WORLD BANK GROUP

ANNUAL REPORT
OCTOBER 2018

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EXECUTIVE DIRECTOR

OFFICE OF THE EXECUTIVE DIRECTOR

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FOREWORD BY THE EXECUTIVE DIRECTOR

I am very pleased to present this report to our Governors and their delegations to the 2018 Annual Meetings of the World Bank Group (WBG) and International Monetary Fund (IMF) in Bali Indonesia.

Since our last meeting in April, the Board has increased its focus on policy issues and country projects, having concluded the Lima 2015, mandate on shareholding review and capital increase.

At these Annual Meetings, President Jim Kim will be launching a new Human Capital Project. There are three main objectives: first, to build demand for more and better investments in people; second, to help countries strengthen their human capital strategies and investments for rapid improvements in outcomes; and third, to improve how we measure human capital. Also, the Bank will release a new Human Capital Index (HCI) at this year's Annual Meetings. The HCI will help measure productivity-related human capital outcomes such as child survival, early hardwiring of children for success, student learning, and adult health. This initiative is supported by the central arguments made in the World Development Report 2019. As in previous years, our office continues to promote the widespread circulation and discussion of these knowledge products in our constituency countries.

The WBG's analytical and planning work in our constituency countries continues apace. Work on Angola's Systematic Country Diagnostic (SCD) and Private Sector Diagnostic (PSD) is ongoing, and both are expected to be delivered by December 31, 2018. These Reports will inform the process of the Angolan Country Partnership Framework (CPF) for FY2019-2022, to be delivered by June 30, 2019. Nigeria's SCD is also due at the end of this year; and in South Africa, there has been intense bilateral engagements since April on the content of the Country Partnership Framework (CPF) expected towards the end of this year.

On the financial side, the WBG has had a good financial year, with total commitment of US$75.6bn, of which nearly US$50bn has been disbursed. The excellent financial performance of IBRD and IFC has enabled the Board to both make transfers to IDA and retain earnings in support of improved capital adequacy. It has been a pleasure for me to support the work of the Executive Board as Chair of the Audit Committee over the past two years and, in addition to our statutory oversight responsibilities, I believe that our office has made a strong and lasting contribution to improved governance during my term, particularly with respect to the treatment of risk within the WBG.

Since July 2018, our office has led the G11 caucus group within the Bank, providing our office with another opportunity to sensitize Board members to our interest in the WBG's

role in the following three priority areas: job creation; improved fiscal space for developing countries through greater advocacy and international cooperation to support domestic resource mobilization; and a stronger WBG focus on regional integration. We continue to work closely with the group of constituency offices that represent countries in Sub Saharan Africa (EDS06, EDS13, and EDS14) to advance these issues at key policy discussion events, including at the Mid-Term Review of the IDA18 Replenishment which will take place in Zambia from November 12-15, 2018.

Soon after we return to Washington from these meetings, it will be time for me to bid farewell to our office and to you in my capacity as your Executive Director. However, since this is my last official engagement on this platform; it is now time for me to bid farewell to you, my esteemed authorities and to thank you for giving me the privilege of representing Angola, Nigeria and South Africa at the WBG Board. It has been a once in a lifetime privilege that I will forever cherish. I remain extremely grateful to all my authorities for reposing confidence and trust in me. I have tried to serve your interests to the best of my ability and I greatly value the unfailing trust I have enjoyed from all of you.

I have been supported by a wonderful team: Fidel, Cleo, Mario, George, Reshma, Maureen and Nkem, not forgetting Siphiwe and Pebetse with returned home during my term, and of course my Alternate, Haruna Mohammed, who I know will take our young and dynamic office to another level of strength.

More than half of the world's poor are now in Sub Saharan Africa, and forecasts suggest that more than 85 percent will be in Sub Saharan Africa by 2030. I believe that this office has a critical contribution to make in support of the delivery of the WBG's core mandate and that the voice and participation of leading middle-income economies in Sub Saharan Africa is and will remain vital.

Sincerely,

Bongi Kunene

Executive Director for Angola, Nigeria and South Africa

ANNUAL MEETINGS

2018 | indonesia

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

Contents

FIGURES

EXECUTIVE SUMMARY

This **Annual Report of the Angola, Nigeria, South Africa (ANSA) Constituency Office** of the World Bank Group (WBG) for the period from October 2017 to October 2018.

Chapter 1 provides an overview of activities in our constituency countries, providing the economic outlook and the status of strategies and projects with the WBG.

Chapter 2 provides an analysis of the topics tabled for Governors at the Development Committee (DC) this October in Bali.

Chapter 3 provides an overview of the work of the WBG Standing Committees, with a special focus on the Audit Committee, chaired by ED – Bongi Kunene.

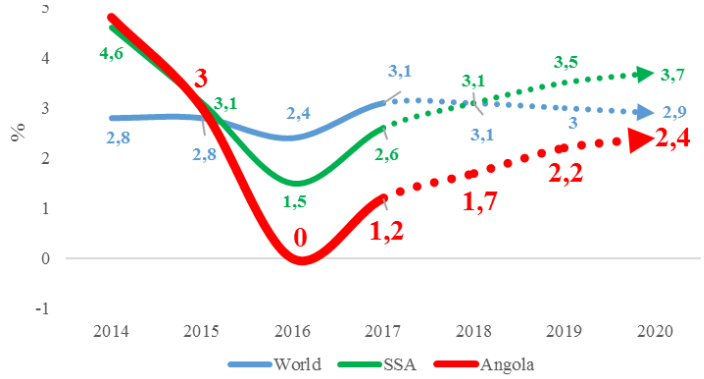
Chapter 4 summarizes the portfolio, performance, capital adequacy, risk management and outlook of the four WBG entities.

Chapter 5 provides an overview of Constituency matters, including costs of subscription to the 2018 Capital Increase that was agreed at the Spring Meetings.

1.1 Angola

Economic Performance

Figure 1 Angola GDP growth forecast



Source: World Bank Group: GEP, June 2018

Growth forecast for Angola reflects the expectation that a more efficient allocation of foreign exchange, rising natural gas production, and better business sentiment. A year after presidential elections, renewed government commitment is showing results in the macroeconomic management and governance reforms. However, Angola's GDP remains substantially dependent in oil production, inflation has been in double digits, owing to currency depreciations, and progress in boosting non-oil revenue remains limited. Debt levels are high and rising, due in part to exchange rate depreciation. While FDI flows are rebounding moderately, portfolio inflows have continued at a solid pace, helped by two sovereign-bond issuances.

Financial relations with the World Bank Group

In 1991, the WBG began its assistance to Angola, through IDA credit facility, to improve economic management capacity in the country. Consequently, the Bank opened its office in Luanda, to promote a dialogue with the Government of Angola. After the implementation of a Transitional Support Strategy 2003-2004 of the country, two Interim Strategy Notes (ISN) followed.

From 1998 to 2017 the Bank carried out over 19 projects of social and economic impact with a total value of US$ 1,069.1 million, to improve the transparency, efficiency, and credibility of the management of public resources, expand the delivery of services to the war affected vulnerable groups and prepare the country for economic growth that eradicates poverty.

Strategy with the World Bank Group

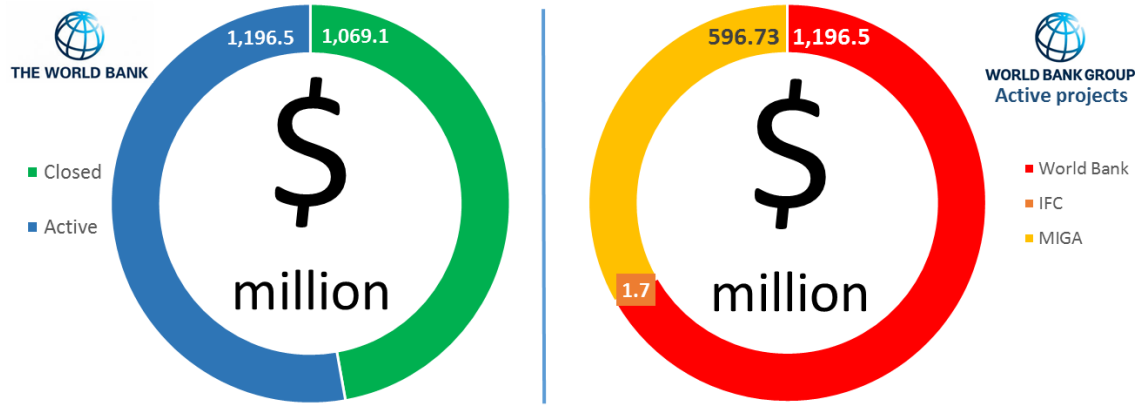
The World Bank Group Country Partnership Strategy (CPS) for Angola covering Fiscal Years 2014-2016 was approved in 2014 to support the country's transition and to define areas that could be supported with a new set of instruments, among which knowledge took a center stage.

Aligned with its 2013-2017 National Development Plan, the CPS aimed at boosting economic diversification, equitable distribution of wealth, and better service delivery using various financial and advisory instruments available in the WBG (i.e. IBRD, IFC and MIGA).

The World Bank Group finalized in April 2018 the Performance Learning Review (PLR) and is now working on the Systematic Country Diagnostic (SCD) and Private Sector Diagnostic (PSD) to be delivered by December 31, 2018. The results of the SCD is going to be reflected in the a Country Partnership Strategy (CPF) for the period 2019-2022, whereas the PSD will be used as an input into the IFC's Angola Country Strategy.

From the three possible World Bank instruments, Angola is just using Investment Project Financing (IPF), giving still space for a diversification of WB instruments, namely Program for Results (P4R) and Development Policy Financing (DPF).

Figure 2 Angola-WBG financial relationship



World Bank portfolio size and composition

The current portfolio consists of 10 IPF valued at US$ 1,196.5.5 million, an increase of US$ 390 million when compared with last semester.

Figure 3 Angola actual portfolio size and composition with WBG lending facilities

MIGA portfolio size and composition

On the MIGA side, its exposure amounts to US$ 526,73 million, consisting of a guarantee of US$ 511.8 million to lead arranger HSBC Bank Plc. covering a non-shareholder loan (and interest) for the expansion of the Cambambe Hydroelectric Power Station. No additional operations were made during the current semester.

IFC portfolio size and composition

As far as private sector is involved, IFC's active portfolio with Angola relates to only 1 project in the amount of US$ 30 million to Secil Lobito for a multi-phase construction of a greenfield cement plant. No additional operations were made during the current semester.

In pipeline, there is a project to build Hilton Talatona from the company Aliança Global Hotel Property - Hotelaria, LDA. The total Project cost is estimated at US$50 million and will be funded with a combination of equity from the Sponsor, and debt. IFC will provide a Senior Loan (A-Loan) of up to US$10 million and will mobilize up to US$7.5 million from a Parallel Lender. The proposed IFC financing will be structured as a senior secured loan and will have a tenor of up to 11 years. The environmental and social (E&S) review for the project Hilton Talatona has been approved in June 2018 and is now pending disbursement.

WBG Senior Management visits

IFC Africa & ME VP visit to Luanda, Angola, September 24, 2018

The IFC Vice-President for Africa and Middle East, Sergio Pimenta, visited Angola in September 24, 2018. As his first visit to the country, the main goal was to be presented to the Angolan authorities and confirm IFC's commitment in supporting local economic operators. Sergio Pimenta had a closed-door meeting with the authorities, namely Ministers of Finance, Economy and Planning, Trade, Industry, Energy and Water and Central Bank Governor.

