WORLD BANK GROUP

ANNUAL REPORT 2021
(ENGLISH SUMMARY)

from the German Executive Director
of the World Bank Group

1.
The World Bank in fiscal year 2021

Since the beginning of March, I am the new German Executive Director at the World Bank Group. Arrival has been challenging in times of pandemic: Board and committee meetings have continued to take place only virtually. Face-to-face meetings, on which the success of the work here depends to a large extent, remained the exception. Our office was closed for more than a year because the World Bank was completely closed. We are more than relieved that since this early summer face-to-face meetings are possible again and also the offices can be used on a limited and voluntary basis from mid-June 2021 onwards.

The World Bank Group's fiscal year 2021 (July 1, 2020 to June 30, 2021), like the previous year, was heavily influenced by the impact of the ongoing global Covid 19 pandemic. Thus, operationally, the focus remained on the health, social, financial, and economic impacts of the crisis. The Bank's response to Covid 19 demonstrated its ability to provide rapid countercyclical assistance. This is reflected in the record levels of commitments and disbursements achieved. We are strongly committed to ensuring that these funds are consistently aligned with global development and sustainability goals. After all, the global crisis caused by the pandemic must be used as an opportunity to make reconstruction sustainable. It is therefore only logical that the Bank commits to "Green, Resilient and Inclusive Development" (GRID) in a policy paper adopted at the 2021Spring Meetings. However, this commitment now also needs to be brought to life in order to sustainably address poverty, inequalities and climate change. Operationally and financially, however, the World Bank's extensive crisis response has also created new risks. Projects had to be prepared and implemented under more difficult conditions and, in some cases, without direct on-the-ground control. In view of

these challenges and the greatly expanded portfolio, it is to be expected that the number of "problem projects" will increase in the coming years.

Combating the consequences of the pandemic will also shape the coming fiscal year. If vaccines are to be made available increasingly in developing and emerging countries in the near future, it will be important to ensure that they are "put into the arms" locally. The World Bank's vaccination program for procurement and logistics, initially worth USD 12 billion, can make a decisive contribution to this. However, for this to happen, the dovetailing with the global vaccine platform COVAX must work well. Germany has successfully campaigned for correspondingly intensified cooperation.

The fight against the pandemic poses enormous financial challenges, particularly for the world's poorest countries. In order to respond to these financial needs, the IDA replenishment round will be brought forward by one year. Donors are expected to announce the size of their contributions to the IDA replenishment in December 2021. In the ongoing negotiations, Germany is pushing for stronger incentives to invest in crisis preparedness and prevention. Financial commitments should be linked to clear criteria in the areas of climate, biodiversity, food security, and the reduction of existing inequalities.

From a climate perspective, 2021 represented a turning point: the newly elected U.S. President Biden had, as one of his first acts in office, brought the U.S. back into the Paris Climate Agreement. The U.S. presidential election also changed the constellations at the World Bank, enabling the Bank to present, among other things, a new Climate Action Plan with ambitious targets. The basic orientation of this Climate Change Action Plan (CCAP) is welcome, even if we would have liked to see an even higher level of ambition, for example in the phase-out of natural gas production. We will also call for more concrete indicators to better track the implementation progress of the CCAP. We welcome the fact that the World Bank also intends to promote fiscal and macroeconomic instruments to a greater extent in the future, in order to accelerate the transformation processes of entire economies toward clean energy production in this way.

The debt discussion has initially subsided following the introduction of the debt moratorium and the G20 Common Framework. There are initial successes for more debt transparency and the newly established mechanisms are being applied in the first cases. Risks remain high as the pandemic unfolds, so the issue will remain on the agenda. The mobilization of domestic resources, such as tax revenues and the fight against tax evasion - the other side of the debt coin – have been strengthened with the adoption of a new progressive policy aimed at fair and equitable tax collection.

