

IFC FY18 Budget:

Implementing IFC 3.0

Approved by IFC's Board of Directors on June 22, 2017

Released in accordance with IFC's Access to Information Policy

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Glossary

AMC	- Asset Management Company
AS	- Advisory Services
CI	- Cash Income
CMAW	- Creating Markets Advisory Window
CO	- Country Office
CoE	- Career Management Center of Excellence
CODB	- Cost of Doing Business
CTT	- Telecom, Media and Technology, Venture Capital & Funds
DOTS	- Development Outcome Tracking System
EAP	- East Asia and Pacific
ER	- Expenditure Review
ESG	- Environment, Social and Governance
EVP	- Executive Vice President
FCS	- Fragile and Conflict Situations
FIG	- Financial Institutions Group
FMTAAS	- Funding Mechanism for Technical Assistance and Advisory Services
FY	- Fiscal Year
GAFSP	- Global Agribusiness & Food Security Program
GP	- Global Practice
HQH	- Headquarters
HR	- Human Resources
IBRD	- International Bank for Reconstruction and Development
ICFR	- Internal Controls for Financial Reporting
IDA	- International Development Association; also used to denote IDA borrowing countries
IDG	- IFC Development Goals
IFC	- International Finance Corporation
IPP	- Independent Power Producers
IT	- Information Technology
LAC	- Latin America & the Caribbean
LBW	- Location Based Waiver
LIC-IDA	- Low-Income IDA countries
LOB	- Line of Business
LTF	- Long-Term Finance
LTPA	- Long Term Performance Award
M2D	- Mandate to Disbursement
MAS	- Manufacturing, Agribusiness & Services
MCPP	- Managed Co-Lending Portfolio Program
MDB	- Multilateral Development Bank
MENA	- Middle East & North Africa
MIGA	- Multilateral Investment Guarantee Agency
ODA	- Official Development Assistance
PIE	- Process Efficiency Initiative
PPP	- Public Private Partnership
PSD	- Private Sector Diagnostics
PSW	- Private Sector Window
RE	- Renewable Energy
SBO	- Strategy and Business Outlook
SDG	- Sustainable Development Goals
SSA	- Shared Services Agreement
VPU	- Vice Presidential Unit
WBG	- World Bank Group

Note: All dollar amounts are U.S. dollars unless otherwise indicated

Executive Summary

- i. **IFC is implementing an innovative new strategy to focus on creating markets and mobilizing private capital in the poorest and most fragile environments.** The Board endorsed this new strategy, “IFC 3.0,” in an informed discussion in December 2016 and again in the *FY18-FY20 Strategy and Business Outlook* (SBO), which was discussed with the Committee of the Whole on April 13, 2017. Developed in response to shareholder requests, IFC 3.0 creates new tools and vehicles for risk sharing and mobilizing increased levels of private financing. An essential component of IFC 3.0 is the *Cascade* approach, whereby WBG staff work with governments to prioritize private sector solutions wherever possible, expand reform and blended finance to lower risk in markets, and crowd in commercial financing where it presents value for money. This strategy represents a paradigm shift—one in which scarce Official Development Assistance (ODA) resources serve not as the primary source of funding, but as a catalyst for the trillions of private sector dollars needed to end global poverty and boost shared prosperity.
- ii. **IFC has developed and is developing several new tools to ensure success in this effort.** The International Development Association (IDA) Private Sector Window (PSW) will help mitigate risks and enhance the commercial viability of projects in IDA and Fragile and Conflict Situations (FCS) countries. New initiatives such as Private Sector Diagnostics (PSDs) and the Ex-Ante Development Impact Assessment Framework will help ensure that project designers consider market creation goals in their design and decision-making. IFC is strengthening Advisory Services’ (AS) capacity to support IFC 3.0 goals, for instance by ensuring robust investment pipelines in countries and sectors where risk-sharing tools are required. IFC has also recently reached agreement with other Multilateral Development Banks (MDBs) on shared definitions and methodologies to measure private investment mobilized by their operations. Close partnership with the World Bank remains essential to success in all these areas and IFC will need additional resources to support its share of the collaboration.
- iii. **IFC’s organizational structure is evolving to better implement IFC 3.0.** Among many measures, the Corporation is shifting resources between the Vice Presidential Units (VPUs) to strengthen key support functions for the core business. Human Resources (HR), Economists, Communications and Resource Management networks will be centralized under their respective VPUs to reduce duplication of effort. Newly-created Vice Presidencies will also strengthen IFC 3.0 implementation. At mid-year FY17, IFC established a Vice Presidency for Economics & Private Sector Development, which has developed a new Ex-Ante Development Impact Assessment Framework that will serve as a critical filter for project selection going forward. IFC Management recently announced a new Vice Presidency for Communications & Outreach to begin work at the start of the new fiscal year. This VPU will enhance the Corporation’s communications and outreach in support of IFC 3.0.
- iv. **To support IFC 3.0’s ambitious goals, IFC is requesting a 3% Administrative Budget increase—a number already minimized by significant tradeoffs, cost savings, and productivity gains.** Even before IFC 3.0 was articulated, IFC had already projected budget increases of 3% for FY17, FY18, and FY19. The initiatives described in IFC 3.0 are in addition to the projects accounted for in last year’s projected increase of 3%, and require the Corporation to develop, not just finance, projects in the most difficult and fragile markets—where the cost of doing business is higher than the IFC average. To keep the FY18 budget increase request as low as possible, IFC has applied more than US\$39 million in tradeoffs (including

Expenditure Review savings and productivity gains) and reduced corporate contingency funds by US\$4.7 million.

v. **IFC's budget aligns resources with strategic commitments, and recognizes the additional skills and resources required to meet strategic goals.** Section I presents IFC's FY18 program and resource needs. IFC is strengthening the quality of its work—through enhanced portfolio management, better risk management, development measurement tools and the *Cascade*—to achieve desired impact. Legal, Compliance, Environmental & Social departments are adapting to the shift toward businesses with higher risk profiles. As mentioned above, IFC has created a new Advisory Services (AS) strategy focused on creating private sector investment opportunities and ensuring robust investment pipelines, particularly in cases where de-risking tools are required. IFC is also expanding co-investment vehicles such as the IFC Asset Management Company (AMC) and the Managed Co-lending Portfolio Program (MCP). As project development shifts to the most difficult and fragile markets, IFC will need to deploy more resources to accommodate the longer lead-times and greater upfront work required to close investments in these focus areas.

vi. **This limited budget increase is the result of the IFC's rigorous approach to managing its budget-** driving systematic productivity gains, requiring departments to identify spending reductions and tradeoffs, and methodically calibrating future resource requirements. Section II presents the trade-offs and efficiency measures realized to offset incremental needs identified through the FY18 budget process. This includes improved productivity in terms of translating new business efforts into commitments, redeployment of staff to higher strategic activities, processing time improvements, and better leveraged portfolio management resources as the portfolio grows. It includes savings from travel and benefit costs, and further Expenditure Review categories.

vii. **Over the past six years, from FY12 to FY17, IFC has expanded activity in focus areas and regions where the cost of doing business is higher.** In FY18, additional budget required for this continued shift in business mix is validated by analyzing segmented costs of doing business across IFC's regions, sectors, and focus areas. This top-down analysis helps and complements a detailed bottom-up budget proposal process from the VPUs, confirming IFC's need for the 3% increase as projected in the FY17-19 trajectory. Projected costs to deliver the program committed in the FY18-FY20 SBO, coupled with VPU budget proposals, indicate a higher cost than the requested budget increase, which IFC will manage and absorb within the 3% nominal budget increase.

viii. **To meet all its obligations, as it has in the past, IFC will supplement the Administrative budget with fees, contributions from development partners, and designations from income for Advisory Services.** Section III describes how IFC will allocate resources to deliver its FY18 program. IFC's Management must ensure that IFC remains profitable as it implements the IFC 3.0 goals of Creating Markets and Mobilizing Private Capital. Creating Markets development might not provide financial returns upfront—but is expected to have longer-term transformational impact on market structures.

ix. **Targets described in IFC's Scorecard will guide strategic resource allocation choices.** Section IV presents the FY18 IFC Scorecard which represents IFC's target outcomes, including business mix. These metrics are grouped into four dimensions—development impact, financial sustainability, delivery for clients, and managing talent—along with the multi-year IFC Development Goals. Since IFC will be piloting new ex-ante assessments of development impact during FY18, the results of the pilot may drive changes to the IFC Scorecard.

x. **IFC recommends approval of the budget request which aligns resources with strategic goals.** In Section V, IFC Management recommends that for FY18, the Board approve an Administrative Budget authority of US\$1,035.7 million, a capital budget authority of US\$69.4 million, and a special initiatives

authority of US\$5.25 million earmarked for InfraVentures. IFC's resource needs are driven by analysis of IFC's cost of doing business, achievement of implementation milestones, investment in new tools and improved quality, and consideration of resource trade-offs and efficiencies.

I. IFC's FY18 Program and Resource Needs

Introduction

1.1 The *FY18-FY20 Strategy and Business Outlook* (SBO) introduced an ambitious new strategy, IFC 3.0, which builds upon IFC's existing strategies, the World Bank Group (WBG) Forward Look, and other documents presented to the Board throughout FY17. IFC 3.0 will require the development of new tools and risk mitigation products to leverage the trillions of dollars in private sector investment necessary to end global poverty and boost shared prosperity. IFC is closely partnering with the World Bank on the *Cascade* approach to ensure cooperation on potential projects across the WBG and the systematic coordination of public, private and blended funding solutions.

