

## **IFC FY17 Budget Resources:**

### **Bridging Strategy and Delivery**

**Approved by IFC's Board of Directors on June 23, 2016**

**Released in accordance with IFC's Access to Information Policy**



# Table of Contents

<b>I. RESOURCES ARE THE BRIDGE BETWEEN STRATEGY AND DELIVERY .....</b>	<b>1</b>
<b>II. IFC DEPLOYS RESOURCES FOR STRATEGIC OUTCOMES .....</b>	<b>2</b>
A. IFC USES RESOURCES AS MEANS TO AN END .....	2
B. CROSS-DEPARTMENT RESOURCE USAGE CAPTURES STRATEGIC ACTIVITY .....	3
C. FOCUS THEMES DRIVE IFC'S ENGAGEMENT WITH CLIENTS .....	5
1. <i>Responding to the Global Downturn</i> .....	6
2. <i>Increasing IFC's Climate Engagements</i> .....	7
3. <i>Catalyzing Greater Private Investment in Fragile &amp; Conflict Situations and Low Income IDA</i> .....	9
4. <i>Supporting the WBG's New Gender Strategy</i> .....	12
D. KEY REGIONS IDENTIFY NEEDS AND OPPORTUNITIES ON THE GROUND .....	14
1. <i>Unlocking Sub-Saharan Africa</i> .....	14
2. <i>Paving the Way to Middle Income Status in South Asia</i> .....	15
3. <i>Strengthening Resilience and Recovery in Middle East and North Africa</i> .....	17
E. INDUSTRIES DELIVER DEVELOPMENT IMPACT .....	19
1. <i>Building Developmental Foundations with Core Infrastructure</i> .....	20
2. <i>Increasing Impact in Agribusiness</i> .....	21
3. <i>Enhancing Financial Inclusion</i> .....	23
4. <i>Expanding Social Inclusion through Access to Health and Education</i> .....	26
5. <i>Advancing Disruptive Technologies to Create Jobs and Facilitate Sector Diversity</i> .....	27
F. IMPLEMENTATION VEHICLES ENHANCE IFC RESPONSIVENESS TO DEMAND .....	28
1. <i>Mobilizing Third-Party Funds to Increase Participation in the Private Sector and Conserve IFC's Own Capital</i> .....	28
2. <i>Sharpening IFC's Approach to Local Capital Markets</i> .....	31
3. <i>Leveraging Partnerships to Maximize Impact</i> .....	33
4. <i>Strengthening Thought Leadership</i> .....	34
G. FINANCIAL SUSTAINABILITY PILLARS SAFEGUARD BOTH IFC AND OTHER STAKEHOLDER INTERESTS WHILE ENABLING BUSINESS GROWTH .....	35
1. <i>Active Portfolio Management</i> .....	36
2. <i>Managing Risk in Challenging Business Environments</i> .....	37
3. <i>Profitability</i> .....	38

H. OPERATIONAL EFFICIENCY ALLOWS IFC TO MAKE THE MOST OF ITS RESOURCES AT HAND .....	39
1. <i>The Process Efficiency Initiative Is Helping IFC Deliver More Quickly for Clients</i> .....	39
2. <i>IFC's Total Resources as a Percent of Assets under Management Demonstrate One Measure of Financial Efficiency</i> .....	40
<b>III. IFC PRUDENTLY USES A RANGE OF RESOURCES TO FUND ITS STRATEGIC PRIORITIES AND OVERALL BUSINESS .....</b>	<b>41</b>
A. REINVESTING EXPENDITURE REVIEW SAVINGS .....	41
B. TOTAL RESOURCES PROVIDE THE FOUNDATION NECESSARY FOR IFC TO CONDUCT BUSINESS .....	41
C. PROPOSING THE TOTAL ADMINISTRATIVE BUDGET .....	46
1. <i>Staffing &amp; Compensation</i> .....	48
2. <i>Shared Services Agreements</i> .....	51
D. MAINTAINING THE LEVEL OF ADVISORY SERVICES BUDGET .....	52
1. <i>Proposed Advisory Services Budget</i> .....	53
2. <i>Planning for Evolving FMTAAS</i> .....	54
E. EXPANDING SMART USE OF OTHER SOURCES OF FUNDS .....	54
1. <i>Expenses Associated with IFC's Treasury and Portfolio Activities</i> .....	54
2. <i>Use of Fees</i> .....	54
3. <i>Special Initiatives</i> .....	55
4. <i>Jeopardy Expenses</i> .....	55
5. <i>Carry-forward</i> .....	56
F. PROVIDING ESSENTIAL STRUCTURES AND SYSTEMS WITH CAPITAL BUDGET .....	57
1. <i>Facilities</i> .....	57
2. <i>Information Technology</i> .....	59
<b>IV. GENERATING REVENUE SUPPORTS EXPENSES FOR BUSINESS ACTIVITIES .....</b>	<b>60</b>
A. IFC'S PROFITABILITY IS NEEDED TO MAINTAIN FINANCIAL SUSTAINABILITY AND ENABLE GROWTH .....	60
B. EQUITY REVENUES ARE CRUCIAL FOR IFC'S LONG-TERM FINANCIAL SUSTAINABILITY, BUT THE LARGEST SOURCES ARE EXTREMELY DIFFICULT TO PREDICT .....	62
1. <i>IFC's Own Account Equity Investments Produce Valuable and Relatively Stable but Modest Dividends; Gains Have the Potential for Much Larger Profitability but Are Highly Volatile</i> .....	62
2. <i>IFC Derives Multiple Revenue Streams from the Asset Management Company's Fund Management Activities, Largely through Fees to Date</i> .....	62
C. LOAN REVENUES WILL CONTINUE CONTRIBUTING ESSENTIAL, FAIRLY STABLE REVENUE TO IFC'S BOTTOM LINE, BUT CHALLENGES MOUNT .....	63
1. <i>IFC's Own Account Loans Continue to Produce Stable Realized Income amid Some Declines in Portfolio Quality</i> .....	63

2. <i>Syndicated Loans Are One of IFC's Largest Contributors to Mobilization Revenue</i> .....	64
D. TRADE AND COMMODITY FINANCE PROVIDES STABLE, LOW CAPITAL INTENSIVE, COMPLEMENTARY REVENUE .....	64
E. ADVISORY SERVICES ACCESSES NON-IFC FUNDING FROM DEVELOPMENT PARTNER CONTRIBUTIONS, ADMINISTRATIVE FEES, AND CLIENT CONTRIBUTIONS.....	66
F. TREASURY MARKET OPERATIONS GENERATE SELF-SUSTAINING REVENUE THROUGH LIQUID ASSET MANAGEMENT AND CLIENT SOLUTIONS.....	66
<b>V. IFC USES ITS SCORECARD AS ONE METHOD TO SET GOALS, MEASURE RESULTS AND ENSURE ACCOUNTABILITY</b> .....	<b>68</b>
<b>VI. RECOMMENDATIONS</b> .....	<b>70</b>
A. ADMINISTRATIVE BUDGET AUTHORITY.....	70
B. CAPITAL BUDGET AUTHORITY.....	70
C. SPECIAL INITIATIVES .....	70

Figure 1. Resources Are the Bridge between Strategy and Delivery. ....	1
Figure 2. IFC's FY17-19 Strategic Priorities Focus on Key Themes, Regions, and Industries, Supported by Financial Sustainability and Implementation Vehicles. ....	2
Figure 3. 87% of Resources Deployed for Sub-Saharan Africa in FY15 Came from Outside of the Africa Regional Department. ....	3
Figure 4. Increasing the Amount and Complexity of IFC's Climate Business Portfolio Will Require a Higher Share of Investment Resource Usage as Well as a Growing Share of AS Program. ....	9
Figure 5. Development, Commitment and Management of FCS Projects Is Resource Intense Relative to Size. ....	12
Figure 6. Sub-Saharan Africa's Share of Investment Resources Consistently Exceeds Its Share of New Projects and Committed Portfolio, and Is Expected to Continue Increasing per Business Growth Projections and Relatively High Costs per New Project and Portfolio Client. ....	15
Figure 7. South Asia's Share of LTF New Commitments and Investment Resource Usage Is Projected to Strongly Increase by FY19; Share of Advisory Program Projects Moderate Growth. ....	17
Figure 8. Given Regional Challenges, IFC Will Play a Counter-Cyclical Role in MENA by Roughly Maintaining Its Share of Business Delivery and AS Program, with Intensified Investment Portfolio Management and Measured Resource Usage. ....	19
Figure 9. IFC's Commitment to Increase the Core Infrastructure Portfolio Necessitates a Large Shift in Investment Resources Due to Infrastructure Projects' Complexity and Long Lead Times. Advisory Engagement Is Expected to Continue Its Robust Growth. ....	21
Figure 10. IFC Will Continue to Intensely Deploy Investment Resources for Agribusiness in Alignment with Business Growth Plans. ....	23
Figure 11. FIG's Business Will Continue to Grow in Absolute Terms, with Portfolio Volume Increasing as a Share of Total and Resource Deployment Benefiting from Continued Efficient Delivery/Management...	26
Figure 12. Health & Education Is Forecast to Increase as a Percent of Investment Resource Usage Driven Mainly by Increasing New LTF Projects. ....	27
Figure 13. Active Portfolio Management, Risk Management, and Profitability Analysis Activities Interconnect and Support IFC's Financial Sustainability. ....	35
Figure 14. Many Operational and Corporate Technical Teams Work Together to Manage IFC's Financial Sustainability. ....	35
Figure 15. Total Resources as a Percent of Assets under Management Trend toward 1.5% over Time, a Level Acceptable to Management. ....	40
Figure 17. Total Resources is Comprised of Total Administrative Budget (65%), Advisory Services Budget – Other than Administrative (21%), Fees Budget (11%), and Other and Jeopardy Expenses Budget (3%). ....	42
Figure 18. FY17-19 Nominal Increases to Total Resources Are Expected to Remain at a Steady 3%. ....	43
Figure 19. Headcount Has Slightly Declined in Recent Years; Field Presence Has Remained at 57-59%...	48
Figure 20. IFC Benefits from Diversified Revenue Streams. ....	60
Figure 21. IFC's Committed Portfolio is Projected to Grow in FY17-19, Consuming Incremental Resources but Also Generating Additional Revenue. ....	61

Table 1. Committed Investment Portfolio Composition is Expected to Continue Shifting toward Strategic Priorities through FY19, with Corresponding Shifts in Resources Deployed.....	4
Table 2. IFC Will Continue Its Advisory Program Focus on Strategic Priorities, with Further Growth through FY19.....	5
Table 3. IFC Has Made Progress against the FCS Aspirations Outlined in <i>IFC's FY16 Budget Paper</i> .....	10
Table 4. IFC Continues to Enhance Its Range of Partners across a Growing Global Landscape. ....	33
Table 5. Corporate Risk & Sustainability Resource Deployment Will Support Active Portfolio and Risk Management through Appropriate Staffing. ....	37
Table 7. IFC Total Resources Budget Will Increase from \$1.50 billion in FY16 to \$1.55 billion in FY17. ....	42
Table 8. Inflation Will Account for 2/3 of the \$45 Million Increase in FY17 Total Resources. ....	44
Table 9. FY17 Administrative Budget and Total Resources Budget by VPU Reflect IFC's Business Model.	44
Table 10. Aggregate \$34 Million Real Increases in FY17 Total Resources (including ER Savings and Productivity Gains) Will Be Allocated to VPUs for Flexible Deployment to Fund Key Needs per IFC's Evolving Business Model.....	45
Table 11. Fixed Costs Are Expected to Remain Stable as a Share of IFC's Total Resource Usage in FY17..	46
Table 12. Total Administrative Budget Must Increase by 3% to Deliver IFC's Strategy because Inflation will Consume Nearly All Expenditure Review Savings. ....	47
Table 13. Salaries and Benefits, The Largest Contributor to IFC's Expenses, are Projected to Remain around 66% in FY17. ....	47
Table 14. The Special Compensation Measures Provide Temporary Relief to Staff Adversely Affected by Severe Inflation or Local Currency Depreciation. ....	49
Table 15. Shared Services Agreements between IFC and IBRD Specialize and Standardize Multiple Functions for Greater Efficiency. ....	52
Table 16. Advisory Spending Funded by Development Partners and Client Contributions Is Expected to Slowly Increase in the Medium Term following Recent Consolidation. ....	53
Table 17. The FMTAAS Fund Balance Is Expected to Drop to \$30 million at FY17-end, Absent Further Designations of IFC Allocable Income. ....	54
Table 18. Lower Projected Facilities Expenses for Headquarters and Country Offices in FY17 Drive a 30% Lower Capital Budget in FY17 following Exceptional "F" Building Project Expenses in FY16.....	57
Table 19. IFC Country Office Presence Is Expected to Remain the Same across All Regions FY16-17. ....	58
Table 20. Recent Adverse Conditions Have Rendered Careful Attention to Both Revenues and Expenses Even More Important. ....	61
Table 21. Average Short-Term Finance (GTFP+GTSF) Outstanding Balances Are Expected to Remain Stable over the Medium Term.....	65
Table 23. The FY17 IFC Scorecard Reflects IFC's Strategic Priorities and Planned Activities, Providing Accountability for Results. ....	69





## Glossary

AMC	- Asset Management Company
AS	- Advisory Services
BoW	- Banking on Women
CAF	- IFC Regional Africa Department
CAGR	- Compound Annual Growth Rate
CCSA	- Cross-Cutting Solutions Area
CO	- Country Office
COP21	- The United Nations Framework on Climate Change's 15 <sup>th</sup> annual Conference of Parties, also known as the 2015 Paris Climate Conference
CSL	- Client Service Leadership
CSO	- Special Operations Department
DFI	- Development Finance Institution
EMENA	- Europe, Middle East & North Africa
ER	- Expenditure Review
ESG	- Environmental, Social and Governance
EVP	- Executive Vice President
FCS	- Fragile and Conflict Situations
FIG	- Financial Institutions Group
FMTAAS	- Funding Mechanism for Technical Assistance and Advisory Services
FY	- Fiscal Year
g7+	A voluntary association of countries that are or have been affected by conflict and are now in transition to the next stage of development
GAFSP	- Global Agribusiness & Food Security Program
GP	- Global Practice
GTFP	- Global Trade Finance Program
GTSF	- Global Trade Supplier Finance
H&E	- Health & Education
HQ	- Headquarters
IBRD	- International Bank for Reconstruction and Development
IDA	- International Development Association; also used to denote IDA borrowing countries
IDD	- Integrity Due Diligence
IFC	- International Finance Corporation
IG&A	- Institutional, Governance and Administrative Units
IS	- Investment Services
IT	- Information Technology
LAC	- Latin America & the Caribbean
LIBOR	- London Interbank Offered Rate
LIC-IDA	- Low-Income IDA countries
LTF	- Long-Term Finance
LTPA	- Long Term Performance Award
MCPP	- Managed Co-Lending Portfolio Program
MENA	- Middle East & North Africa
MIGA	- Multilateral Investment Guarantee Agency
NPL	- Non-Performing Loan
P&L	- Profit & Loss Statement
PIE	- Process Efficiency Initiative
PPP	- Public Private Partnership

RAROC	- Risk Adjusted Return on Capital
RE	- Renewable Energy
SBO	- Strategy and Business Outlook
SCM	- Special Compensation Measure
SME	- Small and Medium-sized Enterprises
SSA	- Shared Services Agreement
STF	- Short-Term Finance
TCF	- Trade & Commodity Finance
TCM	- Treasury Market Operations Department
TCN	- Third-Country National
VAT	- Value-Added Tax
VPU	- Vice Presidential Unit
WBG	- World Bank Group
YTD	- Year-to-Date

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

## Executive Summary

- I. As IFC celebrates its 60<sup>th</sup> anniversary as the world's largest development finance institution devoted to the private sector, it remains committed to the World Bank Group's twin goals of eliminating extreme poverty by 2030 and boosting shared prosperity. IFC views its resources as the bridge between strategy and results, and as the means to its desired end: positive development impact. IFC's *FY17-19 Strategy & Business Outlook* outlined the "what and why" of IFC's plan for the next three years. This *FY17 Budget Resources* document follows with the near-term "how": how IFC will implement its strategy, how it will fund these activities, and how it will hold itself accountable for delivery. More information about IFC's approach to budget resources may be found in [Section I](#). Updates on IFC's capital and staff, the other two components of resources, are provided to the Board in separate papers.
- II. [Section II](#) delves deeper into the details of resource deployment. Decisions will be guided by the strategy paper, which identified areas of focus along themes (global downturn, climate change, Fragile and Conflict Situations, as well as gender), regions (Sub-Saharan Africa, South Asia, Middle East & North Africa), and industries (core infrastructure, agribusiness, financial & social inclusion, and disruptive technology). It also described some of the elements of financial and non-financial sustainability (active portfolio management, risk management, profitability), showed the importance of certain implementation vehicles (mobilization, capital market development, partnerships), and noted ongoing improvements in operational efficiency. For each of these areas, this budget resources paper provides context (operating environment, challenges, recent progress), actions (key operational activities for FY17, likely resource implications), and results (scorecard indicators, other ways of managing success). Given IFC's business model, flexibility will be necessary as market conditions evolve and opportunities both emerge and recede. IFC's non-focus activities may grow in absolute terms but are expected to comprise decreasing shares of new business, portfolio and/or resource usage. Further, it is important to note that the increased focus on FCS and low income IDA countries presents a far greater reputational risk (environmental, social, governance, integrity due diligence, legal) to IFC, the Board and its shareholders; additional costs and resources to address these risks may not yield commensurate financial return in the immediate term.
- III. IFC's strategic priorities occur in the context of its total business, with an even wider diversity of investment, advisory, treasury, and enabling activities, without which IFC could not meet its license to operate (e.g., development impact measurement) or be able to deliver (e.g., IT). It is therefore important to examine IFC's total resources projections as they support the entire corporation. IFC projects total resources usage of \$1.55 billion in FY17, a 3% nominal increase over FY16 (or 1% in real terms). The proposed administrative budget, subject to Board approval, amounts to \$1.01 billion in FY17, also a 3% nominal increase (or 1% real increase) over FY16. [Section III](#) provides various breakdowns of these figures. These projections take into account the absorption of roughly 2% inflation as well as the reallocation of Expenditure Review gross savings and other productivity gains. Additionally, as IFC strives to be not just bigger but also better, shifts toward intensified portfolio management, new product platforms (e.g., infrastructure insurance), and more dynamic sectors requiring new types of expertise (e.g., disruptive technology) will consume some increases. Five key areas (fragile situations, climate change, mobilization, capital markets, security & IT) will account for the remaining increment. Some resource fungibility must be acknowledged. For example, an infrastructure deal in an FCS country in Africa could have mobilization and climate

components; for this reason, IFC has presented most projections for resource deployment along project attributes rather than for organizational budget along department lines.

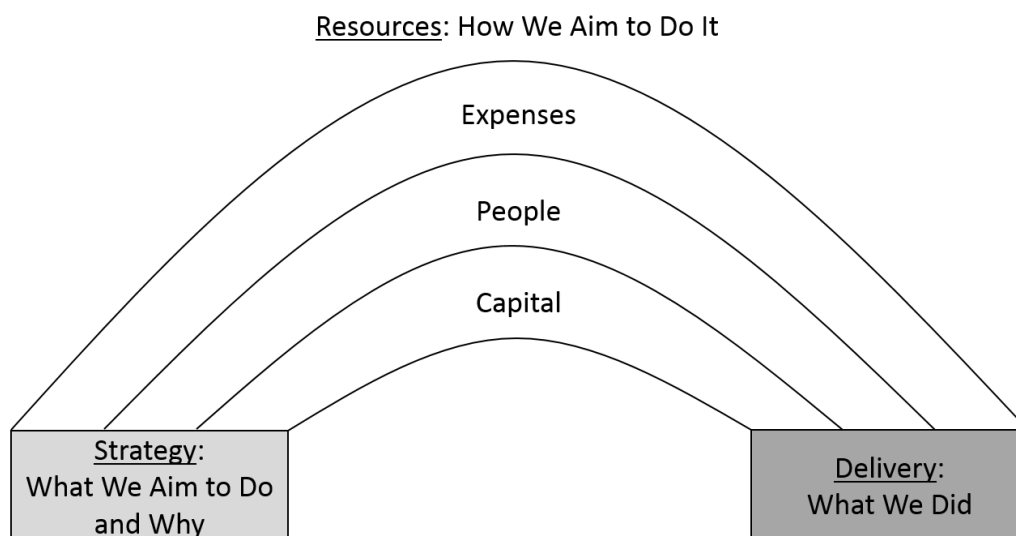
- IV. In order to support these expenses, IFC must generate sufficient revenues, not just to cover immediate needs but also to contribute to its capital base for future growth. Section IV provides information about controllable income along with details of IFC's revenue categories. IFC's most stable revenues come from its debt portfolio; despite increasing non-performing loans as a share of outstanding balance, these revenues remain strong for both own account investments and syndicated loans, and continue to cover administrative expenses. IFC's treasury contributes revenue through syndications and also through liquid asset management and structured finance products. IFC's equity revenue, through own account investments and AMC mobilization, has been a historic source of valuable yet volatile returns. While facing challenging market conditions, including a strong US Dollar that adversely affects many of IFC's clients' valuations, IFC is building and managing its equity portfolio for medium- and long-term profitability on a diversified basis.
- V. These plans culminate in the FY17 IFC Scorecard, with prospective targets presented in the budget resources paper for the first time. Section V provides these metrics and targets, along with historic results, per four dimensions in addition to its updated multi-year Development Goals: development impact, financial sustainability, delivery for clients, and managing talent.
- VI. Ultimately, IFC Management proposes that the Board approve an administrative budget authority of \$1,005.5 million, a capital budget authority of \$98.5 million, and a special initiatives authority of \$5.25 million (for InfraVentures), all for FY17. These are outlined in Section VI.

# I. Resources are the Bridge between Strategy and Delivery

2.1 The IFC FY17 Budget is part of an ongoing dialogue about the institution’s business outlook. The *IFC Strategy & Business Outlook FY17-19* laid the groundwork for IFC’s strategy. Management outlined its priorities for increasing IFC’s impact, in alignment with the WBG Forward Look dialogue, based on a holistic evaluation of its client demand, country engagement frameworks, core competencies, comparative advantage, and diversification approach.

2.2 IFC will need to prudently use resources in order to implement this strategy, namely expenses, people, and capital. “Bridging Strategy and Delivery” focuses on execution in the context of expenses: understanding that results will be conditional on many factors, how IFC will go about putting the strategy into action, and what the implications will be for spending and deployment of resources. The 2016 Review of WBG Staff Compensation paper and IFC’s Financial Risk Management paper will address people and capital, respectively, in more detail. All of these contribute to ultimate delivery, some parameters of which are provided in the FY17 IFC Scorecard in Section V.

**Figure 1. Resources Are the Bridge between Strategy and Delivery.**



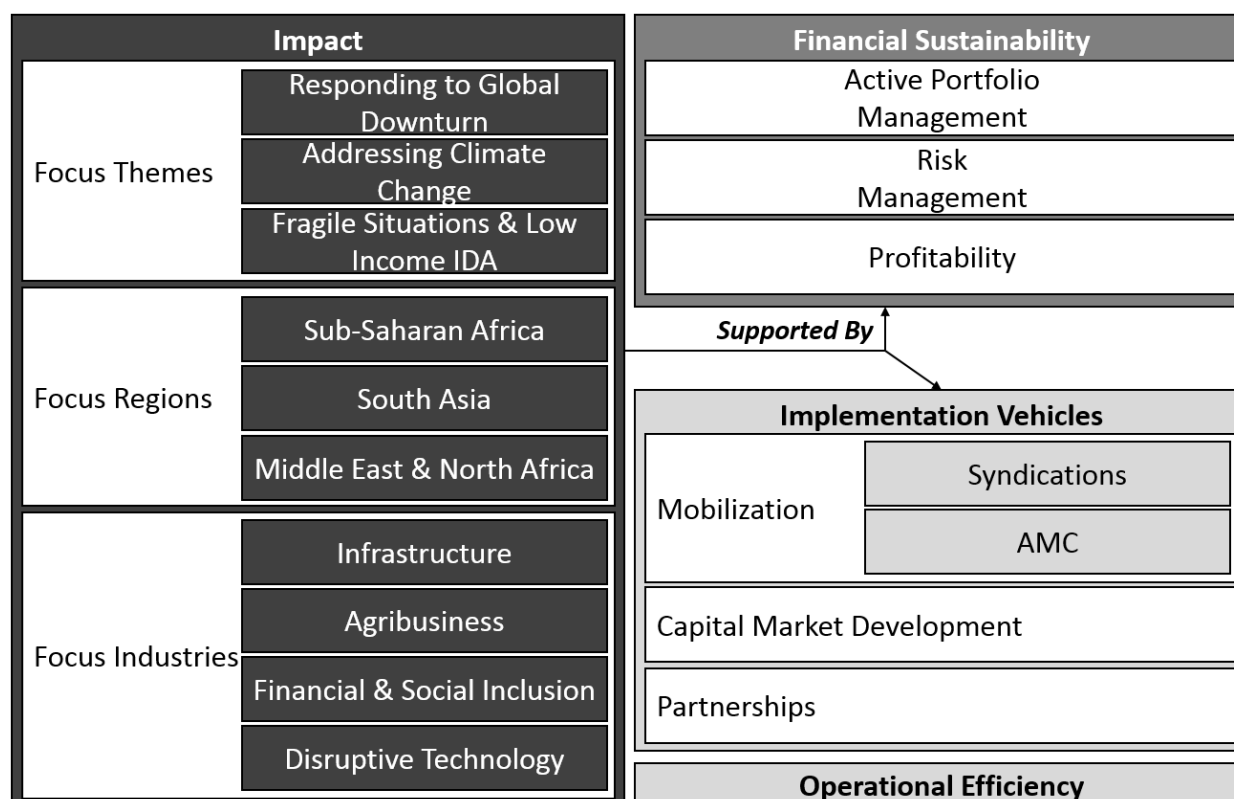
## II. IFC Deploys Resources for Strategic Outcomes

### A. IFC Uses Resources as Means to an End

2.3 As IFC celebrates its 60<sup>th</sup> anniversary, it looks forward to many more years of achieving both development impact and financial sustainability, while being environmentally and socially sustainable. These are all essential components of the organization's private sector-oriented contributions to the World Bank Group goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner by 2030. Resources are properly framed as the means to an end, namely to give poor people the dignity they deserve and the opportunity to escape poverty and improve their standards of living.

2.4 IFC will rely on implementation vehicles and operational efficiency to produce results across industries, regions, and overarching themes. Areas of focus form the backbone of the strategy, though IFC's activities span geographies, sectors, and themes, with crucial corporate functions enabling operations and supporting the development mandate while managing financial and non-financial risks. IFC's financial sustainability allows it to fund the majority of its own operations and to grow, which is essential for meeting private sector client demand for its increasingly complex products and services.