The next event was a government round table with local but also international business representatives interested in investing in Angola in the agribusiness, fisheries and tourism sectors. In this event, VP Sergio Pimenta presented IFC's product offering and explained how attending investors can obtain funding or partner with IFC when investing in Angola. Investors showed strong interest reflected in a vibrant Questions & Answers session. This event enabled local and international businessmen to exchange impressions and experiences. The Government of Angola presented the deregulationmeasures undertaken since the election of HE João Lourenço.

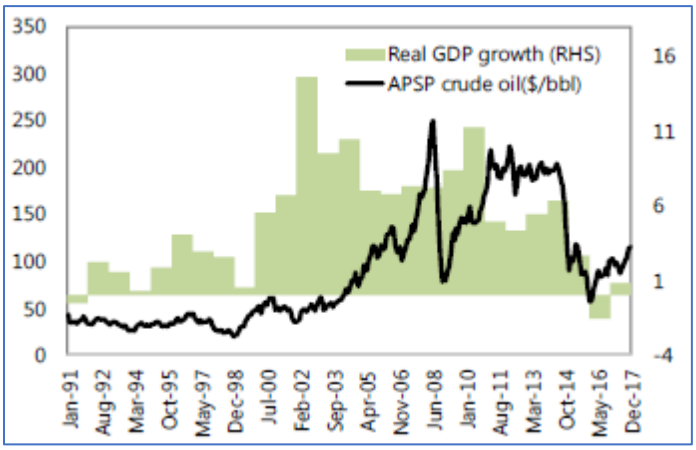
After the round table, VP Sergio Pimenta held a courtesy meeting with Angola's Vice-President Bornito de Sousa, and businessmen continued their journey with a visit in the Special Economic Zone (SEZ). VP Sergio Pimenta had an opened and frank discussion with Angola's Vice President. The overall message of the IFC Africa & Middle East VP during his visit was to help reposition Angola in the global scene by enabling private sector to play a substantive role in the economy. Economic operators visited the SEZ and appreciated the opportunities available to start a new business.

1.2 Nigeria

Economic Performance

After five (5) quarters of recession, occasioned by a multiplicity of factors, economic activities ranging from difficulties in accessing financing amidst tight liquidity conditions, high inflation and lending risk aversion the economy expanded by 0.8% in Q2 and by 1.4% y -o – y in Q3 of 2017 mainly driven by oil production and agriculture.

Figure 4 Nigeria: Crude Oil Price Index and Real GDP Growth



Overall economic growth is expected to pick up to 1.9% for the year, a better performance than FY17 (1.7%) though much lower than expected due to crude oil production shut ins and slow recovery in the non–oil sector as well as weaker performance in agriculture. The policy response of the FGN through the Economic Recovery and Growth Plan (ERGP) of 2017 has started bearing fruits as the government intensifies efforts to diversify the economy.

The recent outcomes of the sovereign ratings exercises and the 24 steps movement on the WBG Doing Business Report for 2017 and the relative stability in the exchange rates regime as well as the declining inflation from 17.4% (June 2017) to 11.6 % (June 2018) attests to this. Nevertheless, with increasing population and massive infrastructural gaps, a lot of effort is required to unleash the potentials of the economy.

Nigeria's relations with the WBG

Since joining the WBG in 1961, Nigeria has had a robust partnership which became significantly deepened in 1999 following its return to democratic rule. Essentially, its engagement process has been facilitated through the defunct CAS and now the CPF. The last of which is the 2014 -2017 which was extended until the end of FY2019.

Country Partnership Strategy:

The Second Performance and Learning Review (PLR) which also extended the life of the CPF to June 2019 was approved on June 27, 2018. The extended program proposes lending and non-lending support during FY2018 and FY2019.

Systematic Country Diagnostic (SCD):

Work on the SCD is currently ongoing and it is expected to be completed by the end of the calendar year 2018. The outcome will provide valid information on the development prospects of the country and guide WBG's subsequent engagement preferences. It will serve as the basis for the Country Partnership Framework (CPF) covering FY20-FY25.

***IDA18 utilization/FY18 lending delivery*:**

Nigeria's IDA18 allocation is fully programmed, and the preparation of the FY19 lending delivery is progressing as planned.

Portfolio Size and Performance

As of July 2018, the Nigeria Portfolio consists of 27 IDA projects (approximately $9.9bn), 1 IBRD Project ($500m), and 1 IBRD Power Guarantee ($395m). Global Practices with largest portfolios are Health (16%), Energy (13%) and Social Protection (11%).

Disbursements

The disbursement of the IDA support to the North East is picking up with approximately US$88 million disbursed by end June 2018. The overall disbursement performance has been affected by delayed effectiveness of six projects ($1.6 billion). Strong efforts are made to accelerate disbursement, including by holding the Country Portfolio Performance Reviews. As agreed with the Ministry of Finance, four CPPRs will be held during September and October 2018. These will be held separately for the Southwest portfolio, South-South and Southeast portfolios, North portfolio (Northwest, Northeast, North-central), and Federal projects (Sustainable Development, Human Development and Governance GP VPs).

IFC and MIGA

The IFC by its mandate is expected to play critical role in private sector financing in Nigeria. Although IFC has been active mostly in the financial services, this FY witnessed a radical shift to the real sector as IFC provided the required muscle to support the US$1bn Indorama Eleme Fertilizer & Chemicals Project I addition to other investments like the in AXA Hospital projects. This trend is expected to continue in FY19.

Arising from the success story of MIGA in the Azura IPP, MIGA is positioning itself to replicate similar successes in the Nigeria Power Sector which is currently under intense review with consultations from all stakeholders moving towards closure.

WBG Senior Management visits

As part of his familiarization visit to the Region, the new VP of AFR, Hafez Ghanem on July 31, 2018 paid a courtesy visit to the Minister of Finance, Nigeria to consult with the Nigerian authorities and exchange ideas in preparation for priority settings/ Hafez who had earlier served as Country Director in Nigeria was well received and was briefed on current efforts to diversify the economy and close the infrastructure gaps.

Mr Ghanem pledged his determination to support the government of Nigeria in addressing the challenges faced by the economy, He however enjoined the authorities to sustain and improve the momentum of reforms into the area of domestic resource

mobilization. He urged the authorities to take a more credible look at the very low tax – to GDP ratio and do something urgently to address the anomaly.

1.3 South Africa

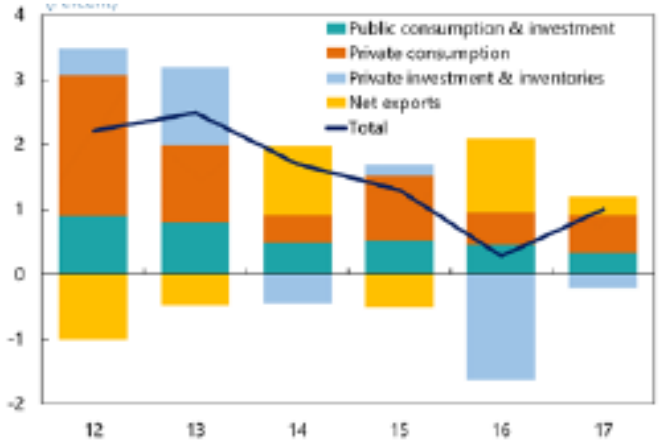
Economic Performance

South Africa was in a technical recession in the first half of 2018, as the structural challenges the new leadership inherited proved deep-seated. Continued policy uncertainty, weak external tailwinds from prices for South Africa's commodities, and depleted buffers including leveraged household and corporate balance sheets and exhausted fiscal space contributed to the weak economy in early 2018.

Figure 5 South Africa: Overall and Per Capita Real GDP Growth

Construction, mining, and agriculture were chiefly responsible for the recession, while manufacturing continues to struggle gathering momentum as it largely caters to the domestic sector and is only weakly integrated into global value chains. The financial sector remains South Africa's most dynamic sector.

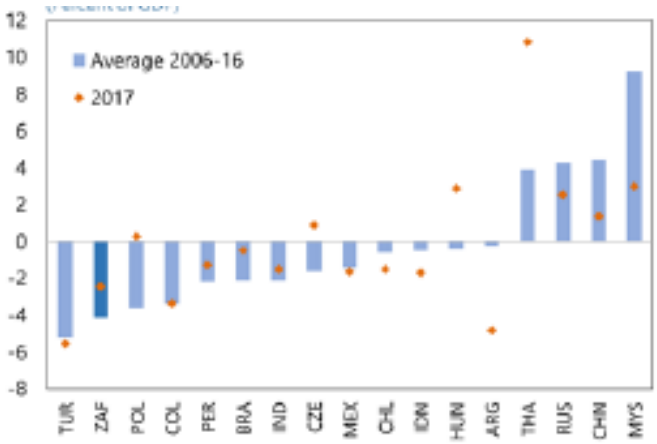
Figure 6 South Africa: Contributions to Real GDP Growth



On the demand side, household consumption was the main driver of growth, benefiting from moderate inflation, allowing the central bank to briefly adopt a more accommodative stance, and an optimism-fueled rand in early 2018—which partly translated into more buoyant imports. However, while wages grew in real terms in early 2018, unemployment climbed to 27.2% in the second quarter of the year, and extreme poverty is estimated to stagnate at 19.1%.

Despite relatively soft investment, South Africa has a chronic savings-investment gap. With households and government dissaving, and gross operating surplus under pressure, gross savings fell to 13.8% of GDP in the first quarter of 2018, the lowest level since the 1960s. This imbalance keeps South Africa's current account in deficit, reaching -4.8% of GDP in 2018, despite favorable exchange rate dynamics.

Figure 7 Current Account Balances: South Africa and other EMs



The large external deficit makes the country particularly vulnerable to the vagaries of international investment flows: the plummeting of the Turkish lira in July and August 2018, for example, spilled-over into South African financial markets. However, South Africa's strong and independent central bank, letting the exchange rate float freely as a shock absorber, re-mains a source of resilience for the country, supported further by US$ 51 billion in reserve assets.

Confronted with a weak economy, the government remains committed to its fiscal consolidation course. The new administration made significant progress in tack-ling corruption ("State Capture") and strengthening corporate governance in loss-making state-owned enterprises.

The government increased value-added tax for the first time since 1993, while trying to minimize the impact on the poor through a higher allocation for grants. Various other measures, including sin taxes and increased in the fuel levy, were implemented. The government is also making efforts to reduce the public-sector wage bill, both in government and SOEs.

How-ever, weaker-than-expected economic growth and revenue collections, as well as unanticipated spending from a wage settlement with civil service unions and additional SOE bail-outs pose challenges to the fiscal consolidation path.

Outlook

Without additional reforms, deep-seated structural constraints will keep potential growth at an average 1.4% until 2030, according to World Bank estimates. This is barely above the rate of population growth and will only have a small impact on reducing poverty and inequality.

The new administration is building consensus around a stronger social compact for structural reforms needed to accelerate growth and job creation, and it is proactive in seeking US$ 100 billion in foreign direct investment (FDI) over the next five years. Policy uncertainty is expected to remain heightened ahead of the 2019 general elections but ease afterwards as efforts to strengthen the social compact succeed.