1.2 Achieving the full set of objectives laid out in this strategy has been estimated to require a US\$74.1 million increase in funding as proposed by VPU during the budget formulation process. This includes an unavoidable US\$20.1 million for inflation, US\$27.2 million to cover IFC's increased efforts in focus areas and operations (See Figure 1), and US\$26.8 million for new tools such as the IDA Private Sector Window (PSW) and Private Sector Diagnostics. IFC is covering more than half these costs through tradeoffs and efficiency gains, which will be discussed in detail in Section II.

Figure 1: Focus areas identified in FY18-FY20 SBO

Infrastructure	Climate Finance	Africa
Agribusiness	Fragility	MENA
Financial & Social Inclusion	Digital Economy	South Asia
Capital Markets	Accelerate, deepen local currency bond issuance Capital market regulatory development enhanced Expand offering of credit enhancement and risk mitigation tools	
Mobilization	Increase in mobilization with new and existing tools	

Introducing new platforms, tools, instruments and organization

1.3 IFC 3.0 rests on two pillars: *Creating Markets* and *Mobilizing Private Capital* and focuses on IDA and FCS countries. Through the *Creating Markets* pillar, the IFC will work closely with the World Bank to support efforts to help improve conditions for market-based delivery of development outcomes. The *Mobilizing Private Capital* pillar includes mechanisms to crowd- in private sector finance for development, and mobilize the significant sums needed to achieve the Sustainable Development Goals (SDG). Table 1 lays out IFC's existing business models and new tools and instruments to execute IFC 3.0.

Table 1: The IFC Strategy

IFC 1.0

- 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.

IFC 2.0

- 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).
- MCPP

IFC 3.0

New Approaches to Create Markets

- Analysis and advocacy for reforms to strengthen the role of the private sector
- Cascade to work systematically across WBG
- Risk-sharing projects through Blended Finance
- Upstream support for project development
- Innovation to create markets

New Analytical Tools

- Private Sector Diagnostics
- Sector Deep Dives
- Ex-Ante Development Impact Assessment Framework

New Financial Instruments starting July 1

- IDA Private Sector Window
- Creating Markets Advisory Window
- MCPP Infrastructure and Financial Markets
- Green Bond platform for Emerging Markets

New Organization

- Economics and PSD
- Blended Finance and Partnerships
- New Business, Portfolio, Risk
- Strategy and Resource Management
- Communications

1.4 The *Cascade* approach and the new tools required under IFC 3.0 such as the Private Sector Diagnostics (PSDs), Sector Deep Dives and the Ex-Ante Development Impact Assessment Framework (see Box 1) will require new specialized skills. IFC will need to draw on resources within Global Practices (GP) and enhance its own economic skills to deliver. In FY17, IFC launched two pilot PSDs – in Kazakhstan and Ghana – with the expectation of completing PSDs in 10-15 additional countries, particularly IDA countries, in FY18. So far, IFC has been able to use its own budget to cover the costs of the pilot PSDs including the costs of the World Bank staff assigned to them. A more sustainable and shared funding model is being explored. These PSDs will enhance the effectiveness of the WBG Cascade mechanisms, strengthen the WBG country engagement process, and provide valuable insight for World Bank policy advice to governments.

Box 1: Creating an Ex-Ante Development Impact Assessment Framework

Building on the foundation of IFC's development results measurement framework, the Development Outcome Tracking System (DOTS), IFC is creating a new set of tools to estimate the impact of its interventions, both during project preparation (ex-ante) and during implementation (ex-post). Developing an Ex-Ante Development Impact Assessment Framework will enable IFC to more accurately describe the development impact of its interventions, select projects more effectively and better implement its portfolio approach to maximize development impact while maintaining financial sustainability.

IFC's current monitoring system, DOTS, is focused on the direct and indirect impacts of individual projects. It is not designed to capture the market changing impact that IFC is aiming to effect with IFC 3.0. IFC will modernize its existing monitoring and evaluation systems to link ex-ante assessment with ex-post monitoring and evaluation and to strengthen the assessment of broader, systemic impacts from end to end of the project cycle.

Advisory Services extends IFC's impact

1.5 The new Advisory Services (AS) Strategy, discussed with the Board on March 23, 2017, further integrates IFC's engagement with WBG country and sector strategies, PSDs, and sector diagnostics, to increase IFC's contribution to the policy dialogue. Advisory Services will also facilitate the building of larger pipelines of bankable projects, especially in IDA and FCS, to support the creation of new markets to crowd in private capital.

1.6 IFC is establishing the Creating Markets Advisory Window (CMAW) to enable IFC to respond to increased demand for Advisory Services and capacity building in FCS and IDA, and to complement the IDA PSW by putting more emphasis on creating markets in countries and sectors covered by the PSW. IFC will leverage CMAW budget resources with those of development partners by creating thematic funding platforms, aligned with priority sectors and themes.

1.7 The new instruments of the **IDA Private Sector Window (PSW)**, the **Creating Markets Advisory Window (CMAW)** and the expansion of the **Managed Co-lending Portfolio Program (MCP)** into Infrastructure and Financial Markets, will require dedicated resources and new skill sets. The IDA PSW was created during the FY18 IDA replenishment, as a mechanism to expand the private sector in IDA countries by leveraging the capacity and experience of IFC and MIGA. IFC expects to put in place a governance and resource system to be ready to operationalize the PSW, and consolidate the initial pipeline and outreach program. The CMAW, as part of a refocused AS strategy, will provide additional support to upstream work in IDA and FCS countries. In terms of commitment flows, IFC expects to increase volumes by 3-9% in FY18. This represents the expected FY18 contribution to achieve the targets set out in the FY18-FY20 SBO.

Resource Requirements to implement the FY18-FY20 SBO

1.8 For the FY18 budget process, IFC VPUs determined the additional administrative resources needed to execute both IFC 3.0 and to increase efforts in the focus areas in line with the program projections mentioned above at US\$54.0 million, not including the price factor increase estimated at 2%, or US\$20.1 million. After applying and identifying trade-offs and savings, departments identified a potential for absorption and trade-offs of **US\$39.2 million** in Administrative Budget, which would represent a 3.9% budget absorption with respect to FY17 Administrative Budget.

Cost of Doing Business

1.9 A Cost of Doing Business Analysis (CODB) helps IFC understand the cost dynamics of investment projects in each of the business areas. The analysis can also be used to estimate future resource requirements, and can help Management assess the reasonableness of incremental budget requests. This methodology is not used to allocate budgets as efforts are also driven by external market conditions, but it does provide a useful methodology to calibrate resource requests.

1.10 Table 2 shows how developing new businesses and managing portfolios in focus areas cost more than the IFC average. IFC activities related to the origination of a project cost US\$959 thousand per project on average, and originating core infrastructure costs 1.7 times more than this average. Analytical results

demonstrate that above-average efforts and costs are incurred in many focus areas and all focus regions. This would be expected to lead to overall higher costs as IFC's mix of business increases in these areas.

1.11 Using IFC's projected business outcomes in FY18 to achieve the SBO targets, the CODB analysis predicts a cost increase of US\$79 million in FY18 based on this shift of new business and portfolio composition. This number indicates that the VPU budget requests, before tradeoffs, to deliver the SBO strategy are aligned with the CODB analysis.

Table 2: Cost of Doing Business by Industry, Theme and Region relative to IFC's FY14-FY16 average costs

	New Business Factor: \$959K/project	Portfolio Factor: \$288K/client
Focus Industries		
Core Infrastructure	1.7 x	1.1 x
Agribusiness, Forestry & Fertilizers	1.1	1.0
Health, Education & Life Sciences	1.1	0.8
Financial Markets	0.6	1.1
Focus Themes		
Climate	0.6	1.0
FCS	1.1	0.9
IDA	1.1	0.9
Focus Regions		
South Asia	0.7	0.8
Africa	1.3	0.9
MENA	0.98	1.02

1.12 IFC plans to continue increasing the resources deployed in FY18-20 to all the priority sectors, themes, and regions. Focus regions will increase their resources deployed by 8%, above the 3% budget increase, to generate 16% of increased LTF commitment flows in FY18 compared to FY17. Only Financial Markets, with a CODB New Business factor of 0.6 times remains flat from a percentage perspective but slightly increased from a dollar perspective.

II. FY18 incremental requests can be partially funded through Trade-offs, Efficiency, and Productivity Gains

2.1 Before funding incremental requests, IFC closely reviews them through three mechanisms: i) internal reallocations and trade-offs; ii) Expenditure Review (ER); iii) productivity gains and process improvement.

2.2 During the FY18 budget formulation process, departments were asked to identify trade-offs and reductions in Administrative Budget spend for FY18. Departments identified a potential for absorption and trade-offs of **US\$39.2 million** in Administrative Budget, which would represent a 3.9% budget absorption with respect to FY17 Administrative Budget. The trade-offs are largely comprised of revised staffing plans, internal reallocations of resources and one-off activities that could be funded from contingency so as not to increase the base budget going forward. Re-allocation of current staff to strategic focus areas will relieve some staffing constraints.

2.3 To ensure the successful implementation of IFC 3.0, IFC must have the ability to recruit and retain talented staff and maintain the appropriate expertise, seniority and skill mix. IFC will require more capabilities 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) work closely with IBRD/IDA colleagues on reform; and (iii) collaborate more seamlessly across IFC teams to achieve cross-sectoral impacts. To deepen its impact in the nascent markets of IDA and FCS, IFC must significantly grow its highly-skilled, senior and specialized workforce in Africa and South Asia, which historically has proven difficult. This will require organizational realignment, specifically the buildup of specialized workforces in priority markets and an improvement of the employee value proposition to ensure the hiring and retention of skilled employees. While some redeployment of existing resources will be possible, additional recruitment and exits will be required to adequately serve challenging markets. IFC intends to begin a process for Position Management to realign its workforce in Q1 of FY18.

