Project Financing (IPF). An offset of US$0.7 billion came from an increase in the Program-for-Results (PfoR) operations utilized mainly by the LAC region and South Asia Regions (SAR). Commitments to SSA decreased by US$0.2 billion, but maintaining the same percentage weight of the overall total IBRD commitments.

IBRD gross disbursements likewise declined by 8.0 percent, from US$9.7 billion to US$8.9 billion during the first half of FY18 continuing the trend set in commitments (Table 2.4). This was driven by a US$1.3 billion decline in DPF operations, which was partly offset by US$0.6 billion of higher investment lending operations during the first six months of FY18. Three regions, including SSA, recorded increased disbursements, while there were noticeable declines in LAC and MENA regions.

2.2.1 IDA Lending Operations

Total IDA commitments surged from US$3.7 billion in the first half of FY17, to a high of US$8.7 billion in the corresponding period in FY18 (Table 2.5). The dramatic rise in commitments of US$5.0 billion in the first half of FY18, was due to the scaled-up IDA envelope in the first year of the three-year funding cycle for IDA18, which supported a build-up of a strong pipeline of projects. SSA remains the largest beneficiary of IDA resources, accounting for 66.0 percent of the IDA envelope committed to date. The higher commitments were most evident in SSA (US$3.9 billion) and SAR (US$1.4 billion). The US$3.9 billion increase in SSA reflected a US$2.0 billion increase in IPF operations and a US$1.7 billion increase in P4R operations. Of the US$8.7 billion, US$1.3 billion was to FCV countries.

The IDA lending portfolio is projected to fall between US$22.7 billion and US$25.9 billion by end of FY18, about a third of the IDA18 lending envelope of US$75.0 billion. Total IDA gross disbursements rose from US$4.9 billion to US$6.2 billion during the first half of FY18, a 27.0 percent or US$1.3 billion increase from the corresponding period in FY17 (Table 2.6). The SSA and SAR regions together accounted for 80.0 percent of total gross disbursements during the first half of FY18. During this period, the LAC region had the least gross disbursements amounting to US$0.2 billion. The IDA disbursements are skewed in favor of SSA, thus reflecting the dominance of FCV countries in the region.

Table 2.3: IBRD Gross Commitments by Region

Region	(US$ billion)		Share (%)	
	First-Half FY17	First -Half FY18	First-Half FY17	First -Half FY18
Sub-Saharan Africa	0.6	0.5	6.0	6.0
East Asia and Pacific	1.2	0.9	12.0	12.0
Europe and Central Asia	3.1	0.8	29.0	11.0
Latin America and Caribbean	1.8	1.5	17.0	20.0
Middle East and North Africa	3.4	2.2	32.0	28.0
South Asia	0.4	1.7	4.0	23.0
Total	10.6	7.6	100.0	100.0

Source: World Bank

Table 2.4: IBRD Gross Disbursements by Region

Region	(US$ billion)		Share (%)	
	First-Half FY17	First-Half FY18	First-Half FY17	First-Half FY18
Sub-Saharan Africa	0.2	0.6	2.0	6.0
East Asia and Pacific	1.6	1.7	16.0	19.0
Europe and Central Asia	1.6	2.9	16.0	33.0
Latin America and Caribbean	2.5	2.0	26.0	22.0
Middle East and North Africa	3.2	1.3	34.0	15.0
South Asia	0.6	0.4	6.0	5.0
Total	**9.7**	**8.9**	**100.0**	**100.0**

Source: World Bank

Table 2.5: IDA Commitments by Region

Region	(US$ billion)		Share (%)	
	First-Half FY17	First-Half FY18	First-Half FY17	First-Half FY18
Sub-Saharan Africa	1.8	5.7	50	66
East Asia and Pacific	0.5	0.2	14	3
Europe and Central Asia	0.2	0.1	4	1
Latin America and Caribbean	0.1	-	2	-
Middle East and North Africa	0.3	0.4	7	4
South Asia	0.8	2.3	23	26
Total	**3.7**	**8.7**	**100**	**100**

Source: World Bank

Table 2.6: IDA Gross Disbursements by Region

Region	(US$ billion)		Share (%)	
	First-Half FY17	First-Half FY18	First-Half FY17	First-Half FY18
Sub-Saharan Africa	2.9	3.8	59.2	61
East Asia and Pacific	0.4	0.6	8.2	10
Europe and Central Asia	0.2	0.2	4.1	3
Latin America and Caribbean	0.1	0.1	2.1	2
Middle East and North Africa	0.1	0.3	2.1	5
South Asia	1.1	1.2	22.5	19
Total	**4.9**	**6.2**	**100.0**	**100.0**

Source: World Bank

2.3 IFC Operations

The International Finance Corporation (IFC) began implementing the IFC 3.0 Strategy: *Creating Markets and Mobilizing Private Capital* strategy during the first half of FY18. Through this Corporate Strategy, IFC is focusing on creating new and stronger markets in FCV and IDA countries, where private sector investment has, hitherto, been limited, due to risks associated with such instruments.

IFC's total commitments declined by 7.2 percent to US$7.6 billion in the first half of FY18, from US$8.2 billion in the first half of FY17 (Table 2.7). Commitments in the SSA region declined due to the slower maturation of projects in the pipeline, compared to the previous period. This decline notwithstanding, IFC committed two transformational projects in the power sector in Mozambique and Senegal.

Commitments to the MENA region rose by 76.7 percent mainly due to sizeable deals in infrastructure projects in Egypt and Jordan. The bulk of the commitments were to the Financial Institutions Group (33.0 percent), Infrastructure and Natural Resources (30.0 percent), and Manufacturing Agribusiness and Services (26.0 percent). This represents 89.0 percent of the total commitments in the first half of FY18, compared to 83.0 percent in the first half of FY17 (Table 2.8).

The Executive Board of the IFC approved investments totaling US$6.4 billion in the first half of FY18, down from US$7.2 billion in the first half of FY17 (Table 2.9). This decline was largely due to the lumpy pipeline and the long gestation period for some projects. Approvals[5] for the MENA region and East Asia and Pacific (EAP) region rose by US$1.0 billion and 0.3 billion, respectively. On the other hand, approvals for the LAC, ECA and the World Region[6] declined by US$0.9 billion, US$0.8 billion and US$0.4 billion, respectively.

Total IFC disbursements increased by US$0.2 billion, to US$5.5 billion in the first half of FY18, from US$5.3 billion in the same period in FY17 (Table 2.11). This change comprised increases in SAR by US$0.5 billion and to the Region's operations by US$0.3 billion. This increase was slightly tapered by decreases in disbursements to the other regions.

IFC activities are expected to pick up during the second half of FY18, as the implementation of the IFC 3.0 Strategy continues. Particularly, the Private Sector Window (PSW), established under IDA18, and the Creating Markets Advisory Window are expected to buoy activities, as they support high-impact investments in the most challenging markets. IFC is further expected to strengthen the development impact of its operations as it continues to collaborate across the WBG through Maximizing Finance for Development.

2.3.1 Development Impact and Pipeline

The IFC is improving its framework to estimate and track the development impact of its operations. So far, IFC estimates its development impact to have increased from FY17 through the first half of FY18. The estimates include increased access to financial services for 30 million microfinance clients and 900,000 Small and Medium-scale Enterprises, and improved infrastructure services for 38.6 million people.

[5] Authorization by Board/Management to proceed to Commitment in accordance with Official Procedures.

[6] World Region refers to IFC operations undertaken in more than one region.

Table 2.7: IFC Commitments by Region

Region	(US$ million)		Share (%)	
	First-Half FY17	First-Half FY18	First-Half FY17	First-Half FY18
Sub-Saharan Africa	1,387	732	16.9	9.6
East Asia and Pacific	993	1,030	12.1	13.5
Europe and Central Asia	1,490	1,467	18.2	19.3
Latin America and Caribbean	2,603	2,349	31.7	30.9
Middle East and North Africa	751	1,327	9.2	17.4
South Asia	967	606	11.8	8.0
World+	15	101	0.2	1.3
Total	**8,207**	**7,612**	**100**	**100**

Source: IFC

Notes:
Commitments include from IFC's long term funds its own account and from mobilization.
+ World Region refers to IFC operations undertaken in more than one region.

Table 2.8: IFC Approvals by Region

Region	(US$ million)		Share (%)	
	First-Half FY17	First-Half FY18	First-Half FY17	First-Half FY18
Sub-Saharan Africa	791	867	10.9	13.6
East Asia and Pacific	783	1,057	10.8	16.5
Europe and Central Asia	1,950	1,184	26.9	18.5
Latin America and Caribbean	2,368	1,467	32.7	22.9
Middle East and North Africa	278	1,306	3.8	20.4
South Asia	409	247	5.6	3.9
World	663	270	9.2	4.2
Total	**7,241**	**6,398**	**100**	**100**

Source: IFC
Notes:
Approvals include funding from syndications.

Table 2.9: IFC Disbursements by Region

Region	(US$ million)		Share (%)	
	First-Half FY17	First-Half FY18	First-Half FY17	First-Half FY18
Sub-Saharan Africa	616	533	11.7	9.7
East Asia and Pacific	847	566	16.1	10.3
Europe and Central Asia	1,246	1,160	23.6	21.2
Latin America and Caribbean	1,247	1,183	23.6	21.6
Middle East and North Africa	393	368	7.4	6.7
South Asia	475	959	9.0	17.5
World	453	711	8.6	13.0
Total	**5,277**	**5,480**	**100**	**100**

Source: IFC

2.6 MIGA Operations

During the first half of FY18, the Multilateral Investment Guarantee Agency (MIGA) supported 16 new projects, up from 11 new projects supported during the corresponding period in FY17. New gross issuances amounted to US$1.75 billion in total activity financing to its member countries. As of the first half of FY18, MIGA had issued guarantees amounting to US$2.5 billion (Table 2.10). Gross exposure in FCV countries showed similar growth, almost tripling from $0.6 billion at the end of FY12, to the current level of US$1.75 billion, a 183.0 percent increase.

MIGA has nearly doubled its gross outstanding exposure in six years from US$10.3 billion in FY12, to the current level of US$19.2 billion, with gross exposure in IDA-eligible countries doubling from US$2.7 billion at the end of FY12, to its current level of $5.7 billion, a 111.0 percent increase. In addition, gross outstanding exposure on climate-related and energy efficiency projects increased from US$3.7 billion at the end of FY15, to its current level of US$4.2 billion (Table 2.13).

MIGA continues to collaborate within the WBG, particularly on Maximizing Finance for Development (MFD) and the PSW. The PSW approved in April 2017, prioritizes projects in IDA and FCV countries, and projects that focus on Climate and Energy Efficiency. Based on figures from calendar year 2016, MIGA is among the top three Multilateral Development Banks (MDBs) that have mobilized private sector investment to the Low Income Countries (LICs) and Middle-Income Countries (MICs).

During the period under review, MIGA's net exposure in SSA increased, compared to the same period in FY17 (Table 2.11). The value of the guarantees increased from US$0.3 billion, to US$1.7 billion. The share of SSA guarantees also increased from 10.9 percent to 24.7 percent of guarantees. Two new projects were added in the Constituency, with a total value of US$0.02 billion in the energy sector in Namibia (Table 2.12)

Table 2.10: MIGA Operations

	First Half FY17	First Half FY18
Global		
Number of Guarantees Issued	19	16
Number of Projects Supported	19	35
New Projects[1]	11	16
Previously Supported[2]	8	19
Amount of New Issuance, Gross (US$' billion)	2.5	1.75
Gross Outstanding Exposure[3] (US$' billion)	15.8	19.2
Net Outstanding Exposure (US$' billion)	6.4	7.0

Source: MIGA

Notes:
1. Projects receiving MIGA support for the first time (including expansions).
2. Projects supported by MIGA in current fiscal year as well as in previous years.
3. Gross outstanding exposure refers to the maximum aggregate liability. Net outstanding exposure refers to the gross outstanding exposure less ceded exposure.

Table 2.11: MIGA Net Exposure by Region+

	First Half FY17			First Half FY18		
	No of projects	Amount US$ M	In % of total	No of projects	Amount US$ M	In % of total
Sub-Saharan Africa	3	267.4	10.9	6	1,728.0	24.7
East Asia and Pacific	1	406.2	16.6		572.3	8.2
Europe and Central Asia	12	1,395.1	56.8	1	2,173.6	31.0
Latin America and Caribbean				1	1,493.8	21.3
Middle East and North Africa	1	215.6	8.8	7	589.1	8.4
South Asia	2	169.8	6.9	1	448.66	6.4
Total	**19**	**2,454.1**	**100**	**16**	**7,005.7**	**100**

Source: MIGA

Notes:

+ Numbers represent stock end of the first half in each year.

Table 2.12: MIGA Guarantees in Sub-Saharan Africa – First Half of FY 18

Name of beneficiary Country	No. of Projects	Sector	Guarantee Amount (US$ million)	In % of Total
Africa Group 1 (Total)	2	Infrastructure	422	24.4
Namibia	*2*	*Energy Infrastructure*	*2.4*	*0.03*
Other SSA	2	Infrastructure, Oil and Gas	1,306	75.6
Total SSA	**6**		**1,728**	**100**

Source: MIGA.

Table 2.13: MIGA Guarantees by Priority Area – First Half FY18

Priority area[1]	No. of projects supported	Share (%)	Guarantee Amount ($M)	Share (%)
IDA-eligible countries	3	18.8	114.2	6.5
Fragile countries	1	6.3	24.3	1.4
Innovative Projects[2]	13	81.3	306.6	17.6
Climate and Energy Efficiency	3	18.8	114.2	6.5

Source: MIGA

1. Some projects address more than one priority area; as a result, share figures may not add to 100%.
2. Innovative projects include public-private blend financing, state owned enterprises, sub-sovereign guarantees and new industries.

