

EXECUTIVE SUMMARY

1. IFC is the largest global private sector development financial institution. As part of the World Bank Group, it has a unique role at the interface of public and private interests and has an important responsibility to promote the development of a strong private sector. The call for IFC's involvement in the markets it serves is stronger than ever. As IFC frames its strategic directions for the next three years, it must build on its strong performance with a view to taking a leadership role in creating opportunities for people to escape poverty and improve their lives.

2. *IFC has reached many of the Development Impact Targets of its Three-year Plan in Two Years.* By the end of FY07, IFC will have achieved many of its Board-endorsed targets – commitments in frontier countries; in Sub-Saharan Africa; in micro, small and medium enterprises; in infrastructure, health and education; and in the financial sector – and is making good progress towards the remaining targets. It has also made good progress towards its goals of increased use of World Bank Group synergies and measurement of its development impact.

3. *IFC Business Model.* As a result of these achievements, IFC has now reached a stage in its evolution where it can increase further the development impact of its activities in pursuit of the five strategic priorities endorsed by the Board. It aims to do this through: (i) more focus on systemic interventions, including working more closely with other members of the World Bank Group; (ii) innovation to reach underserved segments in its markets; and (iii) greater client orientation to meet the enormous needs in developing countries more effectively. IFC's drive towards greater decentralization supports these objectives.

4. *IFC's Options.* In 2005, IFC chose the path of scaling up its activities and its development impact, and IFC's recent performance places it again at a crossroads: (i) it can use its achievements as a springboard to a leading role in developing well-functioning private sectors in developing countries; or (ii) it can restrict its growth. As in 2005, IFC Management believes that IFC should choose the first course of action, with much greater focus on development impact and additionality. Recognizing, however, that there can be challenges in managing development impact, additionality and very rapid growth, IFC Management has decided that, for now, IFC should maintain growth rates in line with those agreed with the Board in 2006 (although from a higher FY07 base) rather than accelerate the pace of growth further. This can be reconsidered, in consultation with the Board, during FY08.

5. *Continued Need for Support in Developing Countries.* There is now wide acknowledgement that the private sector plays a vital role in development as the engine of growth and poverty reduction. Although developing countries have been growing significantly, and international financial institutions (including IFC) have scaled up their private sector activities, there are still enormous needs and many people have not yet participated in the benefits of the recent growth and financial flows. There are also a number of macroeconomic and other factors that could decrease the availability of private sector finance in developing countries. The potential for sudden changes in the political landscape, particularly in post-conflict countries, also poses risks. In such circumstances, IFC is

prepared to resume its countercyclical role, to mobilize scarce capital and ensure adequate liquidity.

6. *Challenges.* The key constraint for IFC in scaling up development impact is the measured pace of resource expansion, which is outpaced by increases in demand, especially as IFC pursues the aims of more systemic impact and more projects in the most challenging environments. As IFC moves to become a more decentralized institution, it will need to manage the associated human resources, risk management and information technology issues. IFC is confident that its strengths, its recent performance and its focus on results give it the tools to address these challenges and to be a leader in the delivery of development impact where it is most needed.

7. *Conclusion.* As IFC implements its plans for the next three years and beyond, it does so in pursuit of the long-term goal to be the premier private sector financial institution in emerging markets, working with determined focus on creating opportunity through private sector development, so that people in the developing world are empowered to escape poverty and improve their lives.