2.4 After all the VPUs proposed their budgets and identified the tradeoffs, the Management Team further mandated that US\$3 million be set aside at the corporate level for Cascade implementation and related incentives. The funds will be allocated to VPUs during FY18.

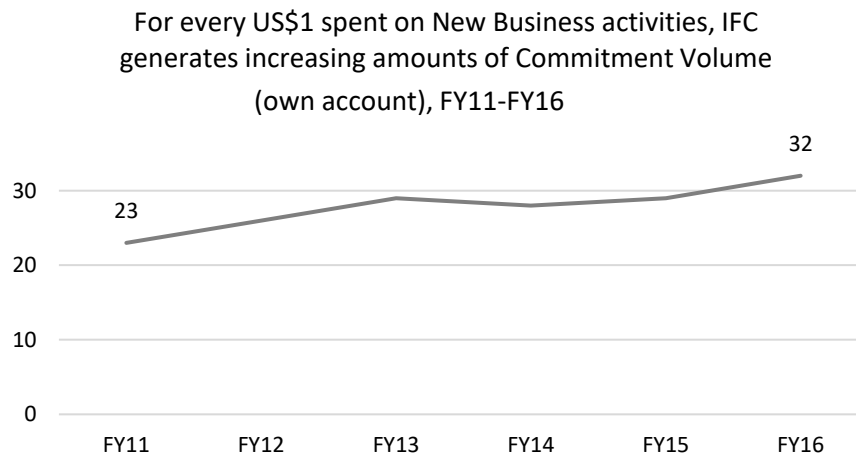
Expenditure Review

2.5 IFC expects to exceed its targeted ER Savings of US\$68.3 million in FY18 by 7% for a total of US\$73.1 million. During the four-year period ending in FY18, IFC will achieve its most significant savings in the categories of travel, HR Benefits and IT. IFC is actively reviewing its global office footprint, weighing appropriate business growth with cost efficiencies and a renewed emphasis on security. IFC buys office space instead of renting where it makes business and financial sense. For example, purchasing the Cairo and Lagos offices will generate approximately US\$2.5 million in annual savings. These savings have been included in IFC's tradeoffs against FY18 budget requests.

Productivity

2.6 IFC demonstrated a **more efficient operation during FY11-16** in New Business activities. In FY11, for every US\$1 spent, IFC generated approximately US\$23 of commitment volume (own account), a 1:23 ratio. By FY16, that ratio had grown to 1:32, or a 39% increase over the five-year period.

Figure 2: The CODB metrics for New Business shows Improved Productivity over time

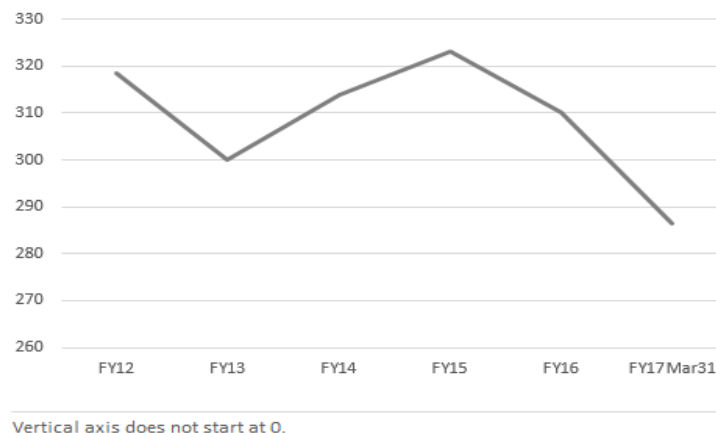


Process Improvements

2.7 IFC launched a Process Efficiency Initiative (PIE) through a pilot in Latin America & the Caribbean and rolled it out across all regions and industry groups effective July 1, 2015. This is a key strategic initiative that aims to improve project processing efficiency by reducing the number of days between approval of mandate and disbursement. IFC put in place a robust tracking system to ensure timely tracking and proactive management of targets. The overall IFC Mandate to Disbursement (M2D) metric is showing some improvement.

Figure 3: IFC M2D metric is showing a slight improvement from FY15

In median days



2.8 Enforcing timeline discipline going forward as IFC implements IFC 3.0 will be important, especially in light of uncontrollable external factors expected in riskier markets. This could lead to higher M2D and therefore higher origination costs. A review of processes in FY18 will be carried out to find additional efficiencies in the operating model with the intention of streamlining the processing of certain projects and activities to free time for more complex and lengthy endeavors.

Box 2: Solar IPP in Burkina Faso

We have learned through projects like Zina Solaire that our ambitious goal of delivering more in IDA demands resources, time and patience. Zina Solaire demonstrates the complexity of financing Independent Power Producers (IPP) in untested, difficult markets such as low-income IDA countries, where protracted delays lead to high costs. After years of dedicated effort, IFC is proud to be bringing Zina Solaire for Board approval.

IFC's Infrastructure team signed a mandate to arrange financing for the Zina Solaire project in April 2015. Zina Solaire is a 27 MWp solar photovoltaic (PV) project in Burkina Faso, and it would be the country's first IPP, following six years of project development. As the first private sector infrastructure investment in Burkina Faso, IFC's investment would create a powerful demonstration effect, showing international investors the market potential for private infrastructure investment in Burkina Faso and other countries in the region. Additionally, Zina Solaire would alleviate the region's limited energy supply, which has been the biggest hurdle to economic growth. The project also offers a promising opportunity to show that solar PV systems can replace the need for thermal plants that use heavy fuel oil. The project highlights the potential of solar energy to generate a substantial portion of the country's electricity needs.

Since mandate signing, the project encountered a number of hurdles that are common to many IDA countries, and result from the difficult country context and the innovative nature of the project. Because Zina Solaire was Burkina Faso's first IPP, government officials had a very limited familiarity with the process and its complexities. IFC's team worked tirelessly to closely guide the authorities and increase their understanding of IPPs. This challenge was compounded by the 2014 coup, which created a year-long period of transition and uncertainty. A terrorist attack in 2016 suspended IFC missions to the country and diverted the government's focus to security issues, further prolonging the team's work.

IFC's investment officers also spent considerable time resolving technical challenges caused by the combination of Zina Solaire's relatively small project size, its young sponsor in need of commercial strengthening, and a market with significant risks. Project development required extra effort to work across investment and advisory services, and between the sponsor and development partners. IFC believes it has made a strong contribution to creating the development impacts in this important project.

Accountability and Improvements in Management Reporting

2.9 To strengthen accountability and simplify decision-making, IFC has launched an accountability initiative to clarify roles and responsibilities in operations, establish clear success metrics, and align incentives and business goals. The first phase of the implementation was launched in FY17 Q4 focusing on transaction roles and responsibilities and decision making in operations. During FY18, IFC will introduce a new set of financial metrics and targets across business units, and pilot a new transaction-centric feedback system.

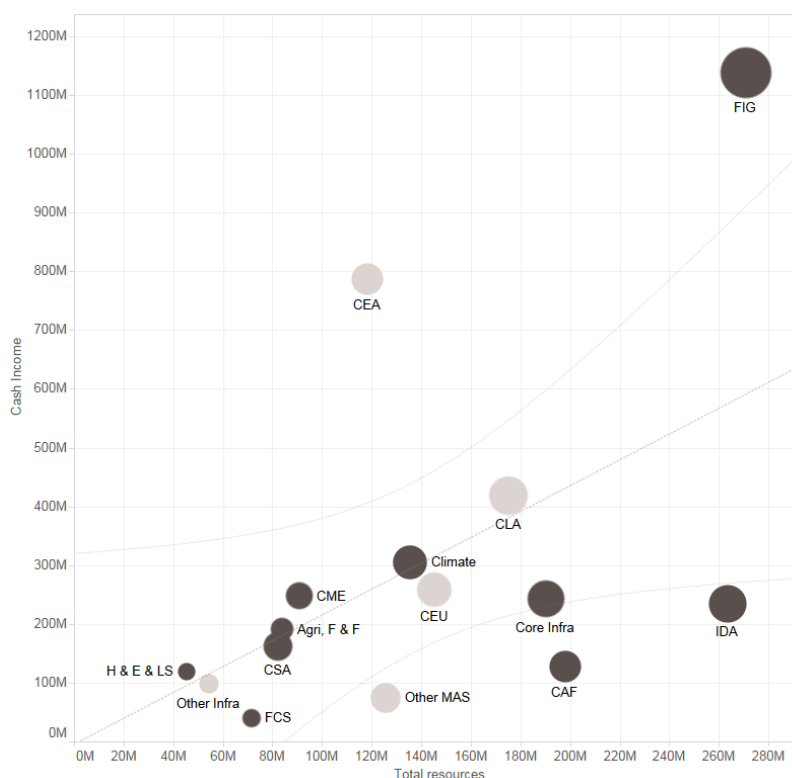
2.10 Changes to the organizational structure such as the creation of new Vice Presidencies and the centralization of HR, Economists, Communications, and Resource Management networks should put more focus on management and reporting to enable IFC's leadership role in private sector development. The IFC Corporate Scorecard presented in Section IV is also being revamped to better align targets to IFC 3.0. New tools to enhance pipeline reporting are also being developed. Across the WBG, new incentives are being established to implement the Cascade.

