

IFC STRATEGY & BUSINESS OUTLOOK FY17-19

Responding to Economic Volatility

INTERNATIONAL FINANCE CORPORATION

Version redacted and disclosed in accordance with IFC's 2012 Access to Information Policy, following discussion by IFC's Board on May 5, 2016.

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GLOSSARY

AMC	-	IFC Asset Management Company
AS	-	Advisory Services
BOP	-	Base of the Pyramid
CAGR	-	Compound Annual Growth Rate
CAO	-	Compliance Advisor Ombudsman
CAS	-	Cross Cutting Advisory
CASA	-	Conflict Affected States in Africa
CPF	-	Country Partnership Framework
CRR	-	Credit Risk Rating
CSL	-	Client Service Leader
CY	-	Calendar Year
D&I	-	Diversity & Inclusion
DARP	-	Debt and Asset Recovery Program
DFI	-	Development Finance Institution
DOTS	-	Development Outcome Tracking System
DSC	-	Deployable Strategic Capital
EM	-	Emerging Markets
ECA	-	Eastern Europe & Central Asia
EE	-	Energy Efficiency
ER	-	Expenditure Review
ESG	-	Environment, Social and Corporate Governance
FCS	-	Fragile and Conflict Situations
FFD	-	Finance for Development
FIG	-	Financial Institutions Group
FL	-	Forward Look
FMTAAS	-	Funding Mechanism for Technical Assistance and Advisory Services
FY	-	Fiscal Year
GCC	-	Gulf Cooperation Council
GHG	-	Greenhouse Gas
GP	-	Global Practice
GTFP	-	Global Trade Finance Program
HIC	-	High Income Country
HIPSO	-	Harmonized Indicators for Private Sector Operations
HQ	-	Headquarters
HR	-	Human Resources
IBRD	-	International Bank for Reconstruction and Development
ICT	-	Information & Communication Technology
IDA	-	International Development Association
IDD	-	Integrity Due Diligence
IDG	-	IFC Development Goal
IDP	-	Internally Displaced Persons
IEG	-	Independent Evaluation Group
IFC	-	International Finance Corporation
INR	-	Infrastructure & Natural Resources
IRP	-	Investment Risk Platform
IS	-	Investment Services
IT	-	Information Technology
JIP	-	Joint Implementation Plan
LAC	-	Latin America & the Caribbean
LIC	-	Low Income Country
LTF	-	Long-Term Finance

M&E	-	Monitoring & Evaluation
MAS	-	Manufacturing, Agribusiness and Services
MCP	-	Managed Co-Lending Portfolio Program
MDB	-	Multilateral Development Bank
MENA	-	Middle East & North Africa
MFI	-	Microfinance Institution
MIGA	-	Multilateral Investment Guarantee Agency
MIC	-	Middle Income Country
MSME	-	Micro, Small and Medium Enterprise
NDC	-	Nationally Determined Contributions
NPL	-	Non-Performing Loan
ODA	-	Official Development Assistance
PE	-	Private Equity
PIE	-	Process Efficiency Initiative
PPP	-	Public-Private Partnership
RAROC	-	Risk Adjusted Return on Capital
RAS	-	Reimbursable Advisory Services
RE	-	Renewable Energy
RMES	-	Results Measurement and Evidence Stream
SA	-	South Asia
SBO	-	Strategy & Business Outlook
SCD	-	Systematic Country Diagnostic
SDG	-	Sustainable Development Goal
SME	-	Small and Medium Enterprise
S-S	-	South-South
SSA	-	Sub-Saharan Africa
STF	-	Short-Term Finance
TRA	-	Total Resources Available
TRR	-	Total Resources Required
UHC	-	Universal Health Coverage
VC	-	Venture Capital
WB	-	World Bank
WBG	-	World Bank Group
WBGIS	-	World Bank Group Integrated Services

KEY MESSAGES

IFC embodies the idea that the most enduring and sustainable development success can be most rapidly achieved by using the transformative power of markets. IFC, within the World Bank Group (WBG), creates a bridge between the investment community and the development agenda, in order to harness that transformative power on the most pressing economic challenges within countries and globally, such as climate change, energy, food security, health, education, financial inclusion, and jobs.

IFC's business model is built on the power of the private sector. IFC is financially sustainable and cannot rely on sovereign guarantees or callable capital. Where our operations succeed, they deliver development outcomes as well as demonstration effects for others, and at the same time increase financial capacity to generate additional development outcomes on behalf of our shareholders. Through this model we have leveraged our initial \$2.5 billion in paid-in capital into the world's largest multilateral development bank focused on the private sector, with an investment portfolio of over \$50 billion in over 100 countries. Along the way we have adapted our investment and advisory services to emerging challenges, and established mobilization platforms including the IFC Asset Management Company (AMC), thereby putting more private capital to work on development. We have deepened our operational knowledge, used this to help define sustainability and corporate governance standards, and are better leveraging our WBG partnership as we focus on client solutions.

The strategy is being prepared in an environment for private investment characterized by higher risk and uncertainty, and yet higher global ambition. The withdrawal of private capital from emerging markets has been severe. The volatility in currency markets, steep declines in energy and commodity prices, coupled with geopolitical and economic dislocations have contributed to an environment of uncertainty and elevated perception of risk. Global trade has declined, and overcapacity in many sectors creates a need for restructuring and consolidation. Regulatory responses to the 2008/2009 financial crisis (Basel III) have triggered commercial banks to deleverage, and some have withdrawn from developing countries. This situation has also impacted IFC's profitability and its unrealized capital gains. The strategy is also the first prepared following the landmark agreements of 2015: the Addis Ababa Action Agenda, the Sustainable Development Goals, and the Paris Climate Accord. Global expectations are high for implementation and results.

As elevated risks translate into reduced investment, less progress will be made on raising living standards and reducing development gaps. Despite tremendous progress in development over the last decades, during which billions have been lifted out of poverty, one in five people in the world still have no access to electricity, one billion people live more than a mile from an all-weather road, and two billion adults lack access to finance. Fragmented health and education systems characterize much of the developing world. Youth unemployment, particularly in Africa and the Middle East, contributes to fragility which is migrating to middle income countries. Less investment in infrastructure, financial markets and social services will interrupt the job creation process and exacerbate unemployment.

Given this context, IFC has charted a path designed to maximize its economic impact and safeguard its financial sustainability. IFC's impact is derived from leveraging the private sector to help address the development challenges described above. To engage the private sector in times of economic volatility, the focus must be on managing risk and maintaining the focus on productivity growth. Sustainable recovery in emerging markets will be defined by a recovery of investment that creates jobs and restores incomes. This requires that IFC focus on the foundations of productivity growth: infrastructure, financial inclusion and human capital, while also working with the World Bank and IMF on the structural reform agenda to mitigate risk and help create a conducive and competitive environment for private investment. IFC will also focus on

technological innovation, where IFC has already seen dramatic improvements in service delivery through the exponential increases in connectivity and mobile data access. Through operations in these areas, IFC seeks to maintain the focus of the private sector on the core building blocks of job creation, while also accelerating access to the power of digitization to leapfrog and more rapidly transform economies.

The strategy focuses on development challenges that present the largest global risks and opportunities, including fragile and conflict situations and climate change. In this environment, risk is a key driver of economic decisions, including economic volatility, climate stress and economic fragility. IFC will help its clients respond to the global downturn and undertake selective contrarian investments that may help restore confidence and ensure adequate liquidity. By focusing on development of local capital markets, IFC seeks to help clients diversify finance and mitigate currency risk. IFC will continue to expand its focus on low income and fragile economies, through both advisory and investment services, subject to further progress on mechanisms to de-risk investments and structural reform. As IFC increases its exposure in fragile and low-income contexts, de-risking also means scaling up its support to the private sector in managing environmental, social and governance risks, often in lower capacity environments. IFC will seek to make progress against the WBG climate commitment during the strategy period, and in line with the new WBG Gender Strategy, IFC seeks to unlock the untapped economic potential of women. Increased focus will be placed on Africa, South Asia and the Middle East & North Africa, where the greatest opportunities exist for IFC to make a difference on vulnerabilities described above.

Through the complex mandates, new partners and the prevailing economic environment, the strategy entails additional risk to IFC's portfolio. As such IFC will seek to maintain its financial sustainability through a portfolio approach that calls for investments selected to maintain financial sustainability. IFC engages across regions and sectors, and will always be responsive to the quality and extent of client opportunities that are aligned with its mandate and contribute to achievement of the WBG goals.

To deliver this ambitious agenda, IFC will seek to mobilize a broader response from the private sector. IFC continues to expand its reach by developing scalable solutions and innovative financial instruments to mobilize new pools of investors. Further, IFC directly links clients with capital markets through the provision of several market access, risk management, and credit enhancement products, including through the AMC; and particularly through its funding operations. IFC will also seek to catalyze new ideas on the role of the private sector in development by strengthening its intellectual leadership. In the past, IFC has generated a number of the ideas that fueled this discussion – ideas around public private partnerships, microfinance, mobile money, Equator Principles, and Doing Business. IFC will continue to strengthen the economic rigor with which it designs and selects interventions, and assesses the impact of operations ex-post.

The development challenges are long-term; IFC needs to be financially sustainable and continue to build its capacity. IFC is committed to maintaining a prudent approach to risk management. IFC's proposed investment program is projected to grow at a pace commensurate with available capital. This capacity to grow and meet client demand is contingent upon macroeconomic developments, progress on investment climate reform, available capital, budget and staffing. In a constrained resource environment, linking strategy to resources and managing risk is critical. IFC will also need to maintain flexibility in resource allocation in order to respond to the elevated risks and opportunities faced by our clients.

EXECUTIVE SUMMARY

1. **Demand for WBG solutions continues to grow as long term trends, cyclical factors and fragility converge and threaten past development gains.** Challenges are a result of aging populations, climate change, low commodity prices, volatile capital flows, slow productivity growth, rising inequality, deteriorating fiscal positions, vulnerabilities in a more connected world, humanitarian crises and pandemics.
2. **The global economic and political environment presents many sources of uncertainty which has translated into risk aversion and declining investment flows.** The current period is marked by major adjustments in currency markets, further steep declines in energy and other commodities prices, declining trade, and a number of geopolitical, regional as well as internal economic and political transitions faced by key countries that anchor the emerging markets. Deflation risk exists in many developed countries characterized by declining working age populations and low opportunities for productivity growth. The magnitude of the unprecedented refugee crisis, spilling over into several regions, increases the overall sense of uncertainty. The MSCI Emerging Market Index declined by 24% as of February 2016, compared with a 9% decline the year prior, and has underperformed the Developed Market Index by 5% over the last decade.
3. **During this economic downturn less progress will be made on pressing development challenges.** These include an annual investment gap in infrastructure estimated at \$1 trillion, 18 million new jobs needed in Africa every year, and the 2 billion adults globally that still lack basic access to finance. Many poor countries that are not economically integrated will remain highly vulnerable with limited sources of job creation, and due to the factors described above, more limited fiscal buffers.
4. **Market volatility found its way into IFC's financial results and profitability.** The recent downturn in the markets has impacted IFC's allocable income and, with much reduced unrealized equity capital gains, the outlook for FY16-19 remains uncertain.
5. **Sustainable economic recovery requires that the private sector resume its role in investing and expanding economic growth.** For IFC, as the largest global private development finance institution, the following defines the strategic challenge to be addressed in this paper: how to maximize economic impact, while also protecting IFC's financial capacity to play an even more catalytic role to support recovery and growth?
6. IFC's operations rest on client demand. As such, IFC will remain engaged across a range of sectors and regions with clients committed to its development mandate, and in projects that will have greater impact due to its participation. That said, resource constraints require that IFC make clear strategic choices and tradeoffs. **In developing the strategy, IFC considers four pillars: (i) client demand; (ii) the country engagement framework; (iii) IFC's core competencies; and (iv) the Portfolio Approach.** These signals are considered in the context of the overall goal of contributing to the WBG goals in the current environment of risk aversion, and the resulting areas of focus, below, are consistent with the WBG strategic priorities.
7. **IFC will focus more on industries and themes that contribute to productivity growth and address sources of risk.** Productivity growth is the foundation of sustainable employment and commercial viability at the firm level. The strategy focuses on the key constraints to higher productivity growth – infrastructure, finance and human capital. As IFC is witnessing the exponential growth of connectivity and processing power, from which productivity growth will be increasingly derived, the strategy also helps its clients leverage disruptive technology. The focus *industries* (infrastructure; agribusiness; financial and social inclusion; and technology) represent these economic building blocks. The social inclusion elements, anchored in joint WBG strategies, are focused on universal access goals. The *cross-cutting themes* (responding to the downturn, climate finance, and fragile and conflict situations (FCS)), and focus *regions* (Sub-Saharan Africa, South Asia, and Middle East & North Africa) represent areas of highest risk and opportunity.

8. **IFC will lead the WBG in leveraging the private sector.** A strong focus on mobilization, capital markets development, partnerships, and intellectual leadership will support implementation of IFC's strategy. Mobilizing private capital is core to IFC's mandate, and IFC is expanding its reach by creating more platforms for funding and broadening its pool of co-investors. For IFC to contribute significantly, it will need to grow mobilization to be greater than IFC's own account. In addition to investment mobilization, IFC directly links client borrowers with the capital markets through the provision of market access, risk management, and credit enhancement products.

9. **Despite external challenges, IFC has delivered solid profitability results from its existing portfolio given its diversified portfolio approach.** Of recent, however, IFC's non-performing loans (NPL) ratio has been rising steadily and IFC's equity returns are significantly lower compared to earlier periods. Further, the profitability of IFC's strategic focus areas has been mixed and enhancing impact is needed in these areas. These trends could impact IFC's financial sustainability.

10. IFC has explicitly outlined its poverty focus for better articulation and measurement and how these operations contribute to poverty reduction. **Despite the deterioration of macroeconomic and financial markets conditions, impact ratings of IFC investment operations have remained relatively stable.** Progress towards IFC's Development Goals (IDGs) is ongoing, with many having already surpassed their respective FY14-16 targets.

11. IFC aims for a potential own account long-term finance (LTF) investment volume growth trajectory of 4-7% per year during FY15-19, and a Total LTF¹ growth trajectory of 5-8%. The average annual outstanding short-term finance² portfolio is expected to grow by about 0-2% per year. The Advisory Services offering is increasingly incorporated into a wide suite of integrated solutions that IFC provides to its clients.

12. IFC's portfolio continues to grow in volume but not at the levels experienced historically. **Based on most recent estimates, IFC's committed portfolio is expected to grow at a compound annual growth rate (CAGR) of 4-5% from FY16-FY19, with higher levels of growth in its strategic focus areas.** While strategy has been delivering, it has also been adding risk in IFC's portfolio. IFC continues to operate in challenging areas including IDA, FCS, smaller states, and to undertake complex mandates including the WBG climate target. Scaling up will require a stronger capital basis to provide the financial capacity to absorb this higher risk, and allow for growth of offsetting business with a more favorable risk-adjusted return. **Additional resources would allow IFC to scale up its approach to enhance its impact in FCS, mobilization, capital markets and climate change.**

13. The proposed program could be supported by current capital levels while ensuring that IFC maintains a level of capital consistent with a triple-A rating.

14. **IFC's global footprint demands a strategic approach to workforce planning** to ensure that critical skills, capabilities to support new business products and services, and incentives to attract and retain staff are planned for in key locations including field presence. IFC has begun to identify possible skills gaps and efficiencies in order to evaluate the adequacy of its staffing structure in order to meet the organization's strategic priorities and also support its evolving business.

15. The world is entering a new phase of development, where success depends on the transformative power of markets, technology, and mobilizing private capital – key themes of this strategy. As part of the WBG, IFC is uniquely positioned to support this transformation.

¹ IFC's own-account LTF plus core mobilization. Core mobilization (the syndicated loan program, initiatives, PPP mobilization, and AMC) excludes MIGA and other non-core mobilization.

² Global Trade Finance Program (GTFP) of less than one year and Global Trade Supplier Finance (GTSF) program.

CHAPTER 1: EXTERNAL CONTEXT AND WORLD BANK GROUP RESPONSE

EMERGING DEVELOPMENT AGENDA

1.1 **As the world strives to meet the Sustainable Development Goals (SDGs) over the next 15 years, progress will be shaped by success and tested by increasingly complex global challenges.** Progress will be made in reducing extreme poverty and the number of low-income countries will decrease, while a growing proportion of the moderately poor will live in middle-income countries. Fragile and conflict situations (FCS) will become more important, both by trapping people in poverty and through regional contagion. The private sector will provide the vast majority of growth and jobs in developing countries, and will dwarf the public sector in volume of investment, but cannot be expected to thrive where regulation and opportunities do not materialize. In a world of scarcer public resources, public-private complementarities will be necessary to shape and implement development solutions at scale. More broadly, slowing economic growth, rising inequity, aging populations, climate change, fragility and pandemics, and greater general vulnerability of each nation to crises in an ever more interconnected world, will all offer additional and complex challenges to address over the SDG era. The World Bank Group (WBG) has sought to maintain awareness of these long-term trends, positioning its shorter term directions and resource allocation to respond accordingly.

1.2 **The WBG's twin goals of eliminating extreme poverty and building shared prosperity in a sustainable manner are sound strategic pillars for engaging with the 2030 development agenda.** In pursuing its goals, the WBG plays three mutually reinforcing roles – country development partner, private sector partner, and global development partner. It has a crucial role not only in financing for development but also in sharing knowledge, building institutions, and as a platform for action on global issues. It seeks to build on and strengthen these roles in its current business planning.

1.3 **The WBG's comparative advantage is its unique ability to help the world address complex problems at scale.** This ability is based on the WBG's country depth and global breadth, public and private sector instruments and relationships, multisector knowledge, and the ability to mobilize and leverage finance at scale. Its value-for-money proposition builds on its commitment to maximize the development impact of each dollar invested and allocating resources to achieve its goals. In applying this comparative advantage the WBG ensures value for money by: (i) allocating resources to priorities informed by demand and evidence; (ii) maximizing program effectiveness through a focus on results; (iii) increasing efficiency, using benchmarking and business reviews; and (iv) leveraging the resources of the WBG and others.

MAKING THE WORLD BANK GROUP “FIT FOR PURPOSE”

1.4 **The future of the WBG is not just about doing more, but about doing things better.** Since it was established the WBG has continuously evolved to better respond to changing global needs, introducing new institutions, instruments, policies, and strategies. In the FY17-19 planning horizon, it will take actions to build on its current strengths and pursue these long-term strategic directions.

- **Assisting all client segments:** The WBG will strengthen its ability to assist all client segments, including those in FCS and high-income countries (HICs). A more robust FCS approach requires new ways to address regional spillovers, reduce drivers of fragility, involve the private sector, manage risk, and build client capacity – while developing the flexibility to absorb a different cost structure and assist clients across all income categories. In low-income countries (LICs), the WBG needs to do more to build institutions and policy environments and to de-risk and mobilize private investment, as well as providing more flexible as LICs transition towards middle-income country (MIC) status. MICs are critical to regional or global public good agendas, a key source of South-South learning, and have important needs on poverty and shared-prosperity, and the WBG will continue to engage with them financially, but also increasingly through reimbursable advisory services (RAS). The WBG will work with HICs on global public good agendas, provide RAS, and learn from their cutting-edge knowledge,

as well as improve its capabilities to work with subnational clients. While working across the continuum of country and subnational clients, the WBG needs to engage increasingly with both public and private sector clients, including through public-private partnerships.

- ***Leading on Global and Regional Issues:*** The WBG will expand its support to global public goods, including work on climate change, pandemics, and refugees. To maximize its impact, the WBG will need to be creative in using capital, drawing also on other sources of financing. It will develop more robust methods for setting priorities among global issues and defining where the WBG should take the lead and where it should support other agencies. The WBG will also step up its support for regional and transboundary solutions.
- ***Expanding Customized Knowledge Services:*** The WBG will meet growing demand for knowledge, including through RAS. The RAS are likely to become a much more significant proportion of the WBG's analytic work program, including for HICs, over the next 15 years. IFC's private sector advisory services can play an increasingly important role, building on more than 30 years of experience, a strong global platform, and largely decentralized staff. The WBG will work to accelerate the flows of knowledge across the globe, including through facilitating South-South learning.
- ***Improving Efficiency and Flexibility:*** As the continuum of clients grows, and their challenges become more complex, more risk-based approaches to activities are required, as are investments in information technology to streamline and speed up processes, eliminate duplicative activities, improve information flows, and make accountability more transparent. The focus on efficiency, simplification, and speed must continue.
- ***Mobilizing Others' Resources:*** Scaling up its impact will require the WBG to invest in new approaches and instruments to leverage external balance sheets. A substantial part of the financing mobilized for development purposes will need to come from domestic finances. Leveraging private sector finance and solutions is crucial to increase impact, and to increase such leverage, the WBG will systematically play several roles based on its capabilities as funder, adviser, intermediary, catalyst, private sector development thought leader and innovator. At the country level, this includes enabling, de-risking, investing in and mobilizing for private solutions; and more broadly, developing and de-risking mobilization mechanisms to unlock private capital flows into developing countries. In addition, there is a continuing need for public finance and for both concessional and non-concessional development finance to fund public goods, offset negative externalities and promote positive externalities.

LEVERAGING HUMAN CAPITAL

1.5 **The WBG's success hinges on the quality and commitment of its staff.** A rapidly evolving external environment shapes the WBG's priorities, which demands both an agile workforce adaptable to emerging challenges and client needs, and remaining competitive in attracting and retaining talent vis-à-vis other development organizations. A number of HR innovations and solutions were instituted to strengthen the employment value proposition and to further align the WBG to industry best practices.

1.6 **Therefore, the WBG will continue implementing its five-pillar three-year HR Strategy** which seeks to: (i) drive a more effective organization; (ii) strengthen the WBG's employment value proposition; (iii) proactively manage careers and talent; (iv) foster a diverse and inclusive environment; and (v) ensure HR excellence and business-driven delivery.

THE CENTRALITY OF THE PRIVATE SECTOR

1.7 **Implementing the SDGs and the WBG goals cannot be achieved without the private sector.** Functioning, self-sustaining private sector markets, responding and adapting to economic needs and demands, are central to the achievement of the WBG goals. The private sector is a powerful engine for innovation, productivity and economic growth, and a major contributor to jobs, taxes, products and services, and poverty reduction. The landmark agreements of 2015 (the Addis Ababa Action Agenda, the Sustainable Development

Goals, and the Paris Climate Accord) signaled a new consensus that the most enduring, sustainable, and scalable solutions to development problems have emerged through the interplay of private investment and public policy. The private sector brings scale and innovation, while the public sector develops the basic institutions of governance, provides stable regulations that enable markets to grow, and helps de-risk private capital flows. When such interaction is well designed, the impact can be profound, including delivery of public objectives such as global public goods, and transforming *billions* in public resources into *trillions* in overall capital flows.

1.8 IFC, within the WBG, creates a bridge between the investment community and the development agenda, in order to harness that transformative power on the most pressing economic challenges within countries and globally, such as climate change, energy, food security, health, education, financial inclusion, and jobs.

AN ENVIRONMENT OF INCREASED UNCERTAINTY

1.9 **The global economic environment is characterized by significant sources of uncertainty.** As a result of increased risk aversion driven by lower commodity prices, decreased consumption and investment, weakened macroeconomic fundamentals, and lower growth, the private sector, for the first time since the global financial crisis, is experiencing liquidity constraints and restrictions in access to capital markets. Having raised debt levels significantly over the past years, debt roll-over has become more challenging.

1.10 **A number of larger developing countries are undergoing economic transitions.** Growth has slowed down in many regions, driven by a soft landing in China, sharp contractions in Russia and Brazil, and investor concern over the medium-term prospects of other large emerging economies such as Turkey and South Africa. Only India, somewhat isolated by its reform drive and improving fiscal environment, seems to escape the global trends among large emerging markets (EMs).

1.11 **As a group, the outlook for EMs has deteriorated significantly,** growing below full potential and no longer above capacity as in the 2006-12 period. Several factors are behind this, including:

- The end of the commodity super-cycle that propelled growth in many EM, taking commodity prices to lows not seen since 2004;
- Declining global trade, one of the drivers of the pre-crisis expansion;
- Rising EM debt, in particular corporate debt, together with an increase in EM corporate bond spreads;
- Monetary tightening (and expectations of tightening) by the Federal Reserve, that led to a stronger US dollar and depreciation pressures in most EMs.

1.12 The above factors only exacerbate the structural weakness in several large EM countries. These trends could lead to significant macroeconomic weakness and severe market corrections.

1.13 **As a result of economic headwinds and associated increase in risk aversion, capital flows to EM have declined substantially in 2015.** Among regions, Latin America & the Caribbean (LAC) has been the most affected, with flows declining 42% in 2015 (driven by a collapse of flows to Brazil, but also sharp declines in Mexico, Peru, and Chile). Flows to Europe & Central Asia (ECA), Africa, and Asia have declined around 15-20% in the same period. Only the Middle East & North Africa (MENA) region has seen an increase in flows in 2015, despite low oil prices (but still below the pre-crisis peak reached in 2007).

1.14 All bond, loan, and equity flows declined in 2015. However, bond issuance has declined significantly more than equity activity and bank lending. The decline in bond issuance is a clear sign that debt rollover is becoming more challenging to EM corporates and countries, due to either funding cost increases or higher risk aversion levels. Accordingly, debt levels have increased over the last years.

1.15 Global banks have been deleveraging from EM since the second half of 2014. Total foreign claims from BIS³ reporting banks in the Euro area, UK, Japan, and the US to EM have declined from \$4.5 trillion in the second quarter of 2014 to \$3.9 trillion in the third quarter of 2015. Banks from the Euro area and the UK have been withdrawing faster, while Japanese banks have increased their exposure to EM in the same period.

1.16 **Market volatility found its way into IFC's financial results.** The recent downturn in the markets has impacted IFC's allocable income and, with much reduced unrealized equity capital gains, the outlook for FY16-19 remains uncertain.

1.17 **IFC is operating in a worsening environment.** IFC's loan portfolio results, equity returns and profitability have been adversely affected by the challenging environment in emerging markets. Although IFC has managed to deliver solid profitability results from its existing portfolio given its diversified portfolio approach, this is increasingly difficult given the current context. IFC's disbursed loan portfolio resumed slight growth in the first half of FY16, after shrinking in FY15. IFC's non-performing loan ratio (NPLs) has been rising steadily, and IFC's equity returns are lower compared to earlier periods. The same conditions have led to increased equity write-downs. IFC is navigating through these challenges through a strengthened portfolio approach engaging in impactful opportunities while being vigilant of the effect of strategic shifts on its financial sustainability. See Chapter 3 for more details.

³ Bank for International Settlements

CHAPTER 2: STRATEGIC DIRECTIONS

THE STRATEGIC CHALLENGE

2.1 The context described above – slowdown of economic growth in both developed and developing countries, sharply reduced global trade, volatility in currency and commodity prices, high levels of debt, and over capacity has increased risk aversion and reduced private investment. With this adjustment, less progress will be made on raising living standards and reducing development gaps, which remain enormous.

2.2 **Despite the economic headwinds, ambition is high for the implementation of the landmark multilateral agreements of 2015.** The events of 2015 have worked to create an acceleration of expectations and ambition demanding results at scale. This contributes to the political will to pursue reforms, as seen through Nationally Determined Contributions (NDCs) climate change pledges which countries made at COP21 in Paris. The information revolution, including increased connectivity, access to mobile devices, and digitization of fields ranging from health and education to infrastructure and finance, are now allowing for affordable, scalable solutions to intractable development challenges. The focus must now be on implementation.

2.3 **Sustainable recovery from the current economic slowdown, particularly given fiscal pressures, will be defined by a recovery of private investment to restore productivity growth and employment⁴.** Within the WBG, IFC's role is to help catalyze this response. This frames the strategic challenge: how to maximize IFC's economic impact on growth, while also protecting IFC's financial capacity to play an even larger catalytic role to support recovery and growth in the future. This challenge will be met by making strategic choices about *where* we deploy our resources, *how* we deploy them, *how* we build our internal capability, and *how* we manage risk and deliver sustainability.