**Figure 2. IFC's FY17-19 Strategic Priorities Focus on Key Themes, Regions, and Industries, Supported by Financial Sustainability and Implementation Vehicles.**



2.5 While maintaining these lines of sight, IFC's flexible business model allows it to address external challenges and opportunities in a dynamic fashion, both delivering the highest impact possible and ensuring financial sustainability across the portfolio, given client demand and IFC's risk management. Management is

carefully considering how shifts in strategic program will require more resources to engage in larger and more complex problems and to manage higher and evolving risks. Work across all of IFC’s business areas (themes, geographies, sectors) continues, including areas not highlighted as priorities (e.g., manufacturing, natural resources, retail services; East Asia & Pacific, Latin America & Caribbean, Eastern Europe & Central Asia) that may offer opportunities for impact, diversification, and reach.

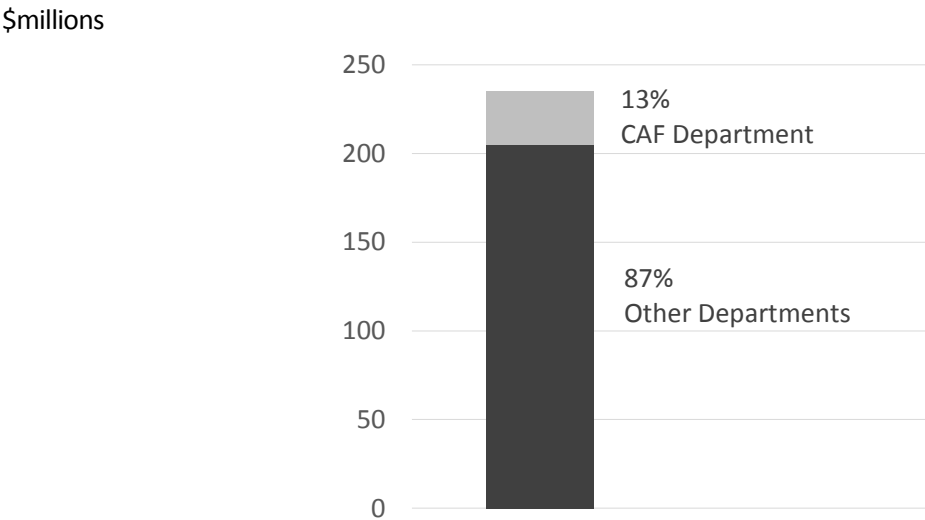
2.6 The achievement of IFC’s strategy, taken as a whole, is predicated on the Board approving the proposed 3% nominal budget increase in each of FY17, FY18, and FY19. As demonstrated in Section III of this budget paper, resources are fundamental to delivery, and IFC’s proposed combination of total resource usage and strategic deployment thereof is designed to maximize results.

**B. Cross-department Resource Usage Captures Strategic Activity**

2.7 In order to ensure that IFC is using resources in a manner aligned with its strategy, it uses management accounting to capture administrative and core fee resource deployment. This differs from budget in that budget is defined by organizational ownership of resources. The resource deployment demonstrates where those resources are used in practice. These deployment figures are driven by the direct and indirect costs of investment projects, which are in turn driven by the activities undertaken to develop and commit new projects as well as to manage the portfolio of clients with committed and disbursed projects.

2.8 For example, an investment project located in Africa will consume some resources from the Africa regional department (e.g., local office costs, share of regional management and strategy), but it will largely consume resources from other departments (e.g., all four industry groups and sometimes other regions as well as legal, risk, syndications, development impact, etc.). Likewise, a project in a Fragile and Conflict Situation country will derive the vast majority of its resources from operational departments beyond the FCS secretariat. Therefore, it is necessary to use this deployment view for a full picture of how the organization cooperates across organizational boundaries and mobilizes its own resources to facilitate its strategic objectives.

**Figure 3. 87% of Resources Deployed for Sub-Saharan Africa in FY15 Came from Outside of the Africa Regional Department.**



2.9 This treatment also provides maximum latitude in redeploying people to more strategic activities as economic conditions and opportunities change. Rather than taking the formal and disruptive step of reassigning staff to different organizational units and move budgets accordingly to reflect new priorities, which entails excessively high transaction costs, staff can simply be deployed to the most timely and strategically relevant activities. The incentive to do so is built into departmental scorecards and the contingent performance awards schema whereby IFC must meet its overall corporate financial and operational targets for any department to be eligible for additional awards.

2.10 Finally, this approach to reporting expenses also facilitates forecasting the impact of strategic shifts. During IFC's strategy process, Management validated indicative ranges of new commitments and committed portfolio consistent with the identified focus areas. In absolute terms, with the current capital basis, IFC's committed investment portfolio is expected to grow by 4-5% on a compound annual basis over the next few years. As IFC's business grows, investments in the priority regions, industries and themes are largely expected to grow at a faster rate than average, understanding that private sector conditions, client demand, and other challenges may require an overweighting of effort relative to delivery for particularly difficult areas.

2.11 IFC is providing approximate ex ante ranges of expected resource deployment by strategic priority area for FY19. These ranges are not targets or prescriptions of internal departmental resource allocation. Rather, they are indications of aggregate resource usage by area, reflecting activity projections (strategic priority area as the numerator and IFC total as the denominator) and conditional on the availability of total resource funding, viable market opportunities, and in some cases de-risking instruments.

**Table 1. Committed Investment Portfolio Composition is Expected to Continue Shifting toward Strategic Priorities through FY19, with Corresponding Shifts in Resources Deployed.**

	Committed Investment Portfolio						Resources Deployed	
	FY11	FY12	FY13	FY14	FY15	FY16 Q3	FY19 Indicative	FY19 Indicative
<b>By Focus Theme*</b>								
Climate Change	12%	12%	14%	14%	16%	16%	20%	20% - 23%
Fragile & Conflict	4%	4%	3%	3%	3%	5%	6% - 8%	11% - 13%
<b>By Region</b>								
Sub-Saharan Africa	14%	13%	15%	15%	15%	16%	16% - 18%	24% - 28%
South Asia	10%	10%	11%	11%	12%	12%	13% - 14%	9% - 13%
Middle East & N. Africa	10%	11%	11%	10%	11%	11%	12% - 13%	10% - 12%
Other Regions	66%	65%	64%	63%	62%	61%	55% - 59%	47% - 57%
<b>IFC Total</b>	100%	100%	100%	100%	100%	100%	100%	100%
<b>By Sector</b>								
Core Infra	19%	19%	19%	19%	20%	20%	21% - 22%	25% - 31%
Agribusiness & Forestry	7%	7%	7%	7%	7%	7%	8% - 10%	12% - 15%
Financial Markets	39%	38%	37%	36%	38%	39%	39% - 40%	26% - 30%
Health & Education	3%	3%	4%	4%	4%	3%	4% - 5%	5% - 8%
Other Sectors	31%	33%	34%	34%	31%	31%	23% - 28%	16% - 32%
<b>IFC Total</b>	100%	100%	100%	100%	100%	100%	100%	100%

\*Themes are not mutually exclusive, should not be summed. Other totals may not sum due to rounding.



**Table 2. IFC Will Continue Its Advisory Program Focus on Strategic Priorities, with Further Growth through FY19.**

	Advisory Program						
	FY11	FY12	FY13	FY14	FY15	FY16 Q3end	FY19 Indicative
<b>By Focus Theme*</b>							
Climate	16%	16%	24%	25%	23%	25%	25% - 27%
Fragile & Conflict	17%	18%	18%	20%	20%	19%	21% - 24%
<b>By Region</b>							
Sub-Saharan Africa	26%	29%	28%	27%	27%	28%	31% - 35%
South Asia	12%	14%	14%	13%	11%	13%	13% - 15%
Middle East & N. Africa	9%	9%	9%	9%	10%	11%	11% - 13%
Other Regions	53%	48%	49%	51%	52%	48%	37% - 45%
IFC Total	100%	100%	100%	100%	100%	100%	100%
<b>By Sector</b>							
Agribusiness & Forestry	6%	13%	11%	12%	13%	12%	12% - 15%
Infrastructure	13%	15%	19%	19%	20%	21%	22% - 24%
Other Sectors	81%	72%	70%	69%	67%	67%	61% - 64%
IFC Total	100%	100%	100%	100%	100%	100%	100%

\*Themes are not mutually exclusive, should not be summed. Other totals may not sum due to rounding.

2.12 Given the large stock of existing investment portfolio, shifts in new business composition have a muted or delayed impact on portfolio composition. Additionally, certain portfolio outflows (e.g., cancellations and prepayments) can be outside of IFC's control; total outflows (including sales and repayments) significantly affect portfolio balances, just as do the inflows from new commitments. However, a rebalancing of portfolio representation across regions, industries and themes is indeed expected, consistent with strategic priorities. This necessarily means that non-focus industries and regions will decrease as a percentage of the portfolio even as some are expected to continue to grow in absolute terms.

2.13 Ultimately, the resulting resource deployment across strategic priorities, which reflects many intersecting business decisions, is projected to increase proportionally due both to underlying investment forecasts and to the increased intensity of work for new business platforms and particularly challenging areas such as FCS and Low Income IDA. The rest of Section II describes how IFC will operationalize its strategic focus areas, what types of resource implications this may have, and what results are planned (i.e., what IFC's total resources will "buy" and how Management will ensure accountability).

### **C. Focus Themes Drive IFC's Engagement with Clients**

2.14 As noted above and shown in Figure 2, three key themes will drive IFC's work in FY17: responding to the global downturn, increasing IFC's Climate investments, and expanding IFC's efforts in FCS and Low Income IDA. IFC will be emphasizing these themes across all sectors and regions, for both IS and AS new business and portfolio.

## 1. Responding to the Global Downturn

2.15 IFC has been operating in a deteriorating profitability and operating environment. As was reported in *IFC's FY16 Budget Paper*, low commodity prices, weak emerging markets currencies vis-à-vis the US dollar, lower emerging markets growth, and volatile financial markets have weighed on IFC's portfolio performance over the last year. IFC's disbursed loan portfolio decreased in FY15 and has been slowly resuming growth while IFC's non-performing loans have been rising steadily from 5.1% at the end of FY14 to 6.7% by the end of FY16 Q3, and IFC's equity returns are expected to be substantially lower than previous years.

2.16 In addition, growth projections for emerging markets have been revised downward several times, due to deceleration of China's growth rates as it adjusts its economic model, weak trade growth, tight domestic liquidity, overcapacity in several sectors, and sharp deterioration in equity returns of emerging market corporates. The slowdown in emerging markets is projected to last longer as headwinds to growth persist. As many developing countries and companies have increased dollar-based borrowing, there is some vulnerability to an anticipated withdrawal of accommodative monetary policy in developed countries, which may have a further impact on emerging market currencies.

2.17 Such projected weakness in global growth and weak emerging market asset performance will add further downward pressure on IFC's investment portfolio performance, its balance sheet and its capital, while adding upward pressure on IFC's cost of market borrowings. In fact, IFC has experienced an increase in its funding cost despite its strong AAA credit ratings. Consequently, IFC raised the base rate used in calculation of IFC's loan interest, effective on April 1, 2016. Furthermore, as correlations between different asset returns and returns across regions are much higher than in the past, IFC's advantage as a global investor with a diversified portfolio has been diminishing.

2.18 **Key Operational Activities and Resource Implications.** Across this backdrop of continuing fragile global growth and market environment, IFC will undertake a combination of defensive and offensive measures to both safeguard its own sustainability and serve clients to ensure development impact.

2.19 As a long-term investor, a key IFC role is prevent fundamentally sound client businesses from unduly suffering due to short-term shifts in investor sentiment. To mitigate this risk, IFC will deploy more resources to intensified portfolio supervision, including stress testing, increased client dialogue, and efforts identifying potential vulnerabilities, including in project documentation. Any increase in distress among client groups may increase the engagement level of IFC's Special Operations team. For new business, several factors will be important, such as more focus on sponsor and project due diligence, and targeted advisory support to ensure a good risk/return profile as well as development impact; these will require dedicated resources.

2.20 At the same time, deterioration of investment confidence (due to increased perception of risk or as a consequence of de-leveraging in the wake of the global financial crisis given regulations such as Basel III, Know-Your-Customer, or Anti-Money Laundering) may result in higher demand for IFC's equity investments, lending, trade products, and advice. This may take the form of support for restructuring or consolidation, via vehicles such as the Distressed Asset Recovery Platform, or support for more attractive opportunities than might otherwise be available. Such investments will require a high degree of selectivity based on development impact and financial sustainability. IFC is likely to target opportunities in regions making progress on structural reforms, or focus on industries that will be benefiting from a growing urban middle class, while addressing restructuring and consolidations in sectors characterized by overcapacity. This will require agile resource redeployment as conditions evolve.

2.21 **Results.** Long-term success will be measured through maintenance of a healthy balance sheet and steady financial results, creation of development impact, and development of stronger relationships with clients who appreciate IFC's additionality during troubled times.

## 2. Increasing IFC's Climate Engagements

2.22 Despite the global downturn, IFC aims to increase its climate investments to 28% of new long-term finance commitments and catalyze \$13 billion in annual private sector capital by 2020. COP21<sup>1</sup> has created international impetus for financial institutions to invest hundreds of billions of dollars into climate investments and for other companies to take on renewable energy investments. Simultaneously, there is increasing pressure from shareholders across the financial community to have investments account for climate risk.

2.23 IFC has steadily grown its climate business since 2005. Total FY15 climate commitments amounted to \$4.5 billion, of which \$2.3 billion on IFC's own account (22% of total IFC's own account new commitments) and \$2.2 billion of core mobilization. Direct investments in large scale renewable energy investments were \$893 million. IFC's FY16 climate investments are expected to be below FY15 levels, partly due to lower renewable energy investments. Renewable energy has been IFC's largest climate business, comprising 39% of FY15 total own account LTF climate commitments, but investment opportunities have fluctuated.

2.24 As renewable energy markets in developing countries are growing, IFC's traditional role is shrinking. This is due to several factors including fewer "first wave" opportunities, where IFC was willing to take commercial and technological risk and enjoyed a first mover advantage as a result. Where markets are now commercial, there is increasing competition from commercial sources of finance. IFC is also facing competition from increasingly available concessional public funding. In addition, IFC is focusing on FCS and frontier regions, which have lower volumes and require longer lead times. Regulatory standstill is restricting business opportunities in some larger countries currently. As a result, IFC's renewable energy business will grow at a more moderate and likely 'lumpy' pace. As a result, IFC will pursue new renewable investment opportunities and models. In addition, IFC will need to significantly scale up other climate sectors in order to meet IFC's 28% target by 2020.

2.25 **Key Operational Activities.** Building on these achievements from prior years, IFC has created a five-year IFC Climate Implementation Plan including an aspiration of climate investments comprising 28% of total IFC new long-term finance commitments by FY20. This plan has the following components:

- To *increase climate investments*, IFC will continue to grow the business in grid-tied renewable energy, Renewable Energy/Energy Efficiency credit lines, and direct investments in green buildings. IFC will build new business in distributed renewable energy for industrial and commercial sources and waste. It will leverage Advisory Services through market development initiatives and expert advice to help clients reduce their Greenhouse Gas impact and increase resilience. In addition, IFC will lay the foundation for future business growth in agriculture, water, transport and new models for financial institutions.
- To *catalyze outside capital*, IFC will continue its mobilization focus, including increasing climate Public Private Partnerships. In addition, IFC will expand its advisory work on greening the financial sector through a combination of standards, regulations and support to financial

---

<sup>1</sup> The United Nations Framework on Climate Change's 15<sup>th</sup> annual Conference of Parties, also known as the 2015 Paris Climate Conference

institutions. IFC will also identify aggregation and de-risking models and any related concessional resources needed in order to develop these models in FY18-20.

- To *increase climate impact*, IFC will increase its capacity to report Greenhouse Gas emissions reductions without placing additional burden on its investment officers. IFC will also identify opportunities for adaptation investments and the resources needed, developing the platform for FY18-20 investments. IFC will also participate in international processes to move the needle on global action to mitigate Greenhouse Gas emissions.
- To *account for climate risk*, IFC will develop a cross-industry working group, complete a climate impact risk screening pilot, and identify next steps. In line with IFC's financial sustainability objectives, IFC will also evaluate how to address climate asset risk and develop systems to account for this risk in order to help protect IFC's profitability.

2.26 **Resource Implications.** Achieving IFC's climate goals will require a significant scale up of resources to support both an increased volume of traditional finance business and a range of supporting activities for challenging new platforms. In order to build its climate business in financial institutions, distributed generation, adaptation, and agriculture, IFC will need to offer competitively priced advisory and business development support; this will include sourcing and administration of additional blended climate finance. Increasing IFC's investments into new sectors will also require market analysis, including the commission of country-level adaptation studies.

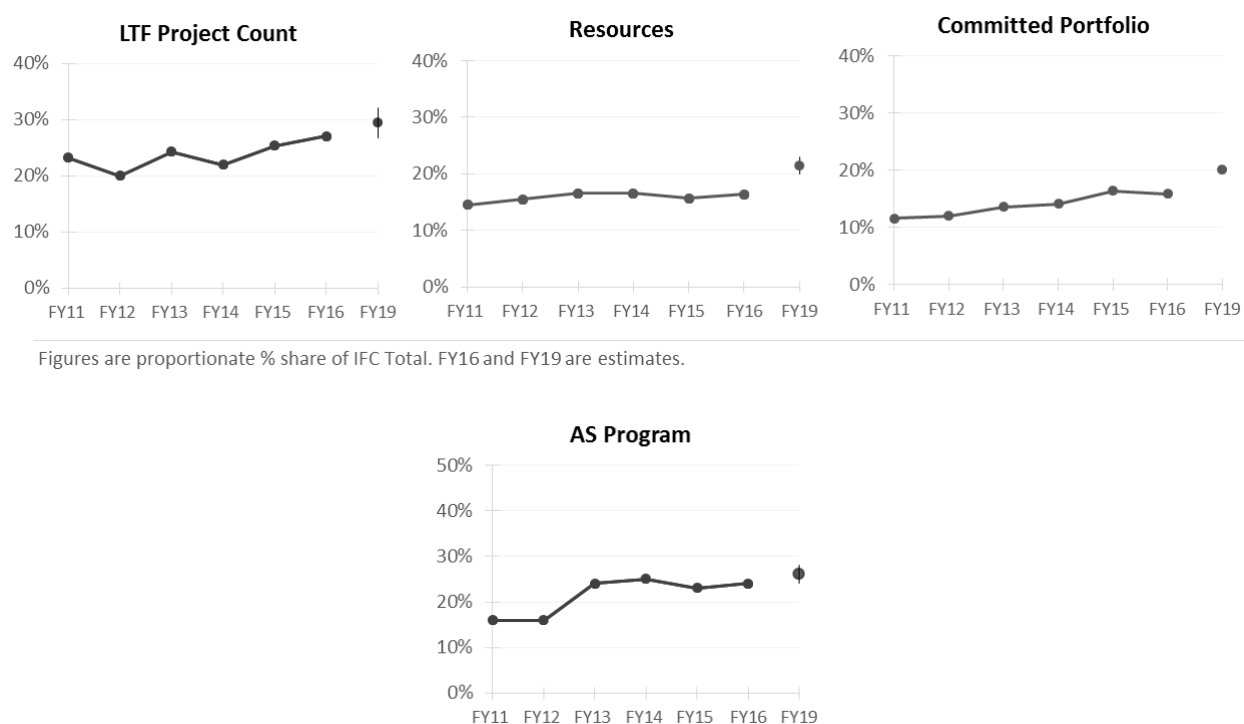
2.27 Importantly, to respond to climate accounting (e.g., greenhouse gas emissions) and enhanced reporting demands, IFC will need to expand internal support resources. IFC will need greenhouse gas accounting support, as well as credit officers with dedicated time carve-outs to help develop business models for climate business. Appropriate risk management will also require resources for analysis and pilot programs. Finally, IFC will need knowledge management/learning and communications resources to maximize its impact by proactively supporting growth in climate operations and externally providing thought leadership within international discussions.

2.28 In FY11-15, IFC's climate business comprised an average 14% of IFC's committed portfolio and a similar 16% of administrative and core fee resources. Given current aspirations (number, volume and type of projects/activities), IFC expects climate business to comprise 20-23% of resources deployed in FY19.

2.29 This resource shift from 16% to the 20-23% range by FY19 represents resources to support the activities already mentioned above as well as for competitively priced technical assistance and business development support particularly to build business in financial intermediaries, adaptation, and agriculture; market analysis and country-level adaptation studies; internal support resources for accounting, credit, knowledge sharing; blended finance administration for various funds; and for analysis and pilot programs.

2.30 **Results.** With this shift in resources, IFC expects to meet the FY17 IFC Scorecard climate target of 22% of total new LTF volume (own account + core mobilization). IFC also expects that by the end of FY17, it will have completed the climate risk pilot and evaluated IFC's carbon footprint for risk, with next steps identified. Longer term, IFC strives for 28% of its total new LTF volume to be climate-friendly by FY20. IFC's advisory operations in climate remain robust and are set to grow further by FY19.

**Figure 4. Increasing the Amount and Complexity of IFC's Climate Business Portfolio Will Require a Higher Share of Investment Resource Usage as Well as a Growing Share of AS Program.**



### 3. Catalyzing Greater Private Investment in Fragile & Conflict Situations and Low Income IDA

2.31 Fragile and Conflict Situations have been, are, and will continue to be a key focus for IFC. In the *IFC Road Map FY14-16*, Management committed to increasing FCS investments by 50% from FY12 to FY16. As of FY16 Q3, IFC already exceeded this target, raising own account long term finance in FCS countries from \$358 million in FY12 to \$663 million YTD (85% growth). IFC is also accomplishing more recent objectives shared with the Board in last year's budget paper.

**Table 3. IFC Has Made Progress against the FCS Aspirations Outlined in IFC's FY16 Budget Paper.**

Categories	Aspirations Outlined in IFC's FY16 Budget	Progress to Date
Risk	<ul style="list-style-type: none"> <li>• The existing FCS Risk Envelope will be significantly enhanced. IFC will introduce measures which enable early guidance and ongoing support directly from senior management for more challenging FCS projects.</li> <li>• IFC will work to mobilize new pools of risk capital and blended finance instruments to complement existing facilities with the aim of filling key gaps in areas such as infrastructure and encouraging developers and sponsors to bring high impact projects to market. IFC's IDA contribution will also be a key area of focus for senior management to ensure that its efforts and resources are most effectively leveraged.</li> </ul>	<ul style="list-style-type: none"> <li>• IFC increased its FCS risk envelope capital allocation to \$200 million, with a nominal size of \$700 million. The setting aside of more capital to cover potential losses is intended to encourage more risk taking.</li> <li>• Senior Management developed an FCS Early Guidance Process to signal to staff greater appetite for doing more in FCS. The process was launched last October and allows each Regional Director to present innovative ideas and projects to Global Client Services Leadership team for endorsement.</li> </ul>
New business	<ul style="list-style-type: none"> <li>• IFC will seek to boost its project development and upstream work to help expand deal-flow and build client capacity in FCS markets. This will include, for example, ramping up efforts to support building of Environmental, Social and Governance capacity for active investment clients in these markets as well as enhancing Integrity Due Diligence efforts while acknowledging the significant challenges, work in FCS presents on these fronts.</li> </ul>	<ul style="list-style-type: none"> <li>• IFC enhanced client support for ESG risks through established ESG transaction risk solutions department.</li> <li>• IFC boosted ESG due diligence and implementation support for selected FCS clients to improve their capacity and ability to address ESG issues – this approach was piloted last year.</li> <li>• IFC strengthened the ESG private sector diagnosis for Systematic Country Diagnostics/Country Partnership Frameworks, with more staff time devoted to understanding fragility considerations and contextual risks that impact ES compliance.</li> <li>• IFC piloted an approach to Integrity Due Diligence called "Preemptive" IDD, which can speed up project processing and includes (i) use of external investigative firms for potential clients in new markets and sectors, (ii) clear identification of issues beyond IFC's risk tolerance, (iii) early approval for project IDD work, and (iv) increased management oversight.</li> </ul>
Human capital	<ul style="list-style-type: none"> <li>• Increase awards for compelling staff contributions to FCS operations and portfolio support.</li> <li>• Ensure managerial decisions are aligned to facilitate and enable FCS efforts.</li> <li>• Allocate additional funds to facilitate Development Assignments, appraisals, external research &amp; analysis and awareness events linked to FCS efforts.</li> </ul>	<ul style="list-style-type: none"> <li>• Key changes were implemented to IFC's Annual Performance Awards program, with increased focus on fragile states and client-facing functions.</li> <li>• The SmartLessons program coordinated a special competition to gather lessons learned in managing risks for transactions in FCS and IDA.</li> <li>• Additional funds were provided to facilitate two development assignments: one in the FCS Coordination unit and one in the Africa Financial Institutions Group team.</li> </ul>
Strategy & Resources	<ul style="list-style-type: none"> <li>• Utilize the Business Review process with regional and industry colleagues to deliberate and define the most critical development challenges in FCS markets, and focus collective efforts in those areas.</li> </ul>	<ul style="list-style-type: none"> <li>• Following productive Business Review discussions, additional budget of \$7 million was allocated across departments and used to support activities such as sector mapping, legal fees, and scoping mission through the allocation to the Conflict Affected States in Africa Advisory Services Facility, public private partnerships training in Ethiopia for g7+ member countries, and broadband mapping study in FCS countries to identify market inefficiencies.</li> </ul>

2.32 IFC has also proactively undertaken Legal and Knowledge Management improvements. IFC recently launched a simplified legal documentation for suitable FCS projects, designed to help facilitate and expedite transactions as well as reduce transactions cost in the FCS space. Project teams will work closely with the Corporate Risk & Sustainability VPU to ensure flexibility and a tailored approach to risk mitigation in FCS. IFC also expects to launch additional forms including term sheets, equity documentation and local language translations (for purposes of client discussions only) in due course.

2.33 IFC also launched FCS Forum, a knowledge management tool and collaborative web based workspace. FCS Forum captures information about FCS country situation/investment climate, lessons learned from recent transactions and other institutional matters relating to FCS. This is expected to help reduce asymmetries of information with a view to facilitating IFC's engagement in, and de-risking of, FCS transactions, hopefully becoming an integral part of the early stage guidance framework for project teams working on FCS.

2.34 However, many challenges remain for scaling up IFC's FCS business. FCS work entails high operating cost and higher capital requirements. Numerous political and security risks exist, and markets tend to be too small with limited purchasing power. Access to power, domestic and international finance, and land are perennial challenges. Weak government capacity further complicates the creation of attractive business environments to crowd in the private sector. Investors may also face reputational issues related to Environmental & Social issues, Integrity Due Diligence, and Politically Exposed Persons.

2.35 **Key Operational Activities.** IFC aims to catalyze greater private investment in FCS & LIC-IDA by exploring new and enhanced tools to de-risk projects and strengthen advisory services and capacity building with a focus on investment climate, in collaboration with the World Bank, MIGA and external partners. This includes (i) promoting cooperative efforts via Joint Implementation Plans, (ii) using project preparation tools to unlock investments (e.g., InfraVentures), (iii) helping clients manage Environmental, Social and Governance Risk, and (iv) developing new approaches in the Integrity Due Diligence space. IFC will also explore donor partnerships that can provide risk mitigants such as FCS-focused returnable capital and blended finance. Additionally, IFC will seek g7+ collaboration to promote public private partnerships. Given the extensive scale-up challenges inherent to FCS markets, IFC will continue to proactively develop tools to de-risk investments, mobilize capital and build capacity, complemented by Advisory Services. For example, in Sub-Saharan Africa, IFC continues to support FCS countries through a dedicated facility (Conflicted Affected States in Africa) that (i) leverages donor support to ensure presence on the ground, (ii) provides funding for market engagement as well as advisory support to existing and potential clients, and (iii) delivers knowledge management of FCS-specific issues.