Mozambique – Manhica Sugarcane Production.

Fruit and Vegetable Market Stand in Uganda

Chapter 3

Selected Policy Issues and Updates

- Implementation of the Forward Look
- The 2010 and 2015 Shareholding Reviews and Capital Adequacy
- Update on IDA18 Implementation
- Implementation of the new Environmental and Social Framework
- Implementation of the Procurement Framework
- Domestic Resource Mobilization: The Medium-Term Revenue Strategy
- Diversity and Inclusion in the World Bank Group

Chapter 3

Selected Policy Issues and Updates

3.1 Overview

This Chapter provides updates on selected World Bank Group (WBG) policies and strategies that are of interests to the Africa Group 1 Constituency. The Chapter covers Board discussions on the Forward Look Strategy, and the 2015 Shareholding Review and Capital Adequacy. It provides updates on the WBG's ongoing work on Domestic Resource Mobilization (DRM), and the implementation of the Environmental and Social Framework (ESF) and the Procurement Framework. The Chapter concludes with an update on the WBG's effort to meet the Diversity and Inclusion (D&I) targets in its staffing compliment.

3.2 Implementation of the Forward Look

The *Forward Look* describes how the WBG will deliver on the twin goals and its three priorities of sustainable and inclusive growth, investment in human capital, and strengthening resilience. It was endorsed by the Development Committee during the 2016 Annual Meetings and is anchored by the following four pillars: i) Serving all clients; ii) Creating Markets; iii) Leading on Global Issues; and iv) Improving the Business Model. Since its endorsement, the WBG has registered progress across all pillars.

3.2.1. Serving All Clients

The WBG has undertaken several activities in providing services to all clients, including IDA countries, Small States and Middle-Income Countries (MICs). It continues to be a "Knowledge Bank", accumulating and sharing best practices on development from a wide variety of countries. This is key to the ability of the WBG to deliver value to all clients.

IDA Countries

The WBG is steadily increasing its support to IDA countries under the Forward Look, following the scale up of resources under the Eighteenth Replenishment cycle of IDA (IDA18) and adoption of corporate strategies by the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), that commit to broaden their portfolios among the WBG's low-income clients. Aided by the historic increase in the IDA financing envelope to US$75.0 billion, from US52.0 billion in IDA17, both core and non-core country allocations have been enhanced. The overall size of core allocations increased by 34.1 percent from US$27.9 billion in IDA17 to US$37.4 billion in IDA18. Non-core allocations rose by 92.7 percent from US$4.1 billion to US$9.7 billion. This has allowed for an enhancement in the World Bank's regional program to US$5.0 billion, from US$2.2 billion under IDA17. Further, in response to the strong demand for financing from IDA countries, the non-concessional financing for support to transformative projects was scaled up, through

the Scale Up Facility (SUF), to US$4.4 billion, from US$2.8 billion.

IFC has increased its presence in IDA countries and has committed to gradually increase the portfolio share of its investment to 40.0 percent by Fiscal Year[7] 2030 (FY30), from 25.0 percent in FY18, as it pushes for increased development impact in its operations. Similarly, MIGA is following up on its commitment by continuing to grow its portfolio of guarantees in these countries, especially in Sub-Saharan Africa.

IDA Countries facing Fragility, Conflict and Violence (FCV)

The WBG continued to scale up its investment, knowledge, and advisory services for FCV countries, and is aligning its budget, staff resources, and key partnerships with this strategic priority. The share of new World Bank commitments to FCV countries rose from 8.8 percent in FY13-16, to 14.0 percent in FY17-18. The World Bank expanded the share of FCV resources in its Country Engagement budgets from 17.9 percent in FY17, to 19.2 percent in FY18. There has been a 9.0 percent increase in WBG staff based in FCV countries, from FY16 to FY18.

In IFC, 9.0 percent of Long-term Finance projects, 5.0 percent of the commitment volume, and 20.0 percent of advisory services in FY17 were in FCV countries. In March 2018, through the Private Sector Window (PSW), the IFC committed US$7.5 million as an investment in I&P Afrique Entrepreneurs, a firm specializing in financing Small and Medium Scale Enterprises (SME) in Africa.

Small States

The WBG carried out various activities in support of Small States, including:

i) Approval of a package of over US$20.0 million for Seychelles in support of the country's first blue bond;
ii) Issuance of an emerging market sovereign bond of US$50.0 million in Fiji;
iii) Support to 11 Caribbean countries from the Catastrophe Risk Insurance Facility amounting to US$62.0 million, including US$20.0 million to Dominica after Hurricane Maria and US$7.0 million to Trinidad & Tobago after torrential rains; and
iv) Support to Tonga amounting to US$3.5 million after Cyclone Gita.

Further, through its convening power, the WBG promoted the following:

i) In collaboration with the United Nations (UN), the Second Meeting of the Small Island State Resilience Initiative Practitioners Initiative Network on the margins of the UN Fifth Session of the Global Platform for Disaster Risk Reduction in May 2017;
ii) A knowledge exchange between Belize and Morocco, in October 2017, on the blue economy and marine/coastal zone management; and
iii) A knowledge exchange on waste management between South Korea and representatives of selected Small States (St. Vincent and the Grenadines, Grenada, St. Lucia, and Seychelles), in March 2018.

[7] The fiscal year runs from July 1 to June 30.

Middle-Income Countries

With regards to MICs, which account for 70.0 percent of the world's poor and 40.0 percent of the extreme poor, the WBG continued to provide a range of products and services, including investments, advisory services and analytics, guarantees, and Treasury products. The number of the Bank's engagements with client countries went up to 65 countries in FY18, from 54 countries in FY17.

3.2.2. Creating Markets

The Maximizing Finance for Development (MFD) approach entails the pursuit of private sector solutions where they can help achieve development goals, while reserving scarce public finance for where it is most needed. Through the MFD approach, the WBG undertook several activities to create markets to broaden the reach and impact of private sector solutions. These include:

i) *Inclusion by all WBG operational units of MFD-related objectives* – Budgets have been set aside to provide MFD expertise to teams during client dialogue and project preparation. Region-specific MFD strategies are being formulated, the first targeting the Middle East and North Africa Region to be launched in April 2018;

ii) *Implementation of the Country Private Sector Diagnostics (CPSD)* – This is a new IFC-led tool to identify opportunities to create markets, including regulatory reform, de-risking mechanisms, and project development. Two of these diagnostics (Ghana and Kazakhstan) have been completed and over 40 more are expected to be completed by FY20. Further, IFC has conducted comprehensive analytical work on several sectors to identify key constraints to market solutions.

iii) *Implementation of the PSW* – The first project, an IFC investment to strengthen housing finance availability and maturity in eight West African countries was committed, while two other projects to facilitate SME growth were approved by the Board in March 2018.

iv) *Operationalization of IFC's mobilization platforms* – Under the Managed Co-Lending Partnerships Program (MCPP), various platforms are now operational[8]. The IFC program with the Hong Kong Monetary Authority (MCPP HKMA), will support IFC in financing projects including in infrastructure, telecommunications, manufacturing, agri-business and services. IFC lending to the infrastructure group (Infra) and the financial institutions group (FIG) will be supported by mobilization through MCPP Infra and MCPP FIG, respectively.

3.2.3. Leading on Global Issues

Climate

Climate financing represented 22.0 percent of the World Bank's commitments for FY17. The World Bank is on track to meet the 2020 target of 28.0 percent. IFC delivered a particularly strong volume of Long-term Finance for climate-related projects in the first half of FY18, driven by the largest package for renewable energy among its peers in 2018 – the US$652.0 million Nubian Suns project in Egypt, and the US$214 million Schwartz Group Green Building project in the Europe and

[8] Under IFC's Managed Co-Lending Portfolio Program, institutional investors can passively participate in IFC's loan portfolio. The investors provide capital on a portfolio basis, which IFC deploys in individual investments. IFC seeks the investor's approval pre-mandate, and leaves the project appraisal, approval, commitment, and supervision to IFC.

Central Asia Region. The International Bank for Reconstruction and Development (IBRD) and IFC are major issuers of green bonds, with a total of US$17.5 billion in 225 bonds issued between them.

Crisis Response

Through the Global Crisis Risk Management Platform, the WBG mobilized US$2.0 billion to respond to famines in northeast Nigeria, Somalia, South Sudan, and Yemen in 2017. Work has been carried out to pivot the WBG's crisis work towards prevention by: (i) strengthening crisis risk monitoring and analytical capacities; (ii) leveraging new financial products, including market-based vehicles to arrest crisis risks upstream; and (iv) promoting more flexible crisis risk management mechanisms. The Pandemic Emergency Financing Facility (PEFF) has been operational since June 2017. It has US$42.0 million in its insurance window to mitigate outbreaks of six diseases likely to cause major epidemics until June 2020.

Gender

The WBG has continued to build momentum in implementing its Gender Strategy, deepening both the breadth and depth of the work underway. The World Bank Regions are developing and implementing new or updated Regional Gender Action Plans, aligned with this Strategy, while putting an increasing focus on identifying specific gaps between males and females in endowments, jobs, assets and voice and/or agency. The recommendations of the Global Gender-Based Violence Task Force launched in FY17 are being acted on, with a focus on strengthening prevention, design, and supervision to reduce exploitation and abuse in WBG operations.

The WBG is also working to expand women's economic opportunities, by tackling the legal, regulatory and financial barriers for women in business. By end-2017, 34.0 percent of all new IFC advisory projects addressed gender equality issues, in line with IFC's corporate scorecard gender target. Further, the WBG is looking at gender equality within its own ranks, with a commitment toward several targets on which it continues to make steady progress.

Regional Integration

The WBG continued with the implementation of its regional integration toolbox by providing to client countries analytical work, convening power, advisory services, lending, investment and mobilization. Examples of WBG engagements between the Bank and other development partners include the Eastern Africa Electricity Highway; the Central Asia-South Asia Electricity Transmission and Trade project; the Pacific Alliance Regional Integration Advisory project; and the analytical program on the Belt Road Initiative. Following consultations with various stakeholders in Africa, the World Bank will scale up its support to this agenda with the roll out, in 2018, of a regional integration strategy for the Africa Region and financing from of the IDA18 Regional Window.

Jobs

The WBG is implementing an integrated approach to jobs across more than 40 countries, through Jobs Diagnostics, new Jobs Strategies and platforms that cover macroeconomic, regulatory and labor policies and targeted investment promotions. The WBG is also developing innovative cross-sectoral initiatives for private sector-led job creation, with at least two country pilots planned for FY19.

3.2.4. Improving the Business Model

Agile Program

The World Bank continued to press for greater efficiency through its Agile Program, which seeks to streamline its internal processes. Several interventions have been rolled out and scaled up, such as delegated restructuring and the Multiphase Programmatic Approach (MPA). The MPA allows WBG clients to structure a long, large, or complex engagement as a set of smaller linked operations (or phases), under one Program. It also allows for more efficient use of financial resources for both the WBG and clients.

Progress has also been made in terms of administrative simplification. Other achievements include: (i) streamlining processes to eliminate around 250,000 expense approvals by end-FY18; (ii) automating and simplifying 20 Human Resource processes; and (iii) streamlining trust fund approval and management processes. IFC has also launched its Agile Program to improve processes and change behavior. The first investment pilots for IFC will be launched in March 2018.

Knowledge Management Action Plan (KMAP)

The World Bank began to implement the Knowledge Management Action Plan and roadmap endorsed by the Board in October 2017. Activities include: (i) launching an operations-wide knowledge needs assessment in February 2018; (ii) developing professional knowledge management competencies; and (iii) releasing new search capability and collaboration tools in April 2018. The plan supports key agendas such as MFD and Disruptive Technology by developing case studies, capturing lessons learned and helping staff find new tools and technologies.

Improving Financial Efficiency

The World Bank continued with the implementation of the expenditure review measures and is poised to meet its target of US$300.0 million in savings by the end of FY18, part of the broader savings of US$400.0 million for WBG institutions and trust funds. As of FY18, IBRD will fully cover its administrative expenses from revenues generated from its own operations. A WBG Real Estate Council has been established to refine and implement a Real Estate Strategy. Measures have been put in place to rationalize spending on Information Technology related operations and maintenance.

3.3 The 2010 and 2015 Shareholding Reviews and Capital Adequacy

In 2010, Governors agreed to a set of reforms that would enhance the voice and participation of Developing and Transition Countries (DTCs) in the WBG, notably through an increase in voting power, and realigned shareholding in line with economic weight and development contributions. The deadline for subscriptions of shares for the 2010 General Capital Increase (GCI) was set for March 16, 2018.

The 2010 capital increase and Shareholding Review was completed with One hundred and fifty-two (152) countries subscribed to 469,010 shares (97.0 percent of total allocated shares), representing an increase of US$56.6 billion in IBRD capital, of which US$3.4 billion was the paid-in amount. Further, fifteen thousand, four hundred and seventy-six (15,476) shares (3.0 percent of allocated shares) were not subscribed. Out of the 7,197 shares allocated to Africa Group 1 Constituency, 4,495 were subscribed, amounting to US$32,535,259.50 (Annex 8).

3.3.1. The 2015 Shareholding Review

Under the 2010 Shareholding Review, Governors agreed that regular shareholding reviews would take place every five years. In this regard, the Board initiated the 2015 Shareholding Review in 2016 to realign the shareholding with the economic reality of its members and further enhance the voice and participation of DTCs, while protecting the smallest poor member countries from dilution of their voting power. These discussions were held in parallel with those of the capital adequacy to enable the WBG to implement the Forward Look.