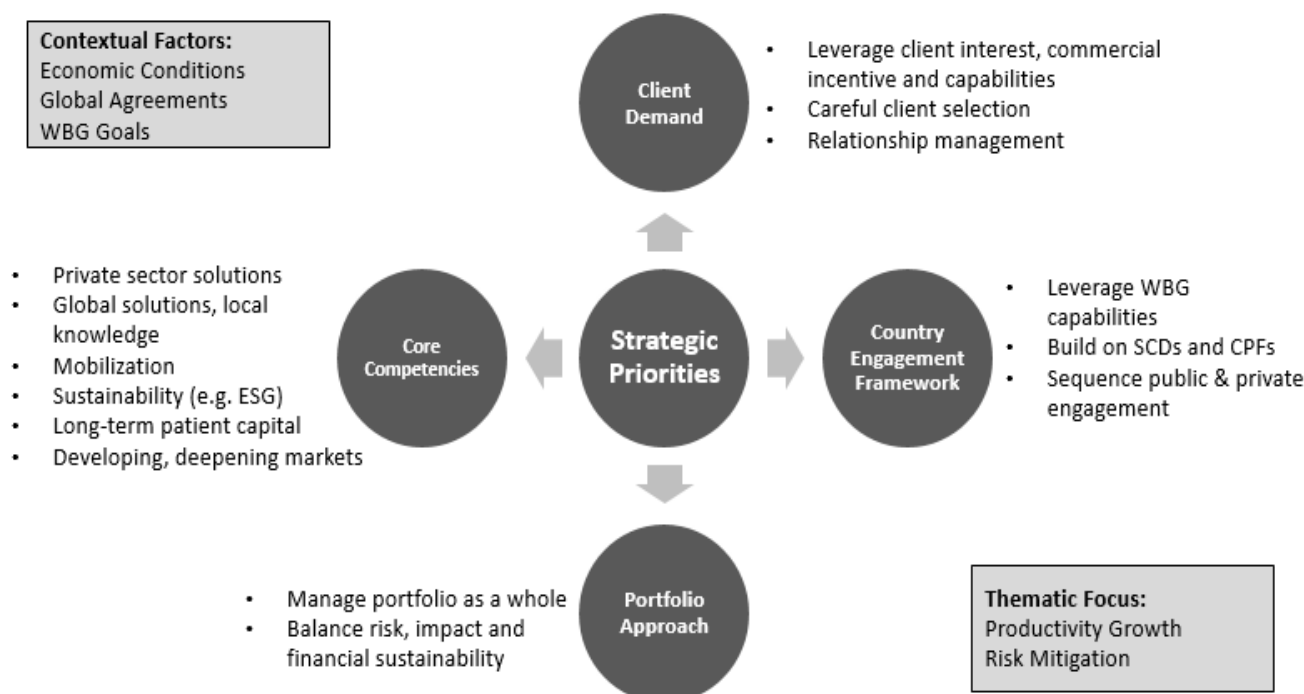
FRAMEWORK FOR MAKING STRATEGIC CHOICES

2.4 In developing the strategy, IFC considers four pillars: (i) client demand; (ii) the country engagement framework; (iii) IFC's core competencies; and (iv) the Portfolio Approach. These signals are considered in the context of the overall goal of contributing to the WBG goals in the current environment of risk aversion.

2.5 **When IFC defines strategic priorities, it is identifying areas of business where it would like to increase its operational engagement relative to past levels.** This may be executed through increasing client coverage, focusing more management and operational staff time including strengthening economic analysis as part of project development, increasing its risk appetite, introducing recognition or incentives such as scorecard targets, new instruments and strategies, or engaging in work to remove obstacles. IFC will always maintain a diversified portfolio of activities across all regions, and would expect these changes to appear over time.

⁴ The central role of aggregate investment in growth has been clear (Commission on Growth and Development, 2008). While fewer empirical studies disaggregate public and private investment, those which have done so, Reinhart and Khan (1989) have made clear that private investment plays a much larger, and thus more important, role in the growth process than does public investment as it is associated with higher productivity growth. Others point to the complementarity of public and private investment.

FIGURE 1: FRAMEWORK FOR MAKING STRATEGIC CHOICES



A. CLIENT DEMAND

2.6 Partnering with high quality clients is fundamental to IFC’s effectiveness. Thus, working better and differently with existing clients, and developing new partnerships with new players (both private and public) is a key element of IFC’s strategy. IFC engages with clients committed to its development mandate and undertakes projects that will have greater impact, due to IFC’s participation.

B. COUNTRY ENGAGEMENT FRAMEWORK

2.7 IFC relies on Systematic Country Diagnostics (SCDs) and Country Partnership Frameworks (CPFs) as a framework for selectivity at the country level. SCDs present an evidence-based assessment and prioritization of countries’ binding constraints and key opportunities to achieve the WBG goals. The CPFs reflect a country program designed around the country’s own development goals, the SCD priority areas, and the WBG comparative advantage. These tools help to identify the best private and public sector solutions for development, determine the appropriate sequencing of World Bank (WB), IFC and MIGA engagements, and build consensus on creative, sustainable and impactful solutions. During the first half of FY16, 13 joint SCDs and eight CPFs were finalized and discussed with the Board.

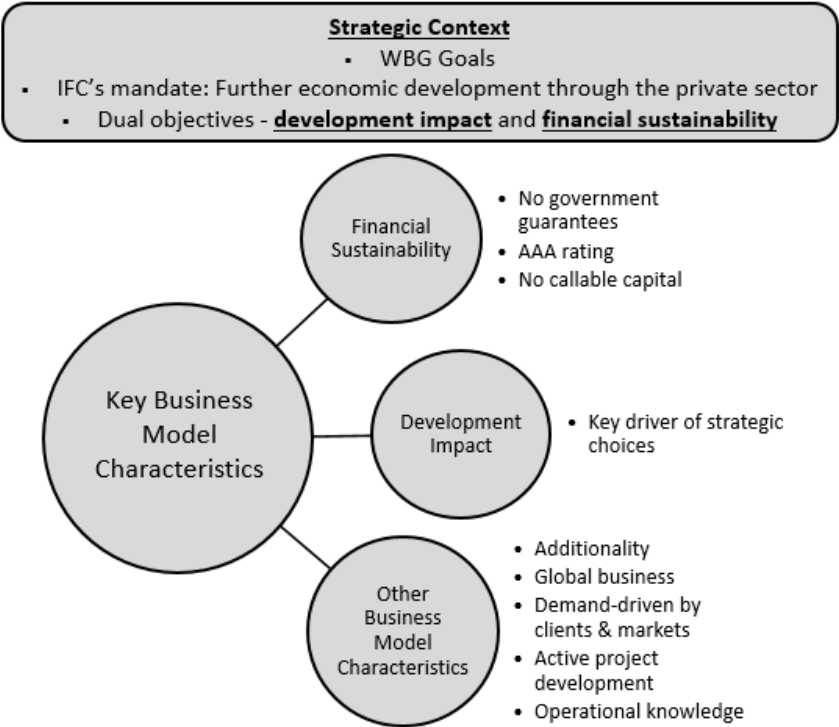
2.8 A clear set of patterns have emerged in the approved SCDs and CPFs to date. In almost all countries IFC’s engagement includes a focus on infrastructure, with a large concentration on energy. In most countries IFC is also focused on access to finance, financial stability or financial inclusion. In a growing number of countries IFC is asked to play a role in delivery of education and health services, particularly as countries seek to make their skill delivery systems more responsive to private sector demand.

C. WHAT IFC DOES WELL: CORE COMPETENCIES

2.9 Bringing private sector solutions to the largest development challenges. As the largest global private sector focused development finance institution (DFI), IFC is a leader in bringing innovative private sector solutions and capital to address the toughest development challenges. IFC serves as a bridge between private investment and global development. To private sector clients, IFC’s local knowledge,

convening power, and lessons of experience and results measurement across regions and sectors is critical for pulling together innovative and relevant investment solutions, particularly in challenging environments. To support complex projects, IFC can utilize and leverage its investment, advisory, mobilization capacity (including through the IFC Asset Management Company (AMC)), and treasury products and services, as well as broader WBG capabilities. To developing countries, IFC’s demonstration of profitable, sustainable investments is essential in helping to de-risk markets and attracting capital to help address development priorities, including infrastructure, jobs, social services, and competitive markets. Furthermore, IFC leverages its convening power to mobilize third-party capital, improve the enabling environment for private sector growth, and share operational knowledge. See Figure 2 below on IFC’s business model.

FIGURE 2: IFC’S BUSINESS MODEL



2.10 **Mobilization.** **IFC is a leading mobilizer of third-party resources for its projects**, including through syndications, risk mitigation, local currency capabilities, and institutional investor partnerships. It has a strong track record as an innovator in mobilization (B Loans, Managed Co-Lending Portfolio Program (MCP), the AMC, public-private partnerships (PPPs), Treasury solutions) and continues to develop an evolving array of mobilization platforms and mechanisms, and global relations with a wide network of funding partners. IFC’s willingness to engage in difficult environments, beyond the risk tolerance of commercial funders, its long-term perspective, its role as a trusted partner, and its leadership in crowding-in private finance, enables IFC to extend its footprint and have a development impact well beyond its direct resources. IFC will prioritize opportunities where it can be most catalytic.

2.11 **Developing new markets for private investment.** As part of the WBG, **IFC acts to help extend the frontier of market solutions to new areas or deepen existing markets**. IFC may leverage the WB to improve the enabling environment and address market failures. Historically, IFC played a key role in opening emerging markets as an investment class, private infrastructure in lower income countries, local currency bond markets, in frontier regions, financial innovation, and expanding microfinance including in FCS. IFC will prioritize opportunities such as these, to extend market solutions.

2.12 Unlocking the economic power of sustainable investment. Sustainability is prominent in the global commitment to the SDGs and underpins the WBG goals. **In delivering the goals, IFC aims to ensure long-term business success and unlock economically, environmentally and socially sustainable investment.** IFC continues to support clients in environmental, social and corporate governance (ESG) risk management, through its performance standards and corporate governance methodology. IFC also partners with industry and other partners to set global standards and find solutions to complex non-financial and emerging risks, while bringing operational learning to global issues to influence markets related to sustainability. Increasingly, leaders in the private sector understand that sustainability, including mitigating and adapting to climate change, is in their financial interest.

2.13 Providing long-term support in volatile times. **IFC provides patient capital and innovative ways to manage risk.** By taking a long-term perspective, IFC selectively invests in attractive assets impacted by market volatility to preserve economic value and to signal confidence in emerging markets.

D. THE PORTFOLIO APPROACH

2.14 **IFC's portfolio approach aims to achieve high development impact and financial sustainability over the portfolio as a whole, allowing it to take greater risks on individual investments.** IFC's business is complex and there are multiple variables that influence investment decisions when building a portfolio. External factors, such as macro and market conditions and client demand, determine the availability of commercially viable and impactful projects. Other factors, including IFC's strategic focus (e.g. at the country-level), additionality, financial profile (profitability, capital), risk considerations (credit, exposure limits, integrity due diligence (IDD), ESG), staffing, incentives and opportunity for development impact, also guide project selectivity.

2.15 **In order to pursue its developmental mandate, IFC operates in markets where conditions are difficult.** Such markets include FCS and low income IDA countries (IDA-LIC) where development needs are urgent and the risks (financial and non-financial) and cost of investing are higher. As transaction costs are high and projects typically smaller, the profitability of such operations has been lower than IFC averages, particularly on a risk-adjusted basis.

2.16 To ensure IFC's financial sustainability while maximizing its development impact, it is imperative to correctly understand, measure and manage the risks that IFC takes. **In taking on more risk, IFC needs to remain vigilant of the impact of these additional risks and market volatility on portfolio and capital, and adjust its business mix accordingly to include less risky projects in more stable environments.** Active portfolio management ensures that IFC has the financial resources required to implement its program while maintaining its triple-A credit rating. This approach requires closely monitoring capital allocation across regions, sectors and strategic priorities, and ensuring that investments earn a rate of return that is commensurate with the risks taken.

DELIVERING ON THE WORLD BANK GROUP GOALS AND STRATEGY

2.17 As previously mentioned, IFC's framework for making strategic choices ensures its activities contribute to the WBG goals in three ways: (i) creating jobs (direct, indirect and induced); (ii) supporting local economic growth and development, focusing on generating sustainable opportunity; and (iii) addressing access gaps to critical goods and services. See Annex I for more details.

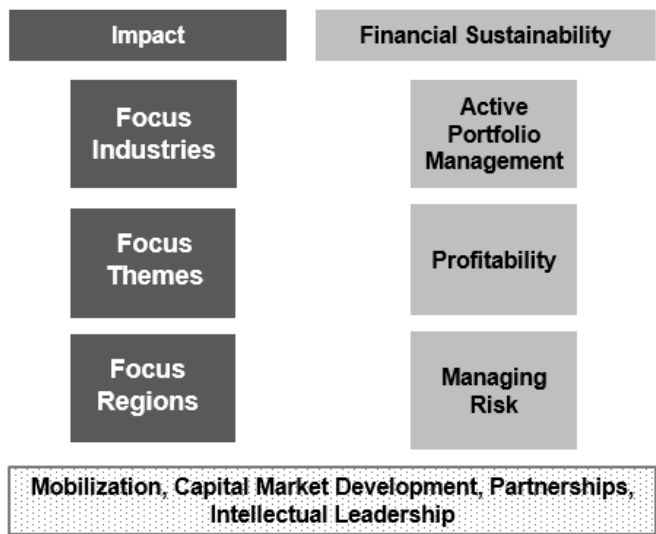
2.18 IFC operations help to eliminate poverty and build shared prosperity in a sustainable way by linking the poor to sources of economic dynamism. Examples include IFC's work to integrate smallholder farmers, micro, small and medium-enterprises (MSMEs), suppliers and distributors in value chains; helping private sector clients apply inclusive business models; as well as more targeted activities and initiatives focused on

women, youth, the frontier and poorer regions of countries. Other operations provide basic social, financial and infrastructure services, and improve the availability and quality, and lower the cost of goods and services.

STRATEGIC PRIORITIES FOR FY17-19

2.19 Chapter 1 outlined that the volatile external environment in the near term, coupled with IFC’s capital availability, demands a strategy that maximizes development impact while also preserving financial sustainability. As a global DFI, IFC engages across regions and sectors. The regions and industries where IFC has its largest engagements will remain central parts of its program. IFC has defined its priorities along three axes: industry-specific, thematic, and regions. A strong focus on mobilization, capital markets development, partnerships, and intellectual leadership will support implementation of IFC’s strategy.

FIGURE 3: IFC WILL AIM TO ACHIEVE DEVELOPMENT IMPACT AND FINANCIAL SUSTAINABILITY



2.20 **During the strategy process, IFC considered a number of tradeoffs** beyond those already considered at the country level in the process of developing CPFs. Given elevated levels of uncertainty and risk, a greater focus is placed on countries that are making progress on structural reform; particularly in East Asia & Pacific (EAP), Sub-Saharan Africa (SSA), South Asia (SA), and LAC. On the industry side, IFC’s tradeoffs took into account client demand and economic conditions. Given high levels of overcapacity in many industries and declining global trade, more investment may be less warranted in manufacturing capacity and in some subsectors of the oil and gas industry in the short run, and more opportunities may emerge in areas that respond to the demands of a growing, increasingly urban middle class. In sectors characterized by overcapacity, the focus may shift on the margin to restructuring and consolidation to help ensure that the most economically sustainable activities remain viable.

2.21 **All IFC operations rest on client demand. IFC will remain engaged across a range of sectors and regions,** and will always be responsive to the quality and extent of client opportunities that are aligned with its mandate, and continue to focus on activities that contribute the most to achievement of the WBG goals. Yet where IFC focuses more resources to identify and develop client opportunities in its priority areas, and all else being equal, is to the expectation that they will appear over time as larger shares in the portfolio as indicated in Chapter 3.

2.22 The strategy focuses on the foundations for productivity growth: infrastructure, financial inclusion and human capital, while also working with the WB and IMF on the structural reform agenda to help create a conducive and competitive environment for private investment. IFC will also focus on technological innovation, where IFC has already seen dramatic improvements in service delivery through the exponential increases in connectivity and mobile data access. Through operations in these areas, IFC seeks to maintain the focus of the private sector on the core building blocks of job creation, while also accelerating access to the power of digitization to leapfrog and more rapidly transform economies.



2.23 The strategy focuses on development challenges that present the largest risks and opportunities, including fragile and conflict situations and climate change. In this environment risk is a key driver of economic decisions, including economic volatility, climate stress and economic fragility. IFC will help its clients respond to the global downturn and undertake selective contrarian investments that may help restore confidence and ensure adequate liquidity. By focusing on development of local capital markets, IFC seeks to help clients diversify finance and mitigate currency risk. IFC will continue to expand its focus on low income and fragile economies, through both advisory and investment services, subject to further progress on mechanisms to de-risk investments. IFC will seek to make progress against the WBG climate commitment during the strategy period, and in line with the new WBG Gender Strategy, IFC seeks to unlock the untapped economic potential of women.

2.24 Structural reform is essential to progress on the strategic areas described below, particularly infrastructure and financial markets where policy and regulatory obstacles are high.

2.25 Geographically IFC is engaged across all regions, focusing more on where the greatest opportunities exist for IFC to make a difference on vulnerabilities described above. While the development case for engaging in FCS and IDA is strong, IFC will continue to play a key role in MICs, where 70% of the global extreme poor reside⁵. These countries face many critical development challenges, including inequality, large frontier regions, rapid urbanization, low productivity, weak institutions, vulnerability to external shocks and uneven access to finance. Given increasing economic integration, IFC operations in MICs play a key role in contributing to IFC's impact, as they offer a potential for projects with large-scale impact and profitability. Relationships built in MICs are a basis for increasingly important cross-border investment and can serve as a laboratory for new business models that can be transferred to other markets.

INDUSTRIES FOR SCALE-UP

A. INFRASTRUCTURE

2.26 Infrastructure is an essential component of economic growth, economic integration, service delivery and job creation by influencing the productivity of firms. According to the WB, over 1.3 billion people – almost 20% of the world's population – still have no access to electricity, and nearly 800 million people lack access to clean water. One billion people live more than a mile from an all-weather road, limiting access to markets and essential services. Furthermore, infrastructure plays a key role in the NDCs.

2.27 These enormous infrastructure gaps persist because global demand far outstrips investment. The World Economic Forum estimated in 2014 that the annual financing gap for infrastructure is around \$1 trillion, taking into account demand of \$3.7 trillion and annual investment of \$2.7 trillion. Taking climate concerns

⁵ Based on PovcalNet data as of February 2014. URL: <http://iresearch.worldbank.org/PovcalNet/index.htm>.

into account, annual investment demand rises to \$5-6 trillion per year, according to the Global Commission on the Economy and Climate.

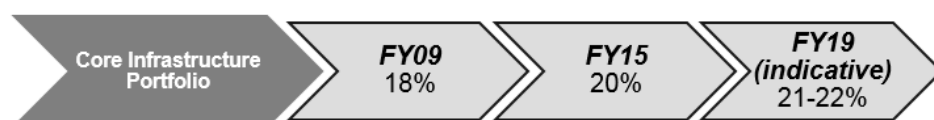
2.28 Governments cannot close this gap without solutions, innovation and capital of the private sector. The private sector can do more. Bhattacharya, Oppenheim and Stern estimate that private sector financing for infrastructure globally amounts to \$1.5-2 trillion. By contrast, net inflows into mainstream institutional funds amount to \$5-8 trillion in investable savings and total assets held by institutional investors amount to \$100 trillion. Tapping institutional funding will be key to bridging the financial gap. Private investment accounts for up to half of total infrastructure spending globally, 62% goes to high income countries, 32% to Upper MICs. Despite having 48% of global population, only 5% of private infrastructure investment is in Lower MICs, and less than 1% in LICs.

2.29 A key constraint to the private provision of infrastructure is unevenness in reform. Reform work is underway in many countries, but the number of emerging investable projects remains relatively few. Governments seek more support translating sector reforms into private investment. Moreover, ambitious projects in LICs suffer from high government risks – insolvent utilities, tariffs below economic levels, poor collection, transmission losses or weak governance and regulatory systems.

2.30 The global landscape in infrastructure financing is evolving. Due in part to Basel III, which has reduced commercial bank appetite for long-maturity assets, commercial lending to infrastructure has declined, including in difficult markets such as Africa where it has fallen from \$7 billion in 2006 to \$1 billion in 2014. Non-traditional sources of finance for private infrastructure, notably institutional investors and national development banks, are showing signs of interest in infrastructure as an asset class.

2.31 The current macroeconomic environment poses several additional challenges. In the short run, the decline in oil and gas prices has reduced demand for some large infrastructure projects, such as shared-use rail infrastructure, that were tied to mining, oil and gas projects. Furthermore, the overall weak currency and macro outlook underlines risks of financing local currency-based projects with foreign currency debt and risks to infrastructure equity investments.

FIGURE 4: IFC'S EVOLVING PORTFOLIO IN CORE INFRASTRUCTURE



2.32 Notwithstanding the challenging environment, changes in technology and markets are setting the stage for a growing share of IFC's business in the infrastructure sectors. Advances in technology that are driving down the cost of renewables and lower relative gas prices, are allowing countries to rethink energy strategies in ways that may both lower costs and increase sustainability. This in turn is likely to generate opportunities for IFC in the near-term in power – natural gas fired generation, from waste to energy, renewable energy, hydropower and midstream gas infrastructure, in addition to possibilities in transport and water – including through IFC's work with municipalities. IFC expects to not only be a direct participant, but also help governments partner with the private sector, and lead innovation on how private infrastructure is delivered, as has been the case in recent ground-breaking transactions in Myanmar, Nepal, Côte d'Ivoire and Nigeria.

2.33 IFC is engaged in larger, more complex projects with transformative potential. These projects bring an opportunity for high returns, but also higher financial risk. IFC will therefore concentrate more of its effort on countries that pursue sector reforms, working closely with IDA and the IMF. Where IFC engages, its role will continue to evolve from a financier to one of creating solutions and sharing knowledge for some of the most complex problems. Client relationships and global knowledge will be key. IFC will work with governments on sector level approaches, finding and working with potentially strong utilities, and work to

develop projects. To expand the pipeline of potentially investable projects, IFC will go beyond traditional actors to identify potentially strong utilities and develop innovative approaches to help them scale up.

2.34 IFC is focusing significant effort on “upstream” work, engaging with stakeholders on project development, including helping to design mechanisms and structures that may help mitigate risks such as government payment risk. Currently, this includes IFC’s InfraVentures, market-making such as Scaling Solar, the Africa Special Initiative, AS market development work introducing proven technologies into new markets, and the WBG JIPs such as Egypt, Pakistan, Nepal, Nigeria and Myanmar. Engagements, not necessarily individual projects, will define the business model.

BOX 1: JOINT IMPLEMENTATION PLAN IN MYANMAR

The WBG has been engaged through multiple points in Myanmar’s power sector under the overall framework of a Joint Implementation Plan. It draws upon IFC’s long-term capital mobilization and sector expertise complemented by the WB’s knowledge of the power sector fundamentals and MIGA’s guarantees to private investments to improve investment environment in the power sector.

IFC’s role has been to provide advisory services to the Myingyan project through a PPP transaction to facilitate a competitive bid for a new power plant, and to the Government of Myanmar and private developers to improve ESG standards for hydro projects; to support Ministry of Electric Power in the corporatization of the largest distribution entity in the country (Yangon Electric Supply Board); to provide technical experts in transmission and distribution to support a major IDA-financed program to expand Myanmar’s national electricity grid; and to lead the Lighting Myanmar program to create off-grid energy access in areas where the grid will not reach in the next 10-20 years.

The WB’s role, through IDA financing, has focused on providing credits and technical assistance to increase the electrification rate through the National Electrification Project, and to increase generation capacity and efficiency through the refurbishment of the Thaton gas fired power plant. The objective of this initiative is to alleviate acute electricity shortages and increase access to electricity from 30% to 50% and connect an additional 6.2 million people.

MIGA’s role is to support energy sector projects through guarantees which will provide access to long-term dollar-denominated funding and mobilize commercial financing.

2.35 More effective use of public funds can overcome bankability challenges in the most difficult environments. IFC experience in FCS and LICs highlights the significance of credit risk and affordability as impediments for IFC to invest, as well as mobilize more. As more governments push forward on sector reform and open up new opportunities for the private sector, they are often unwilling or constrained to backstop key risks. IFC will therefore need to push the envelope, devise alternative mechanisms that deploy *public* funds to lower the cost of private infrastructure and use guarantee structures to reduce this risk further. This would, in principle, enable more cutting-edge transactions to proceed.

2.36 Crowding-in private capital will be critical to respond to the infrastructure challenge. IFC will introduce new platforms to attract institutional investors, including insurance companies. As mobilization shifts to new investors, IFC will need to further develop relevant products, including more focus on equity origination in early project phases and sell down this risk as projects reach phases that meet investor risk profiles.

2.37 Expertise will be increasingly important to IFC’s business model. This will require the expansion and retention of a cadre of seasoned, specialized staff in such areas as upstream and project development, and emerging technologies. As capital market financing of infrastructure broadens, IFC will need to expand equity/asset management expertise.

BOX 2: SUSTAINABLE CITIES IN TURKEY

Building sustainable cities is a key element of Turkey's current National Development Plan and a prominent feature of the WBG Country Partnership Strategy with Turkey. The Turkey Sustainable Cities Joint Implementation Plan (JIP) offers comprehensive WBG solutions to Turkish clients (sub-national and private) to increase investment for municipal infrastructure such as public transport, solid waste and green buildings.

With the overall objective to maximize commercial financing where possible, while focusing public investment where needed, the team has developed a closely coordinated approach to:

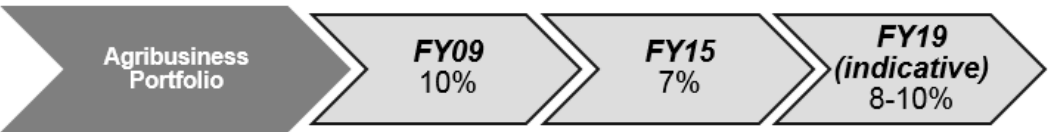
- *Improve the enabling environment* – IBRD provides policy advice and technical assistance to the federal government (e.g. RAS on PPP framework). By jointly conducting the diagnostic of policy barriers, IBRD and IFC ensure policy advice is targeted and enables the private sector (e.g. on PPPs, municipal bonds and FX hedging).
- *Generate a pipeline of projects* – IBRD provides support to municipalities to create a pipeline of well-planned and executed projects – complemented with IFC advisory where appropriate (e.g. in Izmir).
- *Maximize infrastructure financing* – IFC, IBRD and MIGA offer tailored financing solutions for cities at various stages of development. IFC will finance bankable cities without the need for sovereign guarantee (e.g. Izmir, Istanbul) as well as private companies (e.g. Hexagon), IBRD finances cities with weaker credit history requiring guarantees (e.g. Malatya), and MIGA provides credit enhancement through its non-honoring of sub-sovereign obligations product which attracts commercial lenders.
- *Increase commercial finance* – With the objective of increasing the pool of municipalities with access to commercial finance, IFC and IBRD collaborate on a joint Credit-Worthiness Academy (April 16). In addition, wherever feasible, IFC, IBRD and MIGA explore joint PPPs where IBRD provides project preparation and public financing, IFC structures PPP transactions and finances private sector players, and MIGA provides guarantees to investors and parallel lenders (e.g. Izmir).
- *Increase investments in Green Buildings* – IFC launched a comprehensive Green Buildings program with direct investments through MAS and FIG, coupled with advisory to client FIs and the government which is implemented jointly with the Finance & Markets and Trade & Competitiveness Global Practices.

B. AGRIBUSINESS

2.38 Despite a recent drop in global food prices in conjunction with the commodities prices downturn, food security remains an essential development priority. The global food prices crisis of 2008-09 placed food security and agriculture as high priorities on the global development agenda. Despite recent declines in agri-commodities prices, drought and other climate impacts have sharply reduced food production in many parts of the world, especially in vulnerable regions such as Sub-Saharan Africa and the Middle East. Access to safe, nutritious, and affordable food remains a fundamental challenge for over 900 million undernourished people in the world today, while sustainably feeding the world's population of over 9 billion people by 2050 remains one of the greatest challenges of our time.

2.39 The global food system requires integrated solutions across the value chain from agri inputs to agriculture production to food retail. IFC will continue to integrate advisory and investment operations in agribusiness to enhance development impact beyond financing instruments alone. In particular, it will focus on firms which work with smallholder supply chains, generating increased yields and productivity, while meeting higher quality and ESG standards demanded by the global marketplace. In many markets, increased coordination with WB agriculture programs and IFC infrastructure and investment climate reforms initiatives are targeting value chains that have most potential for impact.

FIGURE 5: IFC'S EVOLVING PORTFOLIO IN AGRIBUSINESS



2.40 Increasing demand for animal protein, dairy and packaged foods will continue in emerging markets, despite slowing rates of growth. Middle class consumers continue to demand a variety of food

products and major consumer brands. The fastest growing segment of IFC's agribusiness portfolio is the dairy and animal protein sector as consumers demand more protein as their incomes increase. In these segments, IFC will help its clients provide improved nutrition, implement food safety standards, and improve sustainability practices.

2.41 Modern food retail systems continue to advance, especially in urbanizing markets, providing consumer benefits of food safety and choice. IFC will invest in the expansion of formal retail networks which brings strong consumer benefits including job creation, and access to year-round availability of fresh produce along with formalization of supply chains, including improved adherence to standards. Increasing inclusion to these markets by local suppliers is an essential element of advancing local agriculture and rural incomes.

C. FINANCIAL AND SOCIAL INCLUSION

FINANCIAL INCLUSION

2.42 Sound, inclusive, and sustainable financial markets are essential to building shared prosperity and eradicating poverty. They ensure efficient resource allocation, create jobs, spur economic growth and play a critical role in private sector development. A landmark study by Beck, Demirgüç-Kunt and Honohan (2008) found: that poorly functioning financial systems generate poverty traps, that barriers to finance are the major constraint to firm growth, that use of external finance is associated with more innovation by firms, and that broader access to finance also promotes growth at the aggregate level. Lowering financial barriers is especially beneficial for small firms, which, in turn, can widen an economy's sectoral range and dynamism.