The GDP outturn in the second quarter of 2018 points to weaker than-expected economic momentum. The World Bank's growth forecast is thus revised to 1.0% for 2018, 1.3% for 2019, accelerating in speed in 2020 as the structural reform agenda gathers speed, policy uncertainty moderates, and FDI commitments materialize.

This may help South Africa buck the trend of slowing global growth and relatively soft commodity prices. With growth accelerating and labor markets improving, the extreme poverty rates are expected to slightly fall to from estimated 19.1 percent in 2018 to 18.9 in 2019 and 18.7 in 2020 (Figure 2).

Risks and challenges

Keeping a credible fiscal consolidation path is important to attract investors, ease pressure on the current account and thus reduce vulnerability to volatile portfolio flows, and to keep interest payments from crowding out other public spending. The additional spending allocation for fee-free higher education is important to build the social contract and reduce inequality, and keeping public services fully functional is critical, especially for poor South Africans. Yet it remains critical to carefully manage expenditure pressures. Room to raise revenue is limited, especially ahead of an election. Despite opposing expenditure and revenue pressures, it'll remain critical to maintain the debt stabilization target to convince Moody's later in the year that South Africa's credit rating continues to be of investment grade.

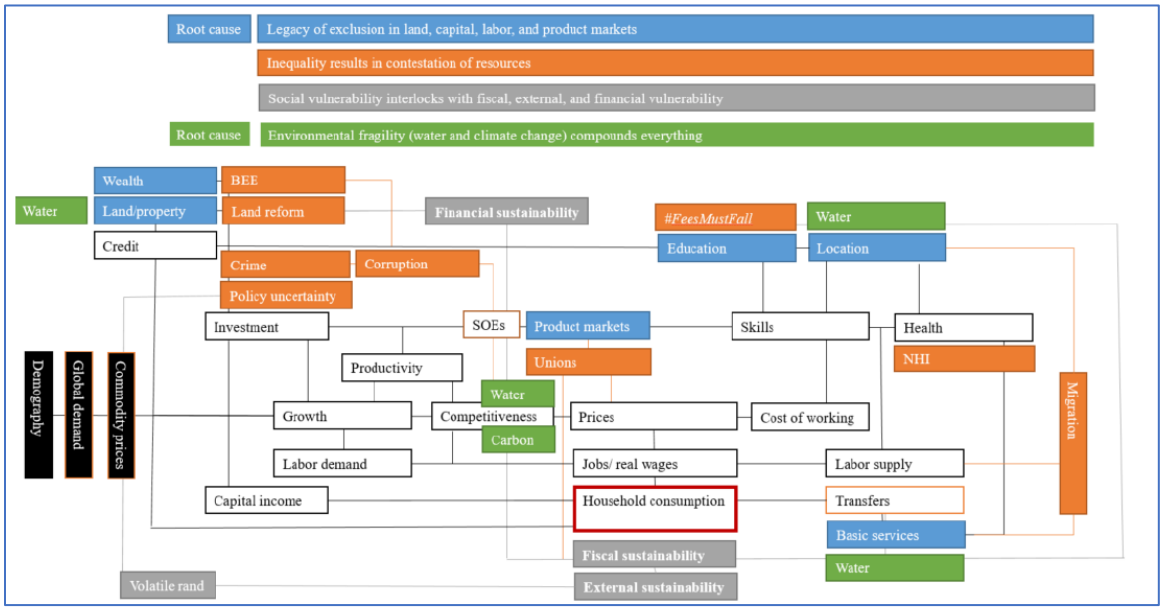
Making progress on resolving particularly controversial policy gridlocks will be critical to bring much-needed investment. This will include an amicable solution to the spat over the third Mining Charter. Accelerating land reform to overcome the pre-1994 legacy of exclusion is important in South Africa, but it needs to be carefully managed to provide a greater sense of property security.

Spill-overs from global developments, including trade disputes, monetary tightening in advanced countries, investors' risk appetite, and weakening terms of trade will continue to affect South Africa. Its credible and independent central bank and the floating exchange rate regime provide powerful instruments to buffer their impacts.

From the Systematic Country Diagnostic to the Country Partnership Framework

The World Bank Group (WBG) launched the South Africa Systematic Country Diagnostic (SCD) on May 14, 2018 titled "An Incomplete Transition: Overcoming the Legacy of Exclusion in South Africa." The SCD was prepared in close consultation with the national government, and through key stakeholders including the National Planning Commission, the business community, South African and international academics and thought leaders, trade unions, and civil society (including township youth).

Figure 8 Root Causes and Symptoms slowing transition



The SCD was published by Cape Town University Press and the launch was co-hosted with the Mail & Guardian newspaper. The launch was attended by 80 participants, including partners from the consultation process and members of the public.

A high-level panel discussion included the Director General of National Treasury, a member of the National Planning Commission, and two renowned public speakers from the private sector and civil society respectively. Presentations were given by senior staff from the World Bank and IFC as well as the WBG Executive Director for South Africa, Angola, and Nigeria Ms. Bongiwe Kunene.

The SCD was covered by most national media, including print, radio, and TV, and further dissemination events were held at parliament and government departments, various South African universities, the National Economic Development and Labour Advisory Council (NEDLAC), and several investor conferences and business forums.

There was broad agreement among stakeholders that the SCD had identified critical binding constraints to reducing poverty and inequality in South Africa: (i) insufficient skills, (ii) the skewed distribution of land and productive assets, and weak property rights, (iii) low competition and low integration in global and regional value chains; (iv) limited or expensive connectivity and underserviced historically disadvantaged settlements, and (v) climate change: the low carbon transition and water insecurity. These constraints form the cornerstone of the preparations for the next Country Partnership Framework (CPF).

Figure 9 World Bank analysis of priority areas for the CPF

	Constraint by priority	Priority intervention areas	Impact on twin goals	Evidence base
1	Insufficient skills	Strengthen nutrition and early years intervention	High	High
		Train teachers in basic education / strengthen teacher accountability	High	High
		Expand affordable university access; encourage entry of private universities	High	High
		Reform TVET system, incl. stronger collaboration with the private sector, and prepare labor force for structural change, incl. low-carbon transition	High	High
		Foster skilled migration	Moderate	Moderate
		Strengthen active labor market policies	Moderate	High
2	Skewed distribution of land and productive assets, and weak property rights	Strengthen tenure security and capacity for land reform	High	Moderate
		Strengthen extension services, financing, training, access to inputs and capital equipment, and marketing and transport infrastructure for small-scale and emerging farmers	High	Moderate
		Improve property registration and transaction processes, including for RDP houses	Moderate	Low
		Accelerate roll-out of social and affordable housing, in partnership with private sector	Moderate	Low
		Make BEE more broad-based (e.g. through a contributory social pension); strengthen BEE accreditation system; evaluate and limit unintended investment impacts of BEE	High	Moderate
3	Low competition and low integration in global and regional value chains	Implement sustainable mechanisms to embed competition principles in sector/market rules and regulations (incl. trade tariffs) and in the design of trade, energy, and industrial policies	High	High
		Strengthen investor-friendly regulation and attract FDI	Moderate	Moderate
		Strengthen capacity of the financial sector to lend to SMME and provide hedging products for SMMEs, and support microfinance institutions	Moderate	Low
		Foster supply chain development / localization, including in agribusiness and automotive; support financing for supply chain development	High	High
		Reduce logistics costs and raise efficiency in ports and cargo rail through better regulation and partnerships with the private sector	Moderate	High
		Align ICT regulation with international best practice	Moderate	Moderate
4	Limited or expensive connectivity and under-serviced historically disadvantaged settlements	Foster strategic densification of cities (esp. secondary cities) and diversification of land use	Moderate	Low
		Expand basic TB and HIV interventions as part of strengthening primary care to under-serviced settlements	High	Moderate
		Expand basic services in under-serviced settlements	High	Moderate
		Better integrate transport planning and land use, strengthen intermodal transport, and strengthen regulatory framework in support of competition in minibus taxi sector	Moderate	Low
5	Climate shocks: transition to low-carbon economy and increasing water insecurity	Carbon pricing (carbon tax and carbon budget)	Low	Low
		Leveraging private investment in energy conservation, and clean energy generation technologies (e.g. renewables and natural gas)	Moderate	Moderate
		Strengthen regulatory and investment framework for more resilient and efficient water service delivery	High	Moderate
		Incentivize consumers to use water efficiently (e.g. through cost-reflective pricing)	Low	Low
		Promote insurance against climate shocks	Moderate	Moderate

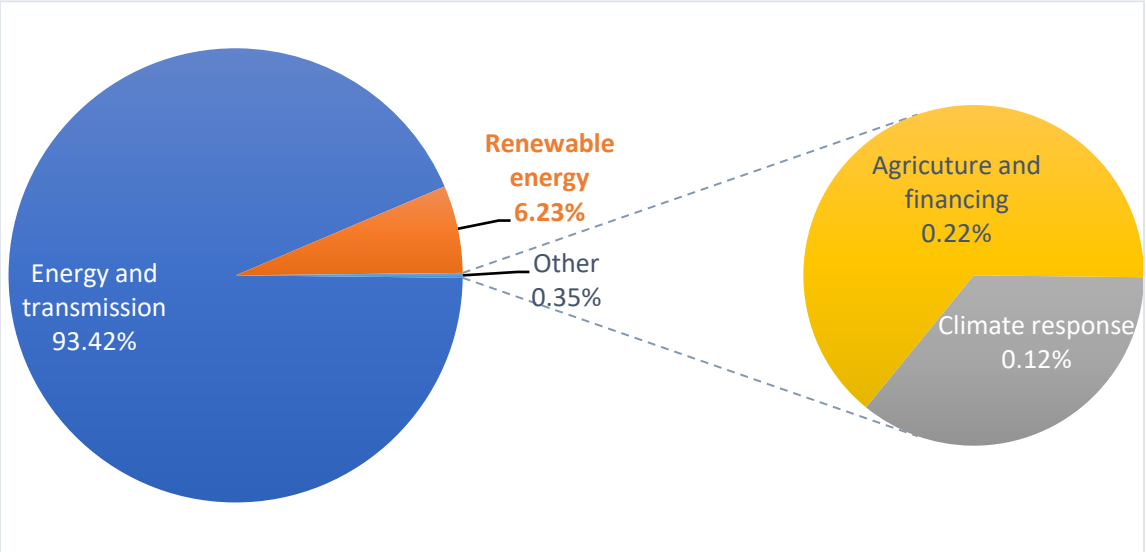
The World Bank Group and the Government of South Africa (GoSA) represented by the National Treasury jointly held a CPF workshop on June 21, 2018. The purpose of the workshop was to create a foundation for the preparation of the CPF that will be jointly owned by WBG and GoSA.

The WBG used the opportunity to raise awareness on a wide range of financial products and services available for member countries like South Africa and presenting potential areas for engagement with government.

The proposed areas would support the implementation of government priorities effectively and efficiently.

The IBRD Portfolio

Figure 10 South Africa: Sectoral composition of IBRD lending



The World Bank lending program in South Africa comprises two operations funded through the IBRD, namely:

The Eskom Investment Support Project (US$3.75 billion) closing in FY2019. The Eskom Investment Support Project is a package of IBRD financing for three distinct components:

- Component A is US$ 3.05 billion for the Medupi coal-fired power station (4,800 MW using clean coal super-critical technology) to finance supply, erection, and civil construction contracts for the power plant and associated facilities.
- Component B is US$ 260 million for renewable energy (100 MW wind and 100 MW concentrated solar power).
- Component C is US$ 485 million for low-carbon energy efficiency components comprising road to rail conversion for coal transportation and power plant efficiency improvements.

