IFC FY19 Budget:

Optimizing Resources for Impact

Approved by IFC's Board of Directors on June 28, 2018

Released in accordance with IFC's Access to Information Policy

International Finance Corporation
WORLD BANK GROUP

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Glossary

AIMM	-	Anticipated Impact Measurement and Monitoring
AMC	-	Asset Management Company
AS	-	Advisory Services
BFF	-	Blended Finance Facility
BPC	-	Business Planning & Consolidation
CMAW	-	Creating Markets Advisory Window
CO	-	Country Office
CODB	-	Cost of Doing Business
COMPASS	-	Creating Markets Priority Setting Sessions
CPF	-	Country Partnership Framework
CPSD	-	Country Private Sector Diagnostic
ER	-	Expenditure Review
ESG	-	Environment, Social and Governance
FCS	-	Fragile and Conflict Situations
FCV	-	Fragility, Conflict and Violence
FIG	-	Financial Institutions Group
FMTAAS	-	Funding Mechanism for Technical Assistance and Advisory Services
FY	-	Fiscal Year
GP	-	Global Practice
HQ	-	Headquarters
IBRD	-	International Bank for Reconstruction and Development
IDA	-	International Development Association; also used to denote IDA borrowing countries
IDG	-	IFC Development Goals
IFC	-	International Finance Corporation
IT	-	Information Technology
LTF	-	Long-Term Finance
M2D	-	Mandate to Disbursement
MCPP	-	Managed Co-Lending Portfolio Program
MENA	-	Middle East and North Africa
MFD	-	Maximizing Finance for Development
MIC	-	Middle Income Country
MIGA	-	Multilateral Investment Guarantee Agency
o/a	-	Own-account
ODA	-	Official Development Assistance
PIE	-	Process Efficiency Initiative
PSW	-	Private Sector Window
RVP	-	Regional Vice Presidency
SBO	-	Strategy and Business Outlook
SDG	-	Sustainable Development Goals
SOF	-	Source of Funds
SSA	-	Shared Services Agreement
VPU	-	Vice Presidential Unit
WBG	-	World Bank Group
WSS	-	Water and Sanitation Services

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

Executive Summary

i) The recent adoption of a new long-term strategy, IFC 3.0, signals IFC's shift to a more deliberate and systematic approach to creating markets, and stronger leadership in mobilizing private sector resources for development. *IFC FY19 Budget: Optimizing Resources for Impact* translates the strategic direction outlined in the *FY19-21 SBO Update* into the budgetary resources required to deliver operational results in FY19, while setting the stage for greater resource efficiencies and enhanced delivery in subsequent years.

ii) On April 21, 2018, the World Bank Group's Development Committee endorsed a historic US$13 billion paid-in capital increase package for IBRD and IFC. IFC's share of this increase amounted to US$5.5 billion, signaling not only a vote of confidence in the new IFC 3.0 strategy, but also a clear directive. A stronger capital base enables IFC to advance the Maximizing Finance for Development (MFD) agenda and fulfill greater shareholder ambitions, especially in regions suffering from fragility, conflict, and violence. However, the FY19 Budget was formulated in the absence of the capital increase and remains within the original 3 percent growth trajectory. Should the need for additional resources to gear up for the implementation of the capital increase policy commitments arise during FY19, IFC may request the Board to deploy its existing Carry-forward mechanism to cover such needs.

iii) Building an enabling environment for private sector investment in target markets is essential to advancing the IFC 3.0 strategy. Advisory Services spearheads IFC's upstream efforts by working with private clients and countries to build capacity. The new Advisory Services strategy, shared with the Board in March 2017, more closely integrates Investment and Advisory Services and focuses on developing a strong pipeline of investable projects in IDA/FCS. The strategy prioritizes engagements that have the best likelihood of creating markets and delivering development impact.

iv) IFC 3.0's ambitious plans will be resource-intensive, driving higher than average origination, supervision and risk management costs in strategic priority areas. This is demonstrated by the IFC Cost of Doing Business (CODB) model, which shows that new investments in core priority areas such as FCS, Infrastructure, Agribusiness, and Africa require greater than average efforts. IFC's bottom-up budget process yielded $89.4 million in incremental resources to achieve the projected FY19 investment program presented in the FY19-21 SBO Update. As detailed in Chapter 2, IFC management has identified internal redeployments of US$36.7 million, and cost recovery measures of another US$21.6 million to limit the overall FY19 Administrative Budget request to the previously identified 3 percent trajectory.

v) IFC's deliberate efforts to optimize resources and execute efficiently have enabled the Corporation's business to expand more rapidly than its resources. Although the increased risk and cost profile of IFC 3.0 requires further growth in IFC resources, IFC is committed to minimizing this growth through internal savings and trade-offs, workforce planning efforts, and efforts to achieve further economies of scale, even as it improves delivery quality and expands its impact. This year, IFC is challenging its budget base to create a more robust, effective and agile delivery model through (i) organizational enhancements; (ii) in-depth review of IFC budgets and expense trends by function to eliminate inefficiencies and redirect resources; (iii) workforce planning and realignment, and (iv) business process improvements.

vi) To provide the Board full context for the budget proposal, this paper begins by describing how implementation of the IFC 3.0 strategy is both transforming the way IFC does business and drives its resource allocation decisions. It then shows management efforts to contain budget growth over time, despite the increasing complexity and risk profile of its business. Next, a description of the IFC budget formulation process shows how resources are strategically allocated at the same time efficiencies and trade-offs are sought to minimize budget growth. The IFC Scorecard is subsequently introduced to track actuals against targets, including progress against the IFC Development Goals. Finally, the paper concludes with formal recommendations for approval of the Administrative Budget of US$1,066.7 million, the Capital Budget of US$73.2 million, and a special initiatives authority of US$5.25 million for IFC InfraVentures.

1. Strategy Drives IFC's Resource Needs

Implementing IFC 3.0

1.1 IFC launched its IFC 3.0 strategy in December 2016 in response to shareholder requests to strengthen the private sector's role in helping realize the World Bank Group Twin Goals and 2030 Sustainable Development Goals (SDGs), particularly in countries that have benefited least from private sector solutions. Under the umbrella of Maximizing Finance for Development (MFD) and in alignment with the World Bank Group Forward Look, IFC committed to reshape its business from simply leveraging existing markets to creating new markets for investment, and to continue to lead in mobilizing private sector resources for development.

1.2 With IFC 3.0's focus on market creation, IFC is transforming the way it does business. Although the strategy was conceived only a year and a half ago, IFC has already demonstrated proof of concept. Implementation is underway and yielding initial results.

1.3 New tools, approaches, and frameworks have strengthened IFC's ability to analyze and prioritize opportunities, mitigate project risks, assess impact and additionality, work upstream to support market development, and engage across the WBG. In addition, the Advisory Services business model is being retooled to better support IFC 3.0.

1.4 IFC 3.0, supported by the recent endorsement by the Governors for a US$5.5 billion increase in IFC's capital, will enable IFC to play a more proactive, strategic role alongside the Bank and MIGA to implement the Cascade, the operating system of Maximizing Finance for Development, which is expanding beyond infrastructure to the SME, finance, agriculture, human development and other sectors.

1.5 IFC's strategic focus areas remain highly relevant to creating markets. Looking ahead, IFC expects to continue increasing commitments in these critical areas. IFC remains on track to achieve its FY20 targets of 28 percent of own-account LTF commitments for Climate, and 24-26 percent (or US$3 billion) of own-account LTF commitments in IDA countries.

Table 1: Commitments by Strategic Focus Area^

		Share of Own Account LTF	
		FY17 (A)	**FY21 (P)**
Focus Industries* (percent)			
Core Infrastructure		15	20-22
Agribusiness, Forestry and Fertilizers		12	11-13
Financial and Social Inclusion	Health, Education and Life Sciences	6	6-8
	Financial Markets	49	41-43
Focus Themes* (percent)			
Climate		25	28
FCS**		3	6-8
IDA**		25	27-29
Focus Regions* (percent)			
South Asia***		20	20-22
Africa		20	21-24
MENA***		5	8-10

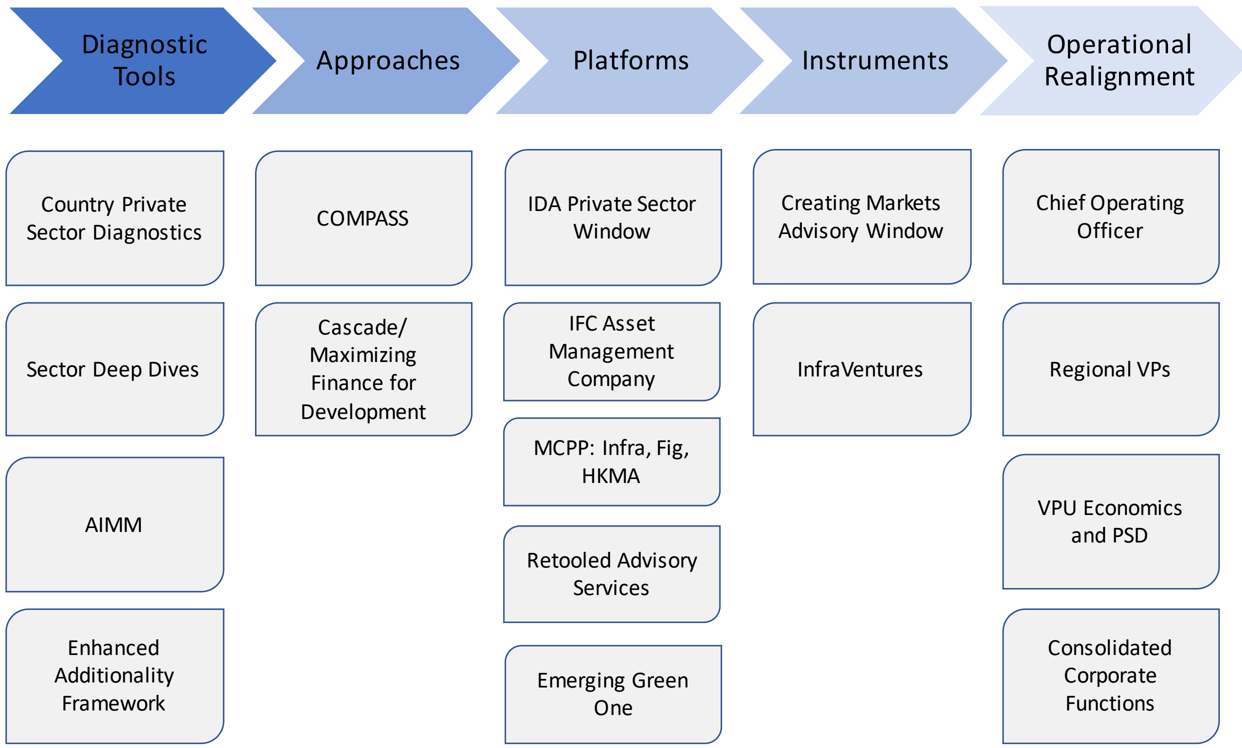
^Commitments are consistent with SBO presented to the Board April 12, 2018 and reflect a pre-capital increase scenario
*Commitment shares do not add to 100, as table excludes other areas of impact, and focus areas are not mutually exclusive. Industries contribute to thematic goals and are delivered in focus regions.
**FCS and IDA shares are not mutually exclusive; FCS projections to a large extent are already reflected in IDA projections.
*** Incorporates the organizational shift of Afghanistan and Pakistan from MENA to South Asia.

