

INTERNATIONAL FINANCE CORPORATION

STRATEGY AND BUSINESS OUTLOOK FY18 -FY20

CREATING MARKETS AND MOBILIZING PRIVATE CAPITAL

Version redacted and disclosed in accordance with IFC's 2012 Access to Information Policy, following discussion by IFC's Board on April 13, 2017.

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GLOSSARY

AMC	-	IFC Asset Management Company
AS	-	Advisory Services
B2T	-	Billions to Trillions
BFF	-	Blended Finance Facility
CCAP	-	Climate Change Action Plan
CCSA	-	Cross-Cutting Solution Areas
CMAW	-	Creating Markets Advisory Window
COP	-	Conference of the Parties
CPF	-	Country Partnership Framework
DFI	-	Development Finance Institution
DFS	-	Digital Financial Services
DOTS	-	Development Outcome Tracking System
EBRD	-	European Bank for Reconstruction and Development
ECA	-	Europe and Central Asia
EE	-	Energy Efficiency
EM	-	Emerging Market
ER	-	Expenditure Review
ESG	-	Environment, Social and Corporate Governance
FCS	-	Fragile and Conflict Situations
FDI	-	Foreign Direct Investment
FfD	-	Financing for Development
FI	-	Financial Institution
FIG	-	Financial Institutions Group
FMTAAS-	-	Funding Mechanism for Technical Assistance and Advisory Services
GAFSF	-	Global Agriculture and Food Security Program
GDP	-	Gross Domestic Product
GHG	-	Greenhouse Gas
GP	-	Global Practice
GSIP	-	Gender Strategy Implementation Plan
GW	-	Gigawatt
H&E	-	Health and Education
IBRD	-	International Bank for Reconstruction and Development
IDA	-	International Development Association
IDG	-	IFC Development Goal
IFI	-	International Finance Institution
IS	-	Investment Services
J-CAP	-	Joint IFC-WB Capital Markets Initiative
JIP	-	Joint Implementation Plan
LAC	-	Latin America & the Caribbean
LCF	-	Local Currency Facility
LIC	-	Low Income Country
LTF	-	Long-Term Finance
MAS	-	Manufacturing, Agribusiness and Services
MCPP	-	Managed Co-Lending Portfolio Program
MDB	-	Multilateral Development Bank
MENA	-	Middle East & North Africa
MGF	-	MIGA Guarantee Facility

MIC	-	Middle Income Country
MSME	-	Micro, Small and Medium Enterprise
NDC	-	Nationally Determined Contributions
NPL	-	Non-Performing Loan
ODA	-	Official Development Assistance
PCG	-	Partial Credit Guarantees
PSD	-	Private Sector Diagnostic
PSW	-	Private Sector Window
PPP	-	Public Private Partnership
RAROC	-	Risk Adjusted Return on Capital
RE	-	Renewable Energy
REDD	-	Reducing Emissions from Deforestation and Forest Degradation
RMF	-	Risk Mitigation Facility
SA	-	South Asia
SCD	-	Systematic Country Diagnostic
SDG	-	Sustainable Development Goal
SME	-	Small and Medium Enterprise
SSA	-	Sub-Saharan Africa
STF	-	Short-Term Finance

EXECUTIVE SUMMARY

1. **The Forward Look, endorsed in 2016**, crystallized the level of ambition shareholders have set for the World Bank Group (WBG): to achieve the twin goals of ending extreme poverty and ensuring shared prosperity in a sustainable manner, to realize the Sustainable Development Goals (SDGs) and the Paris Climate Accord, and to lead the “Billions to Trillions” agenda. Delivering these goals by 2030 requires scaling up and accelerating the pace with which the WBG delivers development solutions. This can only be achieved by fully harnessing the resources and innovation of the private sector.
2. **Progress has been made toward the twin goals.** Strong growth, global trade, and economic integration have raised standards of living for the world’s poor over the last 15 years. For the first time, the number of people living in extreme poverty fell below 10% of total population. Some 1.1 billion fewer people worldwide were living in poverty in 2013 than in 1990. The income of people in the bottom 40% of the income distribution is growing in the majority of countries.
3. **However, the global economy has not recovered to pre-crisis levels, and investment growth in developing countries has slowed** sharply since 2010-2011. Globalization has left many behind. The slowdown has been fueled by terms-of-trade shocks for commodity exporters, weak industrial production, depressed domestic demand, elevated public and private debt, and rising policy uncertainty. Without increasing growth rates, the goal of eliminating extreme poverty by 2030 will remain out of reach.
4. **To achieve the SDGs and twin goals, large challenges remain to be addressed.** Billions lack access to health care, education, infrastructure, credit, jobs and safe food. Without accelerating efforts to address these challenges, gains of the past decades could be reversed, with poverty and fragility becoming more chronic in Low Income Countries (LIC). Expansion of conflict, and climate impacts could push people back into poverty. The cost of addressing these development challenges is significant. By UN estimates, meeting the SDGs will cost over US\$4 trillion annually,¹ including US\$1-1.5 trillion per annum in infrastructure investment alone.
5. **The global development finance landscape has changed dramatically.** While Official Development Assistance (ODA) has increased from US\$55 billion in 1990 to US\$161 billion in 2014, private investment flows to Emerging Markets (EM) have grown exponentially, with Foreign Direct Investment (FDI) growing 30-fold over the same period. Though net FDI in LICs and Middle Income Countries (MIC) was nearly US\$650 billion in 2015, much larger pools of private finance have yet to be meaningfully engaged. With ODA unlikely to increase and limited fiscal space in many developing countries, governments alone cannot finance the SDGs. The contribution of the private sector to achieving development gains must be scaled up, particularly in the poorest countries.
6. **Attracting private capital to developing countries is hindered by high perceptions of risk,** information gaps, and limited regulatory capacity. Investors have difficulty valuing opportunities or pricing risk. Markets are fragmented. As a result, private capital does not flow at the scale needed to close development gaps, especially in LICs and Lower-MICs. In the case of infrastructure, private investment accounts for up to half of total infrastructure spending globally, but 62% of that sum goes to high income countries, and 32% to Upper-MICs. Just 5% of private infrastructure investment goes to Lower-MIC and LICs, where 48% of the world’s poor reside.

¹ UNCTAD, World Investment Report 2014

7. **Making progress on the 2030 Agenda will require a paradigm shift, one in which scarce ODA serves as a catalyst for increased private sector investment.** The WBG is well-aligned to support this. In 2017, the WBG introduced new principles for addressing development challenges. While fully respecting client demand, the “Cascade” asks WBG staff to work with governments to prioritize private sector solutions wherever possible, expand reform and blended finance to de-risk markets, and crowd in commercial financing where it presents value for money. This will help ensure that scarce public resources are used more strategically, and that private sector investment is maximized.

8. **This agenda must drive the long-term strategy of the International Finance Corporation (IFC), the largest global financial institution focused on private sector development.** The experience, global footprint, and knowledge IFC has accumulated over its 60 years must be deployed to support the private sector in delivering development outcomes where they are needed most, especially where investment has been limited in the past.

9. IFC’s traditional approach, IFC 1.0 and IFC 2.0, has been to follow clients into markets, supporting them with funding and Advisory Services (AS). This has paid dividends for IFC’s clients and client countries. IFC 3.0 will build on IFC 1.0 and 2.0, leveraging the experience, global reach and core competencies of the organization. To stimulate more investment activity, especially in LICs and Fragile and Conflict Situations (FCS), IFC 3.0 will support clients in riskier markets, and proactively work in these countries to create, deepen, and expand the markets themselves. As opportunities are unlocked, IFC will invest, bringing best practices to clients and demonstrating viability. IFC will scale up through platforms, deliver new AS aligned to the strategy and enhance mobilization capacity to crowd in private finance.

10. IFC 3.0 has two pillars that contribute to higher impact: Creating Markets and Mobilizing Private Capital. **Creating Markets requires a strategic posture in which IFC works with WBG partners to shape the conditions for market-based development outcomes.** There are several paths to enabling market-based solutions: structural reform, upstream support to develop bankable projects, and risk mitigation tools to attract private investment and innovation. Markets can also be created indirectly through supplier linkages, and investments in enablers such as infrastructure and financial services. Demonstration effects of first-mover investments will play a key role in attracting others.

11. **IFC 3.0 calls for IFC to expand its mobilization role and redefine development finance** by creating more platforms for funding and broadening its pool of co-investors. The IFC’s success in attracting new and greater numbers of private investors in LICs and FCS will be essential to advancing the Billions to Trillions (B2T) agenda in light of the urgency and financial cost of the SDGs.

12. **Implementing the strategy will require even greater effort and leadership from IFC,** including new approaches, an expanded toolkit, strengthened capabilities and increased efficiency. The strategy will require enhanced communication and outreach, increased focus on partnerships with other Multilateral Development Banks (MDBs) and International Finance Institutions (IFIs), and a greater emphasis on thought leadership. The FY18-20 Strategy and Business Outlook (SBO) describes continued delivery under IFC 1.0 and 2.0 and an initial implementation phase focused on establishing the organization, operational approaches and financial foundation for the higher level of impact envisaged in the strategy. The SBO describes the implications of this approach for IFC’s financial sustainability.

13. **IFC’s new organizational structure, established January 1, 2017, will enhance its ability to execute the strategy,** including Vice President-level accountability for key elements of the Creating Markets approach. The new structure will increase WBG-wide collaboration on upstream reform, strengthen relationships with donors, leverage the IDA 18 Private Sector Window (PSW), and boost

portfolio and risk management, which is particularly important given the risks inherent to a strategy that focuses more on newer, untested markets.

14. **New tools and approaches will be used to deliver results.** The Cascade approach will ensure cooperation on potential projects across the WBG and the systematic coordination of public, private and blended funding solutions. The PSW will help mitigate investment risk and enhance the commercial viability of projects in IDA and FCS countries. New Private Sector Diagnostics (PSD) will enable IFC to better target its interventions to maximize direct and indirect impacts. AS is being repositioned to support the market creation process, delivered through a new Advisory Strategy and the Creating Market Advisory Window (CMAW). Finally, an Ex-Ante Development Impact Framework will drive project selectivity based on their expected development impact. IFC will focus on outcomes (including access to infrastructure, services, food, finance, skills, digital inclusion, and jobs), thematic challenges (climate, gender, and conflict), profitability, and business growth, including mobilization.

15. **The strategic focus areas defined in the FY17-19 SBO remain highly relevant in the FY18-20 period.** These focus areas underpin the strategy, both in relation to IFC 1.0 and 2.0, which will generate the vast majority of commitments, and the evolution to IFC 3.0. As agreed in the FY17-19 SBO, IFC continues to focus on the regions with the highest incidence of poverty and fragility, industries linked to productivity growth, and the cross-cutting issues of fragility, gender, and climate change. A strong focus on mobilization, capital markets development, and partnerships will be a key implementation pillar of IFC's strategy.

16. **The trajectory of commitments anticipates a period of adjustment while new tools and approaches are deployed,** and staff focus on upstream engagement that will take time to convert into projects. FY17 volumes are expected to fall slightly below the trajectory established in the FY17-19 SBO, both due to market conditions and the aforementioned ramp up process. This will be followed by more rapid growth in FY18-20 when the evolved business model begins to translate into new commitments. The growth rate will ultimately be determined by capital availability.

17. **The trajectory also reflects difficult economic conditions in particularly important markets for IFC.** IFC's near-term investment program has been impacted significantly by economic slowdowns in the largest markets for IFC in their respective regions: Brazil, Nigeria and Turkey. Brazil and Nigeria are emerging from particularly sharp slowdowns, and are expected to grow at 0.2% and 0.8%, respectively (IMF). As IFC 3.0 will focus on countries with significant needs but limited markets, this will help diversify and expand origination.

18. **IFC's repositioned Advisory Services will foster the delivery of IFC 3.0 and increase impact in the focus areas.** The Advisory Program in IDA and FCS countries is expected to increase to 63-65% and 22-24%, respectively, of the total AS program by FY20. IFC has an active portfolio of more than 700 advisory projects in over 100 countries.

19. **Most strategic priority regions and industries are on track to achieve the targeted portfolio composition,** including South Asia, Africa, health and education, financial markets and FCS. Infrastructure commitments are expected to achieve targets when mobilization is taken into account as IFC has sought to increase mobilization wherever possible to limit use of its own balance sheet. Agribusiness, and climate-related investments have been particularly affected by economic conditions, including commodity price volatility. The Middle East and North Africa (MENA) region has experienced continued conflict as well as commodity price shocks.

20. **The increased focus on IDA, FCS and riskier, untested markets will create additional financial and non-financial risks.** Legal, Environmental, Social and Corporate Governance (ESG),

reputational and compliance risks all increase in weak regulatory environments. Reputational risks increase with greater mobilization of third-party funds and equity; while increased mobilization implies greater own account funding, as co-investors require IFC's own capital at risk alongside their financing.

21. **IFC will continue to utilize a portfolio approach** to balance opportunities for increased impact, which may be associated with higher risks or lower risk-adjusted returns, with opportunities that help maintain IFC's profitability. The Ex-Ante Impact Framework will help IFC manage risk, profitability and impact at the aggregate level.

22. **IFC income remains subject to market volatility.** There are considerable uncertainties to the outlook. Deviations from the target may ultimately impair IFC's ability to generate sufficient income to support significant designations to the CMAW, Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS) and IDA.

23. **Resources will continue to be managed in a manner that allows flexibility to respond to clients and market opportunities within the parameters established by the strategy.** The deployment of resources is aligned with strategy through Corporate, VPU and Department-level targets.

24. **In a context of constrained resources, IFC will seek efficiency gains** that will enable it to respond to development challenges and redeploy resources to strategic areas. IFC leveraged the Expenditure Review (ER) exercise to redeploy resources to support strategic focus areas and continues to focus on further standardization and improvement of operational processes, strengthening analytics and increasing feedback to and from new business and portfolio.

25. **Staff talent, and how it is deployed, will ultimately determine IFC's ability to deliver on its strategy.** IFC continues to maximize delivery capacity by seeking more efficient utilization of staff resources and enhancing the ability to recruit and retain talented staff. IFC will deploy new career development and planning tools to further assess and mobilize staff resources more efficiently.

26. **There has never before been more of a need for the public and private sectors to come together to solve development challenges.** Despite short-term challenges evident today, emerging markets continue to have strong prospects for growth, alongside improved governance and stability. There is now a broad recognition that needed solutions can be accelerated if the private sector is leveraged rather than constrained. With a network of over 2,000 clients, a global footprint, the knowledge to translate complex development challenges into sustainable solutions, unique capacity to manage risk, mobilize capital, and set ESG performance standards, IFC is well-positioned to lead this effort.

27. **IFC's new strategy is a concrete response to what shareholders have asked:** to unleash the power of the private sector to help realize the 2030 Agenda and bring greater progress to the poorest and most fragile regions. The SBO describes a plan to improve organizational structures, better leverage the combined capabilities of the WBG, increase efficiency, and deploy the right approaches, products, services and tools to achieve impact.

CHAPTER 1: EXTERNAL CONTEXT AND WBG RESPONSE

EMERGING DEVELOPMENT AGENDA

1.1 Progress is being made toward the achievement of the World Bank Group's (WBG) twin goals, albeit in an increasingly challenging environment. The WBG's twin goals are to end extreme poverty by 2030 and to boost shared prosperity in a sustainable manner. Investments in sustainable growth, human capital and resilience have led to significant progress: 1.1 billion fewer people were living in poverty worldwide in 2013 compared with 1990. The incomes of the poorest people in 60 out of 83 countries reviewed increased between 2008 and 2013.² Nevertheless, 767 million people remain in extreme poverty. The gap between the richest 60% and poorest 40% has widened in 34 countries. Levels of global inequality remain high. Further progress is threatened by weakening growth prospects and slowing trade. Climate change, fragility and violence, and pandemics also present systemic risks.

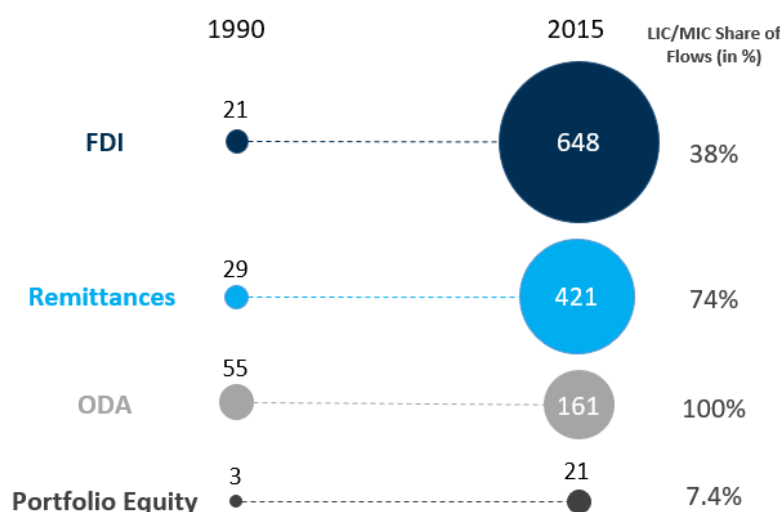
1.2 These challenges were forefront on the minds of leaders as they signed on to the Sustainable Development Goals (SDGs) in 2015. The SDGs are built on an understanding that sustainable development has economic, social and environmental dimensions; and that progress is fastest when governments, multilateral institutions, civil society and the private sector work in partnership. The WBG has adopted the twin goals and a 15-year Forward Look strategy to guide its efforts toward meeting the SDGs.

1.3 The WBG is well positioned to support shareholders as they pursue the SDGs. The Global Practices (GPs) – the structures of which closely reflect the SDGs – provide client services in pursuit of the twin goals. Cooperation across the World Bank (WB), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee (MIGA) positions the WBG to forge stronger partnerships for jobs and growth. Internally, the Forward Look reforms are making the WBG better and stronger in serving its shareholders. IFC plays a key role as an investor, advisor and mobilizer of resources for the private sector, which will be critical in delivering the development outcomes required to achieve the 2030 Agenda in both Low Income Countries (LICs) and Middle Income Countries (MICs). The private sector will help achieve development gains through investments in infrastructure, agribusiness, health and education, and access to finance. IFC clients in MICs will be key partners in helping unlock and demonstrate the viability of new investment in LICs and fragile states. IFC can help to deliver needed support at scale and to lead in the mobilization of private capital.

1.4 While the architecture of development finance has remained relatively unchanged, the resource landscape has changed dramatically, calling for a new approach. Private capital flows to LICs and MICs have grown, now far exceeding the Official Development Assistance (ODA), as illustrated in Figure 1. Between 1990 and 2015, ODA nearly tripled, from around US\$55 billion to US\$161 billion per annum. Over the same period, net Foreign Direct Investment (FDI) to developing countries grew from US\$21 billion to nearly US\$650 billion, over 30 times 1990 levels. It has become clear that ODA is the scarcer resource, and the large financial costs of meeting the SDGs can only be achieved by leveraging this scarce resource to crowd in private investment. This represents a paradigm shift in development finance. The Multilateral Development Banks (MDBs) are committed to increasing mobilization and catalyzation of private investment as part of the Financing for Development (FfD) agenda to support achievement of the SDGs. This emphasis on mobilizing the private sector is linked to the recognition that public funding alone will never be sufficient to meet investment needs, as well as the fact that the private sector is the primary creator of jobs and growth.