The Land Bank Financial Intermediation (US$ 93 million) closing in 2022, will contribute towards the Government's aim to promote agriculture and rural development to create jobs, reduce poverty and lessen inequality. This was the first loan from IBRD since 2010.

Other operations, financed through loans supported in energy sector are the South Africa Partnership for Market Readiness (US$5 million). Support for the Development, Empowerment and Conservation in the Greater St Lucia Wetland, Park and Surrounding Region, was closed in February 2017 after seven years of implementation. In addition to

the lending portfolio, South Africa has numerous partnerships underway, structured as advisory services and analytics (ASA) and reimbursable advisory services (RAS).

IFC and MIGA

The IFC is uniquely placed to give the private sector a central role in financing and delivering development solutions. Since 2011, the IFC has committed $1.6 billion dollars from its own account and mobilized $739 million dollars in investments in South Africa.

IFC investments in South Africa

IFC portfolio in South Africa continues to grow and includes equity, debt and mobilization in support of companies in renewable energy, retail, and financial sector. Investments include mainly injection into local operations and support for growth beyond domestic market. For FY17 the IFC submitted at least seven investments proposals for board approval with amounting just over US$1 billion.

For FY2017, MIGA issued three non-honoring guarantees for amount US$540 million. MIGA has issued a total of US$ 26, 814.24 million in total guarantees to private firms investing in South Africa in the period from FY2009 to FY2018.

CHAPTER 2 THE BALI AGENDA

The Development Committee Agenda

Governors will be engaged on issues related to **the Changing Nature of Work**, the central theme of these Annual Meetings.

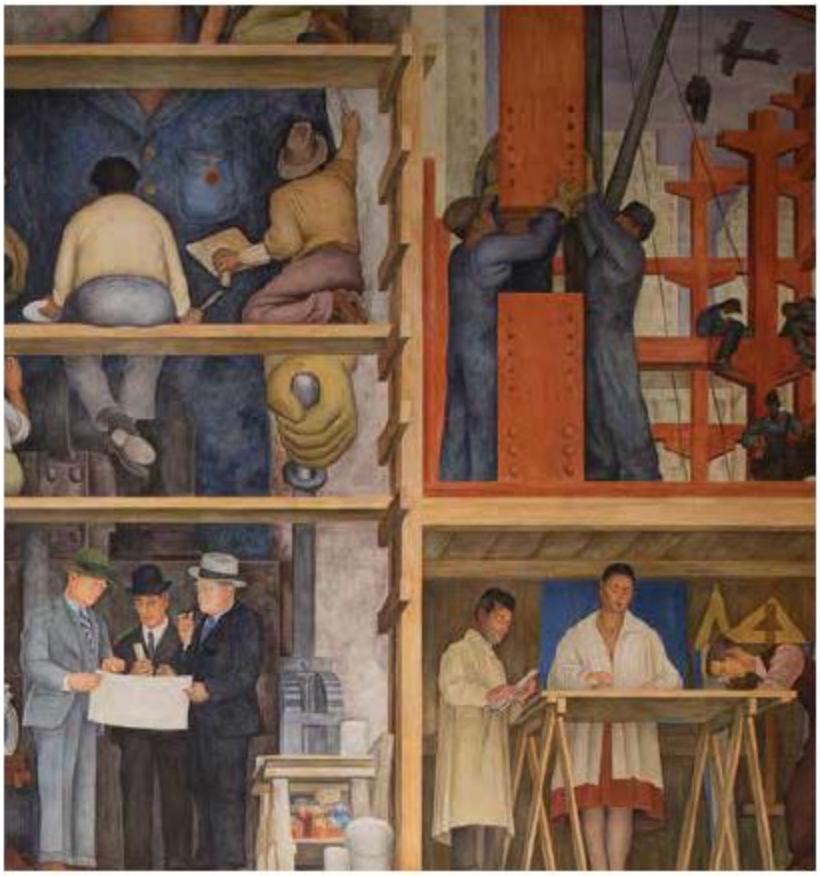
Governors will discuss the **World Development Report 2019** findings over lunch on October 12, while during the Plenary session on October 13, President Kim will pursue support for the **Human Capital Project and Index** that the Bank is launching.

World Bank Group management will also pursue mandates from Governors to focus on **Disruptive Technologies**, with a focus on **the Bali Fintech Agenda**.

The final report tabled for the Development Committee is one requested by Governors which raises issues of **Debt Vulnerabilities in Emerging and Low-Income Economies**.

This chapter considers each of these elements of the Agenda for the meeting in Bali in turn.

2.1 The World Development Report 2019



The World Bank will be releasing the ***World Development Report 2019*** at the Annual Meetings in Bali. It sets out show how the nature of work is changing because of advances in technology today.

The core argument of the report is that while technology improves overall living standards, the process can be disruptive. A new social contract is needed to smooth the transition and guard against rising inequality.

It highlights that significant investments in human capital throughout a person's lifecycle are vital to this effort. If workers are to stay competitive against machines they need to be able to retool existing skills or be better trained from the start.

The World Bank's recently-launched Human Capital Project (HCP), seeks to answer the following question:

How much human capital can a child born today expect to attain by the end of secondary school, given the risks of poor health and poor education that prevail in the country where she was born?

The World Bank sets out to quantify this by creating a new global benchmark—the Human Capital Index (HCI). The HCP is also comprised of a program of measurement and research to inform policy action, and a program of support for country strategies to accelerate investment in human capital.

Figure 11 Measuring the productivity of a future worker born in 2018

	Component	*A country in the* 25th percentile	50th percentile	75th percentile *for component X has a value of . . .*
	Component 1: survival			
1	Probability of survival to age 5	0.95	0.98	0.99
A	*Contribution to productivity*	*0.95*	*0.98*	*0.99*
	Component 2: school			
	Expected years of school	9.5	11.8	13.1
	Test score (out of approx. 600)	375	424	503
2	Quality-adjusted years of school	5.7	8.0	10.5
B	*Contribution to productivity*	*0.51*	*0.62*	*0.76*
	Component 3: health			
3	Fraction of children not stunted	0.68	0.78	0.89
4	Adult survival rate	0.79	0.86	0.91
C	*Contribution to productivity*[a]	*0.88*	*0.92*	*0.95*
	Overall human capital index[b]	**0.43**	**0.56**	**0.72**

Source: WDR 2019 team.

Here contribution to productivity measures how much each component of the index, as well as the overall index, contributes to the expected future productivity as a worker of a child born in 2018 relative to the benchmark of a complete education and future health. A value of x means that productivity is only a fraction x of what it would be under the benchmark of a complete education and full health. Estimates of productivity contributions are anchored in micro econometric evidence on the returns to education and health. Quality adjusted years of school equals the country's test score relative to the global best test score multiplied by the country's expected years of schools.

The WDR19 argues that in addition to investments in human capital, the changing nature of work demands updates to social protection systems. Traditional provisions of social protection based on steady wage employment, clear definitions of employers and employees, as well as a fixed point of retirement become increasingly obsolete. Improved private sector policies to encourage startup activity and competition can also help countries to compete in the digital age.

Governments will need additional revenues to fund the investments demanded by the changing nature of work. Governments can create fiscal space through a mix of additional

revenues from existing taxes (increases in rates or widening of the tax base), the introduction of new taxes, and improvements in tax administration.

The World Bank's objectives are to make the case for investment in human capital by generating this index. It also seeks to improve measurement, research and analysis to support investments in human capital formation.

2.2 The Human Capital Project and Index

Data for the Human Capital index has been compiled for 162 countries.

27 Early Adopters countries have been approached and agreed to prepare national strategies that accelerate progress on human capital. They are: Armenia; Bhutan; Costa Rica; Egypt; **Ethiopia**; Georgia; Indonesia; Iraq; Jordan; **Kenya**; Kuwait; **Lesotho**; Lebanon; **Malawi**; Morocco; Pakistan; Papua New Guinea; Peru; Philippines; Poland; **Rwanda**; **Senegal**; **Sierra Leone**; Tunisia; Ukraine; United Arab Emirates; Uzbekistan.

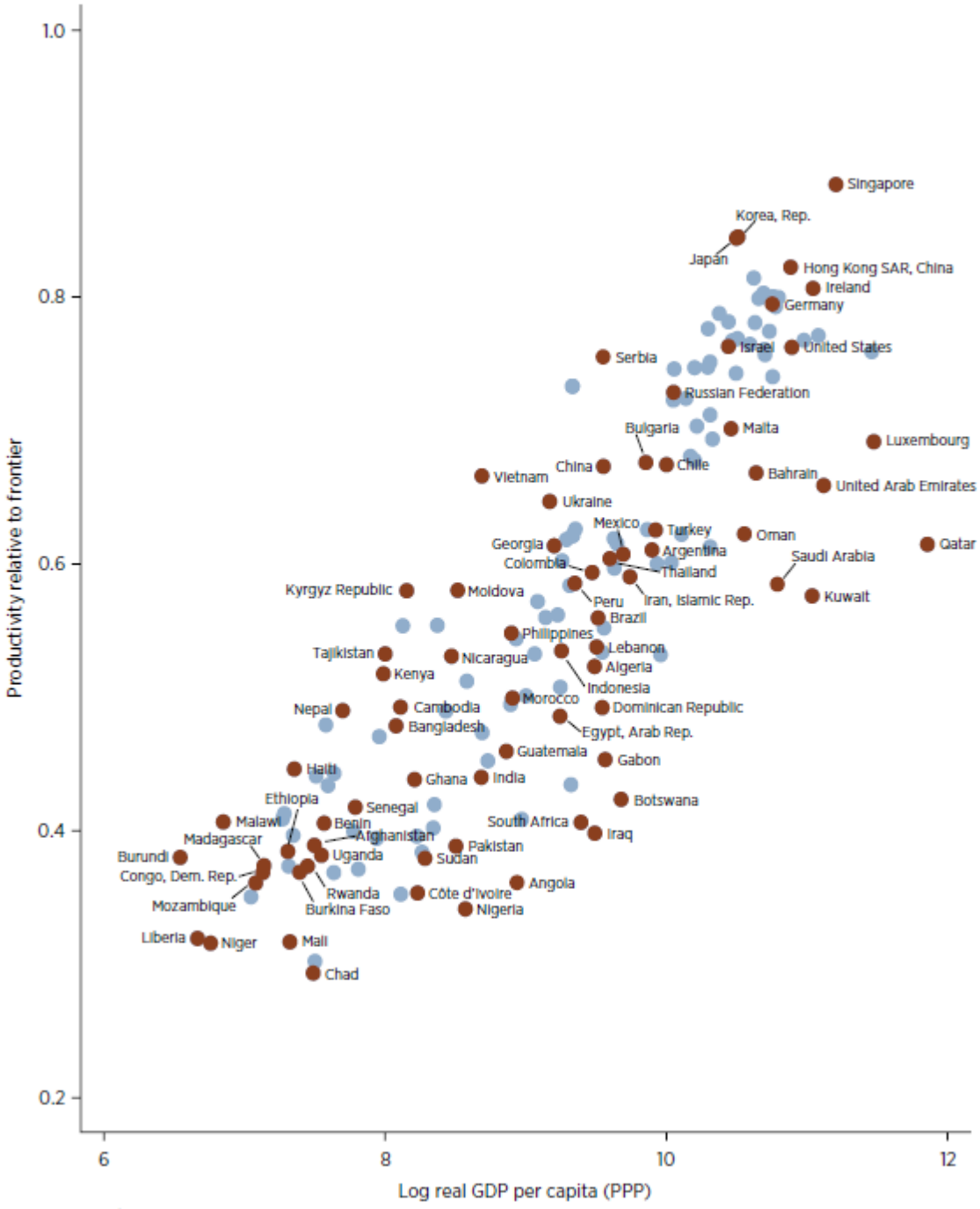
The country plans that the World Bank will be pursuing with Early Adopters include:

- Identification of national priorities using a 'whole of government' approach and focusing on issues rather than sectors;
- Supporting efficiency of spending, particularly given fiscal space and debt ceilings in some countries;
- Expanding financing in countries where resource availability is a serious constraint including through domestic resource mobilization and the private sector;
- Tackling human capital development barriers relating to:
    - Population;
    - Fragility, conflict and violence;
    - Governance and accountability;
    - Gaps and weaknesses in service delivery;
    - Ineffective regulation of public and private sectors;
    - Weak emphasis and results; and
    - Lack of data and evidence.