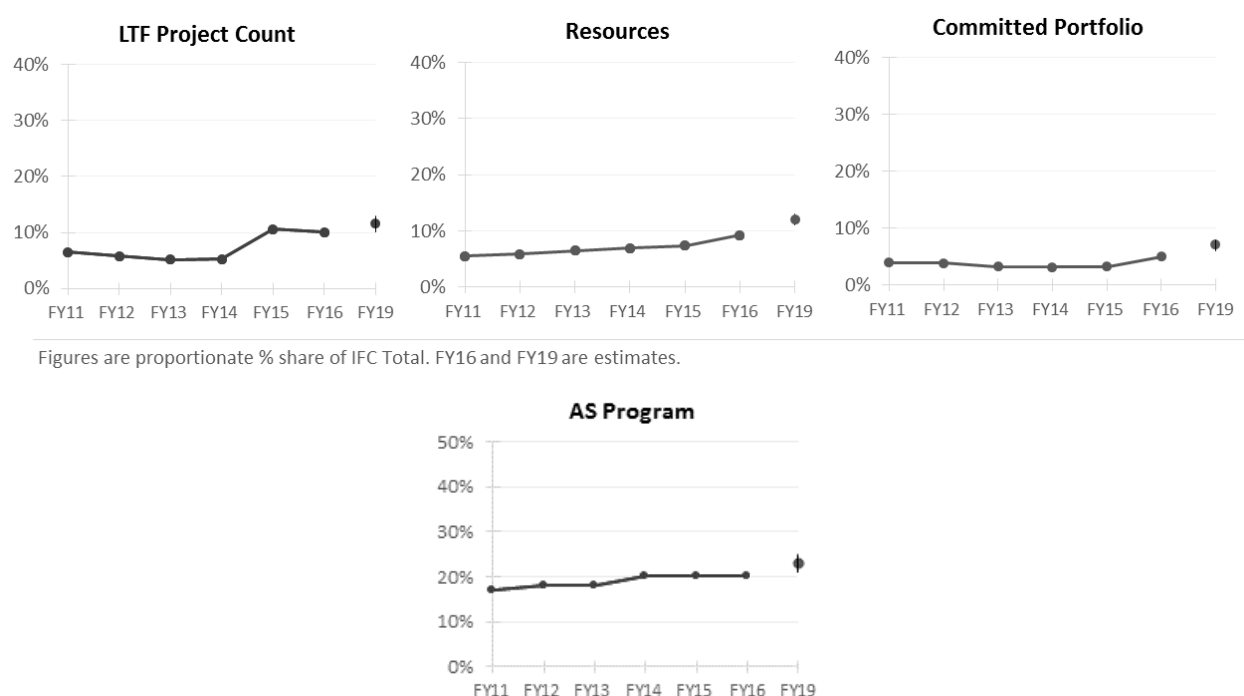
2.36 **Resource Implications.** To catalyze greater private investment in FCS, IFC foresees increasing investment resources in this area from an FY11-FY15 average of 6% to 11-13% range by FY19. Management has purposefully chosen to "overweight" FCS resources given these countries' strategic importance and an understanding of their cost profile. The development, commitment and management of FCS projects is highly resource intensive relative to their size, as evidenced from historic FCS share of portfolio (around 3%) compared with its share of resource usage (around 6-7%). Active portfolio management requires extensive attention due to volatile conditions and often inexperienced sponsors or clients.

2.37 While the share of investment resources used for FCS may look broadly in line with its share of new long-term finance commitment project count, it is important to note that total investment resources include costs associated with projects remaining in the pipeline (FCS deals tend to take longer to commit) and costs incurred to pursue deals that never came to fruition (FCS deals may have a lower throughput). Also not evident in the charts below is the heavy concentration of Financial Institutions Group deals in FCS. All other

things being equal, FIG LTF projects tend to cost less to commit and manage than those in Infrastructure & Natural Resources (INR); Manufacturing, Agribusiness & Services (MAS); or Telecom, Media and Technology, Venture Capital and Funds (CTT). The FCS industry mix thereby distorts the FCS cost profile as well. Finally, the average number of active trade lines is proportionally higher in FCS than in many other areas, and LTF project count does not capture this.

2.38 The expected increased resources will be devoted to deal origination and especially portfolio supervision, hands-on support in various areas (financial, technical, environmental, social, governance, integrity), advisory services and capacity building of government and private sector, new de-risking tools development, ESG capacity building, g7+ PPP efforts, and creation of new policies to help more staff develop FCS knowledge and experience.

**Figure 5. Development, Commitment and Management of FCS Projects Is Resource Intense Relative to Size.**



2.39 **Results.** Conditional on increased resources, and with due humility in the face of extensive constraints, IFC has set an FY17 IFC Scorecard target of 50-60 new FCS&LIC-IDA LTF commitments. Pending access to certain de-risking opportunities, IFC also aims to reach 6-8% of IFC's total committed portfolio in FCS countries and to increase the number of FCS active trade accounts. IFC's advisory operations kept continued focus with 20% of the AS program in FCS; IFC forecasts further moderate growth by FY19.

#### 4. Supporting the WBG's New Gender Strategy.

2.40 Gender equality is also an area of sustained strategic focus at IFC, in line with the new WBG gender strategy approved by the Board in December 2015 and launched in January 2016. The strategy focuses on four areas: closing remaining gender gaps in health and education, enabling access to jobs and assets, strengthening women's voice, and decision-making. IFC is particularly contributing to the jobs and assets



components of the strategy, given its work with private sector clients. Finally, gender will remain a special theme under IDA18; IFC will work closely with the World Bank on holistic gender approaches in IDA countries.

2.41 Commitment from private sector companies to closing gender gaps in their leadership, workforces, and supply chains as well as among their consumers continues to grow. For example, the World Economic Forum, the Clinton Global Initiative and the US Chamber of Commerce have all stepped up their gender-specific work and have reached out to IFC to support them in responding to an increased demand for gender-smart solutions. In addition, governments around the world are increasingly asking the private sector to increase the number of women on their corporate boards, to disclose the gender wage gap and to implement parental leave policies.

2.42 As of end-February 2016, FIG's "Banking on Women" business has built a cumulative committed portfolio of just over \$1 billion, specifically carved out for on-lending to women-owned SMEs through financial institutions. As of February 2016, 13 BoW advisory projects are in implementation with a total value of \$5 million. These projects aim to help financial institutions recognize the business opportunity of the women's and women-SME segment, and support them in designing strategies and customer value propositions for women customers. In FY16, IFC's gender solutions have grown to three additional gender products:

- Women's entrepreneurship, a non-financial service offering to build entrepreneurs' capacity to increase banks' market access and/or to increase women's participation in corporate supply chains
- Employment, to help clients better manage recruitment and retention of female talent
- Insurance, to help insurance companies better reach and serve the women's market as well as include women across all employment levels of the insurance industry

2.43 These new solutions have already gotten traction with paying clients across regions and industries. In addition, IFC has been recognized for its leadership in developing innovative business case research demonstrating that closing gender gaps can improve the performance of companies and markets. Most recently, IFC's "SheForShield – Insure Women to Better Protect All" report, which was launched in September 2015, has been embraced by the insurance industry. IFC also adopted gender indicators in its FY16 corporate scorecard for the first time with the aim of expanding gender lens investing and advice to its clients.

2.44 **Key Operational Activities.** IFC will execute the new gender strategy implementation plans currently under development by IFC's operational departments. Based on these implementation plans, IFC aims to scale up its client facing gender work with a focus on BoW and the newly developed gender solutions. Furthermore, IFC will release new business case research that will inform private sector clients on why closing gender gaps is smart business and provides advice on how to do it. One report will focus on best employment practices (September 2016), and one report will focus on why private sector companies should consider providing access to affordable quality childcare facilities for employees (March 2017).

2.45 **Resource implications.** IFC will enhance gender expertise in the field (Africa, Asia and the Middle East). IFC will also expand the capacity of operational staff to integrate gender into their work by launching a mandatory e-learning course, which is currently under development. In addition, IFC will continue to mobilize financial resources for gender-smart solutions from clients, donors, and IFC's own resources.

2.46 **Results.** Gender will be tracked in the FY17 IFC Scorecard through the percentage of Advisory Services agribusiness, finance and extractives projects with a gender component. Management will monitor gender-specific investment activity as well, rolling out a new tracking methodology.

## **D. Key Regions Identify Needs and Opportunities on the Ground**

2.47 The SBO highlighted three regions as objects of particular focus: Sub-Saharan Africa, Middle East & North Africa, and South Asia. IFC will continue to work in the other regions (East Asia & Pacific, Latin America & Caribbean, Eastern Europe & Central Asia), which will, by necessity, decrease in aggregate as a percentage of IFC's activity and resource usage. However, all geographies contribute to IFC's development impact and financial sustainability, with middle income countries across the globe containing the majority of the world's poorest people. Continued engagement on a global scale is also critical to IFC's diversification approach.

### **1. Unlocking Sub-Saharan Africa**

2.48 Sub-Saharan Africa faces numerous economic headwinds such as low commodity prices and financial turbulence as well as under-diversified economies and depreciated currencies. Alongside these, policy challenges and fragility (insecurity, political, governance, and environmental issues and pandemics as well as staff constraints) affect IFC's work program in Africa at the same time that IFC is experiencing portfolio degradation, rising project costs relative to project size, and difficult client engagement.

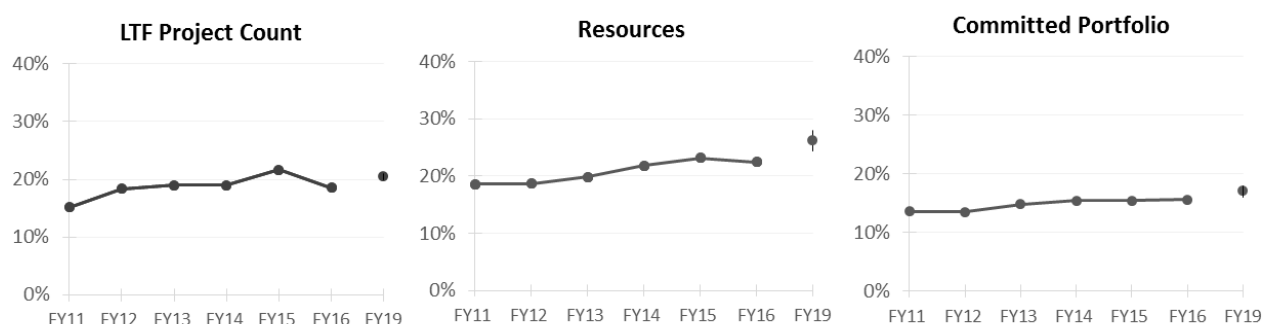
2.49 **Key Operational Activities.** IFC plans to increase, diversify and safeguard its portfolio position and replenish a high quality, medium-to-long term pipeline to enable resumption of commitment growth in FY17-18 onwards. IFC will integrate investment and advisory activities across the region, expand mobilization and leverage WBG cooperation as well as implement a deep dive approach in select countries to engage strategically and deliver greater development impact. In South Africa, IFC will focus on efforts to achieve inclusive growth. In Cameroon, Ethiopia, Mozambique, Nigeria, Ghana, Senegal, IFC will promote economic diversification to achieve growth momentum. IFC will endeavor to expand the private sector base in countries that have solid development records such as Kenya and Rwanda. Finally, IFC will actively engage in FCS countries with tremendous potential and natural resources such as Côte d'Ivoire, Democratic Republic of Congo, Guinea and Madagascar.

2.50 **Resource Implications.** IFC will continue scaling up its activities in Sub-Saharan Africa in order to tackle the complex, unpredictable, and inter-connected development challenges of the region. Additional resources will be deployed to help diversify the portfolio and promote medium-long term projects and engagement in the region as well as provide counter-cyclical solutions to clients in response to the global downturn. This will necessitate a further increase in presence on the ground, with selective placement of senior staff in countries with a solid track record and/or potential for progress.

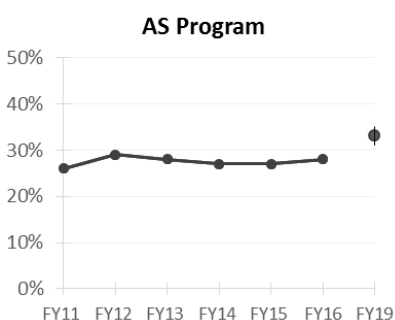
2.51 Several factors will drive the evolution of the staff footprint. The region will review and implement incentives to attract and retain technical staff in difficult operational markets and strategic sectors such as infrastructure and agri-finance, consistent with IFC's focus. More widely, a larger contingent of senior country officers will provide better balance in large offices. In the context of portfolio management emphasis, IFC will also shift some staff time to focus on reducing undisbursed balances, which delay achievement of development impact and consume capital that worsens opportunity costs and risk-adjusted returns. These and other new approaches will proactively realign resources and skills to meet the region's changing development challenges.

2.52 To unlock Sub-Saharan Africa, IFC proposes to increase Sub-Saharan Africa's share of investment resources from an FY11-FY15 average of 21% to 24-28% range by FY19, while the region's share of new projects and committed portfolio will remain below 20%, underlining the significant costs and challenges in the region.

**Figure 6. Sub-Saharan Africa's Share of Investment Resources Consistently Exceeds Its Share of New Projects and Committed Portfolio, and Is Expected to Continue Increasing per Business Growth Projections and Relatively High Costs per New Project and Portfolio Client.**



Figures are proportionate % share of IFC Total. FY16 and FY19 are estimates.



2.53 **Results.** IFC's work in Sub-Saharan Africa will contribute to important metrics on the FY17 IFC Scorecard: i) IDA/FCS project count and active trade accounts; ii) climate as % of LTF commitments; iii) staff diversity index; and iv) several IFC Development Goals. Additionally, IFC expects LTF commitment growth to resume FY17-18 onwards while delivering greater development impact (especially in FCS), climate change, and gender. This includes leveraging WBG cooperation to pursue transformational projects in deep dive countries and structural reforms. Management will also monitor efforts to improve project delivery and disbursement time, reduce average project cost, and improve the profitability of investments in the region. Finally, the strategic focus on Sub-Saharan Africa will be reflected in extensive Advisory Services activities, which are projected to grow to almost one third of the total AS program.

## 2. Paving the Way to Middle Income Status in South Asia

2.54 Despite turmoil in international markets, South Asia's economy remains robust, maintaining its spot as the world's fastest growing region with 7% GDP growth in 2015. However, there are signs of fading tailwinds for the region as the current overall pace of growth is slower than anticipated and inflation has been rising. While cheap oil prices have benefitted the region as a net importer of oil, remittances (considered the backbone of South Asian current accounts) originating in oil export countries are slowing. Fiscal stress in

several countries will drive a need for selectivity in public spending and potentially create opportunities for enhanced private investment and public private partnerships.

2.55 Across the region, significant gaps persist in infrastructure, logistics/connectivity, and inclusion; IFC's work program is focused on addressing these gaps. Since *IFC's FY16 Budget*, IFC has been building upon strong client relationships to provide comprehensive private sector development solutions, while forging stronger partnerships with other key stakeholders.

2.56 **Key Operational Activities.** Regional operations will continue to be strongly aligned with corporate priorities. IFC's efforts in bridging the infrastructure gap will focus on power generation, transmission, and distribution while broadening reach in connectivity/logistics. IFC's work on financial and social inclusion will target SME banking, microfinance, mobile financial services, FinTech, and health and education. IFC will also devote significant attention to ramping up its climate-related business, including renewable energy, energy efficiency, and adaptation. IFC will also use Advisory engagements with clients and leverage World Bank Group collaboration to continue to build a strong long term finance investment program in Bangladesh, the second-largest country program in the region.

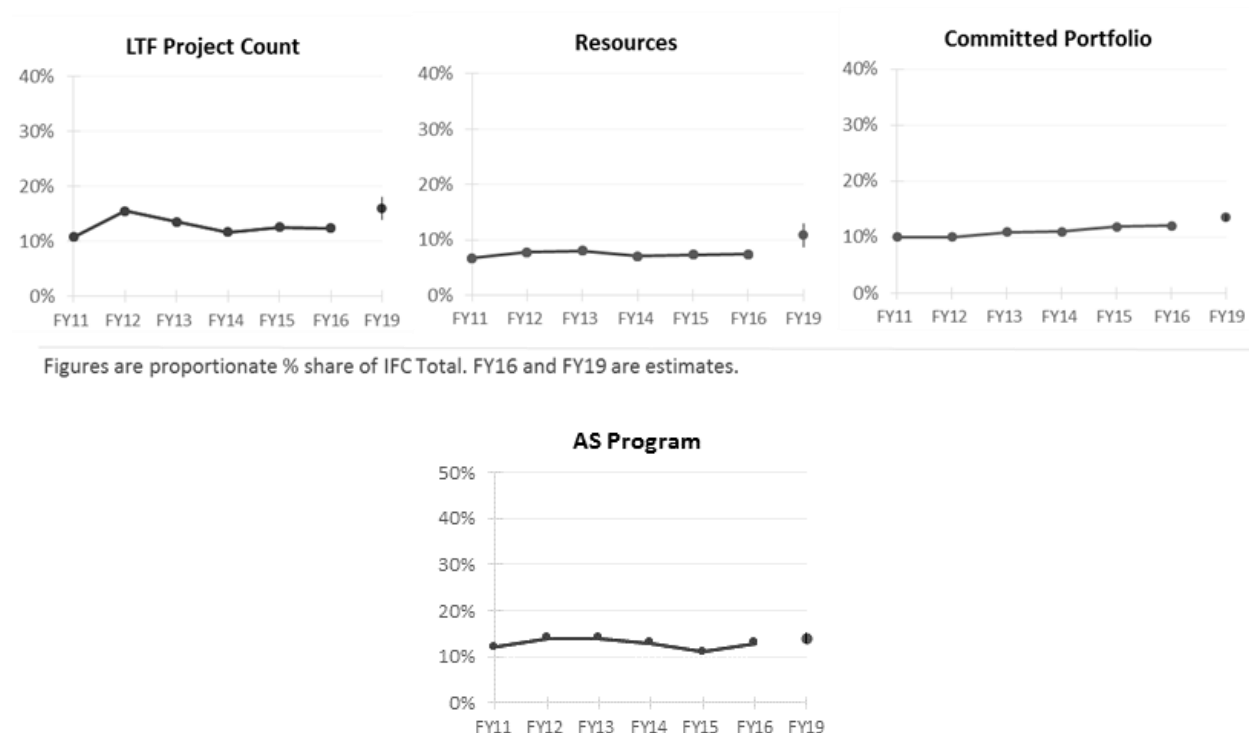
2.57 Moreover, IFC is deepening local capital markets to expand the range of financing instruments available to clients across the region and to unlock local currency financing options for IFC projects. Good progress has been made in India, and efforts are ongoing to expand to other countries in the region.

2.58 **Resource Implications.** To pave the way to middle income status in South Asia, IFC plans to increase South Asia's share of investment resources from an FY11-FY15 average of 7% to 9-13% by FY19. In line with the very significant development challenges in the region, both IFC business and accompanying resource usage are expected to grow over the medium term. The increased resources will be used to enhance regional and country teams through strategic staffing efforts consistent with its key operational activities. Additional resources will be required to continue to ramp up activities and build a more strategic pipeline to deliver greater impact in South Asia; a transitional period which may affect program delivery in the near-term.

2.59 Ultimately, IFC will deliver greater impact in South Asia in part by strengthening regional resources to enhance regional and country teams:

- Rebuilding staffing and skill-set in the region:
  - Developing a strong regional team to support an ambitious expectation of investment and advisory teams with regard to program delivery.
  - Putting in place incentives to attract and retain, and actively recruiting, industry staff with global experience in working in challenging environments and domain expertise to bring diversity of views and experience.
- Devoting effort and resources to build relationships to engage in enhanced, strategic, partnerships with clients:
  - Enhancing client-related research and analysis to develop targeted IFC value proposition to significantly grow strategic engagements with clients.

**Figure 7. South Asia's Share of LTF New Commitments and Investment Resource Usage Is Projected to Strongly Increase by FY19; Share of Advisory Program Projects Moderate Growth.**



**2.60 Results.** IFC's work in South Asia contributes to several important metrics on the FY17 IFC Scorecard: i) IDA/FCS project count and active trade accounts; ii) climate as % of LTF commitments; iii) staff diversity index; and iv) IFC Development Goals. Management will closely monitor regional profitability and strengthened client delivery. AS program is foreseen to grow moderately by FY19.

### 3. Strengthening Resilience and Recovery in Middle East and North Africa

**2.61** The operating environment continues to be difficult in MENA due to increasing security threats and a fragile macroeconomic situation in many markets. Record low oil prices are adversely impacting oil exporters. This is especially important for Gulf Cooperation Council countries with lower growth prospects and slowdown in public spending, which has been a key driver of non-oil growth. Investor confidence remains subdued, negatively affecting domestic and foreign private investments and mobilization efforts. Private sector financing is even more critical given the limited fiscal space and budgetary support from Gulf Cooperation Council countries.

**2.62** IFC has been and will continue to play a strong counter cyclical role in MENA by engaging in strategically important sectors including infrastructure (especially power and renewables), entrepreneurship, and financial inclusion to support private sector led investment and job opportunities. The role of advisory remains critical, especially in areas of investment climate, financial sector, and public private partnerships.

**2.63 Key Operational Activities.** IFC's strategic plans for the region are driven by needs and opportunities in key sectors, with an emphasis on FCS as a theme.

2.64 IFC will maintain its focus on infrastructure, especially with larger, more complex and upstream projects in higher risk markets; the attendant complexities will likely affect the pace of program delivery. Teams will concentrate their efforts on investments in natural resource-based manufacturing such as building materials (particularly in FCS) and chemicals where the MENA region has competitive advantages, while also exploring investment opportunities in traditional labor-intensive sectors such as agribusiness and services. IFC's growing program in the energy sector will require more intensive portfolio management, especially in high risk markets such as Egypt, Iraq and Pakistan.

2.65 In order to increase engagement in FCS countries, IFC will direct time toward working with World Bank colleagues on building local capacity, closely collaborating on joint project development for energy and financial markets, and utilizing a toolbox of de-risking instruments (e.g., blended finance, risk sharing facilities). IFC will also liaise and tap into global practice expertise to make progress on the regional skills agenda.

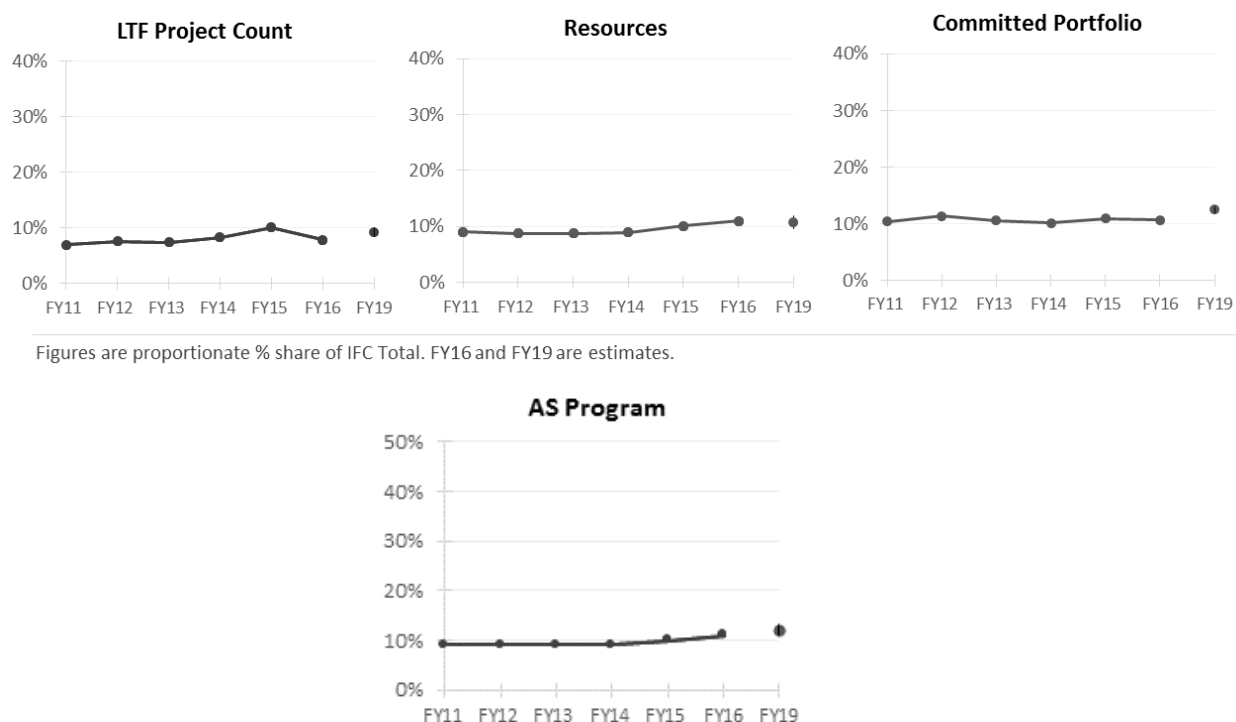
2.66 Given MENA is one of the three priority regions, and with serious challenges, there will be no specific areas of reduction. The operational activities would be geared towards strengthening the focus (and resources) on business development while the "trade-offs" will be mainly a rebalancing and/or recalibration of existing resources. The guiding principle would be to remain flexible to adjust resources to respond to (i) private sector needs in the context of crisis response, and (ii) opening up of markets.

2.67 **Resource Implications.** To strengthen resilience and recovery in Middle East and North Africa, IFC proposes to increase MENA resources from an FY11-FY15 average of 9% to 10-12% by FY19. This resource shift will leverage the purchase of the Cairo hub by placing more senior staff there and will expand the footprint in Jordan by creating a smaller hub with a critical mass of staff. IFC will take an incremental approach in increasing footprint in Iraq (including the Kurdistan region) given logistical difficulties. Management will be selective with any changes to its Dubai hub, matching staff number and skill profile with needs on the ground.

2.68 The region is also employing a sector-targeted approach to resource shifts:

- Infrastructure. IFC is creating a critical mass of staff in a few locations instrumental to booking new deals and managing the portfolio, following the example of the Dubai hub, which was a key success factor in delivering a record infrastructure program in FY15.
- Financial Institutions. IFC will rebalance senior staff within the 'EMENA' Financial Institutions team.
- Manufacturing, Agribusiness and Services. IFC is recalibrating resources between Headquarters and country offices to optimize the existing team with a focus on increasing business development and strengthening relationship management in the region.