Discussions on the 2015 Shareholding Review continued with a view to reaching agreement on a balanced package for the GCI and Selective Capital Increase (SCI) by the 2018 IMF/WBG Annual Meetings. The Board anchored discussions on the guidance provided by the Development Committee in October 2017 to:

(i) Adopt a transparent and rules-based approach to allocations;
(ii) Employ the Dynamic Formula as the primary factor in the allocation of shares; and
(iii) Uphold the 2010 Istanbul and the 2015 Lima shareholding principles.

The Board agreed on a timeline for the main engagements, which included discussions on simulations of options for IBRD and IFC. To deliver the package, the Board:

(i) Focused on options for allocating newly created shares or existing unallocated shares, which will not be governed by the Dynamic Formula, to achieve sufficient adjustment for highly under-represented countries; and
(ii) Encouraged member countries that were willing to forbear part of their allocation to indicate this position as the talks were progressing.

For IBRD, the Board agreed on using a SCI to realign the shareholding and address under-representation of individual countries while avoiding excessive dilution, as follows:

i) The allocation of 250,000 shares, distributed to all shareholders in line with their calculated shareholding from the Dynamic formula;
ii) The allocation of the 22,170 unallocated shares remained unsubscribed at the completion of the 2010 GCI and SCI, distributed to the most under-represented shareholders;
iii) The full protection of the voting power of the smallest and poor countries; and
iv) The dilution of all countries to be limited to no more than 5.0 percent.

This compromise increases the voting power of the DTCs as a group from 46.9 percent to 47.4 percent, while lowering down the voting power of Africa Group 1 Constituency from 1.937 to 1.935. As agreed by Governors in 2010, the next review will be the 2020 Shareholding Review.

For IFC, the Board explored the option of benchmarking the IFC shareholding to the post-2010 IBRD position. It converged on allocating 920,000 shares to countries with representation at IFC below their representation at IBRD (SCI eligible countries), and thereby move closer to an alignment of shareholding between IBRD and IFC. The Board also agreed on a further IFC shareholding realignment with IBRD's at the completion of a GCI in which the major shareholders are not expected to participate. However, this requires an amendment to IFC's Articles of Agreement to increase the minimum threshold for approving any future capital increase to eighty five percent up form current eighty percent.

3.3.2. Capital Adequacy

The Executive Board and Management reviewed different options to enhance the WBG's financial capacity and agreed on a capital package for IBRD and IFC, which consists of policy measures and a capital increase. The proposed package which will be presented for Governors' consideration at the 2018 IMF/WBG Spring Meetings includes for IBRD:

i) A paid-in capital of US$7.5 billion (US$5.0 billion for GCI and US$2.5 billion for SCI);
ii) US$32.0 billion nominal average annual commitments over FY19-30 (US$27 billion in FY16 prices), a 15.0 percent increase from long-term historical average, reaching US$36.0 billion in nominal terms by FY30;
iii) Prioritizing support to IDA graduates and new blends, aiming to make available resources to replace 100.0 percent of IDA financing for IDA graduates;
iv) Increasing the share of non-crisis IBRD lending to countries below the Graduation Discussion Income (GDI)[9] to 70.0 percent by FY30;
v) US$125.0 billion cumulative IBRD financing to above GDI countries over FY19-30 in nominal terms; and
vi) IBRD average climate co-benefits of at least 30.0 percent over FY20-23, reaching a cumulative US$105.0 billion by FY30.

For balance sheet optimization the IBRD package includes maintaining loan pricing measures implemented in 2014, and introduces a 10-40 basis points maturity premium increase for loans with average maturity longer than 10 years. Blends, small states, and FCV are exempted; IDA graduates are exempted for two replenishment cycles or six years from implementation of proposal. The package also contains expenditure review measures and the revision of the compensation methodology.

For IFC, the package comprises:

i) Paid-in capital of US$5.5 billion (US$4.6 billion for GCI and US$0.9 billion for SCI);
ii) US$33.0 billion nominal average annual commitments (US$27.0 billion in FY16 prices), reaching US$25.0 billion in own account and US$23.0 billion in mobilization in nominal terms by FY30;
iii) Suspending IFC transfers to IDA;
iv) Increasing the share of IFC investments in IDA and FCV countries to 40.0 percent by FY30, and 32.5 percent average over FY19-30;
v) US$125.0 billion cumulative IFC financing to below-GDI countries over FY19-30 in nominal terms;
vi) US$135.0 billion cumulative IFC financing to above GDI countries over FY19-30 in nominal terms;
vii) Increasing IFC investments in high-risk FCV markets;
viii) Increasing the share of climate investments to 35.0 percent by FY30 and reaching an average of 32.0 percent between FY20-30;
ix) Continuing existing risk-based and market pricing policy;
x) Maintaining expenditure review saving measures; and
xi) Revising compensation methodology.

[9] The Graduation Discussion Income (GDI) is US$6,895 per capita for FY18, using World Bank Atlas method. It is based on the IBRD Graduation Policy as defined by the 1982 Memorandum on "Graduation from the Bank" and the 1984 Board reformulation.

3.4 Update on IDA18 Implementation

The implementation of the World Bank program of support under the three-year IDA18 financing and policy package started off on July 1, 2017 on a strong note. In FY18, the World Bank responded to strong client demand for resources, by making commitments that have outpaced performance in the first year of IDA17. In the first three-quarters of the financing cycle, the World Bank made commitments equivalent to 63.0 percent of total country allocations for the first year of the IDA18 cycle, up from 57.0 percent in the corresponding period of IDA17.

The IDA18 windows are operational, with the first set of operations for the Regional Window, PSW and Refugee Sub-Window being considered for Board approval. Under the management of IFC and MIGA, efforts to build a robust PSW pipeline continue to be made. The purpose of this US$2.5 billion facility, is to expand private investment in IDA countries, with an emphasis on de-risking projects in FCV. The first batch of PSW operations were approved by the Board in early 2018, with investments in housing finance, food processing and SME financing. Transactions amounting to US$33.0 million were approved, with 90.0 percent of the support provided through the PSW Local Currency Facility and the Blended Finance Facility. Further, PSW operations amounting to US$260.0 million are under preparation in the finance, manufacturing, agribusiness and infrastructure sectors.

For the Regional Window, US$1.5 billion of the US$1.7 billion allocation for FY18 has been earmarked for specific projects by end-March 2018. The SSA region features strongly in the FY18 portfolio and pipeline, with 75.0 percent of the overall envelope set aside for the regional programs on the sub-continent.

Further, through the Refugee Sub-Window, the World Bank has prepared its first round of operations to eight countries[10], currently hosting over 4 million refugees. These operations cover a diverse set of sectors, including education, health social protection, as well as water and sanitation. Project preparation in SSA has reached an advanced stage under this Sub-Window. There are four Investment Project Financing (IPF) operations in preparation for Cameroon (US$125.0 million), one IPF operation for Uganda (US$50.0 million) and Program-for-Results operation in Ethiopia (US$167.0 million) expected to be approved by the Board by June 2018.

The World Bank is also responding to the strong demand for resources from clients, through the non-concessional financing window, the US$6.2 billion IDA18 Scale Up Facility (SUF). Though the FY18 commitments are projected to be lower, at US$2.0 billion, than the FY17 level of US$3.5 billion, operations are expected to build up over the remainder of the IDA cycle. By end-March, the World Bank had allocated US$1.3 billion to six projects across several sectors including energy, housing and ports. Four additional projects, with a cumulative financing of approximately US$0.8 billion, are expected to be delivered by the end of FY18. The SSA region continues to feature strongly in the SUF pipeline, accounting for 15 of the 18 projects programed for FY18 and FY19.

Recognizing fragility as one the most pressing global challenges, the WBG is following through on its commitment to scale up its support to FCV

[10] Cameroon, Chad, Democratic Republic of Congo, Djibouti, Ethiopia, Niger, Pakistan and Uganda.

countries and has continued to reallocate financial and human resources to support this agenda. The World Bank has built up commitments and pipeline operations to the tune of US$5.7 billion for FY18, compared to US$5.0 billion in FY17 and US$2.1 billion in FY16. Further, the World Bank remained broadly on course to meet the staffing target set to increase the number of staff working on the FCV agenda.

Notwithstanding this strong start, there needs to be a focus on enhancing areas of underperformance. Specifically, the World Bank will have to accelerate the usage of resources where little activity has been registered, such as the support to Small States and the uptake by IDA countries of the Catastrophe Drawdown Operations Facility. The World Bank will also need to fast-track the second round of support to refugee hosting countries, while addressing borrowers' calls to raise the grant component of this assistance. There is also needs to make progress in providing support for arrears clearance for countries with special needs, including Somalia and Zimbabwe. Regarding the Regional Window, further efforts will need to be made in the, sometimes complex, process of engaging clients across different jurisdictions. It can, however, be noted the World Bank is expected to launch the Africa Regional Integration Strategy, which would address such rigidities in client engagement and enhance support to transformative projects in the region.

The Mid-Term Review for IDA18 is scheduled to be held in November 2018. At this review, the WBG and representatives of development partners and borrower countries will consider the intermediate performance of IDA18 and address any key outstanding issues. One such issue is the rationalization of the IDA graduation policy to allow for reasonable burden-sharing between IDA and IBRD, for support to countries in transition. The Mid-Term Review will also provide an opportunity to take stock of the performance of new initiatives such as the PSW and the hybrid financing model. The outcome of this Mid-Term Review will set the stage for replenishment discussion on the financial and policy package for IDA19 that are scheduled to begin in February and conclude in December 2019.

3.5 Implementation of the new Environmental and Social Framework

The launch of the new Environmental and Social Framework (ESF) is set for the second half of 2018, following its approval by the Board in 2016. Preparations include the development of a full range of procedures, tools and templates. The Environmental and Social Standards, which are an integral part of the new ESF, set out requirements for borrowing countries relating to the identification, assessment and management of environmental and social risks arising from World Bank (IBRD/IDA) financed projects. To help borrowers understand the requirements contained in these Standards and provide helpful examples, Guidance Notes were prepared and dispatched to stakeholders[11] in November 2017 for comments. After receiving more than 3,000 comments the World Bank is finalizing these Notes. The World Bank also started a massive training program for more than 1,000 staff.

[11] private sector, shareholders and government agencies, civil society, academia/think tanks and individuals

The World Bank is also working with borrowers, development partners and Civil Society Organizations (CSOs) to help them:

i) Understand the ESF architecture and requirements;

ii) Identify gaps and capacity needs for investment programs planned in Country Partnership Frameworks, with emphasis on IDA countries; and

iii) Assess capacity needs on a project-by-project basis, relative to national environmental and social frameworks.

This capacity building program started with the launching of borrower workshops in the Philippines and in Ghana, including representatives from Liberia and Sierra Leone. This activity is expected to be concluded in December 2018. The new Framework will be operational, starting with the Investment Projects Financing (IPF) projects whose concept notes will be approved on October 1, 2018.

3.6 Implementation of the Procurement Framework

The World Bank initiated a review of the Procurement Policy Framework in February 2012 as part of the reform agenda and change process. The objective of this review process was to update the Procurement Policy in the context of the twin goals. Following global consultations with various stakeholders on the proposals, the World Bank Board approved the new Procurement Framework on July 15, 2015 and it became effective for all lending operations after July 1, 2016.

The vision for the World Bank's procurement framework is to achieve value for money in delivering sustainable development with the assurance that the right procurement arrangements will be applied to the financial resources transferred to the client. The World Bank aims to help client countries build and implement sound procurement arrangements and institutions to advance their own development.

The Framework is intended to catalyze new and innovative ways of achieving development effectiveness and supporting the pursuit of the Sustainable Development Goals (SDGs). The procurement framework has four key innovations to help businesses and country clients:

(i) The needs and risks of a project are analyzed using the Project Procurement Strategy for Development. This analysis moves away from a one size-fits-all, to a fit-for-purpose approach, making it possible to tailor its procurement strategies to the unique characteristics of the operating environment, such as the size, value, and risk of the project. It also creates more transparency and enables the borrower to have a strategy on how best to engage with bidders.

(ii) Another core principle which has been introduced in the Framework is *Value for Money*. This means attention is paid to the bidder who provides the best service at the least cost, taking into consideration other factors such as quality.

(iii) The World Bank has improved the process of resolving procurement-related complaints, with enhanced capacity to respond quickly and effectively to concerns during the procurement process. A *standstill period* – a pause between identifying which bidder should win the contract and the awarding of the contract – enables other

bidders to voice any concerns before a contract is legally signed, thus avoiding any subsequent disputes.

(iv) To ensure the best possible outcomes, the World Bank will be closely involved in contract management of the procurements with highest value and highest risk.

For better implementation of the Framework, training and development of staff and borrowers has remained a priority, with emphasis on training in FCV countries. For example, in its first year of implementation an entire procurement cadre has been certified and information sessions for Bank staff and borrowers have effectively covered all the Task Team Leaders and clients. Moreover, Bank staff working in FCV countries have been given face-to-face training.

Over the first year, the uptake and implementation of the Procurement Framework has been progressing well. Implementation of the various components has continued to re-orient the World Bank's business approach, ensuring that its fiduciary aspects are maintained, while offering greater flexibility and choice in procurement approaches.

There have been many advances and examples where the new Procurement Framework has worked and helped countries in Africa Group 1 Constituency. In a Secondary Education project in Kenya, the Framework reduced unit costs for textbooks by 60 percent, resulting in a saving of US$138.0 million, while in Botswana the new Framework recommended the design and developed packages leading to better value for money.