1.6 Due to its program mix, complexity of projects, and heightened risk management requirements, IFC's ambitious plans under IFC 3.0 are resource-intensive. Due diligence and portfolio management efforts required in strategic focus areas are generally costlier than the IFC average. The FY19 resource allocation process and decisions described in this paper are also closely aligned with the Forward Look commitment to improve the business model and become more effective and efficient. Chapters 3 and 4 of this paper demonstrate how IFC is allocating resources to support implementation of IFC 3.0, including the Cascade and the IFC 3.0 Toolkit.

IFC 3.0 Toolkit

1.7 To implement IFC 3.0, the Corporation has put in place an expanded Toolkit (Figure 1 below) to make IFC more effective in creating markets and mobilization. Comprehensive efforts to transform IFC through these new tools, approaches, platforms, and instruments, as well as organizational realignments, are now in place.

Figure 1: IFC 3.0 Toolkit



1.8 These new mechanisms have begun to change the way IFC looks at its markets.

a) **Country Private Sector Diagnostics (CPSDs).** CPSDs for Ghana and Kazakhstan have been completed, with the Ghana CPSD leading to a follow-on joint Bank/IFC advisory engagement on improving the competitiveness of the agribusiness sector in the country. Sixteen more CPSDs -- for Kenya, Rwanda, Nepal, Uzbekistan, Angola, Senegal, Mozambique, South Africa, Burkina Faso, Tunisia, Lebanon, Ethiopia, Ecuador, Myanmar, Philippines and Indonesia-- are underway. IFC is on track to complete CPSDs for more than 40 countries, the majority of which are in IDA, by the end of FY20.

b) **Sector Deep Dives.** IFC has completed seven Sector Deep Dives: Power, Digital Economy, Agribusiness, SME Finance, Health, Microfinance, and Water. IFC will complete four more by the end of Q2 FY19: Manufacturing, Capital Markets, Education and Water for Irrigation. Thereafter the plan is to develop an additional two per quarter.

Box 1: IFC Sector Deep Dives in Action

Digital Economy: IFC looked at the experiences of countries that have succeed in harnessing the benefits of digitalization and developed a framework for analyzing a country's readiness for digitization. The framework includes such factors as skills and enabling regulation, digital connectivity, entrepreneurship, and shared government services such as digital identity and digital payments. Reframed as a diagnostic tool, the framework was applied to Sub-Saharan Africa using country-level data and analysis to identify where each country stands with respect to each factor. The resulting framework, the Digital Economy Africa (DE4A) initiative, was launched by a joint Bank-IFC team and the Bank's Africa Region at the 2018 Spring Meetings. Participation in DE4A is being discussed with several countries, including Côte d'Ivoire, Ghana, Kenya, Mozambique, Niger, Nigeria, Tanzania, and Zambia.

Water Supply and Sanitation: Inadequate water and sanitation services (WSS) increase costs to society in the form of sickness, mortality, and loss of productivity. Globally, 844 million people lack basic drinking water service and 2.3 billion lack basic sanitation service, leading to poor health and environmental conditions in many of our client countries. IFC and the World Bank are working together to narrow gaps in access to WSS by deploying private sector solutions. This requires a strong strategic alignment through (i) improving internal interactions to discuss opportunities, (ii) holding regular reviews and discussions of pipelines to ensure participation/ coordination at the earliest stage possible, (iii) conducting joint missions where feasible and/or ensuring regional IFC Investment Officer participation in strategic Bank missions, (iv) contributing as peer reviewers to analytical and operational work and (v) tapping into WBG resources on approaches and tools for increased WBG collaboration (PPP Cross-Cutting Solutions team, OPCS guidance notes, implementation of appropriate Environment, Social & Governance approaches). This level of coordination is expected to significantly help create markets for the private provision of water in the most difficult environments.

c) **AIMM.** The AIMM framework enables IFC to identify and articulate the expected project and market-creating effects of IFC's projects on an *ex ante* basis. This, in turn, better informs project selection and design and helps to devise more accurate development impact narratives, rating, and scoring for all projects. Since its introduction in July 2017, the AIMM system has enhanced the development-impact ex-ante assessment and associated narratives in 221 Board papers. In January 2018, IFC began numerical scoring of all new investment projects and engaged in a portfolio calibration exercise to expand the population of scored projects to develop baselines for future comparisons. The expansion of AIMM to Advisory Services will be piloted in FY19.

d) **Enhanced Additionality Framework.** In its dialogue with the Board, IFC's management committed to introduce more rigor and structure to its methods of demonstrating additionality. IFC revised its framework to clarify both definitions of additionality and the evidence required to justify it. The new framework asks teams to demonstrate the causal link between IFC's involvement in the project and incremental development impact. On April 1, 2018 IFC began piloting this new approach in select countries, and will implement for all projects beginning July 1, 2018.

   In response to a G7 request, IFC led an MDB Task Force to harmonize approaches on additionality. IFCS's new additionality framework adheres to the standards that have emerged from the IFC's ongoing dialogue with MDBs. IFC will continue to participate actively in the MDB Additionality process.

e) **COMPASS.** IFC introduced COMPASS sessions to bring IFC Investment, Advisory and Global Practices staff together to focus on FCS and IDA countries eligible for Creating Markets Advisory Window (CMAW) funding and agree on upstream, market-creation priorities. The prioritization frameworks developed for each region were then used to inform resource allocation decisions. COMPASS will now expand to cover broader funding sources and all country types.

f) **The IDA 18 Private Sector Window** is now fully operational. As of mid-April 2018, the Board has approved four IFC transactions deploying US$84 million in IDA PSW funds to support US$359 million in private investments. This includes the Small Loan Guarantee Program — an innovative, wholesale approach that leverages the PSW to expand IFC's reach to SMEs in IDA countries and FCS. The Board has also approved one project using the MIGA Guarantee Facility to support an IFC investment. Eleven projects advanced from concept stage, and IFC is exploring support for approximately fifty further early stage projects from the IDA PSW, which could potentially trigger the use of nearly one billion dollars of IDA PSW funding. The current pipeline includes projects across all sectors and regions, with the majority from Sub-Saharan Africa.

g) **CMAW,** the new funding instrument created for the purpose of enhancing upstream project preparation and addressing complex challenges to creating markets, is now fully operational. IFC is deploying CMAW resources in eligible FCS and IDA countries, including small states such as Haiti and the Pacific Islands. In FY18 CMAW's authorization for expenditure is US$50 million, with US$70 million projected for FY19.

h) **Mobilization Platforms.** IFC's mobilization platforms are a critical component of IFC's 3.0 strategy, helping to unlock private capital for development purposes. AMC remains IFC's primary equity mobilization platform. The MCPP has eight operating partnerships, with $7.1 billion raised. Fundraising recently closed on IFC's latest mobilization platform, the Green Cornerstone Bond Fund (now called Emerging Green One), with a target of deploying US$2 billion over seven years.

1.9 Each of these new tools has added significant rigor to strategy and resource discussions. IFC is delivering on its commitment to redesign, extend and strengthen its business model to better create markets and mobilize capital in developing countries.

Advisory Services Enhanced Business Model to Spearhead Upstream Efforts

1.10 In March 2017, IFC presented to the Board a new Advisory Services (AS) Strategy to ground AS in joint WBG country and sector strategies, and sharpen its focus on building pipelines of bankable projects and sponsors, especially in IDA and FCS. With AS leading upstream efforts to identify policy reforms to encourage private investment, work with clients to improve performance, and build near-term investment pipelines, IFC can set the path for sustainable economic growth and demonstrate commercial market viability.

1.11 *Incorporating Advisory Services in WBG Country and Sector Strategies:* Government policy change is one of the most powerful ways to help remove barriers, stabilize the business and operating environments, and de-risk investments for the private sector. Already, fifty-five percent of all IFC Advisory Services projects focus on improving the business enabling environment, and AS' joint efforts with WBG's Global Practices account for 40 percent of the total AS portfolio. When AS is fully incorporated in WBG Country and Sector strategies, WBG will much more efficiently identify and eliminate public sector constraints on investment. CPSDs are an important product of this collaboration.

1.12 *Emphasize upstream work to build the pipeline of bankable projects:* AS interventions will become increasingly proactive as they work upstream on sector strategies and project development, and help governments and private sector clients convert development challenges into investable opportunities. Advisory Services can support governments in early stage project development, create and expand private sector models of engagement with municipalities and sub-sovereign entities, such as utility companies, and develop new business models in emerging sectors, such as Health & Education, Agribusiness and Financial Markets. To deepen IFC's engagement in smaller, more difficult markets, IFC will build on its successful upstream engagements through the Global Infrastructure Development Fund, also known as IFC InfraVentures.

1.13 Following endorsement of the AS strategy, IFC took significant steps to implement a new engagement model through the COMPASS priority setting exercise, initiating regular portfolio reviews and strengthening collaboration between Advisory and Industry teams. During the first half of FY18, IFC designed and operationalized a strong CMAW process to ensure alignment with COMPASS priorities.

1.14 IFC plans to replicate the collaborative, cross-matrix approach of COMPASS to identify and prioritize upstream opportunities for creating markets in MICs, and to expand priority setting to other funding sources. The strengthened AIMM framework will ensure that future project selection focuses on those projects with the greatest development impact and help IFC learn from previous experience and make informed spending decisions.

1.15 Also in FY18, to facilitate the implementation of the AS strategy, IFC undertook several deep dives to strengthen the Advisory business model. These analyses are shaping an Advisory implementation plan focused on: (i) aligning Advisory activities with regional and sector strategies; (ii) enhancing accountability and governance to improve strategic fit, quality, and results; (iii) strengthening delivery by improving organizational model, skill sets, and innovation; and (iv) financial sustainability.

1.16 A new Accountability and Decision-Making Framework (ADM) is being developed to improve governance and accountability and ensure strategic relevance, quality, and achievement of Advisory results. Additional measures include the strengthened results framework through the AS AIMM pilot, enhanced monitoring and evaluation, and new criteria for project prioritization and approvals. The development of Enhanced AS Financial Principles represents a key initiative to strengthen financial management and increase efficiency in the AS budget.

History of Financial Sustainability

1.17 Over the last 15 years, IFC has grown in program, portfolio, complexity of business lines, and reach. Between FY02 and FY17, IFC commitments in IDA countries increased from US$497 million to US$2,924 million (5.8 times), and Committed Portfolio from US$3.7 billion to US$16 billion (4.3 times). IFC's total LTF commitments (o/a plus mobilization) grew from US$3.6 billion to US$19.3 billion (5.4 times), and the total portfolio grew from US$15 billion to US$55 billion (3.7 times). In addition, IFC designated a total of US$3.68 billion from its net income to contributions directly to IDA.

1.18 Despite the higher commitment volumes, higher risk, smaller project size and profitability in FCS and IDA countries, IFC's Administrative Budget increased by only three times since FY02, from US$308 million to US$1,005 million. This makes the Administrative Budget close to flat in real terms over the last few years. IFC has been successful in avoiding higher increases through Expenditure Review (ER) measures and continued efforts to achieve internal efficiencies.