The pandemic has also brought the issue of food security back into sharper focus. Germany's special initiative "One World Without Hunger" has been a key focus since 2014, and not just in bilateral development cooperation. We are also one of the leading donors in multilateral cooperation to combat hunger. For example, Germany has pledged USD 376 million to the Global Agriculture and Food Security Programme (GAFSP) based at the World Bank alone, making it the second-largest donor after the USA. The challenges of agriculture adapted to climate impacts will have to receive special attention in IDA replenishments in the future and will also be the focus of the work of the German Executive Director in the coming months.

In various private sector projects supported by IFC, we have put the issue of corporate responsibility for fair supply chains on the agenda in recent months. In the coming fiscal year, we are preparing for a critical debate with the World Bank Group. The bank will have to revise its procurement rules on human rights and environmental standards in the supply chain in the future in order to rule out violations in deeper links as well. The topic will also be set as a new focus area in the work of the German Executive Director.

Thus, in addition to the climate agenda, which remains central and to which we intend to add issues relating to the transformation of food systems, the implementation of the GRID agenda and issues relating to fair globalization, including fair supply chains, will be central focal points in the coming fiscal year. In this way, we are responding to current challenges and integrating central concerns of German development policy even more strongly into the work of the World Bank. We will discuss this in more detail in our next report.

Finally, I would like to point out that in the first half of the fiscal year, Germany held the presidency of the European Council in its capacity as EU Council presidency. We took advantage of this to better structure and deepen cooperation among the European Board members and between the Board, the Bank and Brussels.

With this report, I hope to be able to provide appropriate information about the work of my office as the German Executive Director. Please feel free to use my office if there are further questions or more information is needed.

Washington, D.C. September 2021.

Gunther Beger, German Executive Director at the World Bank Group.

2.
Results and Objectives

Crisis response to the Covid 19 pandemic

Our objectives for the fiscal year were to develop clear criteria for prioritizing the pandemic response and "better recovery," as well as a monitoring and evaluation system with the Bank. We also wanted to pay particular attention to private sector financing during the crisis through the World Bank's International Finance Corporation (IFC). Finally, we wanted to see the Bank in an active role in advancing an international debt architecture.

As predicted in the 2020 Annual Report, fiscal 2021 was also dominated by the Covid 19 pandemic. With the outbreak of the virus, poverty increased worldwide for the first time since 1998. In 2020 alone, the number of people in absolute poverty in the world had increased by 88 million to 115 million people. At the same time, the profile of global poverty changed: Covid 19 would create an army of millions of so-called "new poor," according to the World Bank's Poverty and Shared Prosperity Report 2020. These people are more likely to live in cities, be better educated and less likely to work in agriculture than the extreme poor. In addition, the crisis exacerbates inequalities within countries. In addition to the pandemic, conflicts and fragility as well as climate change ("3C" - "Covid, Climate, Conflict") contribute significantly to global poverty, with the effects amplifying each other. As a result of climate change alone, up to 132 million people could fall into poverty by 2030. In view of these developments, it is to be feared in the medium term that the goal of limiting absolute poverty worldwide to 3 percent by 2030 will not be achieved.

New virus variants and their rapid spread, for example in India, Brazil and Indonesia, increased the need for World Bank funding. Since many severely affected countries are also the largest borrowers, management and the Board agreed to suspend the usual markups for financing above country limits in light of the dramatic situation.

The World Bank has responded to the Covid 19 pandemic with extensive measures: In the 15 months from April 2020 to June 2021, it committed $157 billion, 60 percent more funding than in the previous 15 months. The Bank has thus fulfilled its countercyclical stabilization role in the global financial system. However, it has not only launched programs to mitigate the immediate health, financial, social and economic consequences of the pandemic. Under strong pressure from European Executive Directors, it has developed a medium- and long-term approach to reconstruction under the title "Green, Resilient and Inclusive Development" (GRID). On the one hand, this involves dovetailing responses to the various crises. On the other hand, it describes how to accompany investments with policy reforms. This has yet to be implemented and operationalized in the World Bank's business model. This is being intensively demanded and accompanied by Germany together with other shareholders.