Financial Sustainability and Portfolio Approach

2.11 To maintain IFC's AAA rating and financial sustainability, translation of the SBO to budget and resources must provide for revenue and profitability drivers, in addition to cost drivers. The investment in upfront work strengthens the ability to produce desired development results. Pressures on net income would affect income designations according to revised schedule for designations discussed with the Board in November 2016.

2.12 IFC monitors many profitability metrics, but for illustration purposes, Figure looks at Cash Income (CI), which includes full corporate overhead allocation and realized capital gains. It indicates the relative profit generated from various lines of business, noting highest contributions to Cash Income from FIG, CEA and CLA. This analysis highlights the importance of IFC's portfolio approach in relation to generating the returns necessary to sustain profitability and related designations. Box 3 presents an IFC project which has transformational potential but incurs significant time and cost to deliver – another example of the importance of IFC's portfolio approach to project selection.

Figure 4: FY16 Cash Income compared to Total Resources Deployed in each area
US\$ millions (Size of circle = Committed Portfolio)



Box 3: Metalco – Transformation takes time and effort

Metalco is an example of a project that has a strong transformational impact potential but requires exceptional time and effort to realize IFC's and the World Bank's groundbreaking work both to support an important local manufacturer, and improve environmental standards in the local market. In FY17, IFC invested US\$10 million in Metalco Industries Company Ltd. Metalco is one of the few copper cable and rod manufacturers in Zambia and the only domestic producer of lead acid batteries in the country. It is also the largest metal scrap recycling company in Zambia. IFC originally engaged with Metalco in 2014, when an initial assessment identified significant risks around lead pollution – the factory is located in Kabwe, one of the top ten most lead-polluted places in the world. It was clear that IFC would not be able to address the health conditions of the workers by intervening only at the company level - a broader engagement was needed.

The World Bank designed a project to clean up the polluted areas in Kabwe and reduce pollution in the city. In conjunction with the World Bank, IFC began engaging with Metalco to address identified occupational health and governance issues. IFC's Advisory Services developed a program to assist Metalco in adopting better corporate governance standards as well as complement an environmental & social (E&S) initiative based on IFC guidance already underway within the company.

This multi-faceted engagement across IFC – investment, advisory, corporate governance, E&S teams – and with the World Bank, has the potential to address the critical lead pollution challenge in Kabwe, improving local E&S standards, while supporting a growing domestic manufacturer with a broad local economic reach that could potentially pave the way for further manufacturing sector opportunities. The success of this engagement to date has only been possible because of the strong commitment and dedication of staff resources from across the WBG. Initial engagement to project commitment took approximately 3 years. The associated WBG costs of bringing this project to fruition significantly outweigh the income received to date from this investment. However, this project is illustrative of the strong development impact a strategically-designed, comprehensive program can produce, and is well-aligned with our efforts around IFC 3.0 and Creating Markets.

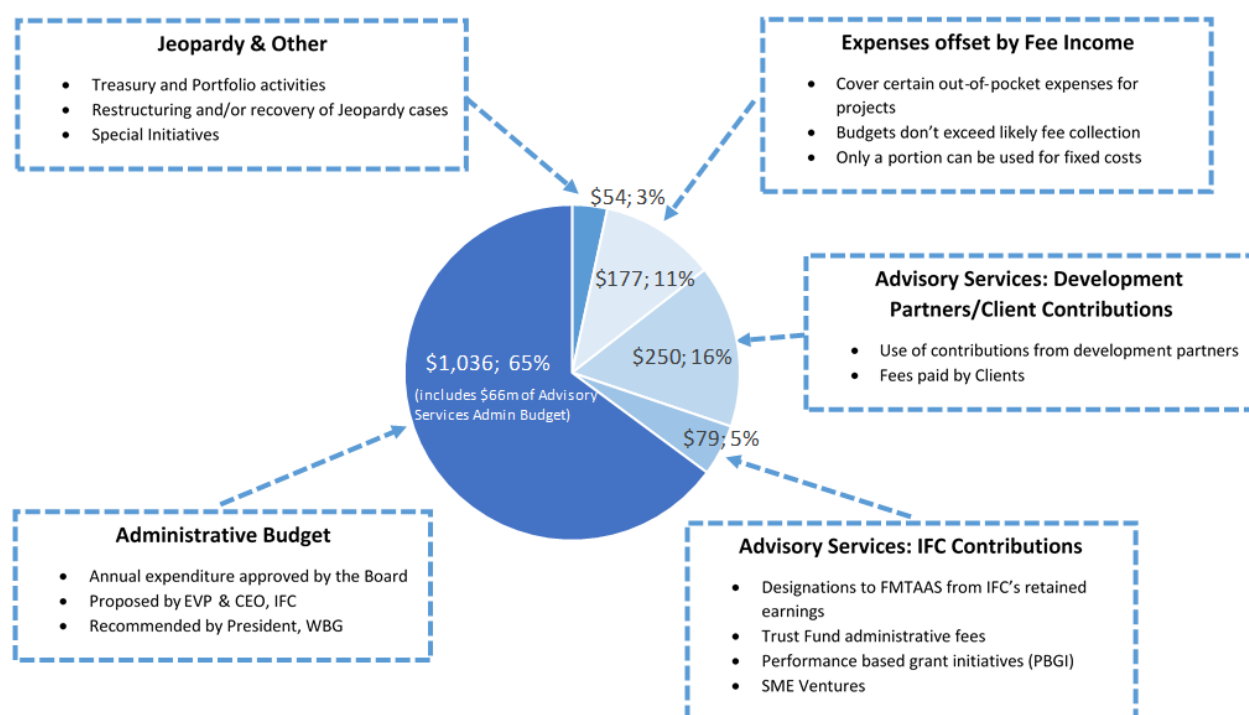
III. Allocation of Budget

3.1 Based on the VPU requests and identified efficiencies and trade-offs described in previous sections, IFC is proposing a 3% nominal increase to the Administrative Budget to deliver its FY18 program while laying the foundation for IFC 3.0. The detailed composition of IFC's proposed US\$1,036 million Administrative Budget is elaborated in the context of IFC's US\$1,597 million of Total Resources.

Total Resources Provide the Foundation Necessary for IFC to Conduct Business

3.2 To fully support its activities, IFC supplements its Administrative Budget Resources with other sources, particularly Client and Development Partner contributions, as shown in Figure 5. The FY18 proposal for Total Resources is US\$1,596.5 million. This can be viewed in several ways: i) by funding type; ii) by VPU; and iii) by cost category. Figure shows Total Resources broken down by funding type.

Figure 5: FY18 Total Resources is Comprised of Total Administrative Budget (65%), Advisory Services Budget excluding Administrative Budget (21%), Fees Budget (11%), and Other and Jeopardy Expenses Budget (3%)
US\$ millions



3.3 Table 3 shows contributions to IFC's total expected FY18 budget from all funding types. The 3% nominal increase that IFC proposes is net increase for all funding types. Some sources of funds, such as Development Partner and Treasury Fee contributions that are linked to specific project expenses, are projected to grow by more than the increase in general administrative expenses while some other funding types will grow less than 3%. Overall, increase in resources is broken down by increases attributable to Investment, Treasury and Support Services (2.9%) and Advisory Services (3.3%). The overall increase in all fund types at different percentages is essential to carry out the FY18 mandate.

Table 3: FY18 Total Resources Budget by VPU Reflect IFC's Business Model
US\$ millions

	Current Structure				PROFORMA	
	FY17	% of total	FY18	% of total	FY18	% of total
VP - New Business & Portfolio Management	563.0	36%	584.2	37%	559.4	35%
VP - Blended Finance & Partnerships	132.0	9%	138.2	9%	135.0	8%
VP - GP- CCSA - IFC	120.2	8%	121.5	8%	120.1	8%
Subtotal Operations & Advisory Services	815.1	53%	843.9	53%	814.5	51%
VP - Economics & Private Sector Development	38.2	2%	38.6	2%	42.6	3%
VP - Legal, Compliance Risk & ESG Sustainability	102.2	7%	104.8	7%	103.1	6%
VP - Risk & Financial Sustainability	54.0	3%	55.3	3%	55.1	3%
VP - Treasury & Syndications	55.8	4%	58.2	4%	57.5	4%
VP - Corporate Strategy & Resources	48.9	3%	49.5	3%	68.2	4%
VP - Communications & Outreach					17.8	1%
Departments Reporting to CEXVP	28.6	2%	29.3	2%	22.3	1%
Incentives for <i>Cascade</i> Implementation		0%	3.0	0.2%	3.0	0.2%
Total Departments	1,142.7	74%	1,182.6	74%	1,184.1	74%
Corporate Overheads	210.1	14%	211.9	13%	210.6	13%
Corp Governance (incl. Anticorruption & Fraud, External Auditor and Conflict Resolution)	7.6	0%	8.5	1%	8.5	1%
Other Budget Items (includes Pensions, Board & IEG)	189.6	12%	193.4	12%	193.3	12%
TOTAL	1,550.0	100%	1,596.5	100%	1,596.5	100%

Note: Totals may not add due to rounding.

3.4 Looking at Total Resource by Cost Category, salaries and benefits account for the largest share of IFC's total resource usage, followed by short-term consultants and temporaries, services and support fees. The proportional breakdown of cost categories is fairly steady over time. The expected breakdown by cost category may shift based on actual FY17 year-end results.