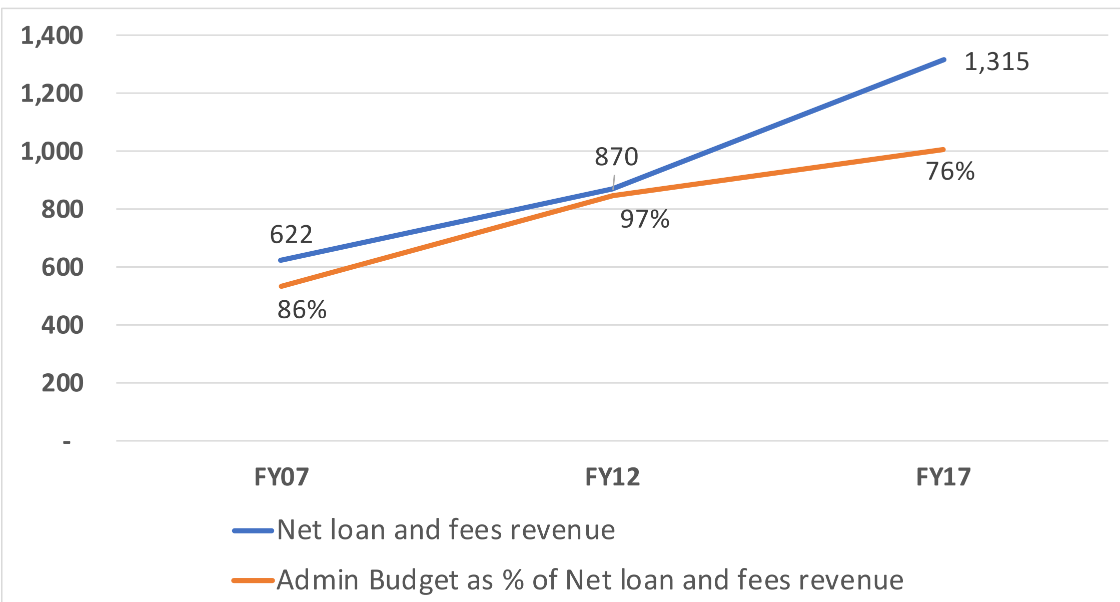
1.19 Through its decentralization drive, IFC increased its global footprint, especially in Africa. As a result, the share of IFC's offices in IDA countries rose to 38 percent. As anticipated in the FY18 Budget Paper, and as a result of Management's Office Ecology decisions aimed at capturing greater cost-efficiencies and supporting staff effectiveness, IFC has rationalized the number of smaller offices, making arrangements to maintain its presence and engagement through the World Bank.

1.20 In the same period, to support smaller and more challenging business environments, IFC decentralized and expanded its business lines to incorporate Advisory Services, which now accounts for about 29 percent of IFC's Total Resources. IFC also increased its strategic reach in priority geographies such as FCS and IDA countries and Sub-Saharan Africa, and in priority sectors such as Climate.

1.21 IFC also increased its mobilization efforts and expanded its mobilization platforms to bring additional private investors into its projects. Investors trust IFC's thorough due diligence process, portfolio management, strong presence on the ground, and access to governments and policy analysis via the World Bank. IFC's offering of new mobilization instruments to different classes of investors facilitates the flow of higher capital to emerging markets.

1.22 Even as it grows, IFC maintains financial sustainability by ensuring that its Administrative Budget can be solely and fully covered by its loan and fee income as shown in Figure 2. This policy of relying solely on controllable income drivers for coverage of administrative costs ensures that IFC is not unduly dependent on more volatile revenue sources, particularly income from equity-type products.

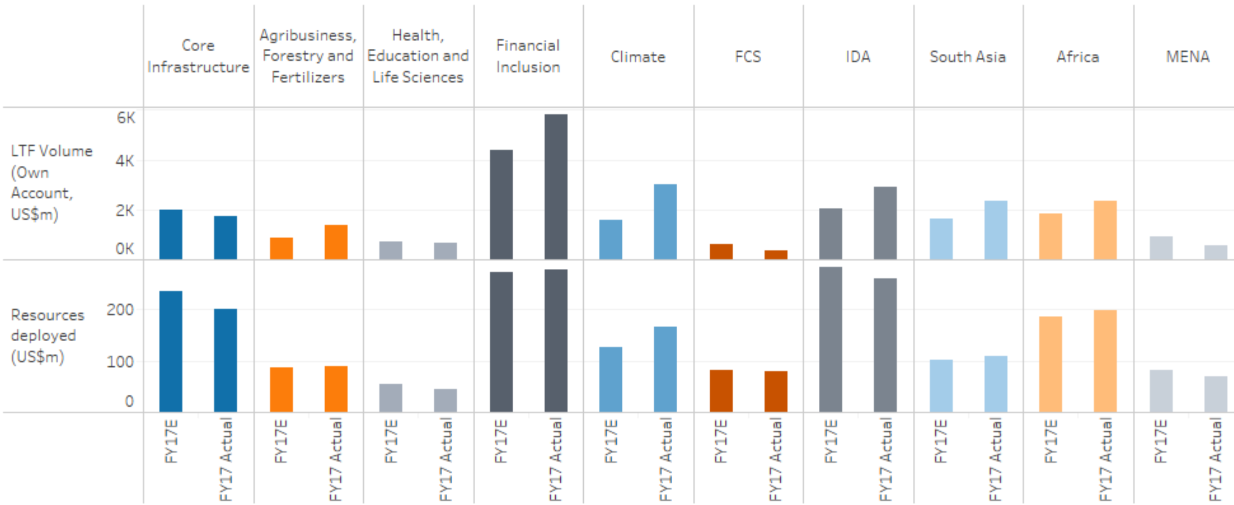
Figure 2: IFC covers its Administrative Budget with Revenue from Loans and Fees



Shifting Resources towards Strategic Priorities

1.23 IFC is already demonstrating progress in shifting resources towards priority areas. Figure 3 shows IFC's actual FY17 own-account LTF commitments in IFC 3.0 priority areas compared to FY17 SBO projections, and highlights the evolution of resources deployed in these areas during FY17.

Figure 3: Progress in IFC shifts towards Priority Areas: FY17 Actuals vs FY17 Plans



1.24 IFC is still learning lessons through analysis of its spend and delivery. For example, in FY17, IFC's own-account commitments surpassed projections in Climate and Africa, supported by a higher-than-planned deployment of resources. In Agribusiness and Forestry and Fertilizers, Financial Inclusion, IDA and South Asia, IFC delivered more than its expected own-account volume without consuming more than the planned resources, in part due to efficiency and productivity gains.

1.25 IFC observes a different pattern in FCS, where, despite spending almost 100 percent of its FY17 resource plan as informed by CODB, IFC achieved only half of its FY17 commitment targets. Similar trend is observed in MENA where efforts and resources deployed did not translate into commensurate commitment results. These results show that greater deployment of resources in IFC 3.0 priority areas may require time to translate into more commitments due to the challenges of doing business in these markets. Table 3 shows that despite growth in resources deployed towards FCS (from 5 percent in FY13 to 9 percent in FY17), own-account volumes did not manifest the same level of growth. IFC remains committed to deploying resources in the most efficient and effective way, recognizing that upstream efforts and market-creating activities in these strategic priority areas are necessary to achieve impact and growth. IFC will continue to monitor and analyze dependencies between resource deployment and program growth in IFC 3.0 priority areas.

1.26 As mentioned above, these resource shifts were already happening before the articulation of IFC 3.0. Over the last five years, IFC deployed more resources towards Core Infrastructure, Health, Education and Life Sciences, Climate, FCS, IDA, and MENA - the proportion of spend in these focus areas increased faster than the overall budget growth. For instance, the compounded annual growth of investment resources for Africa was 9 percent compared to 2.5 percent at overall IFC level.

2. FY19 Resource Needs

Directional Resource Needs based on Cost of Doing Business Methodology

2.1 Because origination costs in IFC's strategic priority areas are higher than IFC's average, the successful implementation of IFC 3.0 will be resource-intensive. Based on the Cost of Doing Business (CODB) methodology developed by IFC in FY17 and introduced to the Board for the first time in the FY18 Budget Paper, US$1 of resources generates US$35 in total commitments in non-IDA countries, but only US$22 in IDA and US$15 in FCS countries. Furthermore, IFC's FY09-17 return on capital was only 0.1 percent for IDA countries, compared with 5.2 percent for non-IDA countries. By taking into account these input vs output differences, CODB produces a useful set of key performance indicators for gauging IFC's budget sustainability, strategic alignment, and budget efficiency.

2.2 Analysis of IFC's CODB clearly demonstrates that investments in strategic focus areas consume more resources than the IFC average for new business. For example, as shown in Table 2, new investments in core infrastructure cost twice the IFC average. In FCS and Agribusiness, it is 1.1 times more, and in Africa 1.3 times more than the average for new business. The portfolio factor does not exhibit as large a variability as new business given greater predictability of the portfolio management process.

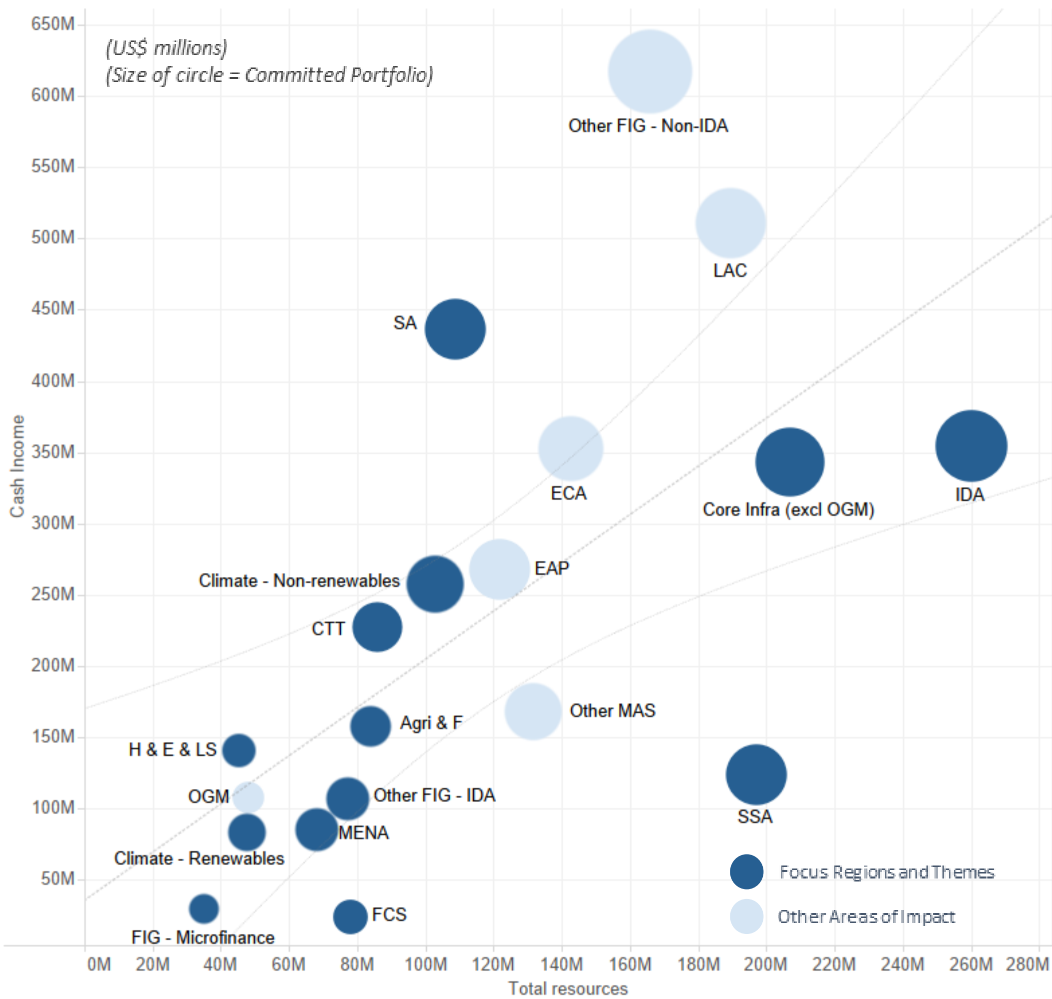
Table 2. IFC's Cost of Doing Business for Investment Services