² *Poverty and Shared Prosperity 2016: Taking on Inequality*. World Bank (2016)

FIGURE 1: CAPITAL RESOURCE FLOWS TO LOW AND MIDDLE INCOME COUNTRIES (US\$ BILLION)³



1.5 Yet in most developing countries, markets are not developed well enough to enable the private sector to reach its full potential in achieving development outcomes. Perceptions of risk are often high, compounded by a lack of information, transparency, or limited price discovery. Investors have difficulty valuing new opportunities in developing countries, or are unable to price risk adequately. As a result, private capital does not flow at the scale required to meet the needs of the development agenda. In 2015, only 38% of global FDI flows and 7.4% of global portfolio equity flows went to LICs and MICs. Leveraging the billions of dollars of ODA and private capital to attract the additional trillions of dollars of private sector investment required is an enormous challenge, and has become a core part of the WBG strategy. Attracting private investment will continue to require efforts to create the conditions that are critical for the private sector to thrive, including a business friendly enabling environment, strong institutions and sound regulations that balances public and private interests.

OPERATIONALIZING THE FORWARD LOOK

1.6 The Forward Look described a common view on how the WBG can reach the twin goals and support the 2030 development agenda, including the far-reaching and ambitious SDGs. It defines three priority areas of focus – promotion of inclusive and sustainable growth, investment in human capital, and fostering resilience. Implementation of the Forward Look will strengthen the WBG to address these priorities. It also sets out a number of initiatives to ensure the WBG remains fit for purpose, including: (i) assisting all client segments; (ii) leading on global issues; (iii) mobilization and private sector development; and (iv) improving the business model.

FINANCIAL SUSTAINABILITY

1.7 IFC's strategy depends on a strong World Bank Group. Due to external factors and strong client demand, IBRD and IFC face financial capacity constraints which, if not resolved, could adversely impact performance over the medium-term. At the same time, the success of IDA 18 and

³ Sources: WB Staff calculations, World Development Indicators. ODA for 2015 represents 2014 actual but is expected to remain stable in 2015.

MIGA's increase in guarantee capacity leave both IDA and MIGA in strong financial stead to tackle the ambitious agenda ahead.

1.8 The **WB** has successfully implemented measures to increase revenues and contain expenditures through savings and efficiencies. In addition, under a new formula-based approach for IBRD's income support to IDA 18, IBRD transfers to IDA would be significantly lower than the previous approach.

1.9 The **IDA** replenishment discussions concluded in December 2016 with a groundbreaking US\$75 billion replenishment, around 50% higher than IDA 17. This will enable IDA to scale up interventions over the next three years, including a doubling of lending to fragile, conflict and violence (FCV) affected countries and situations, and to support climate change, gender equality, governance and institution building, jobs and economic transformation. In addition, IDA 18 includes a Private Sector Window (PSW) of US\$2.5 billion to enhance collaboration with IFC and MIGA and to scale up private sector involvement in IDA countries, with a particular focus on FCV countries.

1.10 **IFC's equity capital position** is not well aligned with the ambition and demands shareholders have placed on the WBG, and in particular on increasing the impact of the private sector. This, in turn, will limit IFC's ability to deliver its long-term strategy at scale, especially in IDA and Fragile and Conflict Situations (FCS).

1.11 **MIGA's economic capital consumption** currently stands at approximately 42% and well within sustainable levels. In order to support MIGA's enhanced reinsurance strategy for prudent capital management and management of concentration risk, MIGA's Board of Directors recently approved an increase in the portfolio reinsurance limit. As a result, MIGA's reinsurance capacity has risen from US\$10.1 billion to US\$33.6 billion. The increase in leverage, combined with the recently approved increase in MIGA's guarantee capacity will allow MIGA to respond effectively to increasing client demand while preserving the Agency's financial sustainability in the context of its growth strategy.

A DIFFICULT ENVIRONMENT FOR PRIVATE INVESTMENT

1.12 **Investment growth in emerging markets has slowed sharply since 2010-2011**, as highlighted by the WB's Global Economic Prospects (2017). The slowdown has been fueled by terms-of-trade shocks for commodity exporters, slowing FDI, weak industrial production, depressed domestic demand, elevated public and private debt, and rising policy uncertainty.⁴ In an increasingly connected world, weaknesses in major economies quickly spill over and contribute to volatility in other economies. A potentially stronger US Dollar in a rising interest rate environment may impact emerging market currencies, contribute to portfolio outflows, and increase vulnerability given high levels of public and private debt. At the micro level, IFC analysis points to persistently lower cash flow at companies as a vulnerability, especially if external financial conditions tighten.

1.13 **The Global Economic Prospects forecast a subdued recovery of global growth to 2.9% in 2018, up from 2.3% in 2016.** Global growth remains well below averages observed in 2003-07 and 2010-11 of around 3.8% per year. The growth rate in emerging markets is expected to accelerate to 4.2% in 2017 and 4.6% in 2018. This is still well below the 2003-08 average, and the dispersion in growth patterns is likely to continue. In LICs, gross domestic product (GDP) growth should rebound to 5.6% in 2017 and reach 6.1% by 2019, still below the 2010-14 average growth (6.4%). The forecasted growth acceleration is driven in part by an expected recovery in commodity exporting countries on the back of higher commodity prices.

⁴ Global Economic Prospects: Weak Investment in Uncertain Times. World Bank, December 2016.

1.14 **The growth outlook varies considerably by region.** Emerging Asia is projected to experience slightly higher growth in 2017 as it relies more on domestic consumption in some of its larger markets such as China and Indonesia. India exhibits the highest projected growth rate among large emerging market economies (7.6% in 2017), while China's economic expansion should remain around 6.5% in 2017. Sub-Saharan Africa's economic growth should recover modestly to 2.9%, as its two largest economies, Nigeria and South Africa, continue to struggle. Latin America and the Caribbean (LAC) economic expansion is likely to be muted, with GDP growing at only 1.2%.

1.15 **A sustained period of subdued investment and weak domestic demand may have a lingering impact on potential output and productivity growth.** Low investment sets back future economic prospects by depressing productivity growth and limiting domestic demand. Investment needs in many developing economies are large, particularly given sizeable infrastructure and human capital deficits and high unemployment. Many countries have increased sovereign borrowing and have limited fiscal space. Given this global outlook, it is more important than ever that client countries focus on structural reform to enhance human and physical capital, improve the investment climate, and address sources of policy uncertainty to attract investment for continued growth.

CHAPTER 2: STRATEGIC DIRECTIONS

IFC STRATEGY: CREATING MARKETS AND MOBILIZING PRIVATE CAPITAL

2.1 The landmark agreements of 2015 marked a new phase of development that recognizes the transformative power of markets, innovation and private capital mobilization. With ODA expected to remain flat for the foreseeable future, serious progress on poverty reduction – expanding access to finance, clean power, safe food, health care, education, and employment – can only be made with significant increases in private sector investment. As the world’s leading MDB focused on the private sector, IFC is well-placed to catalyze these needed new investments. The IFC’s new strategy, IFC 3.0, builds upon decades of experience to work proactively across the WBG to create and expand new markets and mobilize private capital, particularly in the poorest and most fragile countries.

2.2 As the development consensus has shifted and ambition to catalyze the private sector has grown, IFC’s role and capabilities must evolve commensurately. Through its first 60 years, IFC has built a base of over 2,000 clients, deep industry and sector expertise, and established standards for sustainable private investment. For the next phase of development, IFC’s role must evolve to focus on addressing the risks and costs currently preventing a scale up of private finance. IFC is building an organization with the tools, capabilities and scale to fulfil that role. To do so at scale, IFC’s capital must be sufficient to withstand progressively higher risks as it focuses more on the most difficult markets.

2.3 IFC 3.0 expands on IFC’s existing business models. IFC’s traditional approach had been to provide financing and advice to help clients deliver impactful projects in emerging markets. With IFC 3.0, IFC will work across the WBG to create, deepen, and expand the markets themselves, especially in the poorest and most fragile countries. IFC 3.0 does not replace but adds to and includes IFC’s existing business models, with the FY18-20 period used to establish the platforms, instruments, tools and organization needed to support the expanded strategy and manage implications in relation to financial sustainability. The new strategy will be implemented in all countries of operation.

TABLE 1: TOGETHER, THE IFC STRATEGY

IFC 1.0	IFC 2.0	IFC 3.0
<ul style="list-style-type: none"> Advanced role of private sector as an economic agent. Developed IFC expertise in emerging markets by investing with foreign private sector investors and nascent local clients. Attracted Foreign Direct Investment in emerging markets. Created a syndication program to bring commercial banks to our countries of operations. Introduced equity as an engine for financial sustainability and higher impact. 	<ul style="list-style-type: none"> Expanded IFC global footprint. Deepened IFC’s private sector expertise by investing in local companies and banks and with local private investors. Used local presence as landing platform for South-South investments. Created financial vehicles to mobilize institutional investors. Provided Advisory Services to private clients and governments, moved from donor-driven model to business lines. Expanded operations in FCS and IDA. Introduced parallel loans through a Master Cooperation Agreement Launched AMC to mobilize institutional investors on a wholesale basis. Used blended finance in a selective way to de-risk several sectors (e.g. climate, SMEs, agribusiness). MCP 	<p>New Platforms to Create Markets</p> <ul style="list-style-type: none"> <u>Cascade</u> to work systematically across WBG <u>De-risking</u> Projects through Blended Finance <u>Upstream support</u> for project development <u>Innovation</u> to create markets <p>New Tools</p> <ul style="list-style-type: none"> Private Sector Diagnostics Sector Deep Dives Ex-Ante Impact Framework <p>New Instruments</p> <ul style="list-style-type: none"> IDA Private Sector Window Creating Markets Advisory Window MCP Infrastructure <p>New Organization</p> <ul style="list-style-type: none"> Economics and PSD Blended Finance and Partnerships New Business, Portfolio, Risk Strategy and Resource Management

2.4 IFC 3.0 is built on two pillars: Creating Markets and Mobilizing Private Capital, with a particular focus on low income countries and FCS.

2.5 Creating Markets: IFC will work to improve conditions for market-based delivery of development outcomes. Creating Markets responds to the challenges in countries where private capital does not flow at a scale required to address major development gaps. IFC will provide investment and advisory services to both governments and pioneering firms working to bridge the gaps. Where markets are fragmented, missing or nascent, IFC will work closely with IBRD/IDA, other MDBs and the IMF on policy and sector reform, using Private Sector Diagnostics (PSD) to identify promising sectors, and using available risk mitigation instruments and advisory services to support clients to invest in challenging environments. The goal will be to expand the pipeline of bankable, private sector projects. The Pakistan Energy project, described in Box 1, is an example of creating markets in action.

BOX 1: CREATING MARKETS AS A JOINT WBG PRACTICE – PAKISTAN ENERGY

In the mid-2000s, Pakistan faced a severe power deficit and high electricity generation costs. The country required significant investments to address its power shortage and reduce generation costs while expanding renewable energy.

In that context, the WB and IFC worked closely together to support the reforms necessary to attract private investment to develop the energy sector in Pakistan. The WBG implemented a step by step plan:

- First, the WB provided US\$1.1 billion, in parallel with the IMF, to support a series of power sector reforms, and loaned approximately US\$2.5 billion for a large public hydro power and transmission project.
- Then, IFC invested US\$650 million (including MIGA guarantees) in mid-sized private hydro and renewable energy (RE).
- Finally, IFC and WB jointly provided AS to the sector to improve energy efficiency (EE).

The WBG initiative in Pakistan addressed the power deficit, reduced generation costs and the subsidy burden of the country, and improved liquidity. This new favorable environment generated an additional US\$300 million in mobilization from private investors and Development Finance Institutions (DFIs) in the last three years. It provided clean lighting and EE to 1.5 million people.

2.6 Mobilizing Private Capital: IFC will expand and redefine development finance in order to mobilize the significant additional sums of capital necessary to address the financial costs of fulfilling the SDGs. IFC has been, and will remain, active in arranging large mobilizations for its clients and has demonstrated its ability to play a leadership role in mobilizing commercial capital. IFC continues to expand its reach by creating more platforms for funding and broadening its pool of co-investors. Institutional investors, including pension funds (US\$2 trillion assets held by the world's ten largest pension funds) and insurance companies (US\$4.5 trillion assets held by the world's largest insurance companies) that collectively manage assets of over US\$100 trillion globally, can be tapped to finance and leverage growth, especially in infrastructure.

A. NEW PLATFORMS

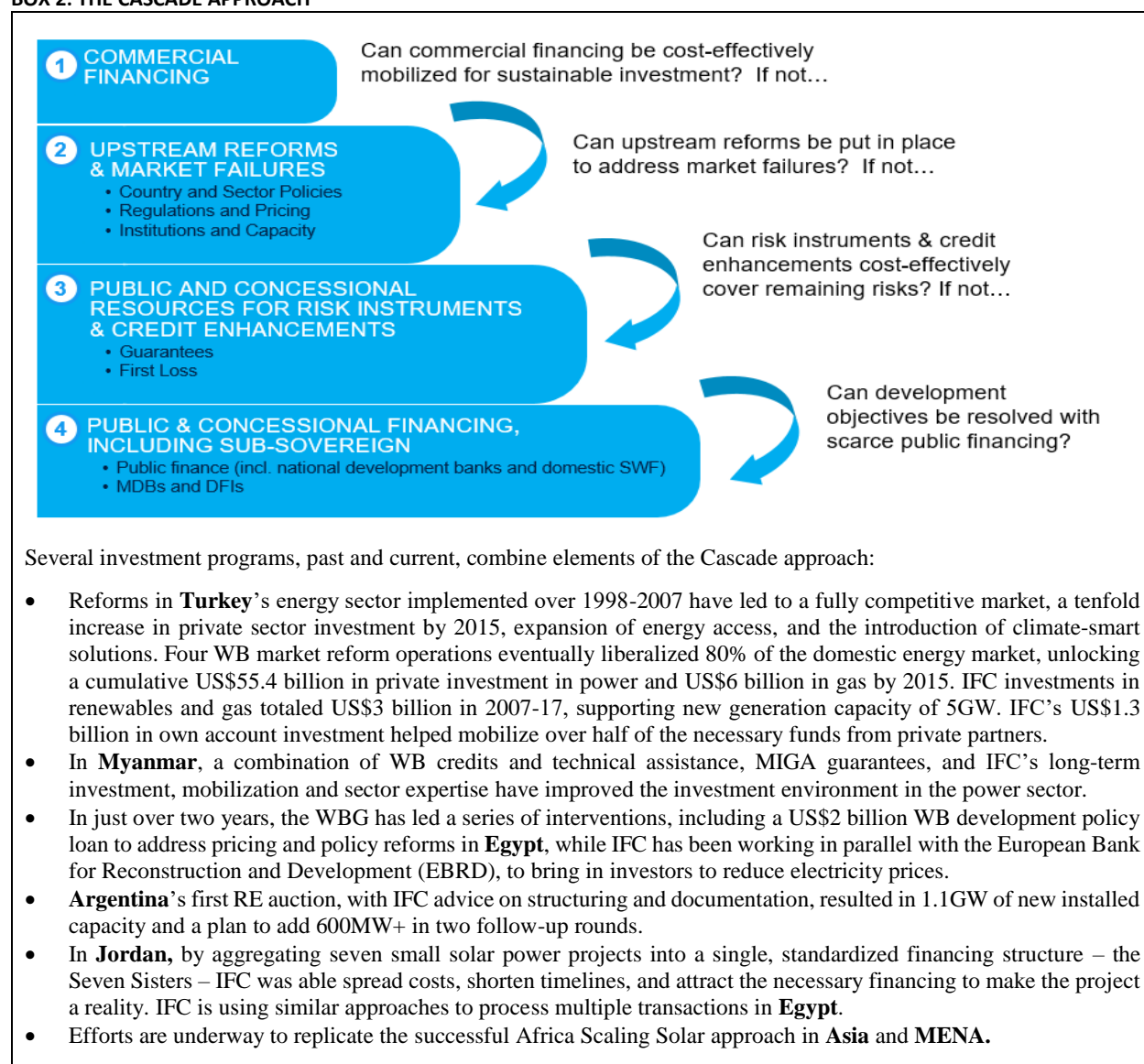
PARTNERING SYSTEMATICALLY ACROSS THE WBG THROUGH THE CASCADE

2.7 IFC has built strong partnerships across the WBG, with MIGA, the Cross-Cutting Solution Areas (CCSAs) and Global Practices (GPs) through Joint Implementation Plans (JIPs). The Country Engagement Process is being used to identify and support the best private and public sector solutions for development, and to determine the appropriate sequencing of WB, IFC and MIGA engagements.

2.8 IFC 3.0 requires IBRD/IDA, IFC and MIGA to move from isolated examples of best practice to systematic, scaled-up collaboration. Creating Markets demands an intensified focus on

achieving structural reforms that facilitate private investment, address market and institutional failures, or strengthen the rules governing competition. By providing its private sector knowledge and experience across a broad range of sectors, IFC can strengthen the WB's policy reform efforts and institution building in priority countries and sectors. Working in collaboration, members of the WBG can optimize the sequence of interventions to serve clients and to maximize development outcomes.

BOX 2: THE CASCADE APPROACH



2.9 The Cascade enables the WBG to align its financing priorities. While fully respecting client demand, the “Cascade” asks WBG staff to work with governments to prioritize private sector solutions wherever possible. Where markets already exist, the Cascade calls for reinforcement of markets by supporting the delivery of projects using commercial finance. Where markets are not conducive to private investment, the Cascade calls on the WBG to focus on reforms that address market failures and constraints to private sector investment at the country and sector level. Where risks remain high, the priority will be to apply guarantees and risk-sharing instruments. Finally, only where market solutions are not possible through sector reform and risk mitigation, should ODA and public resources

be applied (see Box 2). This approach is currently focused on infrastructure projects and will be expanded to sectors such as finance, education, health and agribusiness. A set of priority countries and sectors has been identified for pilot implementation, complementing ongoing regional efforts. The list is expected to cover a mix of income levels, including FCS, with good prospects for reform and investment.

DE-RISKING⁵ MARKET OPPORTUNITIES.

2.10 The PSW will play a critical role in Creating Markets in IDA/FCS. The PSW, described in more detail below, will address fundamental constraints to greater investment in high risk countries and pioneering sectors – counterparty risks, limited availability of local currency, and unusual project risks. The new Creating Markets Advisory Window (CMAW), established to support critical upstream and capacity development work, will complement the work of the PSW. IFC anticipates that the PSW will be particularly important in the following areas:

- Infrastructure transactions in high-risk countries that are bankable except for government counterparty or off-taker risks.
- High-impact technology and entrepreneurial initiatives in areas such as broadband, off-grid power, fintech, and high growth/innovative small and medium enterprises (SMEs).
- Manufacturing and service investments to create jobs and improve competitiveness in areas such as health and education, agribusiness, and affordable housing, including support for pioneering investments that create demonstration effect.
- Financial intermediaries to support trade, SMEs, agribusiness, manufacturing, women entrepreneurs, financial access for the poorest – especially using digital channels.

2.11 The introduction of new de-risking mechanisms will help unlock new sources of funds from regulated institutional investors. Global institutional investors often lack the necessary operational footprint and deep understanding of Emerging Markets (EM). Moreover, they often are subject to stringent regulatory requirements and investment criteria to protect their clients against undue risks. IFC 3.0 calls upon IFC to support the entry of these entities into riskier markets, just as it has done through the Managed Co-Lending Portfolio Program for Infrastructure (MCPPI-Infra) and IFC Asset Management Company (AMC). Expanding mobilization goes hand in hand with increased IFC own account financing, as co-investors require IFC's own capital at risk alongside their financing. To this end, limits on IFC's ability to invest for its own account will also limit its ability to scale up mobilization. IFC internal analysis suggests that a dollar of IFC economic capital results in project finance 20 times larger, taking into account IFC's own account investments, those it mobilizes, and other investors catalyzed.

ENHANCED UPSTREAM SUPPORT

2.12 Upstream Support. IFC will engage its Advisory Services (AS) and Investment Services (IS) in upstream work to support project development, working with governments and private sector clients as they seek to convert development challenges into investable opportunities. Examples include InfraVentures, which was set up to proactively develop private and Public Private Partnership (PPP) infrastructure projects in IDA countries and work with clients to strengthen their environmental and

⁵ 'De-risking' refers to financial instruments and support provided to mitigate risks in untested or nascent markets. Examples include first-loss structures, partial risk guarantees, insurance (such as weather insurance), blended finance, or the local currency facility in the PSW.

social management capacity, as well as the PPP Transaction Advisory team to help governments develop bankable PPPs.