**Figure 8. Given Regional Challenges, IFC Will Play a Counter-Cyclical Role in MENA by Roughly Maintaining Its Share of Business Delivery and AS Program, with Intensified Investment Portfolio Management and Measured Resource Usage.**



2.69 **Results.** IFC's work in MENA contributes to several important metrics on the FY17 IFC Scorecard: i) IDA/FCS project count and active trade accounts; ii) climate as % of LTF commitments; iii) staff diversity index; iv) IFC Development Goals. Management will also focus on active portfolio management to capitalize on strong equity results as well as minimize non-performing loans during FY17-18. Another measure of success will be delivery of higher risk but also higher impact projects, especially in infrastructure across key markets. AS program in MENA is expected to continue moderate growth.

## E. Industries Deliver Development Impact

2.70 As outlined in the recent *Strategy and Business Outlook*, IFC will particularly focus on following critical industries that address demand, provide feasible opportunities, and leverage IFC's strengths: core infrastructure, agribusiness, financial & social inclusion (of which, financial institutions and health & education), and disruptive technology. While this will not be to the exclusion of other sectors, which also contribute to IFC's development impact and financial sustainability, it does imply some resource shifts away from other areas such as manufacturing, extractives, services other than health & education, or funds.

## 1. Building Developmental Foundations with Core Infrastructure

2.71 IFC's core infrastructure investments are situated in a global context of rising ambition. Reform work is underway in many regions, but the number of investable projects remains relatively few. Governments seek more IFC support to translate sector reforms into private investment. However, ambitious projects in lower income countries often suffer from high government risks, and mobilization is shifting towards new investors. Weak macro-economic outlook and persistent weak oil/commodity prices adversely impact IFC's portfolio health and suggest a weaker profitability outlook than was the case one year ago. The combination of these factors has led IFC to address increasing demand for its services in difficult environments while often engaging in bigger projects and programs and simultaneously enhancing its focus on financial sustainability.

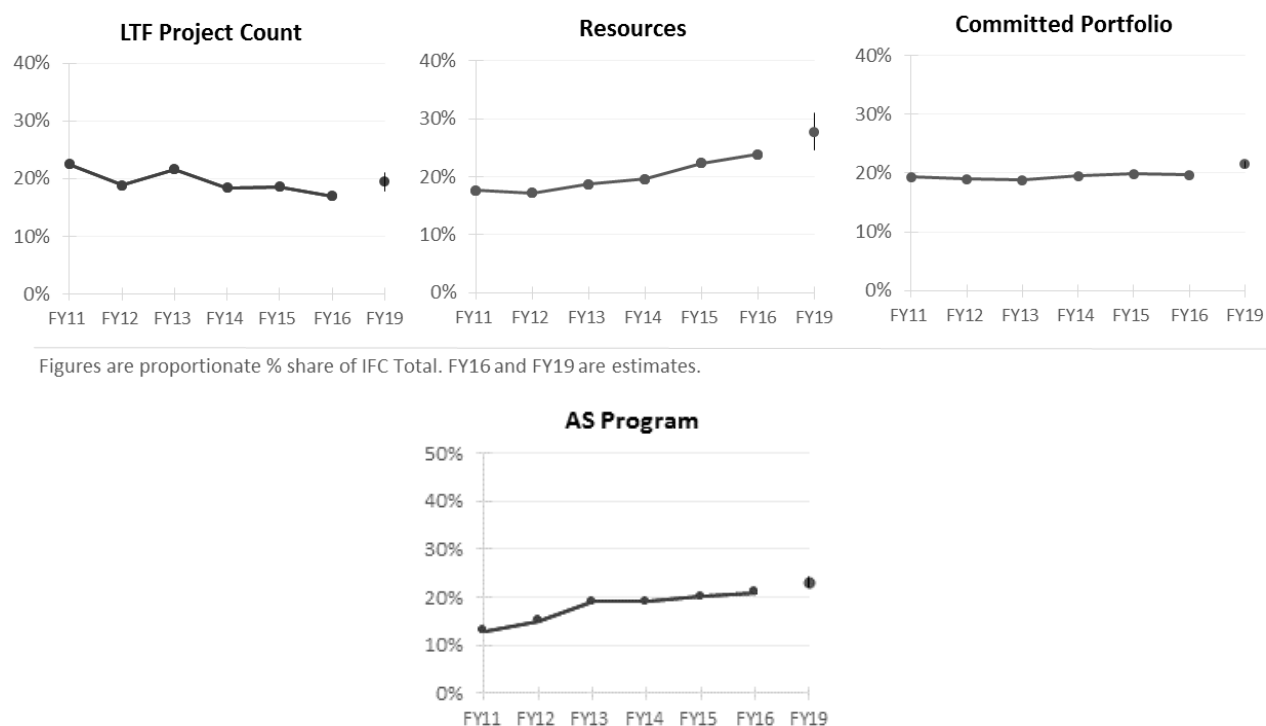
2.72 **Key Operational Activities.** IFC's Infrastructure and Natural Resources department will maintain its dual focus on impact and profitability. The business model will increasingly position INR as the creator of solutions for complex problems, as it dedicates more time and resources to upstream activities and engagements in challenging situations, including Advisory Services market development work. Such focus and engagement require an expansion and retention of expertise. INR sees an increased need to support the existing portfolio while maintaining a continued focus on impact, growth and profitability. INR is strengthening its portfolio focus while adopting a more targeted approach to equity origination and portfolio value-add creation. At the same time, INR is dedicating more resources to developing new approaches to mobilization.

2.73 **Resource Implications.** To build on developmental foundations with infrastructure, IFC proposes to increase investment resources in core infrastructure from an FY11-FY15 average of 19% to 25-31% by FY19. Following the INR business model, core infrastructure projects will continue to cost more than most other IFC projects on average; accordingly, resource deployment may outpace project count and portfolio share increases. INR increasingly focuses on upstream activities and challenging situations. A strengthened focus on upstream activities calls for additional expertise to be delivered by a cadre of seasoned, specialized staff. Consequently, the INR staffing pyramid will be more top-heavy, the cost of departures will continue to increase, and the ability to recruit and retain seasoned, high-talent staff will affect INR's ability to execute its business plan. This includes nurturing existing talent, which benefits business development/portfolio management continuity as well as resource efficiency.

2.74 INR is establishing a "SWAT" team to create additional temporary support for the portfolio. It is also revamping its approach to equity and asset management to drive more focused origination, larger tickets, and active equity portfolio value-addition (especially for top exposures), in service to IFC's enhanced focus on financial sustainability. The equity investment approach requires equity and asset management expertise that is challenging to recruit and retain. At the same time, INR is seeking to strengthen its resources and capabilities to support increased and new approaches to mobilization.



**Figure 9. IFC's Commitment to Increase the Core Infrastructure Portfolio Necessitates a Large Shift in Investment Resources Due to Infrastructure Projects' Complexity and Long Lead Times. Advisory Engagement Is Expected to Continue Its Robust Growth.**



**2.75 Results.** INR will contribute to the overall FY17 IFC scorecard target of 68.1 million people reached with infrastructure services. Infrastructure projects are also expected to be a major contributor toward IFC's FCS & Low-Income IDA target of 50-60 LTF projects. In addition, the operational situation calls for INR to engage in several activities that are not captured by the current scorecard framework. In light of this, a new milestone measurement approach has been adopted to track the progress of transformational, complex projects that have higher impact but longer gestation times. New risk mitigation products are also under development to support the efforts of developing challenging projects, and new platforms are being created to attract and crowd-in institutional investors to emerging markets to respond to the infrastructure challenge.

## 2. Increasing Impact in Agribusiness

**2.76** Low commodity prices have depressed private sector investments in agribusiness. Low prices also negatively impact farmer incomes, which further reduces the use of inputs and creates a downward spiral. In major agri-producing countries, significant volatility and tightened liquidity create both opportunities and risks (e.g. political instability in Ukraine, recession and currency decline in Brazil, and the re-opening of Argentina with pent-up investment demand).

**2.77** IFC has been growing its program in agri-production and processing, including mobilization. It has also been focusing on Sub-Saharan Africa, including dedicating senior staff resources to business development in the region. Additionally, it has been integrating agribusiness Advisory Services and investment operations, refocusing its Advisory engagements along key themes to complement the overall agribusiness strategy. However, challenges remain, driving IFC's commitment to focus on core areas related to efficient and

sustainable global supply chain, food security and safety, and resource efficiency, deploying an innovative mix of investments, Advisory, and blended finance.

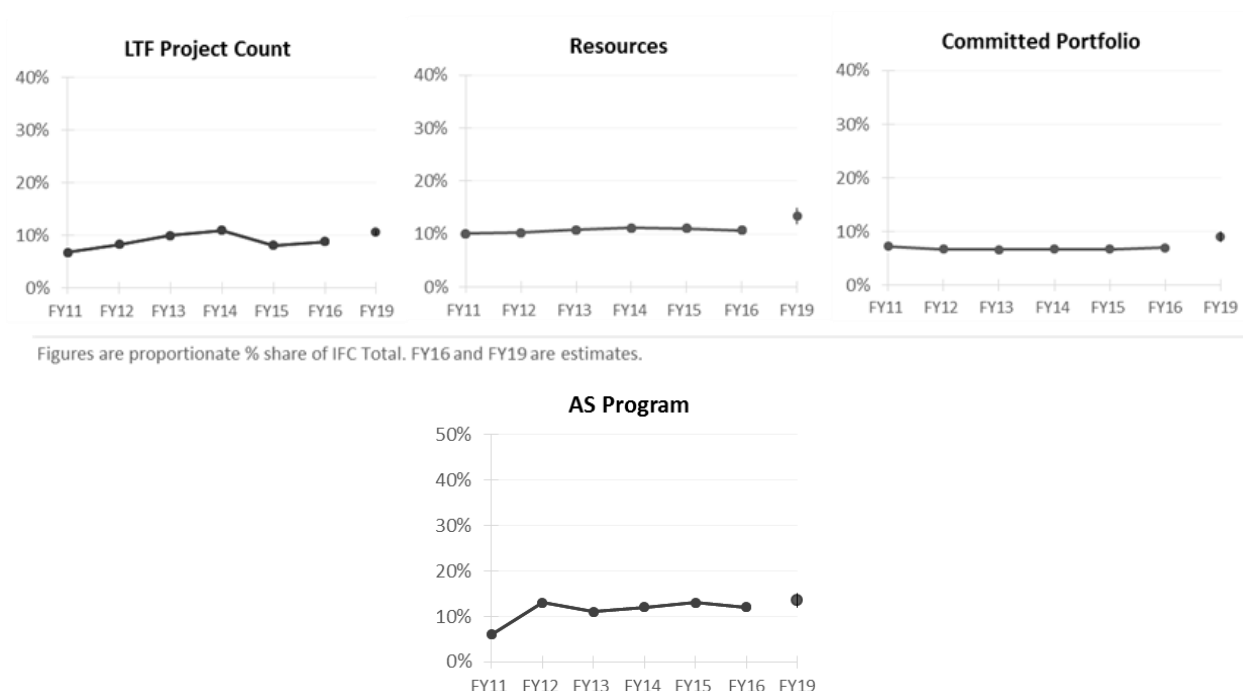
**2.78 Key Operational Activities.** IFC will continue financing support for strategic clients in unstable markets (e.g. Ukraine, Brazil) while capitalizing on countercyclical opportunities with top tier companies and exploring potential equity opportunities. In cooperation with the World Bank, country-level Joint Implementation Plans focused in target countries in Asia and Africa will be implemented. IFC's Financial Institutions Group and the Finance & Markets Global Practice team are jointly undertaking agri-finance initiatives to develop and scale-up access to finance, working collaboratively with the agribusiness specialists in IFC's Manufacturing, Agribusiness & Services group.

**2.79** Operations will also focus on smallholder integration into value chains through traders, aggregators, processors, input providers. IFC will expand access to finance for agribusiness supply chain partners, while promoting best practices in animal protein production. IFC also plans to engage with food retail and branded foods to drive standards, inclusion and productivity in local supply chains. IFC will implement new Advisory programs to match strategic priorities, for example in animal protein, water/irrigation, and food safety. It will also use and replenish the Global Agriculture and Food Security Program to enable deeper farmer and food security impact in IDA and FCS countries and to facilitate higher risk (but potentially high impact) projects. IFC will work with clients on resource/energy efficiency and co-generation where appropriate and engage in proactive portfolio management to work with clients affected by commodity prices, instability, lower growth, and exchange rate movements.

**2.80 Resource Implications.** Resources devoted to agribusiness are expected to grow along with program; agribusiness's share of total investment resource deployment looks to remain slightly "overweight" relative to its share of new LTF projects and portfolio volume.

**2.81** There is an ongoing need for key sector agribusiness specialists at senior levels to build pipeline in investment and Advisory engagements, manage portfolio client needs, and enable succession planning due to growth. Plans are already underway for an Advisory manager to be relocated to Nairobi in order to build up such services in Sub-Saharan Africa. IFC is actively seeking donor resources to support new Advisory platforms and to extend contract terms for key Advisory staff to develop essential expertise for a re-focused team. This includes GAFSP replenishment.

**Figure 10. IFC Will Continue to Intensely Deploy Investment Resources for Agribusiness in Alignment with Business Growth Plans.**



**2.82 Results.** Agribusiness contributes to the FY17 IFC Scorecard target of *Gender Project Count of 30-35% of Agribusiness, Finance and Extractives AS projects* along with the IDG target of reaching over 1 million farmers annually. Management also seeks to maintain agribusiness portfolio performance and profitability at IFC average. Furthermore, new AS platforms should be operational with both donor and IFC funding support in FY17, and IFC aims to make GAFSP replenishment effective without lapse. Increased Advisory client fees will reflect value recognition. As a result, share of AS program in agribusiness is expected to grow by FY19.

### 3. Enhancing Financial Inclusion

**2.83** Financial inclusion is an area of vast unmet demand. Two billion adults worldwide lack access to a basic bank account, and at least two million micro, small and medium enterprises lack access to business credit. Emerging markets suffer from a housing gap of at least 565 million units and an infrastructure financing gap of at least \$1 trillion per year to at least 2050; this excludes climate finance and mitigation costs, for potentially another \$1 trillion per year.

**2.84** IFC addresses these challenges by working with effective, inclusive and responsible financial intermediaries in its member countries. IFC has a network of more than 800 financial intermediary clients spanning 105 countries, which collectively directly control in excess of \$10 trillion in emerging market assets. IFC's Financial Institutions group provides integrated investment and advisory services through ten business lines: microfinance, digital finance, SME finance, "Banking on Women," trade finance, supply chain finance, capital markets, distressed asset resolution, climate finance, and insurance. For example, insurance promotes responsible financial inclusion in several ways: Basic deposit insurance protects poor people from bank failures, credit insurance protects borrowers from events that impair loan repayments and foster bankruptcy, and weather or crop insurance protects poor farmers against drought, floods and other natural disasters. As economies grow, and as people become richer, life and pension insurance can protect dependents against the

loss of a breadwinner, stopping the reversion to poverty. These longer term contractual savings pools also provide long term local currency funding for infrastructure development and foster capital markets development reinforcing shared prosperity through financial inclusion.

2.85 FIG delivers its entire program through a matrix of decentralized regional client management coupled with centralized product management; this enables staff to build deep client relationships and deliver profound product and technical expertise across markets efficiently and successfully. For example, FIG's combined business lines recently constituted 38% of IFC's new LTF projects and committed portfolio while consuming less than 30% of investment resources deployed.

2.86 FIG's investment business is profitable, with every business line meeting IFC's internal return requirements while delivering measurable development impact and reach. Roughly 30% of investments are in client equity, where FIG usually holds a board seat and plays a pro-active governance role. Historically, equity investments have been an important source of sustainable profits for IFC; this is expected to continue. FIG's debt and guarantee portfolios are also profitable, with very low non-performing loans; FIG's trade portfolio has experienced no losses to date. FIG's strategy is to further improve its relationship focus and increase the level of its investment business and advisory activity with clients while improving both profits and operating efficiencies.

2.87 **Key Operational Activities.** Going forward, FIG will shift from a project-centered to relationship-centered (Client Service Leader) model for its financial markets business. It will revise processes and incentives to support ongoing client engagement versus one-off deal management. Integration of the investment and advisory businesses will continue apace with the AS business model shifting to high value added with fee generation aligned to the relationship based CSL model. FIG will also pursue a client allocated limit model for greater efficiency.

2.88 FIG addresses financial inclusion through a wide variety of sectors both within its own industry and via joint ventures with other departments. This diverse toolkit allows it to strategically pivot as opportunities arise. Planned areas of intervention include but are not limited to: local capital market development, SME Access to Finance/Jobs, Banking on Women program, housing finance, and digital finance. Recognizing the importance of insurance to FIG's financial inclusion agenda and additionality, FIG has recently increased its insurance specialist resources and will continue to build its global expertise, resources and knowledge technology platform, and leverage its client relationships, to achieve its targeted results. FIG will undertake all of these activities with an overarching commitment to climate finance and FCS, employing a diversified approach as appropriate to manage risks and returns.

2.89 Finally, Trade and Commodity Finance's core competencies place it in a strong position to support IFC's response to the challenges that emerging markets currently face. Its experience with portfolio based crisis response solutions, as well as the relatively low risk of trade finance products – both simple and structured – mean that IFC can take exposure and mobilize investments with low capital at risk.

2.90 **Resource Implications.** FIG's redeployment of existing investment resources to key priority areas is expected to deliver higher impact and meet corporate targets. Resource implications fall broadly under three categories: staffing, footprint, and new ways of working.

2.91 **Staffing.** The transformation of FIG's business to the CSL model, combined with its focus on specialist resources in focus areas (e.g., climate, digital financial services, distressed assets and capital markets, FCS countries) will require incremental resources. Increase in average deal size and more efficient allocation of resources to deals in streamlined businesses will help reduce deal execution cost (from an already low base

relative to IFC's other industries). While some portion of the required funding for CSLs, specialists and higher cost and smaller FCS deals may be met from these efficiencies as well as allocated client envelopes, the absolute growth in FIG's volume of commitments and impact is not expected to be achieved without additional resources.

2.92 FIG's financial inclusion agenda calls for more resources in South Asia and Africa, where the ability to attract high quality talent continues to be a challenge, requiring greater investment. This includes:

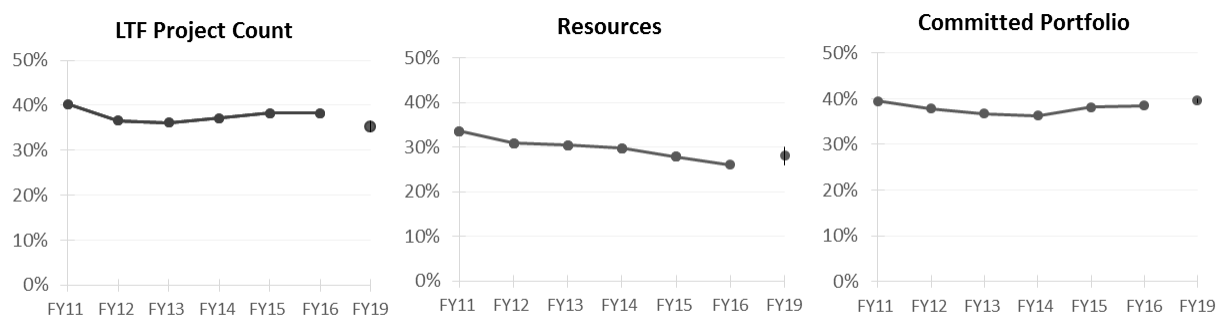
- Deploying climate specialists across East and West Africa, Asia and EMENA - To significantly increase investments to reach FIG's contribution to IFC's climate-related volume targets.
- Maintaining digital finance and distressed asset recovery focused staff in most regions - To continue growing these products.
- Continuing to shift the staffing mix and build specialist knowledge, including hiring higher quality resources – To serve the integrated investment and advisory business.
- Increasing greater collaboration with regional teams, with a macro-economic focus on FIG strategy and key FIG target markets.

2.93 *Footprint.* FIG will prioritize increasing presence in hubs that allow closer alignment to strategy while enabling better (i) attraction and retention of talent and (ii) collaboration and leverage across industries (e.g., joint ventures between infrastructure and capital markets, and in agri-finance). FIG will also seek to leverage its collaboration across industries through IFC's Singapore office.

2.94 *New ways of working.* Evolving approaches such as developing and implementing innovative capital market solutions and continuing the shift to the Client Service Leadership model will require new ways of working. For CSL, this will generate expenses (financial and staff time) for providing and receiving training to build client relationship management and to deepen technical knowledge and skills in key product areas in senior staff. FIG will also incur expenses to build the knowledge platforms needed to sharpen and keep fresh its overall industry knowledge as well as increase the quality and speed of delivery to clients.

2.95 FIG's share of total investment resources deployed reflects several factors, including FIG's own ambitious program aspirations, its ability to commit deals and manage portfolio on a shorter time-frame than most other sectors/industries, and the effect of its predominant work with financial intermediaries on the level of project-related services recorded by support departments (e.g., Legal, Special Operations, Environmental, Social & Governance), as well as faster growth rates seen in some other sectors starting from a smaller base. FIG's contribution to the FCS and climate finance targets, relatively resource-intensive areas, all other things being equal, will also affect resource deployment.

**Figure 11. FIG's Business Will Continue to Grow in Absolute Terms, with Portfolio Volume Increasing as a Share of Total and Resource Deployment Benefiting from Continued Efficient Delivery/Management.**



Figures are proportionate % share of IFC Total. FY16 and FY19 are estimates.

**2.96 Results.** FIG contributes to several FY17 IFC Scorecard targets, including: IDA/FCS project count and active trade accounts and IDG-reach 2.9 million SMEs and 98.3 million Micro enterprises through FY17-19 committed projects. It will also target 25% SME loans to women and 50+% micro loans to women over the medium term. In addition, FIG climate change commitments are targeted to be 15% of own account committed volume by FY20. FIG is working to reach to 600 million unbanked people towards the WBG Universal Financial Access goal of reaching 1 billion unbanked by 2020. Finally, FIG is creating internal Key Performance Indicators for its Advisory work, including monitoring the number of new Advisory client engagements with an investment component as well as client cash fees collected.

#### **4. Expanding Social Inclusion through Access to Health and Education**

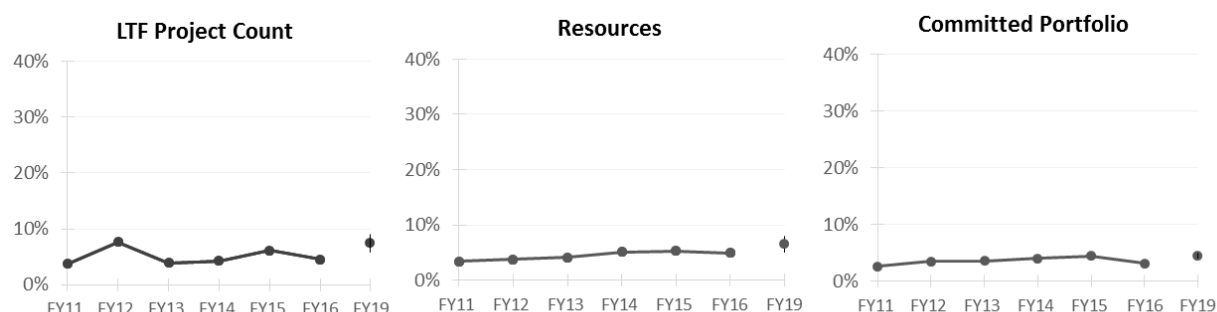
**2.97** IFC has an established history of expanding access to health and education across all income levels through private sector service delivery and business models that bring value for money, quality, and lowered costs. Recently, equity valuations have decreased due to emerging market currency movements (e.g., in Brazil), and overall slowing growth and market volatility have adversely affected both health and education sector investment levels. However, this has been somewhat offset by continued growth in markets with mixed health systems and strong public financing as well as continued demand for affordable tertiary education related to employability. At the same time, strong collaboration with the World Bank on both health and education is bringing greater focus on regulation, standards, and costs. While exceptionally high FY15 commitment volumes in health (due to three Turkey hospital public private partnership projects) will not be repeated, IFC expects to meet its FY16 H&E targets and to make significant progress in FY17-19, including through business model innovation to drive down costs, often through technology, and production and distribution of medicines to increase availability and lower cost.

**2.98 Key Operational Activities.** H&E will employ strict selectivity in pursuing its objectives, consistent with IFC's overarching priority themes. This will include a continued focus on key strategic clients with scalable models to help them expand services, particularly in under-served markets, through both Investment Services and Advisory work. Staff will target top tier companies in difficult market environments (e.g., Brazil) to play a counter-cyclical role to address the global downturn. IFC will also explore opportunities enabled by Education Technology and Medical Technology, in concert with disruptive technology. H&E will address climate by supporting clients with green building initiatives and energy efficiency, particularly in the hospital sector. Jobs will feature prominently as IFC works with education clients to help analyze student results in terms of employment, academic and career progression. Finally, IFC will build its brand through relationship

management and knowledge sharing. Internal trade-offs will support financing networks in health and education, with a focus on outpatient-type services.

**2.99 Resource Implications.** To expand social inclusion through access to health and education, IFC proposes to increase investment resources in this area from an FY11-FY15 average of 4% to 5-8% by FY19. Continued expansion of investment program will require additional staffing and the build-up of expertise in new sub-sectors (e.g. medical technology and education technology). Deeper support (e.g. board seats, strategic advisory) of strategic clients will impact staff band-width and require increased collaboration with other IFC and WBG units. Exploring options for blended finance in health and education to support projects with low-income focus that would require donor funding. Studies are already underway on South East Asia health systems, primary care & diagnostics, and pharmaceutical supply chains. Overall, H&E expects resource needs for increased publications and conference participation to facilitate thought leadership. Finally, WBG research and analysis will be needed to better assess outcomes.

**Figure 12. Health & Education Is Forecast to Increase as a Percent of Investment Resource Usage Driven Mainly by Increasing New LTF Projects.**



Figures are proportionate % share of IFC Total. FY16 and FY19 are estimates.

**2.100 Results.** Health & Education is reflected in the FY17 IFC Scorecard target of 26.1 million people reached with health & education services over the three-year period of FY17-19. Management seeks to maintain portfolio performance on par with IFC averages. Management also tracks that investment and advisory mandates are successfully closed and transactions committed and that profitability and impact measures are achieved.

## 5. Advancing Disruptive Technologies to Create Jobs and Facilitate Sector Diversity

**2.101** Following IFC's successful foray into Clean Tech and Fintech investments in recent years, it is expanding its technology program into other areas being disrupted such as health, education, and commerce. Scaling up this type of sector/theme hybrid into a cohesive program across multiple industries presents multiple implementation difficulties. However, Management is confident that the overwhelming potential impact (crowding-in private investment for digital technologies; catalyzing early stage SME financing; innovatively investing in jobs, H&E, climate, and access to finance; improving internal cross selling of innovations) is well worth the effort and calculated risk.