At the 2020 Annual Meeting, the World Bank launched a Covid 19 vaccination program worth USD 12 billion. These funds will not be additional, but will be financed from country programs. We welcomed this initiative, but at the same time called for close coordination and collaboration with the World Health Organization (WHO) and the COVAX vaccine initiative.

Such close coordination occurred, for example, in setting up distribution logistics for Covid 19 vaccines based on standardized assessments, developed jointly with WHO, of the extent to which individual countries are already prepared and able to implement the necessary vaccination campaigns. Together with other major COVAX donors such as the UK and the US, we were also able to leverage World Bank funding for COVAX procurements. This enabled the first subscription of a COVAX option on vaccine doses by the World Bank in July 2021, which could be replicated in other countries in the future.

Finally, at the end of the fiscal year, the IFC was able to announce the long-awaited vaccine production projects in Senegal and South Africa, some of which came about with the participation of the German Investment and Development Company (DEG).

The World Bank remained a prominent advocate for a sustainable solution to the debt crisis. This was demonstrated, for example, by its commitment to extending the Debt Service Suspension Initiative (DSSI)

by one year beyond the original end date of December 2020. But it also filled that role through its work on the G20 Joint Framework, which agreed on a common approach to debt relief for IDA countries. A challenge for the coming months will be to enable countries to invest and reform under the GRID approach and the Paris Climate Agreement when crises arise and restructuring may be necessary, so that they can use the freed fiscal space to make sustainable investments for the future.

Climate protection

With U.S. President Joe Biden taking office, the climate for climate action in the Bank has improved significantly. With the U.S. on the side of the climate "like-minded," the majority on this key issue for the future has shifted in the Board. This is also reflected in the fact that management is once again responding more positively to relevant comments and suggestions.

For the fiscal year, we had planned to anchor the topic of "climate risks" more firmly in the bank. We also wanted to work to ensure that the substantial pandemic response funds were spent in a climate-friendly way. In addition, we wanted to continue to advocate for greater consideration of climate-friendly reforms in budget support operations.

Working closely with the U.S. Treasury, we were able to draw attention to the climate risk aspect, including events on this topic or on the potential of so-called green bonds during the Bank's Spring and Annual Meetings. The recording of climate-related risks is now also established through our work at the World Bank: In June 2021, the World Bank presented a climate stress test for the first time in its annual risk report, for which it was also praised by rating agencies. The climate stress test models longer-term climate risks, such as floods, forest fires, or climate-related financial crises due to assets no longer holding their value. This part of the risk analysis is relevant in that such shocks can also negatively impact project portfolios and World Bank balance sheets via country rating downgrades.

The World Bank's Climate Action Plan for 2021-2025, also published in June 2021, is the World Bank's key document in this area and the culmination of our climate efforts. From our point of view, the

action plan points into the right direction and takes up many of our demands. For example, it sets a specific date of July 1, 2023 for aligning IBRD and IDA investments with the Paris climate goals (Paris Alignment), and pledges to phase out coal production. In addition, reference is made to the potential of using macro-fiscal instruments such as reform credits for climate protection and the planned expansion of support for partner countries in implementing national climate protection contributions. The World Bank's Climate Action Plan commits to increasing direct climate finance from an average of 26 percent per year to date (CCAP 2016-2020) to 35 percent annually in 2021-2025. For IBRD and IDA, 50 percent of funding is to be used for climate change adaptation activities.