INNOVATION

2.13 Innovation. In an increasingly digital, connected world, advances in technology and innovation can alter the dynamics of a sector, and effectively create new markets at times ahead of policy and regulatory reform. The mobile phone revolution has created new markets in digital finance, retail, transport, and off-grid solar power in Africa. In other countries, smart grid technology allows excess solar generation to be sold back into the grid, deepening the power market (see Box 3).

BOX 3: CREATING A MARKET FOR DISTRIBUTED SOLAR POWER THROUGH MOBILE PHONES

M-KOPA Solar, headquartered in Nairobi, Kenya, is the global leader of “pay-as-you-go” energy for off-grid customers. M-KOPA achieved the 2013 FT/IFC Excellence in Sustainable Finance Award.

Since its commercial launch in October 2012, M-KOPA has connected more than 280,000 homes in Kenya, Tanzania and Uganda to solar power, and is now adding over 500 new homes each day. The success of M-KOPA (M= mobile, KOPA= to borrow) stems from its ability to make solar products affordable to low-income households on a pay-per-use installment plan.

Customers acquire solar systems for a US\$35 deposit and then purchase daily usage “credits” for US\$0.35, or less than the price of traditional kerosene lighting. After one year of payments customers own their solar systems outright. All revenues are collected in real-time via mobile money systems, and embedded GSM sensors in each solar system allow M-KOPA to monitor real time performance and regulate usage based upon payments.

IFC client Mobisol has already installed over 67,000 solar home systems in Rwanda and Tanzania, giving access to electricity and the use of efficient appliances to over 330,000 consumers. Customers pay for the system in installments over three years via mobile money. This innovative payment approach keeps the cost of an entry-level Mobisol system similar to what the typical customer spends on kerosene, candles, batteries, and mobile phone charging, while offering superior value, climate mitigation, and access to power even where grid systems are less developed.

B. NEW INSTRUMENTS

IDA PRIVATE SECTOR WINDOW

2.14 IDA 18 included an objective of expanding private sector investments in IDA countries. To meet this goal, IFC and MIGA worked with IDA to establish the US\$2.5 billion PSW, which will address fundamental constraints on private investment in IDA and FCS countries. The PSW, expected to catalyze between US\$6-8 billion in private investments in IDA and FCS countries, will help to mitigate risk and provide direct support to stimulate private investments in critical sectors. It will also provide an opportunity for the WBG to operate in a more holistic manner, drawing on expertise from across the three institutions: the WB and its business environment and sectoral reforms, IFC investments, and MIGA guarantees.

2.15 To achieve the overarching objectives of the PSW, four separate facilities will be deployed: a Risk Mitigation Facility, a MIGA Guarantee Facility, a Local Currency Facility, and a Blended Finance Facility. While the barriers to private sector development are wide-reaching, these facilities are designed to target critical challenges identified by IFC’s and MIGA’s private sector counterparts. As additional approaches are contemplated to meet these challenges, the IDA, IFC and MIGA teams will further develop applications that meet the underlying objectives of the PSW.

- **Risk Mitigation Facility (RMF):** the RMF provides project-based guarantees without sovereign indemnity to help crowd in Private Participation in Infrastructure (PPI) in countries where governments have constrained fiscal space and institutional capacity.

- **MIGA Guarantee Facility (MGF):** the MGF is a facility to provide insurance capacity to cover non-commercial risks such as war, civil disturbance, expropriation, currency in-convertibility or transfer restriction.
- **Local Currency Facility (LCF):** the LCF is a facility to support provision of long-term local currency investments for high-impact projects in countries where market solutions are not sufficiently available and local currency sourcing is limited due to volatile or underdeveloped financial markets.
- **Blended Finance Facility (BFF):** the BFF is a facility providing blended finance for pioneering high-impact investment in priority areas (SME, agribusiness, manufacturing, health and education, energy, telecommunications and climate finance) in countries where the investment climate is weak.

REPOSITIONED ADVISORY SERVICES AND CREATING MARKETS ADVISORY WINDOW

2.16 To effectively expand the pipeline of bankable private sector projects, through upstream reforms that address market failures and other constraints to private sector investment, will require a more coordinated approach, bringing together a wider spectrum of expertise from across the WBG and beyond. IFC will reposition its advisory services, to ground them systematically in joint WBG country and sector strategies informed by PSD; and to support the development of a pipeline of bankable projects to mobilize private investment, especially in IDA and FCS countries, contributing to the operationalization of the IDA PSW.

2.17 IFC will deploy Advisory Services to identify and create new market opportunities. AS will target regulatory barriers to investment, help new and existing clients build capacity to overcome investment constraints and develop bankable projects. IFC will further build on proven advisory solutions that help governments implement reforms; enable PPP transactions; build standards and good practices across industries; and increase performance and impact of clients.

BOX 4: BUY SIDE ADVISORY IN HEALTHCARE IN AFRICA

A leading European healthcare company engaged IFC to advise on establishing a network of medical outpatient clinics in Africa through a combined approach of acquisition and greenfield development, and to subsequently partner with them to finance their expansion. By leveraging the WBG's strong networks and relationships with local health care providers, investors and governments across Sub-Saharan Africa, IFC helped the client prioritize market opportunities and define entry strategies for each selected country and, subsequently, identify targets for investment and partners for joint venture.



Market Analysis: 20 markets analyzed

IFC helped the client understand, compare and rank opportunities across Africa considering risks and market potential across over 20 countries. Through a structured market prioritization approach, IFC then helped narrow focus to top 5 countries, which were initially selected for entry by the company.

Matchmaking (Target Identification): 17 targets assessed across Africa

For each of the five markets, IFC carried out further deep dives on sector and competitive environment and helped identify potentially attractive targets and joint-venture partners – despite fragmented and complex market environment. This work allowed to further narrow the countries chosen for entry to the selected three.

3 new markets opened: 2 Acquisitions + 1 Greenfield

The work led to identification of 2 acquisitions and 1 greenfield investment across the 3 selected countries, where IFC is subsequently engaged in providing equity financing. The client established a US\$100 million investment vehicle to expand into Africa, in which IFC co-invested 20%.

2.18 **To scale-up its advisory engagements in IDA and FCS countries, IFC has established the Creating Markets Advisory Window** that will enable the institution to respond to the increased demand for AS and capacity building in FCS and IDA countries, including multi-year support for direct project costs out of IFC earnings. CMAW will focus on Creating Markets in countries and sectors covered under the PSW.

MANAGED CO-LENDING PORTFOLIO PROGRAM

2.19 **The Managed Co-Lending Portfolio Program (MCP) vehicle creates a loan portfolio for a given investor that replicates the loan portfolio that IFC is creating for its own account.** This offers institutional investors a portfolio that has sufficient scale and diversification which is syndicated through a cost-effective portfolio syndication process.

BOX 5: MANAGED CO-LENDING PORTFOLIO PROGRAM FOR INFRASTRUCTURE

The Managed Co-Lending Portfolio Program for Infrastructure (MCP-Infra), a-first-of its-kind, aims to significantly scale up IFC's debt mobilization from private institutional investors and is expected to raise US\$5 billion of funding over the next one to three years. Through this structural innovation, IFC intends to demonstrate a path for external institutional investors to support infrastructure projects in EMs, thereby preserving scarce capital of the MDBs and DFIs and minimizing public debt burdens on developing countries.

MCP-Infra addresses capacity constraints of institutional investors by leveraging IFC's ability to originate and manage a portfolio of bankable infrastructure projects. It offers institutional investors sufficient scale and diversification in their investments through the syndication of different private sector infrastructure debt vehicles created and supported by IFC. MCP-Infra also provides credit enhancement through an IFC first-loss tranche improving the risk position of the investors to an investment grade profile. Each US\$1 of IFC investment will support an additional US\$8-10 of third party investment.

C. NEW TOOLS

STRONGER PRIVATE SECTOR DIAGNOSTICS

2.20 **IFC seeks to move from supporting isolated investments to catalyzing systemic change that can enable the private sector to deliver greater impact.** For this to take place, it is necessary to understand not only the viability of specific interventions and their economic spillovers, but the broader constraints to market solutions, and how a programmatic series of interventions may help a sector evolve toward a higher level of performance to deliver broader development gains required by the SDGs. A strategic engagement may involve multiple operations – investments, AS, WB analytical and lending projects, guarantees – in order to address policy and regulatory obstacles, build market-supporting institutions, design initial projects, and create demonstration effects. Such a process may not be linear, and may involve setbacks and delays.

2.21 **New Private Sector Diagnostics will help IFC identify where and how to engage.** Private Sector Diagnostics will focus on how expanding market solutions can help deliver against the most significant development challenges in specific countries. Given the opportunity cost and the significant resources required to develop a new market, a thorough understanding of pre-conditions and entry points is essential. This includes where a sector within a country may fit into broader regional value chains, how sector conditions compare with those of high performing peers globally, the policy and regulatory environment facing the sector, market structure, competition, and how public and private leadership envisage the sector's evolution. The new PSD will leverage and benefit from IFC's experience and operational and client knowledge. The rollout of PSD will depend upon the size of potential impact against SDGs, government willingness to reform, engagement across the WBG, and feedback from IFC industry and regional departments.

2.22 Private Sector Diagnostics will support IFC’s input to the WBG Country Engagement Framework. IFC is fully engaged in all Systematic Country Diagnostics (SCDs), Country Partnership Frameworks (CPFs), and related Country Engagement products, which are used as a framework for selectivity at the country level. These tools help to identify the best private and public sector solutions for development, determine the appropriate sequencing of WB, IFC and MIGA engagements, and build consensus on impactful solutions. The SCD/CPF process continues to bring staff from all WBG institutions together, working as a fully integrated team, and the PSD will act as an additional input to the process.

IFC SECTOR-LEVEL DEEP DIVES

2.23 A key component of implementing IFC 3.0 at the industry level will involve conducting a series of sector deep dives that will provide a framework for assessing the private investment opportunity in specific countries’ industry sub-sectors. The sector deep dives will guide IFC in customizing specific sectoral investment and AS engagements that will unlock investment at the scale needed to help client countries achieve their development goals. Sector deep dives will serve as key inputs to the PSD. Deep dives will begin with: (i) power, including generation and distribution; (ii) agribusiness; (iii) financial inclusion; (iv) digital economy; and (v) health or education.

A NEW EX-ANTE EVALUATION FRAMEWORK

2.24 IFC will continue to follow a portfolio approach in selecting investment projects, weighing both potential development impact and financial performance. Financial sustainability of projects helps to ensure the sustainability of the projects’ development impact. With the additional focus on market creation, development impact will also be assessed ex-ante in two dimensions: the direct and indirect outcomes of the project itself, and the contribution of the project to market-level change. Both dimensions contribute to achieving development impact, and the weight given to each dimension will vary based on country and market context. Ex-ante project selection will also take account of the risk of achieving impact alongside consideration of risk-adjusted financial returns.

2.25 An Ex-Ante Evaluation Framework will allow IFC to rethink how it measures and assesses developmental impact. IFC’s current monitoring systems, Development Outcome Tracking System (DOTS), is focused on the direct impact of individual projects. It is not designed to capture the wider indirect and induced impacts of projects, and the market changing impact that IFC is aiming to effect with IFC 3.0. IFC will adjust its monitoring systems to both link the ex-ante indicators with its ex-post work and ensure their ability to measure and assess impact.

D. NEW ORGANIZATION

2.26 In addition to creating the platforms, instruments and tools to carry out IFC’s strategy, IFC has introduced an organizational structure to optimize the implementation of the new approaches and mechanisms and to mitigate the nonfinancial risks associated with IFC 3.0.

ENHANCED ACCOUNTABILITY FOR KEY FUNCTIONS

2.27 IFC’s new organizational structure (established January 1, 2017) will enhance its ability to execute its new 3.0 strategy, particularly with respect to maximizing development impact and ensuring greater organizational efficiencies. The main levers for enhanced organizational performance and impact include: (i) a stronger focus on analysis to identify public and private sector engagements that bring about market and sector-level impact as well as better assessments of development impact; (ii) a more strategic approach to partnerships, including to help shape and set standards for all MDBs

on blended finance; (iii) VP-level units for Risk and Portfolio to support both new and existing business models and to create supporting infrastructure for a strategy that focuses more on newer, untested markets; (iv) an enhanced corporate strategy and resource management function that will align resources with the strategic direction of the organization, promote efficiency initiatives to streamline operational support to transaction teams, strengthen the career framework for staff, and enable redeployment of resources within operations.

STRENGTHENED MANAGEMENT OF FINANCIAL AND NON-FINANCIAL RISKS

2.28 **IFC 3.0 will entail significant risks**, through both the expansion of business in lower-income and fragile environments with lower institutional capacities, and increased engagement in untested markets. The introduction of new approaches, new products and a new organization will have substantial implications for IFC's business model, cost structure, profitability and risk management. The new strategy will bring more complexity to IFC's portfolio, in terms of deal size and structure, entry into new sectors and geographies, and diversity of clients. IFC 3.0 contemplates increasing dealings with both smaller, less sophisticated clients as well as larger, more demanding clients (via the new large scale mobilization platforms). Legal, Environment, Social and Corporate Governance (ESG), Reputational and Compliance Risks increase in weak regulatory environments. While ultimately IFC will require a higher capital base to implement IFC 3.0 at scale and weather economic volatility, FY18-20 will lay the foundation with new enhancements to IFC's ability to manage these risks.

2.29 **In supporting implementation of the strategy, IFC's corporate risk functions play a strong second line of defense against new risks undertaken by the Corporation.** As IFC continues to create markets, launch new products, recruit new investors and increase investments in more difficult jurisdictions with weak regulatory regimes and complex ESG issues, the Corporation will also need to undertake greater efforts in supervision, portfolio management, multi-stakeholder coordination, and regulatory and integrity due diligence. Managing integrity and fiduciary risk must continue to be integral to IFC's AS and IS operations, from inception through implementation, until final disposition. As IFC increases the pipeline of projects in AMC and across MCPP platforms and takes on the management of larger pools of third party capital, it will correspondingly take on greater fiduciary duties and potential risk, which will require more active equity portfolio management. Similarly, IFC's increased engagement in upstream work and the development of more multifaceted platform structures will inevitably lead to environmental and social challenges that will require more complex solutions more supervision, multi-stakeholder coordination to mitigate these risks.

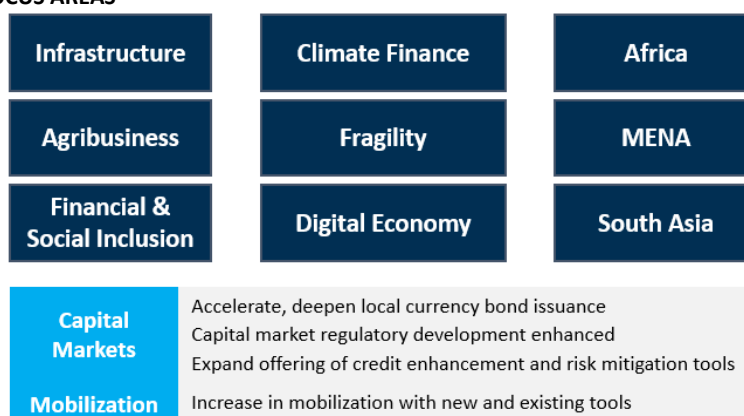
STRATEGIC FOCUS AREAS

2.30 **The strategic focus areas defined in the FY17-19 SBO remain relevant.** In the FY17-19 SBO, *Responding to Economic Volatility*, IFC proposed to focus an increasing share of its portfolio on industries that represent key inputs to productivity growth and job creation, regions with the highest incidence of poverty and fragility, and cross-cutting themes that represent sources of volatility and risk.⁶ For the markets served by existing business models, which will comprise the vast majority of new commitments during the FY18-20 period, these strategic focus areas remain relevant, with the introduction of minor changes, namely the call out of gender as a focus theme and the broadening of

⁶ See *IFC Strategy & Business Outlook FY17-19: Responding to Economic Volatility* for the rationale for the selection of these focus areas.

disruptive technologies to include the digital economy. With these changes, the areas are also relevant to the evolution of IFC 3.0.

FIGURE 2: STRATEGIC FOCUS AREAS



2.31 For the FY18-20 SBO, IFC provides an update on implementation against these strategic priorities and their evolution within IFC 3.0. Across regions and industries, the key components of IFC 3.0 will increasingly drive results, including greater collaboration across the WBG, the Cascade, deployment of local currency instruments, blended finance, risk-sharing facilities, capital markets development and mobilization.

A. INDUSTRIES AND THEMES

Infrastructure	Climate Finance	Africa
Agribusiness	Fragility	MENA
Social & Financial Inclusion	Digital Economy	South Asia
Capital Markets		
Mobilization		

INFRASTRUCTURE

2.32 High quality infrastructure – power, water, sanitation, and transportation – is essential to economic activity, productivity growth, job creation, and the 2030 Agenda, including the SDGs and Paris Agreement. Investing in infrastructure is an effective response to a low-growth environment, as it is both a short-term fiscal stimulus during the construction phase and a driver of longer-term growth through its impact on productivity in the broader economy.

2.33 IFC has steadily expanded its infrastructure business over the past several years, as a number of high impact, transformational projects have come to fruition, including power sector projects in Iraq, Côte d’Ivoire, Nigeria and Pakistan. IFC is now amongst the largest financiers of renewable energy in EMs. IFC has also facilitated gains in the infrastructure sector in IDA and FCS, with opportunities emerging from cooperating with IBRD/IDA on sector reforms.

FIGURE 3: IFC’S EVOLVING PORTFOLIO IN CORE INFRASTRUCTURE



2.34 The infrastructure sector is characterized by increasing engagement of new sources of capital that is not matched by an accompanying growth in bankable projects. As a result, as part of IFC 3.0, IFC will dedicate more time and resources to upstream engagements in challenging situations –

deploying the Cascade investment prioritization framework and new risk mitigation instruments such as the PSW to generate more bankable projects.

2.35 IFC’s continued impact in the infrastructure space is critically dependent on creating a larger pipeline of financing opportunities, and differentiating IFC from other capital providers. Building IFC’s reputation as a solutions provider and innovator will help attract new clients in search of a unique financing partner. IFC will continue to “mainstream the upstream” by creating high impact complex transactions and providing extensive support to governments through new, wholesale approaches – including standardization and the acceleration of innovation. At the same time, IFC will seek to create distribution channels for increased financing needs, and to develop a more aggressive approach to mobilization. The upcoming launch of the MCPPI Infra, and the successful launch of AMC’s IFC Global Infrastructure Fund, which was oversubscribed by institutional investors, demonstrates institutional investor appetite for investing alongside IFC.

Infrastructure	Climate Finance	Africa
Agribusiness	Fragility	MENA
Social & Financial Inclusion	Digital Economy	South Asia
Capital Markets		
Mobilization		

AGRIBUSINESS

2.36 Agriculture and agribusiness are at the heart of development – the largest employer in many developing countries, and a key driver of productivity, food security and climate outcomes. Though investments are often smaller than those of other sectors, its developmental impacts are higher. Key challenges faced in the sector include policy uncertainty with respect to trade, commodity price volatility, and the difficulty of managing environmental and social risks in limited capacity environments.

2.37 The strategy calls for a substantial scale-up of IFC’s focus on agribusiness in order to meet the growing demand for food. The strategy relies on a new business model that employs a programmatic approach to achieve greater strategic, operational, and resource alignment – a model that moves away from project-by-project and instrument-driven approach (see Box 6: Sustainable Food Chain).