- The World Bank also proposes to assess program interventions including expanding coverage of service delivery indicators and social safety nets coverage.

The Africa Region is developing a business plans for investment in human capital in Africa. In addition, Human Capital Champions have been mobilized in support of the project.

Figure 12 Human Capital Index 2018



Source: WDR 2019 team.

Executive Directors have raised concerns with respect to the value add of the Human Capital Index given the existence of the Human Development Index (HDI) developed by the United Nations. However, the World Bank staff argue that in developing and providing

the HDI, the Bank is providing a much-needed discussion with Finance Ministers on human capital issues. Furthermore, the HDI includes critical indicators such as stunting and learning outcomes which management believes is an important innovation overlooked in the SDGs.

The World Bank identifies that the HCI and HDI differ in profound ways because while the HDI includes per capital GDP and years of schooling for the whole workforce, the HCI is a forward-looking measure of how current health and education outcomes will shape the productivity of the next generation of workers. HCI units provide for a 'distance to the frontier' interpretation.

In July 2018, the International Trade Union Confederation, six global union federations and 75 organizations wrote an open letter to President Kim, World Bank Executive Directors and the WDR drafting team calling on them to rewrite the WDR19 with a stronger emphasis on decent work and the importance of reducing inequality.

Their core concern was that the recommendations of the WDR 2019 will create harmful consequences for working people globally, with far-reaching damaging economic and social implications.

They identify that the draft version of the report puts forward a vision of work that involves extensive labor market deregulation, including lower or no minimum wages, flexible dismissal procedures, and zero-hours contracts. Further, the draft broadly overlooks power imbalances and the declining labor share in income, as well as failing to recognize the integral role of strong labor rights in creating resilient and prosperous economies as well as more equal societies. Instead of setting out a concrete policy agenda to enhance workers' security, legal protection, safety or social protection, the draft report accepts - and at times embraces - informality and insecurity in the labor market.

They argue that *the policy proposals are not compatible with the UN 2030 Agenda for* Sustainable Development. This is especially true in relation to Goal 8 - 'Promote inclusive and sustainable economic growth, employment and decent work for all' and Goal 10, 'Reduce inequality within and among countries.' The move further seems to contradict the Bank's twin corporate goals of eliminating extreme poverty by 2030 and promoting shared prosperity.

Many of these concerns were reiterated when the Executive Board reviewed the draft on September 18.

2.3 Human Capital Project Events in Bali

The World Bank's advocacy for the adoption of this approach is through both engagement with governments and with 'champions'. At the meetings in Bali, there will be intensive engagement at the frontline through WBG Country Directors and Managers and Program Leaders.

President Kim has also invited Human Capital Champions to advise, engage and advocate for the Human Capital Project in a group that includes Heads of Civil Society Organizations. In addition, the Executive Board has been informed that the Heads of several UN agencies are now also Champions, and there is close cooperation with the UNDP.

October 10	Human Capital Project Ministerial Roundtable and Early Adopters Forum
October 11	Third Human Capital Summit
	Press Launch of WDR2019 and HCI
	Data published on external HCP website
October 12	Meeting of Early Adopters and Champions with Dr Kim
October 12-13	Innovation Fair

Key messages from our constituency on the WDR19 and the HCP

- There should be a stronger analysis of the effect of inequality and the downward trend in the wage rate and the share of labor in the total wealth;
- There should be greater emphasis on decent working conditions;
- A stronger emphasis should be put on the role and responsibility that firms have in education and training;
- The emphasis on tax policy is welcome but effective domestic resource mobilization this will depend in part on a successful international cooperation against tax avoidance and excessive optimization by large multinational companies.
- Developing countries need a more pragmatic approach to future challenges that includes how to cope with persistent informality, particularly in Sub Saharan Africa.

- The Report does not provide any analysis of the implications of technological change on Global Value Chains, countries' and regions' comparative advantages, and trade. As a result, there is insufficient guidance to low and middle-income countries on job creation in the context of rapid change and the presence of disruptive technologies at these Annual Meetings.

2.4 Disruptive Technologies

World Bank Group management will also pursue mandates from Governors to focus on **Disruptive Technologies** during the Development Committee discussions.

The central idea is that technology is changing the nature of work, and that current trends with respect to artificial intelligence, robotics, autonomous vehicles, 3D printing, biotechnology, materials science, energy storage, traditional forms of production are being disrupted, with possible implications for development.

Concerns include the view that as technology embeds itself in organizational relationships, it could reduce societal trust, change traditional workplace dynamics and question the role of governments as an intermediate. Organizations are internally adapting to a whole new wave of business procedures and processes to match consumer preferences.

The WBG intends to assure Governors that it will serve as a bridge between the trend of disruptive technologies and client countries to assist them to better adopt but also adapt these new trends and that applications for development are increasingly being mainstreamed within existing WBG approaches. Management argue that its global experience and multisectoral portfolio provide insights into the ways disruptive technologies can be applied holistically to achieve the twin goals and that as a trusted advisor, it will engage governments and people, coordinate development partners, and mobilize the private sector.

Management set out a Build-Boost-Broker value proposition.

First, to Build, the WBG will ensure that countries can take advantage of the new pathways of growth by having the digital and physical infrastructure and enabling environment to compete across all sectors of tomorrow's economy and the digital foundations to expand access to new opportunities. In building the foundations for sustainable, inclusive technology-enabled economies, the WBG will scale up efforts toward universal, affordable digital connectivity.

Second, to Boost, it will expand the capacity of institutions, communities, firms, and individuals to leverage technology-led disruption for socioeconomic dividends and greater resilience in times of change. The WBG senior management committed to scale

up efforts to support the development of skills and capabilities for the new economy and the provision of transparent, efficient, and accountable digital government services.

Finally, to Broker, it will harness disruptive technology, data, expertise, and partnerships to solve development challenges and ensure that the poor share in the benefits.

2.5 The Bali Fintech Agenda

Emerging technologies in the financial sector ("FinTech") are driving transformational change in the provision of financial services in such areas as payments, financing, investments, financial information and advice, and asset management. These developments bring both opportunities and risks.

The IMF has been leading work on how emerging technologies, from artificial intelligence to distributed ledgers, are **transforming the financial services landscape**. They identify that these technologies could drive substantial efficiency gains in the financial sector, including in the areas of payments, financing, investments, asset management and insurance. However, they could also pose risks to the stability and integrity of the financial system, where they operate outside of the purview of financial regulation and supervision.

The WBG and IMF collaboration on this topic began at the 2018 Spring Meetings where policy makers and thinkers looked "Beyond the Hype – A New Reality," and focused on real-life applications, challenges and opportunities of new financial technologies.

At these Annual Meetings, the WBG and IMF set out 12 key elements which could support the development of policy and regulatory frameworks. These are grouped into four objectives namely:

- fostering enabling environment to harness opportunities,
- strengthening financial sector policy framework,
- address potential risks, and

- improve resilience and promote international collaboration.

The paper presented to the Development Committee seeks to offer a useful framing of the issues to support further learning and ongoing work. It guides the focus the efforts of the IMF and WBG staff, inform their dialogue with national authorities, and help shape their contributions to the work of the standard-setting bodies and other relevant international institutions on fintech issues.

The development of the paper is timely as Fintech is rapidly evolving and could be one of the most important innovations in the financial services industry, particularly in enhancing financial inclusion and supporting the SME sector. As Fintech ecosystem is rapidly changing, it is appropriate that the paper is intended as a framework to support awareness, further learning, and ongoing work.

The IMF initial focus will be on the implications of fintech for cross-border capital flows; national and global monetary and financial stability; and the evolution of the International Monetary System and global financial safety net.

The WBG initial focus will be on, enabling reforms and capacity building to adopt fintech solutions to deepen financial markets, to enhance responsible access to financial services, and to improve cross-border payments and remittance transfer systems. The WBG will draw on the International Finance Corporation's growing experience in this space. The Fintech agenda contributes to building the foundations of the digital economy that is a key pillar in the World Bank Group's larger disruptive technologies engagement.

In summary the WBG approach to Fintech is anchored in the following areas:

- Capacity building of public authorities: WB/IFC support raising awareness and capacity of regulators on Fintech. This is informed by ongoing engagement of the WBG with Standard Setting Bodies.

- Support development of legal, regulatory and policy framework: WB support authorities in developing appropriate frameworks including for example supporting establishment of regulatory sandboxes; updating legal frameworks and establishing supervisory arrangements; adoption of Reg Tech and Sup Tech. WB and IFC to foster public-private dialogue.

- Development of core digital and financial infrastructure: WB and IFC support development of core digital and financial infrastructure, for example: broadband, digital ID, payment systems and KYC utilities.

- Transaction accounts: WB spurring sound public interventions to expand access to transaction accounts.

- Invest in Fintech start-ups and adoption by incumbents: IFC investment in fintech startups aimed at establishing e-payment platforms and open infrastructure.

- Public and private sector work collaboratively in leveraging fintech to achieve development objectives: WB to work on enabling regulation and support for seed funding; IFC on private investors to build Fintech ecosystem.

Key message from our constituency on Fintech

- ➢ We support the close cooperation between the IMF and WBG on this issue. However, we believe that they face a challenge in real thought leadership, as many international and regional bodies as well as large international consulting firms are also actively working on various aspects of Fintech.

2.6 Debt Vulnerabilities in Emerging and Low-Income Economies

This topic was discussed by Governors during the Development Committee Lunch in April 2018. Governors requested additional analysis and this paper was produced for the Development Committee by a joint World Bank and IMF team. The major change since April is that the scope of discussion has broadened from Low-Income Countries to including Emerging and Low-income Countries.

For much of the past 10 years, capital markets were saturated with liquidity with interest rates (relatively) low, and many looking for yield, including in high-risk countries. Tougher external conditions, including lower commodity prices and tightening spreads have raised concern about the sustainability of external debt taken on from the mid to late 2000s by low-income and emerging economies.

The WBG and IMF will use the Annual Meetings to deliver the following key messages to Governors:

- **Public debt in Emerging Markets (EMs) has been rising.**

- The increase has been driven mainly by a few EMs, including commodity exporting countries affected by the 2014-15 commodity price decline.

- The increase to some extent reflects responses to support growth in the context of low global interest rates and the commodity price shock.