**2.102 Key Operational Activities.** Achieving significant gains in disruptive technology will require pivoting both externally and internally. IFC will strengthen its partnerships with other investors to make inroads into these dynamic business areas, working both with existing clients (to better understand the impact of digitization on their existing business models and to better leverage opportunities to leapfrog), and with new

clients (who are often entrepreneurial firms that are going to scale with new technology-driven business models across the industry spectrum). This will include undertaking activities to develop the wider ecosystem for entrepreneurs by investing in accelerators, seed funds, incubators and VC funds. Staff will strategically investigate and pursue opportunities across all regions, focusing on the Fintech, Edu Tech, Health Tech, Clean Tech, and e-Commerce sectors.

2.103 Success in these areas will require substantial changes to IFC's *modus operandi*. IFC will build cross-departmental teams to ensure effective geographical and sectoral coverage, strengthening internal links to ensure knowledge/technology transfer to existing clients. IFC will also tailor integrated investment and advisory products and processes to needs of this client segment (including a revised term sheet) and adapt IFC's requirements and processes to unique risks (including prudent use of concessional finance for early stage entrepreneurial support). Perhaps most challengingly, the nature of disruptive technology forces IFC to drastically reduce lead times as technologies are constantly evolving. This will require change in work processes such as more efficient decision making for investment committees. Portfolio management will similarly necessitate new and flexible approaches. Given the relative newness and small base from which IFC disruptive technology business is positioned, the organization does not anticipate significant trade-offs within this area; rather, it will pursue all available opportunities with supportable cases for development impact and profitability.

2.104 **Resource Implications.** In FY16, Venture Capital and Fintech teams scaled up from a small base following additional resource allocation, with seven positions already filled and seven more still under recruitment. In FY17, these teams will continue to explore ways to support the extended investment program and better cover portfolio supervision and value creation. Resource shifts will occur implicitly in other departments as appropriate staff strategically reorient time toward disruptive technology and participate in cross-department projects. Adapting IFC's requirements and processes to risks in these segments will also require devoted resources, as yet unquantified.

2.105 **Results.** Disruptive technology is a relatively new area of IFC focus, a sector but also a cross-cutting theme that blends into and transforms how IFC conducts business. Specific to the CTT department, the initial target is to double the current committed investment portfolio in Fintech and Venture Capital by 2020. IFC also aspires for its disruptive technology investment and advisory activities to contribute significantly to IFC's inclusion targets across sectors and geographies over time.

## **F. Implementation Vehicles Enhance IFC Responsiveness to Demand**

2.106 While IFC is the largest Multilateral Development Bank dedicated to the private sector, it cannot meet the extensive global need alone, nor would it want to. Indeed, IFC's mandate includes pulling new players into emerging markets. Therefore, in addition to extensive activities on its own account, IFC leverages its own resources through mobilization, capital market development, and partnerships. At the same time, IFC will stretch its own reach via thought leadership.

### **1. Mobilizing Third-Party Funds to Increase Participation in the Private Sector and Conserve IFC's Own Capital**

2.107 IFC brings financing to investment clients in three ways: directly through IFC's investment on its own account, directly through IFC's involvement in securing third-party financing (known as IFC "core mobilization"), and indirectly through the other third-party financing in IFC investment projects ("catalytic mobilization"). Core mobilization spans many products across various categories. The two largest



contributors to IFC's core mobilization volume are Syndications (supported by a central team in the Treasury Vice Presidency) and the Asset Management Company (now its own vice presidency). Both areas are actively exploring ways to help move private sector financing "From Billions to Trillions."

### ***Expanding Syndications Platforms and Broadening the Investor Base***

2.108 Syndications, through IFC's "B" and Parallel Loan programs, have a long track record of critical contribution to IFC's mobilization achievements. Syndications has also served as the largest contributor to IFC's service fees; this continues to date. Recent key developments have included the largest B Loan ever syndicated for the Oyu Tolgoi project, and the first Islamic Finance B Loan. No additional staff resources have been added, but a recent departmental reorganization has combined the new business and portfolio functions and established a middle office which has increased efficiency. A key focus has been expanding the Managed Co-Lending Portfolio Program platform by mobilizing institutional investment into IFC-originated infrastructure loans. Over the last year, staff resources have been reallocated to this end.

2.109 While Syndications can demonstrate ongoing success, it still faces many challenges. Banks remain the key partners in IFC's syndicated loan portfolio. Regulatory constraints including Basel III, particularly for West European lenders, have affected banks' capacity to lend in riskier markets and for longer tenors, impacting IFC's ability to raise and mobilize commercial funding in IDA/FCS and for infrastructure.

2.110 Current emerging market challenges are further limiting traditional bank market appetite. Key syndications partners remain active but often require tighter loan structures with other risk mitigation products, such as direct MIGA cover, in combination with IFC B and Parallel Loans. Additionally, banks often prefer to lend directly and short-term. Identifying alternative investor groups will be required to scale mobilization in this sector. Efforts are already ongoing to develop alternative mobilization platforms.

2.111 Still, attracting institutional investment into infrastructure remains a key priority. However, high transaction costs in assessing individual transactions coupled with elevated capital charges for non-investment grade assets, has resulted in investors' focus on a few large projects in middle income countries. Looking forward, the B and Parallel Loan programs will continue to be the mainstay of IFC syndications activities, which are expected to grow where possible in support of IFC investment operations' origination activities.

2.112 By adapting IFC products and platforms, with particular focus on new Managed Co-lending Participation Program initiatives, Syndications will actively seek to expand IFC's investor base, specifically to include private sector institutional investors. Specifically, IFC aims to grow the "wholesale" MCPP platform. MCPP has proved a successful platform for efficiently mobilizing capital across a larger number of projects and across a wide number of countries.

2.113 **Key Operational Activities.** The primary focus in FY17 will be on building fully operational syndications teams in London and Singapore to broaden client solutions engagements. Syndications will continue to mobilize in all regions and key sectors in support of IFC strategic priorities. A number of new MCPP initiatives will be launched, specifically two new MCPP B Loans funds that mobilize institutional investment for infrastructure as well as a pilot project for an MCPP on an unfunded basis to mobilize credit capacity through insurance companies to finance financial institutions projects. Efforts will be required to create the operational infrastructure to support and manage the implementation. Teams will engage in further product development with a focus on creating a new syndication product that will allow IFC to syndicate credit risk to insurance companies. In order to utilize existing staff resources to focus on MCPP and other debt mobilization initiatives, Treasury will refrain from taking on additional administrative agency service

engagements for IFC and Development Finance Institution partners under the Master Cooperation Agreement.

2.114 To utilize staff for other syndications activities, IFC Syndications is scaling back its Administrative Agency business (on the portfolio side). IFC is continuing to be very selective, rather than dropping it altogether, to accommodate project-specific needs. The team has principally focused its efforts on developing initiatives to mobilize institutional investment to support infrastructure projects.

2.115 **Resource Implications.** The Syndications business generates significant mobilization and management fees for IFC. Given expected growth in the business including from new MCPP programs with institutional investors, these fees will allow IFC to fund resource requirements including increased business development activities. Traditionally, IFC has syndicated to banks and International Financial Institutions. Positioning MCPP with institutional investors has resource implications both for new business and portfolio, and will involve greater involvement from Legal, Accounting, and Risk Management staff to support the program. Fees generated from new MCPP initiatives may need to be used to fund significant start-up, implementation, and eventual management costs.

2.116 That said, the ability of Syndications to mobilize rests on the ability of industry departments to book underlying debt investments on IFC's own account that are attractive to third parties. Resource usage for those investments will therefore affect Syndications as well.

2.117 **Results.** Syndications products (Loan Participations, Parallel Loans, and MCPP Loans) are a key component of the FY17 IFC Scorecard target for Capital Mobilized on Commercial terms (excluding MIGA): Core and Public Private Partnership Mobilization of \$7.8-8.4 billion.

### ***Leveraging the AMC Platform***

2.118 IFC's Asset Management Company investments are another important component of IFC's mobilization efforts. Since inception, AMC has raised a total of \$8.7 billion<sup>2</sup> across 11 private funds from 43 institutions. Fundraising for some existing funds and two new funds is underway but is taking longer as a result of currency movements and market conditions in emerging market economies. Investment activity by AMC funds has also slowed recently given the impact of markets on IFC's pipeline and the completion of some funds' investment period.

2.119 **Key Operational Activities.** AMC will continue to provide growth capital for growing companies in developing countries through its equity, debt and fund-of-fund products. AMC and IFC's regional and sector teams will work together to originate and structure viable investment opportunities, especially given the current environment where sponsors are less active but more in need of the long-term capital that AMC is able to provide. AMC investment teams will also undertake other fund management activities, including: adding value to portfolio companies by helping them navigate through the volatility; focusing on exits from existing portfolio instruments where appropriate; and evaluating follow-on investments in portfolio companies to help spur further growth.

2.120 AMC will focus on raising additional capital for some existing funds (Financial Institutions Growth Fund, Global Emerging Markets Fund of Funds, Middle East & North Africa Fund, and Women Entrepreneurs Debt Fund) and achieving first closes for new funds (Emerging Asia Fund and potentially follow-on funds for

---

<sup>2</sup> This figure is inclusive of IFC's contribution.

the African, Latin American & the Caribbean Fund). Teams will review new fund opportunities that complement IFC strategy and are potentially attractive to investors.

**2.121 Resource Implications.** AMC pays fees to IFC, which helps IFC deploy the requisite staff to support new business activity and AMC investments. AMC also reimburses IFC for staff assigned to the AMC Vice Presidential Unit. Staffing decisions will be made to match the timing of additional revenues from new funds, ensuring that AMC remains a positive net provider of resources to the IFC budget.

**2.122 Results.** Positive AMC results will be reflected in successful fundraising for new funds, its core mobilization, and its ability to add value to its portfolio investments and achieve successful exits.

## **2. Sharpening IFC's Approach to Local Capital Markets**

**2.123** IFC's approach to local capital markets is two-fold: helping to develop local capital markets as well as building more internal and external capacity to facilitate more such development.

### ***Capital Market Development***

**2.124** Deep and liquid capital markets are essential for a thriving private sector, creating funding alternatives for IFC clients and contributing to overall growth and job creation. IFC Treasury will continue its multi-faceted efforts to develop local capital markets through the issuance of IFC own-account bonds, support of client bond issuances through anchor investments and credit enhancement, and the provision of risk management products that allow clients to reduce their exposure to interest rate and foreign exchange risk. This is done to finance IFC's projects and provide local currency solutions to its clients. It is critical to develop alternative sources of raising local currency financing for our clients to insulate them from currency risks. In this context, IFC will continue to expand and deepen its capabilities in existing and new markets. IFC Treasury will complement these direct business efforts with capacity building initiatives.

**2.125 Key Operational Activities.** Treasury will continue to issue IFC bonds in new markets and to extend yield curves in existing issuance markets by pursuing longer-term placements in these markets. Efforts to innovate will continue through introduction of new products and enhancements to existing products, including project bonds, forward guarantees, specialty bond placements (such as green bonds), and new currency hedging facilities. Treasury will introduce two capacity building programs to enhance IFC's long-term impact through building knowledge of opportunities and risks associated with capital markets. The Singapore regional hub will be built out to allow IFC to run a 24-hour treasury operation to provide timely responses to IFC clients, IFC's key global financial counterparties, and market opportunities. IFC Treasury will continue to work with the Finance & Markets Global Practice Group to complement the group's advisory efforts with IFC Treasury's own-account issuance efforts and its work in support of the capital markets issuances of IFC's clients. IFC does not see any trade-offs/areas of reduction within capital markets development as all activities are important to be implemented.

**2.126 Resource Implications.** Treasury will selectively augment its staff to support its capital markets and mobilization efforts across its three hubs in London, Singapore, and Washington, DC. The Singapore hub will become operational in FY17.

**2.127 Results.** Much of Treasury's capital markets transactions work directly supports and facilitates IFC's operations and thus indirectly contributes to IFC Scorecard targets.

### ***Capital Market Capacity Building***

2.128 As part of its effort to promote capital market development, IFC Treasury is also developing two key capacity building efforts focused on capital market skill-building. The internally focused capacity building program aims to help deepen investment officers' understanding of IFC's capital markets capabilities so they can offer the full range of treasury client solutions products to clients. The externally focused capacity building program will create a network of trained capital market professionals in Africa and other key emerging markets to support capital market development in their countries and facilitate IFC's business in this area.

2.129 **Key Operational Activities.** Staff will create content for both programs during FY17. Furthermore, IFC is looking at finalizing cooperation agreements with two university partners in support of the programs, George Washington University for the policymaker program and Columbia University for the internal staff training. Treasury will develop 6-8 case studies based on Treasury operations for use in both programs along with promotional materials, including websites. The system for recruitment and selection of participants will also be finalized.

2.130 **Resource Implications.** Capacity building efforts aim to generate repeat business with clients, which will highly increase Treasury fee generation and will support covering expenses for these programs.

2.131 **Results.** In addition to Treasury's indirect contribution to IFC Scorecard targets noted above, Management expects successful launch of both programs during FY17.

### 3. Leveraging Partnerships to Maximize Impact

2.132 IFC is dependent on meaningful partnerships to accomplish its goals.

**Table 4. IFC Continues to Enhance Its Range of Partners across a Growing Global Landscape.**

Partner Type	Purpose	Example
Clients and Sponsors	Directly invest and/or provide Advisory Services	<ul style="list-style-type: none"> <li>Investee company</li> </ul>
Partners at the project, sector or theme level	Enhance sustainable operations and/or develop new platforms that bring together a variety of stakeholders	<ul style="list-style-type: none"> <li>Let's Work Global Partnership</li> <li>She Works Global Partnership with EDGE Foundation</li> <li>Global Partnership for Financial Inclusion</li> <li>Roundtable on Sustainable Palm Oil</li> <li>World Green Building Council</li> <li>Managed Co-Lending Participation Program</li> <li>EPFI Community of Learning</li> <li>Natural Capital Coalition</li> </ul>
Across the WBG and with Development Finance Institutions, Multilateral Development Banks, and, international organizations, often through forums	Share knowledge and promote sustainable private sector development	<ul style="list-style-type: none"> <li>United Nations</li> <li>G20</li> <li>World Economic Forum</li> <li>Organization for Economic Co-operation and Development</li> <li>International Chamber of Commerce</li> <li>Corporate Governance Forum</li> <li>Senior Forum on Local Currency and Capital Markets Development</li> <li>Global Commission on Business and Sustainable Development</li> <li>Global Infrastructure Forum</li> <li>Sustainable Investment Development Partnership</li> </ul>
Thought leaders and experts	Obtain insights and guidance from global experts and thought leaders	<ul style="list-style-type: none"> <li>IFC Economic Advisory Board</li> <li>IFC's Advisory Board on Business and Sustainability</li> </ul>

2.133 Public and private interests are increasingly aligned. The private sector is becoming increasingly aware of and committed to the fact that it has to be part of building economies for its own long-term viability. For example, the private sector can be leveraged to increase tax income, consumption, jobs, and access to goods. Business leaders have aligned with the Sustainable Development Goals and UNFCCC Climate Change agenda and see achievement of these global goals as central to long-term business success.

2.134 **Key Operational Activities.** Over the past few years, IFC has broadened its partnership base beyond working only with clients on project related issues to influencing the broader development impact agenda via private sector standards (e.g., the Equator Principles). IFC is taking a leadership role in promoting the private sector's role in development. IFC is also engaging in new platforms (e.g., the UN Financing for Development process, the Global Commission on Business and Sustainable Development) in order to influence outcomes and inject a private sector perspective into the global agenda.

2.135 **Resource Implications.** A small, dedicated team works closely with regional and industry strategists and across the organization (most notably AMC, Treasury and Global Client Services) to build partnerships.

This includes attending high-level fora for maintaining, strengthening and developing new relationships. The thought leadership unit leads IFC's global engagement with the UN, G20, OECD, and other forums.

2.136 **Results.** These partnerships help increase global awareness of IFC's leadership role in setting the private sector in development agenda. IFC's success is reflected in an increased number of partnerships and in requests for IFC's involvement in global initiatives.

#### 4. Strengthening Thought Leadership

2.137 Thought Leadership plays a critical role in creating an authorizing environment for IFC's work and enhancing its impact. Thought leadership means talking about what we think, not just talking about what we do. In this way, IFC can be a trusted partner to clients, governments, and investors and promote greater private investment in emerging markets.

2.138 A small team in the Chief Economist's office, leveraged by consultants, leads IFC's thought leadership work in collaboration with operational as well as risk and sustainability units across the organization. The unit's mandate is to generate and share fresh ideas and insights for greater understanding of private sector solutions to reducing global poverty and creating shared prosperity. Good progress has been made to build collaborative partnerships across the WBG (especially with the Development Economics Vice Presidency, the Trade & Competitiveness and Finance & Markets Global Practices, and the Jobs and PPP Cross Cutting Solutions Areas) as well as with external research institutes and think tanks. These entities work together to bring the best global analysis to bear on private sector development issues.

2.139 **Key Operational Activities.** The thought leadership team is generating new ideas aimed at scaling up infrastructure finance, increasing private investment in FCS, expanding the role of technology in private sector development, and driving climate adaptation by the private sector. IFC's thought leaders will engage externally by participating, supporting, and engaging with key actors in sustainable development geared to the 2030 goals. This includes building on existing links with the United Nations to ensure that financing for development is a key part of the 2030 implementation and that the critical role of the private sector in the financing and sustainable development agenda is emphasized. The team will also promote common global reporting standards on private capital mobilized and catalyzed in collaboration with other MDBs and the OECD.

2.140 **Resource Implications.** The Thought Leadership Unit was created by reallocating existing resources. Future resource needs will depend on the extent and nature of demands for IFC to play a larger role in thought leadership; as with the unit's creation, IFC will fund these additional needs through reallocation of existing resources.

2.141 **Results.** While not all progress is quantifiable, IFC expects its thought leadership activities to improve its ability to influence stakeholders, generating increased demand for private sector expertise and knowledge. Its new ideas will also inform IFC and WBG operations and strategy. Additionally, demonstrating the complementarity of investment (profits) and development impact (purpose) should facilitate increased private sector synergies between WBG and external partners. Finally, strengthening IFC's long-term role and authorizing environment will benefit IFC clients.

## G. Financial Sustainability Pillars Safeguard both IFC and other Stakeholder Interests while Enabling Business Growth

2.142 IFC's long-term financial sustainability is a necessary means to the desired end of creating positive development impact. Booking deals is necessary but insufficient; IFC performs many functions, both within operations and via corporate technical teams, which support its financial health and, by extension, those of its shareholders and clients. These intertwined activities include active portfolio management, risk management, and profitability analysis, and they require extensive effort. Management of non-financial risk (environment, social, governance, integrity and other reputational) also plays a critical role in the health and reputation of both IFC and its clients and other stakeholders. Ultimately, IFC must sharpen its fundamentals and ensure sustainable growth as it moves to do business in more challenging environments. IFC Management allocates the associated resources; given prevailing market conditions, some shifts toward these activities is expected.

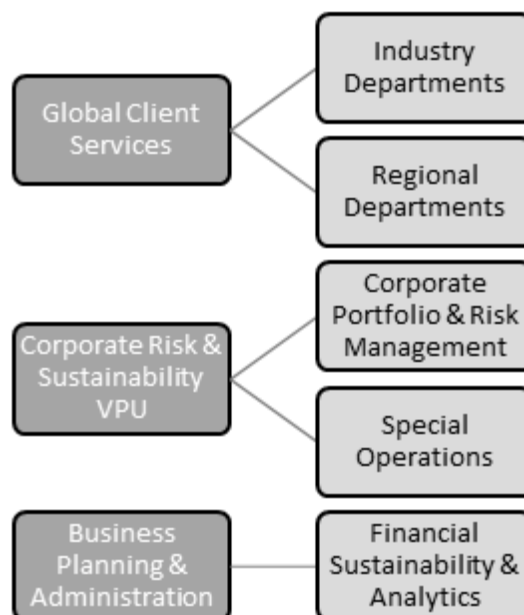
**Figure 13. Active Portfolio Management, Risk Management, and Profitability Analysis Activities Interconnect and Support IFC's Financial Sustainability.**

*Overlapping, Equally Important FS Activities:*



**Figure 14. Many Operational and Corporate Technical Teams Work Together to Manage IFC's Financial Sustainability.**

*An illustrative Cross-section:*



## 1. Active Portfolio Management

2.143 Adverse market conditions are unquestionably affecting IFC clients' balance sheets. IFC is carefully monitoring the potential effect of the current uncertain macroeconomic environment on its portfolio, producing forward-looking analysis on IFC's portfolios. Non-performing loans are rising (6.7% of outstanding loan portfolio at FY16 Q3-end vs. 6.2% at FY15-end, 5.1% at FY14-end), and an increasing number of deals have been transferred to IFC's Special Operations department (YTD at Q3-end, 25 in FY16 vs. 16 in FY15) due to active monitoring, early involvement and close interaction with Portfolio Managers. Continued active portfolio management will be crucial not just for maximizing the potential of IFC's existing investment base but also for identifying client opportunities and judiciously evaluating deals going forward.

2.144 **Key Operational Activities.** In FY17, in addition to rigorous client-level portfolio management, staff experts will provide a macro-portfolio view and monitor performance and trends in emerging markets that may adversely impact portfolio so that investment teams can proactively mitigate against them. IFC will continue conducting biannual regional portfolio reviews with department and senior leadership. Underlying this, on the loan side, the central risk and operational departments collaborate on periodic loan portfolio review sessions and proactively identify actionable items to prevent problem loans from becoming NPLs. Joint teams work towards appropriate rescheduling, restructuring and modifications to lower NPL levels for existing "jeopardy" (work-out) projects.

2.145 The equity team closely monitors prominent equity exposures and key performance indicators with industry group leadership participation, as well as regularly reviewing IFC's most significant equity exposures with IFC's Management Team. Other equity-specific activities include adding value to equity investee clients through active board participation and working closely with clients to maintain full alignment on the best IFC exit strategies once its developmental role has been completed. IFC's overarching approach will be to wisely harvest the value created by its equity investments as well as planning early for potential disengagement from positions with deteriorating outlook

2.146 Given current conditions, operational departments also leverage the Special Operations Department (CSO) to support IFC portfolio risk management and ultimate profitability in the face of continued emerging market instability through active portfolio monitoring, early CSO involvement in distressed projects, and continued improvements in the speed and efficiency of resolutions in order to maximize value of the portfolio.

2.147 Finally, adopting a holistic view, IFC will create a new Portfolio Oversight Committee to review valuations and perform other portfolio management activities.

2.148 **Resource Implications.** The largest anticipated resource implication for IFC's evolving approach to portfolio management will be to shift resources toward portfolio management activities, including travel to meet more frequently with clients (flexibly, as appropriate); corporate awards that recognize excellence in portfolio/risk management also drive and reflect resource shifts and consume slightly incremental resources themselves. Given prevailing market conditions, IFC will also ensure adequate resourcing within the Corporate Risk & Sustainability VPU itself.



**Table 5. Corporate Risk & Sustainability Resource Deployment Will Support Active Portfolio and Risk Management through Appropriate Staffing.**

Credit	<ul style="list-style-type: none"> <li>• Support a strengthened and more active approach to portfolio management</li> <li>• Ensure capacity for active oversight of portfolio projects, especially those with complications and/or sizable exposures</li> </ul>
Special Operations	<ul style="list-style-type: none"> <li>• Strategically manage a combination of core specialists plus industry joint venture staff as well as development assignments to build capacity across the business</li> <li>• Formalize a contingency plan drawing on resources from investment departments</li> <li>• Increase CSO staffing in line with the size and complexity of the distressed portfolio</li> </ul>

**2.149 Results.** IFC's portfolio activities will include more hands-on engagement with clients to help them through difficult periods, which should improve client satisfaction to at least 85% as measured by the client survey, and help improve the development effectiveness rating to at least 65%.

## **2. Managing Risk in Challenging Business Environments**

**2.150** IFC's business has shifted and will keep evolving as a result of IFC's strategic priorities and risk appetite, its clients' and other partners' needs, and its operating environment, as well as its mandate to provide additionality. This includes working in riskier areas (e.g., more FCS), creating new platforms (e.g., MCPP infrastructure insurance), expanding in new-to-IFC sectors (e.g., truly disruptive technology), and working with different client cohorts. While IFC continues to benefit from diversification, it can no longer rely on stable returns from particular investment categories. This necessitates an expanded and deepened approach to financial and non-financial risk management.

**2.151** In FY16, IFC has continued working to take its risk management function to the next level, including benchmarking against best practice to develop standards that meet IFC's mandate while being consistent with international norms. IFC has further increased its capacity to proactively manage environmental, social, governance, and integrity risk through enhanced due diligence and supervision as well as increased support to strategic clients. IFC has also made strides in providing client solutions where they are needed the most, focusing geographically on FCS/IDA and sectorally on business lines with particularly complex E&S risks such as infrastructure and agribusiness. This has all been in the context of strengthening stakeholder dialogue, including with the Office of the Compliance Officer/Ombudsman.

**2.152** IFC has also been enhancing IT capabilities to more effectively monitor financial and nonfinancial risk and provide more comprehensive risk analytics and reporting; this has benefited from fostering internal collaboration across risk functions. Perhaps most importantly, IFC is explicitly promoting a strong risk culture by disseminating knowledge and learning, which is being used to develop an integrated financial and non-financial risk curriculum over time.

**2.153** IFC established a new Business Risk and Compliance department to bring together and build several compliance functions to enhance non-financial risk management. This is particularly vital as IFC is facing growing risk and scrutiny on several fronts in difficult markets such as FCS and IDA (integrity and sanctions, offshore financial centers and illicit financial flows, operational conflict of interest, market conduct) as it continues to build and expand its mobilization programs to achieve the Billions to Trillions aspiration.

**2.154 Key Operational Activities.** As IFC heads into FY17, its risk functions will focus on facilitating more innovative, streamlined and responsive decisions to protect IFC's financial interests and recovery efforts, with processing differentiated by investment risk level. Staying on top of ESG, integrity, and other reputational risk will also remain a priority, with an increased focus on prudently managing and mitigating risk in IDA and FCS, supporting low capacity clients and poor performers. IFC will persist in providing solutions to difficult ESG and integrity challenges to unlock investments, including more upstream work. IFC will also dedicate staff time to intellectual leadership, bringing ESG sustainability fundamentals and integrity concerns into global discussions, helping build sustainability standards in capital markets, and de-risking strategic engagements to mobilize resources, including with institutional investors.

**2.155** IFC will supplement its new integrated risk training for IFC operations by collecting and sharing risk-related lessons of experience with investment functions on an ongoing basis. In order to identify and address issues as early as possible, portfolio officers and managers will maintain and monitor a Credit Watch List of problem projects, developed by risk experts.

**2.156 Resource Implications.** Budgetary resources will be required to implement the expanded and deepened financial and non-financial risk functions. VPU management is ensuring that all risk functions, including the Legal Department, are effectively resourced and operate in a coordinated and effective manner to assess and address heightened risk, particularly as IFC extends its operations in IDA and FCS. In part, this will involve replacing/backfilling and adding selective new positions in line with strategic staffing plan and diversity and inclusion targets. Overall, staff will dedicate time to more intense engagement, including increased collaboration across risk functions and continuous engagement with industry departments. IFC will also invest additional resources to strengthen capabilities, systems and support in IT, enabling refinement and effective use of tools such as the risk platform for debt, the economic capital model, collateral management systems, pricing tools, and ESG applications. This will further improve business process efficiencies.