Table 4: Fixed Costs Are Expected to Remain Stable as a Share of IFC's Total Resource Usage in FY18

US\$ millions

	FY17 Budget		FY18 Budget	
	US\$ m	%	US\$ m	%
Fixed Expenses	1,062.2	68.5%	1,093.0	68.5%
<i>of which</i>				
Staff Salaries and Benefits (including contributions to SRP, RSBP, PEBP & PCRF)	897.1	57.9%	922.9	57.8%
o/w Salaries	486.6	31.4%	501.4	31.4%
o/w Benefits (including pension & variable pay)	410.4	26.5%	421.5	26.4%
Communications and IT	42.2	2.7%	43.0	2.7%
Depreciation	58.2	3.8%	60.4	3.8%
Equipment and Building	64.7	4.2%	66.6	4.2%
Variable Expenses	487.9	31.5%	503.5	31.5%
<i>of which</i>				
ST Consultants and Temporaries	127.3	8.2%	135.0	8.5%
Travel Costs, Representation and Hospitality	115.4	7.4%	119.8	7.5%
Contractual Services	89.6	5.8%	92.2	5.8%
Services and Support Fees	127.5	8.2%	132.4	8.3%
Other Expenses	28.1	1.8%	24.1	1.5%
Total Resources Expenses	1,550.0	100.0%	1,596.5	100.0%

Note: Totals may not add due to rounding.

Administrative Budget Formulation

3.5 While IFC utilizes its Total Resources to deliver its business, the Administrative Budget is the component that is formally approved by the Board per the recommendations in Section V of this paper.

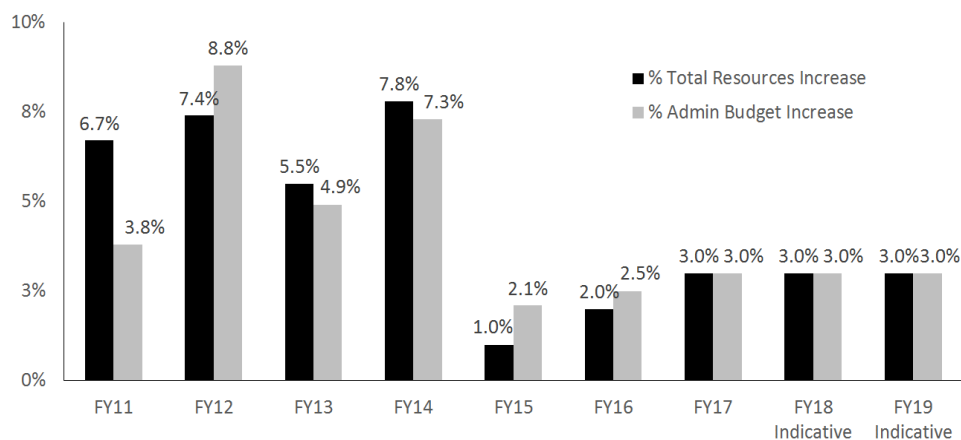
3.6 For FY18, IFC proposes a 3% nominal increase (US\$30.2 million) in the Total Administrative Budget to US\$1,036 million. Unavoidable estimated inflation adjustments will account for US\$20.1 million of the increase. IFC Management, therefore, sought savings from tradeoffs and efficiencies to maximize funds available – in addition to the remaining budget increase of US\$10.1 million – for redeployment towards strategic priorities.

3.7 In accordance with the WBG “W” strategy and budget process agreed with the Board, detailed budget planning began in February following Board validation of the IFC 3.0 strategy. Each VPU forecast their FY17 year-end expenses along with their minimum cost of operations – defined as fixed costs (staff on board, office space) committed by IFC to maintain the current program – in an effort to find uncommitted budget that could be used to fund strategic priorities. IFC’s budget allocation process represents the main mechanism to provide resources to the departments to implement the strategy agreed by the Board.

3.8 The forecast indicated that in FY17 IFC expects to spend 97% of Administrative Budget by year end (compared to 94% in FY16), which reveals a tighter level of spending. IFC aims to keep its spending at around 97% of budget to ensure the Corporation does not overrun its budget.

3.9 In the FY17-FY19 SBO, IFC laid out a budget increase trajectory of 3% that covered the FY17-FY19 timeframe, as shown in Figure 6. While IFC was able to repurpose FY17 funding to create the new IFC 3.0 organizational structure necessary for the design and oversight of the new strategic elements, the 3% budget increase in the FY17-FY19 SBO and FY17 Budget Paper did not yet consider the future implementation elements of IFC 3.0. Departments estimate that US\$54 million of Administrative Budget, as shown in Section I, will be needed to begin to implement fully the strategy. VPU's showed strong budget discipline in identifying both increased budget needs to sustain IFC 3.0 and trade-offs, with the objective of maintaining the budget increase request within the 3% threshold identified in the FY17-FY19 SBO (see 6).

Figure 6: FY18 Nominal Increases to Total Resources Are Expected to Remain at a Steady 3%



3.10 Table 5 shows how IFC used trade-offs and other savings to fund the estimated Department needs while limiting the budget increase to US\$30.2 million, or 3%.

Table 5: Incremental Administrative Budget needs and trade-offs to achieve a 3% increase request
US\$ millions

FY17 total Administrative Budget	1,005.5
3% net increase from FY17 to FY18, as committed in FY17-FY19 SBO	30.2
Budget needs for new tools and approaches	26.8
Budget needs for increased efforts in Focus Areas and Operations	27.2
Trade-offs (including ER savings and productivity gains)	(39.2)
Budget needs to cover inflation	20.1
Reduction of corporate contingency to fund budget needs	(4.7)
FY18 total Administrative Budget	1,035.7

3.11 Table 6 provides proposed distribution of increased budget to fund the FY18 strategy.

Table 6: FY18 Administrative Budget by VPU Reflect IFC's Business Model

US\$ millions

	Current Structure				PROFORMA	
	FY17	% of total	FY18	% of total	FY18	% of total
VP - New Business & Portfolio Management	327.5	33%	337.7	33%	314.1	30%
VP - Blended Finance & Partnerships	45.4	5%	47.6	5%	45.4	4%
VP - GP- CCSA - IFC	18.1	2%	18.2	2%	16.8	2%
Subtotal Operations & Advisory Services	391.0	39%	403.5	39%	376.3	36%
VP - Economics & Private Sector Development	32.4	3%	33.4	3%	37.5	4%
VP - Legal, Compliance Risk & ESG Sustainability	73.1	7%	76.5	7%	74.8	7%
VP - Risk & Financial Sustainability	38.6	4%	39.9	4%	39.7	4%
VP - Treasury & Syndications	16.5	2%	17.3	2%	16.6	2%
VP - Corporate Strategy & Resources	42.2	4%	43.2	4%	59.6	6%
VP - Communications & Outreach					17.8	2%
Departments Reporting to CEXVP	25.0	2%	25.5	2%	18.5	2%
Incentives for <i>Cascade</i> Implementation			3.0	0.3%	3.0	0.3%
Total Departments	618.9	62%	642.3	62%	643.7	62%
Corporate Overheads	189.4	19%	191.5	18%	190.2	18%
Corp Governance (incl. Anticorruption & Fraud, External Auditor and Conflict Resolution)	7.6	1%	8.5	1%	8.5	1%
Other Budget Items (includes Pensions, Board & IEG)	189.6	19%	193.4	19%	193.3	19%
TOTAL	1,005.5	100%	1,035.7	100%	1,035.7	100%

Note: Totals may not add due to rounding.

3.12 Increases to other VPUs reflect the cost for IFC to maintain quality through compliance, legal and E&S reviews, and risk management. To keep up with business growth in difficult markets Legal, Compliance & ESG Vice Presidency will hire additional lawyers and legal assistants both to support ongoing operations and to actualize IFC's work with the IDA PSW. It will also hire more tax and Integrity Due Diligence specialists to augment IFC's business risk function. Treasury and Syndications Vice Presidency's increase will fund the scaling up of the MCPP platform, and the development of additional mobilization instruments as part of the IDA PSW. The increase in Overheads reflects higher costs of office Security along with higher depreciation correlated to IFC's ongoing capital investments. These increases were partially offset by savings in IT maintenance and support costs.

3.13 The newly-created Economics & Private Sector Development VPU (CEDVP) began work in January 2017. In addition to developing and implementing the Ex-Ante Development Impact Assessment Framework, this new VPU will play a critical role in IFC 3.0 implementation through a number of activities in FY18. To better align with the strategy, two new departments are created, supported by a new pool of country and sector economists. These two new departments will be complemented by a new unit to strategically deploy IFC resources for key policy engagements. This new unit's activities will include shaping, clarifying, and leveraging WBG cooperation, particularly with respect to government-facing

engagements. In addition to the Ex-Ante Development Impact Assessment Framework, CEDVP will also develop several new product lines:

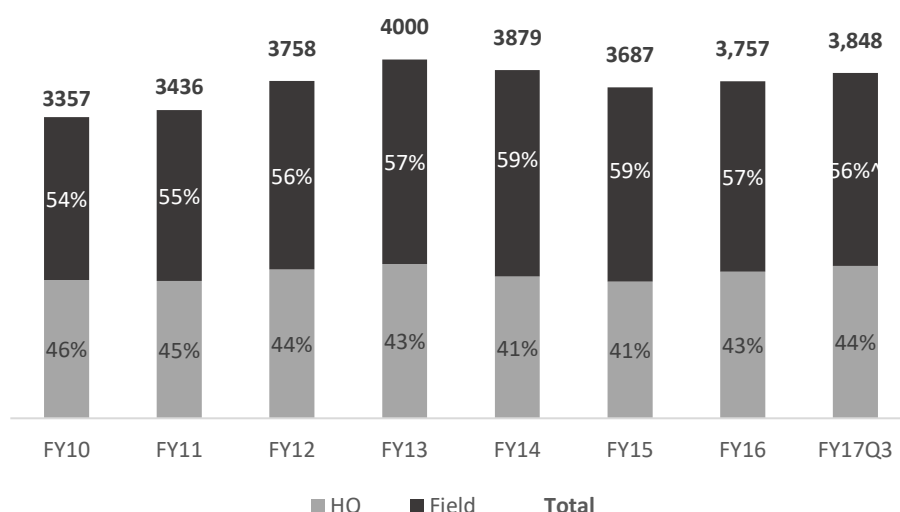
- a) a Private Sector Diagnostic to better understand private sector opportunities and challenges, guide country strategies, and strengthen IFC's ability to identify and pursue activities which support market creation in country strategies;
- b) a modernized version of the existing portfolio monitoring tool to align the Ex-Ante Development Impact Assessment Framework with existing monitoring and evaluation platforms; and,
- c) a flagship publication to establish the IFC's research brand as a thought leader in the private sector development space.