	Factors Influencing Resource Projections FY15-FY17 average	
	New Business Factor: $955K/project	**Portfolio Factor: $266K/client**
Focus Industries		
Core Infrastructure	1.97 x	1.2 x
Agribusiness, Forestry and Fertilizers	1.1	1.0
Health, Education and Life Sciences	0.9	0.8
Financial Markets	0.6	1.1
Focus Themes		
Climate	0.6	1.0
FCS	1.1	0.9
IDA	1.1	1.0
Focus Regions		
South Asia	0.7	0.8
Africa	1.3	0.9
MENA	1.0	1.0

Note: Takes into account the organization shift of Afghanistan and Pakistan from MENA to South Asia and an update of the New Business IDA factor to 1.1

2.3 Figure 4 below demonstrates the financial sustainability impact of strategic priority areas towards which IFC is continuing to shift resources (dark blue), compared to other areas of impact (light blue). The implications of the higher cost consumed by those strategic priority areas also demonstrates the need for a portfolio approach to generate more sustainable financial returns from other regions and sectors.

Figure 4: FY17 Cash Income Compared to Total Resources Deployed in Strategic Areas



2.4 IFC anticipates that nearly all strategic focus areas will continue with the upward resource trajectories in line with last year's budget paper. Priority areas will increase their relative share of resources deployed in FY19, with further growth likely through FY21.

2.5 Extrapolating on the CODB factors, the incremental FY19 Total Resource needs of implementing IFC 3.0 with increased investment in focus areas such as IDA and FCS was estimated at US$60 – US$80 million, based on IFC's existing cost structure.

FY19 Budget Process: Total Implementation Resource Needs

2.6 As shown in Table 3 below, this year's Budget process yielded gross incremental resource needs of US$89.4 million. This is slightly above the CODB estimated range as the range does not include projected increases in Corporate Overheads and WBG Shared Service Agreements as explained in paragraph 2.9 below.

Table 3: Implementation Administrative Budget Needs Identified through FY19 Budget Process
in US$ million

	Administrative Budget
Departmental Resource Needs	45.0
Price Factor	20.7
Corporate Overheads Requirements	23.7
Gross Implementation Resource Needs	**89.4**

2.7 **Departmental Requests.** As part of the FY19 Budget Process, departments identified their direct cost needs to deliver the program presented in the *FY19-21 SBO Update*. Total direct departmental needs amounted to around US$45 million, reflecting the expected operational cost of implementing IFC 3.0 in FY19. US$27.6 million of this gross request, largely representing additional staffing needs, came from departments reporting to the Chief Operating Officer. The remaining US$17.4 million of the requests came from operational support VPUs.

2.8 **Price Factor.** Each fiscal year, IFC Management proposes a nominal budget which includes an adjustment for price changes based on external price movements. This price factor covers the effects of external price fluctuations on IFC's administrative expenses. IFC follows the same Board-approved methodology as the Bank. The resulting price factor is different for each institution due to differences in cost structures. The corresponding price factor increase for IFC in FY19 is projected at US$20.7 million, including potential increases on the WBG Shared Services Agreements (SSA).

2.9 **Corporate Overheads.** Corporate overhead cost increases across the organization are estimated at US$23.7 million, including the following cost drivers:

a) **Increase in the Cost of the WBG Shared Services Agreements.** IFC has entered into a number of Shared Services Agreements (SSAs) with the Bank for support in the areas of Finance, Audit, Information Technology, Human Resources, Evaluation, General Services, and Board Governance. IFC is in conversations with IBRD to ensure that the joint implementation SSA efforts lead to greater cost avoidance and savings for each institution, including IFC.

b) **Increase in New IFC Building Costs and Depreciation.** The new IFC building at 2100 K Street is scheduled for completion in December 2018. New in-house space will allow IFC to reduce its overall external-rental exposure and limit and control future price escalations.

c) **Cloud-based IT solutions:** Instead of purchasing physical software and hardware, IFC, together with the Bank, increasingly uses internet-based solution for its IT needs, resulting in an increase in administrative expenses for software accessed under the cloud-based computing arrangement.

d) **Other.** Other miscellaneous corporate expenses include costs associated with the higher risk profile of IFC interventions, including, Conflict of Interest training mandated by the WBG Cascade, Business Continuity, Corporate Secondment and Staff Exchange programs, and depreciation related to IT assets and facilities not related to the new IFC building.

FY19 Budget Process: Cost-offsetting Measures

Table 4: Cost-Offsetting Measures Identified through FY19 Budget Process
US$ million

	Administrative Budget
Gross Implementation Resource Needs	**89.4**
Less: Internal Redeployments	(36.7)
Less: Cost Recovery Measure	(21.6)
Cost-Offsetting Measures	**(58.3)**
Net Implementation Resource Needs	**31.1**
Net Admin Budget Needs	*3.0%*

2.10 IFC Management is committed to finding internal efficiencies and deploying additional cost offsetting measures to address the Gross Implementation Resources Needs identified during the bottom-up budget process.

2.11 **Redeployment Efforts.** The internal reallocation of staff and resources underpin IFC's cost-offsetting measures. Beginning with Operations, the Corporation is taking stock and realigning staff-skills more closely with: (i) strategic priority areas, particularly with enhanced focus on FCS and IDA countries; (ii) financial product expertise and drive for innovation, to boost upstream activities; and (iii) enhanced investment support capacity, for example by shifting experienced and qualified investment staff to functions such as credit risk. Departments have also explored opportunities to shift service delivery away from consultant-use models, synergize IT systems, assess frequency of activities such as knowledge forums and representation, and explore areas where staff skills can be shifted across units. Total internal redeployment efforts are projected to allow departments to reduce their gross needs by an estimated US$36.7 million.

2.12 The operational departments estimated gross resource needs will be met substantially through internal redeployments mainly through workforce planning. Any incremental budget will be allocated to priority regions and sectors. Other sources of funds, like CMAW, will provide additional capacity for necessary upstream activities focused in IDA and FCS countries. Smaller support VPUs face real cost pressures from dealing with IFC 3.0's greater complexity, and cannot fully absorb these costs through internal redeployments. As such, the incremental budget request has been notionally allocated to VPUs on a proforma basis, while retaining flexibility to re-allocate resources to the most important priorities during the year.

2.13 **Cost-recovery Measures - Benefit Rate Harmonization.** In the spirit of aligning financial principles and practices across the World Bank Group, and enabling better budgeting, accountability and accuracy of the costing of products and services, IFC Management plans to ensure that all IFC products and activities, however funded, reflect the full staff cost of delivery. This follows the IBRD process. IBRD, MIGA and IFC will also harmonize the benefit rate of staff charged directly to each other's budgets across institutions effective July 1, 2018.

2.14 By applying the full benefit rate charges to third-parties such as AMC and Trust Funds, and to other sources of funds such as FMTAAS and CMAW, IFC departments will recover an estimated additional

US$21.6 million. As a result, IFC included in its Budget Process US$21.6 million as a cost-offsetting measure, to be available for internal reallocations toward the cost of achieving strategic priorities.

2.15 The VPU for Partnerships, Communication, and Outreach and the Budget and Business Administration Department are working together to explain the policy harmonization and new recovery mechanism for non-salary staff costs to development partners at all levels. An internal strategy is also being developed to prevent a decline in overall donor commitments and interest in WBG and IFC solutions, particularly Advisory Services.

FY19 Budget Process: Implementation Resource Needs Net of Cost-offsetting Measures

2.16 The additional Administrative Budget needs of US$89.4 million identified through the FY19 Budget Process will be offset by US$58.3 million in internal cost-offsetting measures as described above, resulting in a total Administrative Budget increase request of US$31.1 million. Upon completion of the workforce planning exercise, IFC will revise its resource trajectory, which will also incorporate policy commitments for the newly approved capital increase, and present to the Board the new Administrative Budget three-year trajectory in its FY20 Budget Paper. Seeking internal redeployments is a continuous exercise. The Corporation will continue to pursue economies of scale and proactively monitor resource usage to ensure efficiencies are realized.

Advisory Services FY19 Incremental Resource Needs

2.17 The *FY17 Net Income Allocation* paper indicated a spend trajectory for Advisory Services. AS activities funded from CMAW are expected to increase by US$20 million. This incremental funding will support clients from early-stage project development through supervision, create and expand private sector models of WBG engagement, and deploy new innovative models in sectors such as Health & Education, Agribusiness and Financial Markets.

2.18 Leveraged with CMAW funds, AS activities supported by development partners and clients are also expected to increase by US$20 million to support program delivery.

3. Gearing Up for Implementation beyond FY19

3.1 As IFC expands its efforts in the most challenging markets, continued efficiency gains are required to absorb a portion of additional costs associated with the implementation of IFC 3.0 and the Cascade.

3.2 This year, IFC deployed the following key mechanisms to find efficiencies, and create a more robust, effective and agile delivery model: (i) organizational enhancements; (ii) in-depth review of IFC budgets, expense, and cost recovery trends by function to eliminate inefficiencies and redirect resources; (iii) workforce planning and re-alignment, and (iv) process improvements. These measures will establish a framework for creating a new, leaner and yet more impactful, delivery model. IFC has applied its budget analysis to leverage additional cost recovery; identify savings and tradeoffs, repurpose non-essential expenses; and find flexibility across sources of funds. These changes will prepare IFC for scale-up and implementation of IFC 3.0 agenda, as supported by the capital increase.

FY18 Organizational Enhancements

3.3 IFC has created a decentralized organization with enhanced capacity to flex and scale up against the ambitious goals of IFC 3.0. Three new Regional Vice Presidents (RVPs), who report to one Chief Operating Officer (COO) responsible for 3.0 implementation, rebalance the matrix structure and heighten IFC's regional focus, especially in upstream work and business development. This includes redeploying operational staff to areas of focus and ensuring expertise from global industries is available in each region. Regional and industry matrix continues to drive IFC's efforts to balance local knowledge and proximity to clients with global industry expertise for optimal impact, quality and value for clients.

3.4 The creation of Regional Vice Presidencies also aligns IFC's structure with that of the Bank for better coordination, efficiency and client delivery. The RVPs provide Bank and MIGA colleagues with an accountable counterpart for joint priority-setting and for leveraging resources across the WBG to cooperate on diagnostic and reform work, and other upstream activities. The new structure provides for better staff-level collaboration and fosters innovation in creating markets.