FIGURE 4: IFC’S EVOLVING PORTFOLIO IN AGRIBUSINESS, FORESTRY AND FERTILIZERS



2.38 IFC will expand its portfolio of high-priority global, regional and local firms that can partner with IFC in delivering its strategic agribusiness scale-up. Growing IFC’s Agribusiness portfolio will require new investments across the entire value chain from agricultural inputs to production to food retail. The key elements of the growth program include: (i) a continued focus on IDA and FCS; (ii) increasing core clients from 60-80 today to 100-120 companies; (iii) increased focus on agri-finance with Financial Institutions Group (FIG), and (iv) relaunch of the forestry investment program. IFC will support investments to extend supply chains and add value to commodities, deploy the Global Agriculture and Food Security Program (GAFSP), consolidate sectors and professionalize agribusiness.

BOX 6: SUSTAINABLE FOOD CHAIN

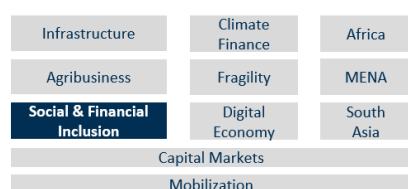
Despite a recent drop in global food prices along with commodity prices, food security remains an essential development priority. Changes in climate have sharply reduced food production in many parts of the world, especially Africa and the Middle East. Access to safe, nutritious, and affordable food remains a fundamental challenge for over 900 million undernourished people in the world today, and sustainably feeding a global population expected to reach 9 billion by 2050 remains one of the greatest challenges of our time.

IFC's investments across the food supply chain exceed US\$3 billion annually, including funds mobilized from other investors. These investments helped 3.5 million farmers worldwide gain access to finance and markets and train them to raise productivity, reduce waste, and adopt environmentally sustainable practices.

- **Liberia:** When the Ebola epidemic buffeted the Liberian economy, IFC and its partners (including GAFSP blended finance) helped provide US\$5 million to Wenco Liberia, which supplies fertilizers to cocoa farmers, helping 7,500 farmers to buy fertilizer and use it effectively by FY19 – potentially doubling cocoa yields.
- **Iraq:** IFC invested US\$18 million in the Saudi Al Safi Danone's Iraq unit to help build a dairy plant in the city of Erbil, expected to produce about 59,000 tons of dairy products every year, including through the expansion of local sourcing.
- **Romania:** IFC invested US\$60 million in Romania's largest pork producer to help expand production, create jobs, and strengthen food safety and environmental management.

FINANCIAL & SOCIAL INCLUSION

2.39 The IFC Development Goals (IDGs) are determined to maximize Social and Financial inclusion in many sectors such as Financial Institutions and Health & Education & Life Sciences, and through important programs to support specific themes such as gender and community development.



FINANCIAL INCLUSION

2.40 An estimated two billion adults lack access to savings or credit, and 200 million micro, small and medium enterprises (MSME) have no access to credit. 77% of adults living on US\$2 a day or less do not have a formal bank account, and only 15% of adults in FCS have a formal account. IFC estimates annual SME

investment requirements in developing countries to be vast, ranging from US\$2.7 billion in 2017 rising to US\$3.5 billion in 2030 in constant 2017 US dollar terms. Closing these gaps will be costly, and can only be achieved by creating self-sustaining markets that draw in new pools of capital.

2.41 The WBG is committed to the goal of providing universal access to finance by 2020. Within this goal, the WBG will enable one billion previously unbanked adults to obtain access to finance, of which 600 million new people will be brought into the financial system by IFC's Financial Institutions (FI) clients. In delivering on this goal, FIG brings considerable assets to the table: a network of some 750 financial intermediaries in more than 100 countries, which hold roughly 11% of total banking assets in EMs, and board seats on roughly 100 client companies, where IFC has significant equity investments and can help strengthen governance.

FIGURE 5: IFC'S EVOLVING PORTFOLIO IN FINANCIAL MARKETS



2.42 FIG will focus on Creating Markets and expanding financial inclusion, including through innovations in SME Finance, Banking on Women, Digital Financial Services, Microfinance, expansion

of Trade and Supply Chain Financing, Climate/Sustainability Finance, Distressed Assets Resolution, Housing Finance and Insurance, and leveraging domestic capital markets (Box 7).

BOX 7: CAPITAL MARKETS INITIATIVE

In the current economic context, it is becoming evident that governments and banks in emerging economies will be unable to meet the growing development finance needs in their countries. As such, private and institutional investors will have to play a significant role in addressing this growing gap.

To help address this challenge, IFC partnered with the WB in 2016 to launch the Joint IFC-WB Capital Markets Initiative (J-CAP). J-CAP is a joint initiative that draws upon the expertise of both institutions to facilitate the use of capital markets to finance investment in developing countries. The primary goal of J-CAP is to strengthen local capital markets and local currency solutions on a long-term basis.

J-CAP will focus on local capital markets development for select focus countries, including local currency solutions and capital market linkages in smaller countries, institutional private capital mobilization for strategic sectors, enhanced coordination and facilitation of transactions and advisory work in the core operations of IFC FIG, Treasury and Finance and Markets Global Practice, and strengthened knowledge management across the WBG and developing a cutting-edge global knowledge program for capital markets development.

J-CAP will aim to: (i) increase local fixed income and equity opportunities for local institutional investors by capturing domestic savings for the domestic sector; (ii) improve local market infrastructure, including better functioning exchanges, settlement, custody, transparency and ratings; and (iii) create and deepen product offerings in terms of longer maturities, structures and ratings,

2.43 IFC will also work with systemic FI clients to develop digital financial services (DFS) platforms to expand financial access. Within the overall universal financial access goal, IFC's objective is to reach 250 million people through DFS by 2020.

2.44 Gains derived from global advancements in the digitization of financial transactions and big data have enabled FIs to conduct better comparisons of clients, effect quicker decision and response times, and strengthen their capacity to track funds. Building on these gains, IFC will work with clients that support business analytics, credit assessments, and scoring to FIs in EMs, particularly in lower MICs and in IDA/FCS.



SOCIAL INCLUSION

(FOCUSED ON HEALTH, EDUCATION AND LIFE SCIENCES)

2.45 Large gaps in access to health care represent a significant obstacle to productivity, employment gains and social inclusion. The health sector strategy objective is to increase access to affordable and quality healthcare in emerging markets, where

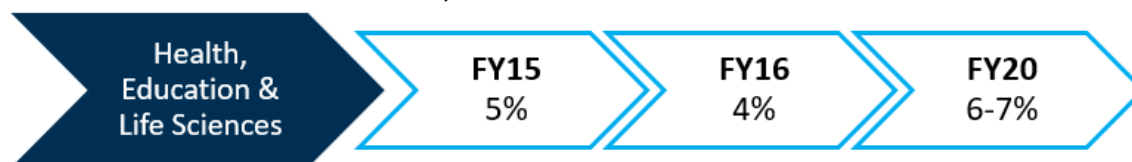
health access deficits remain significant.

2.46 Through FY18-20, in its core healthcare business, IFC will invest in: (i) scalable platforms and groups that provide quality healthcare and reach underserved markets and/or contribute to enhanced healthcare system efficiencies; (ii) “centers of excellence” in more immature healthcare markets such as IDA countries, including standalone healthcare facilities that have a strong demonstration effect or set new standards in a particular market and/or will bring new technology or services that do not otherwise exist; and (iii) companies that efficiently manufacture and distribute affordable pharmaceuticals or medical devices. In addition to these core areas, IFC will target newly emerging areas (such as medical technology, health financing, elderly care, PPP financing, and medical education) and key partnerships with innovative healthcare providers.

2.47 Youth unemployment is a global challenge, but in Africa, MENA and Asia where there are young, growing populations, it is a matter of urgency. While rapid progress has been made in primary

and secondary school enrollment and basic literacy, in many countries, tertiary systems are weak and skill delivery is not aligned with the needs of the private sector. IFC's education efforts support the WBG "learning for all" strategy, by increasing the reach and impact of private sector solutions to provide workers with relevant skill training and improve their employability.

FIGURE 6: IFC'S EVOLVING PORTFOLIO IN HEALTH, EDUCATION AND LIFE SCIENCES



2.48 IFC's education strategy has three elements. IFC will: (i) scale up investment in private education with a focus on viable and scalable models; (ii) support innovation by investing in new service delivery models to increase affordability and quality, and replicate the most successful models in new markets; and (iii) leverage WBG's convening power to share best practices and foster partnerships. Key examples include: Coursera, a leading MOOC platform; Mauricio, a large network providing undergraduate and technical education in Brazil; and First Cravings, a chain of training schools for the tourism and hospitality industry in the Philippines.

Infrastructure	Climate Finance	Africa
Agribusiness	Fragility	MENA
Social & Financial Inclusion	Digital Economy	South Asia
Capital Markets		
Mobilization		

SOCIAL INCLUSION (FOCUSED ON GENDER)

2.49 IFC focuses on the economic empowerment of women by helping them to build assets and supporting participation of women in the formal economy. IFC will continue to conduct research on the business case for closing gender gaps, support clients with capital and advice, and facilitate peer learning and partnerships to reach scale. Current examples include the Global Banking Alliance for Women, which enhances banks' capabilities to attract and serve more women customers, and the new Powered by Women Energy Initiative in Myanmar, which expands professional opportunities for women in the energy sector.

2.50 The WBG Gender Strategy has been mainstreamed throughout IFC (see Box 8). New financing instruments, such as the PSW, will help reduce gender gaps by enabling more lending to women-owned enterprises and creating better infrastructure, such as roads or energy supply that can provide more economic opportunities to women. Equally, IFC's gender work will be a cornerstone of the new Advisory Strategy.

BOX 8: IFC GENDER ACTION PLAN

Since the launch of the first WBG-wide Gender Strategy in January 2016, the WBG is working more closely in reducing social and economic gaps between men and women and measuring results. For example, in Sri Lanka, the WBG is designing a gender program that spans multiple industries and global practices with the aim to increase women's private sector participation, thereby boosting economic growth and competitiveness. An upcoming WBG report shows how the public and private sector need to collaborate to create a more efficient and fair "care economy." Access to affordable quality child and elderly care is critical to increasing female labor force participation.

In addition to enhanced WBG collaboration, IFC departments have significantly increased their focus on closing asset and employment gaps between males and females. They jointly developed a Gender Strategy Implementation Plan (GSIP FY17-19) with operational goals aligned with IFC's priority sectors and regions. Each operational department will serve as a center of excellence that others can tap into when delivering gender-smart client solutions, including:

- The Financial Institutions Group will be leading efforts to close asset gaps by doubling its lending to women owned enterprises, providing non-financial services and expanding women's access to digital financial services, insurance and housing finance.
- The Manufacturing, Agriculture and Services department together with the Cross Cutting Advisory department will be leading work on closing gender gaps in value chains as well as in companies' workforces.
- The Infrastructure and Natural Resources department will be leading with expertise on community consultation and supporting companies to recruit more women into non-traditional roles.
- The Environmental, Social, and Governance Sustainability, Advice & Solutions department will be spearheading efforts to increase women in company leadership and ensure that companies' anti-sexual harassment mechanisms are effective.
- The Technology, Media, Telecommunications, Venture Capital & Funds department will be focused on reducing technology and equity investment gaps between men and women.
- The Development Impact department will be collecting sex disaggregated data wherever possible as part of IFC's standard indicators and integrate gender dimensions into impact evaluations.

All departments have appointed two gender focal points, who meet regularly to ensure cross departmental collaboration with the support of the Gender Secretariat. IFC's gender network meets as a community of practice every eight weeks.

Infrastructure	Climate Finance	Africa
Agribusiness	Fragility	MENA
Social & Financial Inclusion	Digital Economy	South Asia
Capital Markets		
Mobilization		

FINANCIALLY SUSTAINABLE CLIMATE MARKETS

2.51 Climate change is one of the largest threats to developing country prosperity. At the 2015 Paris Climate Conference, countries pledged to undertake drastic cuts in global greenhouse gas (GHG) emissions. The historic agreement was ratified just before the United Nations' COP22 meetings in

Marrakech, where the *Marrakech Action Proclamation for Our Climate and Sustainable Development* reaffirmed the commitment to the Paris Agreement.

2.52 IFC is focusing on three near-term implementation steps in the context of IFC 3.0:

- **Rethink private sector climate finance:** IFC is partnering with MDBs and other IFIs to find innovative solutions, and greening the banking sector through the Sustainable Banking Network platform. In the context of the NDC Partnership Support Facility, IFC is helping governments translate NDCs (climate policies known as Nationally Determined Contributions) into concrete sector-specific strategies. IFC launched the *Climate Investment Opportunity Report* at COP22, showing a US\$23 trillion climate-smart investment opportunity in 41 countries through 2030. Finally, IFC is developing tools to better account for climate risk, including through sector-specific pilot projects now being tested and through piloting a shadow price for carbon internally.
- **Set example for the private sector by growing IFC's climate business:** IFC will continue its developed business such as renewable energy, and will scale up its work on energy efficiency in Green Buildings and in manufacturing using programmatic approaches through

financial intermediaries. IFC is also creating or strengthening markets in new areas, such as distributed generation, climate-smart agribusiness, transport, and innovative technologies. This includes producing new market intelligence, helping the project sponsors understand resource efficiency (particularly in agribusiness and refrigeration), and building capacity through AS.

- **Catalyze private sector green finance:** To crowd-in private sector capital, IFC is creating new instruments that will de-risk and aggregate climate projects, such as securitization, wholesaling and investment facilities. An example is the recent Forest Bond.

BOX 9: WBG CLIMATE CHANGE ACTION PLAN

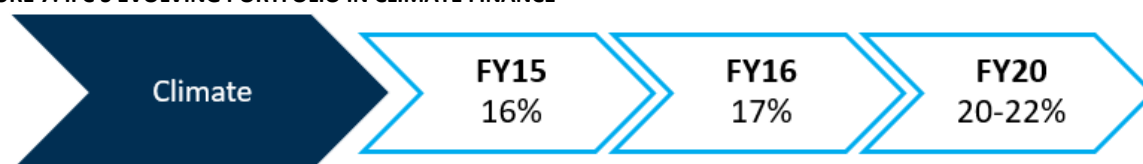
The WBG Climate Change Action Plan (CCAP) was launched in April 2016, following the historic world agreement on climate change signed in Paris in December 2015. The Plan is organized around four priorities: (i) support transformative policies and strengthen institutions, (ii) leverage resources, (iii) scale up climate action, and (iv) work with others and align internal processes and organization.

The Action Plan recognizes that climate change is a threat to efforts to end poverty, and that there is an increasing urgency to protect poor people and poor countries. To maximize impact, the Action Plan is focused on helping countries shape national policies and leverage private sector investment. IFC's Climate Implementation Plan, launched as part of the WBG CCAP, has four focus areas specifically tailored for private sector action: (i) scale climate investments to reach 28% of IFC's annual financing by 2020, (ii) catalyze US\$13 billion in private sector capital annually by 2020 for climate sectors through mobilization, aggregation, and de-risking products, (iii) maximize impact through GHG emissions reduction and resilience, and (iv) account for climate risk.

The Action Plan also lays out plans to quadruple funding over five years to make transport systems more resilient to climate change, as well as invest at least US\$1 billion to promote EE and resilient building by 2020. IFC sees a large opportunity for promoting climate-smart urban infrastructure, and its EDGE Green Building Program aims to have a presence in 20 markets over the next seven years. The WBG will develop climate smart agricultural investment plans for at least 40 countries, design sustainable forest strategies for 50 countries by 2020 and promote climate-informed fisheries management.

The WBG will also help "green" the financial sector by working across banking, pensions and capital markets nationally and globally to implement needed changes. It will also create special teams to work with countries to generate a robust pipeline of bankable green projects, such as rooftop solar or boosting solar distribution in Sub-Saharan Africa.

FIGURE 7: IFC'S EVOLVING PORTFOLIO IN CLIMATE FINANCE



2.53 IFC is leveraging its existing client base of over 750 financial institutions and helping to green the financial system, through creating new asset classes (such as the green bonds) and re-defining sustainable energy finance. IFC is also innovating on financial product structuring, project bundling, and bringing new financial products to the market. Given the importance of energy efficiency at the municipality level, IFC is introducing a suite of climate solutions to mayors.

Infrastructure	Climate Finance	Africa
Agribusiness	Fragility	MENA
Social & Financial Inclusion	Digital Economy	South Asia
Capital Markets		
Mobilization		

FRAGILE AND CONFLICT SITUATIONS AND LOW INCOME IDA

2.54 Forecasts indicate that the share of the extreme poor who live in FCS and Low Income IDA (LIC-IDA)⁷ will grow from

⁷ LICs are defined based on Gross National Income (GNI) per capita thresholds, which in FY17 is US\$1,025 or less.

about 40% in 2015 to about 60% in 2030.⁸ A focus on promoting development in FCS and LIC-IDA countries will be critical to help achieve the WBG goals.

2.55 As of 2015, IDA and FCS country groups represent 22.6% and 6.6% respectively of the world's population, but only 5.5% and 1.7% of the world's GDP in PPP terms. Demographic growth has outpaced economic growth in these areas and suggests a persistent developmental deficit. To help address this significant gap in economic and developmental need, IFC has expanded its operations in FCS and LIC-IDA countries in recent years, reaching over US\$1 billion per year in long-term commitments. Advisory assignments in these countries are over US\$70 million per year. IFC operations to date in FCS and LIC-IDA have spanned a wide range of sectors, including power, agribusiness and agribusiness supply chains, SMEs and access to finance, manufacturing and services. However, IFC continues to face significant constraints to scaling up its business in FCS and LIC-IDA. Lower profitability in FCS and LIC-IDA reflect both the difficult operating environments and smaller average project sizes relative to overhead costs.

FIGURE 8: IFC'S EVOLVING PORTFOLIO IN FCS



2.56 The private sector plays a critical role in development of FCS and LIC-IDA. Job creation and private sector-led growth help build resilience and strengthen incentives for peace and stability. Yet, in many FCS, markets are limited and private sector investment is insufficient. IFC 3.0's approach to creating markets and mobilizing private capital through reform and tools such as the PSW, represents an unprecedented opportunity to catalyze private investment.

BOX 10: MADAGASCAR - OVERCOMING THE CHALLENGES OF INVESTING IN FCS ENVIRONMENTS

Madagascar is a low-income IDA country and an FCS. GDP per capita in 2015 was close to US\$400. Due to prolonged political instability, poor governance and exposure to changes in climatic conditions, the country has not reached its full growth potential. Power, water, roads, air and sea transport infrastructure are well below par. Access to financial services for enterprises is also limited. Just 14.5% of firms and 3.8% of small firms enjoyed a line of credit in 2013. IFC strongly re-engaged in 2014, after the end of the crisis. IFC's engagement alongside the private sector is centered on improving the investment climate to create a strong dynamic environment for enterprise creation, strengthening commercial law, and supporting industry. IFC is also focusing on key sectors with greatest needs and economic potential such as transport projects that will support the tourism development strategy, increase competition, and improve connectivity regionally and internationally. IFC has developed a strong pipeline, including a EUR30 million transaction in petroleum storage and downstream distribution. IFC is working with traditional importers in fast-moving consumer goods to support light manufacturing for import substitution. IFC's Scaling Solar program is exploring the development of bankable power projects to serve the Antananarivo area.

Another sector of focus is agribusiness. In 2016, IFC committed US\$3 million to an investment in a poultry farm and slaughter house (SMTP-MABEL) to improve access to safer meat and provide regular supply for retail distribution. IFC investment and AS are working together, with strong support from the WB to set up the first feedlot and slaughter house (SMTP-BOVIMA) for cattle and goats/sheep for the local market and export to the Emirati market. BOVIMA operates in one of the poorest regions of Madagascar.

⁸ Defined as the number of people with daily consumption/income below US\$1.90 in 2011 purchasing power parity terms.