2 billion more included in financial system

Keep Banks focused on growth, by assisting with distressed assets

Reach millions of SMEs to support the creation of 600 million new jobs

Support infrastructure and agribusiness

565 million new housing units needed

2.43 A large share of the global population still has no access to financial services. The expected rise of Africa to 25% of the world's population, continuing population stresses in South Asia and the Middle East, high rates of urbanization, job creation, housing and infrastructure, all call for inclusive and responsible financial systems. IFC has played a crucial role in the development of microfinance. As an example, an estimated 40% of India's microfinance is provided through IFC-supported institutions, the vast majority to women. Yet it is estimated that 2 billion adults lack access to savings or credit, and 200 million MSMEs have no access to credit. 77% of adults living on \$2 a day or less do not have a formal bank account, and only 15% of adults in FCS have a formal account. There is an estimated \$1 trillion formal small and medium enterprises (SMEs) finance gap in emerging markets. A McKinsey study estimated that 72% of SMEs in Africa are credit constrained. Key challenges to expanding access to finance include weak legal and regulatory institutions, and informality. The latest Findex report⁶ confirms a 9% gap in developing countries between men and women in bank account ownership.

2.44 IFC is committed to providing universal access to finance by 2020 by including 600 million new people into the financial system⁷. In addition, IFC will work to support the creation of 565 million new housing units, help with agribusiness financing, help address the infrastructure gap, support capital markets development, and increase debt resolution, to keep banks focused on growth, by assisting with the Debt and Asset Recovery Program (DARP).

⁶ http://www-wds.worldbank.org/external/default/WDSPContentServer/WDSP/IB/2015/10/19/090224b08315413c/2_0/Rendered/PDF/The0Global0Fin0i0n0around0the0world.pdf#page=3

⁷ The WBG universal financial access goal is a collective effort; the WBG will contribute to delivering accounts to reach at least 50% of the excluded, or one billion people, of which IFC is expected to reaching 600 million people.

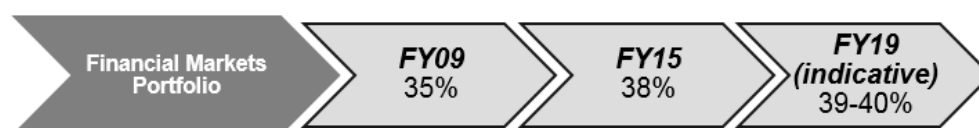
2.45 **IFC works with a network of 900 financial intermediaries in more than 120 countries.** Working through financial intermediaries allows IFC to support far more MSMEs than through direct lending. IFC helps to bring financial services to the un-served through a variety of low-cost products provided through local MFIs, banks, service providers, telecommunications companies and technology firms. Financial inclusion is a platform for a broader set of activities which seek to empower the excluded: women, youth, and firms and individuals based in rural or underserved regions. Since 2010, IFC's Banking on Women program has invested \$1 billion in financing women entrepreneurs. Financial inclusion is a platform for inclusive growth more broadly.

2.46 **To leverage this network, IFC will shift its business model from a project-centered to a relationship-centered model.** IFC chooses its clients very carefully and devotes significant efforts to understanding the markets, operations, opportunities and challenges facing clients. IFC clients control roughly 20% of the financial assets in EMs – roughly \$5 trillion, and can be powerful development catalysts. IFC also has board seats for roughly 100 client companies, where it has significant equity investments and can help strengthen governance. IFC expects its clients to be long-term partners, growing with them, and shifting the product and service mix as clients' needs change. Through this approach, IFC would analyze local clients, and propose a capital envelope for undertaking mutually beneficial activities including investments and advisory projects with selected clients.

2.47 **The financial sector is essential to financial sustainability and the portfolio approach.** There are explicit trade-offs that IFC must make between returns, earnings stability, FCS/IDA volumes, development impact, and additionality. These trade-offs occur in IFC's choice of businesses and in building the portfolio, including products, lines of business, geographical distribution, and risk. Within this spectrum, IFC's investments in the financial sector have often provided relatively higher returns and fewer distress situations.

2.48 **In difficult market conditions, IFC will assist with the resolution of problem loans** in troubled financial systems by setting-up special purpose vehicles in partnership with international investors and then working through the restructuring and debt resolution process, which frees banks to focus on growth.

FIGURE 6: IFC'S EVOLVING PORTFOLIO IN FINANCIAL MARKETS



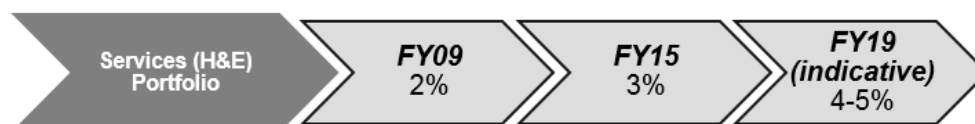
SOCIAL INCLUSION

2.49 **In health care, universal access goals are driving health care market expansion, and increasing the focus on cost-effective service delivery.** To reach these goals, the joint WBG Health Strategy focuses on an integrated health system approach that looks for the best solution, regardless of whether it is public or private. IFC's focus is on business model innovation in health care delivery through the private sector. Mobile telephony companies, microfinance institutions (MFIs) and other non-traditional private sector actors are also playing a growing role through innovative technology applications to health care financing. The WBG Health Strategy similarly moves away from input-based operations to support broader policy reforms and system changes, so that governments can become better stewards of the health systems with the aim to achieve Universal Health Coverage (UHC). Within this broad framework, the strategy recognizes that UHC cannot be achieved without the private sector. The WBG is uniquely positioned to help clients harness the private sector

in achieving UHC and the WBG goals through “end to end” service offerings (financing and technical assistance), global cross-sectoral expertise and public-private solutions.

2.50 IFC will engage global industries to reduce prices and broaden access to innovative medicines, appropriate technologies and essential commodities, and address inefficiencies in local supply chains, improve price regulations and procurement practices. IFC will support governments to remove barriers to entry and operation of private education providers, while ensuring quality of health education.

FIGURE 7: IFC’S EVOLVING SOCIAL INCLUSION PORTFOLIO



2.51 Education is essential to IFC’s mission as a key enabler for the private sector, and among the SDGs. IFC was the first multilateral to target private education in emerging markets; with the committed portfolio growing from around \$150 million in 2009 to \$770 million in 2014. Within the comprehensive WBG Education Strategy, IFC’s priorities combine enhancing skills, employability and low cost delivery. IFC sees opportunities to bring key innovations in education technology to developing countries. Year-on-year funding growth in education technology exceeded 36%. A key global challenge in the education sectors is the lack of an effective system for regulating the quality and relevance of the skill delivery system, which should allow for a range of public and private providers.

2.52 The joint WBG Education Strategy focuses on effective education systems and employability of graduates. Building on the joint WBG Education Strategy, IFC takes a systems approach to regulations, accreditation, cost-effectiveness and teacher quality. IFC’s main focus has been on employment-relevant skills, delivered at scale, and sees opportunity in mass education for employment by supporting technical skills that are in demand. IFC invests in a full spectrum of for-profit and non-profit models. In Kenya, IFC is helping to introduce regulatory reforms for low cost providers, evaluating the effectiveness of a low-cost private school model, and scaling up innovative schools for the poor (e.g. Bridge). In MENA IFC is working with the WB on Education for Competitiveness (E4C).

2.53 IFC will invest in education technology, which has the potential to drive down costs, and expand access through new technology-enabled business models. IFC often backs investments that have some form of technology – whether through targeting new markets or creating new programs to address a niche.

2.54 Both the health and education strategies depend on sector-specific expertise.

2.55 Inclusion goes beyond finance and social services. Inclusive businesses models – the integration of men and women living at the base of the pyramid (BOP) into a company’s core value chain – can be a driving force for sustainable inclusion. See Box 3 below.

BOX 3: INCLUSIVE BUSINESS

At the 2015 G20 Summit, leaders recognized this inclusive business approach as having the potential to contribute to the implementation of the SDGs. This conclusion was based on evidence presented from IFC's portfolio companies. IFC is the largest inclusive business investor among all DFIs, having consistently invested approximately 9% of its commitments per year into inclusive businesses (over \$12 billion committed in total since 2005).

Going forward, IFC will aim to continue to be the global leader in inclusive business by facilitating public-private dialogue, mobilizing resources, and communicating impact. In joint collaboration with the WBG, UNDP, and the G20, IFC will launch the Global Platform on Inclusive Business and will lead a growing consortium of DFIs focused on the topic. IFC will also continue to provide inclusive business clients with analytical support to better understand BOP producers and customers, and enable more companies to build and grow their inclusive business models

2.56 Recognizing that equality of economic opportunity between women and men drives productivity, profitability, and performance, **IFC will help more of its clients realize gender-smart solutions to their business challenges**, by:

- Working with financial institutions – from commercial banks to insurance companies – to better reach the women's market and thereby to grow women-owned businesses.
- Working with financial clients to coach women entrepreneurs so they have the financial, management, and leadership skills to grow their businesses, earn profits, repay their loans, and create jobs.
- Supporting clients in better managing talent in their workforce by applying a gender lens to recruitment, retention and promotion. This translates into better employment opportunities for women and men.
- Supporting clients with increasing their number of women on boards and in management.
- Importantly, building collaborative client relationships that enable IFC to research and substantiate the business case for gender in new markets. This brings innovative gender solutions at the firm level to the awareness of whole industries, so that IFC effects change in entire markets.

BOX 4: WBG GENDER STRATEGY

The WBG Gender Strategy (FY16-23): *Gender Equality, Poverty Reduction, and Inclusive Growth* was launched in December 2015. Building on the framework in the 2012 World Development Report on *Gender Equality and Development*, the strategy calls for IFC, IBRD, IDA and MIGA to: close first generation gaps in health and education; reduce constraints to more and better jobs, especially in the provision of care services and safe transport; close gender gaps in ownership and control over assets such as land and housing; close gender gaps in finance; and engage men and boys. There is significant scope for seamless collaboration across the WBG in these areas.

Implementation on a country level will be informed by SCDs and CPFs. All SCDs should take as a standard practice the application of the gender lens to the main constraints and priorities they identify. The diagnostic should highlight how closing the key gender gaps in endowments, economic opportunities, and voice and agency would boost the attainment of the WBG goals of ending extreme poverty and boosting shared prosperity. The WBG will help ensure that primary data sets at the country level include sex-disaggregated data and that its analytical work and insights can contribute to a meaningful policy dialog on gender issues. Part of the guidance for the SCDs is that key data gaps should be identified, their implications for the analysis discussed, and an indication provided of what measures are proposed to fill these gaps working with country statistical agencies. As SCDs are rolled out, they will document the availability of sex-disaggregated data and identify which gender data gaps should be filled.

The strategy's emphasis on women's economic empowerment makes essential a strong private sector-led commitment. IFC will prioritize providing women with better access to jobs and assets in line with client demand. IFC's operational departments will produce gender strategy implementation plans by end of FY16. These plans will aim to more equally supply access to banking; to more equally insure women and men; to increase women's quality employment opportunities; to enable women's access to supply chains, markets, and capacity development; and to hold corporate leadership positions. IFC will particularly focus its efforts on

closing gaps between men and women in agriculture, finance, and infrastructure, such key sectors that have a strong development impact.

A particular gender focus will be placed on regions with large economic gender gaps such as in countries in Sub-Saharan Africa, East and South Asia, and the Middle East and North Africa. IFC will recruit dedicated gender experts for these regions that can work across IFC business operations to strengthen gender interventions with clients. The WB is putting together new regional action plans in Latin America & the Caribbean and South Asia, with the Middle East & North Africa beginning an update in FY16 for completion mid-FY17.

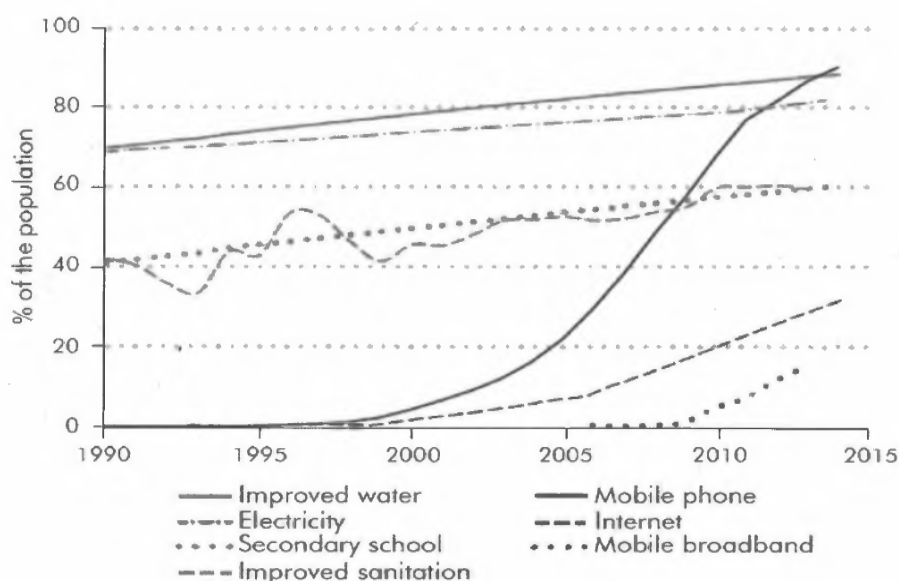
In line with the strategy's commitment, IFC will develop a revised results framework that reflects gender outcomes in its work. This will include working with its clients on increasing their collection and use of gender disaggregated data. The WB is revising its monitoring system to shift its focus from processes to strategic results and supporting the development of data collection tools for gender-disaggregated data on labor force participation and time use, and access to productive assets such as land and access to identification.

D. DISRUPTIVE TECHNOLOGY

2.57 Disruptive technology is an ubiquitous theme that is already having a profound impact across a range of economic activities, including financial services, retail, logistics, and health and education.

2.58 Exponential rates of mobile phone, internet and broadband adoption have created a unique opportunity to leapfrog into the 21st century economy. Global internet users alone have tripled in a decade from 1 billion (2005) to 3.2 billion (2015) enabling business, people and governments to be more connected than ever before⁸ (see Figure 8 below). Rapid technology innovation is evolving from a combination of the internet, mobile telephony and computer systems applications that together are disrupting every field of human activity from health care delivery and education to access to finance and energy storage. If harnessed, these rapidly evolving technologies offer the promise of a new paradigm for reaching and uplifting the poor.

FIGURE 8: DEVELOPING COUNTRIES - HOUSEHOLD ACCESS TO SERVICES



2.59 The development impact of disruptive technologies is clear. For businesses, these technologies reduce transaction costs, enhance ability to optimize business processes, help companies bring products to markets more easily and enable a new wave of business models that support high rates of entrepreneurship.

⁸ Digital Dividends: World Development Report 2016, World Bank Group, 2016

SME surveys demonstrate that those entities that have a web presence both grow and export at twice the rates as their peers without web presence⁹. For individual customers, disruptive technologies allow for price comparisons and new methods of learning that are both customized and targeted. And governments are also using these technologies to improve delivery of services at lower cost.

2.60 **Technology, especially digital technology, could be a double-edged sword for development.** There is concern that the data revolution will alter the path of development in ways that reduce employment in the short run. Like opening markets to trade, there will be adjustment costs, but these are not yet well understood.

2.61 **There are growing concerns about the implications of a digital divide.** Two billion people still do not have access to voice services, four billion to the internet and six billion to broadband data transmission. Although there is consensus on the need to foster data connectivity, regulatory approaches and results vary widely from country to country. Much of the innovation is taking place in developed countries and needs to be linked to development. There is growing evidence of the development of locally tailored solutions in such areas as mobile money and distributed solar in East Africa, but there has been limited replication thus far.

2.62 **IFC is seeking to significantly scale up its investments in this critical area** in order to truly take advantage of the vast development impact opportunities these technologies afford. IFC is targeting technologies with transformative potential against key challenges: e-health, fintech, distributed power, energy efficiency, extractives technologies and e-logistics.

2.63 Specifically, IFC's approach will build on separate, but synchronized work streams including:

- **Crowding-in private investment** for digital technologies, in particular accelerating access to broadband, and offering integrated AS offerings. This includes: (i) creating the right incentives to partner with practitioners that have the best experience in both of the targeted areas; (ii) raising the funding needed to leverage IFC's commitment in order to get to the scale needed to make a difference; (iii) building the advisory capacity needed to support the institutions that IFC is endeavoring to build or strengthen; and (iv) ensuring there is funding available for entrepreneurs beyond local venture capital (VC) funds and private equity (PE) funds.
- **Becoming the catalyst** for the development of institutions offering early stage equity financing for SMEs and entrepreneurs, following IFC's PE growth equity investing model. As in the PE industry, there should also be a demonstration effect that catalyzes other entrants into the segment. More broad-based efforts and innovation in this area should accelerate the ability of many emerging markets to develop tailored solutions that can help them leapfrog the traditional arc of development.

⁹ McKinsey & Co: Internet Matters: The Net's Weeping Impact on Growth, Jobs and Prosperity, 2011

BOX 5: INNOVATION – NEW AND EXISTING CLIENTS

IFC supports the economic development process both by supporting the development of new markets, and also broadening and deepening existing markets. It also seeks to work with both new and existing clients in delivering its mandate. For example, IFC's InfraVentures team worked with an existing client – Tata Power – and Clean Energy Invest of Norway to establish a joint venture to develop the hydropower resources of South Western Georgia. The trust built through the existing relationship was essential to developing this new market for Tata Power. Entry of the reputable international player was also positive for the power sector development in Georgia. IFC's Client Engagement Model is built on the idea that existing relationships can be powerful vehicles in developing new markets.

In disruptive technology, IFC is working both with existing clients to better understand the impact of digitization on their existing business models and 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.

		CLIENTS	
		Existing	New
MARKETS	New	Taking Existing Clients to New Markets	New Clients in New Markets
	Existing	Existing Clients in Current Markets	New Clients in Existing Markets

CROSS-CUTTING THEMES FOR ENHANCED FOCUS

A. RESPONDING TO A GLOBAL DOWNTURN

2.64 The current economic environment characterized by capital outflows from emerging markets, currency weakness, liquidity tightening, over capacity, and slow growth prospects in most countries, does not constitute an economic crisis, as experienced in 2008/2009. But it is having significant implications on the profitability of the private sector, as well as on those entities that invest in the private sector. Commodity prices, which contributed to the enhanced growth of Latin America, Africa and MENA over the past decade, are expected to remain low for a protracted period, and have already caused reduced capital expenditures and increases in non-performing loans in the sector. Furthermore, there are structural causes. Aside from a few key reformers, many countries failed to use the opportunity to create conditions for continued growth, including reforms and investment in infrastructure and skills.

2.65 **IFC's support to clients during a global downturn is a core part of its value proposition.** IFC works with clients to help them identify risks before problems materialize, and develops approaches to assist clients to proactively prepare for any contingency. IFC's approach is to increase active portfolio management, obtain early indications and take corrective action to help clients that may face deteriorating business prospects. A proactive approach to portfolio management is not only important to manage IFC's portfolio, but to deepen and strengthen partnerships with clients that will prove valuable when conditions improve.

2.66 **Linked to this "defensive" portfolio management will be an effort to more aggressively identify investment opportunities that are undervalued due to economic conditions,** but would otherwise have strong prospects for high impact and profitability in the medium term. IFC tends to increase its investments when foreign investors withdraw during crises in developing countries. Between 1994 and 2001, there were 17 major crises in developing countries. Private investors decreased exposure in most of them. IFC, by contrast, increased its investments by more than 15% in 12 of the 17 countries. Such investments, based on a longer-term outlook, have contributed significantly to IFC's capital gains in past crises or downturns. They are essential to preserving jobs, minimizing value destruction, and contributing to economic flexibility.

B. ADDRESSING CLIMATE CHANGE

2.67 **Climate change is one of the largest threats to developing country prosperity.** Without immediate intervention in emissions reductions, climate change could result in an additional 100 million people living in

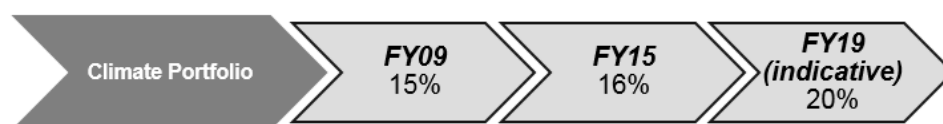
extreme poverty by 2030¹⁰. At the UNFCCC Conference of the Parties (COP21) in Paris, December 2015, 196 countries pledged to keep global warming to two degrees Celsius or less, requiring GHG emissions to be cut 40-70% by 2050 and reduced to nearly zero by 2100¹¹. The World Economic Forum has recently listed the failure of climate change mitigation and adaptation as the most impactful risk for the years to come¹². Accounting for climate risk is increasing among financial institutions: Mark Carney, G20 Financial Stability Board Chair, has announced the “Task Force on Climate Related Financial Disclosures” that will highlight the financial exposure of companies to the risk of climate change.

2.68 Addressing climate change represents a tremendous opportunity. As part of the COP21 agreement, 182 countries submitted NDCs to reduce GHG emissions (mostly by 2030). Industry CEOs made pledges at COP21 to decrease their carbon footprint, buy more renewable energy, and engage in sustainable resource management. This represents a step change for investment in transition to low-carbon economy, and IFC is in an unprecedented position to help its clients capture the opportunities and avoid the risks that climate change will bring.

2.69 As part of the WBG Climate Change Action Plan, **IFC has four objectives** to increase climate investments and maximize impact: (i) scale climate-related investments to reach 28% of IFC’s annual new commitments by 2020; (ii) catalyze \$13 billion in private sector capital annually by 2020 to climate sectors through mobilization, aggregation, and de-risking products; (iii) maximize impact through GHG emissions reduction and resilience; and (iv) account for climate risk – both the physical risk of climate impacts and the carbon asset risk in IFC’s investment selection.

2.70 To reach the goal of 28% of annual new commitments, IFC will move into new climate markets, create new investment vehicles, and increase internal tools and support. IFC will continue its existing business in large-scale renewable energy (RE), credit lines for RE and energy efficiency (EE), and direct investments in green buildings. IFC will also continue to invest in demonstration projects in new markets or new technologies that prove technical and commercial viability of climate-smart technologies. To scale investments, IFC will expand its business in distributed RE for industrial and commercial sources, new models with financial intermediaries, urban infrastructure (including waste, water, and transport), agriculture (including adaptation), PPPs, and clean tech venture capital. In addition, as part of its climate finance pledge, the WBG has a target to catalyze \$13 billion in private sector financing annually by 2020. To help pursue this, IFC needs to attract investors to climate sectors through new platforms for mobilization.

Figure 9: IFC’S EVOLVING PORTFOLIO IN CLIMATE CHANGE¹³



2.71 Many of IFC’s clients and partners have committed to significant financing for climate mitigation and adaptation investments. IFC will identify ways to help these real sector clients and financial institutions to deploy capital at attractive rates that will incentivize project developers and expand the universe of viable projects for IFC and others. In addition, IFC will leverage AS through market development initiatives and expert advice to help clients set appropriate aspirations for reducing their GHG impact, by increasing their

¹⁰ Shock Waves: Managing the Impacts of Climate Change on Poverty. Washington, DC: World Bank. 2016.

¹¹ IPCC, 2014: “Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change.” [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland, 151 pp. https://www.ipcc.ch/pdf/assessment-report/ar5/syr/SYR_AR5_FINAL_full_wcover.pdf

¹² “The Global Risks Report 2016, 11th Edition”, World Economic Forum, January 2016.

¹³ Climate-related numbers have elsewhere been reported as percent of new annual commitments. In FY15, climate was 22% of IFC’s total own account commitments.

resilience and connecting them to the latest innovations, and by helping governments partner with the private sector to improve operations in the power and water sectors to reduce losses.

2.72 To catalyze private sector capital, IFC will create new instruments that will de-risk and aggregate climate projects. Global financial institutions pledged to invest hundreds of billions of dollars in clean energy and other climate-smart technologies¹⁴ and have expressed interest for IFC to help unlock commercial investments by addressing country, technology, and project risks. To respond to these demands, IFC will develop new instruments that leverage its own investments and blended concessional finance to crowd-in outside private sector capital, such as securitization, wholesaling, and investment facilities. IFC will also mobilize capital through climate-smart public-private partnerships. IFC influences and helps green the broader financial markets space through a combination of standards, regulations, and support to financial institutions.

2.73 IFC will maximize its climate impact by reducing GHG emissions and building resilience, through thought leadership and standard-setting. IFC will focus on: (i) reducing the GHG emissions of its investments; (ii) increasing client resiliency to effects of climate change; (iii) collaborating across the WBG on joint implementation programs, such as rooftop solar and Scaling Solar; and (iv) sharing lessons learned through partnerships, thought leadership, and global standards, in particular with business associations created in lead up to COP21.

2.74 IFC will account for climate risks in its own portfolio and assist clients with addressing these risks. Increasingly shareholders are asking companies and financial institutions to account for climate risk, including climate impact risk – where investments can be affected by the physical impacts of climate change; and climate asset risk – where policies create pricing that devalues the investment. As climate risk assessment becomes more mainstreamed in financial institutions, IFC will be asked to account for both types of climate risks in its portfolio. IFC is launching a pilot to screen for climate impact risk in selected sectors and to help clients build resilience. As global and local policies and behavior changes affect carbon-intensive investments, IFC will also consider how to evaluate the carbon asset risk of its existing portfolio and what actions to take to reduce this risk.

C. FRAGILE & CONFLICT SITUATIONS AND LOW INCOME IDA

2.75 IFC has expanded its operations in FCS¹⁵ countries and LIC-IDA Countries¹⁶ in recent years, reaching over \$1 billion per year in long term commitments, or about 10% of the IFC total, with about half of this in FCS and half in LIC-IDA. Advisory assignments in these countries are over \$70 million per year, which represents about 40% of the IFC total. IFC has already exceeded its goal of a 50% increase in annual investment commitments in FCS for FY16 over the FY12 baseline. In terms of the number of projects, IFC more than doubled the number of long-term finance projects in FCS by FY15 from the FY12 baseline.

¹⁴ Commitments include Goldman Sachs (\$150 billion), Bank of America Merrill Lynch (\$125 billion), and Citibank (\$100 billion), as well as a pledge in September 2015 by a coalition of 374 organizations accounting for more than \$24 trillion of assets to invest in the low-carbon economy.

¹⁵ FCS countries are defined by the World Bank as countries that have: a) a harmonized average Country Policy and Institutional Assessment (CPIA) country rating of 3.2 or less, or b) the presence of a UN and/or regional peace-keeping or peace-building mission during the past three years. This list includes only IDA eligible countries and non-member or inactive territories/countries without CPIA data. The IFC FCS list used in this paper also includes countries that were on the World Bank FCS list at any time during the previous three years. See Annex III for the FY16 IFC FCS list.

¹⁶ Low income countries are defined by the World Bank based on a per capita income cut-off, which in FY16 was GNI per capita of \$1,045 or less in 2014. For this paper, “Low Income Countries” include low income countries that are not FCS that met the cut-off in FY16 or two years before. The list of countries is in Annex III.

TABLE 1: IFC IN FCS

	FY12	FY13	FY14	FY15 ¹⁷
Project Count (Long-Term Finance), #	21	20	19	43
Active Trade Accounts, #	24	24	28	35
FCS as % of LTF Project Count	6%	5%	5%	11%
FCS as % of Active Trade Accounts	11%	11%	12%	16%
Own Account (Long-Term Finance), \$mn	358	398	505	455
Core Mobilization, \$mn	259	608	310	159
% of Committed Portfolio	4%	3%	3%	3%
% of Deployed Resources	6%	7%	7%	7%

2.76 Recent forecasts indicate the percent of extreme poor people in FCS countries will be about 46% in 2030, from about 14% in 2012¹⁸. Thus a focus on promoting development in FCS as well as LIC-IDA countries will be critical to helping achieve the WBG goals, and, as discussed in World Development Report (WDR) 2011, the contributions of the private sector will be essential. IFC will, in addition, continue to have an important role to play in other IDA and MICs, which also face significant challenges, as part of its portfolio approach¹⁹.

BOX 6: CONFLICT AFFECTED STATES IN AFRICA INITIATIVE (CASA)

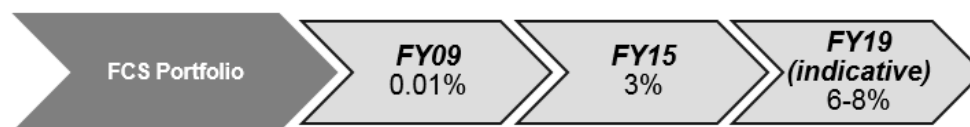
Launched in 2008, the Conflict Affected States in Africa Initiative (CASA) is a flagship initiative of FCS in Africa program funded by Ireland, the Netherlands, and Norway. As a unique and comprehensive platform for FCS African countries, CASA contributes to IFC's FCS agenda by removing upstream bottlenecks to investment and supporting clients to broaden impact through a combination of funding (from projects to preemptive Integrity Due Diligence), business development, attention to conflict and gender issues, and investment in knowledge management.