3.5 Overseeing the RVPs, the COO is responsible for strengthening strategic country and regional approaches to creating markets, and ensuring better coordination between regions and sectors as well as between Investment and Advisory Services.

3.6 The collaboration framework put forward through Global Practices (GPs) is also being designed to strengthen private sector deliverables. This includes a better articulation of joint outputs between GPs and the Economics and Private Sector Development Vice Presidency at IFC to avoid duplication of effort, and to recognize the comparative advantages of each institution in meeting client demand and delivering on the Cascade.

3.7 IFC has created a Vice Presidency for Partnerships, Communications and Outreach to boost IFC's stakeholder engagements, improve dialogue with development partners, and enhance capacity to articulate development impact and success in the creation of markets.

3.8 In the spirit of improved accountability, faster decision-making, greater standardization, and efficient use of IFC resources, approximately 300 network staff in Finance and Budget, HR, Economics/Strategy, and Communications were remapped to their functional departments on July 1, 2017. The centralization of existing corporate support functions is expected to deliver economies of scale throughout FY20 and beyond. Efforts are already underway to streamline functions and align the workforce with the new IFC operating model.

Internal Review of Budgets, Expense Trends and Financial Policies

3.9 In FY18, IFC has undertaken several internal benchmarking studies, including in the areas of Facilities and Administration, Finance, Operations, and Corporate and Operational Support. The studies identified opportunities to improve skills and quality of services, standardize and simplify processes and organization, and gain further economies of scale.

3.10 **Facilities.** A dedicated Project Management Office will be established to: (i) ensure analytically robust real estate decision-making across IFC geographies; (ii) provide systematic management for all HQ and country office projects; (iii) provide cost-benefit analysis for buy-vs-lease and co-location, ensuring consistency in the application of common practices and contractual standards across IFC's global facilities' footprint; and (iv) foster efficient use of budgetary resources. Office Ecology analysis will continue to guide future office usage decisions.

3.11 IFC is taking numerous measures to maximize efficiencies and cost-avoidance in the management of its global real estate. Examples include review and verification of lease agreements against occupied space, comparison of existing lease rates against market rates for future lease negotiations, inclusion of lease breakage clauses in IFC leases wherever possible, and a thorough *ex-post* analysis to determine optimal office-size standards for IFC across its global footprint. Such efforts will ensure the standardization of space allocation, resulting in increased efficiency and reduction in operating expenses.

3.12 **Finance and Corporate Support**. The functional remapping of Finance and Corporate Support staff is ensuring organizational effectiveness, improving staff opportunities for professional growth, and enhancing cost efficiency. In Finance and Budget, reporting and analytics will continue to be strengthened to better support timely and effective decision-making. Automation pilots will continue, and activities will be consolidated to achieve economies of scale.

3.13 **Advisory Services Financial Principles.** The Deep Dive on the Advisory Services Financial Model analyzed Advisory cost patterns, spend categories and funding sources to find efficiencies in the Advisory Sources of Funds. The Deep Dive showed that IFC is efficiently managing program delivery by leveraging its own funds to attract external sources deployed against projects. Development partner contributions are key to maximizing Advisory's development impact. CMAW has become instrumental to pursuing Advisory opportunities with good potential to drive market creation in IDA and FCS countries, helping tackle complex challenges, and support clients for future investments. However, the studies revealed that there was still potential for streamlining non-client related activities in the support functions of Advisory Services.

3.14 These findings have led to the development of the new Advisory Services Financial Principles to strengthen financial management of the Advisory business and increase efficiency in the Advisory budget. The Principles focus on improving project delivery with clients while streamlining non-client related activities.

3.15 IFC estimates that the implementation of the Advisory Services Financial Principles will result in potential cash savings of up to US$15 million on non-client variable expenses. The Principles will be rolled out in FY19, with the first year serving as a critical proof of concept. IFC intends to set aside US$15 million - equivalent to these identified savings - as an implementation contingency.

3.16 IFC Management has agreed to redeploy the identified savings into an "internal mainstreaming" of IFC fixed support costs, currently funded from FMTAAS. As a result, the AS Administrative Budget will remain at US$66.2 million, equal to the FY18 level.

Workforce Planning

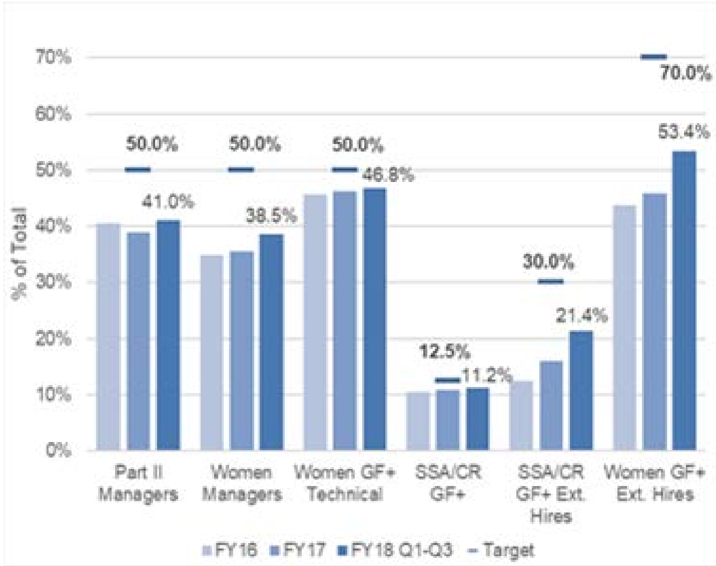
3.17 At the end of FY18 Q3, IFC had 3,928 staff compared to 4,000 at the end of FY13. As shown below, 45 percent of the workforce was based in HQ and 55 percent in country offices. Since FY13, Africa and East Asia underwent the largest net headcount increase among regions, reflecting office ecology shifts from prior organizational reforms and efforts to strengthen capacity and presence on the ground. Though MENA, South Asia, Latin America, and ECA experienced headcount decreases during the same period, the headcount indicator alone does not fully represent the focus of staff efforts on the regions. IFC's delivery model, which cuts across regions and industries, affords IFC Management the flexibility to deploy staff, irrespective of their physical location, to projects in other regions and, to some extent, sectors.

3.18 IFC continues to make a concerted effort to locate more staff in the regions of strategic focus, to increase upstream and business development efforts, better manage underlying risks, and boost collaborative work with country-based Bank colleagues. In Africa, IFC is adding two Regional Director positions. The three Directors will cover respectively Eastern Africa, Western & Central Africa, and Southern Africa for enhanced focus in the region.

3.19 One objective of Workforce Planning is to leverage senior staff with more junior staff, to gain productivity. The ongoing Workforce Planning exercise will be informed by the historic evolution in staff trends, including staff location, grade structure and diversity statistics.

3.20 IFC's diversity results have improved across all indicators, most notably seen in the percentage of Female Managers. As a result of new external recruitment targets for women and SSA/CR nationals, and the requirement to seek CEO exceptions for non-diverse hires when departments are unable to reach their set diversity targets, IFC has enjoyed improved corporate D&I metrics in both SSA/CR, and in women in technical grades. Following the success of the recent Japanese recruitment drive, IFC will be embarking on an SSA/CR recruitment mission to supplement the progress made through external recruitment targets.

Figure 5: Staff Diversity Trends



3.21 Although Workforce Planning is not new to IFC – IFC has performed assessments of its skill-sets and organizational structure in the past – an enhanced and comprehensive workforce planning process has begun and will be implemented in FY19 to ensure that the right people are in the right roles and places, efficiently and effectively supporting IFC's 3.0 strategy and clients. IFC also expects the new workforce plan to support the more systematic hiring of diverse talent moving forward.

3.22 Until workforce plans are fully in place, recruitment efforts will be limited to areas where IFC 3.0 implementation skills are lacking, and focused on achieving IFC's diversity targets. Having a corporate longer-term view of staffing needs will also support a more systematic hiring of diverse talent moving forward. To align current staff skill-sets with the skills required for IFC 3.0 implementation, Management may consider funding the one-time costs of this re-balancing from the FY18 Carry-forward.

Process Improvements

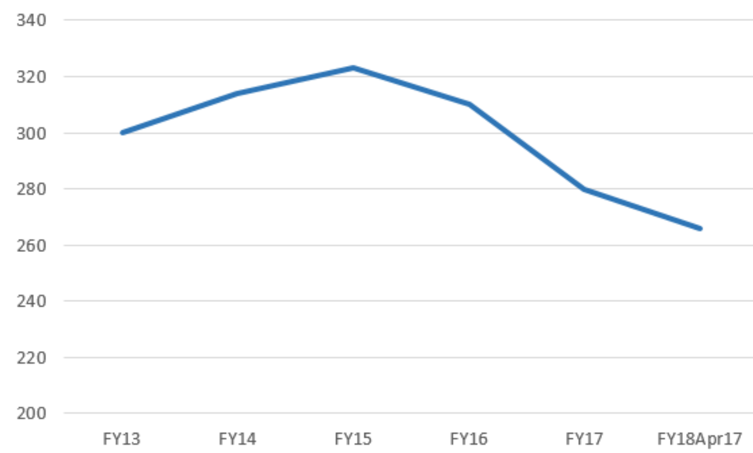
3.23 **IFC Agile**. At the heart of IFC's efficiency agenda is a conscious effort to change behaviors and internal processes to enable IFC to make better and more timely decisions. Key changes include: (a) identifying a single decision maker for investment decisions, (b) streamlining processes for repeat business, and (c) simplifying documentation requirements on key issues. A new decision-making and accountability structure that supports these changes has been approved and the first investment process pilots were launched in March 2018.

3.24 **Process Efficiency Initiative**. The Process Efficiency Initiative (PIE) is a key strategic initiative to improve project processing efficiency by reducing the number of days between approval of mandate and disbursement. Piloted in Latin America and the Caribbean, the initiative was introduced across all regions and industry groups on July 1, 2015. IFC put in place a robust tracking system to ensure timely tracking and proactive management of targets.

3.25 The overall IFC Mandate to Disbursement (M2D) metric continues to show improvement through FY18 Q2— reflecting a sixty days' reduction in M2D since FY15. Note that Figure 6 covers projects that started both before and after the IFC PIE initiative and shows a full picture of M2D results to-date.

Figure 6: IFC M2D Metric is showing Improvements since FY15

In median days, vertical axis does not start at 0.



3.26 The Corporate Scorecard presented in Chapter 5, on the other hand, will show the M2D of projects mandated on and after July 1, 2015 only. The scorecard approach was chosen to incentivize project teams to beat the 150-day target without counting projects that started prior to IFC PIE. While these new projects tracked in the Scorecard have not yet achieved the target efficiency gains, Figure 7 demonstrates that the IFC PIE continues to reduce the overall M2D at the corporate level.

Strategic Alignment of Human Resources Practices

3.27 **IFC's Federal Model**. In FY19, a "federal model" will be established for the HR function. It will allow IFC to regain its capacity to understand, analyze and address its own specific HR requirements (e.g. development of incentives to deliver on creating markets and working upstream). This realignment will be budget neutral as it will be implemented through a combination of staff transfers from IBRD and a review of the services currently provided by IBRD through the SSAs.