TABLE 2: IFC IN FCS⁹

	FY14	FY15	FY16
Project Count (LTF¹⁰), #	19	43	39
Active Trade Accounts, #	28	35	40
% of LTF Project Count	5	11	12
% of Active Trade Accounts	12	16	19
Own Account (LTF), US\$ million	505	455	840
Core Mobilization, US\$ million	310	159	149
% of Committed Portfolio	3	5	5
% of Deployed Resources	6	9	9

DIGITAL ECONOMY

Infrastructure	Climate Finance	Africa
Agribusiness	Fragility	MENA
Social & Financial Inclusion	Digital Economy	South Asia
Capital Markets		
Mobilization		

2.57 Technology is among the most powerful drivers of development. Exponential rates of mobile phone, internet and broadband adoption have created a unique opportunity for many societies to leapfrog into the 21st century economy. Global internet users alone have grown from one billion to four billion, enabling business, people and governments to be more connected

than ever before. Rapid technology innovation is evolving through a combination of the internet, mobile telephony and computer systems – applications that together are disrupting every field of human activity from health care delivery and education to access to finance and energy storage. A background paper for the 2016 World Development Report concluded that a 10 percentage point increase in fixed broadband penetration would increase GDP growth by 1.38% in developing countries.

2.58 Developing countries lag developed countries in internet and broadband penetration. In least developed countries only 15 individuals per hundred use the internet, compared to 40 in developing countries and 81 in developed countries.¹¹ Globally, of the total world population of 7.4 billion, 47% do not have internet access, and in Sub-Saharan Africa only 24% of the population is connected to the internet. The offline population is disproportionately rural, low income, elderly, illiterate, and female. Closing this gap requires addressing complex regulatory issues, financing and solutions to demand constraints particularly in rural and low income populations.

2.59 The IFC and WB have come together to develop the Digital Infrastructure Initiative, which combines upstream work on policy and regulatory capacity building, support for private investment in broadband networks, PPPs and blended finance solutions to address the cost of serving less profitable client segments. IBRD/IDA will provide policy and regulatory assistance to allow the development of open access broadband networks and capacity building of regulators. IFC will invest in carrier-neutral open access wholesale broadband networks, and build partnerships with strategic players for the development of such projects and to mobilize investors for commercially viable projects (SeeBox 11).

2.60 IFC will continue to expand its investment across an array of innovative sectors that can help bring the benefits of the digital economy to developing countries. This includes investments in low-cost power, digital finance, consumer internet, digital health, digital education and distributed power generation, all of which offer transformative potential.

⁹ FCS results are based on FCS countries list at each FY

¹⁰ Long-term finance

¹¹ International Telecommunications Union and UN Broadband Commission, 2016

2.61 In consumer internet, IFC will invest in e-commerce and e-retail solutions that can expand markets and access to goods, and create jobs in remote communities. Support for Internet of Things (IoT) can serve to drive resource efficiency, as connected devices allow effective management of energy consumption. In digital finance, significant promise can be found in the mobile payments sector; such payments are expected to grow over 200% in the next seven years in India alone. Investments in Health and Education will focus on expanding access, leveraging scarce medical or teaching resources. Support for power generation through solar and PV cells will be critical to reaching 16 million households by 2020 in Africa alone, and the transformative impact of distributed power has already been demonstrated in East Africa (see Box 3).

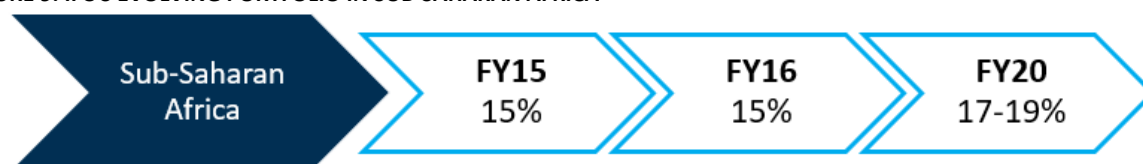
Infrastructure	Climate Finance	Africa
Agribusiness	Fragility	MENA
Social & Financial Inclusion	Digital Economy	South Asia
Capital Markets		
Mobilization		

SUB-SAHARAN AFRICA

2.62 While Sub-Saharan Africa is a high strategic priority, IFC is facing significant challenges and market risks. IFC's strategy in the region addresses these development challenges.

2.63 IFC intends to leverage WBG collaboration to scale up its investment in infrastructure, deepen the reach of financial services, and invest in human capital through health and education. It will focus on high-potential, cross-sectorial approaches such as agri-finance, housing finance, digital finance, trade finance, insurance, and capital market development, accompanied by capacity building. IFC will scale up agribusiness through value chain enhancement, blended finance, and deeper collaboration with global and regional companies in FCS. IFC will focus on untapped new sub-sectors such as animal protein, dairy, food processing, tree crops, commodity financing, and agri-finance. To increase climate commitments, the focus will be on adaptation and innovation in climate finance.

FIGURE 9: IFC'S EVOLVING PORTFOLIO IN SUB-SAHARAN AFRICA



2.64 The FCS Africa program, established in 2014, is a regional initiative designed to bring private sector development to FCS. It builds on years of operational learning from the Conflict Affected States in Africa (CASA) initiative, which was launched in 2008 supported by Ireland, the Netherlands and Norway. The program covers 21 African FCS countries and funds 82 initiatives in 18 African states. To deepen its engagement in FCS, IFC will leverage AS, engage upstream, adopt conflict sensitive and programmatic approaches, and seek groundbreaking initiatives.

2.65 To create markets across the region, using advisory services as a first mover, IFC will: (i) pursue value chain and other approaches that create synergies; (ii) propose new products and solutions; and (iii) further leverage internal and external stakeholders. Operational teams will scale up application of the Cascade, guarantees, blended finance, and local currency financing.

BOX 11: BROADBAND WITH FOCUS IN AFRICA

In August 2016, a joint WB/IFC taskforce formed to undertake an ambitious program of policy reform and private investment in Africa's broadband sector through: (i) development of "open access" broadband infrastructure projects; (ii) regulatory assistance to governments; and (iii) strategic partnerships with other investors for commercially viable projects. The initial diagnostics of over 30 countries is underway.

With broadband penetration of only around 6%, Africa is substantially behind the rest of the world and other EMs. Despite abundant international bandwidth from several submarine cables, the continent remains largely "unconnected" due to insufficient terrestrial infrastructure. This remains a key obstacle to Africa's realizing its tremendous human and economic potential. There is compelling evidence that better broadband connectivity leads to overall economic growth by directly impacting job and skill creation, productivity, entrepreneurship, government transparency, social inclusion and gender equality. Further, due to connectivity gaps, multiple socio-economic benefits delivered by broadband – known as "digital dividends" – are not sufficiently supplied or fairly distributed.

In opening the broadband market to new opportunities, the WB will leverage its expertise to help governments develop telecom sector policies conducive to competition, investment and further sector growth. IFC is contributing extensive sector knowledge and investment experience, particularly, in financing complex broadband infrastructure deployments in other EMs, along with proven capacity to mobilize patient private capital. The program is expected to deploy up to US\$4 billion over the next ten years and to provide internet access to 200 to 250 million people.

Infrastructure	Climate Finance	Africa
Agribusiness	Fragility	MENA
Social & Financial Inclusion	Digital Economy	South Asia
Capital Markets		
Mobilization		

MIDDLE EAST AND NORTH AFRICA

2.66 Despite increasing fragility, declining FDI flows and crowding out of the private sector, IFC has continued to play its countercyclical role to help address the key development challenges facing the MENA region. Importantly, (i) MENA was the largest contributor towards IFC's FCS program in FY16; (ii)

almost 50% of total long-term finance (LTF) commitments in MENA were climate-related; and (iii) the region continues to lead on supporting South-South investments with Regional Champions.

2.67 The need for economic diversification and private sector-led job creation is even more pressing today. IFC's strategic pillars center around: (i) improving the investment climate; (ii) increasing access to finance, especially for MSMEs; (ii) infrastructure development (especially energy/renewables); and (iv) skills development to meet labor market needs and support entrepreneurship. In addition, IFC continues to focus on increasing cross-border trade and investment flows with a view to sharing knowledge and capital that would facilitate regional integration, and address climate change.

FIGURE 10: IFC'S EVOLVING PORTFOLIO IN MENA



2.68 As part of IFC's 3.0, IFC will deepen its engagement, both analytically and operationally with the WB, specifically the Trade and Competitiveness GP and the Public Private Partnership teams to help facilitate the creation of markets through the Cascade in sectors that need greater private sector penetration.

2.69 IFC expects greater WBG collaboration facilitated by the Cascade to help to catalyze private investment in key sectors such as energy, water, agribusiness and transport, and support the MENA economies in accelerating the transition from public to private sector led growth. The

WBG can build on its success in the energy sector in Pakistan, where WB-IFC-MIGA are working jointly for the first time in the region to address the largest constraint to the private sector.

2.70 The Cascade is being demonstrated currently in Egypt, where a concerted WBG and IMF focus on policy reforms is opening up the energy sector to private investments. The WB and IFC worked collaboratively in preparing the Energy White Paper in 2014, followed by IBRD Development Policy Financing in 2015 and 2016, which is paving the way for greater private investments in sustainable energy.

2.71 To implement the Cascade approach in other parts of MENA, IFC will deploy innovative tools such as blended-finance and risk sharing facilities that will help enable the de-risking necessary to attract increased private investment in high impact projects.

SOUTH ASIA

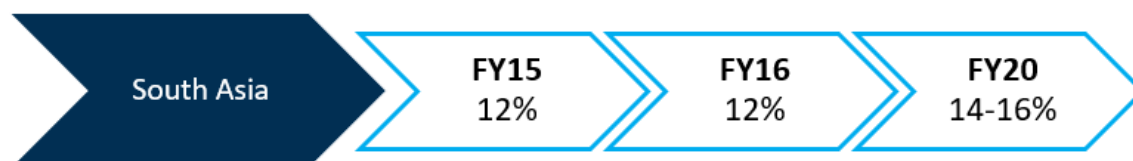
Infrastructure	Climate Finance	Africa
Agribusiness	Fragility	MENA
Social & Financial Inclusion	Digital Economy	South Asia
Capital Markets		
Mobilization		

2.72 Despite being one of the world's fastest growing regions, South Asia (SA) continues to face huge development gaps. A third of the world's poor, or 300 million people, live in South Asia, so progress there is critical to meeting the WBG's twin goals. The region is also home to a quarter of the world's un/under-

banked population, is vulnerable to the effects of climate change, and is in dire need of infrastructure, with about 370 million people without access to energy. An estimated US\$2.5 trillion in infrastructure investments will be needed over the next decade. Rapid urbanization is placing huge stress on infrastructure and will require improved access to power, transport, water, waste management, health services and the development of "smart" cities to help make cities connected, resilient and competitive.

2.73 The private sector faces significant challenges and opportunities. Private sector growth is held back by infrastructure gaps, low productivity, limited credit growth, weak governance, a skills shortage and an unconducive business environment. At the same time, SA has strong growth prospects, a young population, large consumer markets, and a private sector poised to replace public service delivery.

FIGURE 11: IFC'S EVOLVING PORTFOLIO IN SOUTH ASIA



2.74 Building on its strong track record, IFC has identified areas in which the private sector has a crucial role to play and where IFC can deliver meaningful impact. The key pillars of IFC's engagement in South Asia are financial and social inclusion, infrastructure and logistics, and sustainability, while addressing cross-cutting issues such as jobs, gender, investment climate, urbanization, and frontier regions.

2.75 In line with IFC 3.0, IFC will target areas with significant development gaps where the private sector can have breakthrough impacts. The focus on creating markets is in areas where there are market failures, potential for a pioneering role for IFC to provide unique and significant development impact. IFC will be partnering with the WB and MIGA to undertake a common strategic approach to apply the Cascade to deliver the appropriate mix of PPPs, private sector participation and public sector financing. Bangladesh and Nepal are expected to be some of the key beneficiaries of the PSW.

B. DEVELOPING LOCAL CAPITAL MARKETS

Infrastructure	Climate Finance	Africa
Agribusiness	Fragility	MENA
Social & Financial Inclusion	Digital Economy	South Asia
Capital Markets		
Mobilization		

2.76 The challenges banking systems have faced in both developed and developing markets over the past years have indicated to investors as well as policymakers the importance of developing deeper local capital markets. The deepening of capital markets can: (i) improve the availability of long-term funding, including for infrastructure and real sectors and facilitate better

balance sheet management by matching financial assets and liabilities; (ii) improve access to local currency financing, offering investors a means to manage inflation and currency risk; and (iii) provide governments with an alternative way to finance deficits without financial repression, and strengthen the economic and banking systems. As a result, IFC's investment, AS and treasury teams will provide increased attention to the development of local institutional financing and investment.

BOX 12: FOREST BOND

In FY17 IFC, in partnership with BHP Billiton and Conservation International, issued its first "Forest Bond," which uses bond proceeds to support sustainable private sector development. The bond channels funds to a private sector project that creates viable alternatives to deforestation. The project follows the Reducing Emissions from Deforestation and Forest Degradation (REDD) scheme, offering economic incentives to reduce deforestation and invest in low-carbon growth.

Bond investors select a cash or carbon credit coupon, or a combination of the two. When coupon payment is due, IFC buys carbon credits from a REDD project and uses the credits to make carbon credit coupon payments. Investors who receive the carbon credit coupon can retire the credits to offset corporate greenhouse gas emissions, or sell them on the carbon market.

An example of a beneficiary project is the Kasigau Corridor project in Kenya, where the local community used to rely on deforestation for survival. In 1998, Wildlife Works (the world's leading REDD project development) established the Rukinga Wildlife Sanctuary which provides income to the community for protecting the land, creating jobs in activities such as wildlife monitoring and sustainable agriculture. The project is expected to offset 1.4 million tons of CO₂ emissions each year for the next 30 years.

2.77 IFC is partnering across the WBG to launch the Joint IFC-WB Capital Markets Initiative (J-CAP) (see Box 7). J-CAP leverages the policy and regulatory expertise of IBRD/IDA with IFC's experience working with capital market authorities both in bond issuance and in regulatory capacity building. The aim is to facilitate the increased use of capital markets to finance investment, strengthen local capital markets and provide long-term local currency solutions. Beyond the initiative, IFC will continue to raise money in capital markets globally while also continuing to engage in local capacity building. This includes providing direct local currency financing for clients, through derivatives markets as well as both IFC and client bond issuances.

2.78 IFC seeks to assist clients through each stage of business development with a variety of products that support access to capital markets. For example, derivative and hedging products help clients gain access to a type of financing that would otherwise be unavailable, i.e. through local and international banks (who are typically hard-currency based and do not tolerate currency mismatch risk). Anchor investments continue to promote capital markets, while also helping clients access alternative sources of financing and encouraging mobilization. Structured finance products, such as partial credit guarantees (PCGs) and securitizations, provide credit enhancement and funding alternatives to clients who are seeking longer, sustainable and a wider range of options. The possibilities opened by the PSW, to provide local currency solutions for projects located in countries that lack mature capital markets, provide a substantial de-risking opportunity to crowd private investment into markets where the absence of developed capital market facilities creates substantial risk. Such products can improve the

credit quality of the client obligation (lowering the cost of funding) and help to mobilize funds, potentially allowing clients to access a new investor base.

2.79 IFC also supports capacity building efforts by: (i) providing training to selected capital markets policymakers and practitioners in its client countries; and (ii) continuing to refine its suite of treasury products and technical skill building efforts targeted at IFC investment teams.

C. SCALING UP MOBILIZATION EFFORTS – NEW PLATFORMS AND INSTRUMENTS

Infrastructure	Climate Finance	Africa
Agribusiness	Fragility	MENA
Social & Financial Inclusion	Digital Economy	South Asia
Capital Markets		
Mobilization		

2.80 Mobilization – catalyzing third party capital to meet clients’ needs, as outlined in IFC’s Articles of Agreement – continues to be a critically important component of IFC’s business model, but also, through the goal of achieving B2T, serves as a fundamental strategic component of IFC 3.0. Redefining development finance will require the development of new tools to

attract sidelined private capital into areas of high developmental impact.

2.81 Mobilization can help mitigate private sector investment risks in a way that brings a return on investment but also has significant impact. Broadly, there are three types of mobilization: (i) leverage, created through borrowings on IFC’s balance sheet; (ii) investment mobilization; and (iii) co-financing (or indirect mobilization), which includes all financing from private sources provided in connection with a specific activity for which IFC is providing financing (such as banks, and institutional investors). IFC’s Syndicated Loan Program and AMC are two powerful drivers of mobilization that can contribute to the achievement of B2T through the leveraging of development finance with de-risking mechanisms that “crowd in” sources of private capital. The creation of AMC was a ground-breaking initiative by IFC and it remains the only entity of its type. It has demonstrated that it is possible to raise substantial institutional investor capital for investment in IFC projects as long as a well-designed governance and decision-making framework is in place, and as long as IFC is able to continue investing at scale for its own account.

IFC SYNDICATIONS

2.82 IFC’s Syndicated Loan Program, the oldest and largest syndicated lending program among the MDBs, has mobilized over US\$50 billion from more than 500 financial institutions for over 1,000 projects in more than 110 emerging markets since its establishment in 1957. As of December 31, 2016, IFC’s syndicated loan portfolio under management totaled US\$16.5 billion. IFC continues to develop customized solutions via new mobilization platforms that better align the needs of institutional investors with the demand for capital (see Box 5 on MCPP-Infra). IFC is currently looking at opportunities to replicate both the MCPP Syndication process and the first loss structure to attract additional co-investment across other parts of IFC’s loan book. Expansion and creation of syndication platforms, such as MCPP, will be highly dependent on IFC’s demonstrative and financial capacity to leverage private sector opportunities and provide credit enhancement to other investors.

ASSET MANAGEMENT COMPANY

2.83 AMC continues to be an important platform for mobilizing and investing third-party capital in productive private enterprise in EMs. It is IFC’s fund management arm, actively managing capital based on the fiduciary duty it owes to its funds. AMC enhances IFC’s development impact and financial sustainability by increasing both the size and number of investments IFC can transact and by “crowding-in” commercial capital to developing economies both through its investments and its demonstration effect.

2.84 Since 2009, AMC has raised total external capital of approximately US\$7.5 billion (US\$9.8 billion including IFC capital) from 53 high caliber investors, including pension funds, financial institutions, sovereign wealth funds, government agencies, and multilateral and bilateral DFIs.

2.85 IFC 3.0 envisages a focus on creating and expanding platforms to mobilize additional capital; AMC therefore plans to raise follow-on funds when current funds near the end of their investment periods, and to selectively raise new funds when opportunities and deal pipelines emerge for new products, sectors, and/or geographies.

EXTERNAL LEADERSHIP

2.86 IFC has strengthened its partnership function, and will use this as a platform to align other MDBs and IFIs around the need to expand market-based approaches to delivering development outcomes. IFC led a working group that defined a framework for reporting on mobilization and catalyzation of private investment by MDBs, and is leading a working group to develop guidelines and best practices for the use of blended finance, building on principles agreed to by a group of MDBs in 2013 (see Box 13).

BOX 13: IFC LEADS THE MDB REPORTING FRAMEWORK FOR MOBILIZATION AND CATALYZATION OF PRIVATE INVESTMENT

IFC, as the largest global private sector DFI, plays a catalytic role in mobilizing private investments that can address development challenges. The MDBs, under IFC leadership, have developed a joint framework and methodology, with clearly defined and agreed terminology, to measure private investment mobilized and catalyzed by MDBs. This work is critical to helping key stakeholders to:

- measure MDBs contribution to the FfD agenda;
- provide a common framework which can be used by the broader international community; and
- position the WBG in a leadership role in the B2T agenda

The methodology focuses on private investment on commercial terms related to MDB own account investment, including:

- **Private direct mobilization** is financing which results from the active and direct involvement of the MDB in raising financing for the client. It includes loan syndication programs, AMC as well as advisory work leading to financial close of PPPs.
- **Private indirect mobilization** is other co-financing alongside MDB own account investments, whether or not the MDB was involved in bringing the financing into the project. This financing benefits from the presence of the MDB in the project.
- **Private co-financing** (= Private Mobilization) is the total of all financing from private sources provided in connection with a specific activity for which the MDB is providing financing, i.e. the sum of private direct mobilization and private indirect mobilization.
- **Private investment** catalyzed includes total private mobilization (direct and indirect) plus other private investment associated with, but beyond the boundary of the project.