**2.157 Results.** Risk-specific success factors including maintenance of IFC's triple-A rating, production of high-quality quarterly financial and nonfinancial risk reports, investment staff completion of risk trainings, more intense E&S risk management with at least 400 supervision site visits, and enhanced monitoring and management of corporate governance risk and performance.

### **3. Profitability**

**2.158** In FY16, in addition to the portfolio management and risk management activities outlined above, IFC rolled out a redesigned quarterly Board reporting for better analysis and discussion of profitability issues. IFC is also transitioning its management accounting, which it uses to track both revenues and resource deployment by investment project, from the old Resource Management System to the new Financial Sustainability Reporting System. This includes updating tool design, balance rules, and cost allocation methodology, and building an enhanced forecasting tool. Management plans to build on this progress in FY17.

**2.159 Key Operational Activities.** As part of IFC's business model, investment staff will implement IFC's approach to diversification and financial sustainability when evaluating potential deals. One new approach is to enhance the predictability of IFC's dividend income by sourcing investments in sectors with a fairly stable dividend yield. IFC is also implementing a selective approach to sourcing investment opportunities with upside potential commensurate with the risk in a number of sectors such as core infrastructure; banking; agribusiness; extractive industries; telecom, media and technology; healthcare; and education.

2.160 The Corporate Portfolio & Risk Management – Capital Allocation team will further automate the calculation of risk-adjusted return on capital results and disseminate information on loan RAROC and its drivers systematically across IFC for further incorporation of financial sustainability and risk adjusted return considerations into strategic and operational decision making. They will also conduct ad-hoc analyses to help portfolio managers analyze and improve profitability as well as continue to improve holistic Management and Board reporting. Finally, the Financial Sustainability & Analytics team will continue to refine the Financial Sustainability Reporting System methodology and will intensify their training of staff across the organization for deeper understanding of profitability drivers and optimal use of new tools.

2.161 **Resource Implications.** Most profitability analysis-related resource implications are embedded in operations and covered under risk and portfolio management above. Some resource redeployment may be needed centrally to continue investing in improvements to the Financial Sustainability Reporting System and to continue funding developmental assignments across analytics, financial reporting, and other teams for cross-functional learning and richer analysis.

2.162 **Results.** Profitability is captured in the FY17 IFC Scorecard through two targets: Realized Return on Economic Capital and Controllable Income. Management is also monitoring profitability in other ways, through metrics such as cash multiple for equity, Risk Adjusted Return on Capital for loans, or achievement of CSO cash collections and Advisory client fees.

## **H. Operational Efficiency Allows IFC to Make the Most of Its Resources at Hand**

### **1. The Process Efficiency Initiative Is Helping IFC Deliver More Quickly for Clients**

2.163 Just as IFC uses implementation vehicles to extend the reach of its impact for clients, it continually undertakes operational efficiency measures to extend the reach of its resources for delivery.

2.164 IFC launched the Process Efficiency Initiative (“PIE”) through a pilot in Latin America & the Caribbean; it is now rolling out the PIE across all regions and industry groups. This is a key strategic initiative that aims to improve project processing efficiency for faster delivery to clients as measured by number of days it takes from mandate to disbursement. To ensure progress, the initiative is being jointly led by the Global Client Services and Risk & Sustainability vice presidents, and the same joint leadership model is being replicated down the hierarchy at all levels to ensure that all staff and functional areas are accountable and work towards meeting targets.

2.165 A robust tracking system has been put in place to ensure timely tracking and proactive management of targets. In this regard, a number of internal enhancements have been recently implemented, including:

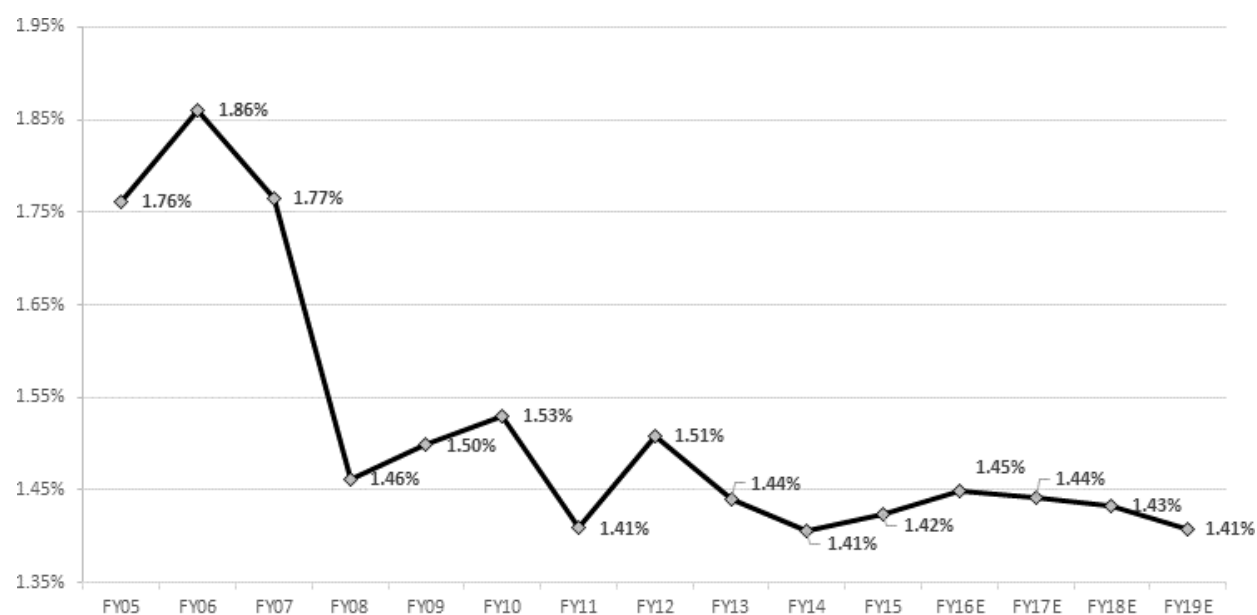
- i) An efficiency target in the IFC Scorecard (with departmental scorecards also tracking the median number of days from Mandate to Disbursement for every industry group)
- ii) A dashboard to map and track every project against the target
- iii) A monthly efficiency report personalized for every staff member and sent out automatically at the start of the month reporting their individual efficiency measures
- iv) A number of IT system enhancements to ensure that every project has a timeline entered on IFC’s tracking system at project inception, which is then automatically tracked and reported to staff involved in that project

2.166 A number of other measures are being investigated in parallel involving streamlining/changing processes, systems and practices to facilitate further increased efficiency. IFC is very optimistic about the PIE initiative. However, its resource impact will not be measurable until more time passes and sufficient projects go through the entire lifecycle—not only through the project stages at which it looks (mandate to disbursement) but also through supervision and project close. As such, the resource shift estimates and projections used in this budget paper do not consider PIE efficiency to be available yet for additional reinvestment into current and future strategic priorities.

## 2. IFC's Total Resources as a Percent of Assets under Management Demonstrate One Measure of Financial Efficiency

2.167 IFC's resources supporting its investment operations (total resources excluding Advisory Services) enable its own account portfolio as well as mobilization, or the assets under management. It is customary for asset managers to monitor the ratio of expenses to the assets under management (using for IFC, the sum of its committed portfolio, its syndicated loan portfolio and the committed assets for the AMC). Over time, this has trended toward 1.5%, with occasional spikes largely driven by portfolio volume changes attributed to (i) strong US Dollar appreciation adversely affecting the value of equity investments and/or (ii) unusually poor market environments both constraining new commitments flowing into the portfolio and exacerbating flows out such as cancellations. Management is comfortable with this range, wherein resource usage growth is more than justified by all of the activities associated with creating and managing its growing business.

**Figure 15. Total Resources as a Percent of Assets under Management Trend toward 1.5% over Time, a Level Acceptable to Management.**



### **III. IFC Prudently Uses a Range of Resources to Fund Its Strategic Priorities and Overall Business**

3.1 Section II described the resources that will be needed to deliver key aspects of the FY17-FY19 strategy. Section III discusses the first year of that 3-year trajectory. IFC will use various sources of funds to deliver its entire FY17 program. To formulate the FY17 budget proposal, IFC Management first reviewed its Expenditure Review savings. With these cost reductions accounted for, Management then reviewed IFC's Total Resources and each component individually, including the Total Administrative Budget, which is presented for Board approval in Section VI.

#### **A. Reinvesting Expenditure Review Savings**

3.2 IFC is committed to deliver its share of the WBG Expenditure Review savings consistent with the plan. The IFC share of ER savings has been reduced due to several ER Saving initiatives having been revisited and adjusted at the WBG level (corporate procurement, global mobility, and VAT savings). As a result, IFC's share of the WBG ER savings has been reduced from \$71.3 million to \$68.3 million by FY18.

3.3 IFC has already made significant progress against all measures currently in implementation. In fact, IFC expects that it will achieve most of its targeted savings by the end of FY17. IFC has currently surpassed the savings targets on travel and norms for which IFC has sole accountability. There is some lag in areas for which IFC depends on WBG Policy and implementation, but all issues are expected to be resolved so that full ER targeted savings should be realized by FY18.

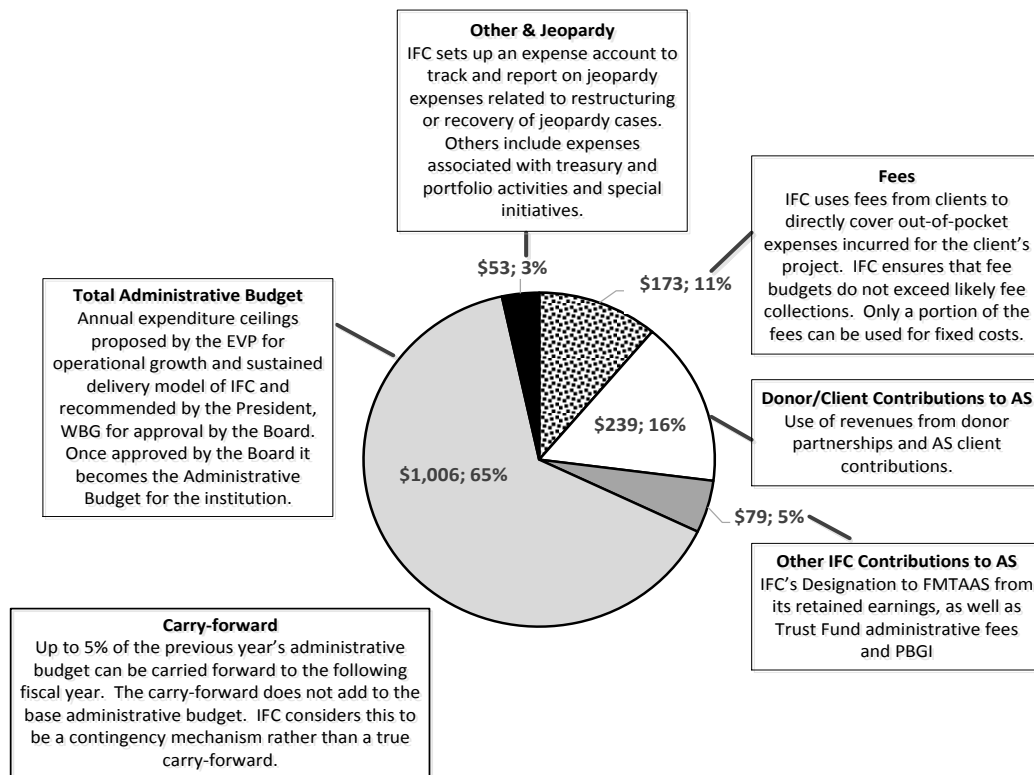
3.4 IFC Plans to continue accelerated pace of achieving ER savings in FY17. In accordance with the earlier approvals, IFC proposes to redeploy its ER administrative budget savings to support growth and priority areas (in aggregate with other efficiency gains and strategic redeployments).

#### **B. Total Resources Provide the Foundation Necessary for IFC to Conduct Business**

3.5 After looking at the ER Savings, IFC Management considered Total Resources. Total Resources represent the full spectrum of expenses needed to deliver IFC's business model, and they can be examined from a number of perspectives: by funding type, by its incremental growth, by VPU, and by cost category. The FY17 proposal for Total Resources is \$1.55 billion.

**Figure 16. Total Resources is Comprised of Total Administrative Budget (65%), Advisory Services Budget – Other than Administrative (21%), Fees Budget (11%), and Other and Jeopardy Expenses Budget (3%).**

\$, Millions



**Table 6. IFC Total Resources Budget Will Increase from \$1.50 billion in FY16 to \$1.55 billion in FY17.**

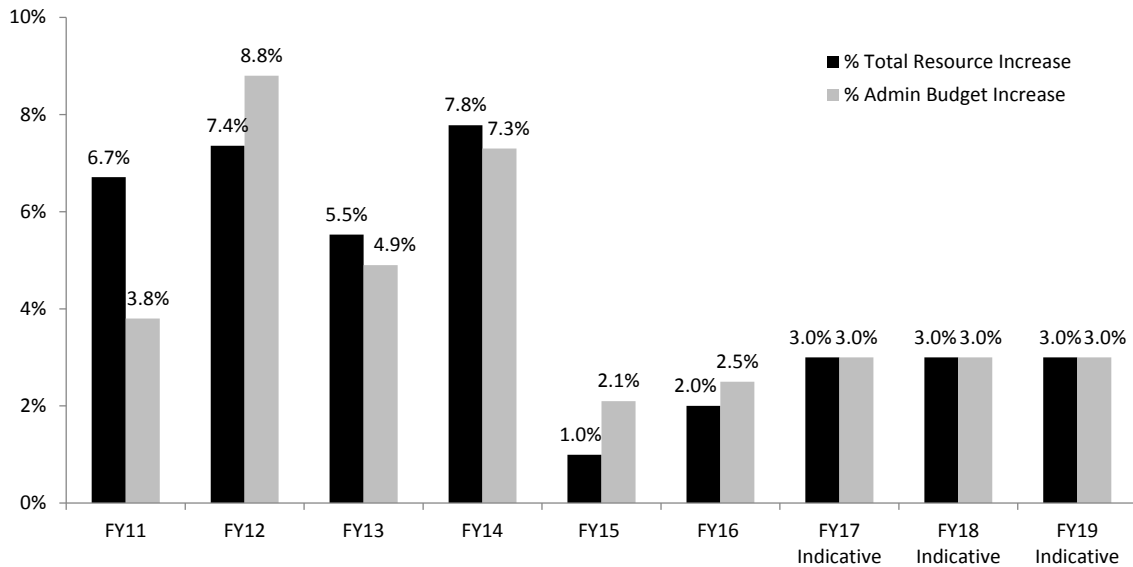
\$, Millions

	FY15 Actuals	FY16 Budget	FY17 Budget	Variance FY17 v FY16
<b>Total Administrative Budget</b>	<b>893.7</b>	<b>976.2</b>	<b>1,005.5</b>	<b>29.3</b>
<b>IFC Contributions to Advisory Services (other than admin. budget)</b>	<b>65.2</b>	<b>80.0</b>	<b>79.0</b>	<b>(1.0)</b>
Funding Mechanism for Technical Assistance and Advisory Services	51.7	63.0	63.0	-
Others	13.5	17.0	16.0	(1.0)
<b>Donor/Client Contribution to Advisory Services</b>	<b>218.4</b>	<b>237.0</b>	<b>239.0</b>	<b>2.0</b>
<b>Expenses associated with IFC's Treasury &amp; Portfolio activities</b>	<b>17.2</b>	<b>22.0</b>	<b>23.5</b>	<b>1.5</b>
<b>Expenses offset by fee income</b>	<b>122.1</b>	<b>164.3</b>	<b>173.4</b>	<b>9.1</b>
Client Fees (includes reimbursables and service fees)	72.2	87.7	93.5	5.8
Treasury / Syndications Programs Fees	8.7	18.7	22.4	3.7
Asset Management Company Fees & Reimbursables	30.6	44.9	43.1	(1.8)
Donor Trust Funded Investments (DTFI) Fees	10.7	13.0	14.5	1.5
<b>Special Initiatives</b>	<b>15.6</b>	<b>13.2</b>	<b>14.6</b>	<b>1.4</b>
<b>Jeopardy Expenses</b>	<b>(1.4)</b>	<b>12.0</b>	<b>15.0</b>	<b>3.0</b>
<b>Carry-forward of Unspent Budget from Previous Fiscal Year</b>	<b>-</b>	<b>47.6</b>	<b>48.8</b>	<b>1.2</b>
<b>IFC's Total Resources (including Carry-forward)</b>	<b>1,330.7</b>	<b>1,552.4</b>	<b>1,598.8</b>	<b>46.4</b>
<b>IFC's Total Resources (excluding Carry-forward)</b>	<b>1,330.7</b>	<b>1,504.7</b>	<b>1,550.0</b>	<b>45.3</b>
o/w	-	-	-	-
<b>Investment, Treasury &amp; Support Services</b>	<b>986.3</b>	<b>1,124.6</b>	<b>1,167.8</b>	<b>43.2</b>
<b>Advisory Services</b>	<b>344.5</b>	<b>380.1</b>	<b>382.2</b>	<b>2.1</b>

Note: Totals may not add due to rounding.

3.6 In order to start the 3-year trajectory described in Section II, IFC proposes to increase FY17 Total Resources by nominal \$45.3 million or 3.0% over FY16. Historically, increases have been in the range of 5-8%.

**Figure 17. FY17-19 Nominal Increases to Total Resources Are Expected to Remain at a Steady 3%.**



3.7 It is worthwhile to note that the presentation of budget figures throughout this document aligns with WBG practice and is reflected in IFC's Board reporting via the Quarterly Business Report. Budget figures are presented in nominal terms to make comparisons across fiscal years easier to understand and better align with the Profit & Loss. The proposal for FY17 thus includes a price increase of 2% to account for anticipated inflation and salary structural increases.

3.8 The second method of looking at Total Resources is by its incremental year-by-year increase and how that increase will be functionally utilized. Inflation will account for most of the increase.

**Table 7. Inflation Will Account for 2/3 of the \$45 Million Increase in FY17 Total Resources.**  
\$, Millions

<b>Investment, Treasury &amp; Support Services</b>	
Inflation	22.5
Administrative expenses (net of inflation)	9.8
Treasury & Portfolio activities (net of inflation)	1.1
Client Fees (net of inflation)	4.0
Treasury / Syndications Programs (net of inflation)	3.3
Asset Management Company (net of inflation)	(2.7)
Special Initiatives, Jeopardy & Other (net of inflation)	5.2
<b>Subtotal Investment, Treasury &amp; Support Services</b>	<b>43.2</b>
<b>Advisory Services</b>	
Inflation	7.6
IFC Contribution to AS (incl. admin expenses) (net of inflation)	(2.8)
Donor/Client Contribution (net of inflation)	(2.7)
<b>Subtotal Advisory Services</b>	<b>2.1</b>
<b>Total Increase (see Table 7)</b>	<b>45.3</b>

3.9 The third method of looking at Total Resources is by VPU Units. Most of the budget increase is allocated to the Operations VPU in line with the strategic priorities and supporting operational activities detailed in Section II.

**Table 8. FY17 Administrative Budget and Total Resources Budget by VPU Reflect IFC's Business Model.**  
\$, Millions

	<b>Administrative Budget</b>			<b>Total Resources Budget</b>		
	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
VP - Global Client Services	368.7	375.7	395.5	672.8	696.1	716.3
VP - GP- CCSA - IFC	18.1	18.5	18.7	147.5	129.3	135.7
VP -WBG Climate Change - IFC	6.4	7.5	7.6	9.0	10.8	11.5
<b>Subtotal Operations &amp; Advisory Services</b>	<b>393.2</b>	<b>401.6</b>	<b>421.8</b>	<b>829.3</b>	<b>836.2</b>	<b>863.5</b>
VP - DEC Office of the VP, DEC-IFC	2.6	2.6	2.6	2.6	2.6	2.6
VP - Corp. Risk & Sustainability	104.5	113.6	115.3	143.3	145.2	151.4
VP - Treasury & Syndications	17.7	18.2	18.3	50.4	56.0	60.2
Departments Reporting to CEXVP	61.6	62.4	63.4	70.0	71.6	73.1
<b>Total Departmental</b>	<b>579.6</b>	<b>598.4</b>	<b>621.5</b>	<b>1,095.6</b>	<b>1,111.6</b>	<b>1,150.8</b>
Corporate Overheads	172.9	172.3	183.1	179.5	187.5	198.3
Corporate Governance	9.3	9.5	9.7	9.3	9.5	9.7
Other Budget Items (includes Pension, Board & IEG)	190.8	196.1	191.3	190.8	196.1	191.3
<b>Total Administrative Budget</b>	<b>952.6</b>	<b>976.2</b>	<b>1,005.5</b>	<b>1,475.2</b>	<b>1,504.7</b>	<b>1,550.0</b>

*Note: Totals may not add due to rounding*

3.10 The proposed 1% increase (\$15.0 million) in total resources (net of inflation) as well as the redeployment of net ER savings after reinvestment in ER projects and productivity gains (\$18.9 million) will support five areas identified for intensified resource deployment: FCS, climate change, mobilization, capital markets, and corporate (information technology, security and others). It is expected that the redeployment of existing resources will support the focus on other strategic areas.



**Table 9. Aggregate \$34 Million Real Increases in FY17 Total Resources (including ER Savings and Productivity Gains) Will Be Allocated to VPUs for Flexible Deployment to Fund Key Needs per IFC's Evolving Business Model.**

\$, Millions

VPV	Net Increase in Total Resources	FCS	Climate Change	Mobilization	Capital Markets	IT/Security/Other
Global Client Services	\$15.6	✓	✓	✓	✓	✓
GPs & CCSAs (IFC)	\$3.9	✓	✓			
WBG Climate Change (IFC)	\$0.4		✓			
Corp. Risk & Sustainability	\$3.9	✓	✓	✓		
Treasury	\$3.3			✓	✓	
Corporate	\$6.8					✓
	\$33.9	\$7-\$8	\$6-\$7	\$7-\$8	\$3-\$4	\$8-\$9

3.11 The fourth method of looking at Total Resource is by Cost Category. Salaries and benefits account for the largest share of IFC's total resource usage, followed by short-term consultants and temporaries, and services and support fees. The proportional breakdown of cost categories is fairly steady over time.

**Table 10. Fixed Costs Are Expected to Remain Stable as a Share of IFC's Total Resource Usage in FY17.**  
\$, Millions

	FY15 Actual		FY16 Budget		FY17 Budget	
	\$ m	%	\$ m	%	\$ m	%
<b>Fixed Expenses</b>	892.1	67.0%	1030.0	68.5%	1062.2	68.5%
<i>of which</i>						
Staff Salaries and Benefits (including contributions to SRP, SSRP, RSBP)	754.5	56.7%	869.8	57.8%	897.1	57.9%
o/w Salaries	411.4	30.9%	472.0	31.4%	486.6	31.4%
o/w Benefits (including pension & variable pay)	343.2	25.8%	397.8	26.4%	410.4	26.5%
Communications and IT	28.7	2.2%	41.4	2.7%	42.2	2.7%
Depreciation	53.4	4.0%	54.9	3.6%	58.2	3.8%
Equipment and Building	55.5	4.2%	63.9	4.2%	64.7	4.2%
<b>Variable Expenses</b>	438.6	33.0%	474.7	31.5%	487.9	31.5%
<i>of which</i>						
ST Consultants and Temporaries	114.9	8.6%	123.4	8.2%	127.3	8.2%
Travel Costs, Representation and Hospitality	104.6	7.9%	109.9	7.3%	115.4	7.4%
Contractual Services	82.4	6.2%	88.4	5.9%	89.6	5.8%
Services and Support Fees	119.1	9.0%	124.0	8.2%	127.5	8.2%
Other Expenses	17.6	1.3%	29.0	1.9%	28.1	1.8%
<b>Total Resources Expenses</b>	1330.7	100.0%	1504.7	100.0%	1550.0	100.0%

Totals may not add due to rounding.

## C. Proposing the Total Administrative Budget

3.12 While IFC requires all \$1.55 billion of its Total Resources to deliver its business, the Total Administrative Budget is the only component that is formally approved by the Board per Section VI of this paper. IFC proposes a FY17 Total Administrative Budget of \$1,005.5 million, a \$29.3 million or 3% nominal increase over FY16.

3.13 **Proposed Budget Increase.** For FY17, IFC proposes a 3% nominal increase (\$29.3 million) in the Total Administrative Budget. Since inflation adjustments will absorb \$19.5 million of the increase, IFC Management sought savings and efficiencies from the expenditure review, shared services and other existing sources that could be released for redeployment towards strategic priorities.

**Table 11. Total Administrative Budget Must Increase by 3% to Deliver IFC's Strategy because Inflation will Consume Nearly All Expenditure Review Savings.**

\$, Millions

<b>FY16 Total Administrative Budget</b>	<b>976.2</b>
Expenditure Review Savings	(14.7)
Productivity Gains	(2.2)
Inflation	19.5
Investment in Front Line Operations & Enabling Services	17.9
Investment in Information Technology/Security	7.0
Reinvestment of ER Savings in ER projects	1.9
<b>3% Net Increase from FY16 to FY17</b>	<b>29.3</b>
<b>FY17 Total Administrative Budget</b>	<b>1,005.5</b>

Totals may not sum due to rounding

3.14 The cost category profile of Total Administrative Budget mirrors that of Total Resources Budget. Staffing accounts for slightly less than two-thirds of Total Administrative Budget costs; this is broadly consistent from year to year.

**Table 12. Salaries and Benefits, The Largest Contributor to IFC's Expenses, are Projected to Remain around 66% in FY17.**

\$, Millions

	<b>FY15 Actual</b>		<b>FY16 Budget</b>		<b>FY17 Budget</b>	
	<b>\$ m</b>	<b>%</b>	<b>\$ m</b>	<b>%</b>	<b>\$ m</b>	<b>%</b>
<b>Fixed Expenses</b>	689.0	77.1%	758.6	77.7%	781.4	77.7%
<i>of which</i>						
Staff Salaries and Benefits (including contributions to SRP, SSRP, RSBP)	577.8	64.7%	641.2	65.7%	661.0	65.7%
o/w Salaries	276.8	31.0%	299.6	30.7%	313.7	31.2%
o/w Benefits (including pension & variable pay)	301.0	33.7%	341.6	35.0%	347.3	34.5%
Communications and IT	20.4	2.3%	22.0	2.3%	22.0	2.2%
Depreciation	51.9	5.8%	53.5	5.5%	56.5	5.6%
Equipment and Building	38.9	4.4%	41.9	4.3%	41.9	4.2%
<b>Variable Expenses</b>	204.7	22.9%	217.6	22.3%	224.1	22.3%
<i>of which</i>						
ST Consultants and Temporaries	16.0	1.8%	21.0	2.2%	21.6	2.1%
Travel Costs, Representation and Hospitality	31.5	3.5%	26.5	2.7%	31.5	3.1%
Contractual Services	34.5	3.9%	39.0	4.0%	39.0	3.9%
Services and Support Fees	116.7	13.1%	122.0	12.5%	125.3	12.5%
Other Expenses	6.0	0.7%	9.1	0.9%	6.7	0.7%
<b>Total Administrative Expenses</b>	893.7	100.0%	976.2	100.0%	1005.5	100.0%

Totals may not sum due to rounding.