3.14 CEDVP plans to identify and strategically drive policy engagements that create and grow new markets for the private sector. To do this and extend the reach of its diagnostics and other tools, CEDVP will partner with sister organizations to leverage the analytics needed to implement effective development interventions that are coordinated across the WBG. Chief among these activities in FY18 is CEDVP's work to formally establish a joint secretariat, which will coordinate and enhance the effectiveness of local capital markets development across the WBG (the "JCAP" initiative).

Human Resource costs

3.15 As of FY17 Q3, IFC had 3,848 staff, a 4% net decline from 4,000 in FY13 when the headcount was at its highest. Overall staffing levels have grown marginally, driven by management's continued oversight of staffing plans across the organization in line with the communicated headcount guidelines. The increase from FY16 to FY17 Q3 reflects planned staffing changes in industry and regional departments.

Figure 7: Headcount Has Slightly Decline in Recent Years; Field Presence Has Remained at 56-59%
Number of Staff



3.16 In the coming year, IFC will deploy career development and planning tools to further assess and efficiently mobilize staff resources, including in critical on-the-ground locations. A revamped Workforce Planning process for IFC will be designed to introduce position management and incorporate performance management tools to improve staff and career management processes. IFC will also leverage the WBG's

recent experience in launching a career framework to design an IFC career framework and communications strategy in collaboration with the Career Management Center of Expertise (CoE).

3.17 Moreover, beginning on July 1, 2017, senior management has approved the rebalancing of mobility benefits in select East Asia & Pacific (EAP) locations through the implementation of the Location Based Waiver (LBW). This adjustment was made to certain locations where living conditions are comparable to Washington, D.C., as had been done in Western Europe in FY16. Under the EAP LBW, the World Bank Group's mobility benefits package will be revised in Singapore, Hong Kong SAR China and Sydney. The current mobility benefits package offered in some EAP locations was originally designed based on differences in living conditions, quality of life, and ability to hire/deploy talent between the locations and WBG HQ. Since conditions have evolved over time, the packages should be re-evaluated and adjusted. The savings from the mobility benefits package rebalancing exercise will enable the WBG to become more cost effective and invest resources in locations where it is truly difficult to deploy talent, including in FCS locations. This change will also help to bring consistency in the application of mobility benefits packages across WBG locations with similar living and job market conditions.

3.18 IFC's awards and variable pay programs continue to be important components of IFC's incentive system and employment value proposition. The Annual Performance Awards and Corporate Awards emphasize achievements in FCS/IDA, WBG collaboration and Diversity and Inclusion, to incentivize staff to reach IFC's key objectives. IFC Smart Lessons award recognizes contributions to knowledge sharing in IFC and the wider WBG, and shares lessons learned in advisory, investment and financial operations. Over the past years, IFC has enhanced the alignment between the IFC Scorecard and the WBG Scorecard. Key changes introduced in the FY17 performance cycle include increased focus on fragile states, portfolio supervision, and greater performance differentiation, all in support of the strategic alignment of performance goals across individual, department and corporate-wide levels.

3.19 The FY18 Administrative Budget proposal includes performance awards budgets as follows:

- a) Budget of US\$20.4 million
- b) Additional amount of US\$8.7 million, contingent on the achievement of corporate-wide financial measures, including income and development impact-related metrics to reflect both short and long-term performance perspectives.

Shared Services Agreements

3.20 Shared Services Agreements (SSAs) allow IFC and its counterparts in the World Bank Group to leverage WBG commonalities by specializing and standardizing certain functions for greater efficiency. IFC has entered into a number of SSAs with IBRD to provide support for its functions. Provided services include Information Technology, Human Resources, Finance, Audit, Evaluation, General Services, and Board Governance.

3.21 During FY17, the value of SSAs amounted to US\$130.2 million including price adjustments; this comprised approximately 13% of the FY17 total Administrative Budget. The value of services provided by the WBG Integrated Services entities (Human Resources; Leadership, Learning and Innovation Services; and IT) amounted to US\$62.5 million or approximately 48% of the total.

Table 7: Shared Services Agreements between IFC and IBRD Specialize and Standardize Multiple Functions for Greater Efficiency

US\$ millions

Service	World Bank Unit	FY17 Projection	FY18 Estimate	Variance FY18 vs FY17
IT Services	ITS	49.6	48.0	(1.6)
Human Resource Services	HR	11.6	11.6	-
Leadership, Learning and Innovation Services	LLI	1.3	1.3	-
Communication Services	ECR	0.8	0.8	-
Board Services	COGOV	21.9	21.5	(0.4)
Integrity Department Services	INT	2.0	2.1	0.1
Independent Evaluation Group Services	IEG	7.0	7.2	0.2
Internal Audit Services	IAD	2.3	2.3	-
Controllers Services	WFA	4.1	4.6	0.5
General Services Department Services	GSD	16.6	19.0	2.4
Procurement Services	GSD	2.8	2.6	(0.2)
Insurance Services	GSD	2.6	2.6	-
Business Continuity (BCP) Facility	GSD	0.9	1.0	0.1
Treasury Services	TRE	0.7	0.7	-
Risk Services	CRO	0.3	0.4	0.1
Ethics, Conflict Resolution and Tribunal Services	EBC	3.3	3.9	0.6
Child Care, Legal and Staff Association Services	GSD	1.2	1.2	-
General Shared Services Overhead and Contingency		1.2	1.6	0.4
Total Shared Services		130.2	132.4	2.2

3.22 IFC's Budget & Administration Department continues to be the corporate sponsor for WBG Integrated Services SSAs, providing more focused engagement with IBRD counterparts to review SSAs and better understand cost drivers. IFC is budgeting for an increase by US\$2.2 million from FY17 amounts. The FY18 budget will be adjusted by the agreed price factor increase. The World Bank Group continues to put substantial emphasis on increasing staff safety and security resulting in a more than US\$2 million additional budget increase for security spending.

Advisory Services Budget

3.23 Advisory Services draws on IFC, Development Partner and client sources for funding. Combined, they represent a robust and diversified funding model with sufficient flexibility for the successful implementation of the new Advisory Services strategy.

3.24 **Administrative Budget.** IFC's direct contribution to the funding of Advisory Services ensures a sustainable backbone for the management of this line of business, funding of benefits beyond those accrued by clients, and seeding activity in areas before development partner interest has materialized. The Administrative Budget available to Advisory Services today has two components: historical **regular Administrative Budget**, that in FY18 is expected to stand at US\$24 million; and **FMTAAS mainstreamed budget**, amounting to US\$42 million in FY18. Therefore, the total Administrative Budget for Advisory Services in FY18 is US\$66 million. FMTAAS Mainstreaming enhances management transparency of IFC's

contribution to Advisory, reduces exposure to possible fluctuations in IFC's net income, and simplifies financial management.

3.25 Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS). This designation of IFC's retained earnings continues to be a crucial part of IFC's funding mix for Advisory. In accordance with IFC's revised approach to Designations, FMTAAS will be used to finance new innovative advisory solutions in strategic priority areas, not specifically earmarked for IDA/FCS.

3.26 Creating Markets Advisory Window (CMAW). This new designation of IFC's retained earnings is exclusively focused on IDA and FCS countries. It is established to respond to increased demand for Advisory Services in these countries and to facilitate implementation of the IDA Private Sector Window (PSW). It is expected that over the next three years an additional US\$150 million will be added to AS spend in IDA/FCS, and aligned with the new AS strategy, through CMAW.

3.27 Development Partner Contributions. Ongoing efforts focus on enhancing the strategic management of key Development Partner relationships while actively developing new partnerships with corporate, philanthropic, and other non-traditional partners. Development Partner support to Advisory Services remains robust.

3.28 Client Contributions. IFC's Advisory Services pricing policy uses client contributions first and foremost as a tool to strengthen client ownership and commitment to implementation, as well as to ensure that any subsidy embedded in AS pricing is justified by the public benefit involved. This approach has the additional benefit of further diversifying and strengthening the AS funding model. The pricing policy for advice to governments on enabling environment work considers the income level of the recipient government, and recognizes in-kind and other contributions.

3.29 It is proposed that IFC contribute a total of US\$145 million to Advisory Services spend in FY18, or 37% of total AS expenditure from existing resources. The bulk of IFC's contribution in FY18 will be divided between FMTAAS designations, IFC's Administrative Budget, and the remainder will come from Trust Fund Administrative Fees and part of the Performance Based Grants Initiative and IFC SME Ventures used to support AS projects. Development partner and client contributions to Advisory spend are expected to slowly increase.