- It has been accompanied by changes in public debt composition and by rising corporate debt in EMs adding to fiscal risks and vulnerabilities.

- Average public and external financing needs are substantial despite the still low global interest rates.
- If there is a sharp increase in global interest rates, financing needs could rise quickly.
- Some countries could face a limited ability to conduct countercyclical policy as high debt constrains fiscal space, and some might see capital outflows and currency depreciations.
- **Debt risks in low income developing countries (LIDCs) have risen substantially.**
- The share of countries at high risk of debt distress or in debt distress has doubled since 2013 to about 40 percent.
- Enhanced reliance on commercial debt has contributed to higher debt service costs and raised refinancing and interest rate risks.
- Increased access to non-Paris Club creditors and market-based financing has added new sources of finance. But it poses new challenges for debt resolution.

What do the IMF and World Bank propose to do?

- Improved assessments of public debt vulnerabilities,
- enhanced early warnings systems,
- increased debt data transparency,
- enhanced support for structural reforms to help reduce debt vulnerabilities,
- and scaled up debt management capacity building and outreach to creditors and borrowers to raise awareness of debt issues

It is worth noting that Paragraph 13 of the paper presented to the Development Committee highlights the following:

13. Tailored policy reforms that reflect country-specific vulnerabilities will be important. Commodity exporters need to take active steps to better insulate themselves from volatile commodity prices and diversify their economic base.

Elevated public debt levels in countries with fixed exchange rates may require a different set of risk management policies, e.g. greater reserve buildup, than in countries with flexible exchange rates.

Policy options may differ for countries facing solvency or liquidity constraints. Countries with large corporate debt levels would be well advised to implement macroprudential policies to help mitigate financial sector risks and structural policies—such as strengthening of bankruptcy regimes—to build resilience.

Countries with high level of state-owned enterprise (SOE) debt and public-private partnerships (PPPs) may benefit from strengthening corporate governance and improving fiscal risk management.

2.7 Poverty and Shared Prosperity Report

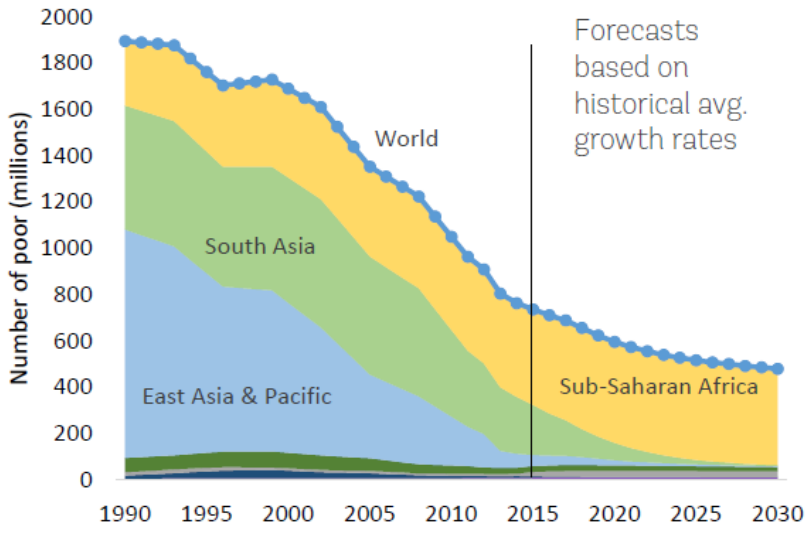
Although it is not on the Development Committee Agenda, it is worth noting that the World Bank will be releasing the 2nd edition of the **Poverty and Shared Prosperity Report** on October 17, 2018.

This report is the main vehicle through which the World Bank reports on progress made on the twin goals: ending extreme poverty by 2030 and increasing shared prosperity.

The key message of this report is that there has been a very large reduction of extreme poverty over the last 25 years, from 36% in 1990 to 10% in 2015. This 25-percentage point reduction is equivalent to ¼ of the world's population.

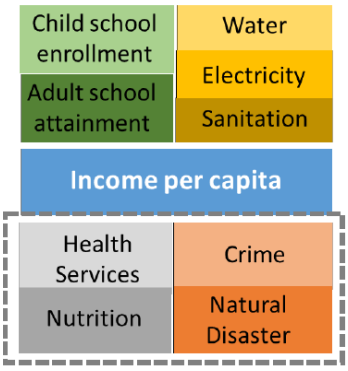
Most of these gains are from East Asia and the Pacific and South Asia. The rate of change is however slowing down because of a shift in the regional composition of the poor – **which are now mostly in Sub-Saharan Africa (Figure 4).**

Figure 13 Millions of poor by region: 1990-2015, projections to 2030



More than half of the world's poor are in Sub Saharan Africa, and 2030 forecasts suggest that more than 85 percent of the world's poor will be in Sub Saharan Africa by 2030. Of the world's 27 poorest countries, i.e. those with the highest poverty rates, 26 are in Sub Saharan Africa, all with rates above 30%. India may no longer be the country with the most poor people. The main innovation of this issue of the **Poverty and Shared Prosperity Report** is the idea that while income matters, it is not the complete picture. The World Bank is introducing a multidimensional poverty measure, anchored on the US$1.90 international poverty line, adding non-monetary dimensions (Figure 5).

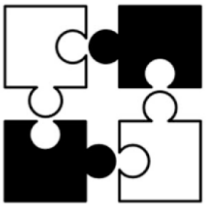
Figure 14 Multidimensional Poverty Measure



Consumption reflects command over critical goods such as food, closing and shelter, but there are other important services that are not obtained in the market. Monetary poverty is given as one dimension of poverty. This exercise is complementary to the Human Capital Project as it incorporates elements of human capital into the measurement of poverty. Most of the monetary poor also have deprivations in other dimensions, and the findings are that the overlap is the highest in Sub Saharan Africa.

Poverty is increasingly concentrated in Sub Saharan Africa

The key message of the report is that Sub Saharan Africa and conflict affected areas need more attention. The push for a sustained focus on growth, poverty reduction and boosting shared prosperity in Sub Saharan Africa is critical to reach the 3% extreme poverty target. Global poverty is becoming a Sub-Saharan African phenomenon, and the share of the poor in fragile and conflict affected states is growing. This region has the worst performance in shared prosperity. The picture is even more severe when look at multidimensional poverty as Sub-Saharan Africa is characterized by multiple deprivations more than any other region.



The Report acknowledges that there is a need to collect more and better welfare data across time for these multiple dimensions, for all individuals, particularly among low-income and conflict affected areas. Very few low-income countries have data for estimating all dimensions of poverty and new data methods are needed to better estimate child and female poverty. The Bank also highlights the improved data requires more capacity building, more funding for data collection, continual testing for new methods of data capture and in in-country training of data analysis.

CHAPTER 3 STANDING COMMITTEES OF THE WORLD BANK GROUP

Introduction

Most of the in-depth discussions necessary to support Board deliberations and oversight are set out in one of the five Standing Committees. The purpose of these Standing Committees is to strengthen the efficiency and effectiveness of the Board through more detailed examinations of policies and practices.

These Standing Committees do not make decisions, but provide recommendations to the Board for consideration and decision, if required.

They are:

1. Audit Committee,
2. Budget Committee,
3. Committee on Development Effectiveness,
4. Committee on Governance and Administrative Matters; and
5. Human Resources Committee.

In addition to these Standing Committees, the Ethics Committee considers on an ad-hoc basis matters relating to the interpretation or application of the Code of Conduct for Board Officials.

3.1 The Audit Committee

The AC is appointed by the Executive Board to assist in the oversight of the WBG's finances, accounting, risk management, internal controls and institutional integrity, including:

(i) the integrity of financial statements for IBRD, IDA, IFC and MIGA and financial reporting related to trust funds;
(ii) the appointment, qualifications and independence of the External Auditor;
(iii) the performance of Internal Audit and of the External Auditor;
(iv) the adequacy and effectiveness of financial, accounting and administrative policies and internal controls and the mechanisms to deter, prevent and penalize fraud and corruption in WBG operations and corporate procurement;
(v) the effective management of financial, fiduciary (including procurement procedures), compliance and administrative risks in IBRD, IDA, IFC and MIGA, including trust funds; and
(vi) institutional arrangements and processes for risk management across WBG institutions.

The Audit Committee has been chaired by ED Kunene since October 2016. Most of the 46 Audit Committee meetings under her chair can be grouped into 4 broad categories:

1. Consolidated Financial Statements and reports from the External Auditor;
2. Quarterly Risk Reports of the Bank (IBRD and IDA) and IFC;
3. Portfolio Reviews; and
4. Issues of Policy.

Risk management practices have become an area of focus in corporate governance in recent years. In the immediate aftermath of the global financial crisis, it was widely recognized that traditional risk and certain aspects of governance models were weak in this regard. New or amended structures were necessary to bring a focus on risk at the Board level.

Many large banks have Board-level Risk Committees, and these are expected to become even more prevalent under Dodd-Frank rules. U.S. banks and bank holding companies with greater than $50 billion in assets, or those with greater than $10 billion in assets and that are publicly traded, and certain other non-bank financial companies designated as systemically important, would be required to set up a Risk Committee and a develop a Risk Charter.

The World Bank Group (WBG) does not have a Risk Committee or Risk Charter, however the Audit Committee (AC) is tasked with oversight of financing, accounting, risk management, internal controls and institutional integrity, AND the institutional arrangements and processes for risk management across the WBG institutions. In addition, the office of the Chief Risk Officer was created to report to the AC on risk and support greater attention to risk issues within the WBG.

The Audit Committee's Terms of Reference includes ensuring that the '*institutional arrangements and processes for risk management across WBG institutions*'. In this past year, management has increasingly clarified risk ownership, risk oversight, the risk universe, who affects assurance and who sets the overall direction and oversight.

Issues raised by ED Kunene at the Board and with relevant units within the WBG, in close cooperation with the office of the Chief Risk Officer include:

- Is the WBG risk taxonomy of 2011 is fit for purpose?
- Do relevant Standing Committees or the full Board have sufficient sight of all risk dimensions as these apply to all WBG entities?
- Should the Board (through the AC) request a new risk product that provides an overview of Risk in Operations and Reputational / Stakeholder Risks?

- If a new product were created, should it remain only in the remit of the AC or would it be more appropriate for this to be both an AC and CODE matter? What does this suggest for the status of the Operational Update to the Board?
- Should the Audit Committee should be renamed 'the Audit and Risk Committee'.
- Does Audit Committee divide its scarce time and resources well between Audit ("backward looking") and Risk ("forward looking")?

Through on ongoing dialogue under her chair, there has been a much clearer framing of the Bank's risk domains as illustrated in Figure 6.

Figure 15 The WBG's Risk Domains

For the treatment of these Risk Domains to be meaningful, and for the WBG to be able to provide assurances that risk reporting, either through the Audit Committee or to other of the Standing Committees had to be of a high standard.

ED Kunene identified that, to meet the same standards as similar Banks of this side, it was necessary to ensure that risk governance and risk oversight roles and responsibilities were well defined. Given competing responsibilities, it was also essential that this Board direct

its oversight efforts toward the most productive areas and assist management in ways that most benefit shareholders and other stakeholders. Working closely with the WBG's Chief Admirative Office, Chief Risk Officer and head of the Corporate Secretariat, a great deal of progress was made in setting out accountability within the WBG's Enterprise Risk Management Framework as illustrated here in Figure 7.