3.7 Domestic Resource Mobilization: The Medium-Term Revenue Strategy

The Third Conference on Financing for Development held in Addis Ababa, Ethiopia in 2015, emerged with the view that the pursuit of the SDGs would require a paradigm shift in the development financing framework. The high ambitions reflected in the SDGs would not be realized if deliberate efforts were not made to raise the volume of resources devoted to development and to broaden their source. In this regard, the Addis Ababa Action Agenda (hereafter Addis Agenda) articulated the commitments of the international community to change the financing framework, including strengthening of Domestic Resource Mobilization (DRM), particularly in developing countries.

However, since 2015, the developing world has seen domestic revenues contract under the weight of softening commodity prices, only improving recently as a broad-based economic recovery strengthened commodity markets. At the same time, developing countries continue to press ahead with programs to close large infrastructure gaps, with notable implications for the growth in debt accumulation and its sustainability. Already, African countries, in the first three months of 2018, have raised over US$10.0 billion in sovereign bond issuances, which was more than half of that raised in 2017, and greater than the figure for the whole of 2016. These dynamics are also taking place as the landscape for Official Development Assistance (ODA) continues to remain uncertain. Despite traditional development partners registering stronger economic prospects over the medium-term, it remains unlikely that ODA will take a corresponding increase to reach the long-committed target of 0.7 percent of Gross National Income.

Against this backdrop, countries need to raise the volume of domestic resources if they are to pursue their development agenda without compromising the sustainability of its financing. The WBG, as a signatory to the Addis Agenda, has committed to use its extensive experience and vast knowledge to assist developing countries strengthen DRM by deploying its advisory services and lending.

The WBG, which has a long record of experience in supporting governance and institution building in developing countries, is integrating the various existing workstreams on taxation. The WBG is also making efforts to strengthen partnerships with other international and regional organizations. At the international level, the WBG is collaborating with the United Nations (UN), Organization of Economic Cooperation and Development (OECD) and IMF through a joint unit, the *Platform for Collaboration on Tax*, an outcome of the 2015 Addis Ababa Tax Initiative.

A core component of the work program of the Platform involves assisting countries develop Medium-Term Revenue Strategies (MTRSs)[12]. The MTRS is a high-level roadmap that a government would adopt to guide the reform of its tax system. It broadly describes a government's strategy for reforming: (i) tax policy, (ii) administration, and (iii) legal framework, over a period of 5-10 years, to finance its economic and social programs. The goal is to achieve a tax system that will mobilize sufficient resources, reflect distributional considerations and create appropriate incentives for economic and social development.

To set the basis for the MTRS, a government would have to make projections of its revenue needs and expenditure plans over the forecast horizon. A country would determine how it needs to adjust the current tax policy framework to meet the efficiency, equity and effectiveness required to meet the country's revenue targets. Detailed diagnosis of the policy design features, tax mix, and economic and social impact will be undertaken to inform the process. The MTRS would be periodically revised to respond to material adjustments in the evolving development needs and circumstances, including changes in the political economy considerations.

Redesigning Tax Policy

Under the reform of its tax policy, a country would state its multi-year plan to change the tax policy setting to meet the revenue needs specified, and at the same time improve its design principles. For instance, this could involve the replacement of sales tax with Value Added Tax, changing progressivity of Personal Income Taxes, or broadening the Corporate Tax base. It would outline the timetable for reform, with the sequencing of intended policy changes and accompanying legislative changes. It may also identify a responsible policy unit to lead the reform process and engage with stakeholders.

Reforming the Revenue Agencies

In many developing countries, revenue agencies need to be modernized to fulfill their role in delivering an efficient, equitable and effective tax regime. In this respect, this component of the MTRS involves a three-fold diagnostic of the revenue agency on:

[12] Platform for Collaboration on Tax (IMF, OECD, UN, WB), July 2016, *Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries*, https://www.imf.org/external/np/pp/eng/2016/072016.pdf.

(i) Taxpayers' compliance with main taxes;

(ii) Institutional management and governance arrangements against good international practice and trends[13]; and

(iii) Management and performance of core revenue administrative functions against international and regional benchmarks and trends.

The government, in its MTRS, should explicitly state intentions to reform its tax agency through modernization and adoption of good international practices. This could involve full adoption of a system of self-assessment, greater autonomy and accountability of agencies, a shift to digital revenue administration, full automation of processes, securing professionalization and integrity. Like the component on tax policy, this component must describe a multi-year timetable with the sequencing of intended revenue administration changes.

Strengthening the Legal Framework

Taxation establishes a legal relationship between taxpayers and the State. In this regard, well-prepared laws are significant determinants of the efficiency and effectiveness of the tax system. In this third component, the MTRS should identify the major legal changes needed to enable the intended policy and administration changes, especially those to remove barriers to reform modernization of revenue agencies. In implementing an MTRS, a government would carefully examine the laws governing the tax system, including both the substantive laws setting the taxes and the procedural ones establishing the revenue agencies' powers and taxpayers' rights. It would also pay attention to meeting international treaties and other obligations.

Enabling Factors for the MTRS

Beyond the MTRS document, country ownership and external support are critical for success, as indicated below:

Country Commitment: reforming the tax system must be country-owned because of its complexity and the need to provide for its sustainability. This reform should become a whole-of-government strategic priority, embraced by key authorities and entities within the government. Broad consensus and wide consultation would also be crucial in defining the agenda for the tax system reform. Addressing weaknesses in the tax system requires sufficient political will to undertake and sustain administrative reforms. Hence the importance of the broad national consensus to provide the enabling political environment for broader and deeper reforms.

External Support: Often, the capacity to formulate and implement MTRSs is limited in developing countries, and external technical support can be important in closing this gap. As such, the MTRS may be accompanied by commitments by development partners to support a government-led effort in a coordinated manner. Embracing a coordinated approach is an important distinctive feature of the MTRS. It will require strong willingness and commitment from the development partners to coordinate their efforts in supporting the MTRS.

[13] This can be done through various tools, including the Tax Administration Diagnostic Tool (TADAT).

3.8 Diversity and Inclusion in the World Bank Group

The WBG, as the premier global institution in development, attracts staff from all its 189-member countries. The diversity of its staffing compliment remains a key priority and component of the WBG's *People Strategy*, as it engages with client countries in pursuit of the twin goals.

The Human Resources Committee, currently chaired by the Executive Director of Africa Constituency Group 1, Mr. Andrew Bvumbe, among other issues, oversees the WBG's response to commitments made by the different units to reach the diversity targets, including the commitment to have at least 12.5 percent of employees at management level to be recruited from Sub-Saharan Africa and the Caribbean (SSA/CR).

Significant progress has been made in achieving this target at the management level, with IBRD/IDA exceeding the target of 12.5 percent in 2017 (Table 3.1). The diversity indicator also shows that the overall WBG target at the management level rose from 11.7 percent in 2016 to 12.4 percent in 2017. These improvements have seen the overall diversity index rise to 0.90 in 2017, up from 0.87 in 2016. Improvements were also registered by IFC and MIGA in 2017, though they remained furthest from the diversity target.

Despite the improvements in this diversity indicator, concerns remain regarding hiring of staff from SSA into managerial positions. This grade gap highlights the need for the WBG to scale up efforts to meet these commitments and for the Board to demand a merit-based framework of employment that allows for transparency, accountability, diversity and inclusion, as well as equal opportunities.

Table 3.1: Regional Representation on SSA/CR at Management Level (%) (Target 12.5)

	2015	2016	2017
WBG	11.2	11.7	12.4
IBRD/IDA	11.6	12.2	12.9
IFC	10.2	10.5	10.9
MIGA	8.0	9.8	11.2

Table 3.2: WBG Institutions' Diversity Index[14]

	2015	2016	2017
WBG	0.84	0.87	0.90
IBRD/IDA	0.86	0.89	0.90
IFC	0.80	0.82	0.83
MIGA	0.75	0.85	0.94

The call for Diversity and Inclusion (D&I) extends beyond meeting the employment targets by region, to gender parity representation as well. This calls for efforts to close gaps in pay parity and equal access to career development for women at the WBG. The WBG's response to achieving gender parity has seen it become the first International Financial Institution to achieve the Economic Dividends for Gender Equality (EDGE) certification and commit to "HeForShe", a solidarity campaign for the advancement of women initiated by UNWomen.[15] The WBG has also embarked on a mentorship program dubbed Preparing Individuals for Success through

[14] The Diversity Index is a composite measure that captures performance on various aspects including gender balance, regional representation, and staffing from developing countries.

[15] UN Women is the UN organization dedicated to gender equality and the empowerment of women. A global champion for women and girls, UN Women was established to accelerate progress on meeting their needs worldwide.

Mentoring, an IFC-sponsored pilot program and Women's Career Conference.

Generally, there has been notable progress in achieving the set diversity targets under the different sub-categories. Currently, the WBG boasts an increase of women managers from 44.3 percent, to 44.7 percent (Table 3.3). In addition, the percentage of women in technical roles, in the management grades, has increased from 44.3 percent in 2016, to 44.7 percent in 2017.

Table 3.3. WBG Women Managers' at Management Level (%)

	2015	2016	2017
WBG	43.5	44.3	44.7
IBRD/IDA	43.2	44.0	44.2
IFC	44.4	45.7	46.2
MIGA	41.6	43.9	45.5

With a conscious effort to cascade the commitments made by the Vice Presidency Units to other levels of management, more accountability on scaling diversity are expected to be achieved, more so with the replication and adoption of the IFC piloted managerial performance evaluations on D&I. In 2018, the WBG Operations Gender Action Plan to reach the HeForShe gender parity targets, is set to take off. In addition to the operationalization of the Vice Presidency Units action plans, the WBG will continue its expansion of collaboration and benchmarking with other International Financial Institutions such as the Asian Development Bank, European Central Bank and UN agencies to broaden efforts on addressing D&I programs.

Chapter 4

Constituency Issues

- **Highlights of the Fourteenth Statutory Meeting of the Constituency**
- **Update on Country Reengagements with the WBG – State of Eritrea, Federal Republic of Somalia, Republic of the Sudan, Republic of Zimbabwe**
- **Update on the African Governors' Caucus**
- **Update on Staffing in the Office of the Executive Director**

Chapter 4

Constituency Matters

4.1 Overview

Chapter Four provides updates on Constituency matters that have arisen since October 2017. It summarizes the deliberations of the 15th Statutory Meeting of the Constituency and highlights milestones in the reengagement process for four member countries with the World Bank Group (WBG). The Chapter further highlights the outcomes of the African Caucus Meetings held on the margins of the 2017 International Monetary Fund (IMF)/WBG Annual Meetings.

4.2 Highlights of the Fifteenth Statutory Meeting of the Constituency

The Africa Group 1 Constituency Rules, Guidelines and Procedures (hereafter 'Constituency Rules') as approved in 2010, stipulate that the Constituency shall meet biannually to deliberate on issues of common interest and map out modalities for ensuring that these issues are factored in the broad policy and operational agenda of the WBG. Accordingly, the Constituency held its 15th Statutory Meeting on October 12, 2017 in Washington D.C, USA, on the margins of the 2017 IMF/WBG Annual Meetings. The Meeting was held under the Chairmanship of Honorable Amadou Sanneh, WBG Governor and Minister of Finance and Economic Affairs for the Republic of The Gambia.

At this Meeting, Governors considered the Annual Report of the Executive Director and discussed their Development Committee (DC) Member Statement. The Meeting was also updated on the 'Scaling Solar Initiative in Africa' by the International Finance Corporation (IFC).

4.2.1 The FY17 Annual Report of the Executive Director

The Executive Director, Mr. Andrew N. Bvumbe, updated Honorable Governors on matters arising from the minutes of the previous meeting and ongoing policy discussions at the Executive Boards of the WBG. He also provided updates on economic developments in Sub-Saharan Africa (SSA) and the WBG's operational delivery and resource flow to the region in Fiscal Year 2017 (FY17). Mr. Bvumbe also apprised Governors progress on implementation of the Office work program, Agenda 24.

On the matters arising from the previous Constituency Meeting, the Executive Director informed the Meeting that the Office continued to advocate for a strategy that would enhance the WBG's engagement with Lower Middle-Income Countries (LMICs). On the reengagement of the four countries with special needs (Eritrea, Somalia, Sudan and Zimbabwe) with the WBG and other International Financial Institutions (IFIs), the Executive Director informed the Meeting that considerable progress had been achieved for the Republic of the Sudan following the lifting of economic sanctions by the USA. He indicated that a roadmap would be developed and a roundtable forum organized to support the reengagement effort. In Eritrea, further progress awaited a decision on when to conduct the debt

sustainability, analysis while a roundtable meeting was planned to take place during the 2018 WBG/IMF Spring Meetings for Somalia. For Zimbabwe, Government remained committed to undertake reforms aimed at improving the investment climate among other reforms. He reiterated the commitment of the Office to champion the reengagement of these countries.

The Executive Director apprised Governors on the progress made in implementing the Constituency Rules as regards staff rotation. He informed them that based on the Constituency guidelines, the Office had, since April 2017, recruited five Advisors from Somalia, The Gambia, Lesotho, Tanzania, and Kenya. He added that two Advisors from Swaziland and Eritrea would join the Office before the end of December 2017.

The Executive Director reported that economic growth in SSA had slowed down from 3.1 percent in 2015, to 1.3 percent in 2016, mainly due to low commodity prices, weak external demand of major trade partners, and domestic headwinds, including drought. Although economic growth was expected to rebound to 2.6 percent in 2017, mainly due to a firming of commodity prices and strengthening external demand, the outlook was susceptible to downside risks. He underscored the need for fiscal consolidation and structural reforms to strengthen economic resilience, boost productivity, increase investment, and promote economic diversification. The Meeting noted as well the rising public debt levels and risk of debt distress, highlighting the use of non-concessional financing for infrastructure development.