Despite these positive developments in the Bank's climate change ambitions, much remains to be done, for example, an exit strategy and clear criteria for limiting its support to oil and gas projects in partner countries are still lacking. The methodology for the economic valuation of natural capital and biodiversity also needs to be operationalized more clearly. In addition, the CCAP 2021-2025 still lacks clear impact targets and indicators to measure them. We will therefore continue to be constructively persistent in working out the details for the implementation of the action plan, in order to refine accordingly at the crucial points. In particular, we will insist on regular, standardized and indicator-based reporting. In addition, the current input logic, which still strongly prevails, must be further developed in favor of a stronger impact logic. The number and ambition of "climate reform credits" must be increased so that they contribute to climate-friendly macro and fiscal policies in partner countries. We also want to work toward developing a methodology that will help align all investments with the Paris Climate Agreement.

A particular concern of Germany and other European shareholders over the past few years has been to increase the Bank's share of financing for renewable energies, such as solar, wind and hydropower. Recently, an unexpected challenge arose: A report by the Helena Kennedy Centre for International Justice at Sheffield Hallam University suggested that forced labor was being used in the production of polysilicon, the raw material for solar modules, in the Chinese province of Xinjiang. Against this backdrop, Germany called on the IFC - the private sector arm of the World Bank - to swiftly develop a roadmap that excludes forced labor in its solar module

production projects. This roadmap was promised for September of this year. In addition, the German Executive Director's Office brought IFC energy specialists together with colleagues from the German Federal Ministry for Economic Cooperation and Development (BMZ) to share lessons learned from the development of Germany's supply chain law. This conversation encouraged IFC to develop a "white list" of those photovoltaic companies that demonstrably exclude forced labor in their supply chain.

Private sector in Africa (Compact with Africa)

For the fiscal year, we set out to further strengthen a coordinated and concerted approach to development work on the ground in the Compact with Africa (CwA) countries led by the World Bank. These countries are Egypt, Ethiopia, Benin, Burkina Faso, Cote d'Ivoire, Ghana, Guinea, Morocco, Rwanda, Senegal, Togo and Tunisia. We also wanted to support Germany's continued and joint financial and programmatic involvement with other donors in World Bank reform financing.

Last year, the Compact with Africa initiative gained further momentum. As expected, the focus of support for CwA partner countries was primarily on acute crisis management in light of the Covid 19 pandemic. The changed realities brought about by the virus will also need to be reflected in the upcoming review of reform priorities in CwA countries. According to a monitoring report published jointly by the World Bank and the International Monetary Fund (IMF) in April 2021, CwA countries have been more resilient and economically better off in the current crisis than comparable countries in Africa that are not part of the initiative.

The World Bank is specifically redirecting its activities under the CwA to adapt them to the impact of the pandemic. For example, through the Think Africa Partnership Fund (TAP), which acts as a knowledge platform, African chief economists and presidential advisors are supported with knowledge products on Covid 19 Response and Recovery. The African Center for Economic Transformation, also supported by the TAP, is also developing tailored policy recommendations for African countries to respond to the pandemic.

Despite the challenges posed by the Covid 19 pandemic, successes were also achieved with the help of the CwA in the past year. For example, a public-private partnership was initiated in Tunisia to improve the provision of energy, water, and sanitation services to the population.

IFC is advising the Senegalese government on the development of a bus line as part of a PPP program in Dakar. The World Bank is investing about $200 million in the necessary infrastructure (roads, stations, signaling, etc.) and the private operator is investing in the buses and related facilities.

The biannual meetings of the G20 Africa Advisory Group, co-chaired by the Federal Ministry of Finance State Secretary Wolfgang Schmidt, continue to take place regularly and provide a regular forum for sharing progress made at the CwA. Despite the pandemic, coordinated action on the ground in the Compact countries has been further strengthened. The more than 60 economic projects established under the CwA are also evidence of Germany's continued financial and programmatic involvement, together with other donors, in World Bank reform financing.

Crisis prevention and fragile states

Our objective for this fiscal year was to support the implementation of the World Bank's Strategy for Fragile States and States Affected by Conflict and Violence ("FCV Strategy"). We wanted to pay particular attention to the revision of the World Bank's internal guidelines on the Bank's engagement in fragile contexts. We also wanted to link the implementation of the strategy to the discussion on IDA replenishment, with a stronger focus on conflict drivers.