The first joint report will cover MDB's direct mobilization and indirect mobilization adding up to total co-financing from private entities and other institutional investors. It will also include a disaggregation into infrastructure and other, which will allow the MDBs to report on joint achievements in mobilizing private investment in infrastructure at the Global Infrastructure Forum in 2017.

2.87 IFC leverages its knowledge, influence and resources to ignite private sector thinking and solutions amongst partners. IFC will continue to foster new ideas on the role of the private sector in development. In the past, IFC has generated a number of the ideas that fueled this discussion – ideas around public private partnerships, microfinance, mobile money, Equator Principles, and Doing Business. In 2014 IFC formed the Economic Advisory Board, a group of thought leaders known for exceptional contributions to the field of private sector development, including in such areas as technology, labor markets, governance, and inclusive business. IFC also works with development practitioners to broaden knowledge on the role of the private sector in development.

2.88 A program of outreach and communications with governments and the private sector will accompany this strategy. This will help build understanding of the centrality of market-based solutions to delivering development outcomes described in the SDGs and in IFC's strategy, and help enlist more leading firms and governments to engage in the shared effort required to create markets.

CONCLUSION / SUMMARY

2.89 **Through systematic WBG collaboration, a new organizational structure, new approaches and tools including the Cascade, Private Sector Window, and the Creating Markets Advisory Window, IFC will scale up its ability to support clients in delivering development outcomes.** Building on the capabilities it has developed over sixty years through existing strategies, IFC will enhance its ability to impact new, untested markets, and create new market solutions. As IFC seeks to create new markets in more challenging environments, IFC will deploy stronger diagnostics, deep dives and the ex-ante evaluation framework to select worthy projects. The portfolio approach and specific risk mitigation facilities will help manage risks. Capital is a constraint and will govern the scale and speed with which IFC is able to increase its support for achievement of the SDGs.

CHAPTER 3: BUSINESS IMPLICATIONS AND FINANCIAL SUSTAINABILITY

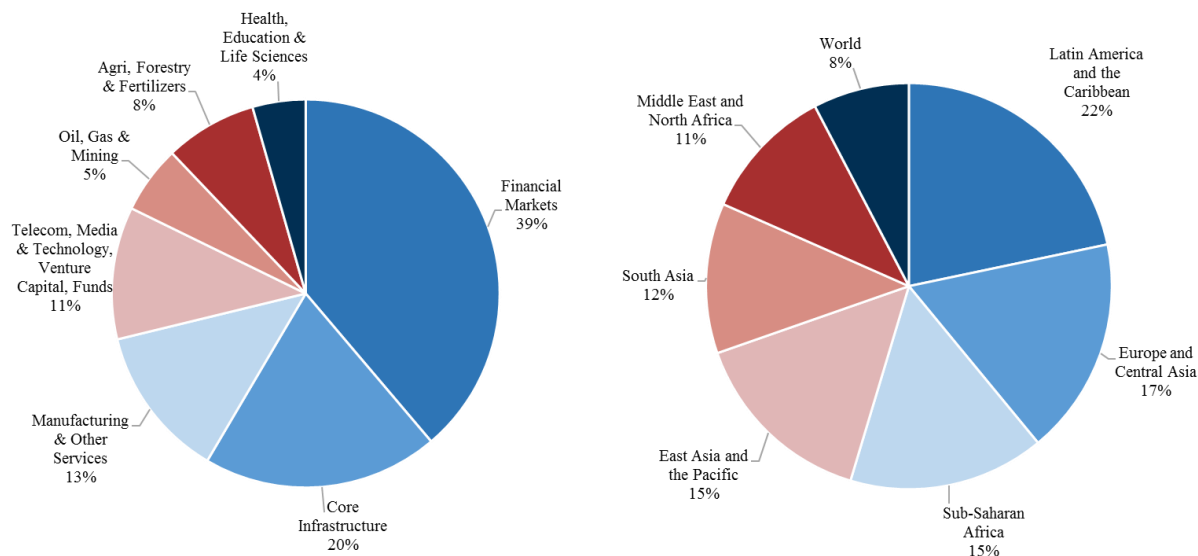
PROGRAM, PORTFOLIO AND DEVELOPMENT IMPACT

A. INVESTMENT PROGRAM AND PORTFOLIO

3.1 IFC's Programs and Portfolios are aligned to support the organization's stated **development goals**, within the constraints of capital and the need to be financially sustainable. Despite better than expected results in the first half of FY17 when compared to the same period in FY16, the pipeline for the second half of the year has been revised downward slightly from the FY17-19 SBO due to headwinds in the external economic environment, particularly in large markets for IFC, and uncertainties with the timing of a few large transactions. Growth is projected to rebound in the period FY18-20.

3.2 IFC's portfolio is composed of multiple investment instruments across geographic regions and industries, and as such is subject to prudent portfolio management and capital limits frameworks for countries and clients. At the end of FY17Q2, IFC's committed portfolio totaled US\$52.9 billion, with the largest regional concentration in Latin America and Caribbean region (22%). From an industry perspective, the same portfolio shows the largest concentration is in Financial Markets at 39%, followed by Core Infrastructure at 20%.

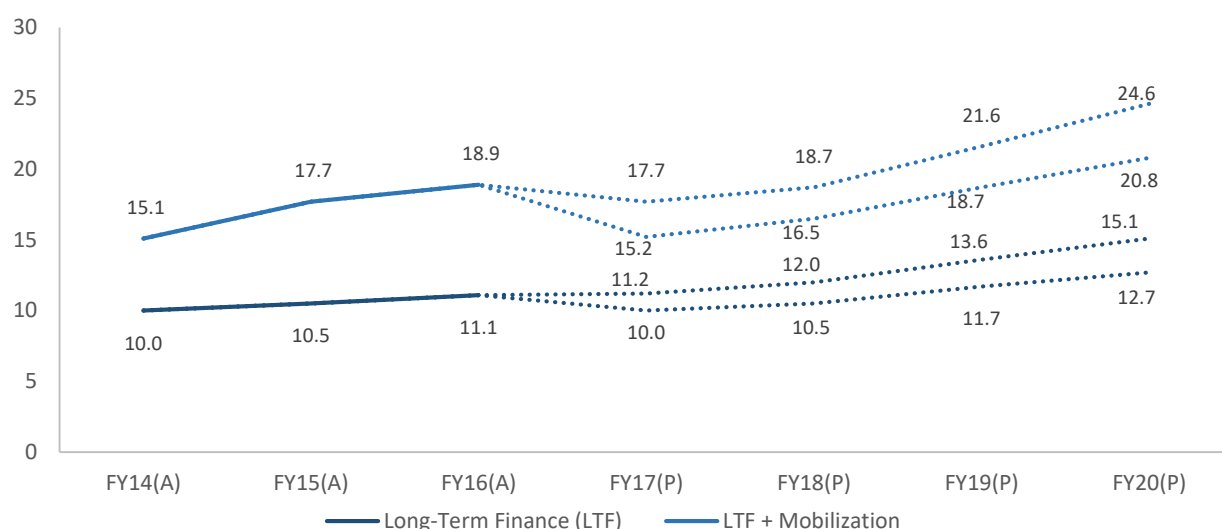
FIGURE 12: COMMITTED PORTFOLIO BY INDUSTRY AND REGION AT FY17Q2 – US\$52.9 BILLION



3.3 **New commitments gradually change the portfolio over time in terms of risk and reward, towards strategic priorities and a targeted allocation determined by a rigorous asset allocation framework based on macroeconomic and market trends.** Portfolio composition is a key measure of how strategic priorities are implemented. The portfolio size is determined by new commitments less reflows, which include loan repayments, loan cancellations, loan pre-payments, portfolio sales and equity write-downs. In order to provide more accurate portfolio projections, the FY18-20 SBO

includes bottom-up projections from each industry group both of new commitments and reflows.¹²

FIGURE 13: LTF PROGRAM AND MOBILIZATION TRAJECTORY FY18-20



3.4 IFC’s Long Term Finance (LTF) and Short Term Finance (STF) portfolio is expected to increase by US\$8-11 billion by FY20, from a portfolio of US\$51.6 billion in FY16 to US\$60-63 billion. The projected average LTF own account commitment volume for the period FY18-20 is US\$12.5 billion, and projected average mobilization is US\$7.5 billion. The trajectory of STF is projected to increase during FY18-20 (Table 3). STF acts as a catalyst in boosting trade, which in turn is an important driver of job creation and poverty reduction.

3.5 The pace of origination has been affected by economic conditions in important markets. Argentina, Brazil, Nigeria and Turkey are the largest IFC markets in their respective regions. Argentina is recovering from a recession in 2016, and is expected to grow at 2.7% in 2017 (IMF). Brazil is emerging from its longest recorded recession, but is forecasted to grow by 0.2% in 2017 (IMF). The Nigerian economy, impacted by commodity price volatility like many countries in Africa, is expected to grow at 0.8% (IMF). Economic growth in Turkey also slowed in 2016. These conditions often impact the timing of larger transactions, particularly in Core Infrastructure, and the reduced FY17 forecast results in part from large transactions which are likely to slip from FY17 to FY18. IFC 3.0 will help expand and diversify origination by expanding markets in countries with significant development needs but limited investment. This, in turn, should reduce the lumpiness of the pipeline.

TABLE 3: LTF AND STF PROJECTIONS

US\$ billion	FY14(A)	FY15(A)	FY16(A)	FY17(P)	FY18(P)	FY19(P)	FY20(P)
LTF + Mobilization	15.1	17.7	18.9	15.2 - 17.7	16.5 - 18.7	18.7 - 21.6	20.8 - 24.6
Own account LTF commitments	10.0	10.5	11.1	10.0 - 11.2	10.5 - 12.0	11.7 - 13.6	12.7 - 15.1
Mobilization commitments	5.1	7.1	7.7	5.1 - 6.5	5.9 - 6.8	6.9 - 8.0	8.1 - 9.6
STF Average Outstanding portfolio	3.0	2.8	2.8	2.6 - 3.0	2.8 - 3.2	2.9 - 3.3	3.1 - 3.5

¹² The model gathers commitment volume inputs from industries and translates the inputs into portfolios by taking into account projected reflows. Reflows are estimated based on historical averages and duly reviewed by the industries and regions.

3.6 IFC continues to commit the majority of its portfolio to strategic focus areas. Portfolio shares of Health, Education & Life Sciences, Financial Markets, and Agribusiness, Forestry & Fertilizers are all projected to increase, as anticipated in the FY17-19 SBO. Core Infrastructure maintained the same levels between FY15 and FY16 and is not expected to increase due to a shift in the business model toward increased mobilization.

TABLE 4: PORTFOLIO BY STRATEGIC FOCUS AREA

(Percentage share of Own Account LTF and STF portfolio)

Strategic Priority	FY15 Actual	FY16 Actual	FY20 Projected range
Focus Industries* (%)			
Core Infrastructure	20	20	20-22
Agribusiness, Forestry & Fertilizers***	8	8	9-10
Health, Education & Life Sciences***	5	4	6-7
Financial Markets	38	38	39-40
Focus Themes* (%)			
Climate**	16	17	20-22
FCS	5	5	6-8
IDA***	19	21	22-23
Focus Regions* (%)			
South Asia	12	12	14-16
Africa	15	15	17-19
MENA	11	11	10-12
IFC total (in US\$ billion)	50.4	51.6	60-63

* Portfolio shares do not add to 100, as table excludes non-focus areas, and focus areas are not mutually exclusive. Industries contribute to thematic goals and are delivered in focus regions.

** This projected portfolio range reflects new commitments of 28% by FY20.

*** Changes from the SBO FY17-19 include the addition: (i) of Life Sciences to Health & Education, and (ii) of Fertilizers to Agribusiness & Forestry, and (iii) IDA.

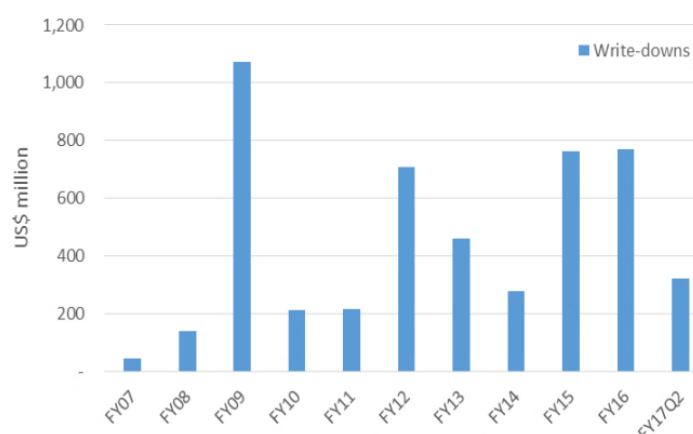
3.7 IFC is committed to achieving its FCS and Climate targets. Despite a difficult business environment, the portfolio share in FCS is on track to increase from 5% in FY16 to 6-8% by FY20. In relation to climate, IFC remains committed to the goal that climate change-related investments will comprise 28% of own-account LTF commitments by FY20. The Climate Change Action Plan is being reviewed to incorporate innovations and new approaches to achieve the 28% target. IFC is pursuing five strategic priorities: (i) green finance: developing all aspects of greening the financial institutions portfolios, including green mortgages, green construction finance and developing the green bond market; (ii) clean energy: building on IFC's experience of 'opening markets' for renewables to push the frontiers of clean technology in riskier area markets such as energy storage and distributed generation; (iii) climate-smart agribusiness: enabling the private sector to identify and create incentives for agribusiness companies to develop climate smart animal protein businesses, developments in precision farming and dealing with food waste issues; (iv) smart cities: leveraging the Sustainable Cities platform with project preparation and technical assistance for city-wide and sector-wide solutions, while expanding the green buildings business from new construction only into both industrial and residential energy efficiency; and (v) transport: building IFC's investments in climate-smart transportation by working with mayors to identify their transport needs, including electric vehicles and municipal public transport. The Action Plan includes an overlay of technology and innovation, and is supported by IFC and WB working together to mainstream country level climate action, encourage transformational policies and leverage private sector resources to achieve successful climate outcomes at scale.

3.8 **Both the South Asia and Sub-Saharan Africa regions are projected to increase their share of IFC's portfolio in the FY16-FY20 period.** This is reflected in a higher FY20 portfolio relative to the FY17-19 SBO. As both these regions have a significant number of IDA countries, the projected increase in portfolio share is expected to generate greater development outcomes and contribute to the increase in the IDA portfolio share, which is projected to reach 22-23% by FY20. MENA's portfolio share increased from FY15 to FY16; however, going forward, the share of IFC's portfolio in MENA is expected to grow more slowly. MENA's share of IFC's own account committed portfolio is projected to be 10-12% during FY18-20.

3.9 **IFC's Non-Performing Loans (NPL) ratio remained at elevated levels,** although it has declined from 6.5% in FY16 to 5.9% at the end of FY17Q2, largely a result of loan write-offs.

3.10 **IFC's equity portfolio has been significantly impacted by the external market environment.** Returns are lower than earlier periods. These conditions have also resulted in increased equity write-downs, with an average of US\$0.6 billion over FY14-16. While lower in absolute returns, IFC outperformed the MSCI EM Total Return benchmark over calendar year 2014-2016. IFC's realized capital gains which were US\$1.2 billion and dividends of US\$0.3 billion on average, respectively, over the FY14-16 period.

FIGURE 14: IFC EQUITY WRITE-DOWNS BY FY, FY17 HALF YEAR ONLY



3.11 **The outlook for equity performance remains difficult to ascertain** given the direct linkage to emerging market performance. As of FY17Q2, IFC had US\$321 million of equity write-downs against US\$616 million of realized capital gains and US\$102 million of dividends.¹³

B. ADVISORY SERVICES PROGRAM AND PORTFOLIO

3.12 **IFC had an active portfolio of more than 700 advisory projects in over 100 countries, valued at US\$1.4 billion** as of December 31, 2016. AS extends IFC's footprint, especially in challenging markets – like FCS and IDA – where it often leads the way for IFC investment. In FY16, 20% of IFC's total advisory program was delivered in FCS countries, and over 60% was delivered in IDA countries.

3.13 **By FY20, IFC expects the share of the Advisory Program in IDA countries to increase to 63-65% of total program, and in FCS countries to 22-24%.** IFC has committed to increasing its net

¹³ US\$102 million of dividends include equity investment dividends for US\$89 million, the rest being custodial fees and revenue from quasi equity or debt-like instruments.

income designations to Advisory to help scale its advisory work in IDA and FCS countries. IFC commitments are expected to be leveraged by increased contributions from development partners.

3.14 Climate-related activities comprise 28% of the total Advisory Program as of FY17Q2. Advisory work related to climate change ranges from sustainable energy finance to helping clients optimize their energy/resource efficiency use and implementing climate-related PPP projects.

C. DEVELOPMENT IMPACT MEASUREMENT

3.15 IFC continues to improve its results-measurement and evidence system and tools to better reflect the corporation's priorities and business needs and to support the vision and implementation of IFC 3.0. As IFC begins to focus its strategy on market creation, IFC's result measurements framework will expand from monitoring and evaluating at the transaction level to include a work program that captures expected outcomes, achievements and lessons at the market, sector and country levels. To place IFC's achievements within the context of SDGs, IFC has mapped IFC result indicators against a subset of relevant SDGs.

3.16 IFC is addressing the causes of declining Development Outcome ratings identified by the Independent Evaluation Group (IEG). The IEG review of Results and Performance (RAP) 2016 showed declining Investment Development Outcome ratings for projects approved in the 2008-2010 period. While the global economic crisis played a role, IFC and IEG analysis yielded a number of recommendations to support higher work quality, which includes screening, appraisal, structuring, supervision, project role and additionality.

3.17 IFC is developing new tools to estimate development impact. Building upon the foundation of IFC's development results measurement framework, Development Outcome Tracking System (DOTS), which was launched in 2005, IFC is developing a set of new tools to estimate the economic impact of investments to be used both during project preparation (ex-ante) and during implementation (ex-post). The development of an Ex Ante Evaluation Framework will enable IFC to select projects more effectively and implement a portfolio approach to maximize development impact while maintaining financial sustainability. One of the components of this ex-ante framework is an input-output/SAM-based estimation toolbox with global coverage and sectors relevant to IFC, to generate impact estimates in terms of GDP and employment. The first phase of this project has already produced multipliers for the real sectors (manufacturing, agribusiness and services), that are currently under testing and analysis, including improvement of metrics on types and quality of jobs.

3.18 IFC has been conducting sectoral studies and evaluations to understand the impact of IFC investments on the WBG goals (e.g. effects on market/sector development, economic growth and contribution to job improvements and creation). These studies and evaluations provide evidence of the impact of the IFC interventions beyond the individual projects, and generate useful lessons that help the formulation of Industry Department strategies. Evaluations have been completed in power, SME banking, tourism, chemicals, poultry, extractives, ports and airports.

3.19 The IDGs are corporate-level development goals created to better integrate IFC's results measurement with strategy. The IDGs are high-level three-year targets for the incremental reach that IFC aims to achieve through its investments and advisory services. IDGs are aligned with the strategic priorities of agribusiness, financial and social inclusion (health & education and access to finance), infrastructure and climate change. A three-year cycle for IDGs started in FY17. For this cycle, IFC is committed to the following targets in Table 5.