3.28 **Key Focus Areas.** The implementation of IFC 3.0 requires a thorough review of IFC staff skill-sets, while providing staff with incentives to support the new Creating Markets agenda and ensuring continuous opportunities for staff growth. As part of the roll out of the IFC Federal Model, positions dedicated to Rewards & Incentives, Career Framework, HR Business Analytics and Workforce Planning will be among the positions to be filled by the IFC HR department.

3.29 **WBG/Cascade Incentives**. Aligning IFC's award programs with its new strategy will be critical to drive behaviors towards common WBG strategic priorities, including Creating Markets through upstream endeavors, program delivery in FCS and IDA countries, as well as MFD, and other strategic focus areas. This alignment also includes increasing the number of awards provided to WB and MIGA staff who support the WBG Cascade and the MFD agenda — this will constitute a cross-institutional incentive to direct resources toward shared priorities. IFC is also exploring the implementation of a long-term incentive mechanism linked to development impact measures.

3.30 **Presidents' Exchange Program**. On January 16, 2018, the WBG launched the first cohort of the President's Exchange Program, bringing together eleven staff members from across the WBG, including five from the IFC. This program is designed to foster creativity and collaboration in developing joint Creating Markets interventions and to engrain the Cascade approach into the WBG staff DNA.

3.31 **Career Frameworks.** To support the implementation of its ambitious 3.0 agenda, IFC must have the capability to recruit and retain talented staff and to develop appropriate expertise, seniority, and skills. In that regard, IFC is developing a career framework for different departments and functions to provide staff with a road map for planning their careers. While the initial focus is on the Operations and Economics and Private Sector Development VPU, the intent is to expand this work across IFC through FY19. The Operations Career Framework includes a specific emphasis on skills and prior experience that can effectively support creating markets, MFD, and IDA/FCS program delivery. This will support delivery in IFC's strategic focus areas while providing global opportunities for staff regardless of their location of hire. Providing additional career opportunities also requires providing more opportunities for staff rotation. There will be a more active management of staff mobility, focusing not only on geographical mobility, but also on career mobility through rotations across functions.

3.32 **Performance Management**. Deploying IFC resources more efficiently and in a budget-constrained environment also requires a more proactive approach to addressing low performance. VPU management teams have identified the bottom five percent of performers and presented a plan for managing these staff to achieve improvement. Implementation of these plans will be carefully monitored and may include, where appropriate, redeployments, coaching and staff guidance. HR processes will be followed in non-performance cases as they are identified.

3.33 **HR Compensation Review.** The upcoming changes to the WBG compensation methodology provide an opportunity to reinforce a pay-for-performance culture by leveraging IFC's awards more strategically. Given the distinct business nature of the individual WBG institutions, and the higher level of market competition for certain job families in IFC, the new compensation system provides flexibility to address specific business needs and labor market pressures through a more robust awards system.

Joint WBG Efficiency Agenda

3.34 IFC will continue to work with all WBG institutions to promote a collective efficiency agenda by strengthening controls over travel spending, hospitality, and other non-staff costs, and achieving greater administrative efficiencies through joint real estate strategies, procurement negotiations and WBG Shared Service Agreements (SSAs):

a. **Travel.** The Corporation has already achieved significant savings in average trip cost, which is down 16 percent since FY13. IFC will continue to monitor and reinforce rules regarding advance booking, class of travel, lowest-fare options, short-duration transatlantic trips, and hotel cost ceilings. The WBG continues to drive spending discipline by issuing individual credit cards to 11,000 WBG staff for mission expenses, and airfare credit cards to the travel agents for airfare charges. These projects will cover over 70 countries and HQ, corresponding to 90 percent of the total WBG travel spend. The cards will ensure that travel expenses are consistently captured and reduce the undue payments of taxes on hotel stays.

b. **Administration.** Further joint reforms in administration include:
    - *Global Central Payments Project* – Centralized payments of local country offices' payrolls and vendors will enable country office teams to focus on more value-added analytical work.

- *E-Payables Project* – Electronic payment processing will make payments of invoices more efficient.
- *Travel Receipts Capture Application* – A more efficient travel expenses capture and reporting system will result in significantly easier reporting of travel expenses.
- *Events Management* -- IFC will also tighten controls over the number of staff participating in global events and conferences, and reduce discretionary spending by introducing tighter per capita spending standards for hospitality and other events.
- *Resource Management Planning and Reporting Systems* – The Business Planning & Consolidation system (BPC) is being developed to allow more efficient, timely, and effective decision-making. The BPC system was deployed for the first time during the FY19 budget construction cycle to produce and consolidate bottom-up budget projections.
- *Admin Portal and Simplification Processes* – Improved workflow and simplified expense reimbursement processes will eliminate approximately 250,000 low-risk and low-value manager approvals, freeing up front-line staff for operational activities, while introducing new mechanisms for maintaining effective financial controls.

c. **Procurement.** Joint negotiations of corporate contracts with the WBG Washington D.C. travel agency and preferred hotels are expected to deliver some savings over the next few years.

d. **Shared Services Agreements (SSAs).** SSAs enable IFC and its counterparts in the WBG to leverage commonalities by specializing and standardizing select functions for greater efficiency. IFC's Budget and Business Administration Department continues to be the corporate sponsor for the WBG Integrated SSAs, by providing a more focused engagement with the Bank counterparts to review the scope and cost of the SSAs. Efforts to actively seek efficiencies from WBG shared services remains a priority.

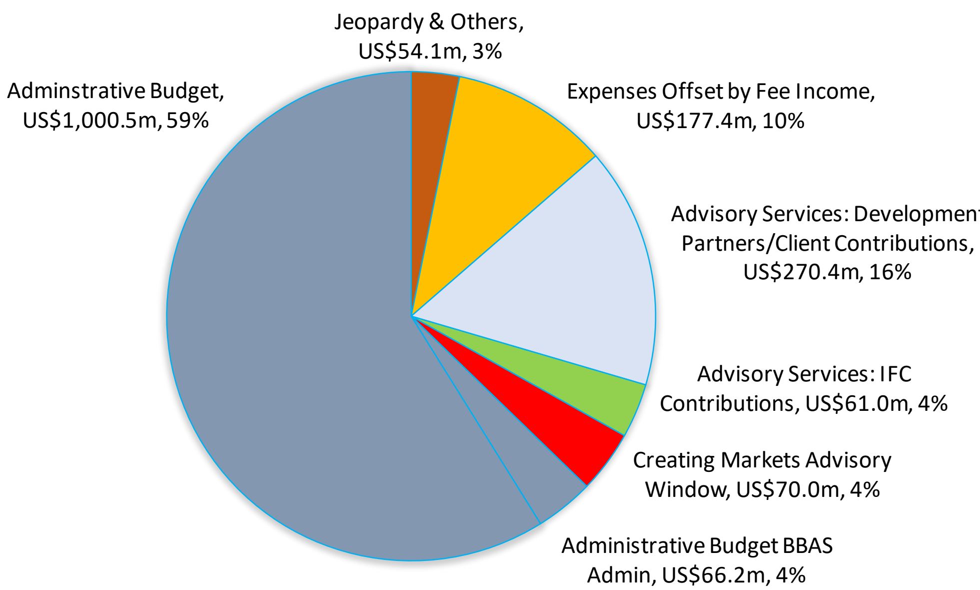
4. FY19 Budget Allocation

Total Resource View

4.1 IFC's projected FY19 Total Resource view reflects (i) the Implementation Resource Needs identified by departments during the FY19 Budget Process; (ii) impact of AS Financial Principles and increases on AS external sources and CMAW; (iii) increases in the corporate overhead costs and price factor; and (iv) cost-offsetting measures, including cost-recovery measures.

4.2 Figure 7 presents the Total Sources of Funds view, including the relative portion of the Sources of Funds (SOFs)in the overall Total Resources Budget.

Figure 7: Projected FY19 Total Resources, by Source of Fund, are US$1,699.7 million



4.3 The overall increase in all SOFs is essential to implement the IFC mandate. Table 4 shows contributions of all IFC Sources of Funds towards the FY19 Budget as compared to FY18. The increase in Administrative Budget reflects the proposed 3 percent increase. Additionally, as presented in Chapter 2 and anticipated in the *FY17 NIA Paper*, IFC is expecting to increase budgets on CMAW and development partners and clients by US$40 million in total which drives the Total Resources increase to 4.4 percent, above the 3 percent increase in Administrative Budget.

Table 4: IFC's Total Resources by Source of Funds

US$ million

	FY18 Budget	FY19 Budget	US$m Increase	% Increase
Total Administrative Budget	**1,035.7**	**1,066.7**	**31.1**	**3.0%**
IFC Contributions to Advisory Services (other than admin. budget)	**111.0**	**131.0**	**20.0**	**18.0%**
Funding Mechanism for Technical Assistance and Advisory Services	45.0	45.0	-	0.0%
Creating Markets Advisory Window	50.0	70.0	20.0	40.0%
Others	16.0	16.0	-	0.0%
Development Partners/Client Contribution to Advisory Services	**250.4**	**270.4**	**20.0**	**8.0%**
Expenses associated with IFC's Treasury & Portfolio activities	**24.4**	**24.4**	**-**	**0.0%**
Expenses offset by fee income	**177.4**	**177.4**	**-**	**0.0%**
Client Fees	113.9	113.9	-	0.0%
Treasury / Syndications Programs Fees	24.2	24.2	-	0.0%
Asset Management Company Reimbursable	25.0	25.0	-	0.0%
Donor Trust Funded Investments (DTFI) Fees	14.4	14.4	-	0.0%
Special Initiatives	**14.7**	**14.7**	**-**	**0.0%**
Jeopardy Expenses	**15.0**	**15.0**	**-**	**0.0%**
IFC's Total Resources (excluding Carry-forward)	**1,628.5**	**1,699.7**	**71.2**	**4.4%**

Note: Totals may not add due to rounding.

4.4 **Organizational Structure View.** IFC allocates budgets to VPUs according to strategic needs as shown in Table 5 below. Each Vice President then provides budget envelopes to their reporting departments. IFC Operations, reporting to the COO, receive the largest share of the budget. Under the new structure, the Chief Operating Officer oversees a matrix of Global Industries and Regions, which allows IFC to re-allocate resources within Operations on an ongoing basis without impacting the organizational structure. The budget allocation under the COO will be determined during the Q1 FY19 once the COO's workforce plans are finalized and the needed resource shifts between Global Industry Departments and Regional VPUs are known. We anticipate a significant increase in the resources allocated to the VPU and Departments driving IFC delivery in Africa, MENA and South Asia as well as in our focus industries and themes. The Board will be updated on the COO budget allocation in the Quarterly Board Report (QBR). This allocation will also be included in subsequent budget papers. Budget growth in Operational Support functions such as Risk, Legal and Environment and Social Sustainability are driven by their evolving mandates necessary to support Operations in meeting the challenges of IFC 3.0.

4.5 The pro forma column in Table 5 shows an indicative allocation of resources, that reflects the following factors[1]:

i. <u>Advisory Services:</u> internal mainstreaming of FMTAAS, creation of a corresponding contingency in Corporate Overheads, and an increase in CMAW and AS external sources of funds;
ii. <u>Cost-recovery and benefit rate harmonization:</u> transfer of institutional staff benefits from the Corporate Overheads to VPUs, based on the new benefit rate mechanism; and
iii. <u>Distribution of Net Implementation Resource Needs,</u> amounting to the 3 percent increase on Admin Budget.