Figure 16 The WBG's Enterprise Risk Management Framework

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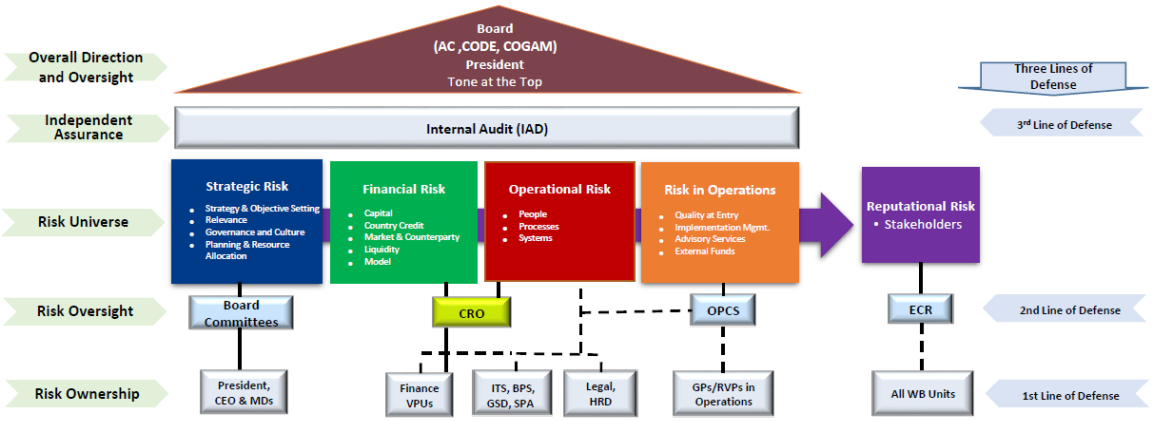


Efforts are underway to improve clarity with respect to the WBG's risk taxonomy, with the focus turning to the treatment of Risk in Operations. The Committee on Development Effectiveness (CODE) is increasingly leading in this area, and a new chapter of the Bank's Quarterly Business and Risk Report (QBRR) is expected in the first half of FY18.

The work of EDS25 in the Audit Committee is supported by Cleo Rose-Innes

3.2 The Budget Committee

The Budget Committee assists the Board in approving the respective budgets of IBRD, IDA, IFC and MIGA and in overseeing the preparation and execution of their business plans.

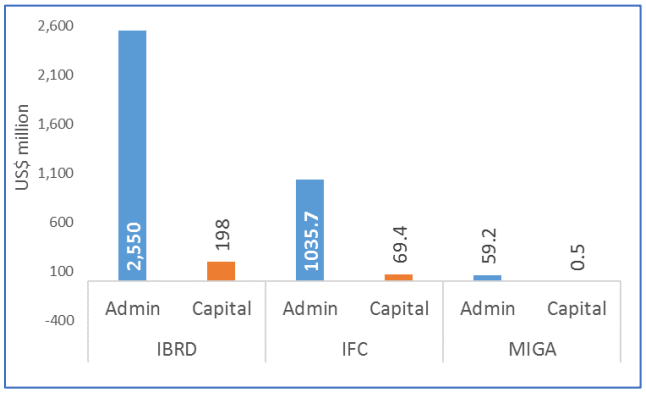
This Committee provides guidance to management on:

i. strategic direction;
ii. reviewing alignment of budgets (including both expenditures and revenues) and trust funds with these strategic directions;

iii. monitoring budgetary and operational performance to fulfill the Boards' obligations with respect to the efficient and effective use of resources; and

iv. reviewing and recommending for Board approval appropriate budgetary policies, procedures, standards for due diligence.

Figure 17 WBG FY18 Budget



World Bank: the budget is set to enable a smooth implementation of the complex IDA18 financing framework and its readiness to implement the Environment and Social Framework approved in 2016. It operates with a 2 percent flexibility band to allow adjustment related to fund eventual incremental cost of implementing the capital package. Management is also putting lots of efforts to trend the Budget anchor below 100 percent. The administrative budget is US$ 2,611 million (US$ 2,550 in FY19) and the capital budget stood at US$ 190 million (US$ 198 million in FY19).

IFC: it reflects its commitments in implementing an innovative new strategy aiming at creating markets and mobilizing private capital in the poorest and most fragile environments. The administrative and capital budget stood at US$ 1,066.7 million (US$ 1,035 million in FY19) and US$ 73.2 (US$ 69.4 million in FY19), respectively.

MIGA: the institution is planning to maintain its budget anchor around 53 percent, notwithstanding its continuous increasing performance averaging US$ 4.5 billion new issuances from FY16 to FY18. The administrative budget was approved at US$ 60.1 million (US$ 59.2 million in FY19) and capital budget stood at US$ 0.5 million, similar as in FY19. Its increased involvement in risky environments in IDA and FCS countries, as well as in Climate Change projects is reflected in the budget increase.

The work of EDS25 in the Audit Committee is supported by Mario Joao.

3.3 The Committee on Development Effectiveness (CODE)

The Committee on Development Effectiveness supports the Board in:

i. Providing guidance on strategic directions of each WBG entity

ii. Monitoring the quality and results of WBG operations (lending and non-lending or advisory) drawing on self – evaluation, independent evaluations, and other reports from within and outside the WBG

iii. Overseeing the adequacy, efficiency, and robustness of WBG monitoring and evaluation systems, including the work of the entities that are part of eth WBG's accountability framework.
iv. Oversee on behalf of the Boards the work of IEG, including review of eth formulation and evaluation of IEG's work program and in, consultation with the Budget Committee, its budget.
v. Monitor the periodic assessments of the relevance, quality, integrity, and efficiency of research activities of IBRD and IDA, and technical and advisory services of eth WBG member institutions
vi. Consider the adequacy and effectiveness of the management, dissemination, and utilization of Knowledge produced by members of the WBG and the IEG, the Inspection Panel (IPN) and the Compliance Advisor Ombudsman(CAO).

Some of the issues considered within this period include:

i. Appointment of the External Reviewer for the Inspection Panel Tool kit and consideration of the Report with a view to enhancing the quality of its role as an accountability mechanism;
ii. Updates on the Implementation of the new ESF including training of relevant stakeholders on the new ESF with a view to finetuning and ensuring orderly roll out in later in the year;
iii. Consideration of IEG reports on various core subjects that will enhance development effectiveness including the WBG's support in the following areas; for shared prosperity, Mobile Metropolises/Urban Transport matters, engagement in Upper Middle-Income Countries, Multi Phase Programmatic Approach(MPA) and its application to operations, Pollution Management, Capital Market Development as well as Data for Development and its importance. CODE exhaustively discussed, identified issues that could potentially inhibit development effectiveness and came out with outcomes for Board consideration that not only generated additional lesson learning experiences but impacts on the overall operations of the WBG, reduce associated risks and enhance the WBG's twin goals.

The work of EDS25 in CODE is supported by Nyeso George.

3.4 The Committee on Governance and Administrative Matters (COGAM)

COGAM's primary purpose is to assist the Boards in issues related to the governance of the institutions of the WBG, the Boards' own effectiveness, and the administrative policy applicable to Executive Directors and their Alternates and Senior Advisors.

The committee:

i. considers governance-related principles, practices and procedures to be followed in the organization;
ii. considers governance aspects related to representation and shareholding in WBG institutions;
iii. evaluates the effectiveness of the Boards and Board Standing Committees; and
iv. addresses questions of administrative policy relating to Executive Directors and their Alternates and Senior Advisors.

Within the period under review, COGAM reached various conclusions on a varied number of issues. The most topical and protracted of these was the shareholding review encompassing IBRD and IFC Capital Increase discussions. Finally, in its meeting of April 09, 2018, the Committee concluded its deliberations on the main elements of the Capital increase discussions including: the size and elements of IBRD and IFC Selective Capital Increase (SCI); how to treat unallocated shares; forbearance and dilution issues. The Boards report to Governors on this process was endorsed at the last Spring Meetings.

Next to the Capital Increase deliberations was the discussion on the Review of Board-Related Budgets Executive Director's FY2019 Budget. The aim of the review was to address the recurrent underruns in Board-related budgets for greater efficiency; and to signal such level of budget efficiency Bank wide. The elements of discussions were ED's operational overheads; 2% flexibility band, ED's travel policy and Staffing budget. Accordingly, the Board revised its FY19 budget down to US$83.93 from US$87.73 in FY18.

During the same period, COGAM deliberated on other issues including:

Board effectiveness from which a draft action plan was produced. The discussion covered Board functions, Board meetings, training of incoming EDs, bilateral meetings with staff, Board papers, Steering Committee and Board Committees. And

Code of Conduct for Board Officials – which set forth principles and ethical standards for Board Officials, about, or having a bearing upon, their status and responsibilities in the organizations, as prescribed in the Articles of Agreement, By-Laws, and related documents of the Organizations.

The work of EDS25 in the COGAM is supported by Fidel Odey.

3.5 The Human Resources Committee

It was established by the Boards to strengthen the efficiency and effectiveness of the Board oversight with respect to its Human Resources strategy, policies and practices, and alignment with the needs of the organization. The Human Resources Committee has been focused on many key issues for the period under review including the following:

Activities of the Ethics and Business Conduct Vice Presidency (EBC) included the adoption of the introduction of the new Core Values (impact, integrity, respect, teamwork, and innovation) followed by revisions to the Code of Conduct and Staff Rules amongst others. Management commissioned an external review to provide recommendations on addressing sexual harassment, metrics review, and creation of a new two-tiered governance structure comprising of an Internal Justice Senior Management Council and Practitioners Committee to review policies, provide guidance, and facilitate proactive action in the IJS.

Update on WBG Engagement Survey - there is an increase in engagement (82% of staff responding) to the survey. Despite the positive trend, more work is needed especially in the areas of leadership, institutional practices, work-life balance, openness and trust, collaboration and career development.

QBR - Staffing projections are expected to remain within a 2% growth which consider efforts to reduce the number of GH staff, increase GE/GF staff, and increase field presence. IFC management is undertaking the workforce planning exercise to respond to IFC 3.0 and is expected to finalize the process in October 2018. The short-term workforce has stabilized at 27 percent of the overall workforce.

Extended-Term Consultant and Temporary Appointments was reintroducing to provide staffing and budget flexibility and to respond to the scaled work anticipated through IDA18, IFC 3.0, among other business needs**.** Headcount continues to be monitored under the expectation for growth of 2.5% in total by the end of FY18.

2018 Review of Staff Compensation - Management reiterated that merit increases would remain performance-based and senior management is discussing the approach for the FY18 distribution. The awards methodology for the Bank remains the same as in FY18, with the $3.8m covering the Bank and the Bank's share of the WBG awards. For IFC, management noted the scope and allocations remain unchanged from FY18, and IFC has requested an award budget envelope of $29.1m although the maximum amount based on the proposed methodology was estimated at $56m. MIGA also indicated an increase in FY19 merit award amount to $0.3m and a review of the framework is expected in FY19.

The work of EDS25 in the Human Resources Committee is supported by Reshma Sheoraj.

CHAPTER 4 WBG FY18 FINANCIAL RESULTS

This chapter provides and overview of the FY18 Financial Results of the World Bank Group (WBG). It includes an overview of the capital adequacy of the four entities and the outlook in the financial year ahead.

4.1 Financial Results

The WBG had a very good financial year with all entities increasing commitments and disbursements during FY18.