TABLE 5: IDG TARGETS, FY17-19

Goals	Cumulative Targets ¹⁴
<i>Agribusiness</i> : Increase or improve sustainable farming opportunities	Benefit 3.3 million people
<i>Health and Education</i> : Improve health and education services	Benefit 26.1 million people
<i>Micro/Individual Finance</i> : Increase access to financial services for microfinance clients	Benefit 98.3 million people
<i>SME Finance</i> : Increase access to financial services for SME Clients	Benefit 2.9 million people
<i>Infrastructure</i> : Increase or improve infrastructure services	Benefit 68.1 million people
<i>Climate Change</i> : Reduce Greenhouse -gas emissions	Reduce by 46.4 million metric tons of CO2 equivalent per year

D. SCORECARD

3.20 **IFC's Scorecard is an important tool to align strategy with operations**, thereby facilitating the delivery of results. In FY15 the IFC Scorecard was streamlined to align more closely with the strategy of the IFC and that of the WBG. The IFC Scorecard cascades down to departments in order to drive accountability and link with incentives. Starting last year, IFC shares the scorecard targets as part of the Budget paper in order to explicitly connect strategy, results and resources. Results delivery is monitored regularly and progress is reported. Further, while the selection of this set of indicators and the determination of the targets reflects selectivity and trade-offs, IFC comprehensively monitors outcomes by robustly tracking and managing many other important aspects of its business as well.

FINANCIAL SUSTAINABILITY

3.21 **Financial sustainability safeguards both IFC and other stakeholders' interests while enabling business growth.** As an important foundation for developmental impact, financial sustainability is IFC's ongoing ability to accomplish its mission by generating and maintaining sufficient financial resources through business activities and resulting profitability. IFC's long-term financial sustainability is thus a necessary means to the desired end of creating positive development impact. IFC monitors its financial sustainability through capital adequacy measures, as well as liquidity and leverage measures, return measures (RAROC and Cash-on-cash multiples) and profitability measures for both total IFC (controllable income, allocable income) and investment operations only (controllable cash income, cash income).

3.22 **IFC's sustained profitability depends upon a portfolio approach.** IFC's portfolio approach aims to achieve high development impact and financial sustainability over the portfolio as a whole, allowing it to take greater risks on individual investments.

3.23 In order to maximize its developmental mandate, IFC operates in difficult markets, such as FCS and LIC-IDA, where needs are urgent and risks (financial and non-financial) and costs of investing are higher. In taking on more risk, **IFC needs to capture, measure and manage the impact of these additional risks and market volatility on portfolio and capital, and adjust its business mix accordingly to include less risky projects in more stable environments.** Active portfolio management ensures that IFC has the financial resources required to implement its program while maintaining its triple-A credit rating. This approach requires closely monitoring capital allocation across regions, sectors and strategic priorities, and ensures that investments earn a rate of return that is commensurate with the risks taken.

¹⁴ IDGs are calculated on a three-year period. The current period started in FY17 and will finalize in FY19.

3.24 **To maintain a balanced portfolio, IFC must make investments with higher risk-adjusted profits to offset growth in some strategic areas with lower risk-adjusted returns.** Some of IFC's strategic areas, such as FCS, LIC, IDA, Health, Education & Life Sciences, and, to a lesser extent Sub-Saharan Africa, have traditionally had Net Loan and Fee Coverage ratios¹⁵ on or slightly above 1.0x. This suggests that these portfolios barely breakeven with loan and fee income alone, relying on revenues from other areas of IFC to sustain the business.

A. PROFITABILITY

3.25 **IFC's Controllable Income**, which includes mainly income drivers with more predictability and control, such as loan income, dividends and administrative expenses¹⁶, is projected to be on track.

3.26 **Allocable income is a more volatile metric**, which includes equity impairments and loan and guarantee loss provisions in the investment portfolio, as well as realized capital gains on sales of equity. Including these metrics help provide a fuller picture of IFC's capital position and its ability to allocate funds to CMAW, FMTAAS and IDA.

B. CAPITAL ADEQUACY

3.27 **IFC's economic capital framework is used to calculate the amount of capital the Corporation needs to hold against its assets in order to maintain a triple-A rating** and is broadly aligned with Basel and regulatory approaches, as well as the rating agency methodologies.

3.28 **IFC's risk appetite and ambition to expand in IDA and FCS and deliver IFC 3.0 at scale will be calibrated by its capital.** For IFC to further deepen its engagement in IDA and FCS markets, going beyond the de-risking facilities of the PSW, IFC will need to put further capital at risk to finance "de-risked" transactions in accordance with its capital adequacy framework.

LINKING STRATEGY TO RESOURCES

3.29 **To implement its strategy effectively, IFC will require an efficient allocation of budget and the identification, hiring, and retention of the right people and with the right skills.** Budget and human resources represent the core pillars of strategic alignment that ensure the operationalization of IFC 3.0.

A. BUDGET ALLOCATION AND DEPLOYMENT OF RESOURCES

3.30 **IFC continues to deploy its resources where they are most needed within the focus areas** according to the current SBO and FY17 IFC Budget Paper. As has been the case for previous years, IFC manages expenses prudently, including budget and staff resources, making reallocations internally. Important measures have been implemented to identify cost savings and contain expenditures through the expenditure review.

3.31 **IFC proposes to support its strategic priority areas alongside its normal business operations** for which budget will be proposed in the IFC FY18 Budget Paper. IFC is currently

¹⁵ The Net Loan & Fee Revenue Coverage ratio measures a portfolio's ability to cover expenses with stable revenue sources that are less impacted by market volatility. The ratio looks at the total net revenue from loan interest and fees, over total administrative expenses for IFC's investment business. Over the last four fiscal years, IFC has maintained an average Net Loan & Fee Coverage ratio comfortably above 1.5x, as strong loan and fee revenues have surpassed total expenses.

¹⁶ Controllable income includes both stable resources of income (loan and fee revenues), as well as less predictable sources of income (dividends and treasury revenues). Historical trends and current figures are analyzed and presented in the quarterly financial statements.

receiving feedback on different components of the IFC 3.0 strategy, and determining associated costs and funding sources. IFC monitors its resource deployment throughout the fiscal year. IFC continually finds ways to be more efficient in terms of cost/operational efficiency and staffing. IFC leveraged the Expenditure Review (ER) exercise to redeploy resources to strategic areas.

B. COST/OPERATIONAL EFFICIENCIES

3.32 Budget and reporting controls are in place, supported by the IFC Budget & Finance Network, to ensure that there is a monthly feedback mechanism to correct and signal areas of concern, including staff hiring and spending rates for variable expenses.

C. STAFFING

3.33 The need for IFC to improve its staffing framework and change its institutional skill set through recruitment and exits has grown in importance. Implementation of IFC 3.0 will require organizational realignment, specifically the buildup of specialized workforces in priority markets and the adjustment of a competitive employee value proposition to ensure the hiring and retention of skilled employees.

3.34 It requires staff who have both the ability to deliver innovative operations as in the past, but also a broader range of collaborative skills necessary to create markets. These include the ability to: (i) connect operations to the larger picture of how changes in the policy and regulatory environment may be combined to create a much larger impact; (ii) to work closely with IBRD/IDA colleagues on reform; (iii) collaborate more seamlessly across IFC teams to achieve cross-sectoral impacts.

CONCLUSION

3.35 Despite macroeconomic challenges, IFC expects to grow during FY18-20 to make an even greater development impact in the countries it serves. IFC is using flexible and sound approaches to resource management to be able to make a greater impact in its focus areas and expand into IFC 3.0 strategic priorities, while maintaining its capital adequacy. The portfolio approach, where more profitable and less challenging regions reinforce the sustainability of IFC while it expands into riskier markets, is key to delivering the strategy.

3.36 There has never been a greater need for the public and private sectors to come together to solve development challenges. There is strong recognition that solutions can be accelerated if the private sector is leveraged rather than constrained. The need to leverage partners, implement new instruments and attract new sources of capital in riskier markets where IFC's footprint and structuring expertise has successfully delivered, positions IFC to play an important leadership role in forging public-private solutions. Despite short-term challenges evident today, EMs continue to have strong prospects for growth, where governance and stability continue to improve.

3.37 IFC's new strategy is a concrete response to what shareholders have asked: to use the power of the private sector to help realize the 2030 Agenda and bring greater progress to the poorest and most fragile regions. To succeed by 2030, the time to act is now. IFC has put in place the necessary organization, and is leveraging its position in the WBG, increasing efficiency, and deploying the right products to bring systemic change to development finance.

REGIONAL ANNEX

EAST ASIA AND PACIFIC

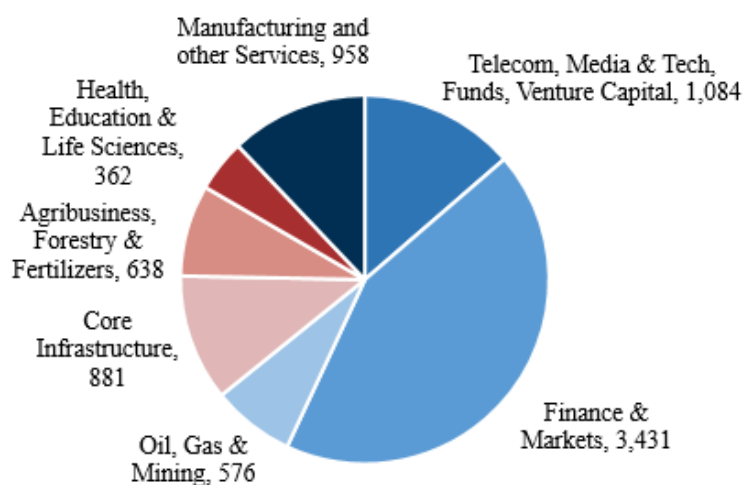
STRATEGIC CONTEXT

- **Economic Update:** Overall, East Asia and Pacific (EAP) is expected to grow at 5.7% in 2017-18. China is expected to continue its gradual transition to slower, but more sustainable, growth to 6.5% in 2017 and 6.3% in 2018. Among other large economies, the Philippines is expected to reach 6.4% and Vietnam, where growth was dented by the severe drought last year, will recover to 6.3% in 2017. In Indonesia, growth will increase steadily, from 4.8% in 2015 to 5.5% in 2018.
- **EAP Strategy:** IFC's strategy in EAP rests on four pillars: (i) inclusion; (ii) green growth; (iii) cross-border engagements; and (iv) capital market development by bringing new products and services into countries. Within these pillars, IFC is also looking to bring to scale the digital economy and new business models that harness innovation and help grow economic opportunities and entrepreneurship.
- **Expected Outcome:** IFC is expected to double infrastructure investments from around US\$500-600 million in the previous three years (FY13-15, FY16 is an outlier year due to OT) to around US\$1.0-1.2 billion p.a., translating to around US\$3-3.6 billion over the next three years (FY17-19) or around one third of the overall program. Major focus is set on sustainable power, utilities and transport/logistics.
- Increased focus will be on the digital economy, across various sectors in certain types of investments e.g. new models in banking, and where the impact on the portfolio may be larger. Micro Small and Medium Enterprises (MSME) finance will remain a major focus of the program, but may see a reduction in the share of total program as the share of smaller underserved markets, where the deals tend to be smaller, will increase (Myanmar, Cambodia, and Lao PDR). Myanmar, Indonesia and Vietnam are high growth markets. Cross border initiatives can increase bilateral and regional trade with the potential to generate more jobs, and bring down the cost of goods and services, making them more affordable for the poor.

CREATING MARKETS

- During the next fiscal year, FIG's operations across EAP will focus on driving holistic engagement by seeking to create more space for the private sector in markets. Working in concert with the WB, it will drive systemic change via changes to policy and regulations, as well as through leveraging private investment, including through PSW.
- In IDA/FCS countries (Cambodia, Myanmar, PNG, Mongolia and some Pacific Islands), IFC will seek to mobilize through its B and parallel loan programs to allow for investor introduction into these

EAP Committed Portfolio by Sector
(US\$ million)
(as of FY17 Q2-end)



markets as well as support transfer of knowledge and expertise through joint IS and AS projects. In more developed MICs, IFC will offer more structured products such as Risk Sharing Facilities (RSFs), ABS purchases and capital market solutions. In all markets climate change initiatives will be prioritized along with continued support for gender financing and insurance.

- To achieve greater impact, EAP will leverage existing WBG capital market initiatives, including WB engagement at the regulatory level. IFC will focus on delivering ‘Cascade’ outcomes initially through infrastructure (i.e. Power). The countries where this approach is likely to find immediate resonance are Vietnam and Myanmar. Utilizing the PSW local currency facility has been identified as a strong risk mitigation prospect in EAP.

GROWTH & IMPACT

- IFC’s development impact in EAP is among the highest. EAP had the second highest DOTS score in FY2015-16 (62%). Over 49 million people were reached through gas distribution clients (96% of IFC total). Between 2002 and 2015, IFC had supported seven banks in China to lend over US\$2 billion for sustainable energy finance projects, saving over 22 million tons of CO2 equivalent per annum.

CHALLENGES FOR IFC IN THE REGION

- Developing EAP has faced a challenging external environment, characterized by disappointing growth outcomes in the major high-income and emerging economies, renewed volatility in financial markets and capital flows and continued weakness in international trade and commodity prices. The fall in commodity prices between 2014 and 2015 adversely affected the terms of trade of commodity exporters. In general, the decline in commodity terms of trade are most pronounced in countries that are net exporters of energy commodities. Meeting the growing challenge of reducing costs and strengthening resilience of smaller economies to threats from natural disasters and climate change will be essential to managing increasing stress on livelihoods.
- As EAP emerging economies seek to transcend their middle income status, sustaining growth will require the governments to formulate new policies and respond to the demands of private sector and civil society to promote innovation and expand economic capabilities.

EXAMPLES OF TRADE-OFFS

Digital Economy: Integrating disruptive technologies across sectors including fintech and managing trade-offs that may occur—including between health and safety benefits and potential job losses.

EUROPE AND CENTRAL ASIA

STRATEGIC CONTEXT

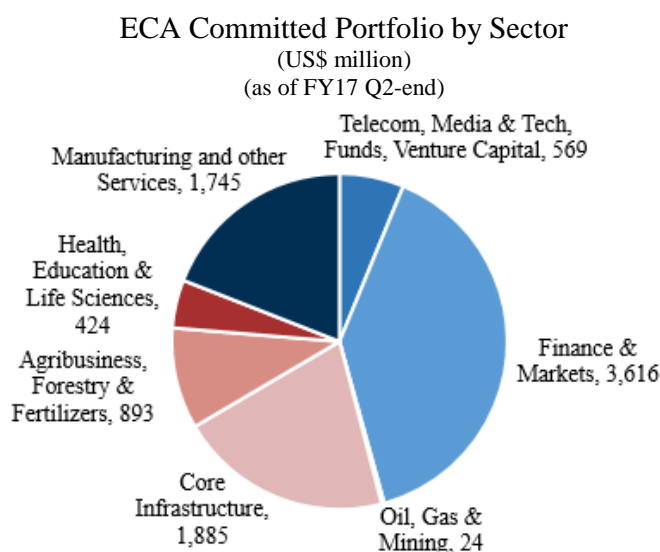
The overall operating environment in the Europe and Central Asia region (ECA) remains challenging. Economic growth in the region has been the slowest among all emerging market regions since 2008. The cross-border flow of capital has fallen dramatically. Domestic capacity to support investment is constrained due to limited fiscal space, shallow capital markets and high NPLs in the banking sector. Growth is expected to remain weak in the coming year (at below 3% per year) affected by the Brexit vote, the refugee crisis, volatile commodity prices, and geopolitical tensions. Weak investment remains a significant problem for the region, which needs to find new sources of growth, create quality jobs, improve infrastructure, and tap into new technologies.

IFC aims to catalyze investment and bolster investor confidence across ECA countries. IFC's strategic priorities are aligned with the most pressing development challenges of the client countries: poor financial intermediation, lack of competitiveness, vast infrastructure needs, and demographic trends:

- To strengthen the financial system and expand financial inclusion, IFC prioritizes support for capital market development, recapitalization of systemic banks, distressed asset resolution, and increasing access to finance for underserved groups.
- To support greater competitiveness and diversification and, ultimately, enable private sector led job creation, IFC helps countries improve investment climate, promotes resource efficiency, and supports development of competitive value chains.
- To tackle infrastructure needs, IFC continues to promote development of clean energy and improve regional connectivity.
- To respond to demographic trends, IFC supports development and modernization of urban infrastructure and improvements in private healthcare provision.

CREATING MARKETS

- WBG engagement in Turkey's power sector represents one of the successful examples of the Cascade approach. Comprehensive reforms and enabling investment in public infrastructure supported by IBRD and catalytic investment by IFC, helped Turkey develop a well-functioning competitive electricity market. As a result, the sector attracted around US\$60 billion in private investment.
- The WBG will leverage a full range of its capabilities to create markets for the private sector. The group will work in a more systematic way to: (i) create a level playing field for private sector firms; (ii) open space for private sector in infrastructure, particularly in energy, transport and solid waste; (iii) support NPL resolution; (iv) develop domestic capital markets to facilitate local currency finance; and (v) support agriculture sector.



- IFC will use IDA 18 PSW to scale up support for infrastructure and agribusiness development.

GROWTH & IMPACT

- IFC's Sustainable Cities Initiative, piloted jointly with IBRD and MIGA in Turkey, has grown. After investing in mass public transit and waste water treatment in Istanbul and Izmir in FY16, IFC is now appraising a light rail transit system in Antalya and providing upstream AS to create a new project pipeline in Izmir. This is complemented by an IBRD investment loan to financially weaker municipalities and MIGA guarantees. In 2016 this initiative was expanded to Serbia, where IFC is supporting the city of Belgrade in developing an Energy Efficiency (EE) strategy and a pipeline of EE projects. IFC is also finalizing the structuring of a waste-to-energy project and developing a new project to upgrade the wastewater system in Belgrade. These projects will mark the beginning of a new practice in Serbia and open doors for private investment in larger national infrastructure projects.
- IFC investment and AS aim to support development of clean energy and promote EE to contribute to energy security and help address climate change, making economies across ECA more resilient. In the last five years, IFC's climate business has accounted for 27% of the investment program and 32% of the advisory program.
- Despite a challenging operating environment IFC delivered almost US\$2.6 billion worth of long-term finance in calendar year 2016. ECA portfolio maintained solid profitability, declining portfolio trend was reversed and the level of NPLs went down. While IFC's portfolio in Russia has been shrinking, activities in Poland and Greece have increased with the objective to provide important development impact in these two countries and diversify and balance IFC's portfolio distribution across the region.

CHALLENGES FOR IFC IN THE REGION

- Poor corporate governance and inadequate transparency remain a major challenge in ECA.
- Unfinished tariff reforms, inadequate regulatory frameworks for public private partnerships, and elevated sovereign risks contribute to the limited number of bankable projects in infrastructure.
- Weak investor confidence, reflecting low growth environment, geopolitical tensions, and capital outflows from the region, translates into a weaker IFC's pipeline.

EXAMPLES OF TRADE-OFFS

- IFC's selectivity in ECA is determined by the projects' development impact and scope, commitment to support long standing clients, and opportunities to expand partnerships with global players.