[1] The final allocation may be different from the pro forma due to several factors, including but not limited to internal staff redeployments (which will affect the base to calculate the shift in the benefit rate costs) and the allocation of CMAW (which follows a governance process to allocate funds at the project level throughout the year).

Table 5: IFC's Total Resources by VPU

	FY18 Budget		*Proforma FY19 Budget*	
	US$m	**% of Total**	***US$m***	***% of Total***
Units reporting to Chief Operating Officer	618.6	38%	*686.6*	*40%*
IFC Global Practices and CCSAs	115.1	7%	*116.2*	*7%*
Operational Departments	**733.7**	**45%**	***802.8***	***47%***
Risk & Financial Sustainability	73.8	5%	*81.7*	*5%*
Legal, Compliance, Risk & ESG Sustainability	99.9	6%	*113.6*	*7%*
Economics & Private Sector Development	57.4	4%	*65.8*	*4%*
Development Economics	4.7	0%	*4.8*	*0%*
Treasury and Syndications	58.4	4%	*63.2*	*4%*
Corporate Strategy and Resources	77.8	5%	*88.9*	*5%*
Partnerships, Communication and Outreach	31.5	2%	*35.7*	*2%*
IFC Chief Executive Officer	3.8	0%	*4.6*	*0%*
Total Departments	**1,141.0**	**70%**	***1,260.9***	***74%***
Asset Management Company Reimbursable	25.0	2%	*25.0*	*1%*
Creating Markets and Advisory Window	50.0	3%	*70.0*	*4%*
Corporate Overheads (incl Pensions and SSA)	374.7	23%	*305.2*	*18%*
Corporate Governance (incl Anti-Corruption and Fraud, External Auditors and Conflict Resolution)	8.5	1%	*8.7*	*1%*
Other (Board, IEG)	29.3	2%	*29.9*	*2%*
Total Resources	**1,628.5**	**100%**	***1,699.7***	***100%***

Numbers may not add up to rounding

4.6 The reduction in the Corporate Overheads is due to the shift of the portion of institutional staff benefits to departments. This is reflected in a commensurate increase in budget across departments.

4.7 **Cost-category View**. Total Resources view is also provided by Cost Category in Table 6. Looking at Total Resource by Cost Category, salaries and benefits account for the largest share of IFC's Total Resources, followed by short-term consultants and temporaries, and WBG services and support fees. Increase in Equipment and Buildings category reflects additional administrative costs of 2100 K Street and other costs associated with IFC's global real estate footprint.

Table 6: IFC's Total Resources – Fixed versus Variable

	FY18 Budget Restated		FY19 Budget	
	US$m	%	US$m	%
Fixed Expenses	**1,098.0**	**67.4%**	**1,145.6**	**67.4%**
of which				
Salaries and Benefits (including contributions to SRP, RSBP, PEBP & PCRF)	948.1	58.2%	983.6	57.9%
o/w Salaries	505.7	31.1%	522.9	30.8%
o/w Benefits (including pension & variable pay)	442.4	27.2%	460.7	27.1%
Communications and IT	31.3	1.9%	32.9	1.9%
Depreciation Expense	57.1	3.5%	63.9	3.8%
Equipment and Building Expense	61.5	3.8%	65.2	3.8%
Variable Expenses	**530.5**	**32.6%**	**554.1**	**32.6%**
of which				
ST Consultants and Temporaries	148.5	9.1%	156.9	9.2%
Travel, Representation and Hospitality	125.8	7.7%	129.9	7.6%
Contractual Services	102.1	6.3%	110.8	6.5%
WBG Services and Support Fees	130.0	8.0%	130.0	7.6%
Other Expenses	24.1	1.5%	26.5	1.6%
Total Expenses	**1,628.5**	**100.0%**	**1,699.7**	**100.0%**

Administrative Budget View

4.8 IFC Management proposes an FY19 Administrative Budget of US$1,066.7 million. This represents a 3 percent nominal increase over the FY18 Administrative Budget, in line with the budget trajectory indicated in the *FY18 Budget Paper* and in the *FY19-21 SBO Update*. Administrative Budget comprises the largest share of IFC's Total Resources (63 percent). As with the Total Resources view, the pro-forma FY19 column in Table 9 also reflects a transfer of the portion of institutional staff benefits costs from Corporate Overheads to VPUs based on the revised benefit rate mechanism, as well as the distribution of new incremental resources to VPUs and increase in Corporate Overheads net of cost-offsetting measures. Additionally, although not visible at the aggregate level in Table 7, the pro-forma reflects shifts of Administrative Budget across VPUs.

Table 7: IFC's Administrative Budget by VPU

	FY18 Budget		*Proforma FY19 Budget*	
	US$m	% of Total	*US$m*	*% of Total*
Units reporting to Chief Operating Officer	337.6	33%	*402.9*	*38%*
IFC Global Practices and CCSAs	15.9	2%	*15.5*	*1%*
Operational Departments	**353.5**	**34%**	***418.4***	***39%***
Risk & Financial Sustainability	54.4	5%	*62.3*	*6%*
Legal, Compliance, Risk & ESG Sustainability	75.0	7%	*87.0*	*8%*
Economics & Private Sector Development	45.0	4%	*51.3*	*5%*
Development Economics	2.7	0%	*2.8*	*0%*
Treasury and Syndications	16.4	2%	*21.2*	*2%*
Corporate Strategy and Resources	62.8	6%	*75.6*	*7%*
Partnerships, Communication and Outreach	28.6	3%	*33.1*	*3%*
IFC Chief Executive Officer	3.8	0%	*4.6*	*0%*
Total Departments	**642.2**	**62%**	***756.3***	***71%***
Corporate Overheads (incl Pensions and SSA)	355.6	34%	*271.9*	*25%*
Corporate Governance (incl Anti-Corruption and Fraud, External Auditors and Conflict Resolution)	8.5	1%	*8.7*	*1%*
Other (Board, IEG)	29.3	3%	*29.9*	*3%*
Total Resources	**1,035.6**	**100%**	***1,066.7***	***100%***

Numbers may not add up to rounding

4.9 Changes in the Administrative Budget allocation reflects the reallocation of the higher staff benefits rate from Corporate Overheads to Departments.

Fee Budgets

4.10 **Client 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, privatization 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 to assess appropriate funding levels and guide spending decisions at the institutional level. Expenses offset by fee income also include fees from the MCPP program, and reimbursables from the AMC. IFC plans to keep its use of fees to offset expenses at the same levels budgeted in FY18.

4.11 IFC aims to ensure that fee budgets for the upcoming years do not exceed the fee collections and is exploring additional ways to ensure careful utilization of these sources to fund short term needs. IFC therefore limits the percentage of service fees that can be used for staff costs. 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.

4.12 **PSW Fees.** IFC's portion of the total Private Sector Window (PSW) envelope includes a US$600 million Blended Finance Facility (BFF), a US$1 billion Risk Mitigation Facility and a US$400 million Local Currency Facility. IFC's total US$2 billion envelope will be deployed over a three-year period, corresponding to the IDA 18 term (FY18-20). IDA has recently approved a cost-recovery structure, whereby IFC will retain all the BFF's Front-end Fees and eighty percent of the BFF's Loan Interest and Guarantee Fees. These fees will be monitored and reported separately from all other IFC Fees to ensure transparency and accountability to IDA. The share of the PSW revenues retained by IFC will be reviewed on an annual basis to ascertain the level of income received by IFC in relation to the costs borne by IFC to manage these three facilities. IFC will continue to bear regular business development, transaction processing and supervision costs. These costs will not be recoverable from IDA.

4.13 PSW administration costs to be offset by the PSW fees will be limited to the needs of investing and managing the PSW funds, including but not limited to the coordination and back-office support, WBG outreach and IDA reporting. For example, in the case of the Local Currency Facility, such incremental costs will also cover development of a macro-model approach to estimating future currency values through a third-party firm, to reduce potential conflict of interest.

4.14 **AMC Fees**. 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 and Loss.

4.15 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

4.16 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. In a few situations, AMC may also reimburse IFC for a portion of the compensation of IFC staff in other VPUs who spend a majority of their time on AMC-related work.

Other Sources of Funds

4.17 **Jeopardy Budget**. 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 FY19 remains at US$15 million.

4.18 **Special Initiatives Budget (IFC InfraVentures).** 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.

4.19 The fund is one of the tools that IFC deploys to engage "upstream" of its traditional business, in line with the IFC 3.0 strategy of proactively creating markets and a flow of deals for 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. InfraVentures was established as a five-year fund and was extended once in FY13. It is currently up for renewal. IFC plans to come to the Board in early FY19 with a proposal for an additional five-year extension.

4.20 IFC InfraVentures budget allocation is authorized annually by the Board. In FY18, InfraVentures budget was US$5.25 million. IFC proposes to maintain this level of budget for FY19, which will enable the fund to continue its activities on existing projects and support the initial year of a new five-year window.

Advisory Sources of Funds

4.21 Advisory Services draws on IFC, development partners and clients for its funding. Combined, these sources of funding represent a robust and diversified funding model with sufficient flexibility for successful implementation of the new Advisory Services strategy and delivery of the AS development mandate. Total AS sources of funding are expected to increase by US$40 million as a result of the program growth funded both by development partners and CMAW.

Table 8: Advisory Services Budget by Source of Funds

	FY18E		**FY19E**	
	US$m	%	US$m	%
Development Partners & Clients	**250.4**	**59%**	**270.4**	**58%**
IFC All Sources				
FMTAAS	45.0	11%	45.0	10%
CMAW	50.0	12%	70.0	15%
AS Administrative Budget[2]	66.2	15%	66.2	14%
Other IFC Sources[3]	16.0	4%	16.0	3%
Subtotal IFC	**177.2**	**41%**	**197.2**	**42%**
Total Advisory Budget	**427.6**	**100%**	**467.6**	**100%**

[2] Figures do not show the adjustments in the benefit rate cost-recovery mechanism.

[3] Other IFC Sources includes TF Admin Fee, PBGI and SME Ventures

4.22 **AS 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 development initiatives beyond those accrued by clients, and seeding activity in areas before development partner interest has materialized. The AS Administrative Budget today has two components: historical regular AS Administrative Budget and the FMTAAS mainstreamed portion, amounting to US$66.2 million in FY18. The total AS Administrative Budget in FY19 will remain flat after redeploying savings into the "internal mainstreaming" or shift of cost from FMTAAS.

4.23 **Development Partner Contributions.** Efforts are ongoing to manage and enhance existing development partner relationships and attract new corporate, philanthropic, and other non-traditional partners. Development partner support to Advisory Services remains robust and is expected to be leveraged by the Creating Markets Advisory Window.

4.24 **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. IFC's client contributions represent around 6 percent of total AS budget mostly generated by Financial Institutions and Public Private Partnerships (PPP) practices.

4.25 **Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS)** is a designation of IFC's retained earnings which is a crucial part of IFC's funding mix for Advisory Services. FMTAAS supports project-related advisory spending not specifically earmarked for IDA/FCS countries, as well as program management and administration expenses that cannot be directly attributable to project-specific activities or countries.