3.15 IFC's business model rests upon its intellectual capital as much as its financial capital. Therefore, it is not surprising that staffing and compensation along with shared services agreements (which largely

support staff resources across the WBG) drive the bulk of IFC’s expenses and capture close Management attention. Responsive and effective delivery relies heavily on continuity of client relationship management and technical expertise. This crucial repository of intellectual capital results in some “stickiness” of administrative budget across years of varying new business generation across areas and in aggregate. As seen below, management leverages these resources for intensified portfolio management, long-term pipeline development, and strategic redeployment, as appropriate, maintaining its ability to engage nimbly as market conditions evolve.

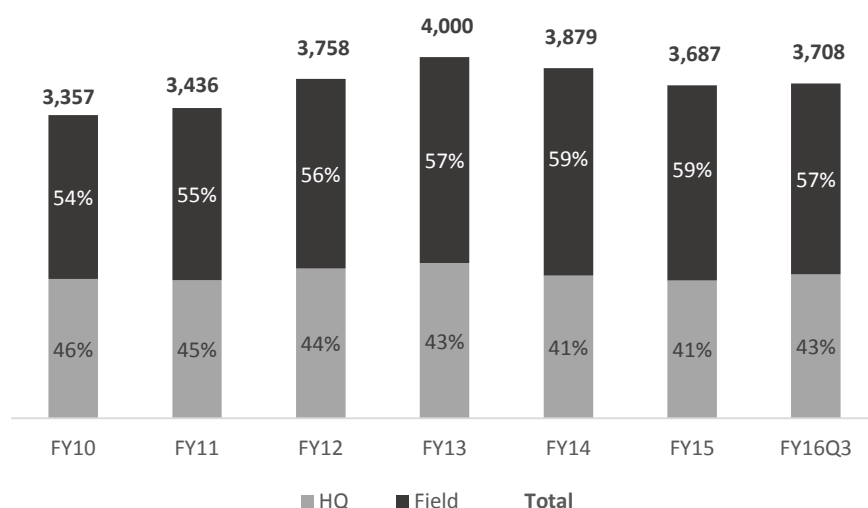
## 1. Staffing & Compensation

3.16 IFC operates in a dynamic and evolving market. Its global footprint facilitates serving clients effectively by providing sector expertise complemented by solid local knowledge and project processing/ implementation capacity on the ground. To take advantage of new opportunities, IFC must be able to attract, re-deploy, support global mobility and retain talent. The organization’s more than 3,700 staff represent over 140 nationalities and are based in 104 offices in 98 countries around the world. About two-thirds of the workforce come from developing countries, and more than half are based in the field.

3.17 IFC continues efforts to maximize delivery capacity through more efficient deployment of staff resources; it has been conscientiously consolidating and realigning. To ensure that the right people are in the right place to meet our meet business priorities, VPUs continue to review their staffing and recruitment plans with a focus on addressing skills gaps and efficiencies. In addition to ongoing workforce planning initiatives across the organization, Management reviews staffing composition, distribution, ecology of offices and overall footprint.

3.18 As of FY16 Q3, IFC had 3,708 staff, a 7% decline from 4,000 in FY13 when the headcount was at its highest. Overall staffing levels have remained stable driven by increased recruitment activity to address replacements and growing staffing needs across the business. In addition, management’s continued oversight of staffing plans across the organization have ensured that communicated headcount guidelines are observed.

**Figure 18. Headcount Has Slightly Declined in Recent Years; Field Presence Has Remained at 57-59%.**  
Number of Staff



3.19 Since FY07, more than half of IFC's workforce has been based in the field. IFC's decentralized staffing model has demonstrated positive results both externally (through improved client services and business results) and internally (through increased global footprint and micro-diversity of the country and regional offices). Yet, the benefits have not come without costs. Local currency valuation fluctuations expose field-deployed staff, including non-nationals on local salary scales with varied mobility support, to adverse effects beyond their control based solely on their Duty Location.

3.20 To address economic conditions in country offices that stem from sudden inflation or local currency depreciation vs. the US Dollar, in June 2015, the Board approved a set of WBG Special Compensation Measures for locally recruited staff (including Third Country Nationals). This SCM framework is meant to provide a temporary relief measure until salaries can be aligned again to prevailing market conditions.

**Table 13. The Special Compensation Measures Provide Temporary Relief to Staff Adversely Affected by Severe Inflation or Local Currency Depreciation.**

Commencement Trigger	CPI Inflation $\geq$ 20%	Depreciation $\geq$ 50%
Assessment Period	Any 3 out of 6 consecutive months	Any 3 out of 6 consecutive months
WBG SCM (1)	Lump sum payment	Indexation of salaries to USD
WBG SCM (2)	Off Cycle Salary Adjustment	n/a
Cessation Trigger	CPI Inflation $\leq$ 15%	Depreciation $\leq$ 35%; or 6 month implementation; or CPI Inflation $\geq$ 20%
Assessment Period	3 consecutive months	3 consecutive months

3.21 Local currency depreciation and inflation have persisted in certain country offices since Board approval and implementation of this SCM Framework; as such, IFC's Management has become increasingly concerned that the provided tools remain inadequate to address sudden and severe changes in economic conditions (i.e., inflation, depreciation) in a timely and effective manner. At the same time, IFC faces recruitment and retention challenges in some of the most difficult and/or high priority country locations. Given that IFC's decentralized business and staffing model places great emphasis on the importance of Third Country National and local staff, Management is working closely with HR to propose a more dynamic set of tools addressing currency risks and macroeconomic environment with a higher degree of responsiveness.

3.22 A proposal to implement an enhanced Financial Assistance program for country office staff was presented to the Board in April 2016, with the goal of having the program launched in Calendar Year 2017. The enhanced program will provide a 50% interest rate subsidy on general loans for Country Office staff and will be potentially supplemented with expanded financial education offered to staff starting in FY18. The current financial assistance program offers a valuable service to staff. Over the years, the WBG has shifted from being the lender of "last resort" for staff to their preferred lender of choice. Going forward, the goal would be to support the WBG's objectives of driving productivity and engagement through the provision of additional support to staff in the form of a revamped financial

assistance program, thereby helping enhance the Employment Value Proposition for local staff in country offices.

3.23 While some issues most directly affect field-based staff, IFC's awards and variable pay programs are an important component of IFC's employment value proposition for all of its staff. Over the past years, IFC has enhanced the alignment between the IFC Scorecard and the WBG Scorecard; it has also strengthened the link between corporate performance and awards pay-outs through the IFC Annual Performance Awards program. For the FY16 performance cycle, IFC will continue to implement key changes introduced last year. Among these changes are increased focus on fragile states, the expansion of IFC's scorecard awards to operations support units, more recognition for client-facing functions, and greater performance differentiation, all in support of the strategic alignment of performance goals across individual, department and corporate-wide levels.

3.24 The current portfolio of IFC rewards and recognition programs covers the following:

- **Annual Performance Awards.** The IFC annual performance awards program recognizes sustained outstanding performance at the individual or team level during the performance year. The program continues to have a direct and strong linkage to corporate-wide and departmental objectives (through the IFC Scorecard), where outstanding achievements and behaviors are recognized as IFC progresses in creating development impact, financial sustainability as well as effective and efficient delivery to clients. The last performance cycle saw the introduction of new features such as increased focus on fragile states and client-facing functions, an expansion of IFC's scorecard awards to operations support units, greater performance differentiation, and the creation of new targeted awards for a strategic priorities category, where staff were recognized for their contributions to FCS activities, portfolio value enhancements, and client coverage goals.
- **Corporate Awards.** This program rewards team projects and/or initiatives with significant and lasting impact for IFC and its clients. Continuing from the FY15 performance cycle, the Corporate Awards program selection will focus on the same sharpened criteria in five thematic areas upon which team achievements will be recognized: (i) exceptional achievements in FCS countries, (ii) effective WBG collaboration, (iii) value-added knowledge sharing, (iv) strong contributions to achieving WBG Diversity and Inclusion goals, and (v) activities that substantially strengthen IFC delivery to clients.
- **IFC Smart Lessons.** Recognizing contributions to knowledge sharing in IFC and the wider WBG, Smart Lessons is a cash recognition program that enables development practitioners to share lessons learned in advisory, investment and financial operations.

3.25 In IFC's FY16 Budget Paper, Management requested to augment its awards and variable pay programs with an additional \$8.5 million, conditional upon meeting corporate targets (including income and development impact-related metrics). Management provides regular updates on corporate target progress through quarterly reporting to the Board. Management proposes that in FY17, IFC will once again have access to such additional funds contingent on corporate financial measures. For FY17, IFC will consider paying out awards if IFC reaches its FY17 target for realized income. Once this corporate hurdle is met, further eligibility will take into account the portfolio loan Risk Adjusted Return on Capital/ equity Cash Multiple outcomes for those departments that have met development scorecard targets cumulatively over the past three years. This approach will replace the previous Long-Term Performance Awards program. The total awards budget will be broadly allocated between Scorecard/Performance Awards and Corporate Awards, which are specifically linked to strategic priorities.

3.26 For FY17, IFC proposes a total performance awards budget as follows:

- A base budget of \$20 million, which represents an inflationary increase (aligned with IFC's overall budget increase) over the FY15 base awards budget of \$19.6 million;
- Additional amount of \$8.6 million that will be available to IFC, contingent on the achievement of corporate-wide financial measures, including income and development impact-related metrics to reflect both short and longer-term performance perspectives.

3.27 The additional \$8.6 million contingent amount is about 40% of the base budget and will be applied to all of the IFC rewards and recognition programs. There are a few other important features on the application of the additional budget: (i) the potential recipients of the contingent budget will be only those departments that have met or exceeded their development scorecard targets; (ii) in line with building and sustaining a performance culture, performance differentiation will be further emphasized, where awards pay-outs will be more focused on the top performers and outstanding teams; and (iii) as Fragile States and Conflict Affected Situations represents an urgent development priority for IFC, incentives for work on projects in FCS will be further enhanced.

3.28 IFC strives to be a more engaged, business-driven, and performance-focused organization; accordingly, it will continue to investigate ways to improve its awards programs. Any redesign would be aligned with any new initiatives such as functional pay differentiation initiatives or proposals, e.g. using awards or variable pay as a vehicle to further enhance functional differentiation. Over the medium term, IFC seeks to simplify and clarify its awards/incentive plans and better aligning them to IFC's business strategy.

## **2. Shared Services Agreements**

3.29 Shared Services Agreements allow IFC and its counterparts in the World Bank Group to leverage WBG commonalities, specializing and standardizing certain functions for greater efficiency. IFC has entered into a number of SSAs with IBRD to provide support for its functions. This support ranges from all aspects of Information Technology, Human Resources and Finance to General Services, through transaction and administrative expense and compliance activities provided by central units.

3.30 During FY16, the value of SSAs amounted to \$129.6 million; this comprised approximately 13% of the FY16 total administrative budget. The value of services provided by the WBG Integrated Services entities (Human Resources; Leadership, Learning and Innovation Services; IT; and, External Communications) amounted to \$63.7 million or approximately 49% of the total. Effective FY16Q2, most of the External Communication services function provided through the WBG Integrated Services was brought back within IFC to better align and serve the needs of the organization.

**Table 14. Shared Services Agreements between IFC and IBRD Specialize and Standardize Multiple Functions for Greater Efficiency.**

\$, Millions

Service	World Bank Unit	FY16 Amount	FY17 Estimate	Anticipated Increase/ (Decrease)
IT Services	ITS	48.6	49.6	1.0
Human Resource Services	HR	11.2	11.4	0.2
Leadership, Learning and Innovation Services	LLI	1.3	1.3	-
Communication Services	ECR	2.6	0.8	(1.8)
Board Services	COGOV	24.1	21.5	(2.6)
Integrity Department Services	INT	2.0	2.0	-
Independent Evaluation Group Services	IEG	7.0	7.0	-
Internal Audit Services	IAD	2.1	2.1	-
Controllers Services	WFA	3.6	3.7	0.1
General Services Department Services	GSD	15.6	16.6	1.0
Procurement Services	GSD	2.8	2.8	-
Insurance Services	GSD	2.5	2.5	-
Business Continuity (BCP) Facility	GSD	0.8	0.8	-
Treasury Services	TRE	0.6	0.6	-
Risk Services	CRO	0.4	0.3	(0.1)
Ethics, Conflict Resolution and Tribunal Services	EBC	3.2	3.3	0.1
Child Care, Legal and Staff Association Services	GSD	1.2	1.2	-
<b>Total Shared Services</b>		<b>129.6</b>	<b>127.5</b>	<b>(2.1)</b>

3.31 IFC's Business Planning & Administration Department continues to be the corporate sponsor for WBG Integrated Services SSAs, providing more focused engagement with IBRD counterparts to review SSAs and better understand cost drivers. IFC's sustained and focused engagement is anticipated to deliver the net savings reflected above. In total, the cost of FY17 SSAs is expected to be \$2.1 million less than in FY16 in nominal terms, of which \$1.8 million is driven by the transfer back to IFC of the communication services function, which will have to be absorbed outside SSAs.

#### **D. Maintaining the Level of Advisory Services Budget**

3.32 IFC's Advisory Services enable IFC's reach by strengthening client capacity, assisting governments in design and implementation of Public Private Partnership transactions, and helping governments and non-government institutions improve the enabling environment for private investment. Following an extended period of strong growth, AS spend leveled off in FY15 and FY16 to consolidate reforms. AS engages with greater selectivity based on corporate priorities to increase its development impact. Total advisory spend is expected to resume moderate growth over FY17-19.

3.33 The AS funding model draws on IFC, Development Partners and client sources. Each source has its strengths and weaknesses, but in combination they can create a robust and diversified funding model. A key part of recent reforms has been to further strengthen the financial sustainability of AS.

3.34 **Leverage partially mainstreamed IFC contributions.** IFC's contribution to AS ensures a sustainable backbone for the management of advisory operations and can be used to fund benefits beyond those paid for by clients and to seed activity in areas before Development Partner interest has



materialized. As approved in IFC's FY12 Business Plan & Budget,<sup>3</sup> IFC Management has partially mainstreamed IFC's contribution to AS from IFC net income (via the Funding Mechanism for Technical Assistance and Advisory Services - FMTAAS) to IFC's administrative budget. Phase two of this process was rolled out in FY14. In view of the erosion of the accumulated reserves in FMTAAS, IFC management foresees a third and final phase of the mainstreaming for FY18.

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

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

## 1. Proposed Advisory Services Budget

**3.37** IFC proposes to contribute \$143 million to AS Spend in FY17, or 37% of total Advisory Services budget. The bulk of IFC's FY17 contribution will be divided between FMTAAS (\$63 million) and IFC's Administrative Budget (\$64 million). The remaining \$16 million of IFC's contribution will be sourced from Trust Fund Administrative Fees and part of the Performance Based Grants and IFC SME Ventures Initiatives used to support AS projects. Development partner and client contributions to AS spend are expected to slowly increase FY17-19.

**Table 15. Advisory Spending Funded by Development Partners and Client Contributions Is Expected to Slowly Increase in the Medium Term following Recent Consolidation.**

\$, Millions

	FY14		FY15		FY16E		FY17E		FY18E		FY19E	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
<b>Development Partners &amp; Clients</b>	<b>239</b>	<b>61%</b>	<b>221</b>	<b>64%</b>	<b>221</b>	<b>62%</b>	<b>239</b>	<b>63%</b>	<b>250</b>	<b>64%</b>	<b>260</b>	<b>65%</b>
<b>IFC All Sources</b>												
FMTAAS	68	17%	52	15%	58	16%	63	16%	63	16%	63	16%
Admin Budget	63	16%	60	17%	62	17%	64	17%	65	17%	67	17%
Other IFC Sources	21	5%	14	4%	14	4%	16	4%	14	4%	11	3%
<b>Subtotal IFC</b>	<b>152</b>	<b>39%</b>	<b>126</b>	<b>36%</b>	<b>134</b>	<b>38%</b>	<b>143</b>	<b>37%</b>	<b>142</b>	<b>36%</b>	<b>141</b>	<b>35%</b>
<b>Total Advisory Services Budget</b>	<b>391</b>	<b>100%</b>	<b>346</b>	<b>100%</b>	<b>355</b>	<b>100%</b>	<b>382</b>	<b>100%</b>	<b>392</b>	<b>100%</b>	<b>401</b>	<b>100%</b>

Note: Data presented on the basis of spending; totals may not add due to rounding

<sup>3</sup> IFC FY12 Business Plan & Budget (IFC/R2011-0167), paragraphs 4.83-4.91.

## 2. Planning for Evolving FMTAAS

3.38 IFC proposes to keep annual spending authority from FMTAAS at \$63 million. Absent further designation of IFC allocable income to FMTAAS from FY16 and FY17 earnings, this would reduce the FMTAAS fund balance to \$30 million by end FY17. The practice has been to designate sufficient earnings to FMTAAS in order to provide three years of reserve. Management should make a recommendation to the Board on future designations to FMTAAS as part of the FY16 Net Income Paper.

**Table 16. The FMTAAS Fund Balance Is Expected to Drop to \$30 million at FY17-end, Absent Further Designations of IFC Allocable Income.**

\$, Millions

	FY05-13	FY14	FY15	FY16E	FY17E	FY18E	FY19E
Opening FMTAAS Reserve Balance	-	199	131	137	93	30	(33)
FMTAAS Designation from prior FY Earnings	1,009	-	58	14	tbc	tbc	tbc
Re-designation from Performance Based Grants Initiative to FMTAAS	5						
FMTAAS Spend	(815)	(68)	(52)	(58)	(63)	(63)	(63)
<b>Resulting FMTAAS Reserve (Year-end)*</b>	<b>199</b>	<b>131</b>	<b>137</b>	<b>93</b>	<b>30</b>	<b>(33)</b>	<b>(96)</b>

\*FMTAAS Reserve from FY16 onward without additional designation of Net Income to FMTAAS.

3.39

## E. Expanding Smart Use of Other Sources of Funds

3.40 Table 6 above shows that IFC's Total Resources budget is comprised of numerous sources of funds beyond Total Administrative Budget and Advisory Services. These all enable IFC to pursue its mandate.

### 1. Expenses Associated with IFC's Treasury and Portfolio Activities

3.41 IFC incurs expenses directly associated with its market borrowings such as outside legal counsel fees, auditor fees, prospectus printing costs, and rating agency fees, as well as custody and settlement fees paid to the custodians of IFC's equity and liquid asset portfolio, State Street Bank, Citibank, and external managers. In addition, IFC incurs some minor out-of-pocket costs in relation to business development of its structured and securitized products. Equity transaction costs are normally not reimbursed by clients due to market practices.

### 2. Use of Fees

3.42 IFC has a long established practice of using fees from clients to directly cover 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 in order to assess appropriate funding levels and guide spending decisions at the institutional level, as underlined by an Internal Audit report.

3.43 IFC carefully ensures that fee budgets for the upcoming year do not exceed likely fee collections. Up to 40% of service fees can be used for staff costs to provide flexibility to the investment

departments. As the remaining fees are used to cover variable costs such as travel, consultants, and outside legal counsel, IFC can expand or contract its activities using fees without changing its permanent cost base. Expenses offset by fee income also include fees from treasury programs, fee from the MCPP program, or fees and reimbursables from the AMC. IFC plans to increase its use of fees to offset expenses by \$4.6 million net of inflation in FY17 from clients, treasury/syndication and AMC fees/reimbursables.

### **3. Special Initiatives**

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

3.45 Through FY16 Q3, IFC InfraVentures has committed to invest \$93 million in the development of 38 projects, of which 24 are active, 2 reached financial close and another 3-4 are expected to reach financial close in FY16-17.

3.46 The IFC InfraVentures product is unique amongst Development Finance Institutions in focusing on early stage project development, combining the provision of early stage risk capital with active project development support by WBG staff. Such focus is key for nurturing infrastructure projects and increasing the pipeline of bankable projects in countries that have struggled to attract private sector investments. This activity is now also receiving increased attention from other DFIs.

3.47 IFC InfraVentures staff continue to advance project development with their partners as well as generate a pipeline of further projects for the fund to support. IFC InfraVentures had budget allocation of \$5.25 million for FY16, of which approximately US\$5 million is expected to be spent by the end of FY16. Board approval is being sought for FY17 budget of US\$5.25 million, which will enable the fund to continue its development activities across the emerging markets.

3.48 Total mobilization of debt and equity from IFC InfraVentures projects that are under active development could exceed \$7 billion under certain assumptions.

### **4. Jeopardy Expenses**

3.49 IFC designates a project as a jeopardy case when the prospects for recovery of IFC's investment are in serious doubt due to expected loan defaults, country/industry considerations, stock market factors, or other factors as determined by the Management Team. 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 as in 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 proposed ceiling on Jeopardy expenses has been raised by \$3 million from \$12 million in FY16 to \$15 million in FY17, net of recoveries.

## **5. Carry-forward**

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

3.51 IFC's Management Team feels that the 5% contingency mechanism remains the optimal policy even as IFC's budget growth has slowed in the last few years. IFC is committed to only use the contingency in extraordinary circumstances. This practice ensures that IFC's permanent cost base is not increased for temporary needs. IFC Management would inform the Board before using any portion of its 5% contingency to fund special needs such as temporary crisis response activities.

## F. Providing Essential Structures and Systems with Capital Budget

3.52 IFC's capital budget funds Headquarters and Country Office facility needs as well as the investment in Information Technology necessary to support IFC's unique business model. For FY17, the total recommended capital budget is \$98.5 million. This represents a decrease of \$41.5 million compared to FY16, with the main drivers of the decrease being Headquarters and Country Office facilities. The Country Office Buy vs. Lease capital budget will provide the ability to significantly reduce annual administrative expenses by approximately \$3 million annually on a cumulative basis.

**Table 17. Lower Projected Facilities Expenses for Headquarters and Country Offices in FY17 Drive a 30% Lower Capital Budget in FY17 following Exceptional "F" Building Project Expenses in FY16.**

\$, Millions

	<b>FY15 Budget</b>	<b>FY16 Budget</b>	<b>FY17 Budget</b>
Headquarters Facilities	7.6	38.5	14.5
Country Office Facilities	21.5	21.5	14.0
<i>Country Office Buy vs Lease</i>	-	35.0	25.0
Information Technology	53.4	45.0	45.0
Contingency	1.0	-	-
<b>Total</b>	<b>83.5</b>	<b>140.0</b>	<b>98.5</b>

### 1. Facilities

3.53 **Headquarters.** The HQ facilities portion of the capital budget is used to fund required building improvements and other work at the F-Building. The scope of work planned for FY17 will consist of:

- All building elevator refurbishment
- Audio visual/video conference room upgrades of furniture, layouts, and sound
- Reconfiguration of space for related to internal reorganizations

3.54 **Country Offices.** CO facilities budget proposal continues to reflect two major trends: (i) IFC's ongoing decentralization and growth in the field with emphasis on cost efficiency; and (ii) supporting the WBG savings requirements identified as part of the institutional expenditure review, which identifies specific savings from moving towards ownership of larger offices rather than leasing where it can significantly reduce annual administrative expenses.

3.55 The focus of IFC's CO real estate purchasing strategy has shifted to identifying "strata-title" or individual floor ownership arrangements in quality building locations instead of acquiring land and constructing "ground-up" with inherently higher operating costs (where purchasing real estate has been determined by the IFC Management Team as the appropriate course).

**Box 1. Security-Related Capital Expenditures Support IFC's Strategy in FCS and Priority Regions.**

During FY17 IFC will continue to support, in coordination with IBRD, the upgrading of security costs associated with Country Offices in FCS and medium- and high-risk countries (as defined by WBG Corporate Security) through allocation of capital funds to replace outdated equipment, e.g. vehicles, communication equipment, visitor scanners, personal protective devices for guards, etc. In addition, to support IFC's footprint strategy in these countries all current and future country office fit-outs and or purchase/construction projects benefit from direct security needs and assessment reviews by WBG Corporate Security Specialists to ensure all appropriate security measures are included in the overall project capital requirements and funding.

3.56 By the end of FY16, IFC will have 104 offices in 98 countries supporting over 3,000 individuals in the field. IFC and the World Bank are co-locating country offices when feasible and business needs are supported. Currently, 77 of the 104 offices are co-located. Three to four more offices are expected to co-locate in the next several years. In FY17, no changes are expected in the quantity or composition of IFC country offices.

**Table 18. IFC Country Office Presence Is Expected to Remain the Same across All Regions FY16-17.**

	Offices		Countries	
	FY16E	FY17P	FY16E	FY17P
Sub-Saharan Africa	23	23	23	23
East Asia & Pacific	18	18	16	16
Europe & Central Asia (excl. Part I)	21	21	21	21
Latin America & Caribbean	16	16	15	15
Middle East & North Africa	13	13	12	12
South Asia	7	7	5	5
Part I	6	6	6	6
<b>Total</b>	<b>104</b>	<b>104</b>	<b>98</b>	<b>98</b>

3.57 IFC continues to evaluate ways to increase the efficiency of its field office presence in collaboration with regional management teams. These options may include potential consolidation of smaller offices, where possible, and movement of staff between different offices. In August 2015, IFC purchased the existing leased space in Cairo, Egypt (Europe, Middle East & North Africa), thereby generating annual savings of approx. \$1.5 million from FY16 onwards. As described in IFC's FY16 Budget Paper, this purchase is part of the WBG co-location strategy in Cairo, as IBRD has also purchased space in the same building and will relocate its office.

3.58 In addition to various office relocation fit-out projects, the FY17 proposal includes additional funding for expansion of IFC's new space in Dakar, Senegal, currently in the design stage, to accommodate the co-location of IBRD. Such a move is expected to provide annual savings to IFC, through co-sharing of building costs, and the IBRD through reduction in annual lease expenses.

3.59 Additionally, IFC Management, consistent with IBRD, would like to inform the Budget Committee and the Board of its intent to continue pursuing savings by requesting approval of an envelope to invest up to \$25 million, in addition to the \$35 million approved as part of the FY16 budget, for some combination of offices across multiple regions. Once full reviews and cost benefit analyses are

completed and IFC's Management Team approves any purchase, IFC will provide more specific information related to capital requirements and administrative budget savings to the Budget Committee and the Board.

## 2. Information Technology

3.60 The FY17 Information Technology capital budget proposal of \$45 million will fund two main categories of investment:

- i) **Steady State** (30%). These programs ensure the reliability of existing systems by addressing technical obsolescence and increasing the IT capacity required to accommodate IFC's growth. The FY17 capital budget request includes: minor enhancements of existing applications to keep pace with business needs; replacement of PCs that have reached end of warranty; and improvements to technical infrastructure, including communications, for both normal operations and business continuity.
- ii) **Systems Development** (70%). These programs focus on the development of new or enhanced IT solutions to support IFC's lines of business. They include automation of business processes and introduction of new IT capabilities. Some are new multi-year programs, while others are the continuation or completion of programs begun in prior years.