As of December 2015, CASA-supported projects advised 151 companies, government agencies and other entities. CASA helped to enact 33 laws, regulations or amendments to improve the investment climate. It assisted the private sector in saving \$12.6 million through recommended changes to the business enabling environment. In addition, CASA helped to launch 21 new financial products, open 56,538 deposit accounts valued at \$19 million, and facilitate over 20,000 loans of a total value of \$44 million to SMEs through financial institutions. It contributed to improving services for 200,000 people and creating 800 jobs.

Currently, the CASA initiative is active in Burundi, the Central African Republic, Côte d'Ivoire, the Democratic Republic of Congo, Guinea, Liberia, Mali, Sierra Leone and South Sudan, and is planning expansions to Madagascar, Malawi, Somalia and Zimbabwe.

2.77 IFC operations to date in FCS and LIC-IDA have spanned a wide range of sectors, including power, agribusiness and agribusiness supply chains, SMEs and access to finance, manufacturing and services. A strong advisory program has been part of IFC's approach, including a focus on the investment climate. Many IFC investment projects have benefited from new tools and procedures developed to address the FCS and LIC-IDA markets, and by extensive complementary activities across the WBG. Building on the success to date, **IFC is considering how to scale up operations in FCS and LIC-IDA countries.**

FIGURE 10: IFC'S EVOLVING PORTFOLIO IN FCS



¹⁷ Starting FY15, IFC's data and targets for FCS include projects in countries which have been on the World Bank's Harmonized FCS list at any time during the previous three fiscal years.

¹⁸ Defined as the number of people with a daily consumption/income below \$1.90 in 2011 PPP terms.

¹⁹ A number of countries outside the FCS and LIC-IDA group face issues of fragility, e.g. pockets of fragility or violent crisis across a much larger region.

2.78 Having said that, IFC continues to face significant constraints to scaling up its business in FCS and LIC-IDA, including:

- **Poor business environment and sector-specific challenges.**
 - In addition to significant political and country-level risks, investment climate issues such as the quality of government institutions, a weak legal and regulatory framework, changes in the rules of the game, and poor infrastructure are major constraints.
 - In the power sector, for example, the lack of reliable and credit-worthy power off-takers, and a lack of government regulatory and planning capacity in many FCS countries present a major challenge to private investors.
 - In agribusiness, problems with land ownership and regulations, as well as weak transport and power infrastructure, are seen as major hurdles to large transformative projects.
- **Weak or unsophisticated sponsors, ESG risks, and IDD issues** also present significant challenges for IFC in FCS and LIC-IDA environments. Sponsors in these markets often have weak financial capacity, or are unable to meet IFC’s Performance Standards and financial reporting standards.
- **Small, underdeveloped markets, and a weak private sector** limits the scale and scope of potential investments. Larger projects that are potentially transformative may lack complementary businesses, suppliers, and services.

2.79 Higher operating costs of loans in FCS and LIC-IDA reflect both difficult operating environments and relatively small loan sizes common in these countries. The challenges to find and implement good investments in these countries continue to be quite significant, and the level of growth that IFC can achieve is difficult to predict. In addition, to scale up in these markets, IFC will need to continue to ensure it targets financial returns in more stable markets, and keeps a well-diversified (region, country, risk profile) portfolio.

2.80 Improving local capacity is also key to establishing or restoring an attractive business environment for private sector investments. This includes strengthening the enabling environment for doing business, creating conducive investment policy, strengthening property rights, addressing social issues and enhancing competition and transparency. It will also be critical to address sector-specific constraints and risks in key sector such as power and agribusiness. Additionally, strengthening sponsor capabilities and enhancing project pipeline development in FCS and LIC-IDA will open up the FCS and LIC-IDA market to private sector investments.

REGIONAL FOCUS

2.81 Africa and South Asia are targeted for accelerated relative growth due to substantial development gaps, while MENA remains a strategic priority due to the ongoing structural and political challenges taking place in the region, with significant implications beyond the region. See Annex II for Regional Summaries.

A. SUB-SAHARAN AFRICA

2.82 **Africa was, is, and will remain central to IFC’s global strategy.**

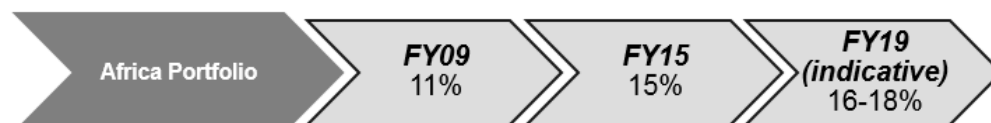
The commodity price decline has caused many observers to declare an end to the “Africa Rising” story. Indeed, investing in some parts of Africa has become more challenging, and a number of viable projects under previous price conditions have been cancelled or delayed. African currencies are depreciating, and inflation is rising. The particular challenges posed by the commodity cycle have further highlighted the vulnerability of several economies and the need for structural reform. While political will to reform has risen in several countries, policy and regulatory obstacles are key challenges to the development of private infrastructure, manufacturing, and business formation more broadly. If these obstacles are addressed, the current economic situation need not be seen as an end, but rather an opportunity to rebuild the “Africa

Regions	
<i>East Asia and the Pacific</i>	↔
<i>Europe and Central Asia</i>	↔
<i>Latin America and the Caribbean</i>	↔
<i>Middle East and North Africa</i>	↑
<i>South Asia</i>	↑
<i>Sub-Saharan Africa</i>	↑

Rising” story on a more solid foundation that depends more on the quality of its human capital and entrepreneurialism, and where more inclusive and diversified growth is supported by higher quality infrastructure, social services and efficient markets.

2.83 The shifting conditions compel IFC to demonstrate its long-term commitment to clients and help them take advantage of opportunities that arise from changing conditions. This will help rebuild investor confidence, and support Africa’s adjustment. It also requires IFC to work more closely with IDA/IBRD on the reforms necessary to unlock investment, and better integrate investment services (IS) and AS. Within Africa, IFC continues to pay particular attention to FCS and IDA countries.

FIGURE 11: IFC’S EVOLVING PORTFOLIO IN AFRICA



2.84 Infrastructure is key to unlocking several of Africa’s challenges: economic diversification, particularly into manufacturing, is constrained by poor infrastructure which raises costs. The world’s most rapid urbanization rates require a response including power, transport, housing, and well-structured public-private solutions. Finally, climate change, which disproportionately impacts poor countries, calls for IS and AS focused on access to power, such as the Scaling Solar program, and adaptation to climate change. Beyond infrastructure, IFC is promoting agricultural productivity by encouraging and facilitating the commercialization of agriculture, and unlocking the animal protein and dairy sector in Africa to meet the nutritious food needs of the population.

2.85 Financial inclusion and capital markets development. Currency volatility calls for deeper capital markets development for local currency issuances and swaps. Capital markets development is emerging as an avenue for capturing and enhancing resource mobilization to fund the next phase of infrastructure development, and as a means to finance green growth. Rapid advances in digital finance are helping to connect more Africans to markets and services. IFC’s approach is to expand the range of instruments for local currency financing to clients, increase mobilization of institutional investors, and help build regulatory skills and capabilities.

2.86 IFC is taking a ‘deep dive’ approach, focusing on Nigeria, South Africa, Kenya, Ethiopia and Mozambique, key economies in their sub-regions, in order to deliver more impact. The decline in commodity prices improves terms of trade for non-commodity based economies such as Kenya, Ethiopia, and to an extent Côte d’Ivoire, and IFC expects opportunities to emerge more quickly in those countries. On the other hand, in countries with commodity-dependent economies such as Nigeria, South Africa, Mozambique, the focus will be on diversification to bolster job creation and build economic resilience. IFC will also provide active portfolio management support to clients in countries, ensuring that the most impactful banks and firms have sufficient liquidity support. Beyond the deep dive countries, IFC is exploring engagement with Zimbabwe and Sudan.

BOX 7: OPPORTUNITIES EMERGING FROM COUNTRY ‘DEEP DIVES’ IN AFRICA

- In Nigeria, in supporting economic diversification, IFC has an ambitious investment pipeline in infrastructure and agribusiness. It is supporting financial institutions and capital markets initiatives that aim to help build a diversified, productive economy and create jobs.
- In South Africa IFC is pursuing a broad investment program to revive South Africa’s economic potential through private sector-led growth while addressing the triple challenges of unemployment, poverty, and inequality. IFC’s ability to bolster inclusive job creation and resilience to external shocks would be supportive in a country that suffers from high inequality and acute economic vulnerabilities.

- In Ethiopia, IFC is focusing on investments in agribusiness to improve food security and leverage Ethiopia's potential, thus boosting real incomes and supporting the rise of the local private sector through value chains.

2.87 IFC's investments in SSA increased twenty-five fold from \$140 million in FY03 to over \$3.6 billion in FY15.

2.88 **Field Presence.** To address the range of development challenges across the continent including urbanization, demographic bulge, climate change, security and technological change demands strong field presence, including senior staff based in the region.

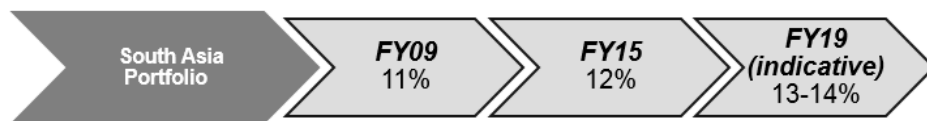
B. SOUTH ASIA

2.89 **South Asia was the world's fastest growing region** with 7% GDP growth in 2015, characterized by robust foreign investment and growing foreign exchange reserves. While much of the developing world suffered substantial outflows of private capital in 2015, South Asia withstood the global slowdown better than others due to limited exposure to external volatilities. Gradual progress on the regional integration agenda, coupled with an impetus for much-needed reform in India and better governance in Sri Lanka, contributed to the increased confidence in the subcontinent. Rapid expansion of disruptive technology is leading to changing business and revenue models, and innovation in service delivery. Bangladesh has offered a unique model in its growth of gender focused/informed businesses.

2.90 **Despite this growth, significant development gaps persist** in infrastructure (500 million people without access to the power grid), logistics/connectivity (\$500 billion investment needed in transport sector in India alone), and inclusion (region is home to 25% of world's unbanked). Rapid urbanization is placing significant demands on infrastructure and logistics services, and will require providing access to power, transport, water, waste, health and delivery services and development of "smart" cities to help make cities connected, resilient and competitive. More countries and people moving to middle income status will create demands for lifestyle-related services such as healthcare.

2.91 **Key challenges to the region include political and economic fragility.** South Asia remains one of the most vulnerable regions with respect to climate change effects and related natural disasters.

FIGURE 12: IFC'S EVOLVING PORTFOLIO IN SOUTH ASIA



2.92 **Key pillars of IFC's engagement in South Asia are infrastructure, inclusion, and logistics/connectivity**, underpinned by cross-cutting themes of competitiveness, jobs, climate change, and capital markets. In infrastructure, IFC will focus on energy, power trade, gas, waste management and PPPs. In logistics, IFC will focus on highways/roads, port terminals, inland waterways, warehousing, cargo handling and specialized service providers and logistics companies. To support financial and social inclusion, the program will focus on scalable and sustainable financing solutions for MSME, low-cost housing, restructuring and commercialization of state-owned banks, payments, insurance, and capital markets development, and health and education. To help mitigate climate change, IFC will focus on renewables, green buildings, clean technology, and expanded focus on adaptation. Building on good progress on development of offshore (Masala) and onshore (Maharaja) bonds in India, which has spurred the development of domestic corporate bond markets, IFC will work on local currency issuances in other countries in the region.

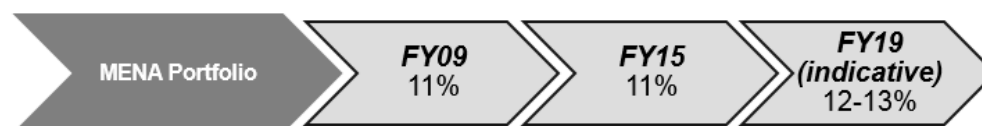
2.93 **Field Presence.** To realize this vision, IFC will need to attract staff with experience in challenging business environments, to serve as dedicated senior business developers based locally, as well as enhanced client research and analytic skills.

C. MIDDLE EAST & NORTH AFRICA

2.94 **The prolonged and deepening security and humanitarian crises, with spillovers of a global scale, have underscored the importance of addressing the root causes of instability in MENA.** Stability is essential for investment and growth. The WBG's new MENA strategy aims to address the root causes of instability as well as the worsening humanitarian crisis through its pillars on: (i) renewing the social contract; (ii) regional cooperation; (iii) resilience to internally displaced persons (IDP) and refugee shocks; and (iv) recovery and reconstruction. IFC's engagements in MENA to increase job creation and opportunities through the private sector fall predominantly within the two pillars of renewing the social contract and promoting regional cooperation. IFC is also developing a strategy to identify ways of private sector led support for refugees and host communities (see Box 9 below).

2.95 **IFC's strategy in MENA focuses on addressing the region's biggest long-term development challenge of increasing jobs and opportunities with the private sector in the driver's seat.** IFC has hence been implementing a holistic jobs strategy which addresses the deep underlying structural issues impeding employment generation in MENA. The pillars of this jobs strategy are well aligned with analysis done by the WBG as well as external institutions²⁰: (i) improving the investment climate; (ii) increasing access to finance, especially for MSMEs; (iii) infrastructure development; and (iv) skills development to meet labor market needs and supporting entrepreneurship. In addition, IFC is also focusing on increasing cross-border trade and investment flows with a view to sharing knowledge and capital which would facilitate greater regional integration, as well as addressing climate change issues. The role of advisory will remain critical in MENA markets, especially in the areas of trade and competitiveness, financial sector, and PPP support.

FIGURE 13: IFC'S EVOLVING PORTFOLIO IN MENA



2.96 **A programmatic WBG approach is being taken in the infrastructure sector, especially in power and renewables,** where the WB is focusing on policy and pricing reforms, MIGA is looking to provide political risk mitigation, and IFC is catalyzing private investments. This joint approach could move the needle in terms of scaling up private investments in an otherwise public sector dominated arena. Some positive externalities of these engagements on the economy and social fabric of MENA countries include: (i) reduced fiscal and debt burdens for large infrastructure projects that would normally be carried out through public investment programs; (ii) improved service delivery and reliable power supply to help enhance efficiency and productivity in the private sector; and (iii) greater access for consumers, including in lagging regions, as well as host and refugee/IDP communities. The joint work, currently underway, is already bearing fruit in terms of scale, impact, and crowding-in of the private sector, as IFC sees an increase in local clients and “Regional Champions” with an appetite for investment in the energy space. Examples of the first round of successes include Egypt, Pakistan, Jordan, and Iraq, and there is potential for a similar success in Morocco and Lebanon.

BOX 8: PAKISTAN POWER

The WBG has embarked upon a “Transformational Energy Initiative” to support reforms and private investments in Pakistan’s energy sector, especially in the area of renewables. Endorsed as a Joint Implementation Plan in June 2015, the initiative is implementing a programmatic approach to address the challenges in the energy sector which have significant negative spillovers on the overall economy and private sector efficiency. Under this Initiative, the WB is supporting policy and pricing related reforms to enhance the efficiency and financial viability of the energy sector, while IFC and MIGA (through political risk insurance and credit instruments) are helping to catalyze private investments into the energy/RE space. It is expected that these joint WBG efforts will help mobilize

²⁰ World Development Report on Jobs (World Bank, 2013); “Free to Prosper” (World Bank MENA Region, 2012); IFC Jobs Study (2012); “Africa at Work: Job Creation and Inclusive Growth” McKinsey Global Institute (2012).

at least \$10 billion in investments into Pakistan's energy sector over the next few years. Since 2014 alone, IFC has committed and mobilized around \$500 million in loans and equity investments through a number of interventions in the renewable energy sector (solar, wind and hydro) which should result in a significant scaling up of renewable energy generation capacity. IFC is also supporting the Government's privatization program and has been hired as a Financial Advisor for two power sector companies.

2.97 IFC will implement its strategy in MENA by: (i) continuing to deepen collaboration with the WB; (ii) supporting Regional Champions to facilitate greater intra- and inter-regional investments into riskier markets; and (iii) ensuring flexibility to rapidly respond to emerging private sector needs. IFC is also looking to identify new clients, especially in the areas of power, entrepreneurship, and access to finance, as well as working more with local clients in FCS countries like Iraq, Afghanistan, and West Bank and Gaza.

2.98 Several downside risks to implementing this strategy prevail. These include: (i) the continuously volatile security environment; (ii) a seemingly prolonged oil price slump impacting growth and investments in oil exporting countries; and (iii) a relatively difficult business climate that hampers sustained and high levels of private investment, and further compounds the problem of already low investor confidence. In this context of increased risk perception, attracting private capital in general and mobilization alongside IFC investments is becoming harder. The curtailment of investment financing by some Gulf Cooperation Council (GCC) countries due to fiscal consolidation needs may also impact intra-regional investment flows originating from the GCC, especially into large infrastructure projects as well as budget support type lending to countries in transition in MENA. On a positive note, several governments have begun the process of key structural reforms, including in the areas of fuel and energy subsidies (essential to spurring energy efficiency and renewable power investment), as well as some investment climate and financial sector reforms. IFC sees a growing pipeline of investments and advisory work in sectors and countries where the reform momentum is increasing.

BOX 9: IFC'S RESPONSE TO THE REFUGEE CRISIS

IFC is currently in the process of developing a holistic approach to addressing the refugee crisis that is in alignment with its overall strategy in MENA as well as the broader WBG MENA Strategy. This is a new area for IFC and the private sector, and hence the strategy will evolve over time as a better understanding emerges on the needs of refugee and host communities that could be addressed through private sector solutions. Four prongs of IFC's current strategy to support refugees and host communities in MENA are the following:

- *Creating fiscal space for governments in the region to address humanitarian needs by attracting investors into MENA to provide private financing and provisioning of services that would otherwise be financed through public funds.* Financing of infrastructure and services through the private sector is an important focus of IFC that is helping alleviate the fiscal burden on MENA governments, especially in Jordan and Iraq.
- *Building resilience to IDP/refugee shocks by increasing opportunities for jobs/livelihood and improved service delivery for both host and refugee communities* through: infrastructure/ICT development, improved food security, greater access to finance (especially microfinance), appropriate vocational and training skills, and support for entrepreneurship (e.g., VC funds, start-ups, incubators, accelerators, SME funds).
- *Drawing on advisory tools to support the needs of refugees in sectors where IFC has a proven track record in difficult markets.* Some areas at early stages of exploration include: (i) investment climate related reforms necessary for the establishment of well-functioning and financially viable special economic zones (e.g., the preparation of the Jordan SEZ project); (ii) skills development through advisory instruments like business edge; (iii) PPP solutions; and (iv) off-grid energy access options.
- *Leveraging the convening power of IFC to facilitate greater corporate social responsibility (CSR) related to refugee issues in MENA.* IFC will try to use its partnerships with key clients and other regional/ global private sector players that may be interested in helping alleviate the refugee crisis through CSR efforts.

VEHICLES FOR IMPLEMENTATION

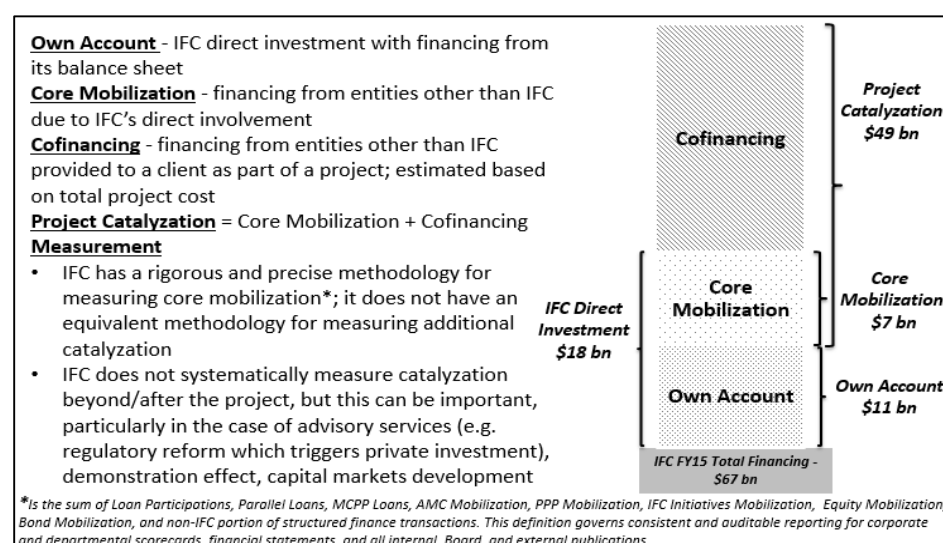
A. MOBILIZATION

2.99 Catalyzing private capital is core to IFC's mandate, embedded in its Articles of Agreement. For IFC, "leveraging the private sector" means that IFC uses its financial and knowledge resources to crowd-in financing for the private sector; this in turn leverages scarce ODA and public financing for development. Mobilization is a critical component of this leveraging ability. Mobilization can help mitigate private sector

investment risks in a way that brings a return on investment but also has significant impact. IFC's ability to mobilize leverages its development impact by providing more "fuel for the IFC tank".

2.100 Broadly, **there are three types of mobilization**: (i) leverage, created through borrowings on IFC's balance sheet, (ii) investment mobilization, and (iii) co-financing / catalyzation, where IFC develops partnerships with others (such as banks, and institutional investors) who provide capital on a wholesale basis. IFC has a rigorous and precise methodology for measuring core mobilization²¹ and co-financing for IFC projects (see Box 10). IFC does not systematically measure catalyzation beyond or after the project, but this can be important, particularly in the case of advisory services (where regulatory reform triggers private investment), demonstration effects, and in capital markets development. As definitions and measurement differ greatly amongst institutions, IFC is leading the work among multilateral development banks (MDBs) to develop a common approach and consistent reporting for measuring the amounts of private investment mobilized and catalyzed.

BOX 10: INVESTMENT MOBILIZATION IS BRINGING INVESTORS INTO PROJECTS



2.101 As noted in Chapter 1, capital flows have not recovered to their pre-2008 growth path and are insufficient to meet growing needs. In order to address the gaps highlighted in *Billions to Trillions*²², **IFC is expanding its reach by creating more platforms for funding and broadening its pool of co-investors**. IFC engages with a wide range of third party investors providing both commercial and concessional funds. While commercial banks have traditionally been the primary source of mobilized debt, DFIs and institutional investors, including pension funds, insurance companies and sovereign wealth funds, are growing contributors. IFC is responding to increasing interest among development agencies which are seeking to invest in commercial projects to catalyze private investment. Furthermore, IFC continues to support cross-border flows from developing countries which are growing contributors of global capital flows. In FY15, 43% of IFC's syndications and 26% of AMC's funds, a majority of core mobilization, were sourced in emerging markets.

²¹ Core mobilization is the sum of Loan Participations, Parallel Loans, MCPP Loans, AMC Mobilization, PPP Mobilization, IFC Initiatives Mobilization, Equity Mobilization, Bond Mobilization, and non-IFC portion of structured finance transactions. This definition governs consistent and auditable reporting for corporate and departmental scorecards, financial statements, and all internal, Board, and external publications.

²² [http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23659446/DC2015-0002\(E\)FinancingforDevelopment.pdf](http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23659446/DC2015-0002(E)FinancingforDevelopment.pdf)

2.102 **Although diverse pools of capital exist, there is a need to develop platforms to attract institutional investors**, such as insurance companies and pension funds, to emerging markets. These platforms need to address the needs of institutional investors for deploying capital, including: (i) a sizeable investment product, as high transaction costs and a lack of capacity to implement individual loans limits their engagement to very large transactions; (ii) an appropriate investable vehicle, due to product and regulatory requirements across different markets; and (iii) an appropriate risk-return.



2.103 *IFC's Syndicated Loan Program*, the oldest and largest syndicated lending program among the MDBs, has mobilized more than \$50 billion from more than 500 financial institutions for over 1,000 projects in more than 110 emerging markets. The program continues to evolve, broadening both its product mix and investor type. Originally syndicating only B-loans, IFC now provides parallel loans, MCPP loans, A-Loan Participations, Sale of A-Loan Participations and Unfunded Risk Participations. Co-financiers have broadened from Part 1 commercial banks to include international commercial banks, local and regional banks in emerging markets, funds, insurance companies and DFIs. As of June 30, 2015, IFC's syndicated loan portfolio under management totaled \$15.3 billion. IFC is working on developing customized solutions and mobilization platforms that would better align the needs of institutional investors with the demand for capital.

2.104 *AMC* continues to be an important platform for mobilizing and investing third-party capital in productive private enterprise in emerging markets. AMC enhances IFC's development impact and financial sustainability by increasing both the size and number of investments IFC can transact and by "crowding-in" commercial capital to developing economies both through its investments and its demonstration effect. Since 2009, AMC has raised \$8.7 billion consisting of 11 funds and one single asset co-investment from 43 high caliber investors, including pension funds, financial institutions, sovereign wealth funds, government agencies, and multilateral and bilateral DFIs. These investors are keen to partner with AMC to overcome real and perceived risks of entering these markets. They also benefit from IFC's investment approach, global reach, policy framework and standards as well as from its superior track-record. AMC funds have invested \$4.7 billion (\$3.5 billion mobilized) in 62 companies and nine funds across all IFC regions, including \$1.2 billion in IDA countries and \$872 million in Sub Saharan Africa. Currently AMC manages six sector funds (five in financial markets, one in infrastructure), three regional funds (Africa, Latin America and Caribbean, Mexico and MENA) and two fund-of-funds.

2.105 While adding value to the existing portfolio through fundraising and enhancing performance of existing funds, AMC continues to explore new ways to grow the platform of funds. This includes launching bigger or new funds (e.g. Africa Fund, Latin America Fund), deepening investor relationships in order to attract additional co-investments, and broadening the investor base by providing bespoke solutions.

2.106 *Going Forward*. IFC faces many challenges in its efforts to grow mobilization. Lower emerging market returns have contributed to a retrenchment of capital markets as many investors, with reduced risk appetites, can earn higher returns in their home markets. These investors are also subject to regulatory constraints such as Basel III and Solvency II. As IFC broadens beyond its traditional partner of commercial banks, it faces a mismatch between its products and investor mandates, particularly those of institutional investors.

2.107 **For IFC to contribute significantly – given its constraints– it will need to grow mobilization to levels greater than IFC's own account.** It will develop scalable solutions and innovative financial instruments to bring in institutional investors. It will continue to support domestic financial intermediaries and focus on cross border mobilization from emerging markets. It will explore new options for blended public-private project financing (including working with IDA and returnable capital) and de-risking markets. It will continue

to work with MDBs to develop joint platforms. Finally, within the WBG, IFC will continue developing strategic engagements on PPPs with the WB (e.g. West Bank and Gaza Solid Waste Management PPP, ONAS in Tunisia, Senegal Desalination, India UMPP Ultra Mega Solar Park, and Manila and Cebu bus rapid transit projects) and working together with IDA on projects that help mobilize additional capital (e.g. Myanmar Power, CEC Africa SL IPP in Sierra Leone and in CASA 1000 in ECA/MENA region). If it is to mobilize at scale, IFC needs to be able to commit its own capital to catalyze other flows and to give it credibility with other investors, so that it can pull together significant solutions even for complex projects in the most challenging environments.

BOX 11: WORKING WITH PPPS

Infrastructure is a central driver of development. Yet increasing populations and aging infrastructure are straining the capacity of nations to deliver basic services, grow their economies, and provide opportunities for people to overcome poverty. In order to better leverage private sector resources and expertise in developing infrastructure and public services, IFC emphasizes a programmatic approach to PPP engagements and focuses both on pipeline generation and upstream support for clients, as well as on the core transaction advisory services for governments. IFC's advice is coupled with capacity building to government clients and post mandate advisory support.

Priority sectors for IFC's PPP program in the medium-term remain power and transport accompanied by a strong alignment with IFC corporate priorities (IDA, FCS, Climate). IFC will also retain focus on a programmatic approach in selected countries (Colombia, Pakistan, Brazil, and the Philippines).

B. CAPITAL MARKETS DEVELOPMENT

2.108 The sharp swings in currency markets over the past years have indicated to both investors and policymakers the importance of developing deeper local capital markets. The development of local capital markets can improve the availability of long term financing, including for infrastructure and real assets, allowing a better match between the duration of financial assets and liabilities. Deeper local capital markets can improve access to local currency financing and offer investors a way to manage inflation and exchange rate risk. Deeper local capital markets can also allow the government an alternative way to finance deficits without financial repression, and can make the financial system more resilient. All of these factors are particularly helpful for the development of banking systems, infrastructure and private sector finance generally.

2.109 IFC raises money in capital markets globally in order to provide cost-effective funding for IFC's client lending program – while also building local capacity. This includes providing direct local currency funding for clients which helps to promote the development of local capital markets and protects clients from currency risk. Bond placement efforts are also targeted at opening new financial channels for clients in need of funding. For example, IFC's Masala bond program—under which IFC issues rupee-denominated bonds in the offshore markets-- established a yield curve for offshore rupee issuances and opened a new local currency funding channel for Indian corporates. IFC invests Masala bond proceeds in private sector development projects—for example, to support an infrastructure bond issued by Axis Bank. Further, the Masala bond has had a profound demonstration effect in India; following successful Masala bond issuances by IFC the Reserve Bank of India took steps to liberalize the bond markets. IFC also taps specialist pools of investment capital, such as Islamic investors and green investors, both to raise competitively priced funds and to help to develop the market for these instruments by providing a triple-A rated benchmark. For example, after successfully issuing over \$3.8 billion in green bonds for own investments (as of end FY15), IFC is now helping banks and corporate clients issue their own green bonds, including acting as an anchor investor and providing advice.