4.26 In FY12, IFC agreed with the Board to shift US$70 million of backbone AS activities from FMTAAS to the AS Administrative Budget. The decision to "mainstream" was taken to allow IFC to fund critical AS support costs from a sustainable funding source by reducing dependency on financial and DSC results. US$42 million of FMTAAS has been mainstreamed, with US$28 million remaining.

4.27 IFC decided to postpone the mainstreaming of the remaining amount in FY18 to allow time to examine in depth the AS business delivery and funding models. For FY19, IFC management agreed to internally mainstream by shifting expenses from FMTAAS to AS Administrative Budget without increasing the IFC's base budget. This could be achieved through the savings resulting from the implementation of the revised Advisory Services Funding Principles.

4.28 IFC management decided to postpone further mainstreaming from FMTAAS to the Administrative Budget, while IFC continues to review its business model including workforce planning. The roll out of the new ADM framework, streamlining governance to strengthen the alignment of investment and advisory, and enhancing portfolio reviews will further strengthen AS delivery. IFC will revisit the question of further FMTAAS mainstreaming during the preparation of the FY20 budget. For FY19, IFC will maintain the same level of FMTAAS budget as in FY18.

4.29 **Creating Markets Advisory Window.** CMAW funding offers targeted support for enhanced upstream project preparation. The fund supports efforts to address the complex challenges of creating markets and building a pipeline of bankable private sector projects in IDA and FCS countries. At the FY17

Net Income Designation Discussion, IFC projected CMAW spend to increase from US$50 million to US$70 million in FY19 leveraging the established systems to prioritize and allocate the funds.

Carry-forward Mechanism

4.30 IFC has an established Carry-forward mechanism, which, since its Board approval in FY99, has been used twice: in FY01 for US$3.5 million during the Argentina crisis and again in FY06 for US$0.5 million. The mechanism is based on the prior year spending against the administrative budget and allows IFC to carry forward the uncommitted funds as of June 30 of the current fiscal year, up to a limit of 5 percent of the approved budget for that fiscal year, and to be used in the subsequent year. The amount is recalculated each year, does not accumulate year-on-year, and does not add to the base administrative budget.

4.31 IFC is signaling to the Board that in the event cost increases exceed the 3 percent budget increase due to follow through on capital increase commitments, or to potential implementation costs of workforce planning, IFC will return to the Board with a rationale and request to access up to the 5 percent Carry-forward amount to complete its efforts in FY19. IFC Management will continue to provide regular operational and resource updates to the Board through the Quarterly Operations Report.

Capital Budget: Facilities and IT

4.32 IFC's capital budget funds Headquarters (HQ) and Country Office (CO) needs as well as the investment in Information Technology necessary to support IFC's unique business model. For FY19, the total recommended capital budget is US$73.2 million. This represents an increase of US$3.8 million compared to FY18, primarily reflecting future costs of planned replacement of Finance systems.

Table 9: The Capital Request for Projected Facilities Expenses for Headquarters and Country Offices in FY19 is 58 Percent lower than in FY18

in US$ million

	FY18 Budget	FY19 Budget
Headquarters Facilities	9.0	5.4
Country Office Facilities	15.4	4.8
Information Technology	45.0	63.0
Total	**69.4**	**73.2**

4.33 **Headquarters** Facilities. 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 FY19 will consist of:

- F Building infrastructure improvements;
- Audio visual, furniture replacement and conference room upgrades; and
- 2100 K Street Building related projects.

4.34 The new 2100 K Street building addition to be occupied in January 2019 is not owned by IFC, consequently there has been no Capital Budget request made for purchase. However, IFC Accounting Policy has determined that IFC, for US GAAP purposes, must recognize the building as an owned fixed asset on its books when the building is occupied and therefore recognize depreciation during the period of our lease from FY19 onwards.

4.35 **Country Office** Facilities. CO facilities budget proposal continues to reflect 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.

4.36 Where purchasing real estate has been determined by the IFC Management Team as the appropriate course, IFC's CO real estate purchasing strategy continues 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.

4.37 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.

4.38 In FY19, IFC will continue to support, in coordination with IBRD, the upgrading of security costs associated with Country Offices in FCV 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 continue to 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.

4.39 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.

4.40 **Information Technology**. The FY19 Information Technology capital budget proposal of US$63.0 million will fund two main categories of investment:

a) **Steady State and Enhancements (33 percent)**. These programs ensure the reliability of existing systems by addressing technical obsolescence and increasing the IT capacity required to accommodate IFC's growth. The FY19 capital budget request includes upgrades 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 (67 percent).** 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. A few programs are multi-year, others are continuation or completion of programs begun in prior years and some are new investments.

4.41 Improvements planned are focused on business outcomes:

a) **Client Responsiveness/Business Information:** Improved access to knowledge, documents, and reports through a new business intelligence portal and collaboration platform; new intranet; 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; debt servicing system replacement; improved credit risk management and introduction of advanced cross cutting functionality to perform peer group analysis; new Custodian for Liquid Asset Management (LAM) portfolio; improved access management and privacy.

c) **Managed Risk:** improved resiliency, reliability, and availability of IT systems; resolution of audit or reported deficiencies on ICFR systems; further strengthening of information security.

4.42 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.

4.43 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.

5. Scorecard

5.1 IFC's Scorecard, consistent with the WBG's Corporate Scorecard, is an important tool for aligning strategy with operations and facilitating delivery of results. Linkage between strategy and delivery is ensured through close correspondence between the Corporate Scorecard and the Departmental Key Performance Indicators (KPIs). Such a robust approach creates both explicit incentives and accountability for results delivery.

5.2 IFC's long-established practice has been to set targets for all the metrics in its scorecard, which are grouped into comprehensive performance dimensions. To-date, 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 has been setting 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 QBR. Performance against the IFC scorecard targets also supports awards and incentives, with a view to aligning team priorities with delivery of strategic results.

5.3 IFC began sharing the Scorecard targets as part of its Budget paper beginning last fiscal year. 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.

5.4 During FY18, to align closer with its IFC 3.0 strategy as well as reflect on the outcomes of workforce planning and deployment of skills, Management is taking a thorough review of how best to evolve the Corporate Scorecard and KPIs to ensure the right metrics are developed, systematically captured and reported. An updated set of metrics will be proposed with the intent to align with Capital Increase policy commitments, and to incentivize teams with collective goals and ambitions in achieving critical efforts including Market Creation, AIMM framework, MFDs, Cascade and Global Leadership.

5.5 With stronger financial capacity, IFC aims to increase its share of commitments in IDA countries and FCS to 40% by FY30 and in Low Income IDA countries (LIC IDA) and FCS IDA to 15-20% by FY30. A stronger capital base will allow IFC to significantly expand its share of climate investments to 35% of commitments by FY30. IFC aims to also scale-up its approach to the provision of financial services for women-owned and women-led businesses, quadrupling financing dedicated to women-owned and women-led SMEs by 2030.

5.6 In early FY19, IFC will continue to operate under the existing scorecard metrics as presented in Table 10 below, but will revert to the Board at the end of Q1 FY19 with a revamped Scorecard more closely aligned with IFC 3.0 strategy.

Table 10: IFC Corporate Scorecard

Performance	Corporate Scorecard Indicator	FY19 Targets	FY18 YTD Results	FY18 Targets	Progress vs. Target	FY17 Results	FY16 Results
Development Impact	IDA LTF Project Count % of IFC[(1) (2)]	32-35%	27%	30-35%	Below	36%	29%
	IDA Active Trade Account % of IFC	47-50%	48%	45-50%	Below	49%	52%
	FCS & LIC-IDA LTF Project Count [(3)]	55-62	29	50-60	Below	58	54
	FCS & LIC-IDA Active Trade Accounts	39-42	30	37-42	Below	45	50
	Climate % total LTF Commitment (*excluding MIGA*)	27%	38%	22%	Above	25%	17%
	Gender Project Count % AS projects [(4)]	32-35%	39%	30-35%	Above	36%	25%
	Economic Performance (EP) % Satisfactory Rating [(5)]	60%	n/a	60%	n/a	49%	51%
	Private Sector Development (PSD) % Satisfactory Rating [(5)]	70%	n/a	70%	n/a	67%	70%
	AS Development Effectiveness (DE) % Successful Self-Rating	65%	69%	65%	Above	70%	68%
Financial Sustainability	Realized Return on Economic Capital %	11-12%	9.2%	11-12%	Below	10.6%	10.1%
	IFC Controllable Income $mn [(3)]	607	497	607	Above	845	685
Delivery for Clients	Client Feedback IS, % Satisfied [(5)]	85%	n/a	85%	n/a	86%	83%
	Client Feedback AS, % Satisfied [(5)]	85%	n/a	85%	n/a	88%	90%
	Mandate to Disbursement (M2D), median days [(5)]	150	n/a	150	n/a	195	140
	Total LTF Commitments (excluding MIGA): IFC own a/c + Core & PPP Mobilization $bn [(3) (6)]	18.7-20.7	15.4	17.2-19.7	Above	19.3	18.9
	Capital Mobilized on Commercial Terms (excluding MIGA): Core &PPP Mobilization $bn [(3) (6)]	6.9-8.0	7.6	6.7-7.7	Above	7.5	7.7
	STF Average Outstanding Portfolio $bn	2.9-3.3	3.4	2.8-3.2	Above	3.2	2.8
Managing Talent	Staff Diversity Index	1	0.86	1	Below	0.83	0.82
	IDGs [(7)]		**FY17-FY18Q3 Results**	**FY17-19 Targets (3 year)**	**Progress vs. Target**	**FY14-16 Results (cumulative)**	
IFC Development Goals - IDGs	Farmers Reached, mn		0.9	3.3	Below	4.5	
	People reached with Health & Education services, mn		15.1	26.1	Below	31.4	
	A2F Individuals & Microenterprises reached, mn		40.3	98.3	Below	119.0	
	A2F SMEs reached, mn		0.9	2.9	Below	3.5	
	People reached with infrastructure services, mn		40.6	68.1	Above	152.4	
	Reductions in GHG emissions, mt CO2eq/yr		15.4	21.8	Above	73.5	

(1) As per the definition in IFC Net Income Designation Paper (IFC/R2016-0326/1), the IDA list of countries includes countries eligible for IDA financing as of July 1, 2016.
(2) In addition to the IDA LTF Project Count % of IFC Total Project Count, IFC is also tracking the IDA LTF Own Account $ Volume ($993m as of FY18 YTD) and % of Total IFC Own Account Volume (13% as of FY18 YTD) in line with IFC's commitments in the IFC Net Income Designation Paper (IFC/R2016-0326/1).
(3) Prorated for FY18 Q3-end.
(4) 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
(5) Results available at year-end
(6) 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.
(7) IDGs Results include FY17end & FY18 Q1-Q3 cumulative; Progress vs Target is calculated against 3 year target FY17-FY19, and prorated for FY18 Q3-end.

6. Recommendations

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

A. Administrative Budget Authority

i. An Administrative Budget for FY19 of US$1,066.7 million

B. Capital Budget Authority

ii. A Capital Budget for FY19 of US$73.2 million

C. Special Initiative

iii. Authority to spend an additional US$5.25 million for IFC InfraVentures through FY19