The Executive Director further informed Governors that the total commitments of the World Bank had fallen by US$3.7 billion to US$42.1 billion in FY17, noting that this change partly reflected a decline in the use of the Development Lending Policy instrument, and increasing capital constraints faced by the International Bank for Reconstruction and Development (IBRD). He further reported that IBRD commitments had declined by 24.0 percent to US$22.6 billion, while IDA commitments had risen by 20.4 percent to US$19.5 billion. Mr. Bvumbe highlighted that SSA continued to account for over 50.0 percent of the IDA commitments in fiscal year 2017.

On IFC performance, the Executive Director informed Governors that total IFC commitments had risen by 2.4 percent to US$19.3 billion, with commitments to the SSA region rising by US$1.1 billion to US$3.5 billion, 15.0 percent of total commitments. MIGA issued new guarantees amounting to US$4.8 billion, representing an increment of 13.7 percent from fiscal year 2016. He further reported that MIGA business in IDA eligible countries, and Fragile and Conflict-affected Situations (FCS) continued to grow. The Executive Director noted that the pipelines for IFC and MIGA were expected to build up as the IFC-MIGA Private Sector Window (PSW), under IDA18, is implemented.

The Executive Director provided an update on selected policies and strategies that the Board had been discussing. These were the 2015 Voice and Shareholding Review, the Forward Look, IDA18 Implementation, and the Review of the Debt Sustainability Framework for Low-Income Countries (DSF- LICs). On the 2015 Voice and Shareholding Review, he informed the Meeting that there was consensus on limiting dilution to 10.0 percent and protecting the shareholding of the small and poor member countries.

He also informed Governors that the Board of Executive Directors continued to discuss the long-term financial sustainability of the WBG, with an emphasis on raising more capital for the

IBRD and IFC. This, the Meeting noted, was imperative if the WBG was to become a stronger, bigger, and a more agile institution, that would contribute to the achievement of the Sustainable Development Goals (SDGs).

On the Forward Look, the Executive Director informed the Meeting that the WBG was progressing well in piloting its initiative to reduce internal bureaucracy and enhance adaptability of the Bank, to become an agile institution. The intention is to focus on policies, procedures, and administrative reforms, and reduce the length of the project preparation cycle.

The Executive Director updated Governors on the implementation of IDA18, noting that the PSW had become operational and Management was focusing on building the pipeline of projects. He further reported that the WBG had commenced the implementation of the *Cascade approach* to development financing, which is a systematic method of leveraging private sector resources to finance development and optimize the use of scarce public resources. In this regard, he highlighted that the Bank had identified Cameroon, Cote d'Ivoire, Egypt, and Kenya in Africa as countries to pilot the Cascade. He reported that the Board of Executive Directors had discussed and approved the modalities for implementing the IDA Refugee Sub-Window, and had considered the first batch of operations in eight countries, including Ethiopia and Uganda. The WBG had initiated dialogue with other eligible countries such as Burundi, Kenya, Rwanda, Tanzania, and Zambia, which could be considered in subsequent phases.

The Meeting noted that the Board concluded discussions on the Debt Sustainability Framework for Low-Income Countries (DSF-LICs). The new framework, which would become operational on July 1, 2018, was simplified, and took cognizance of the changing financial flows, including the increasing significance of remittances. The Meeting also took note of the preparations for the implementation of the Environmental and Social Framework (ESF), including the awareness workshops scheduled for January 2018 and capacity building programs in borrower countries.

The Executive Director informed Governors that while the Bank had achieved the Diversity and Inclusion (D&I) target for SSA and the Caribbean regions, the Office continued to advocate for a build-up of diversity in the pipeline of middle management staff, who would eventually take up top management positions. He highlighted that this would augment the achievement of the target.

On the update on the Office work program, Agenda 24, the Executive Director noted that the Office had produced and shared the quarterly country portfolio review reports with the Governors. He therefore, encouraged Governors to monitor the performance of their country's portfolios for impact and results on the ground, as well as track the disbursement ratios and take measures to resolve any bottlenecks. He also noted that the Office was closely following the development of new instruments to enhance Domestic Resource Mobilization (DRM), and the strategy for combatting illicit financial flows. The Office would update the Governors accordingly.

On financing for development, the Meeting noted that some of the Constituency countries had benefited from the IDA Scale-Up Facility (SUF) to finance transformative infrastructure projects. In addition, the Office would continue to advocate for the scaling up the operations of MIGA and IFC in the Constituency and the implementation of the PSW, particularly in the energy and agribusiness sectors.

The Executive Director reiterated his commitment to enhance the engagement between the Constituency countries and the WBG. He acknowledged the guidance and support of the honorable Governors and the warm welcome accorded to him in the countries he had visited. He further assured Governors that he would visit all the Constituency countries before the end of his tenure.

The Executive Director also brought the following matters to the attention of the Governors:

(i) The deadline for completion of all obligations for the General Capital Increase (GCI) under the 2010 Shareholding Review, being March 16, 2018;
(ii) Submission of the survey on the consideration of IFC Selective Capital Increase (SCI), due October 23, 2017;
(iii) Settlement of outstanding obligations on the maintenance of value of national currency capital subscriptions, due June 30, 2018; and
(iv) A survey seeking to streamline the operations of the African Governors' Caucus.

4.2.2 Constituency Member Statement to the Development Committee

The Alternate Development Committee (DC) Representative, His Royal Highness Prince Hlangusemphi Dlamini, WBG Governor and Minister of Economic Planning and Development for the Kingdom of Swaziland, presented to Governors the draft Constituency Member Statement for the Development Committee, for their consideration and approval. The Statement was consistent with the issues on the agenda of the Development Committee meeting, and called on the WBG to:

a) Allocate appropriate resources and develop the right instruments to support human capital development. This should target the quality of learning and acquisition, in line with the findings of the World Development Report (WDR) 2018;
b) Intensify the commitment by the WBG and other Multilateral Development Banks (MDBs) to move from billions in Official Development Assistance (ODA) to trillions of dollars to maximize financing for development, and the operationalize the Cascade approach;
c) Complete the 2015 Shareholding Review and the submit a comprehensive set of proposals to Governors for approval at the 2018 Spring Meetings;
d) Step-up the implementation of the Africa Climate Business Plan to increase climate resilience;
e) Expedite the implementation of the various windows and instruments under IDA18; and
f) Finalize the Africa Regional Integration Strategy, with a focus on support for investments in priority transformative and strategic regional projects.

The Statement also appreciated the WBG's successful launch of the Pandemic Emergency Financing Facility and the timely response to the recent famine that affected several countries in SSA. Governors appreciated the comprehensive draft statement and endorsed it (Annex 1).

4.2.3 Update on 'Scaling Solar Initiative in Africa'

In their presentation to the Constituency Meeting, Mr. Oumar Seydi, the IFC Regional Director for SSA, and Mr. Bertrand Heysch De la Borde, the IFC Senior Manager for Infrastructure in Africa, described Scaling Solar as a "one-stop-shop" solution provided by the WBG, to governments to rapidly procure grid-tied solar

power competitively, and with lower transaction costs. The initiative seeks to address the energy deficit in Africa, lower perceived risk among potential investors, and strengthen the procurement process, to develop solar power based on Africa's comparative endowment. The Scaling Solar Initiative includes investment instruments and advisory services, supporting market creation in Africa's energy sector.

The presentation highlighted the lessons learned during the pilot phase of the program in four countries, all at various stages. These included Zambia, the front-runner, where the process was almost complete yielding a tariff rate of six cents per kilowatt hour. IFC was also working with the Governments of Ethiopia, Madagascar and Senegal. It was noted that the project in Madagascar included, for the first time, a storage component. In Ethiopia and Senegal, the prequalification process had been finalized and the bidding process was underway. The Meeting noted that standardized bid documents and contracts reduced costs, accelerated the process, and ensured transparency. Ultimately, it led to lower tariffs for the benefit of consumers. Another lesson was the importance of identifying suitable locations and addressing land acquisition and resettlement issues early in the process. It was also noted that the early involvement of the relevant ministries, regulators and utility companies was important. Based on the experience from the pilot phase, IFC would proceed to the next phase to include other countries in Africa.

Governors noted that the costs of producing solar had steadily declined from 15 cents per kilowatt hour in recent years, mainly due to rising competition, growing markets, and the decreasing costs of panels. On the institutional arrangement, it was noted that the producer would supply energy to the existing utility company in the country. The Meeting noted that the project cost was estimated at below US$1.0 million per megawatt. It was observed however, that operating and maintenance costs were minimal. It was also noted that the World Bank and/or MIGA could compliment IFC operations by providing a guarantee to reduce the perception of risks, as was the case in Zambia. The Meeting underscored the need for larger storage capacities to address the challenge of instability and intermittent supply. The Meeting also noted the other sources of renewable energy and that the energy mix would vary from country to country.

The Governor for Zambia shared their experience in the pilot phase of the Initiative. He noted that with IFC support and a World Bank guarantee, they had obtained an affordable tariff. Based on this experience, Governors were advised to first address issues surrounding the regulatory framework, tax provisions, and environmental sustainability before initiating the tendering process. He informed Governors that following the successful conclusion of the first phase, Government had embarked on the next phase involving the generation of 500 MW in solar energy.

4.3 Update on Country Reengagements with the World Bank Group – State of Eritrea, Federal Republic of Somalia, Republic of the Sudan, and Republic of Zimbabwe

The Office of the Executive Director remains strongly committed in its advocacy for full reengagement of the WBG with four Constituency member countries, namely the State of Eritrea, Federal Republic of Somalia, Republic of the Sudan, and Republic of Zimbabwe.

4.3.1 State of Eritrea

A World Bank team led by the Country Director visited Eritrea in November 2017, to initiate the reengagement process. Further progress awaits decisions by the Eritrean authorities on the Debt Sustainability Assessment.

4.3.2 Federal Republic of Somalia

The process for Somalia's normalization of relations with the IFIs is progressing well. In December 2017, the IMF conducted its first review under the second Staff Monitored Program (SMP), during which discussions covered recent economic developments, as well as progress on reforms on currency, financial sector, governance and the social safety nets. In February 2018, the World Bank Senior Management provided an update to the Board of Executive Directors on the situation in Somalia, including the next steps on the preparation of a pre-arrears clearance grant. A roundtable meeting is planned to take place during the 2018 WBG/IMF Spring Meetings.

4.3.3 Republic of the Sudan

Progress has been registered in the reengagement with the Republic of the Sudan. In October 2017, the US lifted the economic sanctions on Sudan, signaling a major development for Sudan's reengagement with the international community. The World Bank, IFC and IMF undertook separate fact-finding missions to the Sudan, in a bid to initiate programs, including exploring the possibility of an SMP. The 2018 National Budget of the Republic of the Sudan announced a broad reform package that will restore macro-fiscal stability, which underpins sustainable economic recovery focusing on inclusiveness, economic diversification and private sector development.

4.3.4 Republic of Zimbabwe

The reengagement process between the Government of the Republic of Zimbabwe and the IFIs picked up pace since the peaceful change of administration in November 2017, with an uptick in missions and official visits to the country from across the globe. The Government has committed to hold free and fair elections in mid-2018, which is expected to add impetus to the process. The Government has also announced a package of sound economic reforms in the 2018 Budget that would result in lowering the public-sector wage bill and general government expenditure, among other reforms. The Government is working to clear arrears with the IFIs and negotiate debt rescheduling with the Paris Club. Meanwhile, the Government has requested the World Bank, United Nations and other development partners to compile a Needs Assessment for Zimbabwe to establish the scale and scope of current infrastructure and social needs. A partial list of these needs will be presented to Development Partners at a Side Meeting scheduled on the margins of the 2018 WBG/IMF Spring Meetings. The full list of needs will be presented at a Roundtable Meeting during the 2018 WBG/IMF Annual Meetings.

4.4 Update on the African Governors' Caucus

The 2017 African Caucus Meeting with Dr. Jim Y. Kim, President of the WBG, was held on October 15, 2017 and was presided over by Honorable Ontefetse K. Matambo, Minister of Finance and Economic Development for the Republic of Botswana and the Chairman of the African Caucus. The main objective of the African Caucus Meeting was to deliver the 2017 Memorandum of African Governors to the President of the WBG (Annex 3). The Memorandum under the theme *Economic Transformation and Job Creation: A Focus on Agriculture and Agribusiness*, called for support from the Bretton Woods Institutions (BWIs) to Africa around the following issues:

i) Agriculture policy foundations, financing, land tenure, and markets;
ii) Technologies for agricultural development and climate-smart agriculture;
iii) Fiscal policies to support agriculture transformation;
iv) Agriculture value chains and sustainable jobs for youth and women; and
v) Financial deepening and inclusion to support agriculture development.

Governors commended Development Partners for the increased resource allocation for Africa under IDA18, and urged the WBG to engage closely with African governments on policy and project implementation during the IDA18 cycle. They urged the WBG to adequately assist African Middle-Income Countries (MICs) in accessing WBG resources on favorable terms since they grapple with challenges similar to those of LICs.

Governors urged the WBG to support their efforts to design and implement policies to enhance productivity, facilitate agribusiness, and develop value chains. They called for support from the WBG for improved institutional arrangements for sustainable and efficient delivery of agricultural services and capacity building. They further urged the WBG to facilitate the modernization of agricultural production, with an emphasis on smart agriculture, as well as early warning, monitoring and evaluation, and management information systems.

Further, they requested the WBG to continue supporting African countries in addressing illicit financial flows, transfer pricing, and tax base erosion and profit shifting, while strengthening systems to enhance DRM. They further urged the WBG to support African revenue agencies in matters of tax policy and administration.