2.110 IFC directly links client borrowers with the capital markets through the provision of several market access, risk management, and credit enhancement products. For example, hedging and derivative products allow clients to source local currency funds from investors who are hard-currency based and cannot accept currency mismatch risk. Structured finance products, such as partial credit guarantees (PCGs) and securitizations, provide credit enhancement and funding alternatives to clients that improves the credit quality

of the client obligation or lowers the cost of funding, helping to mobilize funds that are a multiple of IFC's own account exposure and allowing clients to reach a new investor segment.

2.111 Further, **IFC helps promote capital markets development through anchor investments** (see Box 12), in which IFC commits to purchase a portion of a bond issuance. These types of interventions benefit both investors and issuers. For investors, they derive comfort from IFC due diligence, on-going monitoring, and "stamp of approval". An anchor investment may also provide better economics compared to a PCG for an issuer if its targeted investor base is less focused on ratings. For issuers, an IFC anchor investment can help to ensure a successful issuance, as IFC can support the structuring, placement, and investor outreach as needed.

BOX 12: ANCHOR INVESTMENT – SEVEN ENERGY EUROBOND (NIGERIA)

About Seven Energy

- An independent Nigerian oil and gas upstream and midstream company with assets in the Niger Delta in Nigeria and a focus on the emerging Nigerian domestic gas market
- The company actively manages its capital structure and funding costs to match the profile of its investments

Accessing the bond market

- Seven Energy wanted to raise long-term funding in the high yield corporate bond market
- To fund the construction of a gas pipeline network in the south east Niger Delta
- To refinance some of its existing short term and convertible debt
- To get access to an international investor base encompassing high quality strategic investors and fund managers

IFC as an Anchor Investor

- IFC has a longstanding relationship with Seven Energy and is an equity investor in the company
- At the time, there was a lot of volatility in the markets and a lack of investor appetite due to negative news in the Nigerian Oil & Gas sector, a drop in oil prices, a general pullback from emerging market investments and the growing Ebola crisis in West Africa
- IFC provided support to Seven Energy by allowing the company and its arranging banks to communicate during the bond's marketing period IFC's credit approval and intention to participate in the bond issue, subject to Board approval,
- IFC invested \$50 million, representing 17% of the total \$300 million issuance

Achievements:

- Seven Energy's inaugural high yield bond issue
- First international Eurobond high yield issue by a non-listed Nigerian corporation
- IFC's anchor investment helped mitigate the execution risk in volatile markets
- Attracted diverse investor base from Africa, Asia, Europe and the US

2.112 **IFC continues to seek opportunities to open new financial intermediation channels** as was done through creation of the offshore Indian Rupee Masala bond market. IFC will continue to innovate to provide both creative and capital-efficient investment solutions for its clients, focusing in particular on credit enhancement that allows IFC to catalyze private investor funds to complement the IFC exposure in a given investment. IFC will also support capacity-building efforts to provide training to selected policymakers in its client countries. Finally, IFC will continue to refine its suite of Treasury products and technical human capacity building efforts in order to provide IFC investment teams with opportunities to achieve core mobilization targets, thereby extending IFC's reach significantly.

C. PARTNERSHIPS

2.113 **Almost all IFC activities leverage partnerships with governments, IFIs, banks, other MDBs and firms.** By leveraging its leadership within its vast network of clients and partners, IFC can further enhance economic growth and impact of the private sector. IFC's position within the WBG gives it more access to influence and be pro-active in shaping agendas that enable private sector development. This includes structural reform, and de-risking and unlocking markets. IFC works closely with the WB and IMF on helping to define the most effective approaches to reform at the national and sectoral level.

CLIENTS

2.114 By leveraging its partnerships with its vast network of clients, IFC can catalyze additional private investment to unleash growth and enhance impact. The recently implemented approach to client engagement increases focus on clients at all levels and aims to deepen client relationships to bring together resources, expertise and ideas to achieve maximum impact. This approach continues to enable IFC to move from a transactional focus to a more strategic approach that builds long-term partnerships, one of the key reasons for clients choosing to partner with IFC, as per the IFC Client Survey²³.

BOX 13: ROLE OF CLIENT SERVICE LEADERS (CSLS) IN PROMOTING CROSS-BORDER OPPORTUNITIES

For all their economic achievements in recent years, the needs of developing countries remain vast. The infrastructure investment gap in Asia, for example, is estimated to be around \$1 billion annually between 2010 and 2020²⁴. These needs represent significant opportunities for private enterprises from other developing countries, which have shown a robust appetite to expand into untapped emerging markets. Developing countries now account for more than one-third of foreign direct investment in emerging markets. Leveraging its global reach, IFC has been an important facilitator of cross-border investment – an important way to stimulate regional integration, job creation, and economic development.

In East Asia and the Pacific for example, a key element of the approach includes stepping up “client focus” by using the expertise of client leaders for building and leveraging partnerships, across the WBG and with clients and other external partners; hence improving productivity and efficiency.

Emphasis on cross-continent South-South investment – for example, Asia to Africa – whereby client leaders’ deep local knowledge is leveraged, particularly in helping Chinese investors invest abroad responsibly.

EXTERNAL PARTNERS

2.115 IFC leverages the knowledge, influence and resources of a broad group of partners. By working as a trusted partner and liaising between public and private actors, IFC ignites private sector thinking across institutions and brings business solutions to the table. Engaging globally and mobilizing finance more broadly is key to further strengthening the means of implementation of the 2030 Global Development Agenda. See Annex IV for highlights of current engagements.

BOX 14: FINANCE FOR DEVELOPMENT (FFD)/ BILLIONS TO TRILLIONS/2030 GLOBAL DEVELOPMENT AGENDA

2015 was a unique year in the history of development – culminating in the adoption of the SDGs designed to tackle development challenges globally and recognizing that government and the private sector will need to work together to deliver the necessary transformations. IFC played a strong part in the FfD Business Steering Committee throughout the Addis Ababa FfD process, engaging the private sector, demonstrating what public-private alignment of interest means and setting a precedent for a much higher acceptance in political and diplomatic circles of the role of the private sector to deliver business solutions to the implementation of the Global 2030 Development Agenda.

IFC also wrote (with EBRD) the private sector chapter of the “Billions to Trillions - Transforming Development Finance” narrative which resonated strongly as an overarching mobilization message - to use the billions in ODA to unleash trillions in private, public, international and domestic finance to fund the 2030 Development Agenda. It resonated strongly with the international community and showed the WBG’s comparative advantage in catalyzing new sources of public and private flows to finance the 2030 agenda.

D. INTELLECTUAL LEADERSHIP

2.116 IFC leverages its knowledge, influence and resources to ignite private sector thinking and solutions amongst partners. IFC will also seek to catalyze new ideas on the role of the private sector in development by strengthening its intellectual leadership. In the past, IFC has generated a number of the ideas that fueled this discussion – ideas around public private partnerships, microfinance, mobile money, Equator

²³ IFC conducts an annual client survey to help better understand clients’ needs and their satisfaction with IFC services. Based on the most recent results, investment clients’ top three reasons for working with IFC are: (i) long-term partnership; (ii) perceived stamp of approval on project; and (iii) ability to provide financing or guarantees not readily available elsewhere.

²⁴ <http://www.ifc.org/wps/wcm/connect/4a3e40004b206e74b957fb4149c6fa94/IFC-TOS-South-South.pdf?MOD=AJPERES>

Principles, and Doing Business. In 2014 IFC formed the Economic Advisory Board, a group of thought leaders known for exceptional contributions to the field of private sector development, including in such areas as technology, labor markets, governance, and inclusive business. IFC has also established a Business and Sustainability Advisory Board, which will help it stay current on emerging sustainability issues impacting the private sector and find ways to modernize such tools as the Equator Principles in line with a future financing agenda in which capital markets participation will feature significantly.

2.117 IFC will continue to strengthen the economic rigor with which it designs and selects interventions, and assesses the impact of operations ex-post. IFC will continue to build intellectual leadership and knowledge management in private sector development – such as capturing lessons from operations, standard-setting, and results measurement.

CHAPTER 3: BUSINESS IMPLICATIONS AND FINANCIAL SUSTAINABILITY

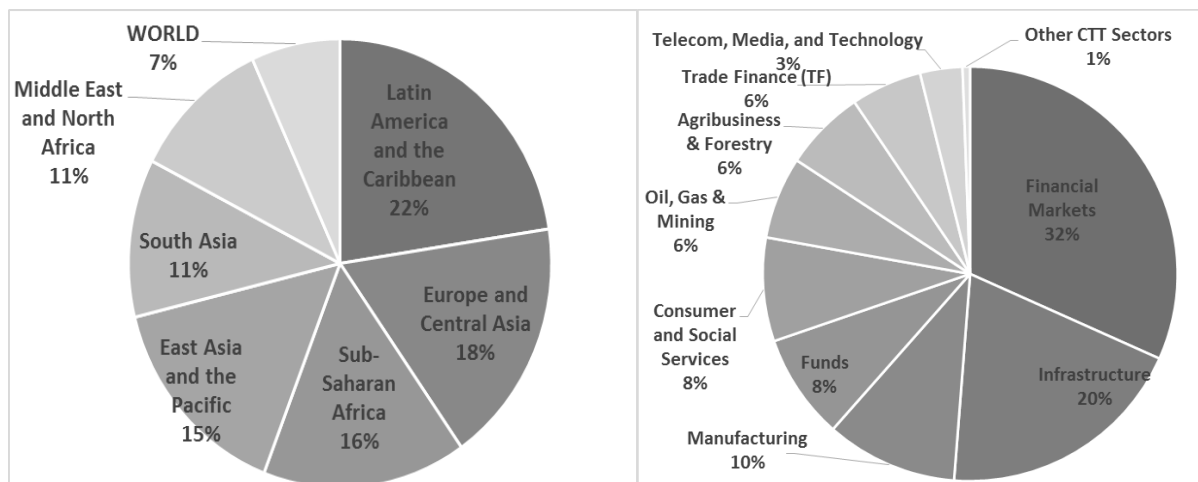
RECENT TRENDS

A. PORTFOLIO

3.1 As indicated in Chapter 1, IFC's portfolio and financial results are directly impacted by an increasingly challenging environment for emerging markets seen via declining commodity prices and global trade, currency depreciation as well as rising EM debt. During CY13-15, EM currencies fell 31%²⁵ (16% in CY15 alone), commodity prices dropped 44%²⁶ (25% in CY15), and the MSCI EM index declined 18%²⁷ (15% in CY15). Emerging market equity returns strongly diverged from developed markets, such as the US market which rose 43% over the three years.

3.2 Despite external challenges, IFC has managed to deliver solid profitability results from its existing portfolio through diversification which reduces unsystematic risks that would arise from over-concentration on individual sectors, regions, industries products or clients. IFC's portfolio is composed of multiple investment instruments across geographic regions and industries, and are subject to prudent portfolio management and capital limits frameworks for countries and clients. At FY16Q2, IFC's committed portfolio totaled \$50 billion, with the largest concentration in LAC at 22% of total commitments, as indicated in Figure 14 below. IFC across industries, the largest concentration is in financial markets at 32%, followed by infrastructure at 20%.

FIGURE 14: TOTAL IFC COMMITTED PORTFOLIO BY REGION/SECTOR FY16Q2



B. PROFITABILITY

3.3 IFC measures its profitability through controllable, realized and allocable income. Each measure allows differentiation of drivers with more predictability and control (controllable income) from those more volatile drivers which will provide additional means of capital replenishment and ability to allocate to IDA and Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS) (realized and allocable income).

3.4 IFC's Controllable Income includes both fairly stable resources of income, such as loan and fee revenue, as well as relatively less predictable sources of revenue, such as dividends and treasury revenue. While loan and fee revenue more than covers IFC's expenses every year, treasury revenue and dividends can

²⁵ JP Morgan's Emerging Market Currency Index

²⁶ Bloomberg's Commodity Index

²⁷ MSCI EM Total Return USD Index

both vary greatly with the overall market environment and the latter can also be influenced by the sale of large dividend generating investments. Loan income (interest and fees) for the first half of FY16 was about \$550 million, slightly below same period in FY15 (about \$575 million, which included a one-off recovery). However, loan loss provisions for FY16Q2 were about \$195 million, compared to only about \$107 million in FY15Q2, thus reducing the net loan income substantially, when looking at allocable income and not only controllable income.

TABLE 2: SUMMARIZED INCOME STATEMENT

	FY13	FY14	FY15	FY16 till Dec (6 months)
Loan & Debt Security Interest Income and Fees, net	954	1,027	1,111	555
Equity Investments Dividends and Other	267	301	288	96
Treasury revenue (net)*	389	494	271	32
Advisory Services Income**	239	254	244	109
Service Fees	101	75	137	50
Other Income	101	132	124	52
Total Controllable revenue	2,051	2,283	2,175	894
Total Controllable expenses	(1,414)	(1,420)	(1,426)	(731)
Total Controllable Income	637	863	749	163
Realized gain/losses on investments	1,001	1,051	1,391	796
Total Realized Income	1,638	1,914	2,140	959
Provision for losses on loans, guarantees and others	(243)	(88)	(171)	(195)
Equity and debt security impairments	(487)	(281)	(765)	(467)
Exclude Advisory Services Expenses Funded by Designations	110	78	59	20
Forex and others	42	(9)	64	(25)
Total Allocable Income	1,060	1,614	1,327	292
Unrealized gains and losses on investments	375	287	(456)	(211)
Unrealized gains and losses on borrowings	32	(74)	(52)	107
Include Advisory Services Expenses funded by designations	(110)	(78)	(59)	(20)
Others	(7)	(10)	(11)	(5)
Income before grants to IDA	1,350	1,739	749	163
Grants to IDA	(340)	(251)	(340)	-
Net income (US GAAP)	1,010	1,488	409	163
Non-controlling interests and others	8	(5)	36	5
Net income attributable to IFC (US GAAP)	1,018	1,483	445	168

* Treasury revenue was calculated based on the Segment Note in IFC's external Financial Statement.

**Advisory service gross-up of revenues and expenses only started from FY12. Prior to FY12, no significant advisory service revenue was recognized.

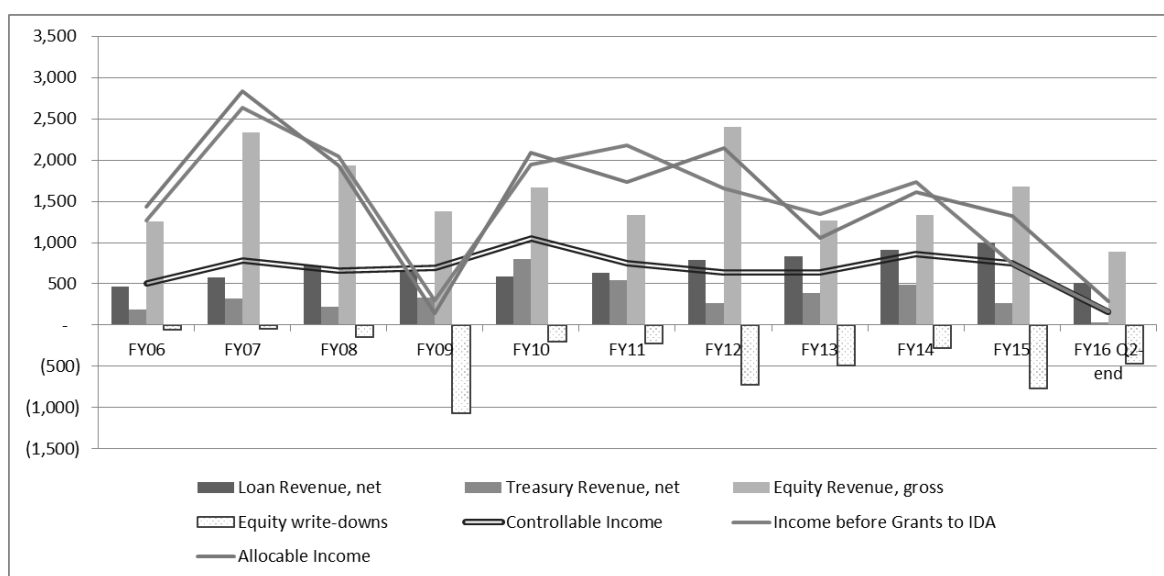
Some of the prior year numbers have been regrouped to conform to the new format of presentation.

3. 5 *IFC's Allocable Income* is a more volatile measure, as it is impacted by the equity impairments, loan loss provisions and write-offs in the investment portfolio, as well as realized capital gains on sales of equity, which in a given year may be directly attributable to only a handful of transactions and are therefore lumpy. Despite a strong realization of capital gains of almost \$800 million, allocable income ended at \$292 million after the first six months of FY16, driven by low controllable income (\$163 million) and high equity and debt security write-downs (\$467 million) and loan loss provisions.

3. 6 *Overall profitability, as measured by Income before grants to IDA*, is further impacted by unrealized gains and losses on non-trading financial instruments, which are driven by internal factors, such as investment portfolio quality, and external factors, such as emerging markets performance or the spread of supra-nationals (impacting the fair value of borrowings). These measures are very hard to predict, and tend to make this

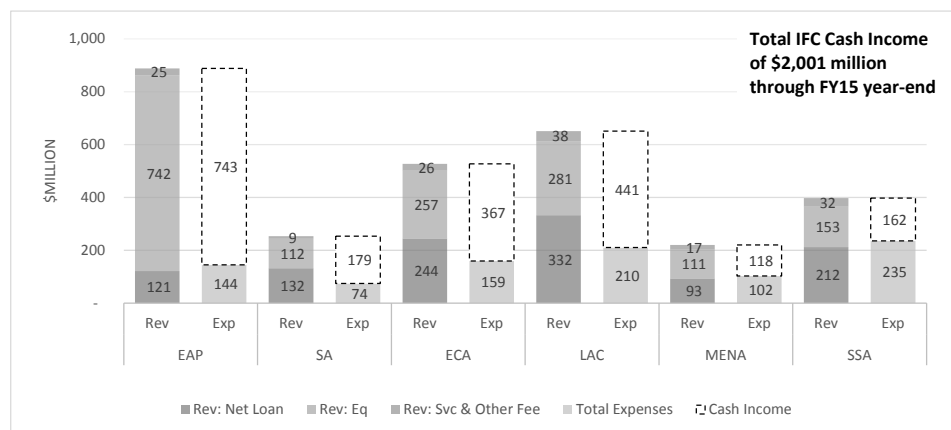
measure volatile from year to year, as illustrated in Figure 15 below. The chart shows the relationship between IFC's key revenue drivers – net loan revenue, net treasury revenue and gross equity revenue – and the most stable as well as the most volatile profitability measure, controllable income and, allocable income and income before grants to IDA, respectively. The figure illustrates clearly how controllable income is a reasonably stable measure that moves in lockstep with the net loan revenue and net treasury revenue (plus dividends, which is a small portion of the gross equity revenue). However, allocable income as mentioned, can change significantly from year to year, depending on the external market conditions as well as the individual client factors. Furthermore the Income before Grants to IDA is impacted by unrealized gains and losses on the investment portfolio and borrowings portfolio. For both FY15 and FY16Q2, the realized capital gains for the period were offset by an equal amount of combined loan loss provisions, equity write-downs and unrealized losses in the investment and borrowing portfolios, resulting in a convergence of controllable income and income before grants to IDA.

FIGURE 15: HISTORICAL TRENDS IN IFC'S REVENUE AND INCOME PERFORMANCE, FY06 – FY16Q2 (\$ MILLIONS)



3.7 Profitability of IFC investment portfolio. One of the key profitability measures of IFC's investment portfolio is *Cash Income*, a measure that includes realized income for the investment portfolio (including realized capital gains) and all administrative expenses for IFC as a whole, but excludes unrealized drivers, such as equity write-downs, loan loss provisions and impacts of exchange rate movements on investments. Note that this pure investment operations focused measure also excludes revenue from treasury and other non-investment portfolio revenue providers, such as advisory services and AMC. Despite facing challenging economic conditions during FY15, IFC's investment portfolio managed to generate solid cash income during the fiscal year, largely driven by strong realized capital gains whilst controlling expenses. As per Figure 16 below, EAP and LAC contributed the largest share of total cash income for the year, due to very strong realized capital gains, while SA and MENA contributed the least to total cash income. However, the chart also indicates that for most regions, the revenue from loan is close to covering total expenses for the region (and for overall IFC, net loan revenue, the most stable income driver, does more than cover all of its expenses). With net loan and fee revenue covering the expenses, the equity revenue generated contributes directly to the cash income for the region, hence, the regions with the highest realized capital gains and dividends are also the regions with the highest cash income.

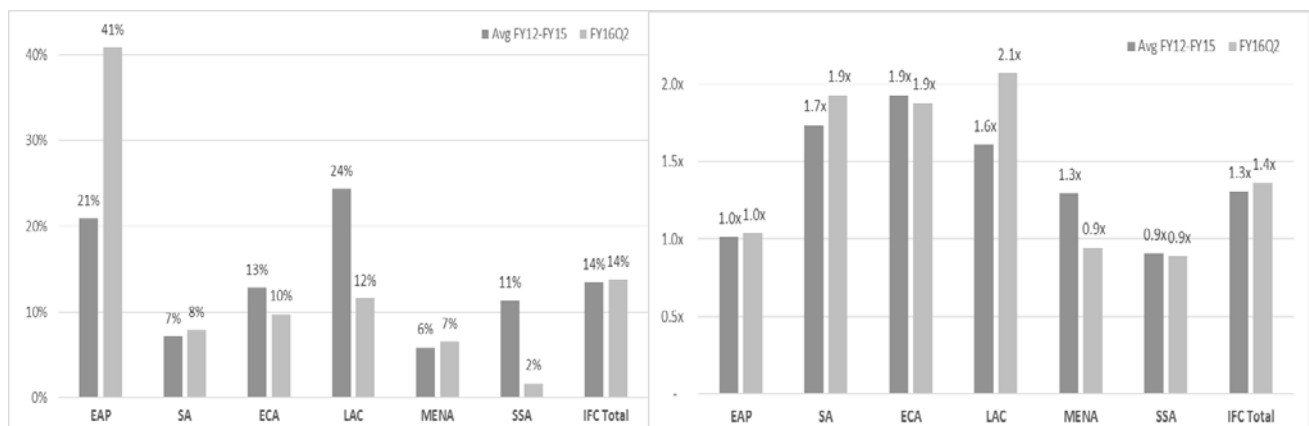
FIGURE 16: CASH INCOME BY REGION, FY15



Note that IFC total cash income for FY15 includes approximately \$(10) million cash income for projects mapped to the "World" region

3. 8 The strong cash income results in FY15 yielded a return on invested capital completely in line with the average for FY12-FY15, as illustrated in the chart below. The *Cash Income Return on Average Capital* metric measures how profitable projects and portfolios are relative to the average capital required to support these investments. Figure 17 below shows that overall, the return based on realized income generated in FY16Q2 was in line with the average of FY12-FY15 (14%), however, the development differs for each individual region, with several regions showing a lower cash income return year-to-date FY16 than the average of the past four years, including ECA, LAC and SSA, driven by timing of equity sales.

FIGURE 17: CASH INCOME RETURN ON AVERAGE CAPITAL BY REGION (LEFT); NET LOAN & FEE REVENUE COVERAGE OF TOTAL EXPENDITURE BY REGION (RIGHT)

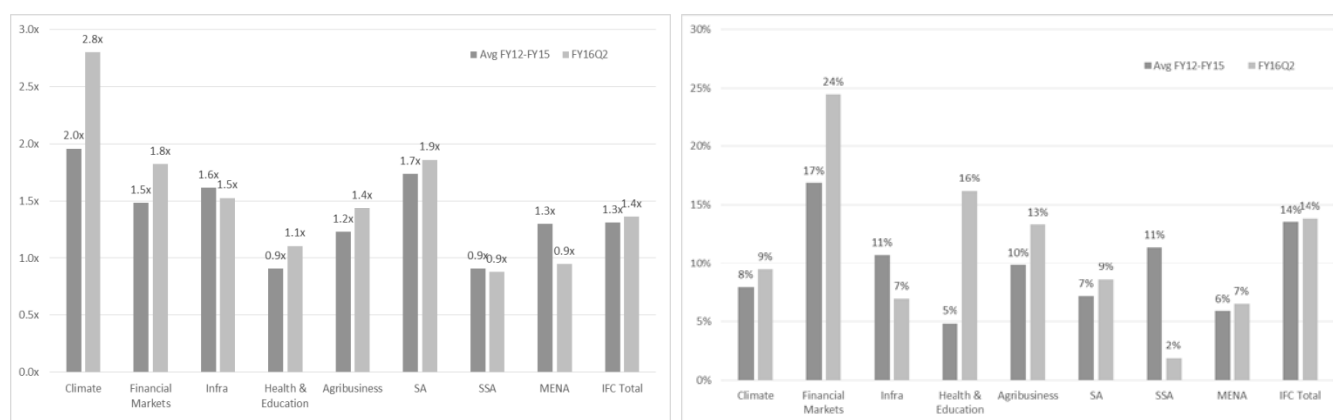


3. 9 The *Net Loan & Fee Revenue Coverage ratio* measures a portfolio's ability to cover expenses with stable revenue sources that are less impacted by market volatility. Most IFC regions have maintained an average net Loan & Fee Coverage ratio above 1.0x over the last four fiscal years and continue to do so in FY16Q2. Higher operating costs for smaller investments in certain regions are subsidized by large projects with strong interest income and lower costs. Such examples are seen in ECA and LAC regions versus SSA and MENA.

3. 10 **Profitability of IFC strategic focus areas.** IFC's strategic focus areas have for the most part been able to cover total expenses with revenues generated from stable sources. Climate, South Asia, Financial Institutions Group (FIG) and Infrastructure & Natural Resources (INR) have delivered strong loan and fee revenues that outperform the IFC average, as depicted below. Agribusiness is roughly on par with IFC financial performance. In contrast, Social Inclusion and Sub-Saharan Africa are strategic focus areas with Net Loan &

Fee Coverage ratios on average slightly below 1.0x over the last four years, signaling that they are not self-sustainable through stable income contribution from loans alone and rely on equity revenue or revenue from other areas of IFC for sustaining the same or higher level of business going forward. As an example, Agribusiness, with its higher loan and fee coverage ratios, help offset the lower result for Social Inclusion projects when considering overall industry measures, as both areas are within the Manufacturing, Agriculture and Services (MAS) industry department.

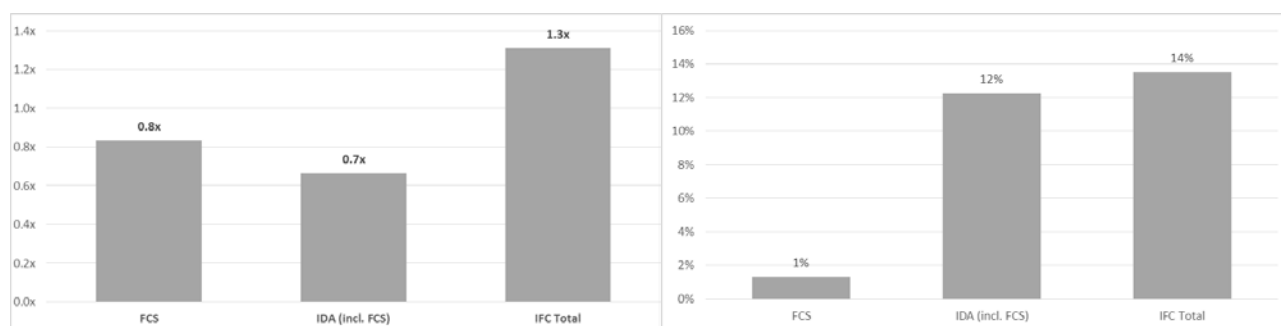
FIGURE 18: NET LOAN & FEE REVENUE COVERAGE OF TOTAL EXPENDITURE BY STRATEGIC FOCUS AREA (LEFT); CASH INCOME RETURN ON AVERAGE CAPITAL BY STRATEGIC FOCUS AREA (RIGHT)



3. 11 The *Cash Income Return on Average Capital for IFC's strategic areas* shows how cash income return can change significantly from one year to the next, due to large realized capital gains (see Financial Markets and Health and Education), but on average, **most of the strategic areas have exhibited lower returns than the IFC overall return** for the four years ended FY15, with Social Inclusion, MENA and South Asia providing the lowest average returns during the last four years overall, at 5%, 6% and 7%, respectively, below 14% average returns for IFC over the same period, while the Financial Markets focus area consistently delivers solid returns that contribute positively to increasing the overall IFC cash income return numbers.