3.61 Improvements planned for FY17-19 will support IFC's strategic priorities in many areas. Of particular note:

- Support for the operational effectiveness of investment and advisory staff through improved access to knowledge, increased collaboration, and efficient process management
- Enhanced IT capabilities for risk management and portfolio management through increased system integration and improved analytics
- More mobile-enabled services and updated Microsoft Office tools to increase personal efficiency and effectiveness

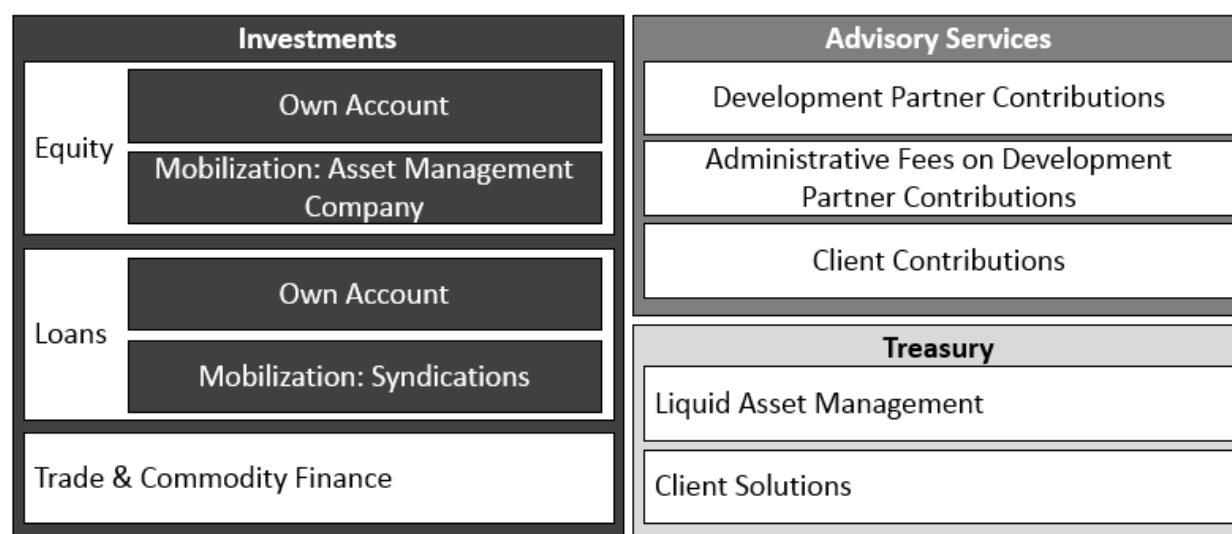
3.62 IFC will also benefit from a number of new WBG-wide IT projects. IFC does not contribute to capital to these initiatives but instead pays for services with SSAs through the administrative budget once the service or solution is in place.

## IV. Generating Revenue Supports Expenses for Business Activities

### A. IFC's Profitability Is Needed to Maintain Financial Sustainability and Enable Growth

4.1 In order to fund the expenses that have been discussed so far in Section III of this budget paper, IFC must generate sufficient revenue. As such, Section IV discusses the various items comprising Total Controllable Revenue: Equity, Loan, Trade & Commodity Finance, Advisory Services, and Treasury Revenue as summarized in the following diagram. IFC's Business Model necessitates integrating these revenues in the budget dialogue.

**Figure 19. IFC Benefits from Diversified Revenue Streams.**

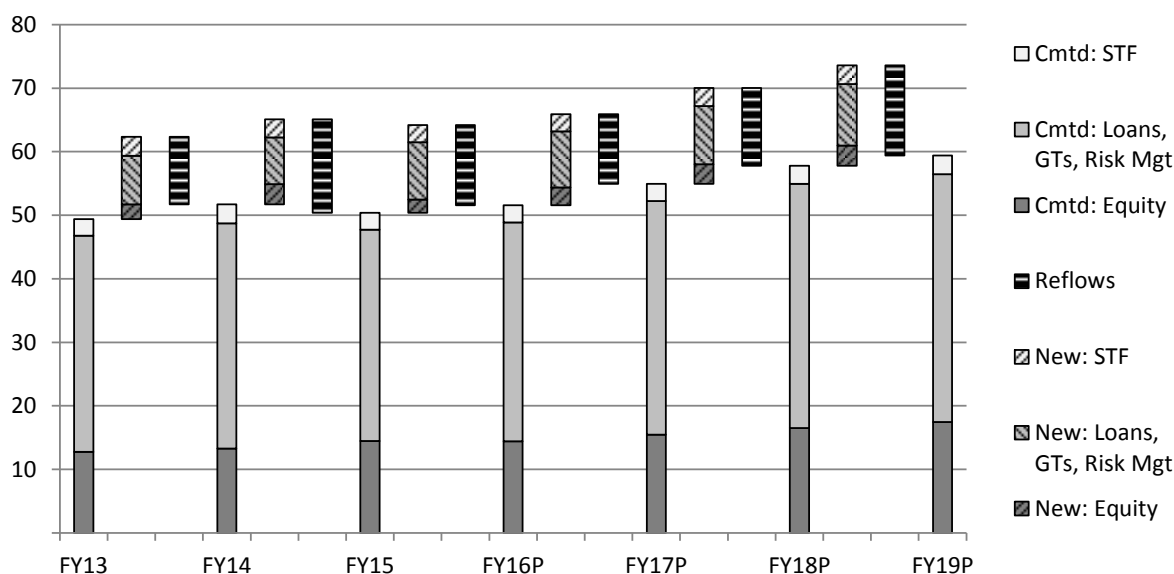


4.2 The challenging economic climate has dented the forecasts for controllable revenue in the current fiscal year. However, it is forecasted to slowly bounce back over the next three fiscal years, with IFC committed portfolio expected to resume growing as well. For FY17-19 IFC expects continuously increasing loan revenue, a recovery of treasury revenue after a challenging FY16, an increasing stream of dividend revenue, and expense growth supporting a growing and more complex own account portfolio and mobilization portfolio.



**Figure 20. IFC's Committed Portfolio is Projected to Grow in FY17-19, Consuming Incremental Resources but Also Generating Additional Revenue.**

\$, Billions



**Table 19. Recent Adverse Conditions Have Rendered Careful Attention to Both Revenues and Expenses Even More Important.**

\$, Millions

	FY13	FY14	FY15	FY16Q3
Loan & fees - net of funding costs	954	1,027	1,111	836
Treasury - net of funding costs	389	494	271	131
Dividends	262	285	284	175
Advisory Services	239	254	244	177
Other (service fees, AMC revenue & other income)	194	221	265	156
<b>Controllable revenue</b>	<b>2,038</b>	<b>2,281</b>	<b>2,175</b>	<b>1,475</b>
Total expenses (including Advisory & AMC)	(1,401)	(1,418)	(1,426)	(1,105)
<b>Controllable Income</b>	<b>637</b>	<b>863</b>	<b>749</b>	<b>370</b>
Realized Capital Gains	1,001	1,051	1,391	989
<b>Realized Income</b>	<b>1,638</b>	<b>1,914</b>	<b>2,140</b>	<b>1,359</b>
Loan Loss Provision & Equity write-downs	(730)	(369)	(936)	(949)
Other (including FX gains/losses & prior AS designations)	152	69	123	(25)
<b>Allocable Income</b>	<b>1,060</b>	<b>1,614</b>	<b>1,327</b>	<b>385</b>

Totals may not add due to rounding.

4.3 While IFC maintains a holistic approach to its profitability, each revenue stream has unique features that necessitate ongoing specialized analysis to support strategic decision-making.

4.4 It is worth noting that IFC's capital is an essential component of its broader financial sustainability; the Financial Risk Management Paper will address this in great detail.

## **B. Equity Revenues Are Crucial for IFC's Long-Term Financial Sustainability, but the Largest Sources Are Extremely Difficult to Predict**

### **1. IFC's Own Account Equity Investments Produce Valuable and Relatively Stable but Modest Dividends; Gains Have the Potential for Much Larger Profitability but Are Highly Volatile**

4.5 Equity investing is by definition a cyclical business. The recent apparent lack of balance in the global cycle has resulted in persistent strong headwinds for the global emerging markets asset class. The current environment with depressed commodity prices and a strong US Dollar have generated high volatility significantly affecting the accounting income from IFC's equity portfolio as well as IFC's expected net equity income for FY16.

4.6 **Key Operational Activities.** Judicious equity sales in the first half of FY16 have partly offset the negative developments in emerging market stock markets. Please see Section II for additional details on equity activities as part of IFC's profitability.

4.7 **Results.** For the first three quarters FY16, IFC has generated gross equity income (realized capital gains and dividends) of almost \$1.2 billion. In the current highly volatile environment in emerging markets, it is extremely challenging to accurately forecast IFC's expected bottom line income from equity on an accounting basis.

### **2. IFC Derives Multiple Revenue Streams from the Asset Management Company's Fund Management Activities, Largely through Fees to Date**

4.8 As of March 31, 2016, AMC manages approximately \$8.7 billion across 11 funds. AMC's primary source of revenue is the management fees paid by the funds under management. AMC's policy is to charge investors market rates for managing funds. With these revenues, AMC covers its own direct expenses and pays IFC fully for the resources that it provides, with the overall objective of making a small net profit. AMC's financial statements are fully consolidated into IFC's, so any net income or loss that AMC makes, net of intra-company eliminations, flows through to IFC's Profit & Loss.

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

- i) **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
- ii) **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
- iii) **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
- iv) **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

4.10 In addition, AMC-managed funds reimburse IFC for the funds' share of out-of-pocket expenses related to transaction execution and supervision. Where IFC receives mandate fees from the investee

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

4.11 **Results.** AMC will track its revenue contributions to IFC through fees and reimbursements.

## **C. Loan Revenues Will Continue Contributing Essential, Fairly Stable Revenue to IFC's Bottom Line, but Challenges Mount**

### **1. IFC's Own Account Loans Continue to Produce Stable Realized Income amid Some Declines in Portfolio Quality**

4.12 IFC's clients are facing headwinds during FY16. For both developed and developing countries, volatility in debt and equity markets and in capital flows reflects widespread uncertainty of macroeconomic conditions and global growth prospects. The extended period of low commodity prices and a strong US Dollar continue to challenge many of IFC's debt clients, particularly those in the natural resources sector or those unable to generate US Dollar revenues, creating a currency mismatch on their balance sheets.

4.13 In such an uncertain external environment, IFC's Non Performing Loans are rising, from 6.2% of IFC's outstanding debt portfolio as of FY15-end to 7.2% as of FY16 Q2-end (still well below historical "crisis" levels following the Asia Crisis and Argentina default) and then down to 6.7% as of FY16 Q3-end due to the settlement of a few large NPLs. One main driver of the NPL rate increase comes from the natural resource sector of IFC's infrastructure portfolio, where the NPL ratio almost doubled from FY15-end (6.6%) to FY16 Q2-end (15.8%), before falling to 6.4% as of FY16 Q3-end, as a result of significant write-offs. The NPL ratio in IFC's core infrastructure sectors is increasing (7.2% as of Q3-end) due to several large NPLs in the ports and transportation sectors, continuing an upward trend since the beginning of FY15. As of FY16 Q3-end, the highest NPL ratios were in the Middle East and North Africa and Central and Eastern Europe, reflecting geopolitical difficulties and weak European economies.

4.14 **Key Operational Activities.** One positive amid an otherwise cautious outlook is that IFC's committed debt portfolio began growing again in FY16 Q2 and Q3, after the debt portfolio shrank in FY15 by nearly 7%. In particular, loan prepayments and cancellations in FY16 are significantly less than those in FY15, thanks to portfolio managers proactively engaging our clients to offer solutions. For more details, see the financial sustainability component of Section II.

4.15 **Results.** With a relatively flat disbursed portfolio and slightly improving spread over LIBOR, IFC's interest income remains stable. Net revenue (after provisions) from debt totaled \$586 million for the first three quarters of FY16; it was \$1.06 billion at year-end in FY15 and an average of \$970 million for the past three fiscal years. This is mainly due to higher loss provisions, correlated with a higher NPL ratio.

## **2. Syndicated Loans Are One of IFC's Largest Contributors to Mobilization Revenue**

4.16 IFC's Syndicated Loan program is the largest contributor to IFC's service fees, generating revenue of \$31.2 million in FY15, plus an additional \$13.4 million in management fees from IFC's current MCPP investor based on syndications volume of US\$4.2 billion. In FY16, IFC expects a notable increase from FY15, largely due to a few large projects including the Oyu Tolgoi project in Mongolia, which included the largest B loan ever syndicated. IFC also expects to generate significant investor management fees from the Managed Co-Lender Participation Program in FY16.

4.17 For further details on Syndications operational activities, resource implications, and results, please see Section II.

## **D. Trade and Commodity Finance Provides Stable, Low Capital Intensive, Complementary Revenue**

4.18 IFC's Trade and Commodity Finance product lines complement the traditional longer-term project portfolio with short-term investments that provide a stable revenue source, even amid turbulent market conditions, while effectively delivering return on capital. In FY16, IFC celebrated the 10th anniversary of its hallmark, award-winning Global Trade Finance Program. GTFP has demonstrated success in supporting cross-border trade – more than \$50 billion since 2005 – by establishing an efficient operational platform and leveraging strong relationships with over 275 international trade banks in IFC's global network. Building on this foundation, IFC has developed a suite of related products, including commodity finance, supplier finance, working capital loans, and portfolio risk-sharing facilities, that enable the institution to nimbly respond to market gaps as they emerge. This agility bolsters IFC's ability to provide timely client service and continue to achieve impact, even in times of crisis (e.g., global financial crisis, Ebola outbreak, specific country foreign exchange shortfalls). As emerging markets are expected to face particularly tough challenges for the next few economic cycles, TCF products remain essential for keeping economies functioning, private-sector businesses growing, and households stocked with food, medicine, and other critical goods.

4.19 The current global landscape calls for a greater need for trade finance support, both in terms of capital and liquidity. As cross border confirming banks feel the effects of increased regulatory requirements, which simultaneously decrease available capital and thus increase required return for capital (Basel III) and significantly increase the cost of maintaining client relationships (Know Your Client, Anti-Money Laundering, etc.), the trade finance gap is widening. In addition, the precipitous drop in oil prices has placed extreme macroeconomic pressure on emerging markets that rely on crude exports for foreign exchange income. This, combined with other geopolitical challenges, has increased the fragility of some states and deteriorated the conditions in many of the largest emerging markets. Thus, many countries are facing a drastic reduction in their immediate capacity to import goods vital to basic economic function and household survival, while also raising the risk of said markets and thus their ability to maintain capital flows. TCF's core competencies place it in a strong position to support IFC's response to the challenges that emerging markets face. Its experience with portfolio based crisis response solutions, as well as the relative low risk of trade finance products – both simple and structured – makes many of our products suitable to take exposure and mobilize investments with low capital at risk. Structured trade and commodity finance provide opportunities to explicitly manage risks.

4.20 **Key Operational Activities & Resource Implications.** In order to meet critical demand, TCF will continue to offer its existing products while planning to increase the scale of its investments. In order to

do this, the unit is hiring additional external expertise in commodity finance, deepening its ability to provide support. It is also broadening the expertise of its back/middle office operations analyst team, expanding their function to also support investment origination and portfolio review. This makes more resources available while also increasing the value of the analysts' work experience and development. Additionally, some critical open positions in GTFP team are now filled, and department management will continue to strategically realign staff time depending on business needs.

4.21 Both GTFP and other TCF products are managed with significant consideration of resulting return on risk-adjusted capital. Financial results show that the portfolio for each business line has exceeded its fully loaded break-even size, providing a stable annual income base for IFC. The TCF approach to profitability over the past two fiscal years has been two-pronged: (i) its focus areas have been careful oversight of portfolio size and the drivers thereof to generate revenue; (ii) it has pursued greater understanding of opportunities to manage costs, where such are available. With better awareness of program revenue and cost contributors, TCF has identified efficiency improvements that would provide the greatest benefit to the bottom line. For instance, with GTFP, the team performed a client segmentation analysis, assessing weighting and drivers of costs for each segment and developing a strategy to improve efficiency in each segment, prioritizing the most material cost sources. Its Risk-Adjusted Return on Capital exceeds the hurdle rate and is expected to increase significantly.

4.22 **Results.** TCF facilities (including both LTF and STF products) currently represent \$4.6 billion, or 9% of total IFC committed portfolio, while using only 3% of its economic capital with a combined RAROC of 7% in FY15, demonstrating a resource efficient and scalable business. Overall, the TCF portfolio (long-term and short-term finance) is expected to increase at a Compound Annual Growth Rate of up to 2% over the next three years. As the portfolio grows, cash income and RAROC are likewise expected to increase, given current market assumptions.

**Table 20. Average Short-Term Finance (GTFP+GTSF) Outstanding Balances Are Expected to Remain Stable over the Medium Term.**

\$, Billions

	FY13	FY14	FY15	FY16E	FY17P	FY18P	FY19P	CAGR FY15A-19P
<b>Ave. STF Outstanding Balance</b>	2.8	3.0	2.8	2.6-2.8	2.6-2.8	2.7-3.0	2.8-3.1	0 - 2%

## **E. Advisory Services Accesses Non-IFC Funding from Development Partner Contributions, Administrative Fees, and Client Contributions**

4.23 Advisory Services recognizes three types of revenue: Development partner contributions, administrative fees on development partner contributions, and client contributions. Development partner contributions, recognized as revenue at the time that they are expended, are leveling off in FY15-16; this is in line with total AS spend, to consolidate reforms. Revenues from clients are expected to continue growing as IFC's funding model for advice to private firms places growing emphasis on client contributions. Administrative fees on development partner contributions remain broadly stable. As a result, total revenues are expected to grow beyond FY16, enabling IFC to continue to increase the leverage of its contribution to total Advisory spend.

## **F. Treasury Market Operations Generate Self-Sustaining Revenue through Liquid Asset Management and Client Solutions**

4.24 Treasury Market Operations invests IFC's net funding surplus and net worth not deployed to the mission in interest bearing instruments with an emphasis on preserving capital and maintaining a prudent liquidity level. CTM engages in active management of IFC's liquid assets with a focus on diversification and risk management.

4.25 In FY16, Treasury portfolios have lagged behind projections as elevated financial market volatility has increased risk aversion, resulting in wider credit spreads. Spread widening has resulted in capital losses that have offset carry income. Over the course of FY16, CTM has modestly reduced the level of risk. Asset class diversification, opportunistic trading of cross-currency bases and money-market books have added to portfolio income.

4.26 **Key Operational Activities.** IFC Treasury will continue to support the development of capital markets through strategic first time issuances in emerging markets. It will also work with investment departments to develop debt capital market instruments that help IFC's clients to access markets (e.g. anchor investments and credit enhancements) and to structure and execute structured finance solutions. Further, IFC Treasury will continue to focus on increasing investor awareness of opportunities offered by socially responsible investment-themed bonds, and promote emerging market corporate bonds in local currencies as an asset class. In addition, Treasury will continue to serve its core mandate to safeguard IFC's financial resources and support IFC's triple-A credit ratings. Through prudent asset-liability management, funding, and liquid asset management, Treasury will ensure that IFC has the funds it needs for investing in private sector development, along with sufficient liquidity to guard against global financial uncertainty. Where appropriate, Treasury will ensure close links with IFC's Investment Services (e.g., in cross-vice presidency steering groups and the Institutional Investors Engagement Group).

4.27 **Resource Implications.** Establishment of two regional hubs (London and Singapore) in addition to Washington allows Treasury to be "open 24/7" and provide timely responses to IFC's clients, IFC's key global financial counterparties, and market opportunities. Concentrating staff in three locations will allow for a critical mass of various skillsets to be assembled, including Client Solutions, Market Operations, and Quantitative Analytics, so every major time zone can be fully serviced from at least one hub in real time.

4.28 **Results.** Additional income is expected to be generated through a number of new initiatives:

- Increase in assets under management
- Increase in fee income from client and bank counterpart activities
- Fee income from the Managed Co-Lending Participation Program (launched in FY14)
- Additional income from investments in emerging market sovereign debt, bonds issued by sovereign instrumentalities, and corporate bonds (e.g., Brazil, Mexico, China, India)
- Potential fees from asset management services provided to third parties

4.29 In addition to income from IFC's liquid assets, fee generation is becoming a critical and stable income source, reflecting business generation volume and how much clients value our services. The estimated amount of fee generation per fiscal year is shown in a separate line from Treasury Net Income.

4.30 The aforementioned initiatives and the projected increase of IFC's investment portfolio should support the trend of growth in returns. The largest contributor to the increase between FY16 and FY17 in projected earnings net of funding is wider credit spreads for IFC's high-quality liquid assets. The credit spread widening that has resulted in capital losses in FY16 has also increased the current yield of the portfolio for future years without any evidence of significant credit deterioration.

## **V. IFC Uses Its Scorecard as One Method to Set Goals, Measure Results and Ensure Accountability**

5.1 IFC employs numerous means to monitor its activities and results. One important tool is the IFC Scorecard, which is aligned with the WBG Scorecard and cascades to IFC operations and support departments, aligning medium-term strategy with targets and results, creating incentives and driving accountability, and taking resource availability into account.

5.2 IFC sets targets for all of the metrics in its scorecard, which are grouped into comprehensive performance dimensions, consistent with the Tier 3 indicators in the WBG Scorecard: i) Development Impact; ii) Financial Sustainability; iii) Delivery for Clients; iv) Managing Talent. IFC has also set multi-year Development Goals, which are also included as part of the WBG Tier 2 indicators. IFC's scorecard targets are monitored quarterly, and progress is reported to the Board in the Quarterly Board Report. The scorecard is also supported with awards and incentives in order to promote delivery of priorities.

5.3 In order for this cycle to continue working effectively, the tool needs to be simple and the indicators need to be robust and relevant. Accordingly, a few elements of the scorecard have changed for FY17. IFC has broadened the FCS project count and active trade account indicators to include low-income IDA along with FCS, consistent with IFC's strategic directions; this is intended to further strengthen the organization's focus on most challenging markets. In addition, the Return on Net Worth indicator is being replaced with Realized Return on Economic Capital in order to make the metric more robust and to make the return measure relative to deployed risk capital.

5.4 Beginning this year, IFC is also sharing the scorecard targets themselves (rather than simply the intended indicators) as part of its budget paper in order to highlight targeted results along with resource needs. It is important to note, however, that IFC's ability to reach these targets depends on external economic and market conditions and on total nominal administrative budget growth of 3% annual in FY17. Further, it is noteworthy that while the selection of this set of indicators and the determination of these targets reflects selectivity and trade-offs, IFC comprehensively monitors outcomes by robustly tracking and managing many other important aspects of its business as well.

5.5 Looking forward, some of the current scorecard indicators could benefit from more review for both comprehensiveness and simplicity. As a result, FY17 is expected to be a transition year for the IFC Scorecard; IFC will conduct a deep dive review of the indicators during the year and adjust them as warranted for the following fiscal year. As part of this process, Management will engage with the Board through a technical briefing during FY17 to share findings and solicit feedback on improvements; this guidance will be incorporated into the FY18 IFC Scorecard, as part of that year's Budget paper.



**Table 21. The FY17 IFC Scorecard Reflects IFC's Strategic Priorities and Planned Activities, Providing Accountability for Results.**

Performance Dimensions	Scorecard Indicator	FY17 Targets	FY16 Targets	FY16 Results (March'16-end)	FY15 Results	FY14 Results
<b>Development Impact</b>	IDA LTF project count % of IFC <sup>1</sup>	30-35%	30-35%	30%	36%	42%
	IDA Active Trade Account % of IFC <sup>1</sup>	50-55%	50-55%	51%	52%	57%
	FCS & LIC-IDA LTF Project Count <sup>2</sup>	50-60		37	67	38
	FCS & LIC-IDA Active Trade Accounts <sup>2</sup>	42-47		46	47	43
	Climate % of Total LTF Commitment (excluding MIGA)	22%	20%	14%	26%	21%
	Gender Project Count % of Agribusiness, Finance and Extractives AS projects	30-35%	30%	23%	25%	
	Economic Performance (EP) % Satisfactory Rating	60%	60%		55%	58%
	Private Sector Development (PSD) % Satisfactory Rating	70%	70%		70%	73%
<b>Financial Sustainability</b>	AS Development Effectiveness (DE) % Successful Rating	65%	65%	69%	78%	75%
	Realized Return on Economic Capital % <sup>3</sup>			9.5%	11.5%	11.0%
<b>Delivery for Clients</b>	IFC Controllable Income \$mn		712	370	749	863
	Client Feedback IS % Satisfied	85%	85%	85%	82%	83%
	Client Feedback AS % Satisfied	85%	85%		91%	91%
	Mandate to Disbursement (M2D) median days <sup>4</sup>	150	150			
	Total LTF Commitments (excluding MIGA): IFC own a/c + Core & PPP Mobilization \$bn	18.8 - 20.7	17.2-19.7	n.a.	17.7	15.1
	Capital Mobilized on Commercial Terms (excluding MIGA): Core & PPP Mobilization \$bn	7.8 - 8.4	5.7-6.6	5.2	7.1	5.1
<b>Managing Talent</b>	STF Average Outstanding Portfolio \$bn	2.6 - 2.8	2.6-3.2	2.7	2.8	3.0
	Staff Diversity Index (FY18 Target of 1)			0.82	0.80	
<b>IFC Development Goals - IDGs<sup>5</sup></b>		<b>FY17-19 Target (3 year)</b>	<b>FY14-16 Target (3 year)</b>	<b>FY14-16 Results (cumulative thru March'16-end)</b>		
Farmers Reached, mn		3.3	4.6	3.4		
People reached with Health & Education services, mn		26.1	14.8	27.8		
A2F Individuals & Microenterprises reached, mn		98.3	83.6	108.1		
A2F SMEs reached, mn		2.9	4.6	3.0		
People reached with infrastructure services, mn		68.1	75.4	139.4		
Reductions in GHG emissions, mt CO2eq/yr		21.8	18.4	16.2		

Notes:

<sup>1</sup> India excluded from IDA reporting beginning in FY15

<sup>2</sup> Targets in FY16 were based on FCS only. FCS LTF Project Count target 40-45 and results 25; FCS Active Trade Accounts target 35-40 and results 36

<sup>3</sup> Target in FY16 was based on Return on Net Worth - target 10% and results 2.2%

<sup>4</sup> Number changes as new projects are mandated, existing projects are disbursed or project completion timelines revised. Based on planned timelines for completion of existing projects, M2D as of April 14, 2016 is 188 days

<sup>5</sup> IDG results are preliminary

## **VI. Recommendations**

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

### **A. Administrative Budget Authority**

- i) A Total Administrative Budget (nominal) for FY17 of \$1,005.5 million.

### **B. Capital Budget Authority**

- ii) A Capital Budget for FY17 of \$98.5 million.

### **C. Special Initiatives**

- iii) Authority to spend an additional \$5.25 million for IFC InfraVentures through FY17.