Governors reiterated their call for the WBG to continue improving diversity within the institution by:

i) building a strong pipeline of African professionals, and improving retention in the organization to form a pool of talent to fill vacancies at senior management levels;
ii) Recruiting Africans with rich educational background and experience from the continent; and
iii) Conducting outreach to all sub-regions of Africa to ensure fair distribution of recruitment on the continent.

In his response, Dr. Kim acknowledged the strong effect of agriculture development on poverty reduction. He noted that there was tremendous potential for agriculture to make a greater contribution, given the dynamics on the Continent and committed WBG support to Africa. A written response to the Governors' memorandum has since been provided.

The African Consultative Group (ACG) will meet with the WBG President on April 22, 2018, on the sidelines of the 2018 IMF/WBG Spring Meetings, to discuss the implementation of the commitments laid out in his written response.

Preparations are underway for the 2018 African Caucus Meeting which will be held in the Arab Republic of Egypt in August 2018.

4.5 Update on Staffing in the Office of the Executive Director

In the second half of 2017, the Office of the Executive Director continued its exercise to fill seven (7) Advisor positions that had fallen vacant due to the rotation of its staffing compliment. The exercise was guided by the principle to accord equal opportunity to all member countries to serve in the Constituency, while promoting gender balance and the effectiveness of the Constituency Office. An Advisor from the Kingdom of Swaziland was recruited in November 2017. The Constituency Office expects to finalize the final phase of the staff rotation exercise with the recruitment of an Advisor from the Republic of South Sudan in the first half of 2018.

Tanzanian Farmers tiling a Rice Paddie on an Irrigation Project

A Seed Plant in Rwanda

Annexes

- Development Committee Member Statement – October 2017
- Development Committee Communiqué – October 2017
- African Caucus Memorandum – October 2017
- Rotation Schedule for Constituency Chairperson
- Rotation Schedule for the Constituency Panel
- Rotation Schedule for Constituency Representation on the Development Committee
- Rotation Schedule for Executive Director and Alternate Executive
- Status of Subscriptions in Africa Group 1 Constituency
- Capital Adequacy - WBG Financing Package

Annexes

Annex 1: Development Committee Member Statement – October 2017

96th Meeting of the Development Committee
World Bank Group/IMF Annual Meetings
October 14, 2017
Washington, D.C.

His Royal Highness Hlangusemphi Dlamini
Minister of Economic Planning and Development
Swaziland
For Africa Group 1 Constituency

1. Introduction

External factors weighed heavily on our efforts to eradicate poverty in Sub-Saharan Africa (SSA) in 2016. Per capita income dropped, as regional growth fell to a twenty-year low of 1.3 percent in 2016, from 3.0 percent in 2015. This was against a backdrop of low commodity prices, weak external demand, drought, and security problems. While commodity exporters were most impacted, growth in commodity importers remained broadly stable. Growth is, however, projected to recover in the medium-term, driven by modestly recovering commodity prices, strengthening external demand and the end of the drought in several countries.

Notwithstanding this outcome, we, reaffirm our commitment to redouble our efforts in implementing critical reforms that are needed to ensure macro-economic stability and sustained growth, leading to the transformation of our economies and to the achievement of the Sustainable Development Goals (SDGs) targets. Given the prospects of economic recovery in the region and aided by scaled up financing package under IDA18, we look forward to enhancing our collaboration with the WBG across several areas critical to the attainment of the twin goals. Noting the scale of the challenges facing our economies, including the external downside risks to the economic outlook, such as climate change, pandemics, and fragility, we call on the WBG to strengthen its strategic engagement in Africa across its client groups, as espoused in the Forward Look.

2. World Development Report (WDR) 2018: Learning to Realize Education's Promise

Investing in human capital development in SSA is imperative to the region's quest to build a human capital stock that will take advantage of the demographic dividend and fundamentally transform the Continent. Statistics, however, indicate that 17 million of Africa's 128 million school-aged children, will never attend school. Even more shocking is data indicating that another 37 million attending school, learn so little while in school, that they will not be better off than those kids who never attended school. This is indeed a crisis for our region, and requires urgent and decisive intervention, if we are to fulfil our goals of ending extreme poverty and boosting shared prosperity, as well as meet the SDGs targets. We firmly believe that the learning crisis in our countries can be successfully addressed if all stakeholders collaborate in developing reliable and actionable policy measures to significantly improve our learning outcomes. We, therefore, urge the WBG and other development partners to support our efforts to drive this agenda by allocating the appropriate resources and developing the right instruments to support human capital development targeting the quality of learning and the acquisition of relevant skills, particularly on vocational, science and technology education. We further call on the WBG to leverage the fourth revolution of Information and Communication Technology (ICT), as they work collaboratively with our countries to implement the relevant policy and institutional reforms in the education sector.

3. Maximizing Finance for Development: Leveraging the Private Sector for Growth and Sustainable Development

We deem Maximizing Finance for Development (MFD) as critical and at the center of Africa's transformational agenda, especially regarding bridging the massive infrastructure gap in our countries. We call on the WBG and the other MDBs to intensify their commitment of moving from "billions" in ODA, to "trillions" using a broad range of instruments to advance the SDGs. We call for the urgent operationalization of the Cascade Approach which crowds-in private finance and optimizes the use of scarce public resources. The Cascade Approach should incorporate local private sectors through inclusive business models. We call on the WBG to also direct its efforts on Domestic Resources Mobilization (DRM) targeting strengthening tax administration, curbing illicit financial flows and the development of domestic capital markets.

4. Progress on Shareholding Review

We welcome the Progress Report on Shareholding Review as it raises important issues on rebalancing shareholding at the World Bank and the capital adequacy needs of IBRD and IFC. We note that more work needs to be done to achieve the objectives of the Shareholding Review, and that this will have implications on the earlier anticipated timeframe for approval by Governors. We, however, strongly believe that a comprehensive set of proposals acceptable to the membership should be presented to Governors for approval at the 2018 Spring Meetings. In this regard, Africa is calling for a bigger, better, and agile World Bank, with the capacity to deliver on the Forward Look.

5. Forward Look Update Implementation

We welcome the update on the implementation of the Forward Look and the several positive steps taken by the WBG over the last year to become a bigger, better, and agile institution. We acknowledge the historic IDA18 replenishment and the scale up in the policy package for IDA. We, therefore, call on the World Bank to urgently operationalize the various instruments and windows under IDA18, especially the Private Sector Window (PSW), the scaled-up support to Fragile and Conflict Affected States (FCS), and the Refugee Sub-Window. We also urge the Bank to deploy staff with the right set of skills and the incentives to ensure strong IDA18 delivery. We, however, note with concern that the update does not provide any proposals for engagement with Lower Middle-Income Countries (LMICs), where more than 500 million of the world's 750 million poor people live. We, therefore, call on the WBG to come up with concrete strategies to engage LMICs.

6. World Bank's Response to Pandemics and Natural Disasters

We wish to appreciate the WBG's timely response to the recent famine that affected several countries in SSA, where more than 20 million people faced starvation. The recurring droughts, floods, and cyclones have precipitated Africa's poverty and created long-lasting poverty traps. The Bank launched the Africa Climate Business Plan (ACBP) during COP21 meant to increase climate resilience and low carbon development by raising US$19 billion by 2020 and generating one gigawatt solar energy capacity. We, therefore, urge the Bank to urgently step up the implementation of the ACBP. Similarly, we commend the WBG for successfully launching the Pandemic Emergency Financing Facility, which addresses structural gaps in the global framework for rapid pandemic response. The PEF will provide more than $500 million to cover developing countries against the risk of pandemic outbreaks over the next five years, through a combination of bonds and derivatives priced today, a cash window, and future commitments from donor countries for additional coverage. In this regard, we congratulate the World Bank for recently launching specialized bonds aimed at providing financial support to the PEF. This marks the first time that World Bank bonds are being used to finance efforts against infectious diseases, and the first time that pandemic risk in low-income countries is being transferred to the financial markets.

7. Refugees

The Refugees and Internally Displaced People (IDPs) crises in some of our countries is increasingly worsening, with the continued large influx of people into Ethiopia, Kenya, Sudan, and Uganda, among other countries. This has worsened the humanitarian needs of the refugees especially basic food, shelter, education, health, and water. The increased influx of refugees is also putting significant economic and social pressure on host countries. We therefore, urge the WBG to expedite the implementation of the IDA18 Refugee Sub-Window to alleviate the burden on hosting countries. We also urge the WBG to come up with a strategy for supporting and addressing the situation of IDPs.

8. Transformation of Agriculture in Africa

Agriculture remains the backbone of our economies and the rejuvenation of the sector will make significant impact on poverty eradication, economic diversification, and job creation. Africa has 65 percent of the world's uncultivated arable land, but imports food worth US$35 billion every year. This is expected to increase to US $110 billion by 2025. It will, therefore, be crucial to urgently develop and implement a One WBG Action Plan to transform SSA's agriculture sector into a globally competitive, inclusive, and business orientated sector which creates wealth and improves the quality of the lives of rural farmers. The Action Plan should focus on increasing productivity; realizing the value of increased production; increasing investment into enabling hard & soft infrastructure such as electricity and roads in the agricultural production areas; catalyzing flows of increased agricultural finance; creating an improved agribusiness environment; increasing inclusivity, sustainability, and nutrition; and coordinating stakeholders in partnership to drive the transformation.

9. Regional Integration

Regional integration remains a high priority in our quest to sustainably transform the economies of Africa, through broadening product and factor markets, boosting competitiveness, diversifying economic activities, and creating jobs, particularly for the youth and women. Against this backdrop, we believe that the new WBG's strategy to engage with Africa should seek to harness the benefits of regional integration. We call on the World Bank to expeditiously finalize the new Regional Integration Strategy for Africa, which will support investments in transformative and strategic regional projects, particularly the 16 priority projects identified by the New Economic Program for Africa's Development (NEPAD), under the Program for Infrastructure Development in Africa (PIDA). While recognizing the country-based engagement model of the WBG, we urge for stronger collaboration with our regional economic communities, such as SADC, EAC, ECOWAS, and COMESA.

10. Conclusion

While the fall in commodity prices, is slowly beginning to wane, fiscal space for Africa's commodity exporters remains highly constrained. We, however, remain committed to continue implementing policies that improve the business climate and support private sector investments which are critical to boosting sustainable and inclusive long-term growth. Going forward, we commit to implement policies which promote economic transformation and regional integration, as well as to address the structural impediments to regional trade. This will assist to counteract the negative effects of rising global protectionism. We, therefore, call on the WBG to significantly step up the implementation of the Forward Look which will be critical to eliminating extreme poverty by 2030 and boosting shared prosperity, including sustainable and inclusive growth, investment in human capital, and strengthening resilience.

Annex 2: Development Committee Communiqué – October 2017

DEVELOPMENT COMMITTEE
JOINT MINISTERIAL COMMITTEE OF THE BOARDS OF GOVERNORS OF THE BANK AND THE FUND ON THE TRANSFER OF REAL RESOURCES TO DEVELOPING COUNTRIES
Washington, DC, October 14, 2017

1. The Development Committee met today, October 14, in Washington, D.C.
2. Global growth has improved over the past year with a recovery in investment, trade and commodity prices as well as supportive global financial conditions. Still, risks to the global outlook remain skewed to the downside, and prospects for growth vary widely across countries. While there has been encouraging progress in poverty reduction globally; high rates of inequality persist within and among countries, and stubborn pockets of poverty remain. Complex, interlinked challenges also risk rolling back the important gains of recent decades in an increasingly interconnected global economy.
3. The urgency and scale of today's risks to development require national and global coordinated action to achieve robust, sustainable, and inclusive development outcomes. The WBG is an effective and accountable leader in the global development arena, and we acknowledge its strong track record of supporting countries' long-term development ambitions. With its capable staff, it is well-positioned to catalyze and deploy public and private finance to serve all clients using a range of financial, risk, advisory and knowledge products. It also has the capacity to convene partners at the global, regional, and national levels. These factors make it a unique institution within the development community.
4. Recent human losses and economic shocks caused by natural disasters, famine, conflict, and displacement demonstrate that hard-earned economic and social gains can easily be lost. The need for fiscal adjustment also poses challenges in many economies, especially in highly indebted countries. We call on the WBG and the International Monetary Fund (IMF) to remain alert to the risk of debt distress amid the cyclical and structural headwinds that confront many developing economies, including through enhanced support for private investment in Africa. Their continued assistance is critical to countries' efforts to achieve sustainable and inclusive growth, enhance human capital, and strengthen resilience.
5. To promote sustainable and inclusive growth, we urge enhanced coordination and partnership across multilateral development banks (MDBs) and other international financial institutions (IFIs) to help leverage the financing required to create jobs and build healthy economies. We are encouraged by WBG efforts to maximize finance for development, including through the Cascade approach, which is intended to ensure that public and private investments are complementary. We ask the WBG to help countries maximize their development resources by drawing appropriately on private sector solutions to achieve the WBG's twin goals and the Sustainable Development Goals (SDGs).
6. To enhance human capital, we encourage systematic approaches to health, nutrition, education, and social protection that create the foundations for long-term development. In particular, we welcome the World Development Report, Learning to Realize Education's Promise. Improving learning outcomes for all is an important practical strategy for eliminating poverty and achieving shared prosperity. It is also a moral imperative. When children attend school without learning even the most basic life skills, it is not just a wasted opportunity; it is also a grave injustice. We urge the WBG to work with clients to adapt and design policies which over time can help them bolster learning and prepare their citizens for technological changes that will transform labor markets.
7. Closing gender gaps for women in access to property, finance and decent work is critical for achieving the SDGs. We are encouraged by the WBG's creation of the Women Entrepreneurs Finance Initiative, which is expected to leverage more than US$1 billion to help unlock the potential of women entrepreneurs. We also welcome the creation of a Gender Diversity Working Group at the Board of Executive Directors and request an update on its progress by the Spring Meetings in 2018.