Table 1 Financial Results (US$ billions)

	Commitments	Gross Disbursements	Outstanding Portfolio	Allocable Income	Business Revenue
IBRD	**23.00**	**17.40**	**183.60**	**1.16**	**2.20**
IDA	**24.00**	**14.40**	**145.70**		**2.10**
IFC	**23.30**	**11.20**	**42.20**	**1.32**	**3.40**
MIGA	**5.30**	**5.30**	**21.20**		**0.20**
TOTAL	**75.60**	**48.30**	**392.70**	**2.48**	**7.90**

IBRD

Net loans outstanding are currently at US$183.6bn.

The increase in the IBRD's outstanding balance was driven by net loan disbursements of US$5.6bn during FY18 and US$0.5bn of currency translation gains, resulting from the 2.1% appreciation of the Euro against the US dollar during this past FY.

Increased liquidity reflects the agreed higher prudential minimum agreed by the Board as well as the higher projected debt service and loan disbursements for the coming fiscal year.

The credit quality of IBRD's portfolio remains concentrated at the upper end of the credit spectrum, with 70% of the portfolio rated AA or above and the remining portfolio mostly rated A.

Allocable income is US$366m higher than in FY17 because of the increase in business revenue and the containment of administrative expenses.

IDA

Net loans outstanding are currently US$145.7bn. The increase in outstanding balance by US$ 7.3bn was mainly due to US$6.4bn of net loan disbursements and currency translation gains of US$1.4bn, consistent with the 1.1% appreciation of the SDR against the US dollar during this past FY.

The increase in IDA's investment portfolio is driven by the receipt of US$1.5bn in debt raised in IDA's first issuance in the international capital markets and contributions from members.

The credit quality of IDA's portfolio remains concentrated in the upper end of the credit spectrum with 59 percent of the portfolio rated AA or above.

IDA's equity position is US$163.9bn which is US$5.5bn higher than June 30, 2017. This was primarily due to the receipt of additional subscriptions and contributions from members.

IDA made a net loss of US$5.2bn. This is driven by the impact of grants provided to IDA eligible countries.

This increase in grants (captured as 'losses' on IDA's balance sheet) is consistent with the increase in the size of IDA18 and increased allocations overall. Grants represent 23% of IDA18 compared to 13% for IDA17.

IDA grants are financed by equity contributions from IDA members.

IFC

IFC's equity realized gains of US$992m were down from the US$1,073m in FY17. They continue to be driven by large gains in a small number of investments.

Changes in unrealized gains of US17m were up against changes in unrealized losses of US22m in FY17.

Write-downs of US446m in FY18 were down on US581m in FY17.

Dividends of US$282m were higher than the US$244m in FY17.

Non-performing loans decreased by US$122m from US$ 1522m as of June 30, 2017 to US$ 1400m as of June 30, 2018. The decrease in FY18 is largely due to write-offs.

Non-performing loans improved to 5.6% at the end of FY18 versus 6.9% at the end of FY17

IFC's funding costs was LIBOR -15.8bps as compared to LIBOR 16.2bps in FY17.

MIGA

FY18 saw a record high new guarantee business in FY18 of US5.3bn in support of 39 projects which represented an 8% growth rate.

Gross outstanding exposure reached a high of US$21.2bn at the end of the FY, of which US$6.6bn was in IDA-eligible countries, US$1.9bn was in FCS and US$4.7bn was in support of energy efficiency and climate change projects.

Portfolio reinsurance rate increased marginally to 62.5% and remains within the Board approved limit of 70% gross exposure.

Increase in reserve for claims of US$28m is attributable to the increase in new guarantee portfolio size, changes in portfolio composition and net country risk downgrades.

4.2 Capital Adequacy

At the end of the FY, the **IBRD's Equity to Loan ratio (E/L) was 22.9 percent**. Usable equity continues to be sufficient to support lending operations, but IBRD's lending capacity is constrained by its proximity to the 20% minimum threshold.

IDA's capital adequacy is measured by its Deployable Strategic Capital (DSC) ratio. This is the capital available to support future commitments, over and above the current portfolio. It represents the Total Resources Available (IDA's equity and loan loss reserves, and Total Resources Required to cover expected and unexpected losses with respect to IDA's existing operations and assets. The DSC ratio is **currently 37.4%** and has been stable over FY18.

IFC's Deployable Strategic Capital (DSC) is similarly a function of Total Resources Available. It was **8.7% at the end of FY18**. It increased due to an increase in Total Resources Available which was driven by strong allocable income and improvement in the unfunded pension liability.

MIGA's total Economic Capital is defined as the capital consumption on the guarantee portfolio and the estimated capital required for operational and investment risk. The Total Economic Capital to Operating Capital ratio **increased to 46.6% in FY18** from 42.4% at the end of FY17.

4.3 Outlook

IBRD

Allocable income is projected to continue the upward trend in FY19, as the effects of financial sustainability measures implemented since FY14 continue to build up. It is currently projected to be in the range of US$1.0bn – US$1.4bn for FY19.

E/L ratio is currently projected to be in the range of 21% - 23% at the end of FY19.

IDA

Efforts to support the IDA18 hybrid financing model will continue into FY19. These include updating IDA's financial policy framework, funding from capital markets and operationalizing new approaches under the IFC-MIGA Private Sector Window.

The commitment pipeline for FY19 Q1 of around US$2.4bn has been scheduled for Board consideration and a significant push is expected in the coming months leading to the mid-term review in November. At this meeting management will report back to IDA Deputies on the status of IDA18 financial and policy commitments.

IFC

Emerging markets continue to very volatile. IFC's operating results are heavily depended on the direction and volatility of emerging and foreign exchange markets and on geopolitical developments.

In addition, with a change in accounting standards for equity investments beginning in FY19 whereby all equity investments will be accounted for at fair value with changes in value being reported in income, IFC's net income will likely be more volatile going forward.

MIGA

MIGA's growth in new guarantee business continues to trend upwards and is on track to achieve its target of US$5.5bn in FY19, while prioritizing IDA-eligible countries, FCS and Energy Efficient and Climate Change projects.

CHAPTER 5 CONSTITUENCY MATTERS

5.1 Election of a new Executive Director of EDS25

Another Election Year! Governors are electing Executive Directors to represent their countries on the Executive Board of the WBG effective November1, 2018. In all, a total of 25 EDs are expected to be elected. Out of the 25 EDs elected, 10 of the former EDs are re - elected, 5 were AEDs and 10 are new to the Board.

Following the expiration of a successful duty tour and in line with the rotation schedule of the ANSA Constituency, Ms Bongi Kunene (South Africa) will be handing over to Haruna Mohammed (Nigeria) who until recently was the AED, while Angola is expected to nominate an Alternate Executive Director for appointment during or soon after the 2018 Annual Meetings in Bali.

5.2 The 2018 Capital Increase of IBRD and IFC: Implications for EDS25 countries

All member countries pf EDS25 fully subscribed to the 2010 capital increase meeting the March 16 deadline. **Thirty-two member countries of the World Bank Group did NOT subscribe to the 2010 Capital Increase. They are were:**

Barbados, Belize, Central African Republic, Chad, Congo Republic, Equatorial Guinea, Eritrea, Gabon, Guatemala, Guinea-Bissau, Honduras, Kyrgyz Republic, Maldives, Marshall Islands, Micronesia, Niger, Palau, San Marino, Seychelles, Somalia, South Sudan, St Kitts and Nevis, Sudan, Suriname, Swaziland, Syrian Arab Republic, Tajikistan, Tanzania, Turkmenistan, Venezuela, Yemen, Zimbabwe.

All G20 member countries fully subscribed.

In July 2018, the Corporate Secretariat advised country authorities of the costs and timelines of subscription under the capital increase that was agreed in April 2018. These are summarized again here.

Angola

Angola has been offered 369 shares under the General Capital Increase (GCI) and 352 shares under the Selective Capital Increase (SCI) of IBRD.

The cost of subscription to Angola's IBRD shares is US$44.5m and US$42.5m respectively. The paid-in portion of subscription is **US$8.9m and US$2.5m respectively, i.e. US$ 11.4m.**

Angola's voting power in IBRD is currently 0.18 percent and will remain 0.18 percent. Once Angola has submitted its instrument of subscription, it will have 5 years to subscribe to these IBRD shares.

Angola has been offered 4 242 shares under the General Capital Increase (GCI) and 3660 shares under the Selective Capital Increase (SCI) of IFC.

The cost of subscription to Angola's IFC shares is US$4,242m and US$3,660m respectively. **The paid-in portion of subscription is in full, i.e. US$ 7.9m.**

Angola's voting power in IFC is currently 0.08 percent and will increase to 0.10 percent. Once Angola has submitted its instrument of subscription, it will have 3 years to subscribe to the IFC's GCI and 5 years to make payment, and 3 years to subscribe to IFC's SCI and 3 years to make payment.

The paid in requirements of Angola's full subscription to the 2018 Capital Increases is approximately US$20m to be paid in over 3 to 5 years.

Nigeria

Nigeria has been offered 1 614 shares under the General Capital Increase (GCI) and 1 616 shares under the Selective Capital Increase (SCI) of IBRD.

The cost of subscription to Nigeria's IBRD shares is US$194.7m and US$194.9m respectively. The paid-in portion of subscription is **US$38.9m and US$11.7m respectively, i.e. US$ 50.6m.**

Nigeria's voting power in IBRD is currently 0.70 percent and will fall marginally to 0.69 percent. Once Nigeria has submitted its instrument of subscription, it will have 5 years to subscribe to these IBRD shares.

Nigeria has been offered 59 853 shares under the General Capital Increase (GCI). Nigeria has not been offered shares under the Selective Capital Increase (SCI) of IFC as it is viewed as overrepresented in IFC. The cost of subscription to Nigeria's IFC shares under the GCI is US$ 59.9m and is required in full.

Nigeria's voting power in IFC is currently 1.05 percent and will remain 1.05 percent.

The total paid in requirements of Nigeria's full subscription to the 2018 Capital Increases is approximately US 110.5m to be paid in over 3 to 5 years.

South Africa

South Africa has been offered 1 726 shares under the General Capital Increase (GCI) and 1 236 shares under the Selective Capital Increase (SCI) of IBRD.

The cost of subscription to South Africa's IBRD shares is US$208.2m and US$149.1m respectively. The paid-in portion of subscription is **US$41.6m and US$8.9 m respectively, i.e. US$ 50.4m.**

South Africa's voting power in IBRD is currently 0.77 percent and will decline marginally to 0.74 percent. Once South Africa has submitted its instrument of subscription, it will have 5 years to subscribe to these IBRD shares.

South Africa has been offered 42 667 shares under the General Capital Increase (GCI) and 17 601 shares under the Selective Capital Increase (SCI) of IFC.

The cost of subscription to South Africa's IFC shares is US$42.7m and US$17.6m respectively. **The paid-in portion of subscription is in full, i.e. US$60.3m.**

South Africa's voting power in IFC is currently 0.67 percent and will increase significantly to 0.76 percent. Once South Africa has submitted its instrument of subscription, it will have 3 years to subscribe to the IFC's GCI and 5 years to make payment, and 3 years to subscribe to IFC's SCI and 3 years to make payment.

The total paid in requirements of South Africa's full subscription to the 2018 Capital Increases is approximately US 110.8m to be paid in over 3 to 5 years.