3.30 Pending IFC FY17 retained earnings designations to CMAW and FMTAAS, a detailed financial plan to support the implementation of the AS strategy will be prepared. The three-year plan will include consolidation of the FMTAAS portion focused on IDA/FCS into CMAW. The plan is expected to be finalized by early FY18 and discussed with the Board at the time when IFC net income designations are determined.

Other Sources of Funds

3.31 Use of Fees. IFC has a long-established practice of using fees from clients to cover directly out-of-pocket expenses incurred for the client's project such as travel, consultants, and outside legal counsel. Similarly, clients pay service fees, and mobilization fees for related work associated with their investment projects. IFC generally matches each expense with its fee source before the expense is incurred in order to assess appropriate funding levels and guide spending decisions at the institutional level.

3.32 IFC carefully ensures that fee budgets for the upcoming year do not exceed likely fee collections. Up to 40% of service fees can be used for staff costs to provide flexibility to investment departments. As the remaining fees are used to cover variable costs such as travel, consultants, and outside legal counsel, IFC can expand or contract its activities using fees without changing its permanent cost base. Expenses offset by fee income also include fees from treasury programs, fees from the MCPP program, as well as fees and reimbursables from the AMC. IFC plans to increase its use of fees to offset expenses by US\$3.9 million in FY18 from clients, treasury/syndication and the AMC.

3.33 **AMC Fees.** As of March 31, 2017, AMC manages approximately US\$7.5 billion of external capital (US\$9.8 billion including IFC LP commitments) across thirteen funds. AMC's primary source of revenue is the management fees paid by the funds under management. AMC's policy is to charge investors market rates for managing funds. With these revenues, AMC covers its own direct expenses and pays IFC for the resources that it provides, with the overall objective of making a small net profit. AMC's financial statements are fully consolidated into IFC's, so any net income or loss that AMC makes, net of intra-company eliminations, flows through to IFC's Profit & Loss.

3.34 AMC pays four types of fees to IFC to compensate for the services it provides in developing funds and in providing sourcing, execution and supervision services:

- a) **Transaction Fees:** A fee based on transaction size (subject to a cap and a floor), which is paid when the transaction is completed and disbursed
- b) **Supervision Fees:** An annual fee paid for each portfolio company. In addition, if upon the agreement of the AMC and IFC, unusual supervision costs are incurred, these will also be reimbursed
- c) **Fund Development Fees:** For each fund launched, a fee based on the total fund size is paid over two years in equal quarterly installments, starting from the quarter after the first close
- d) **Business Development Fee:** For selected funds, a fee to help strengthen resources in regions and sectors to ensure that sufficient deal pipeline is generated and portfolio monitoring is effective. This fee is based on the total fund size and is paid over five years in equal installments

3.35 In addition, AMC-managed funds reimburse IFC for the funds' share of out-of-pocket expenses related to transaction execution and supervision. Where IFC receives mandate fees from the investee company as part of a transaction, the pro rata portion of those fees is netted against expenses reimbursed and/or fees payable by AMC. AMC also makes regular payment to IFC for salaries and benefits of staff assigned to the AMC Services Vice Presidential Unit and for services provided such as office space, to reimburse IFC for expenses it incurs on behalf of AMC or its funds. In a few situations, AMC may also reimburse IFC for a portion of the compensation of selected IFC staff in other VPUs who spend a majority of their time on AMC-related work.

3.36 **Special Initiatives.** A key constraint to private investments in infrastructure in developing countries is a limited supply of viable infrastructure projects, particularly in IDA countries. To address this concern and to monetize IFC's considerable manpower and financial efforts in making private and PPP infrastructure projects bankable, the Board approved in FY08 the creation of the Global Infrastructure Development Fund, also known as IFC InfraVentures. In FY13, the Board renewed the fund's mandate and increased its size to US\$150 million, expanded its geographic coverage to selectively allow project development support in Middle Income Countries (up to 25%), and increased the maximum development capital exposure to US\$8 million per project.

3.37 Through FY17 Q3, IFC InfraVentures has committed to invest US\$95 million in the development of 39 projects, of which 16 are still active. Two projects have reached financial close and another 2-3 are expected to reach financial close by the end of FY17.

3.38 The IFC InfraVentures product is unique amongst Development Finance Institutions in focusing on early stage project development, combining the provision of early stage risk capital with active project development support by WBG staff. The fund is one of the tools that IFC is developing and deploying to engage “upstream” of its traditional business, in line with the IFC 3.0 strategy of proactively creating markets and of creating a flow of deals for IFC. IFC is actively working on drawing lessons of past upstream experiences (including in IFC InfraVentures) and on integrating IFC InfraVentures into the broader set of “upstream” and innovation initiatives in infrastructure. Such upstream focus is key for nurturing infrastructure projects and increasing the pipeline of bankable projects in countries that have struggled to attract private sector investments.

3.39 IFC InfraVentures staff, in integrated teams with their IFC mainstream colleagues, continue to advance project development with their partners as well as generate a pipeline of further projects for the fund to support. IFC InfraVentures had budget allocation of US\$5.25 million for FY17. Board approval is being sought for FY18 budget of the same amount of US\$5.25 million, which will enable the fund to continue its activities on existing projects as well as to explore additional project leads across emerging markets. The fund’s mandate is up for renewal at the end of FY18.

3.40 Total mobilization of debt and equity from IFC InfraVentures projects that are under active development could exceed US\$5 billion if underlying development milestones are achieved successfully and the projects are brought to close.

3.41 **Jeopardy.** IFC considers projects to be Jeopardy cases when: (i) the prospects for IFC recovering its investment are in serious doubt due to expected future loan defaults, country/industry considerations, or other material adverse changes to the project, sponsor or macro-economic circumstances or (ii) when IFC is threatened with litigation or sued, or where there are serious reputational risks for IFC. The restructuring or recovery of such jeopardy cases often generates significant out-of-pocket expenses (e.g., travel, consultants, auditors, and legal fees). To facilitate the tracking and reporting (and often the reimbursement) of these extraordinary jeopardy expenses, IFC sets up a separate expense account for each jeopardy case. The Board has traditionally recognized jeopardy expenses as being off-budget since for the majority of jeopardy cases, IFC’s ultimate recovery on its investments amounts to many times the expenses spent in the recovery process. Given current stresses on IFC’s portfolio, the ceiling on the Jeopardy budget was raised to US\$15 million in FY17, net of recoveries. The proposed ceiling for FY18 remains at US\$15 million.

3.42 **Carry-Forward.** IFC’s current carry-forward mechanism dates to FY99 when the Board approved IFC’s adoption of the Bank’s 5% carry-forward policy in place at the time. IFC’s carry-forward is recalculated each year based on prior-year spending against Administrative Budget. The carry-forward does not accumulate year-on-year or add to the base Administrative Budget. Since adoption of the carry-forward mechanism in FY99, IFC has only used it twice: once in FY01 for US\$3.5 million during the Argentina crisis and again in FY06 for only US\$0.5 million. Thus, IFC prefers to consider this to be a 5% contingency mechanism rather than a true carry-forward.

3.43 IFC’s Management Team feels that the 5% contingency mechanism remains the optimal policy even as IFC’s budget growth has slowed in the last few years. IFC is committed to only use the contingency

in extraordinary circumstances. This practice ensures that IFC's permanent cost base is not increased for temporary needs. IFC Management would inform the Board before using any portion of its 5% contingency to fund special needs such as temporary crisis response activities.

Capital Budget

3.44 IFC's capital budget funds Headquarters and Country Office facility needs as well as the investment in Information Technology necessary to support IFC's unique business model. For FY18, the total recommended capital budget is US\$69.4 million. This represents a decrease of US\$29 million compared to FY17, due primarily to the fact that the Country Office Buy vs. Lease capital budget required no additional funding for FY18. The Country Office Buy vs. Lease capital budgets approved in prior years provide the ability to significantly reduce annual administrative expenses, net of depreciation charges, by approximately US\$3 million annually on a cumulative basis.

Table 8: The Capital Request for Projected Facilities Expenses for Headquarters and Country Offices in FY18 is 54% lower than in FY17 following no additional request for Country Office Buy vs. Lease funding.

US\$ millions

	FY17 Budget	FY18 Budget
Headquarters Facilities	14.5	9.0
Country Office Facilities	14.0	15.4
<i>Country Office Buy vs Lease</i>	25.0	-
Information Technology	45.0	45.0
Total	98.5	69.4

Facilities

3.45 **Headquarters.** The HQ facilities portion of the capital budget funds required building improvements and other work at the F-Building. The scope of work planned for FY18 will consist of:

- a) Building roof replacement and green roof design
- b) Audio visual/video conference room upgrades of furniture, layouts, and sound
- c) Reconfiguration of space related to internal reorganizations
- d) Building fire alarm system replacement

3.46 **Country Offices.** CO facilities budget proposal reflects plans for a decentralized global office footprint, with rational and cost-effective growth in the field. In addition, the CO facilities budget continues to support the WBG ER savings requirements by moving towards ownership of larger offices instead of leasing in cases where annual administrative expenses can be significantly reduced.

3.47 Where purchasing real estate has been determined by the IFC Management Team as the appropriate course, the IFC's CO real estate purchasing strategy will be to identify "strata-title" or individual floor ownership arrangements in quality building locations instead of acquiring land and constructing "from the ground-up" with inherently higher operating costs.

Box 4: Security-Related Capital Expenditures Support IFC's Strategy in FCS and Priority Regions.