8. To strengthen resilience, we urge continued investment in policies and programs that enable economic diversification and minimize the negative impact of acute and long-term challenges to development. Macroeconomic shocks arising from such crises as conflict, pandemics, natural disasters, and extreme weather events can displace communities and create high costs in terms of lost lives, livelihoods, infrastructure and social cohesion. Moreover, cyclical shocks place pressure on vulnerable financial systems. We call on the WBG and IMF to continue to work with countries to strengthen domestic resource mobilization, reduce illicit financial flows, create instruments for crisis and disaster prevention and preparedness, and ensure economic and social resilience when crises and disasters occur.

9. We highlight the need for action to address challenges – climate change, migration and forced displacement, global health, as well as fragility, conflict and violence (FCV) – that threaten all countries. We applaud platforms such as the Caribbean Catastrophe Risk Insurance Facility, the Global Concessional Financing Facility and the Pandemic Emergency Financing Facility as examples of WBG leadership in helping countries apply solutions at national, regional, and global levels. We note the ambition set out in the WBG Climate Change Action Plan. We recognize that small states are disproportionately affected by disaster risks and note the continued importance of facilitating their access to finance.

10. We welcome the start of IDA18, its record replenishment of US$75 billion, its new financial model and Triple A rating, and its focus on jobs and economic transformation, gender, climate change, governance and FCV. We look forward to successful implementation, including the contribution that increases in funding and staff will make in countries affected by FCV. We especially commend the renewed focus on facilitating private sector investment to boost growth for the poorest and most vulnerable. In this regard, we recognize the importance of IDA18's IFC-MIGA Private Sector Window to mobilize private investment and create markets in the most challenging environments.

11. We are encouraged by the Forward Look implementation update and recognize the importance of the WBG serving all client segments, noting that resources should be strategically deployed to meet global and client needs and targeted to areas of the world that most need funding and have least access to capital, with a tailored value proposition to the full range of clients. We support the initiatives that seek to optimize operational and administrative simplification without compromising the quality of WBG operational and analytical support. We expect the WBG to continuously strive for improvement through initiatives such as the Environment and Social Framework implementation, the Agile program as well as the Compensation Review. Increasing efficiency and effectiveness are also critical to support the institution's goals of reducing poverty and boosting shared prosperity in a sustainable manner. We look forward to a further update at the Spring Meetings 2018, including targets for measuring progress.

12. We welcome the progress report to Governors on the Shareholding Review. We endorse the continuing work that provides for further consideration of options and call on the Board to bring these discussions to a successful conclusion by Spring Meetings 2018.

13. We recall the high ambition set out in the Forward Look and recognize the expectations placed on the WBG. We ask the Board and Management to review all possible options to enhance the WBG's financial capacity and develop a package of measures, including internal levers and general and selective capital increases, for Governors' consideration, with the aim of reaching a decision at the 2018 Spring Meetings.

14. The next meeting of the Development Committee is scheduled for April 21, 2018.

Annex 3: African Caucus Memorandum – October 2017

ANNUAL MEETINGS OF THE INTERNATIONAL MONETARY FUND AND
THE WORLD BANK GROUP 2017 MEMORANDUM OF THE AFRICAN GOVERNORS
TO
Dr. JIM YONG KIM PRESIDENT OF THE WORLD BANK GROUP
AND
Ms. CHRISTINE LAGARDE MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. OCTOBER 2017

INTRODUCTION

1. According to the International Monetary Fund (IMF) (2016), Investment and Capital Stock dataset, 1960-2015, Africa remains the most under-capitalized region in the world, with low levels of public and private investments and a large share of spending going to recurrent expenditures. At 0.04% of Gross Domestic Product (GDP), public spending in agriculture still lags other regions and foreign direct investment (FDI) is negligible. However, evidence shows that agriculture is an important foundation for economic transformation to rapidly create inclusive growth, employment and reduce poverty in a sustainable manner, but the continent imports more than 15 million tons of cereals each year just to supplement the growing demand for food.

2. Against this background, we, African Governors, met in Gaborone, Republic of Botswana, during August 2-4, 2017 to discuss "Economic Transformation and Job Creation, with a focus on Agriculture and Agribusiness". To this end, our 2017 Memorandum seeks additional support from the Bretton Woods Institutions (BWIs) in the following areas: a) Agriculture Policy Foundations: Reforms and Policy Agenda; b) Agriculture Technologies and Value Chains and Sustainable Job Creation for Youth and Women; c) Infrastructure Financing and Financial Inclusion; and d) Quota, Voice and Diversity.

3. We acknowledge the historic IDA18 replenishment, of which about 60 percent of the resources have been allocated to Sub-Saharan Africa. We welcome the scale-up in the policy package for IDA, as reflected by the doubling of resources for FCS and greater focus on economic transformation and job creation.

AGRICULTURE POLICY FOUNDATIONS: REFORMS AND AGENDA

4. We are aware that the current approach to move from subsistence to commercial agriculture through more inputs and targeting larger farmers has proven insufficient and often unsuitable to remove the constraints to inclusive agricultural growth. Therefore, to attain the structural transformation, reforms of policies and strategies are urgently needed, in addition to getting the macro fundamentals right so that resources flow into the agriculture sector. These include policies and strategies to improve investment climate, develop rural infrastructure, remove rigidities in the land market, improve access of rural smallholders to finance, enhance the provision of agricultural services; and invest in physical infrastructure, social and human capital, technological progress and innovation, in product and market diversification.

5. Therefore, we call on the World Bank Group (WBG) and the IMF to enhance their role and review their policies and instruments to facilitate and enable economic transformation in Africa. Policy tools and approaches should focus on trade and economic policy, customs and logistics, and direct enterprise support. Accordingly, the policy agenda should relate to the following three core areas, which collectively offer a platform on which the necessary policy dialogues can be developed:

    - *Macro fundamentals* (e.g., economic biases due to market distortions, tariff and nontariff trade barriers, real exchange rate misalignment, tax distortions, overall fiscal health of the economy).
    - *Hard and soft infrastructure* (e.g., infrastructure, customs and trade logistics, the costs of doing business).
    - *Supply-side measures* (e.g., technology creation and adaptation, product standards and certification, export promotion, human resource development).

6. We call for special attention to the needs of all the middle-income countries. Often these countries face similar structural problems and other development challenges as most low income countries, and therefore also require appropriate instruments to deal with their challenges.

7. We reiterate our call for the World Bank Group and the IMF to make progress in the reengagement process with four of our countries, namely State of Eritrea, Federal Republic of Somalia, Republic of Sudan and Republic of Zimbabwe, and assist them with debt relief and arrears clearance.

AGRICULTURAL TECHNOLOGIES, VALUE CHAINS, AND SUSTAINABLE JOB CREATION FOR YOUTH AND WOMEN

8. We consider the development of value chains to be pivotal in addressing poverty, particularly among women and the youth. Against this backdrop, we seek to strengthen agricultural production and agribusiness across the whole value chain.

9. Therefore, we call on the WBG to develop and implement a joint (IDA/IFC/MIGA) Action Plan in support of Africa's agricultural transformation agenda for the next 3-5 years, by helping countries:
   - Increase agricultural production and productivity at farm level and improve resilience, while emphasizing more climate smart agriculture. To this end, we request a significant increase of Africa's share in IDA18 commitments, related to climate smart agriculture; land, forest and water management to be implemented in Africa during IDA18 cycle.
   - Link farmers to markets and strengthen value chains, while emphasizing more private sector support;
   - Reduce the risk and vulnerability through emphasis on risk management, nutrition and gender.

AGRICULTURE INFRASTRUCTURE FINANCING AND FINANCIAL INCLUSION

10. Agriculture infrastructure financing and financial inclusion are critical to boosting productivity in agribusiness sector. To achieve this dual objective, we urge the WBG and the IMF to propose a road map which aim at supporting countries in: (i) de-risking agriculture financing with credit risk institutions; (ii) identifying domestic and foreign financial institutions (DFIs) with risk appetite in agriculture while promoting sound financial development and inclusion and enabling a level-playing field for competition; (iii) creating the fiscal space within our public budgets along with mobilizing private and external resources, to meet the agriculture infrastructure and operational needs; and (iv) identifying existing farmers, and enabling them to have access to finance and boost their potential.

11. To sustain this strategy, we welcome and look forward to a judicious use and regional repartition of the resources from the World Bank Group's Private Sector Window (PSW), particularly, the Blended Finance Facility and the Risk Mitigation Facility, as well as innovative PPPs to help unlock commercial and long-term financing of agriculture in Africa. In addition, we will continue to count on the BWIs' policy advice and technical assistance to improve institutional capacity for domestic revenue mobilization (DRM) in Africa.

12. More specifically, we call on the BWIs to assist all countries meet budgets to agriculture development that are fiscally sustainable and consistent with the overall development priorities of our governments by the end of the current IDA18 cycle. Furthermore, we urge BWIs to periodically monitor progress to find out how these investments are impacting sector performance. We look forward to the 2018 Review of IMF Facilities for Low-Income Countries and expect the revised or new instruments to be better geared towards growth objectives. In particular, we request flexibility in the design and conditionality of IMF-supported programs to accommodate the necessary significant public investment in the sector, consistent with preserving fiscal and debt sustainability. To this end, we urge the BWIs to ensure that the revised Debt Sustainability Framework for Low-Income Countries (LIC DSF) is better tuned to the growth-investment nexus, and debt sustainability analyses are based on realistic macroeconomic assumptions.

QUOTA, VOICE AND DIVERSITY

13. We acknowledge some commendable progress made on a number of issues raised in our earlier Memoranda, including reaching the Diversity target for staff of African and Caribbean descent of 12.5 percent at the World Bank, and the commitment the Bank made to raise this target to 15 percent in FY18. However, while IBRD met its target, IFC and MIGA made very little progress, and fell short of their targets. Therefore, we urge both IFC and MIGA Management to take the necessary steps to meet their targets. Also, given a low representation of SSA nationals at the mid management level (the missing middle), in the two institutions, we request that the WBG and the IMF take deliberate steps to build a pipeline of Africans at mid to senior management level to ensure that there is an adequate pool of Africans both at the technical and managerial levels to be promoted to more senior levels whenever vacancies arise. We reiterate our call to enhance staff diversity at the IMF, particularly the representation of nationals from Sub- Saharan and North Africa regions which remain under represented.

14. We welcome efforts to realign shareholding at the World Bank. On the Fund side, we reiterate our call for completion of the 15th General Review of Quotas by the 2019 Annual Meetings alongside work on a new quota formula. We expect the new IMF quota formula to result in enhanced quota shares for African member countries commensurate with their economic dynamism. We also reiterate our longstanding call for a third chair for Sub- Saharan Africa at the IMF Executive Board to improve representation of these countries and alleviate the exceptionally heavy burden put on the existing two Sub-Saharan Africa chairs.

Washington D.C.

Annex 4: Rotation Schedule for the Constituency Chairmanship

FIRST ROUND 2010 - 2052		
YEAR	CHAIRPERSON	VICE CHAIRPERSON
2010	BOTSWANA	BURUNDI
2012	BURUNDI	ERITREA*
2014	ERITREA	ETHIOPIA
2016	ETHIOPIA	GAMBIA, THE
2018	GAMBIA, THE	KENYA
2020	KENYA	LESOTHO
2022	LESOTHO	LIBERIA
2024	LIBERIA	MALAWI
2026	MALAWI	MOZAMBIQUE
2028	MOZAMBIQUE	NAMIBIA
2030	NAMIBIA	RWANDA
2032	RWANDA	SEYCHELLES
2034	SEYCHELLES	SIERRA LEONE
2036	SIERRA LEONE	SOMALIA
2038	SOMALIA	SOUTH SUDAN
2040	SOUTH SUDAN	SUDAN
2042	SUDAN	SWAZILAND
2044	SWAZILAND	TANZANIA
2046	TANZANIA	UGANDA
2048	UGANDA	ZAMBIA
2050	ZAMBIA	ZIMBABWE
2052	ZIMBABWE	BOTSWANA

NOTES:

1. Every country is given a turn for Chairmanship in alphabetical order from A to Z
2. Avoids duplication with IMF Rotation - Governors not serving on the IMF constituency Panel are given preference

*Since Eritrea elected to pass their turn as Vice Chair of the Constituency in 2012-2014, Ethiopia was advanced in its place. Accordingly, the Chair and Vice Chair advance a period up beginning 2014.