3. 12 For investments in **FCS and IDA countries the Net Loan & Fee Revenue Coverage of Expenses ratios are below the total IFC ratio**. The FCS coverage ratio of 0.80x is below the breakeven ratio of 1.00x, implying that IFC's investments in FCS countries are not able to cover their expenses with stable revenue sources, even though the majority of its portfolio are loans, hence a majority of the income generated in those countries is captured in this metric. Similarly, FCS and IDA countries also yield a lower return on average invested capital based on cash income. As Figure 18 illustrates, average Cash Income Return ratios for the four-year period FY12-15 are exceptionally low for FCS countries, driven by the higher cost of doing business in these areas and proportionally lower equity revenues; equity accounts for only 18% of total revenues in FCS versus 45% for IDA and 55% for all of IFC.

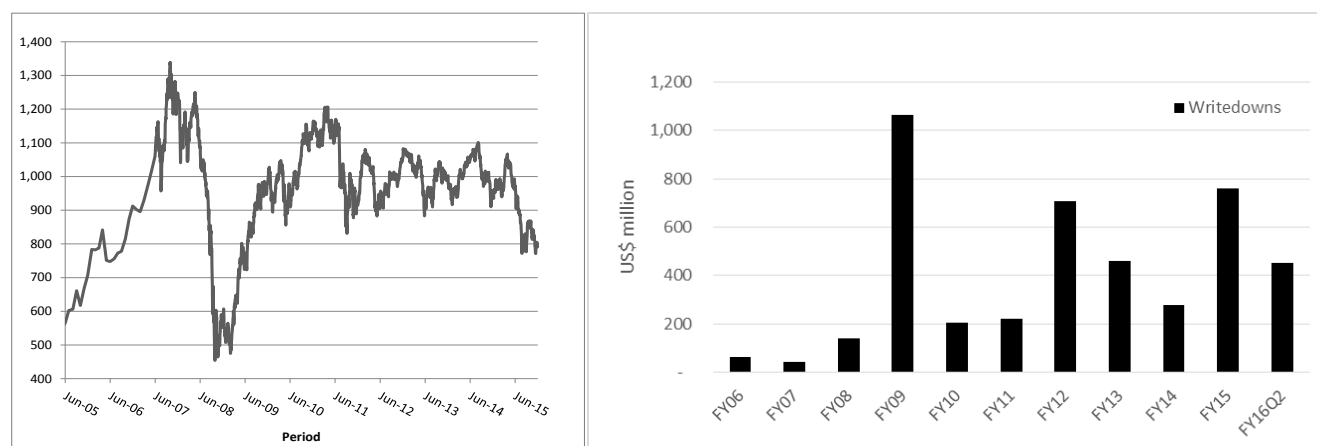
FIGURE 19: NET LOAN & FEE REVENUE COVERAGE OF TOTAL EXPENDITURE, FCS/IDA/TOTAL IFC, AVERAGE FY12-15 (LEFT); CASH INCOME RETURN ON AVERAGE CAPITAL, FCS/IDA/TOTAL IFC, AVERAGE FY12-15 (RIGHT)



3. 13 IFC maintains its determination to invest in FCS when financial sustainability is achievable. When this entails lower returns on average, IFC will seek to more explicitly achieve returns elsewhere. The evolving intersection of strategic focus, client demand, and opportunity for both development impact and financial sustainability (which are strongly linked), will continue to drive IFC's operational choices and the resource usage that supports them. Please see the FY16 budget paper²⁸ for more information on budget principles and process.

3. 14 *Equity portfolio.* The challenging market context has impacted **IFC's equity returns** (now 1.9% annualized over CY13-15, based on fair value) **which are significantly lower compared to earlier periods.** The same conditions have led to increased equity write-downs, with an average of \$0.5 billion seen over FY13-15. In spite of the lower absolute returns, however, IFC's equity portfolio continued to outperform the MSCI EM benchmark (the benchmark's annualized return over CY13-15 was -6.4%, and IFC with +1.9% therefore outperformed by 8.3% p.a. over the period). IFC's net income benefitted from average realized capital gains of \$1.1 billion in addition to average dividends of almost \$0.3 billion over FY13-15.

FIGURE 20: MSCI EM EVOLUTION (LEFT); IFC EQUITY WRITE-DOWNS BY FY, FY16 HALF YEAR ONLY (RIGHT)

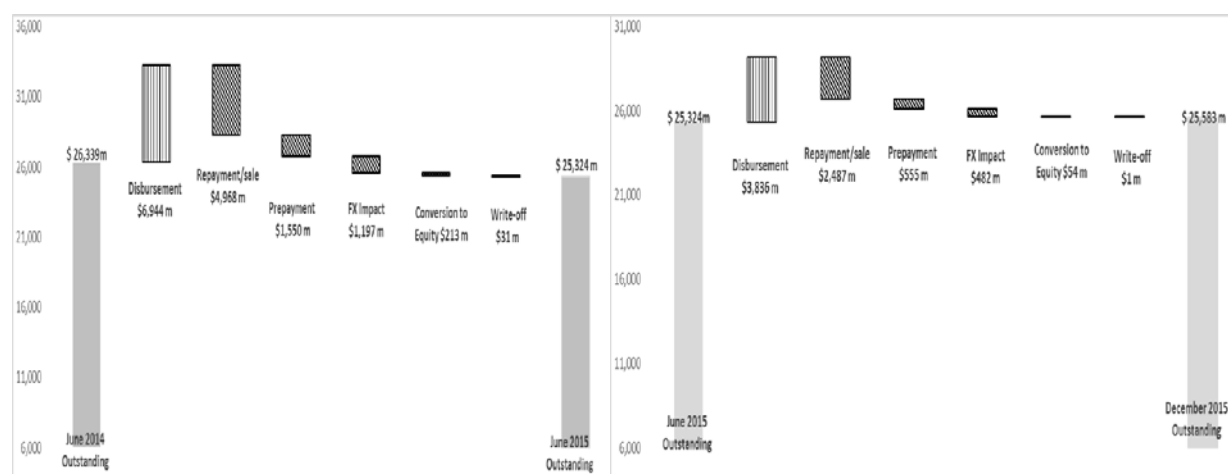


3. 15 The **outlook for equity performance remains difficult to ascertain given the direct linkage to emerging market performance.** As of FY16Q2, IFC had \$451 million of equity write-downs against nearly \$800 million of realized capital gains and \$93 million of dividends.

3. 16 *Loan portfolio.* IFC's loan portfolio results and profitability have also been adversely affected by the challenging environment in emerging markets. IFC's disbursed loan portfolio resumed slight growth (about 1%) in the first half of FY16, after shrinking by about 4% in FY15.

²⁸ Enabling Sustainable Growth: IFC's FY16 Budget, IFC/R2015-0151, 2015.

FIGURE 21: DISBURSED LOAN PORTFOLIO EVOLUTION FY14-FY15 (LEFT); DISBURSED LOAN PORTFOLIO EVOLUTION FY15-FY16Q2 (RIGHT)



3. 17 As shown in Figure 21, while the disbursements and repayments are largely in line with previous years, the **drop in FY15 loan portfolio was primarily driven by high prepayments and the devaluation of several EM currencies against a strengthening US dollar and subsequent impact on non-USD IFC loans.** Prepayments in FY15 were the highest seen in the past five years, caused mainly by the availability of alternative finance to clients. These effects were smaller in the first half of FY16, allowing a slight growth for FY16Q2. Had IFC maintained five-year historic levels of prepayments and FX movements, its debt portfolio would have grown by 3-5% per year.

3. 18 **IFC's Non-Performing Loans (NPL) ratio has been rising steadily** over the past 18 months, from 5.1% (\$1,342 million) at the end of FY14 to 6.2% (\$1,578 million) at the end of FY15, and 7.2% (\$1,844 million) by the end of FY16Q2. The growth in NPLs over this period has primarily been driven by: (i) few sizeable investments; (ii) prolonged regional macroeconomic difficulties in certain countries, particularly in MENA and ECA; and (iii) the steep drop in commodity prices over the past 12-18 months.

C. CAPITAL ADEQUACY

3. 19 Sound financial risk management is crucial in fulfilling IFC's mission. IFC provides long-term investments to the private sector in emerging markets, which includes expanding the investment frontier into the most challenging markets. At the same time, IFC needs to maintain its triple-A rating, which allows it to maintain low borrowing costs and support key initiatives, such as IFC's capital markets development efforts.

D. DEVELOPMENT IMPACT

3. 20 **IFC's clients continue to deliver development impact through activities that support inclusive and sustainable growth as a means to reduce poverty.** IFC has now explicitly outlined its poverty focus for better articulation and measurement, by providing a framework of who the poor are in the context of its operations, and how these operations contribute to poverty reduction.

3. 21 IFC's results-measurement system features three mutually reinforcing components: (i) the IFC Development Goals (IDGs) which provide corporate-level targets to reflect IFC's strategy and areas of greatest development needs; (ii) a monitoring system for annual tracking of development results and realization of anticipated impact; and (ii) a systematic in-depth evaluation program to articulate and assess the impact of IFC's work and generate lessons learned that can be fed back into IFC operations to improve future goal-setting and program/project design. See section "Implementing the improvements in IFC's Results Measurement Framework".

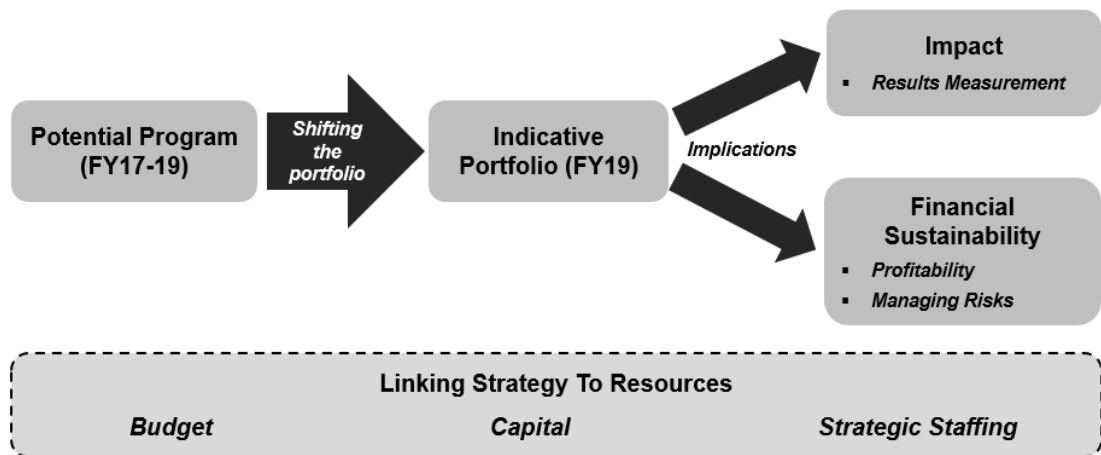
3.22 *Development Outcome Tracking System (DOTS) score trends and FY16 forecast.* Despite the deterioration of macroeconomic and financial markets conditions, the FY15 DOTS score of IFC investment operations remained essentially stable with 63% of clients rated high, reflecting a net change of only three additional clients rated low compared to FY14.

3.23 Though slightly below the 65% target, the score is in line with the three-year average of 64%, and in part reflects clients’ underperformance against expectations at approval as market conditions have progressively become more challenging. It is however important to underline that, as in recent years IFC has increasingly ventured into some of the world’s most challenging areas – such as those affected by conflict and instability – and into more challenging sectors such as infrastructure, the risk profile of IFC operations has gradually changed. *The IDGs* are targets for reach, access or other tangible development outcomes that projects commit to deliver during their life time. At the aggregated level, each of the IDGs has a three-year target (currently FY14-FY16) coinciding with IFC’s operations projections. The five goals – strengthening infrastructure, improving sustainable farming opportunities, expanding access to financial services, boosting health and education, and reducing greenhouse emissions – are reported in the IFC Corporate Scorecard, linked to financial incentives, and fully incorporated into IFC results frameworks. IDGs have helped strengthen IFC’s focus on development outcomes, both in strategy and operations: targeting projects with higher expected outcomes; increasing cooperation across industries and business areas, both at strategic and operational level by developing common metrics and objectives; and communicating externally IFC’s development mission, including IFC contributions to SDGs.

PROGRAM AND PORTFOLIO

3.24 IFC’s growth and capital accumulation over time is enabled by active portfolio management which aims to achieve development impact and financial sustainability while working towards maximizing IFC’s contribution to the WBG goals. The potential program for FY17-19 is a critical lever in shifting the portfolio, as the resources required – budget, capital and staffing – to implement the targeted program, will be leveraged from other lines of business, resulting in a decrease on a portfolio basis in these other areas. These strategic shifts (as highlighted in Chapter 2) form the basis for developing IFC’s indicative portfolio (FY19), an aspirational vision of IFC’s ambition (see Figure 22 below).

FIGURE 22: FROM PROGRAM TO PORTFOLIO

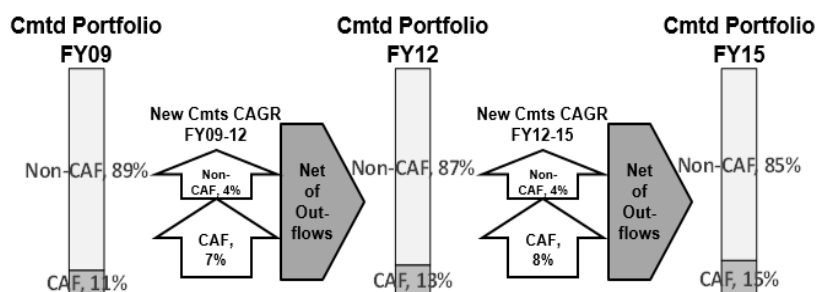


3.25 However, changes in overall portfolio composition take time, as this is a gradual process, and these shifts are muted compared to new commitment growth. See Box 15 below for an example on IFC’s portfolio in Africa.

BOX 15: IFC'S PORTFOLIO IN AFRICA

Sub-Saharan Africa has been a strategic priority for IFC for many years.

The figure on the right demonstrates that even with substantive growth in new commitments (7-8% CAGR for CAF versus 4% for the rest of IFC) as supported by increased intensity of effort, CAF's share of the portfolio has grown more slowly (from 11% in FY09 to 13% in FY12 and 15% in FY15).

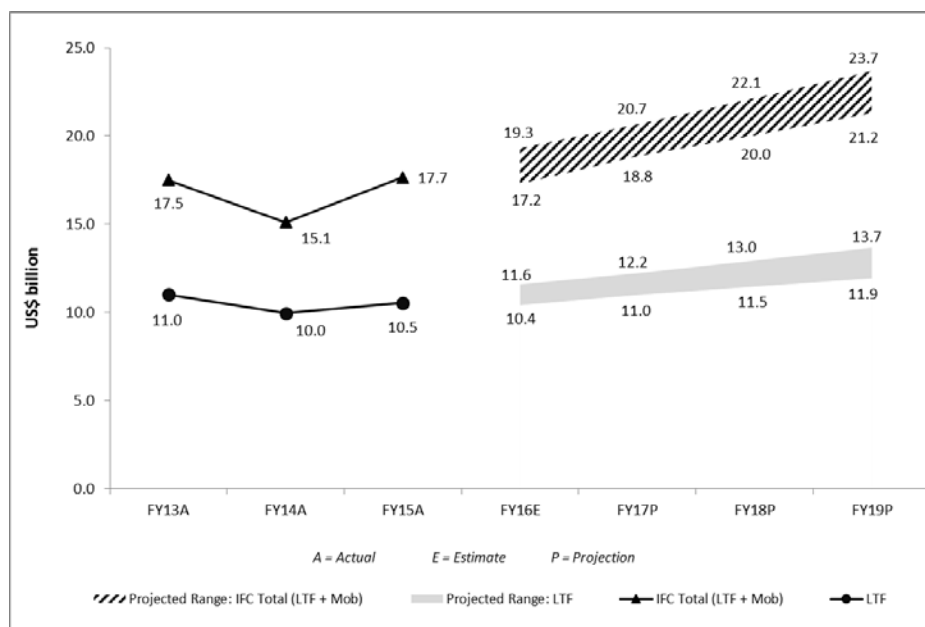


A. POTENTIAL PROGRAM

3. 26 Highlights of the potential investment program trajectory for FY17-19 include:

- Taking into account capital available and strategic tradeoffs, IFC aims for a potential own account long-term finance (LTF) investment volume growth trajectory of 4-7% per year during FY15-19, and a Total LTF²⁹ growth trajectory of 5-8%.
- The average annual outstanding short-term finance³⁰ (STF) portfolio is expected to grow by about 0-2% per year.

FIGURE 23: POTENTIAL FY17-19 PROGRAM TRAJECTORY



²⁹ IFC's own-account LTF plus core mobilization. Core mobilization (the syndicated loan program, initiatives, PPP mobilization, and AMC) excludes MIGA and other non-core mobilization.

³⁰ Global Trade Finance Program (GTFP) of less than one year and Global Trade Supplier Finance (GTSF) program.

TABLE 3: POTENTIAL LTF PROGAM TRAJECTORY FY17-19

Commitment Volume (\$ Billions)	FY13A	FY14A	FY15A	FY16E	FY17P	FY18P	FY19P	CAGR FY15A-19P
Long-Term Finance (LTF)	11.0	10.0	10.5	10.4 - 11.6	11.0 - 12.2	11.5 - 13.0	11.9 - 13.7	4 - 7%
Mobilization	6.5	5.1	7.1	6.8 - 7.7	7.8 - 8.4	8.5 - 9.2	9.3 - 10.0	7 - 9%
Total (LTF + Mobilization)	17.5	15.1	17.7	17.2 - 19.3	18.8 - 20.7	20.0 - 22.1	21.2 - 23.7	5 - 8%

3. 27 *Short-term finance.* Trade is a key driver of job creation and poverty reduction via growth and productivity improvements. Exports contribute to domestic GDP growth via access to global demand. Imports provide foundations of productivity growth – ideas, knowhow, technology, infrastructure, and capital equipment – as well as raw materials needed to participate in global supply chains with value-added manufacturing. Increased trade volumes also improve the growth rate of income per capita in an economy, especially in smaller countries. There remains high demand for multilaterals to provide commodity finance, working capital and trade facilitation. Even as commodity prices fall, gaps in trade finance endure. At a time when trade finance liquidity should counteract adverse lending conditions, global banks continue to reduce correspondent relationships in response to increased compliance costs linked to more stringent “Know Your Client” and anti-money laundering rules. Preliminary studies by the Asian Development Bank and African Development Bank suggest a large, unmet demand for trade finance: in fact, the worldwide gap may have represented as much as 20-25% of all trade financed in 2011³¹. The World Trade Organization estimates the gap in Sub-Saharan Africa alone to be between \$30 billion and \$50 billion³², and several recent surveys suggest that access to trade finance is the top concern relative to other problems faced by exporters in emerging markets. Exports are a critical source of foreign currency and direct GDP growth.

3. 28 IFC will continue to leverage its position as a global leader in emerging market trade and commodity finance to respond to market needs, deliver value for IFC’s clients, and achieve impact while being financially sustainable. IFC’s trade finance initiatives expand access to trade and commodity finance for both financial institutions and their real sector clients. Clients’ further benefit from the power of IFC’s global network: IFC remains the only development finance institution with a mandate to support trade finance for emerging markets across the globe, linking regions and financial institutions. As relatively low-risk, short-term products, these programs represent viable entry points for clients to IFC, while enabling IFC to engage for the first time in new markets and cultivate new client relationships. Since the inception of the Global Trade Finance Program (GTFP) in 2005, IFC has supported \$52 billion in EM trade through its STF initiatives.

3. 29 Looking forward, there remains a challenge for all emerging markets investors. The full effect on systemic risk of the global fall in aggregate demand and commodity prices has yet to be realized. There will also be upward pressure on demand for trade finance as liquidity is in higher demand and, as both perceived and real country risk edges up, counterparty banks may be willing to invest even less capital. The intersection of these two elements will ultimately direct trade finance’s strategy as it aligns IFC’s own risk prudence with market demand.

TABLE 4: STF AVERAGE OUTSTANDINGS PROJECTIONS FY17-19

STF (\$ Billions)	FY13A	FY14A	FY15A	FY16E	FY17P	FY18P	FY19P	CAGR FY15A-19P
Average Outstandings	2.8	3.0	2.8	2.6 - 2.8	2.6 - 2.8	2.7 - 3.0	2.8 - 3.1	0 - 2%

3. 30 The Advisory Services offering is increasingly incorporated into a wide suite of integrated solutions IFC provides to its clients. At the end of FY16Q2, IFC had an active portfolio³³ of more than 700 advisory

³¹ ADB 2014. “ADB Trade Finance Gap, Growth, and Jobs Survey.” <http://www.adb.org/sites/default/files/publication/150811/adb-trade-finance-gap-growth.pdf>

³² WTO 2015. “Improving the Availability of Trade Finance in Developing Countries: An Assessment of Remaining Gaps.” https://www.wto.org/english/res_e/reser_e/ersd201506_e.pdf

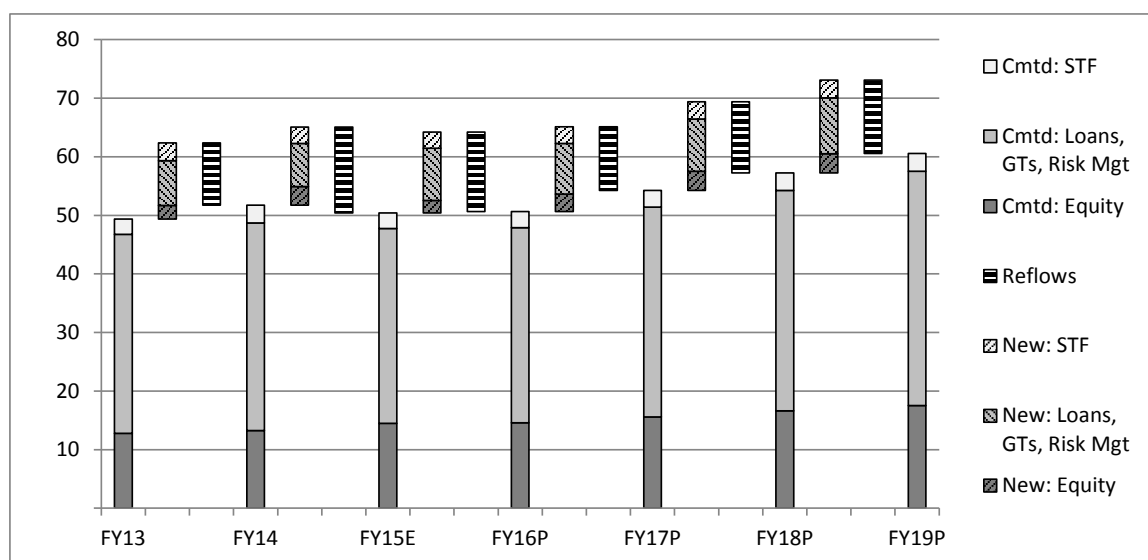
³³ Active portfolio includes all projects in implementation stage. Average duration of advisory project is about three years.

projects in 100 countries, valued at \$1.3 billion. During the same period, AS program³⁴ totaled \$89 million while there were more than 1000 active client engagements³⁵. AS extends IFC's footprint, especially in challenging markets – like FCS and IDA – where AS often leads the way for IFC investment. At the end of FY16Q2, FCS reached 19% of total AS program and 16% of active client engagements and IDA reached 61% of AS program and about half of active client engagements. Share of client engagements in IDA is expected to stay steady at around 50% while FCS share is projected to increase to 22% by FY19. Advisory work related to climate change ranges from sustainable energy finance to supporting clients optimize energy/resource efficiency use and implementing climate-related PPP projects. At the end of FY16Q2, climate-related activities reached 23% of total AS and 28% of active client engagements, is in line with projections for future years.

B. BUILDING THE PORTFOLIO

3. 31 IFC's total committed investment portfolio evolves through additions in the form of new commitments and reductions through other movements including loan reimbursements, equity sales, cancellations, and prepayments. As Figure 24 below illustrates, in any given year, the impact of external conditions can drive significant shifts in portfolio volume. In FY15, IFC's loan portfolio was adversely affected (4% decline as compared to 9% growth in FY14) given the strengthening US Dollar as well as higher prepayments from clients. IFC's total committed portfolio at FY16-end is expected to be larger than at FY15-end as the portfolio continues to resume normal growth with stabilizing conditions. Based on most recent assumptions, IFC's total committed portfolio is estimated to grow at a compound annual growth rate (CAGR) of 5% from FY15 to FY19 of IFC's total committed investment portfolio. The underlying assumptions of the projected portfolio (new business, product mix, equity sales, cancellations and prepayments) are subject to change as they are linked to outside factors not within IFC's control, such as equity and loan market sentiment worldwide and access to and pricing of alternative capital for IFC's current clients.

FIGURE 24: EVOLUTION OF INVESTMENT PIPELINE AND PORTFOLIO ACROSS PRODUCTS (INDICATIVE)



C. PORTFOLIO GROWTH IN PERSPECTIVE

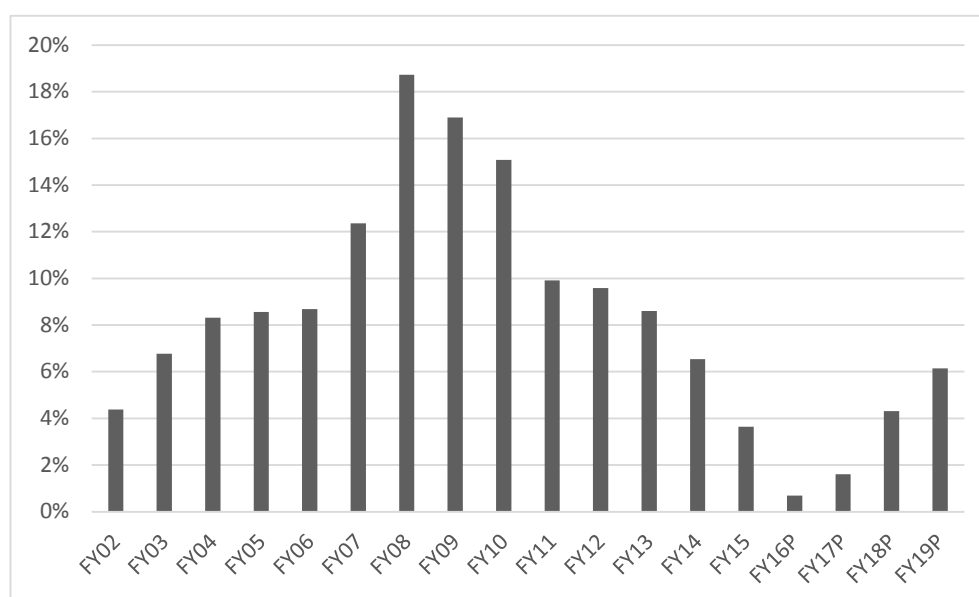
3. 32 IFC's portfolio continues to grow in volume but not at the levels experienced historically. Although market conditions remain volatile, portfolio growth is expected to increase in future years due to continued

³⁴ AS Program is based on expenditures of projects with clients.

³⁵ Active Client Engagements count is based on signed legal agreements with clients, excluding training services agreements.

growth in new commitments and lower projected cancellation, prepayments, and equity sales. Based on most recent estimates, IFC's committed portfolio is expected to grow at a CAGR of 4-5% from FY16-FY19.

FIGURE 25: IFC OWN ACCOUNT COMMITTED PORTFOLIO, 3-YEAR ROLLING CAGR



3.33 Table 5 below highlights the indicative levels of the portfolio IFC expects by FY19, in selected strategic areas. However shifts in portfolio composition take time. Even with concentrated focus and dedicated resources to a particular area (as illustrated in Box 15 above on Africa), there is lag in reflecting efforts in new business with portfolio outcomes.

TABLE 5: FY19 INDICATIVE COMMITTED PORTFOLIO BY STRATEGIC FOCUS AREA

Impact Themes ¹	Portfolio FY09	Portfolio FY15	Indicative Committed Portfolio (FY19)
Core Infrastructure	18%	20%	21%-22%
Services (Health & Education)	2%	3%	4%-5%
Agribusiness	10%	7%	8%-10%
Financial Markets	35%	38%	39%-40%
Climate	15%	16%	20%
FCS	0.01%	3%	6%-8%
South Asia	11%	12%	13%-14%
Africa	11%	15%	16%-18%
MENA	11%	11%	12%-13%
Total IFC Committed Portfolio (\$USmn)	\$ 34,404	\$ 50,402	\$ 58,000 - 62,000

¹⁾ Note that the sum of the percentages given might not add up to 100%, as impact themes are not mutually exclusive. (I.e. a project might be both Agribusiness, Africa and FCS, and will be included in the count for all three themes).

MANAGING DEVELOPMENT IMPACT AND FINANCIAL SUSTAINABILITY

A. ENHANCING RESULTS MEASUREMENT

3.34 Using two key areas of strategic focus highlighted in Chapter 2 (FCS and infrastructure), provides a useful reference for understanding the development impact performance for IFC's engagement in these areas.

3.35 *Performance in FCS countries.* The DOTS score of investment projects implemented in FCS countries reflects the more challenging environments of these countries and, over the past eight years, has been on

average 21% lower than in other countries. Yet, the gap is gradually becoming smaller due to the results of performance improvement of FCS projects, particularly those in the financial sector.