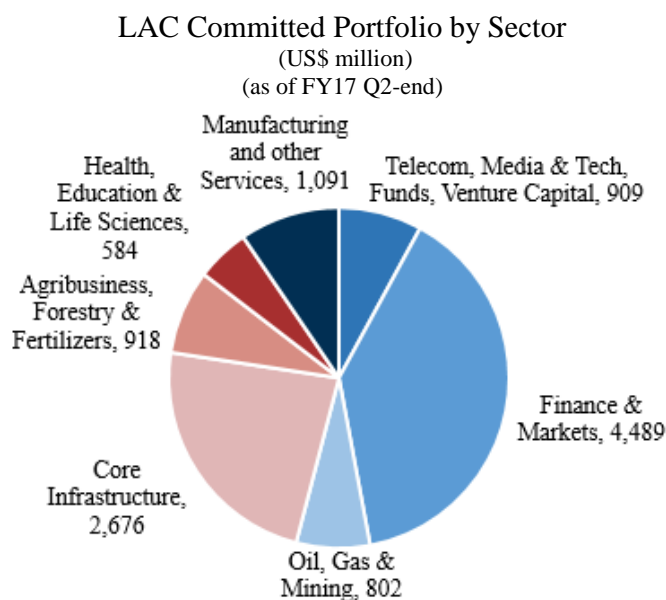
LATIN AMERICA AND THE CARIBBEAN

STRATEGIC CONTEXT

- The Latin America and the Caribbean region (LAC) has experienced six years of economic slowdown due to a multitude of compounding factors such as low commodity prices, slowing trade, exchange rate depreciation, rising inflation and diverse political challenges. The region contracted in 2016, is expected to enjoy only a meager recovery of 1.6% in 2017 and is thus adjusting to a new normal.
- With a total population of about 630 million, LAC remains the most unequal region. According to the UN Economic Commission for LAC, poverty has increased in the past four years. With the gains in poverty reduction and shared prosperity eroding, fiscal adjustment, structural reforms, and microeconomic reforms are especially critical.
- LAC's strategic focus areas include: capital market development; innovation, especially through fin-tech; infrastructure and energy; climate and agribusiness; and regional integration. As a middle-income region, LAC is applying the Cascade by implementing private sector solutions in critical sectors such as infrastructure, roads, sanitation, urban transit, hospitals and skill development/tertiary education to ensure access and inclusion. An urban lens to infrastructure investment is also critical as LAC is the most urbanized region.
- LAC expects to support new government agendas in PPPs and infrastructure in Argentina, Peru, Mexico and Brazil. Looking ahead, IFC is already taking innovative approaches by supporting regional integration in the Pacific Alliance countries, improving sustainability of meat and grains production in Paraguay and looking to increase venture capital in Chile. LAC's operations last year alone supported over 500 thousand jobs, 14.3 million MSMEs, 4.4 million patients and 2.4 million students where 46% were female. Successful implementation of the B2T approach will mean that these impact figures will also increase.

CREATING MARKETS

- To support its strategic priorities, LAC will look to scale up its business in innovative areas such as digital finance, mobilizing non-traditional sources such as pension funds, deepening insurance markets and expanding access to local currency financing in large and smaller economies. Increasing mobilization in the infrastructure sector will be a key component of IFC 3.0.
- The WB and IFC will be working more closely together on business environment reforms in Brazil, renewables in Argentina, SEZs in Mexico, mining and community development as well as increasing access to finance and rural-finance in Peru.
- The biggest opportunities to work with the WB on the Cascade are in infrastructure and PPPs in Peru, Argentina and Brazil given the stated government priorities and the retrenchment of public banks in Brazil. This would need to be supported with targeted capital markets development to facilitate



long-term, local currency financing. In addition, strengthening of agribusiness value chains would require effective and transparent land tenure policies (especially in Central America) and efficient quality standards and inspections functions for enhanced environmental and social sustainability (especially in the Southern Cone).

- In LAC, Haiti is the only country eligible to receive funds from the PSW, limiting the impact the PSW can have in the region.

GROWTH & IMPACT

- The LAC region can grow its business and increase impact by increasing the mobilization ratio, especially in infrastructure. Opportunities for impact exist: in expanding access to affordable technologies for fintech; improving quality of life and economic efficiency in cities through improved urban transport; and supporting the Colombia post-conflict agenda through agribusiness and other opportunities for small farmers.
- Job preservation and creation has become an increased focus of the LAC strategy, especially in countries that have experienced recession or low-growth. In such countries support to the retail, manufacturing and food processing sectors has been important to support clients in the down-cycle. Across the region, LAC also supports human capital by investing in high quality tertiary and technical and vocational education with a focus on skills and employment. LAC also invests in the private provision of healthcare and specialized clinics to support human capital.
- In LAC, profitability has typically been driven by the financial and extractives sectors.

CHALLENGES FOR IFC IN THE REGION

- Client demand for IFC services like PPP structuring currently outstrips IFC's capacity to deliver.

EXAMPLES OF TRADE-OFFS

- Corporate focus on IDA and FCS may require re-allocation of industry expertise away from middle-income investment and advisory projects, including in LAC.

MIDDLE EAST AND NORTH AFRICA

STRATEGIC CONTEXT

- Ongoing conflicts and its associated regional and global spillovers coupled with low oil prices are expected to continue to weigh on the Middle East and North Africa (MENA) economies as GDP growth is projected to remain modest at 3.4% in 2017. Weak oil prices continue to pose challenges for oil exporters (especially the Gulf Cooperation Council countries), however policy reform and diversification efforts (including potential privatizations) are likely to help generate private sector jobs and growth. Oil importers, which had benefited from low oil prices, failed to realize their growth potential due to longstanding domestic structural impediments. However, growth for oil importing countries is expected to pick up as investor confidence improves, some policy reforms gain traction, and investment and exports bounce back. The outlook for MENA is subject to considerable downside risks stemming from worsening security conditions and slower implementation of reform which would undermine tourism, private investment and overall macro stability.
- IFC's holistic jobs strategy remains relevant as it seeks to help promote private sector led growth in MENA. The strategic pillars center around: (i) improving the investment climate; (ii) increasing access to finance, especially for MSMEs; (iii) infrastructure development (energy/renewables); and (iv) skills development to meet labor market needs and support entrepreneurship. In addition, IFC continues to focus on increasing cross-border trade and investment flows with a view to sharing of knowledge and capital which would facilitate greater regional integration, as well as addressing climate change issues.
- IFC expects to steadily grow its program as the Cascade approach is rolled out across the countries in MENA, with a particular focus on infrastructure and PPPs. It is expected that ongoing and planned WBG collaboration will help to catalyze private sector in key sectors and support the MENA economies to accelerate the transition of the region's economies from public sector dominance to private sector led growth.

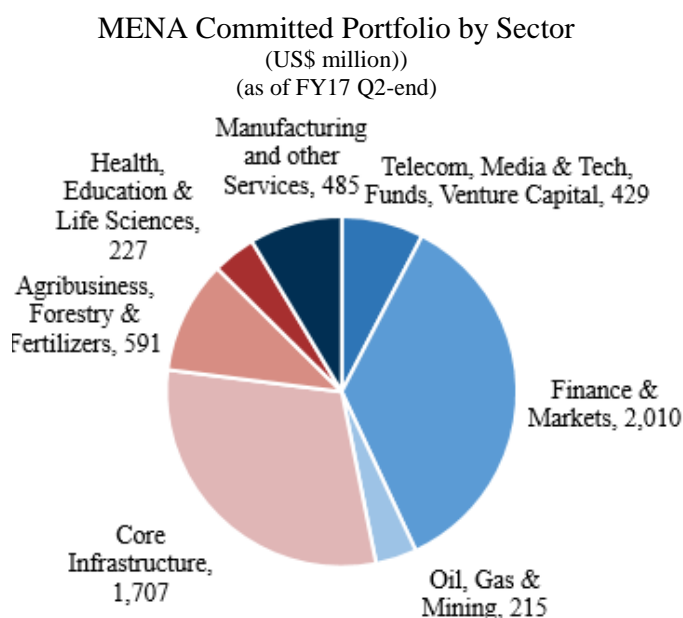
CREATING MARKETS

- As part of 3.0, IFC will deepen its engagement, both analytically and operationally with the WB, to help facilitate the creation of markets in sectors that need greater private sector penetration such as water, agribusiness, urban transport, and manufacturing. IFC will build on its notable successes in the energy sector in Pakistan (see Box 1 in main text) and the early efforts in Egypt. In Egypt, WB and IFC worked collaboratively in preparing the Energy White Paper in 2014, followed by IBRD Development Policy Financing in 2015 and 2016, which is paving the way for greater private investments in sustainable energy.
- To support the reconstruction and recovery in FCS markets, IFC will focus on private sector delivery of services across strategic sectors.
- IFC will try to deploy innovative tools and instruments such as Blended-Finance and Risk Sharing Facilities (RSF), including drawing on the PSW for eligible countries. The PSW could potentially help: (i) scale up investments in key sectors such as agribusiness and financial inclusion (ii) create markets in difficult and less developed border areas and (iii) offer support to microfinance

institutions and trade finance. In addition, IFC will remain actively engaged in promoting investment climate reforms to level the playing field for all private sector players.

GROWTH & IMPACT

- The opportunities for private sector development in MENA are abundant, especially as efforts towards diversification are ramped up in oil exporting countries. Furthermore, the region's strategic location, young demographic, growing population, and trend towards urbanization present significant opportunities for growth and investment spread across sectors such as infrastructure, manufacturing and consumer services, healthcare, ICT, and entrepreneurship. In post conflict countries, reconstruction coupled with institutional capacity building and good governance can pave the way for greater private sector participation. While worsening conflict and fragility may impede the scale and size of IFC's engagements, working collaboratively with the WBG and broader international partners/community will be critical in tackling the development challenges of MENA countries.
- MENA has been profitable over the last several years due to its concerted effort to grow its equity portfolio and capitalize on the region's long-term potential. Continued efforts to mobilize, especially in infrastructure, will contribute towards higher fee income and active portfolio management to continue to improve NPLs and maintain a healthy equity portfolio.



CHALLENGES FOR IFC IN THE REGION

- External: The operating environment remains difficult due to increased fragility on many fronts across the MENA region. In addition, macroeconomic uncertainties pose significant challenges to attract private sector investors, which in turn negatively impact the mobilization efforts.
- Internal: As new approaches and instruments are rolled out (e.g., Cascade, blended finance), appropriate resource allocation will be important.

EXAMPLES OF TRADE-OFFS

- Implementing the Cascade and/or a programmatic approach will require a greater time horizon to see results as compared to the traditional model of providing corporate/project financing by IFC.
- Emphasis should be placed on implementing a more selective program across key themes where government commitment for increased private sector participation is high.

SOUTH ASIA

STRATEGIC CONTEXT

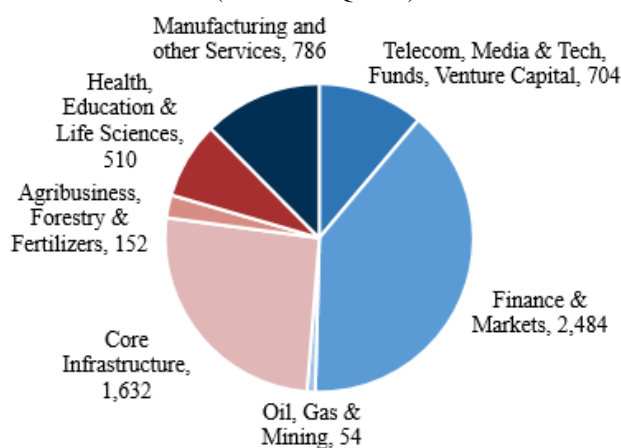
ECONOMIC OUTLOOK

- South Asia (SA) has been relatively resilient to the global slowdown and maintained a steady growth, with expected GDP growth of 7.6% in 2016, driven by accelerated infrastructure spending, consumption and increased investment momentum.
- Progress on the reform agenda in India, better governance in Sri Lanka and improving competitiveness in Bangladesh helped increase investor confidence in the subcontinent.
- India remains the main driver of growth in the region. A demonetization scheme introduced in late 2016 led to cash shortages and payment disruptions which caused growth to dip to 6.8% in the fiscal year, but with growth expected to rebound to 7.5-8% by FY18.

IFC STRATEGY

- Despite being one of the world's fastest growing regions, SA continues to face huge development gaps. Progress in the region is critical for meeting the WBG's twin goals. One third of the world's poor, or 300 million people, live in SA. The region, home to 500 million, or 25% of world's unbanked/underbanked population, is very vulnerable to the effects of climate change and is in dire need of infrastructure, with about 370 million people without access to energy. An estimated US\$2.5 trillion will be needed in infrastructure investments over the next decade. Rapid urbanization is placing huge stress on infrastructure and logistics services and will require providing access to power, transport, water, waste management, health and services and the development of "smart" cities to help make cities connected, resilient and competitive.
- The private sector faces significant challenges and opportunities. On the one hand, private sector growth is held back by lack of infrastructure, informality, low productivity, limited credit growth, weak governance, an unconducive business environment and a critical shortage of skills. On the other, SA has strong growth prospects, a young population, large consumer markets, and a private sector poised to replace public provision of services.
- Building on strong presence and track record in SA, IFC has identified areas in which the private sector can play a crucial role and where IFC can deliver meaningful impact. IFC's strategy is accordingly focusing on the key pillars of inclusion, infrastructure and logistics, and sustainability, while continuing to address cross-cutting issues of jobs, gender, investment climate, urbanization, and frontier regions.
- In inclusion, IFC is focusing on financial and social inclusion, access to credit for individuals and SMEs, access to affordable housing and health care, skills development for productive employment, corporate governance, and PPPs in disadvantaged regions.

South Asia Committed Portfolio by Sector
(US\$ million)
(as of FY17 Q2-end)



- In infrastructure and logistics, IFC will focus on infrastructure financing, access to electricity, water resource management, improving logistics and connectivity by upgrading highway and freight capacity, strengthening regional trade and investment linkages and supporting investments in terminals, ports, supply chains, and e-commerce.
- To help mitigate the effects of climate change and promote sustainability, IFC will focus on RE, EE, climate change, adaptation and green buildings.
- IFC will continue to work on local currency issuances in other countries in the region, building on good progress made through the development of the local currency bond markets in India.

CREATING MARKETS

- In line with IFC 3.0, IFC will focus its interventions on creating markets in areas where there are market failures, potential for significant sectoral impact and a pioneering role for IFC. IFC will partner with the WB and MIGA to apply the Cascade principle to deliver the appropriate mix of PPPs, private sector participation and public sector financing.
- IFC will also work with the WB and MIGA to utilize the IDA PSW to de-risk private investments and increase impacts in eligible countries.

GROWTH & IMPACT

- Drivers for private sector growth include: a pressing demand for jobs; a growing number of middle class consumers; increasing adoption of the digital economy; rising climate change concerns; and an improving authorizing environment.
- IFC continues to grow its portfolio in SA. Increases in strategic engagements are expected to lead to more impactful results and strengthened financial sustainability.
- IFC will continue strong AS engagements in PPPs, competitiveness, and cross-cutting themes.

CHALLENGES FOR IFC IN THE REGION

- Constraints on private sector include lack of infrastructure, informality, low productivity, limited private sector credit, weak governance, a challenging business environment and lack of skills.

EXAMPLES OF TRADE-OFFS

- Significantly increased focus on impact and building strategic partnerships may affect business delivery in the short term, but are expected to bear fruit in the medium term.

SUB-SAHARAN AFRICA

STRATEGIC CONTEXT

After posting the lowest growth rate in two decades in 2016 (1.5%), growth is forecast to be 2.9% in 2017 before accelerating progressively to 4-5% by 2020. This subdued growth arose from a combination of strong external headwinds combined with adverse domestic developments. Subject to downside risks, the outlook for the region is favorable but varies across countries. While the largest economies, mineral commodity exporters, continue to face acute financial and fiscal challenges, countries in East Africa and francophone West Africa, with more diversified and integrated economies, enjoy solid growth prospects.

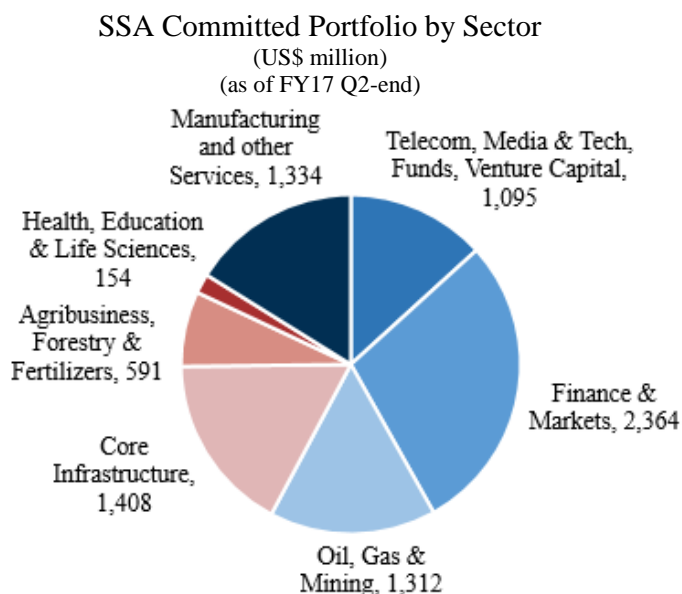
IFC's strategic approach for Sub-Saharan Africa (SSA) addresses these current headwinds and the region's secular development challenges. This approach is based on three strategic pillars: (i) bridging the infrastructure gap; (ii) building a productive real sector; and (iii) leading inclusive business approaches. Four priorities cut across these areas: (i) climate change; (ii) investment climate; (iii) gender; and (iv) partnerships. IFC intends to progressively increase its commitments to represent between 16% and 18% of IFC's global portfolio. During FY17-19, combined IS, AS, and AMC programs in the region are expected to reach more than: (i) 0.4 million farmers; (ii) 32 million MSMEs; (iii) 0.5 million SMEs; and (iv) 17 million people with infrastructure services. IFC also expects to mitigate more than 1.8 million tons of CO₂.

CREATING MARKETS

Operational teams will build on best practices using JIPs, guarantees, blended finance, and local currency financing to scale up IFC's operation in the continent. IFC will deepen cross-sectorial approaches, expand collaboration with MIGA, and find new opportunities to use AS as a first mover. Moving forward, to create markets across the region, IFC will: (i) pursue value chain and other approaches that create synergies; (ii) propose new products and solutions; and (iii) further leverage internal and external stakeholders.

WBG will adopt a systematic and sequenced approach to scale up private sector solutions and catalyze private capital. The WBG will cascade its interventions in critical sectors, such as infrastructure, ICT, agribusiness, financial institutions, and capital markets. This will entail: (i) promoting private sector-minded regulatory reforms; (ii) engaging in upstream and developing new operating models; (iii) providing targeted AS, and PPP solutions; and (iv) fostering joint sectoral interventions.

IDA 18 PSW will enable IFC to use the risk mitigation facility for projects in infrastructure such as power generation, transport, utilities, and telecommunications, including mobile and broadband. The blended finance and local currency facilities would be used for projects in



agribusiness, health and education, competitiveness and jobs as well as inclusive financial services, capital markets, agribusiness, MSME, housing, and digital finance.

GROWTH & IMPACT

Constrained public resources, low economic diversification and secular development challenges are a strong rationale for innovative and ambitious private sector solutions. IFC is well positioned to help tackle acute development gaps in the region, allowing it to deepen its engagements for greater impact, along with the ongoing recovery in the region's largest economies.

IFC's profitability in SSA has been driven by its focus sectors: telecommunications; financial institutions; manufacturing; agribusiness and services (equity); and core infrastructure (fee income; mobilization).

CHALLENGES FOR IFC IN THE REGION

- Governance, fragility and security risks hamper IFC's engagement in certain areas, requiring deepening collaboration with the WB, national authorities, and development partners.
- To ensure resource adequacy, address shortcomings and maintain flexibility, upstream engagement with partners will be required.
- To convert prospects into concrete investment and AS opportunities, developing and maintaining a pipeline will be critical and will be achieved with deepened integration of investment and AS, collaboration with the WB, and strategic client engagement.

EXAMPLES OF TRADE-OFFS

- Prioritizing IFC's program presents challenges.
- For IFC in SSA, possibility of tension between project profitability and impact may result from implementation of small projects in challenging environments.
- There is a tradeoff between developing traditional projects and leveraging on WB collaboration and de-risking instruments that might be more resource intensive.