Implementation of the FCV strategy progressed in FY 2020, although staff shortages due to Covid 19, for example, also created implementation hurdles here. The most important operational development is the so-called "FCV Envelope" financed from IDA funds, which opens up additional financing to fragile states: Based on conflict analyses (Risk & Resilience Assessments), programs are implemented to mitigate the identified conflict drivers or to strengthen resilience. This new strategic approach was introduced very convincingly into initial programs in Mali, Burkina Faso, Yemen and the Central African Republic.

The implementation of the FCV strategy in the Bank's guidelines was only achieved through tough negotiations to reformulate Operational Policy 2.30 "Development Cooperation and Conflict," which was adopted by the Board in July 2021. Germany, together with "like-minded" partners such as France, the Netherlands and the Scandinavian countries, had lobbied for a comprehensive integration of the progressive language from the strategy, in particular the adoption of the "Do no Harm" principle and the naming of potentially controversial conflict drivers such as human rights violations. Ultimately, we were able to ensure that most of these elements were prominently included in the new policy, along with a "vision statement" that leaves little doubt as to its operational direction.

Institutional issues

The World Bank Group continues to undergo institutional restructuring, which is particularly visible at IFC. For example, the IFC has laid off about 1,400 of its 3,500 employees and hired about 1,000 new ones. The focus of the World Bank Group's work is increasingly on FCV and IDA countries - not least because this is where the greatest development impact in terms of the World Bank's core objectives can be achieved.

However, these potential impacts are also countered by new structural risks: engagement in new regions and countries is per se riskier than engagement in those regions and countries where the Bank's work is already established. New products and up-stream business development are also likely to be costly. The number of problematic projects is also likely to increase permanently as a result of this transformation of the bank, not just temporarily as with Covid 19. This balancing of risks and development impacts, or preventing development backsliding during a crisis, will continue to be the responsibility of the Bank and thus the Board.

To underpin the focus on development impact, we have further strengthened our collaboration with, among others, the Bank units for audit, evaluation but also the grievance mechanisms. We use our membership of the Committee of Development Effectiveness (CODE) to ensure that this topic is included as widely as possible in all ongoing processes. In this context, it is also encouraging that the reform of the IFC complaints mechanism was adopted successfully

and without major controversy in the Board during the reporting period. The preparatory work of the German CODE Chair 2019-2020 is likely to have contributed to this smooth progress.

With the suspension of the Doing Business Report due to data manipulation, the bank produced negative headlines in the reporting period. Of particular concern, from the perspective of the German ED Office, are the issues regarding structure and organizational culture that came to light in the review of the incident. For example, it evidently took far too long for the employees concerned to dare to report the manipulations that had been identified. Since the manipulations became known, Germany has therefore campaigned for and achieved a full clarification. In addition, we are pushing for institutional reforms, and an open and trusting working climate, so that such further misconduct cannot be repeated.

As the acute crisis mode for pandemic response comes to an end, new strategic questions arise about the World Bank's post-crisis direction. In addition to poverty reduction and the more equitable distribution of wealth, climate and biodiversity protection will gain further importance for the Bank's business.

Financially, the question will arise as to how the bank should structure its balance sheet after the crisis in order to avoid distribution conflicts on the one hand and to be able to build up reserves for future crises on the other, so that it will then be able to act swiftly again.

The bank as a global knowledge bank remains the German model for the World Bank. As a globally active bank with a wealth of global knowledge and practical experience, the World Bank is uniquely positioned to do more to address global challenges than many other international organizations can. However, it must always use its country programs to support global public goods across national borders if it is to live up to its name. This is also its comparative advantage in those countries that are less financially dependent on the Bank. The German ED Office will therefore continue to use this mission statement as a central guideline in dealing with the many different processes and will work to further develop the Bank in this direction.

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