3.36 Several factors contribute to the performance of investment operations in FCS, including client selection and company quality, readiness of the local market, political and regulatory environment at the time of investment, project design, and structuring. In particular, projects combining from the outset investment and advisory operations present a higher probability of success compared to standalone investment projects. This holds true also in non-FCS countries but is stronger in the context of FCS countries.

3.37 The overall performance of AS in FCS has been in line over the past five years with that of AS operations in non-FCS countries, averaging around a 70% success rate. Lessons learned from completed AS projects in FCS has proved the need for, and value of, conducting a systematic stakeholder and conflict analysis, developing a risk mitigation plan, applying a flexible project design and implementation, and addressing clients' capacity building needs.

3.38 Analysis of investment and advisory services performance in FCS confirms that projects in FCS face significant challenges in these countries. However, the upward trend of DOTS performance is encouraging and shows how challenges may be turned into opportunities and success.

3.39 *Power Sector Multipliers.* As infrastructure, and especially power, becomes more and more central to IFC's strategy, IFC has built, based on previous experience in using input-output models to estimate impact, an Excel-based tool that allows operational teams to estimate ex-ante impact of specific power projects on jobs and economic growth, with minimum data requirements (GWh produced, price of electricity, construction and operation and maintenance disaggregated by category, and transmission and distribution losses). The tool is based on a Social Accounting Matrix methodology and is available for 20 developing countries in different regions. The estimates could help teams better articulate and quantify the development impact of IFC investments in this sector. *Implementing the Improvements in IFC's Results Measurement Framework.* Since FY14, IFC has been moving towards understanding the impact of operations beyond individual transactions to better assess how it has contributed to the development of the private sector in specific sectors and economies. In this context, there has been a series of improvements to IFC's results measurement framework. The improvements aim to:

- Provide concrete evaluative evidence to articulate the pathways through which the private sector contributes to economic development and poverty reduction.
- Understand and articulate this impact, track progress in an efficient way, and foster evidence-based decision making in operational teams.
- Provide business intelligence that enhances growth opportunities for IFC clients, drawing on staff expertise, monitoring data, evaluative evidence, and global knowledge.

3.40 The improvements are currently under various stages of implementation. Key achievements include:

- *Working towards a strategic approach that assesses evidence gaps to demonstrate sector impact:* IFC has successfully completed sectoral evaluations to understand the impact of IFC investments on jobs, local economic development, and the WBG goals. Work has been completed in power, SME banking, tourism, chemicals and poultry. Further work is planned or underway in ports, airports, SME banking, retail chains, and commodity traders. IFC is also systematically leveraging on evaluations of donor programs to build sectoral evidence and test cutting edge evaluative approaches.
- *Systematically assessing results at the country and program levels.*
- *Use of Monitoring & Evaluation (M&E) data and evidence to add value to clients and operations:* IFC has successfully developed business analytics for operational teams by using reach data in combination with financial sector data from the IMF and the WB. In addition, IFC has successfully helped two

clients in the education sector to articulate their development impact and make informed decisions based on insights from this data. IFC will explore further opportunities to expand this work.

- *Streamlined transaction level M&E for greater effectiveness:* IFC has worked with the Independent Evaluation Group (IEG) to successfully develop, automate and implement a streamlined self-evaluation product and process for IFC investments (Expanded Project Supervision Reports, or XPSRs), as well as a simplified guideline for AS (Project Completion Reports, or PCRs). . In addition, the streamlining of sector level DOTS indicators is complete (any project on average will track a maximum of eight indicators). A similar process to streamline indicators for specific AS products to better integrate this with the investment is underway – the aim here is to increase operational relevance, avoid duplication and enhance learning.
- *Leveraging partnerships and leading IFI harmonized approaches:* The harmonization of the definitions for 27 quantitative sectoral indicators amongst 25 DFIs has been completed, and these indicators are now being implemented. This effort was led by IFC, and has been branded ‘Harmonized indicators for Private Sector Operations’ (HIPSO)³⁶. The second phase of the harmonization was signed in November 2015 and is also under implementation. Phase 2 harmonizes 11 additional qualitative indicators & conversions methods (e.g. private sector development impact).

3. 41 In making these improvements, IFC has preserved the elements that have worked well, which include: the branding, aggregation and reporting and the external assurance related to DOTS; linking development results to incentives, for example by cascading results indicators (that build on IDGs) from the WBG Scorecard into the IFC Corporate Scorecard; and maintaining IFC’s leadership amongst IFIs.

B. CONTINUED SHARP FOCUS ON PROFITABILITY

3. 42 As mentioned in paragraph 1.17, allocable income is a volatile measure, including measures that are difficult to predict, such as realized capital gains, loan loss provisions and equity write-downs, which all vary greatly with the market conditions and other factors outside IFC’s control. The current volatility in the markets makes it even more difficult to estimate how IFC’s investment portfolio will perform.

3. 43 *Equity strategy.* IFC will continue to pursue its strategy to provide risk capital to growth companies in a disciplined manner and focus on strong companies where the investment thesis is clear and where IFC’s role is strong. It will become even more important to actively manage the portfolio with a feedback loop from past equity performance to develop strong exit planning and execution.

3. 44 IFC has in the past been successful investing in sectors and companies which fill development gaps. Such future opportunities are currently seen in e.g. health care, insurance, infrastructure, food security and digital finance. Transition countries continue to present opportunities though the investment climate in such countries is often difficult. This will also be a period where IFC can benefit from careful opportunistic and contrarian investments, e.g. in sectors where valuations are well below historical averages.

3. 45 *Efficiency.* Efficiency is a key strategic priority of IFC and is a critical piece of the client centric model IFC is envisioning to implement. IFC launched the Process Efficiency Initiative (PIE) through a pilot in LAC which is now rolling out across all regions and industry groups. It is a key strategic initiative which aims at improving the project processing efficiency for faster delivery to the client as measured by number of days it takes from “Mandate to Disbursement”. The initiative is being implemented at all levels to ensure that all staff and functional areas own and work towards meeting targets. 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 implemented including: (i) an efficiency target in the IFC Corporate Scorecard (tracking the 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 and sent out

³⁶ www.HIPSO.net

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, that is then automatically tracked and reported to staff involved in that project. In parallel a number of other measures are being investigated involving streamlining/changing processes, systems and practices to facilitate further increased efficiency.

C. MANAGING RISK

3. 46 While strategy has been delivering, it has also been adding risk in IFC's portfolio. As mentioned, as part of its development mandate, IFC continues to operate in challenging areas including IDA, FCS, smaller states, and continues to set ambitious climate penetration targets for itself. It also has been adding more complexity in its portfolio – both in terms of deal-size and in terms of moving away from “plain vanilla” deals. Complexity is influenced by opportunities, as new sectors, countries, clients and partners emerge. Finally, the current market environment inadvertently adds more risk to the IFC portfolio – government policies and geopolitics add political risk, while changes in currency and interest rates affect valuations. An increasing risk profile coupled with project development costs implies the need for a sharp inward focus to maintain downside risks, but should also be associated with strategic opportunities for the upside. To better manage this increasing risk, IFC continues to evolve its holistic approach to risk management.

3. 47 *Sharper management of its portfolio and risks.* IFC's diverse portfolio has benefitted from successful investments in strategic priority areas. Future portfolio growth opportunities in sectors such as health care, insurance, infrastructure, food security and digital finance would pave the way for more financial sustainability in the medium to long-term. Equally important in fulfilling its development mandate, IFC is investing in difficult and fragile situations and taking more risks in sectors where valuations have been well below historical averages.

3. 48 IFC is taking several measures to proactively address the adverse environment and take necessary safeguard measures for its portfolio: (i) strengthening portfolio oversight; (ii) adding additional resources to focus on improving sector specific portfolio deteriorations; and (iii) optimizing synergies among portfolio teams to ensure more collaborative engagement and leveraging of specialization underpin portfolio coverage across all of IFC's investments.

3. 49 As of FY16Q2, IFC is actively managing approximately 900 equity and 2,000 loan positions. In order to optimize its staffing resources and engage with clients in a proactive and effective manner, IFC continues to enhance and invest in its IT systems (see Box 16 below). Investing in new and upgraded systems will be important for strengthening portfolio management and actively managing potential risks.

BOX 16: STRENGTHENING IFC'S IT CAPABILITIES

IFC will continue to leverage information technology in support of its strategy through secure IT services that meet the business needs, and are cost effective.

Improvements already planned for FY17 will provide new or enhanced IT capabilities in each of IFC's business areas. Significant initiatives for front-line operations will support the operational effectiveness of IFC investment and advisory staff through improved access to knowledge, increased collaboration and efficient process management. Initiatives within the finance, risk and treasury areas include the continued automation and integration of core business functions, as well as scheduled platform upgrades. Treasury system upgrades will enable expanded global operations. Cross-cutting initiatives will support records management, data management and analytics, and knowledge management. Personal productivity will be enhanced through more mobile-enabled services and updated Microsoft Office tools. IFC will also benefit from WBG-wide renewal programs for finance and HR.

In parallel, other IT improvements will focus on the established IT needs of IFC, ensuring reliability of existing systems by addressing technical obsolescence and facilitating IT capacity growth.

Additional IT investments for FY17-19 will be prioritized based on IT risk management, business fit for purpose, and cost efficiency.

3. 50 *Managing ESG risks* and promoting sustainable practices is an integral part of IFC's business and risk management approach. IFC has continued to refine its risk management approach to integrate non-financial risks on the same level as financial risks, allowing IFC to safeguard and enhance its brand and deliver development impact and financial sustainability. Strong risk fundamentals with a focus on providing solutions from an integrated risk perspective are critical to investment growth and allows IFC to take informed risks for achieving the objectives of development impact and financial sustainability.

3. 51 Given market trends and WBG strategic priorities, IFC and its clients are likely to face more risks. This is especially true in FCS. IFC will work with clients who are increasingly operating in difficult contexts where potential high-reward business investments face complex ESG risks. This requires best-in-class ESG risk management and flexible solutions to enhance IFC's clients' ability to manage and more effectively mitigate risks. At times, this includes helping clients to address risks that are beyond their ability or responsibility to solve alone, to leverage the WBG to find durable solutions, and to work with other stakeholders to help unlock investments that are constrained by significant ESG risks.

3. 52 The knowledge gained through operations, and IFC's long tradition of providing integrated solutions to complex sustainability challenges at the country, regional and global level, have helped position IFC as a trusted convener around key sustainability issues facing the private sector. Building on this experience, IFC is working to further develop platforms to influence markets by integrating sustainability practices and identifying areas – such as resilience or security issues – where private sector operating in emerging markets will be faced with additional challenges. By bringing its operational experience to global fora IFC will further help catalyze sustainable private capital, while reducing risks and increasing development gains.

3. 53 IFC is continuing to strengthen dialogue with the Compliance Advisor Ombudsman (CAO) to better identify and incorporate their recommendations into policy, practice and procedures. Lessons learned from recent operational experience and CAO findings demonstrate: (i) the need to provide tailored ESG support and solutions to clients to successfully implement IFC Performance Standards; (ii) the importance of understanding the contextual risks clients face; and (iii) the need to ensure that IFC stays on top of current and emerging issues. Examples of such issues include stakeholder engagement, conflicts, and tensions around land and water, supply chain issues, deployment of security forces, and ESG management in financial institutions.

3. 54 Managing integrity risk is integral to IFC's AS and investment services operations with external parties, from inception through implementation, and continues until final disposition. The *IDD process* is applied by operational staff to identify integrity risks in IFC engagements, and operational staff completes mandatory training on the IDD process.

LINKING STRATEGY TO RESOURCES

3. 55 In implementing its strategy, IFC undertakes a diverse array of investment operations to create development impact and deliver the profitability that IFC requires to be financially sustainable. There are several attributes, including client, geography, product and industry, which affect investment project resource intensity. However it is more difficult to forecast individual investment project expenses, particularly on a three-year horizon before the projects themselves have been identified. The introduction of entirely new products and/or sectors introduces additional resource uncertainty as new initiatives may require more resources initially, but proportionately decrease over time as IFC's experience deepens.

A. BUDGET

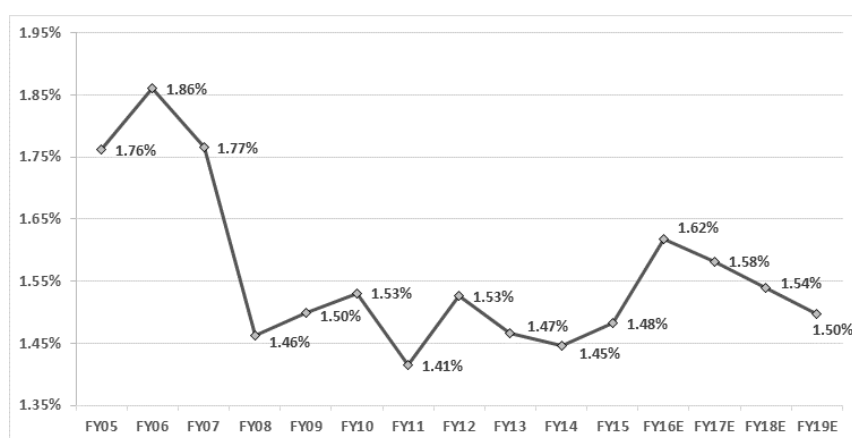
3. 56 IFC continues to deploy its resources where they are needed the most in the priority areas as outlined in FY16-18 Strategy & Business Outlook (SBO) paper³⁷, and FY16 budget paper. As has been the case for earlier years IFC continues to manage expenses prudently including budget and staff resources, making

³⁷ IFC Strategy & Business Outlook FY16-18: Growing For Impact, IFC/SecM2015-0034, 2015.

reallocations wherever required. Consistent with plan, IFC is committed to deliver 18% of the WBG Expenditure Review (ER) savings which corresponds to approximately \$71 million in gross savings by FY18. In accordance with the earlier approvals IFC will continue to redeploy its ER savings for its priorities.

3. 57 Linking resources and portfolio. IFC's resources supporting its investment operations (total resources excluding AS) 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). IFC has seen a positive evolution of its ratio of costs to assets under management from approximately 1.8% in FY05-07 to approximately 1.50% in FY08-FY13 with the committed portfolio growing faster than expenses. More recently, between FY13-15, the ratio has stabilized in view of total employment and fiscal tightening, which has coincided with the slowing growth in the portfolio. As IFC prudently uses the large budget under-runs it is expected the ratio of costs to assets under management will deteriorate in FY16. As the portfolio growth resumes, albeit at a more modest pace than before FY14 but faster than the expenses growth, the ratio is expected to improve.

FIGURE 26: TOTAL RESOURCES AS PERCENTAGE OF ASSETS UNDER MANAGEMENT



B. STRATEGIC STAFFING

3. 58 IFC's decentralized delivery model has implications for the way the institution manages and deploys its diverse workforce of approximately 3,700 staff based in 106 offices in 99 countries around the world. IFC's global footprint demands a strategic approach to workforce planning. IFC has begun to identify possible skills gaps and efficiencies in order to evaluate how adequate its staffing structure is to meet the organization's strategic priorities and also support its evolving business.

3. 59 MAS remains committed to a decentralized business model, with staff located in identified hub locations to meet strategic objectives and business demand. To build staff skills, retain and attract staff, staff will be consolidated in hubs, particularly in locations of current or future business, including regions of strategic importance such as Africa and South Asia. Concentrating staff in hubs will allow teams to work together, share knowledge, and build skills and networks for better delivery. The focus will be on building a pool of staff, with the right skills (sector and investment) and in the right locations to develop and support business going forward, an important tool for improving overall productivity.

3. 60 As previously mentioned, FIG would like to shift its business model to center more on its client and partner relationships and become more effective and efficient at leveraging this network. To do this, FIG needs to move to a client relationship focus model which requires enhancing the quality and caliber of staff by building a strong cadre of FIG-based Client Service Leaders (CSLs), integrated AS/IS relationship managers, and an increased number of global specialists and experts with global knowledge of its key products.

3. 61 Improved mobility of internationally skilled senior staff is critical, with added incentives for countries lacking local experts. FIG's focus on financial inclusion and increased focus in FCS and LICs calls for more resources in South Asia and Africa.

3. 62 *INR* has a continued 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. Such focus and engagement calls for expertise delivered by an expanded cadre of seasoned, specialized staff.

3. 63 In support of the impact and profitability goals, *INR* sees an increased need to support the existing portfolio, while maintaining a continued focus on impact, growth and profitability. In addition, *INR* is strengthening its capabilities to support increased and new approaches to mobilization.

3. 64 *Cross Cutting Advisory (CAS)* consolidates all cross-cutting advisory solutions including PPP, energy and resource efficiency, SME and value chains, corporate finance solutions and the Water Resources Group. In addition to these operational teams, *CAS* also includes advisory support team which supports all departments managing advisory projects through portfolio analysis, reporting, governance, financial and trust fund management.

3. 65 In order to achieve its strategic objectives, *IFC* continues to use its suite of talent management and career development tools to enhance staff experience and develop and retain a strong and diverse workforce. The continued focus on a strengthened performance management approach closely aligns staff performance objectives with strategic priorities. To support these initiatives, *IFC* is working on tools such as:

- *Creating career opportunities for staff.* HR in partnership with the business will develop a career framework for Operations staff to define career tracks and maps that reflect *IFC* business needs and provide clarity on the types of experiences and competencies needed. Such a robust business-driven career framework will help managers provide clearer guidance to staff and better plan staff deployment and succession. It will also increase staff satisfaction and retention.
- *Performance Awards.* *IFC*'s incentives and recognition programs reward strong performance and recognize extraordinary team and individual contributions to corporate-wide and departmental objectives. Traditionally, awards rewarded development impact, financial sustainability and effective delivery to clients. To sharpen its focus on strategic priorities, additional lenses have been added to include delivery in fragile states and work in client-facing functions as well as in support units. A new targeted award for a Strategic Priorities category recognizes staff for their contributions to FCS activities, portfolio value enhancements, and client coverage goals.
- *Diversity and inclusion (D&I).* *IFC* has signed the D&I compact which measures equal representation of women in technical (GF+) and managerial positions; equal representation of Part II nationals among managers; and an increase in the number of staff from Sub-Saharan Africa and the Caribbean. In addition, inclusion indicators setting accountability for creating a work environment of openness, trust and non-discrimination – where diverse perspectives are valued, and individuals are treated with dignity and respect were also documented in a three-year action plan which is being monitored on a quarterly basis. An example of the D&I initiative is *IFC*'s commitment to Gender Equality at the Workplace. *IFC* joined leading companies from around the world to go through an external gender assessment process.

3. 66 *IFC* operates in a dynamic and evolving market. To take advantage of new opportunities, it must be able to re-deploy staff effectively, including ability to attract, support global mobility and retain talent. Continued focus will be needed on:

- *Special Compensation Measures.* More robust tools will be needed to respond quickly and consistently to macroeconomic triggers in country offices affecting compensation staff on local contract.
- *Global Mobility Framework.* The new Global Mobility framework is designed to support effective talent deployment in line with IFCs evolving business model and global footprint. IFC will continue to leverage the available mobility tools to deploy staff with appropriate skills and experience where they are best suited and most needed.

CONCLUSION

This strategy was prepared in a time of economic turbulence, geopolitical tensions, significant dislocation, and yet great hope for the developing world. That hope arises from the commitments made by governments in 2015 to a world in which poverty is eliminated, growth made more inclusive and sustainable and ecosystems restored over the next 15 years.

Through this strategy, IFC has sought to illustrate the choices it will make to maximize impact, while safeguarding its financial sustainability. IFC has sought to demonstrate how its profitability, which drives its retained earnings and capital generation, protects against financial risks and supports its growth and increased development impact. The strategy has explained how IFC's business is migrating to increased complexity and risk, such as through larger and more complex infrastructure projects, increasing exposure to FCS, and focus on ambitious climate targets. Scaling-up will require a stronger capital basis to provide the financial capacity to absorb this higher risk, and allow for growth of offsetting business with a more favorable risk-adjusted return. IFC's due diligence, combined with its long-term perspective and role as a trusted partner, enable it to play a role in mobilizing finance and advice in challenging environments. For the next phase of development, this catalytic and mobilization role will evolve further, building on progress in creating platforms, business models and markets that address the risks and costs that prevent a scale-up of private finance.

IFC anticipates substantially expanded demand for its products and services. Any sustainable recovery from a downturn will require that private investment assume a larger share of financing growth. IFC will be expected to play a key role both in rebuilding investor confidence and in helping to finance opportunities for growth.

The events of 2015 marked a paradigm shift in how development will be delivered. The world is entering a new phase of development, where success depends on the transformative power of markets, technology, and mobilizing private capital – key themes of this strategy. As part of the WBG, IFC is uniquely positioned to unlock those flows, demonstrating its capacity as an intermediary and a catalyst in addition to being a funder and an adviser. This is qualitatively and quantitatively different from simply scaling existing business.

Achieving the SDGs and the WBG goals is a hugely ambitious undertaking, and can only be achieved by building the necessary development architecture today. IFC's response begins with implementing this strategy.

ANNEX I. GROWTH, JOBS AND ACCESS TO SERVICES UNDERPIN IFC'S CONTRIBUTION TO THE WORLD BANK GROUP GOALS

GROWTH – IFC contributes to the growth of economies and sectors in the following ways:

By structuring, investing and crowding-in private capital in key infrastructure that increases productivity, facilitates further investment in a range of sectors and/or is an enabler of entire sectors. Whether IFC helps structure investment (through PPPs) or invests directly, its work helps to facilitate and catalyze increased investment in sectors (e.g. power, transport, water) which allow industry to operate more efficiently (e.g. through reduction in outages in power or water, improvement in services in ports or airports). In Panama, IFC is supporting a \$300 million package to help set up the largest wind farm in Central America. The planned 337.5 megawatt power plant will cut energy prices and reduce Panama's dependence on fossil fuels. And in Jordan, IFC is supporting the largest private sector led solar initiative (\$207.5 million) in Middle East and North Africa. Under the project, seven solar photovoltaic plants will be built, cutting carbon emissions and providing 102 megawatts of power.

By enhancing sector competitiveness through demonstration effects and deepening upstream and downstream linkages. Examples include investment by IFC and partners in Nepal in an animal-feed producer to enhance productivity in the poultry farms and boost incomes among smallholder farmers.

By catalyzing market transformation via firms and sectors that are at a tipping point to move onto a higher level of value addition or disrupting the market and creating inter-industry linkages and spillovers. For example, through a Joint Implementation Plan (JIP), the WBG will support Government of Pakistan (GoP) access to improved electricity while improving the sector's financial sustainability. By 2019, the JIP's objective is to support the GOP reduce the average load shedding to 5h/day; reduce average cost of generation to 10c/kwh; and reduce subsidies to 0.4% of GDP. IFC in particular, through a series of investments is promoting increased private sector participation in the hydro sector and nascent renewable energy sectors in the country such as solar and wind. It will also add 2,370 MW to the country's generation capacity through projects committed thus far, which is about a third of the current supply deficit.

By enhancing the business enabling environment for the private sector through public sector reform. For example IFC is helping to modernize collateral registry systems in LAC to enable borrowers to pledge movable assets to guarantee loans – instead of using purely traditional collateral assets such as land. This will allow more businesses to get loans and expand.

JOBS – IFC contributes to job creation in the following ways:

By increasing quantity of direct, indirect and induced jobs via investments in anchor clients who have strong and deep supply chains, and with strong backwards and forward linkages. IFC invested \$60 million in Romania's largest pork producer to help expand production, create jobs and promote best practices in food safety, animal husbandry, and environmental management.

By enhancing quality and sustainability of jobs through programs like the Better Work; partnerships with the International Labor Organization (ILO) on labor standards compliance for global value chain; and promoting improved technology and sustainability standards in its investments. In Bangladesh for example, IFC is taking a comprehensive approach to help the garment industry that employs four million people – by facilitating investments, and by improving construction, fire safety, and labor and environmental standards.

By building skills and improving employability through targeted skill-building programs (e.g. Education for Employment in MENA, which is focused on solutions to prepare youth for jobs through vocational education and training); and improving the investment climate for private education and advocacy.

ACCESS – IFC contributes to increased access to basic goods and services, which has a direct impact on poverty and the living standards of people by:

Improving opportunities for women, for example by helping a Jordanian Bank launch a new banking model that supports women, particularly those who own small businesses. In Turkey, IFC has partnered with a large retail conglomerate to help train its women-owned suppliers – strengthening their ability to obtain financing and improve business performance.

Increasing high quality healthcare for lower income populations. In Bihar – one of India’s poorest states – IFC has worked closely with the state government to develop a Web-based payments system that automates all health payments made by the government to health-care workers and their beneficiaries. The program, eliminates paper billing and frees up to 33% of medical practitioners’ time to provide much needed health services. In Kenya, IFC is bringing world-class standards through its client which runs 28 clinics in Kenya, Uganda, and Tanzania, offering a range of medical services, from gynecology to pharmacy, under one roof.

Increasing high quality education for lower income populations, for example in Peru, IFC invested \$25 million in start-up private education company to help set up a university and a network of institutes for technical and vocational training. The client will target low-income students – improving their employment opportunities while addressing a rising demand for such.

Increase access to services in remote rural areas, for example in Nigeria, IFC has provided a naira-denominated loan of \$4.1 million to Grooming People for Better Livelihood Centre, which provides micro loans to low-income women in rural areas.

Improving quality, for example by supporting the development of four water treatment projects and up to eight waste water treatment projects, through long-term debt financing for a leading local company in China, 5.5 million people are expected to have reliable access to clean water by 2019. The investment is also expected to lower the volume of untreated wastewater discharge, and reduce environmental pollution of local water sources (China BEWG Water). In addition, through the exploration of PPP options with the client and by means of a joint WB-IFC project, IFC is supporting a solid waste management project in Gaza to improve access and quality of the service for about 840 thousand customers and also reduce GHG emissions.

Lowering the cost of services, for example through investments in specialty hospitals support innovations that bring down the cost of procedures like heart and eye surgery. IFC equity investment in Eye-Q Vision will help the chain expand access to high-quality and affordable eye-care services to several Indian cities.

Improving access to reliable facilities, for example by supporting the reconstruction of the port sector in Haiti, increasing container and bulk handling capacity and increasing competition in the market.

Improve access to electricity, for example, by supporting the capital expenditure of an electricity distribution company in Uganda, coverage to high and low voltage customers in semi-urban areas has been expanded (Umeme).

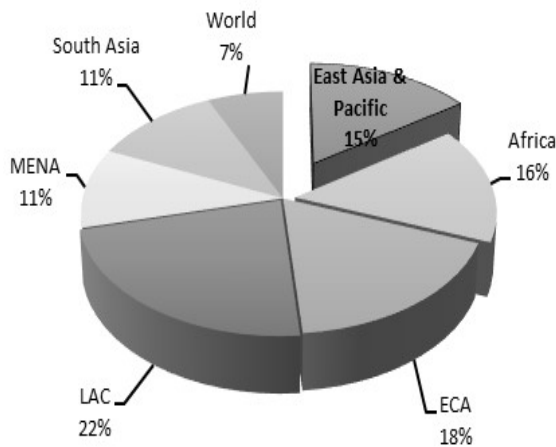
ANNEX II. REGIONAL SUMMARIES

EAST ASIA AND PACIFIC

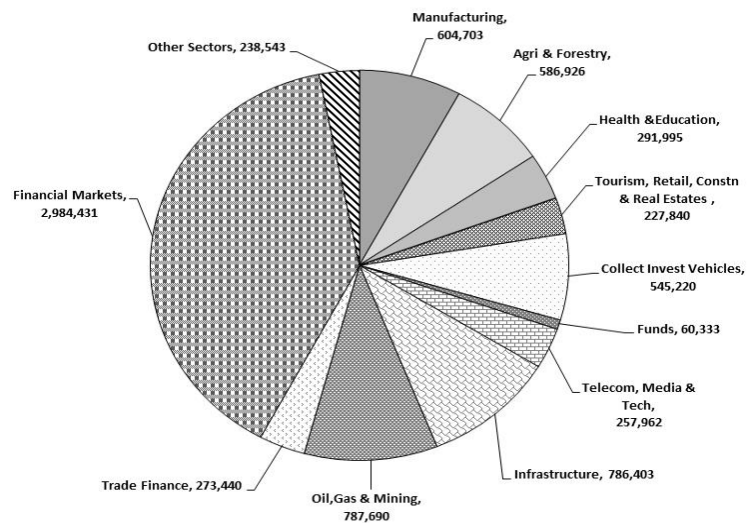
ECONOMIC OUTLOOK

EAP expected to ease, from 6.8% in 2014 to 6.5% in 2015 and 6.3% over 2016-17: reflects mainly China's slowdown.
- IMF Regional Outlook October 2015

IFC Portfolio by Region
(%)
(as of FY16 Q2-end)



EAP Portfolio by Sector
(\$ thousands)
(as of FY16 Q2-end)



CONTEXT

Region is overall experiencing lower growth, and greater uncertainty about global economy weighing on the performance and prospects of countries and the weak external demand is affecting industrial production and exports. The slowdown in China is creating variable impacts across the region, dependent on product and market. Largest impact is on IFC's equity markets, which will require a higher level of portfolio management, (especially in Manufacturing, Agribusiness and Services industry). While surplus liquidity and pricing is making it challenging for IFC, new opportunities are emerging in disruptive technologies, green growth and cross border business. There seems to be an immediate need to build next generation of equity investments.