Annex 5: Rotation Schedule for the Constituency Panel

FIRST ROUND 2010 – 2052					
YEAR	CHAIRPERSON	VICE CHAIRPERSON	OTHER PANEL MEMBERS		
2010	BOTSWANA	BURUNDI	SEYCHELLES	KENYA	SIERRA LEONE
2012	BURUNDI	ERITREA	RWANDA	SWAZILAND	LIBERIA
2014	ERITREA*	ETHIOPIA	LESOTHO	ZAMBIA	SOUTH SUDAN
2016	ETHIOPIA	GAMBIA, THE	NAMIBIA	ZIMBABWE	SUDAN
2018	GAMBIA, THE	KENYA	MOZAMBIQUE	MALAWI	TANZANIA
2020	KENYA	LESOTHO	SWAZILAND	BOTSWANA	ETHIOPIA
2022	LESOTHO	LIBERIA	RWANDA	BURUNDI	SOUTH SUDAN
2024	LIBERIA	MALAWI	MOZAMBIQUE	ETHIOPIA	ZAMBIA
2026	MALAWI	MOZAMBIQUE	GAMBIA, THE	UGANDA	KENYA
2028	MOZAMBIQUE	NAMIBIA	ETHIOPIA	SOMALIA	ERITREA
2030	NAMIBIA	RWANDA	BOTSWANA	SOUTH SUDAN	LIBERIA
2032	RWANDA	SEYCHELLES	LESOTHO	UGANDA	TANZANIA
2034	SEYCHELLES	SIERRA LEONE	SUDAN	ZIMBABWE	LIBERIA
2036	SIERRA LEONE	SOMALIA	KENYA	BOTSWANA	MALAWI
2038	SOMALIA	SOUTH SUDAN	SWAZILAND	ZAMBIA	BOTSWANA
2040	SOUTH SUDAN	SUDAN	LIBERIA	MALAWI	BURUNDI
2042	SUDAN	SWAZILAND	SOMALIA	SIERRA LEONE	LESOTHO
2044	SWAZILAND	TANZANIA	UGANDA	ERITREA	NAMIBIA
2046	TANZANIA	UGANDA	ZAMBIA	SEYCHELLES	BOTSWANA
2048	UGANDA	ZAMBIA	ZIMBABWE	KENYA	GAMBIA, THE
2050	ZAMBIA	ZIMBABWE	UGANDA	BURUNDI	LIBERIA
2052	ZIMBABWE	BOTSWANA	LIBERIA	SUDAN	RWANDA

NOTES:

1. Every country is given a turn for Chairmanship in alphabetical order from A to Z
2. Avoids duplication with IMF Rotation - Governors not serving on the IMF constituency Panel are given preference
3. Other panel members reflects regional balance (East, South and West)
4. Schedule revised to include South Sudan following the country's membership to the Constituency in October 2012

*Since Eritrea elected to pass their turn as Vice Chair of the Constituency in 2012-2014, Ethiopia was advanced in its place. Accordingly, the Chair and Vice Chair advance a period up beginning 2014.

Annex 6: Rotation Schedule for Constituency Representation on the Development Committee

FIRST ROUND 2010 -2052						
YEAR	DC REPRESENTATIVE	ALTERNATE	ASSOCIATES			
2010	ZIMBABWE	ZAMBIA	TANZANIA	ERITREA	RWANDA	GAMBIA, THE
2012	ZAMBIA	UGANDA	GAMBIA, THE	MALAWI	LESOTHO	KENYA
2014	UGANDA	TANZANIA	NAMIBIA	MOZAMBIQUE	ZIMBABWE	SIERRA LEONE
2016	TANZANIA	SWAZILAND	LESOTHO	RWANDA	BURUNDI	LIBERIA
2018	SWAZILAND	SOUTH SUDAN	SIERRA LEONE	SOMALIA	LESOTHO	UGANDA
2020	SOUTH SUDAN	SUDAN	NAMIBIA	ZIMBABWE	GAMBIA, THE	BURUNDI
2022	SUDAN	SOMALIA	KENYA	ZAMBIA	SWAZILAND	SIERRA LEONE
2024	SOMALIA	SIERRA LEONE	ZIMBABWE	LESOTHO	NAMIBIA	GAMBIA, THE
2026	SIERRA LEONE	SEYCHELLES	SWAZILAND	ETHIOPIA	BOTSWANA	TANZANIA
2028	SEYCHELLES	RWANDA	SUDAN	TANZANIA	ZIMBABWE	SWAZILAND
2030	RWANDA	NAMIBIA	KENYA	SUDAN	ZAMBIA	SIERRA LEONE
2032	NAMIBIA	MALAWI	BURUNDI	KENYA	SIERRALEONE	SOUTH SUDAN
2034	MALAWI	MOZAMBIQUE	TANZANIA	GAMBIA	ETHIOPIA	BURUNDI
2036	MOZAMBIQUE	LIBERIA	LESOTHO	ZAMBIA	ERITREA	SEYCHELLES
2038	LIBERIA	LESOTHO	GAMBIA, THE	MALAWI	NAMIBIA	RWANDA
2040	LESOTHO	KENYA	MOZAMBIQUE	ZAMBIA	ZIMBABWE	UGANDA
2042	KENYA	GAMBIA, THE	BOTSWANA	NAMIBIA	ETHIOPIA	RWANDA
2044	GAMBIA, THE	ETHIOPIA	ZAMBIA	ZIMBABWE	LIBERIA	MALAWI
2046	ETHIOPIA	BURUNDI	SIERRA LEONE	LIBERIA	LESOTHO	SOUTH SUDAN
2048	BURUNDI	ERITREA	LIBERIA	SOMALIA	SWAZILAND	NAMIBIA
2050	ERITREA	BOTSWANA	KENYA	SIERRALEONE	SEYCHELLES	RWANDA
2052	BOTSWANA	GAMBIA, THE	SIERRA LEONE	KENYA	ETHIOPIA	MOZAMBIQUE

NOTES:

1. Avoids duplication with the other Panel membership
2. DC Representative and Alternate Members accorded opportunity in descending alphabetical order (Z to A)
3. Associate Members are selected on basis of providing regional balance
4. Schedule revised to include South Sudan following the Country's membership to the Constituency in October 2012

Annex 7: Rotation Schedule for Executive Director and Alternate Executive Director

FIRST ROUND 2010 - 2052		
Year	Executive Director	Alternate ED
2010	SUDAN	ZAMBIA
2012	ZAMBIA	SEYCHELLES
2014	SEYCHELLES	ZIMBABWE
2016	ZIMBABWE	BOTSWANA*
2018	BOTSWANA*	UGANDA
2020	UGANDA	BURUNDI
2022	BURUNDI	TANZANIA
2024	TANZANIA	ERITREA
2026	ERITREA	SWAZILAND
2028	SWAZILAND	ETHIOPIA
2030	ETHIOPIA	SOUTH SUDAN
2032	SOUTH SUDAN	SOMALIA
2034	SOMALIA	GAMBIA, THE
2036	GAMBIA, THE	SIERRA LEONE
2038	SIERRA LEONE	KENYA
2040	KENYA	RWANDA
2042	RWANDA	NAMIBIA
2044	NAMIBIA	LESOTHO
2046	LESOTHO	MOZAMBIQUE
2048	MOZAMBIQUE	LIBERIA
2050	LIBERIA	MALAWI
2052	MALAWI	

NOTES:

1. Sudan and Zambia accorded special dispensation to serve their turn under rotation system of the erstwhile Africa Group I Constituency
2. Seychelles which has never served the Constituency as Executive Director is accorded special dispensation on the rotation system
3. The rest of the countries follow an Alphabetical rotation alternating between Z and A until the first round is completed, taking into account South Sudan's membership of the Constituency in October 2012
4. This schedule proposed with a view to avoid duplication with IMF Rotation for EDs and AEDs
    - * Botswana and Uganda agreed to switch turns for AED and ED for 2016-2018.

Annex 8: Status of Subscriptions in Africa Group 1 Constituency

Status of Subscription to Shares Allocated under IBRD Board of Governors Resolution No. 613 (as of March 16, 2018)

Member	Shares Allocated	Shares Subscribed	Shares Released to Unallocated Pool	Paid-in amount ($)
Botswana	164	164	0.0	1,187,048.40
Burundi	220	220	0.0	1,592,382.00
Eritrea	179	0	179.0	0.00
Ethiopia	310	310	0.0	2,243,811.00
Gambia, The	164	164	0.0	1,187,048.40
Kenya	724	724	0.0	5,240,384.40
Lesotho	199	199	0.0	1,440,381.90
Liberia	143	143	0.0	1,035,048.30
Malawi	332	+332	0.0	2,403,049.20
Mozambique	281	281	0.0	2,033,906.10
Namibia	407	407	0.0	2,945,906.70
Rwanda	317	317	0.0	2,294,477.70
Seychelles	70	0	70.0	0.00
Sierra Leone	220	220	0.0	1,592,382.00
Somalia	169	0	169.0	0.00
South Sudan	384	0	384.0	0.00
Sudan	419	0	419.0	0.00
Swaziland	133	0	133	0.00
Tanzania	393	0	393	0.00
Uganda	196	196	0.0	1,418,667.60
Zambia	818	818	0.0	5,920,765.80
Zimbabwe	955	0	955	0.00
TOTAL	7197	4495	2702	32,535,259.50

Annex 9: Capital Adequacy - World Bank Group Financing Package

MEASURES	WBG	IBRD	IFC
CAPITAL INCREASE	US$13 billion paid-in capital (SCI + GCI) as a joint World Bank Group Ask.	US$7.5 billion paid-in capital (US$1.9 billion SCI + US$5.6 billion GCI, illustrative depending on shareholding realignment outcome)[16]	US$5.5 billion paid-in capital (US$0.9 billion SCI + US$4.6 billion GCI, illustrative)[17]
LOAN TERMS	Offering a continuum of World Bank financing terms across IDA and IBRD that involve declining differences vs. alternative market funding as countries move up the income spectrum.	Maintaining pricing measures implemented in 2014, and introduce the following additional measure: • Introducing 10-40 basis points maturity premium increase for loans with average maturity longer than 10 years; and • Blends, small states, and FCS on harmonized list are exempted; IDA graduates are exempted for 2 replenishment cycles or 6 years from implementation of proposal. Introduce 5-20 basis points discounts for Category III countries and 5-25 basis points surcharges for HICs.	Continuing existing risk-based and market based pricing policy.
BUDGET EFFICIENCY	• Maintaining Expenditure Review savings. • Revising compensation methodology. • Introducing further efficiency measures which, combined with economies of scale benefits, would generate cumulative US$1.8 billion additional savings over FY19-30.	• Maintaining Expenditure Review savings. • Revising compensation methodology. • Introducing further efficiency measures with US$1.1 billion cumulative savings by FY30 including efficiency measures and economies of scale.	• Maintaining Expenditure Review savings. • Revising compensation methodology. • Introducing further efficiency measures with cumulative US$0.7 billion savings by FY30 including economy of scale and efficiency gains.
BALANCE SHEET OPTIMIZATION	• Implementing recommendations of independent external panel review of IBRD and IFC capital adequacy framework. • Continuing exploring balance sheet optimization measures	• Implementing recommendations of independent external panel on IBRD capital adequacy framework. • Continuing active portfolio management (e.g. cancelling problem loans, active restructuring) and exploring innovative balance sheet optimization measures.	• Continuing an active mobilization strategy to conserve capital • Maintaining a balanced portfolio • Continuing an active portfolio management approach including equity sales
INCOME TRANSFERS	• Maintaining balance between solidarity and financial prudence, while rationalizing utilization of WBG resources for IDA countries. • Providing concessional financing support to GPGs	• Extending IDA18 income-based formula in future income allocation. • Using IBRD income to provide concessional financing to GPGs within existing $100 million p.a. surplus ceiling.	• Eliminating IFC transfers to IDA. • Extending use of revised approach to designations for annual designations to advisory services including Creating Markets Advisory Window for IDA.

[16] Assuming historical average 6% paid-in ratio, this would result in a subscribed capital increase of US$125 billion (including US$118 billion callable capital).

[17] The paid-in Capital increase for IFC is to be complemented with US$1 billion in "saved" retained earnings from elimination of IDA transfers and an additional US$1 billion from alternatives to callable capital such as risk sharing facilities or callable capital at a later stage. Callable Capital is not included in the current package proposal due to the potentially lengthy process to implement it.

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Office of the Executive Director
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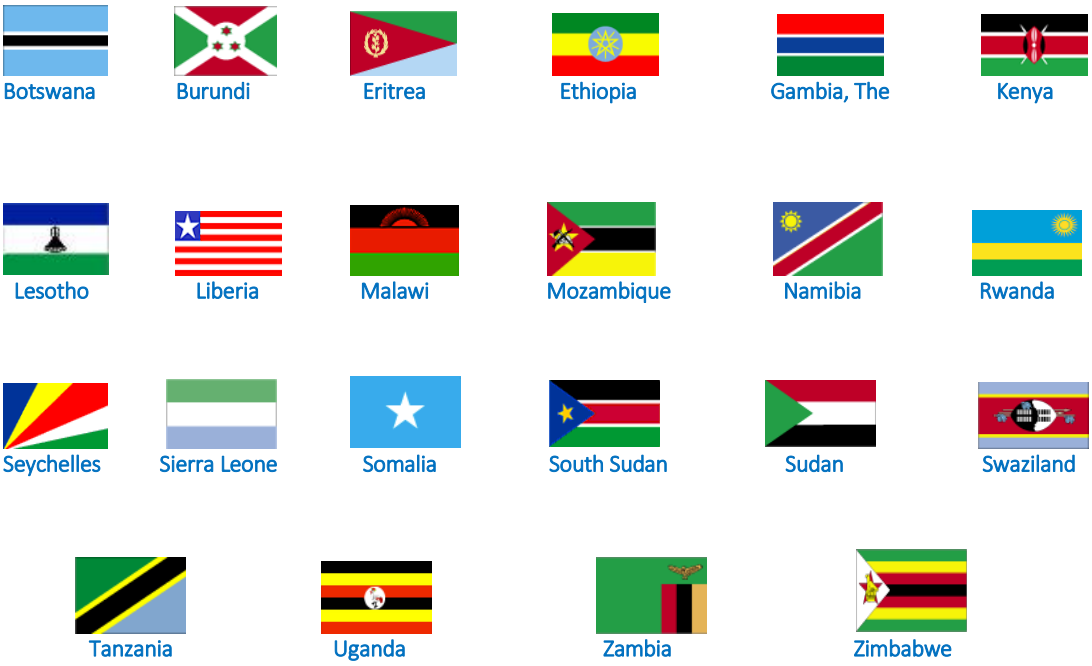
AFRICA GROUP I CONSTITUENCY
FY18 Interim Report - April 2018

Office of the Executive Director, EDS14



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