In FY18, IFC will continue to support, in coordination with IBRD, the upgrading of security costs associated with Country Offices in FCS and medium- and high-risk countries (as defined by WBG Corporate Security) through allocation of capital funds to replace outdated equipment, e.g. vehicles, communication equipment, visitor scanners, personal protective devices for guards, etc. In addition, to support IFC's footprint strategy in these countries, all current and future country office fit-outs and/or purchase/construction projects will benefit from direct security needs and assessment reviews by WBG Corporate Security Specialists to ensure all appropriate security measures are included in the overall project capital requirements and funding.

3.48 By the end of FY18, IFC will have 97 offices (a reduction from 102) in 90 countries supporting over 3,000 individuals in the field, including consultants and contractors. IFC and the World Bank are co-locating country offices when feasible and business needs are supported. Currently, 73% of IFC's offices are co-located. Three to four more offices are expected to co-locate in the next several years. IFC Management performed a comprehensive Office Ecology review and has decided to close seven offices, while opening one to support AS.

Table 9: IFC Country Office Presence Is Expected to Decrease Slightly by FY18-end

	Offices		Countries	
	FY17E	FY18P	FY17E	FY18P
Sub-Saharan Africa	19	19	19	19
East Asia & Pacific	19	20	17	18
Europe & Central Asia (excl. Part I)	21	17	21	17
Latin America & Caribbean	15	13	14	13
Middle East & North Africa	14	14	12	12
South Asia	7	8	5	5
Part I	7	6	7	6
Total	102	97	95	90

3.49 In collaboration with regional management teams, IFC continues to evaluate ways to increase the efficiency of its field office presence. These options include consolidating smaller offices, where possible, and transferring staff to different offices.

3.50 In addition to various office relocation fit-out projects, the FY18 proposal includes additional funding for expansion of IFC's new space in Dakar, Senegal, currently in the redesign stage, to accommodate the co-location with IBRD. Such a move will provide annual savings to IFC, through co-sharing of building costs, and to the IBRD through reduction in annual lease expenses.

Information Technology

3.51 The FY18 Information Technology capital budget proposal of US\$45 million will fund two main categories of investment:

- a) **Steady State** (31%). These programs ensure the reliability of existing systems by addressing technical obsolescence and increasing the IT capacity required to accommodate IFC's growth. The

FY18 capital budget request includes: minor enhancements of existing applications to keep pace with business needs; replacement of PCs that have reached end of warranty; and improvements to technical infrastructure, including communications, for both normal operations and business continuity.

- b) **Systems Development** (69%). These programs focus on the development of new or enhanced IT solutions to support IFC's lines of business. They include automation of business processes and introduction of new IT capabilities. Some are new multi-year programs, while others are the continuation or completion of programs begun in prior years.

3.52 Improvements planned for FY18-FY20 are focused on business outcomes. Of particular note:

- a) *Client Responsiveness/Business Information*: improved access to knowledge, documents, and reports through a new business intelligence portal and a new collaboration platform; introduction of IFC's first client-focused digital interface to support collaboration with clients across the project life-cycle
- b) *Organizational Effectiveness*: alignment of front-line systems to IFC's operating model, including convergence of investment operations and advisory services, management of mobilized funds, and support for new products and the IDA Private Sector Window; the first phases of a new middle-office platform; improved credit risk management including a new Collateral Management System, additional rating scorecards, and portfolio-wide scenario analysis; improved access management
- c) *Managed Risk*: improved resiliency, reliability, and availability of IT systems; resolution of auditor-reported deficiencies on ICFR systems; further strengthening of information security

3.53 The IT investment plan is in alignment with the WBG IT Strategy, which is anchored in three strategic priorities. The first is to deliver solutions for the business that are fit for purpose, transformative, and secure. The second priority is to provide value for money through selectivity, standardization, reliability, and an optimized IT delivery model. The third priority is to excel at the basics.

3.54 IFC will also benefit from a number of new WBG-wide IT projects. IFC does not contribute capital budget to these initiatives but instead pays for services with SSAs through the Administrative Budget once the service or solution is in place.

IV. IFC Scorecard and FY18 Targets – Strategic Tool to Set Goals, Monitor Results and Ensure Accountability

4.1 IFC's Scorecard, consistent with the WBG's Corporate Scorecard, is an important tool for aligning strategy with operations, thereby facilitating delivery of results. IFC's business strategy and scorecard are linked to resources and also drive key departmental performance indicators. Such a robust approach creates accountability for results delivery, as well as provides for links to drive incentives.

4.2 IFC's long-run practice has been to set targets for all of the metrics in its scorecard, which are grouped into comprehensive performance dimensions. The four dimensions are also consistent with the Tier 3 indicators in the WBG Scorecard: i) Development Impact; ii) Financial Sustainability; iii) Delivery for Clients; and iv) Managing Talent. In addition, the Corporation sets multi-year IFC Development Goals (IDGs), which are also included as part of the WBG Scorecard's Tier 2 indicators. Scorecard targets at IFC are monitored regularly, and progress is reported to the Board through the Quarterly Board Report. Performance against the IFC scorecard targets also supports awards and incentives, with a view to aligning team priorities with strategic results delivery.

4.3 As part of Management's effort to continue to increase accountability and highlight targeted results, beginning last fiscal year, IFC began sharing the scorecard targets as part of its Budget paper. It is important to note, however, that IFC's business is volatile and its ability to reach these targets depends on external economic and market conditions as well as adequate resources. The selection of this set of indicators to determine targets necessarily requires selectivity and simplification. Please note that IFC also continues to monitor outcomes in the more dynamic aspects of its business, as identified in the SBO papers.

4.4 As promised to the Board last year, IFC conducted a review of the scorecard indicators during FY17 and concluded that for FY18 IFC should continue with the current Corporate Scorecard given its comprehensiveness and continued focus on several of IFC's key objectives going forward. As part of the review to simplify the scorecard process, IFC is creating a supplemental, simplified management tool to drive results delivery at the department level which will also be implemented during FY18. As discussed with the Board recently, IFC is developing a new Ex-Ante Development Impact Assessment Framework for its Investment and Advisory activities (see Box 1). IFC will implement these new approaches beginning in FY18 and any resulting changes to the Corporate Scorecard will be reported to the Board as part of IFC's FY19 Budget Paper.

Table 3: IFC FY18 Scorecard and Targets

IFC FY18 Scorecard - Corporate						
Performance Dimensions	Scorecard Indicator	FY18 Targets	FY17 Targets	FY17Q3 Results	FY16 Results	FY15 Results
Development Impact	IDA LTF project count % of IFC	30-35%	30-35%	33%	29%	36%
	IDA Active Trade Account % of IFC	45-50%	50-55%	49%	52%	52%
	FCS & LIC-IDA LTF Project Count	50-60	50-60	27	54	88
	FCS & LIC-IDA Active Trade Accounts	37-42	42-47	40	50	63
	Climate % of total LTF Commitment (excluding MIGA)	22%	22%	18%	17%	26%
	Gender Project Count % AS projects*	30-35%		31%	22%	38%
	Economic Performance (EP) % Satisfactory Rating	60%	60%		51%	55%
	Private Sector Development (PSD) % Satisfactory Rating	70%	70%		70%	70%
Financial Sustainability	AS Development Effectiveness (DE) % Successful Rating	65%	65%	70%	68%	78%
	Realized Return on Economic Capital %	11%-12%	11%-12%	9.1%	10%	11.5%
Delivery for Clients	IFC Controllable Income \$mn	607	566	600	685	749
	Client Feedback IS, % Satisfied	85%	85%	90%	83%	82%
	Client Feedback AS, % Satisfied	85%	85%		90%	91%
	Mandate to Disbursement (M2D), median days	150	150	181	140	-
	Total LTF Commitments (excluding MIGA): IFC own a/c + Core & PPP Mobilization \$bn**	17.2 - 19.7	18.8 - 20.7	10.7	18.9	17.7
	Capital Mobilized on Commercial Terms (excluding MIGA): Core & PPP Mobilization \$bn**	6.7 - 7.7	7.8 - 8.4	3.9	7.7	7.1
	STF Average Outstanding Portfolio \$bn	2.8 - 3.2	2.6 - 2.8	3.1	2.8	2.8
Managing Talent		1	-	0.83	0.82	0.80
IFC Development Goals - IDGs		FY17-19 Target (3 year)	FY17Q3 Progress	FY14-16 Results (cumulative)		
Farmers Reached, mn		3.3	0.2	4.5		
People reached with Health & Education services, mn		26.1	6.3	31.4		
A2F Individuals & Microenterprises reached, mn		98.3	16.8	119.0		
A2F SMEs reached, mn		2.9	0.4	3.5		
People reached with infrastructure services, mn		68.1	29.4	152.4		
Reductions in GHG emissions, mt CO2eq/yr		21.8	2.9	73.5		

Notes: IDGs results are preliminary

* FY18 target for Gender Project Count % AS projects is extended to all sectors. The historical data is aligned with the new definition for the indicator. Target in FY17 were based on Gender Project Count % of Agribusiness, Finance and Extractives AS projects at 30-35%. FY17 March-end was at 33%, while at 25% in FY16 and FY15.

** Total Commitment as well as Capital Mobilized on Commercial Terms targets are different from the ranges presented in the SBO due to the addition of PPP mobilization amount.

V. Recommendations

5.1 IFC Management recommends that the Board resolve to approve the following:

A. Administrative Budget Authority

- i) A Total Administrative Budget for FY18 of US\$1,035.7 million.

B. Capital Budget Authority

- ii) A Capital Budget for FY18 of US\$69.4 million.

C. Special Initiatives

- iii) Authority to spend an additional US\$5.25 million for IFC InfraVentures through FY18.