As manufacturing gets more clustered, with fundamental shifts happening and focus mainly in certain geographical areas (e.g. special economic zones (SEZs)), the question is to see where are the opportunities for creating jobs, and extending financial inclusion. There will be new ecosystems with new technologies which will emerge as drivers of job creation by finding ways to support first time entrepreneurs in this space.

PRIORITY AREAS (SECTORS / THEMES / COUNTRIES)

- Sustainable infrastructure by doubling Infrastructure from \$1.5billion to \$3billion: energy, power, ports, water and waste. For example, Myanmar and Indonesia CPFs have provided a good platform for scaling up collaboration in infrastructure especially power and ports.
- Cross-border: Will be more aggressively developed through Client Leaders.
- Deepening financial markets: Supporting overall universal financial access targets (e.g. Fintech).

- Health and Education: Healthcare, branded and generic medicine, specialized education responding to an increasingly aging population especially in China.
- Privatization / Corporatization opportunities: Emerging opportunities for corporatization in the context of reform of state-owned enterprises in China, Vietnam and Myanmar.
- Areas of impact: Infrastructure: Indonesia (Power and Transport), Myanmar (Energy & Telecom) and China (Water and clean energy); Access to Finance: A2F presence in China, Indonesia SME banking; Cross-border: Power, Affordable housing, Agribusiness; Health and Education: Focus on private solutions for healthcare and vocational education in China.

NEW AREAS OF ENGAGEMENT

Disruptive Technologies: Dematerialization of banking, power storage - across all sectors / VC-Fintech: IFC will harness innovation across all sectors to grow economic opportunities, particularly for underserved populations by using technologies to act as a catalyst for entrepreneurship and growth of SMEs, and the dissemination of sustainable practices. There is surge of tech-enabled entrepreneurship across region, especially in China and Singapore. China is experiencing major growth in disruptive models. However, there is not a consistent approach across the organization and IFC will need good partners.

Cross Border: Opportunities are driven by Trans-Pacific Partnership (TPP) / Integrated ASEAN / regional initiatives (One Belt, One Road). Opening new markets, boosting production, and improving efficiency for companies in emerging markets, while increasing cross-regional collaboration between client leaders, industry and country managers. This creates win-win for host country and home country of company by using IFC's global footprint to maximize benefits to developing countries. A more systematic approach is being taken at a regional level with heat maps and mapping of potential opportunities. IFC will work with clients in markets where they do not have the access e.g. IFC's knowledge of Myanmar. Focus on FCS and IDA remains with need to support adequate advisory and investment footprint to deliver impact in small states (Myanmar, Pacific, Laos, and Cambodia).

Green growth (to support 28% target): Reducing carbon emissions through the development of various renewable energy (RE) sources, efficient energy (EE) use, and combatting resource scarcity (e.g., water) through proper resource management in more developed economies and green growth, RE, resilience in impacted countries. The region needs to be major contributor to the IFC's green growth efforts.

CHALLENGES FOR IFC IN THE REGION

- Slowdown in China, volatility / uncertainty in equity markets
- Liquidity in the market, and IFC pricing affecting its competitiveness
- High liquidity despite downturn, and need for new local currency products as well as addressing the pricing issues

EXAMPLES OF TRADE-OFFS

- Reform-driven opportunities versus countries with slower progress
- Manufacturing - limited opportunities due to overcapacity versus services and significant risk/IDD issues in many of IFC's markets in Manufacturing

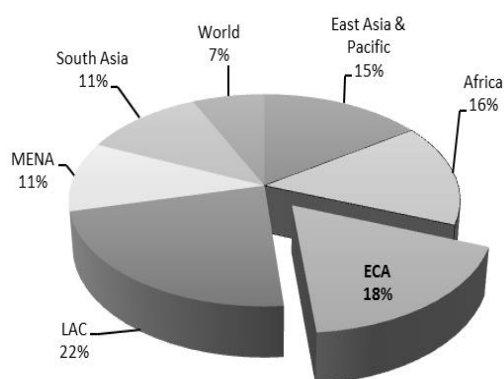
EUROPE AND CENTRAL ASIA

ECONOMIC OUTLOOK

Economic growth in ECA—plagued by issues in the Eurozone, and more recently compounded by the commodity bust, market volatility, currency depreciations in a range of 30-70%, geopolitical tensions and refugees crisis—came to zero in 2015. The GDP growth forecast of 1.8% for 2016 shows a continued low growth environment. Almost all ECA countries run increasing fiscal deficits and have debt levels which have almost doubled to about 45% of GDP in the past five years. Capital inflows are on a decline and the Western European banks continue to deleverage from the region. The banks in ECA cut their lending. The region has one of the highest levels of NPLs in the world and financing costs are on the rise. At the same time, despite the region's general perception as "middle income", the proportion of vulnerable people remains very high. Unemployment rates in the Western Balkans are among the highest globally. Infrastructure in many countries is in a very bad shape. Lack of competitiveness is underlined by high energy intensity, low penetration of technology, large state footprint, poor corporate governance, unfinished investment climate reforms, limited integration into global value chains and subdued productivity gains. ECA countries need to take advantage of the latest innovations to become more productive and competitive in regional and global markets, and diversify their economies.

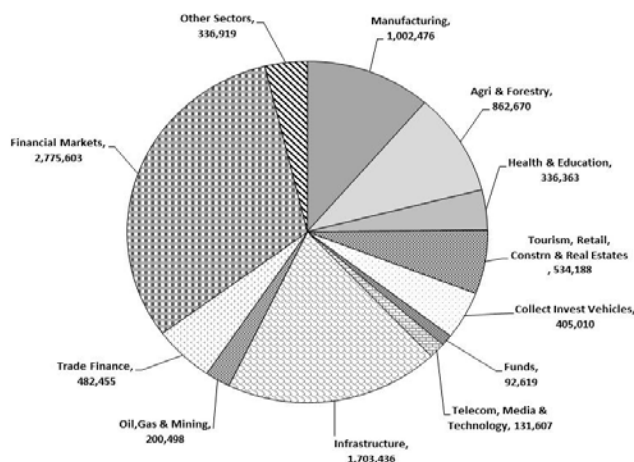
IFC Portfolio by Region

(%)
(as of FY16 Q2-end)



ECA Portfolio by Sector

(\$ thousands)
(as of FY16 Q2-end)



CONTEXT

As the ECA region is currently adjusting to the new reality of subdued growth, capital outflows, declining energy prices and increasing geopolitical tensions, IFC's strategy in the region remains focused around key development challenges for the region including *inadequate access to finance, large infrastructure gaps, lack of competitiveness and weak investment climate*, with a cross-cutting effort to help *address climate change*.

PRIORITY AREAS (SECTORS / THEMES / COUNTRIES)

To address long-standing development challenges and increasing economic vulnerabilities, IFC will scale up its investment and advisory programs to support: (i) energy infrastructure development; (ii) sustainable cities development; (iii) strengthening of local capital markets; and (iv) improvement in competitiveness. IFC will also continue its efforts to be more efficient and to have a bigger impact in smaller countries, particularly in FCS and IDA countries.

Developing energy infrastructure while addressing climate change: IFC prioritizes support for developing clean energy, hydropower in particular, improving energy efficiency and establishing markets for sustainable energy finance. IFC's focus in Georgia and Central Asia is on cross-border trade. In Kosovo and Armenia, IFC provides post-privatization support for major energy assets. In Ukraine, IFC's goal is to help the country to

have adequate gas supply and to privatize its generation and distribution assets. In Turkey, after a decade long engagement in the power sector, IFC is looking for equity opportunities in the sector. In Eastern Europe, the focus is on wind and solar energy.

Promoting sustainable cities: Growing urbanization pressures in ECA middle income countries (MICs) has increased financing needs for urban infrastructure. IFC's ECA Sustainable Cities Initiative was rolled out in 2014 to scale up its investments in urban transportation, solid waste, healthcare and education, district heating and green buildings. IFC will also be looking to expand its financing in technology driven solutions for cities, street lightning, capital markets instruments for municipalities and pooled finance. While Turkey has been the main focus country for the Cities agenda so far, IFC is aiming to expand to other MICs in ECA.

Development of local capital markets: ECA countries need to diversify their financing and mobilize domestic resources for investments. IFC, in close coordination with the WB, helps introduce innovative solutions for mobilizing domestic savings including debut bond issuances, infrastructure project bonds, sukuks, mortgage covered bonds, credit enhancements for domestic and offshore issuances, municipal bonds, as well as local currency bond issuances.

Competitiveness: IFC supports a competitiveness agenda by contributing to investment in climate improvement, promoting resource efficiency, fostering south-south investments, developing value chains, investing in private equity (PE) and venture capital funds, and supporting hi-tech firms. Going forward, IFC expects to scale up its investments in broadband, mobile, infrastructure sharing, e-commerce, and fintech.

FCS and IDA Countries and small markets: IFC prioritizes projects with a significant impact, maximizes impact through one WBG approach, and leverages strategic engagement with global and regional sponsors. IFC advisory continues to play a critical role in creating foundations for private sector growth.

NEW AREAS OF ENGAGEMENT

SOE restructurings and privatizations: Fiscal space to fund infrastructure investments and maintain state-owned enterprises (SOE) subsidies is shrinking in most ECA countries. Governments are becoming more open to private sector solutions and looking for opportunities to privatize public sector assets. IFC will support this agenda by offering its (Public Private Partnerships) PPP transaction advisory support and post-privatization financing.

NPLs: With NPL resolution moving to the top of many ECA countries' agenda, IFC will actively look for market-based solutions to help the countries clean up balance sheets of the banking and corporate sectors.

Re-engagement in Greece: In Greece, on a selective and time bound basis, IFC will prioritize support for recapitalization of systemic banks, selectively invest in infrastructure, and consider supporting small and medium enterprises (SMEs) through investments targeted at equity funds.

CHALLENGES FOR IFC IN THE REGION

A large state footprint in many countries and a weak corporate governance and financial disclosure practices amid a challenging economic environment, make it challenging to identify bankable projects. In some areas, such as support for SOE restructurings, IFC has limited capacity to engage. In some smaller countries, IFC cannot compete on pricing with other International Financial Institutions (IFIs). To address these challenges, IFC will increasingly leverage investment-advisory and joint WBG solutions and tap into available facilities for blending of concessional funds.

EXAMPLES OF TRADE-OFFS

IFC will prioritize larger and higher impact projects, support to portfolio clients under stress, smaller projects where IFC can play a role of the first mover, and developing partnerships with global and regional players. It will also maintain flexibility to respond to opportunistic transactions in difficult markets.

LATIN AMERICA AND THE CARIBBEAN

ECONOMIC OUTLOOK

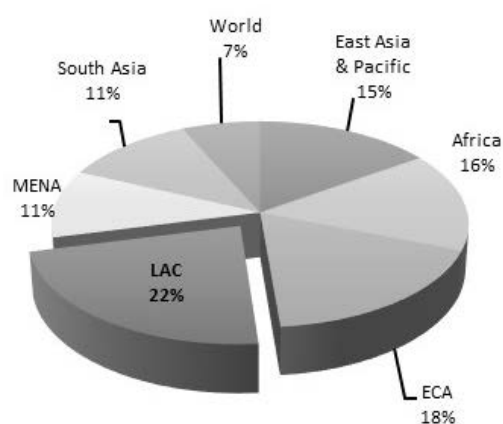
A continuing decline in growth and fewer prospects for a strong rebound are challenging LAC, bringing the region to a 'new normal' of stagnant growth rates and narrowing options for maneuvering its way out. In recent years, regional economies have been experiencing low growth averages, of about 2%-2.5% of GDP, far from the robust expansion of 2003-2012 which registered rates of over 5%. An uptick is expected in 2016, but not enough to restore previous regional rates of growth. The deceleration is linked to decreasing commodity prices, limited fiscal space, a slower Chinese economy, and shrinking investments.

The region's growth average is weighed down by the slowdown in important economies such as Argentina and Brazil. Bright spots include Panama, the Dominican Republic, Nicaragua, Bolivia, Paraguay and Peru (with an expected average of 4%-6% for 2015). Mexico, Chile, Costa Rica and Uruguay are projected to stay within the 3%-4% band.

The new low-growth scenario brings LAC's productivity challenges to the fore, risking eroding some of the gains made in poverty reduction over the past decade (70 million were lifted out of poverty). Unless the region can make necessary investments in infrastructure and human capital, while maintaining prudent macroeconomic and fiscal policies, LAC risks will continue to be stuck in the middle income trap. Private sector innovation and diversification are critical to create new sources of growth.

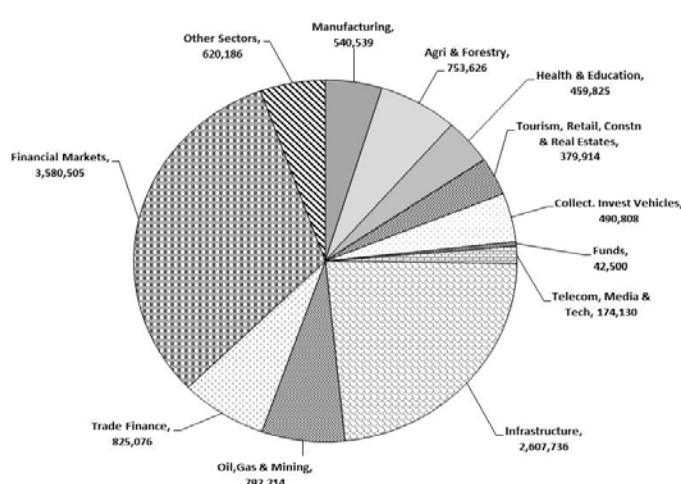
IFC Portfolio by Region

(%)
(as of FY16 Q2-end)



LAC Portfolio by Sector

(\$ thousands)
(as of FY16 Q2-end)



CONTEXT

The region has experienced slower growth due to depressed commodity prices, low Chinese growth and homegrown challenges (political/economic situation in Brazil, challenging fiscal environment in Ecuador, Colombia peace negotiations). Despite risks, there is ample space for IFC business across sub-regions (supporting DARP in Brazil, oil and gas and telecom sectors in Mexico, and opening of the Argentine economy). Limited fiscal space heightens the importance of the private sector in public service provision, especially in infrastructure, health and education. High urbanization rates require improved infrastructure and services with private sector support. The LAC Cities initiative will begin soon with a focus on Colombia and Peru.

Cooler market conditions are expected to bring the mobilization program back down to historical levels, vis-à-vis FY15's exceptionally high results, and with a significant share coming out of Argentina. The climate agenda will create even more space for renewables and green growth.

PRIORITY AREAS (SECTORS / THEMES / COUNTRIES)

- Transformative interventions: There are many opportunities for transformational change in LAC, including through partnering with WB, IADB and others. Some examples of transformational engagements in LAC are: (i) the FDN investment and 4G infrastructure funding in Colombia, begun with financial markets reform, (ii) bringing Brazilian expertise to the Mexican chemical industry through Braskem, (iii) advisory support to credit bureaus in the Caribbean to increase access to finance, and (iv) supporting over \$600 million in RE in Central America. The IFC Cities initiative in Colombia and Peru is also expected to yield transformational impacts through catalyzing investments in urban infrastructure and green buildings.
- Job Creation in Urban Areas: The region would like to work on a programmatic approach with the WB and within IFC to have integrated solutions for job creation with the physical and social infrastructure needed (e.g., Codevi in Haiti, BioParques in Mexico). However, as economies develop, the services sector becomes more relevant than manufacturing. Although manufacturing is still a place to support middle class growth, the future in LAC points to better prospects in services like healthcare, tourism and software development, some of which require investment in education and training.
- Key Focus Areas: Capital Markets Development (DARP, Debt funds and local currency), Sustainable Cities, PPPs, Power, Transport/Logistics, SMEs (financial inclusion), Health and Education, Agribusiness, Cross-Border, Climate Smart Growth and Disruptive Technologies.

NEW AREAS OF ENGAGEMENT

Disruptive Technologies, particularly in the areas of Fintech, where JVs are critical.

CHALLENGES FOR IFC IN THE REGION

- Reaching the 28% WBG target for Climate Change - At the Corporate level, IFC is trying to look beyond traditional renewable projects as a way to capture Climate Change and meet the target. The LAC region is expected to make major contributions to the corporate goals as it has begun to create joint plans with industries and included country's nationally determined contributions (NDCs).

EXAMPLES OF TRADE-OFFS

- Limited capacity to meet demand in PPPs and corporate finance
- Less mining/extractives, slowdown in renewables
- Slowdown in mobilization
- Potential lower program in Oil, Gas and Mining, Transport, Power and Trade Finance

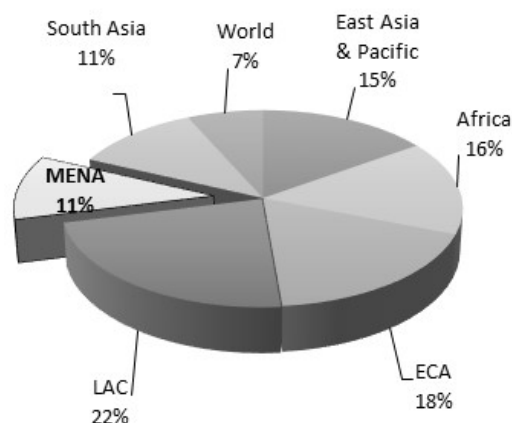
MIDDLE EAST AND NORTH AFRICA

ECONOMIC OUTLOOK

Geopolitical developments, security concerns, and low oil prices will continue to dominate the MENA region's outlook in 2016. Regional average growth is projected to improve to around four percent in 2016 (from an estimated 2.6 percent in 2015), contingent on improvement in the security situation in many of the fragile and conflict affected states, some recovery in oil production and exports, as well as the potential re-entry of Iran into the global market. Low oil prices and fiscal consolidation will continue to take a toll on economic activity among oil exporters, especially the Gulf Cooperation Council (GCC) countries. However, comfortable level of foreign exchange reserves will likely stave off short term risks. On the other hand, oil importers are expected to continue benefiting from low oil prices, albeit fiscal pressures will remain high. While stronger economic growth is emerging in countries like Pakistan and Morocco, recovery is more tentative in some of the oil importers that are facing heightened security and macroeconomic risks. The outlook for the MENA region is subject to considerable downside risks stemming from regional political and security uncertainties, oil price volatility, and spillovers from global and emerging markets slowdown.

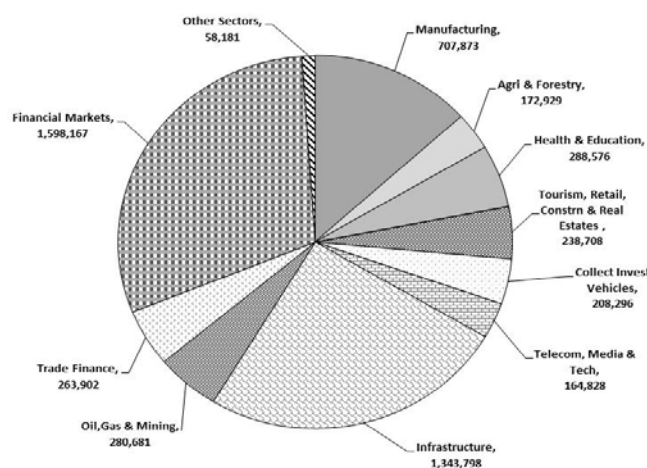
MENA Portfolio by Sector

(%)
(as of FY16 Q2-end)



MENA Portfolio by Sector

(\$ thousands)
(as of FY16 Q2-end)



CONTEXT

Over the past few years, IFC's strategy in MENA has focused on addressing the region's biggest long-term development challenge of increasing jobs and opportunities for its people with the private sector as the driving force. IFC has hence been implementing a holistic jobs strategy which addresses the deep underlying structural issues impeding the employment generation in MENA. The pillars of this jobs strategy, well-aligned with recent analysis done by the WBG, as well as external institutions are: (i) improving the investment climate; (ii) increasing access to finance, especially for MSMEs; (iii) infrastructure development; and (iv) skills development to meet labor market needs and supporting entrepreneurship. In addition, IFC has also focused on increasing cross-border trade and investment flows with a view to sharing of knowledge and capital which would facilitate greater regional integration, as well as addressing climate change issues.

PRIORITY AREAS (SECTORS / THEMES / COUNTRIES)

Infrastructure with a special focus on power and renewable energy: According to analysts, power demand in MENA is set to grow by 7% annually in the coming decade. In order to help the region meet this growing demand, IFC has prioritized access to basic infrastructure services, particularly energy across MENA. IFC along with WB and MIGA, is taking a programmatic approach to engaging in the power sector in Egypt, Pakistan, Jordan and Iraq to help pave the way for private sector investments. In addition, IFC is mobilizing investments from several DFIs/IFIs and private sector players in the renewable space, given the region's abundance in renewables sources such as solar and wind.

Financial inclusion: Access to finance in MENA is among the lowest globally. IFC investments to support financial intermediaries and microfinance institutions help address challenges to financial inclusion which constrain greater private sector growth and job creation.

Skills and entrepreneurship: Minimizing the skills gap to meet labor market needs and encouraging entrepreneurship across key sectors in the region is essential for increasing employment opportunities. IFC activities in this area are targeted through the E4E Initiative for Arab Youth (currently a sub-component of the broader WBG Education for Competitiveness initiative) as well as direct investments in the PE/VC Funds that support entrepreneurship.

Investment climate reforms: Foreign and domestic private investments have lagged in MENA due to the lack of a conducive business environment for private sector firms. Joint Trade and Competitive Global Practice teams are in dialogue with relevant governments and private sector clients to support investment climate related reforms in order to increase private sector participation across MENA. Developing and implementing a framework for PPP is also a key mechanism through which IFC hopes to increase private sector activity in MENA countries.

Cross border investments and knowledge sharing: IFC's South-South investments with Regional Champions is aimed at facilitating increased regional integration. Given the regional context, IFC is supporting Moroccan and Pakistani investors to expand into Sub-Saharan Africa, as well as catalyzing GCC investments into new markets like Turkey among others. IFC is also working with some Asian investors that have indicated strong appetite to increase their presence in MENA.

NEW AREAS OF ENGAGEMENT

Climate change: While this is a continuing priority, there is now a strong traction and momentum in this area in MENA due to increased focus by governments to address climate issues, especially leveraging the solar and wind resources of the region. Countries of priority include Pakistan, Egypt, Jordan, and Morocco through interventions in the power sector, and Lebanon, in growing the sustainable energy financing program.

Refugee/IDPs Crisis: Conflict and security concerns have caused a wave of refugees and internally displaced persons (IDPs) across MENA, with global and regional spillovers. IFC is currently in the process of developing a holistic approach to address this issue (see Box 9 "IFC's Response to the Refugee Crisis").

CHALLENGES FOR IFC IN THE REGION

The operating environment continues to be difficult in MENA due to increasing security threats and a fragile macroeconomic situation in many MENA markets. Investor confidence remains subdued, negatively affecting domestic and foreign private investments and mobilization efforts. Limited fiscal space, especially in GCC due to drop in oil prices, could affect budgetary financing support for transition countries as well as cross border investments. A slowdown in implementing key reforms (and diversification efforts) would hinder investments in infrastructure and ability to attract higher FDI across sectors, while real exchange rate appreciation in some countries is affecting export competitiveness.

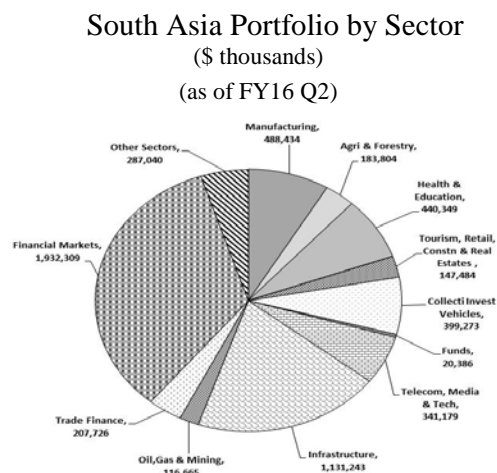
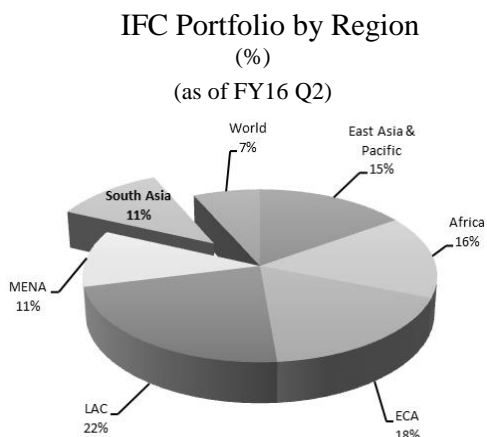
EXAMPLES OF TRADE-OFFS

- IFC is implementing a focused and selective program across key themes where government commitment for increased private sector participation is high. IFC will be opportunistic as needed in more difficult markets, while ensuring that overall impact is high and financial sustainability preserved.
- The guiding principle in implementing IFC's strategy in MENA is the need to remain flexible and adjust resources and instruments to respond to client demand and emerging needs.

SOUTH ASIA

ECONOMIC OUTLOOK

South Asia is handling global turmoil reasonably well, with GDP growth of 7.5% in 2017 feasible. India confirms its position as the fastest-growing large economy in the world. Aided by lower commodity and food prices, inflation has sharply decelerated across most of the region. Inflation rates are no longer twice as high as in other regions. If needed, monetary policy space is generally available to cushion future external shocks, but fiscal space remains highly constrained. Financial sector vulnerabilities remain one of the main challenges faced by several South Asian countries.



CONTEXT

South Asia has withstood the global slowdown better than other regions due to limited exposure to external volatilities. Most countries have not been heavily exposed to the slowdown in China and, as a net importer of oil, the region has benefitted significantly from the decline in oil prices. GDP growth continues to be strong, with 7% GDP growth in 2015. FDI is generally robust and FX reserves are growing.

The region is not immune to continued stresses in the global markets and strong growth is not a foregone conclusion. Fiscal space remains highly constrained, slowing public expenditure in much-needed infrastructure (though this also creates an opportunity for increased private sector engagement, including through PPPs). Remittances may be impacted with continued slow growth in the Middle East.

PRIORITY AREAS (SECTORS / THEMES / COUNTRIES)

Context: Significant development gaps persist in: infrastructure (e.g. 500 million people without access to the power grid); logistics/connectivity (e.g. \$500 billion investment is needed in transport sector in India alone); and inclusion (e.g. region is home to 25% of world's unbanked).

Pillars: IFC focus is on infrastructure, inclusion and logistics/connectivity, underpinned by the cross-cutting themes of jobs, climate change, and capital markets development.

- **Infrastructure:** Energy—power generation/renewables (including rooftop solar and hydro), transmission (including cross border), distribution, power trade; gas (LNG/LPG); solid waste and industrial waste management; waste water recycling; and PPP approaches.
- **Logistics/connectivity:** Highways/roads, port terminals, inland waterways, warehousing, cargo handling/specialized service providers, specialized logistics companies -- cold storage/liquid storage, SEZs, consumer internet, e-commerce logistics, telecom, Media and technology (TMT). Also focus on disruptive technologies that allow for alternative delivery platforms for services.

- *Inclusion: Financial and Social Inclusion, including gender focus:* Includes scalable financing solutions for MSME and low-cost housing, MFI financing for women, payments and insurance, capital markets development to help diversify sources of finance and health and education services.

Cross-Cutting Themes

- *Jobs:* Reliable and adequate infrastructure, good connectivity, and increased access to finance should stimulate private sector growth and create jobs, especially in manufacturing, agriculture and services.
- *Climate Change:* South Asia remains to be one of the most vulnerable regions with regard to climate change effects and related natural disasters. IFC will continue to focus on climate business through renewables, green buildings, Clean Tech and adaptation.
- *Capital Markets Development:* Good outcomes achieved in India via pioneering development of the offshore (Masala) and onshore (Maharaja) bond markets are contributing to the development of domestic corporate bond markets and provided a long-term local currency option for IFC.

NEW AREAS OF ENGAGEMENT

- New Economy/Disruptive Technology: Identifying potential game changers in e-commerce, e-logistics and fin-tech, especially in India, which could lead to scalable/replicable models for South Asia and rest of the world.
- Cross-Border: Discussions with client groups on cross-border investments, especially to Africa and East Asia.
- Capital Markets Development: Discussions now ongoing in Bangladesh and Sri Lanka to help deepen capital markets through development of local currency bond markets.
- PPP: Strategic engagement to help recalibrate and foster PPP approaches and FDI.

COUNTRY FOCUS (SELECTED EXAMPLES)

- Bangladesh: Continued engagement with clients is beginning to show results and IFC's investment program is poised for growth and diversification. There is significant scope for WBG engagement across several sectors/themes (energy, including power generation, transmission, and LNG, and SEZs). Strong WBG advisory services engagement, especially on competitiveness agenda is expected to continue.
- India: Increase in strategic engagements is expected to lead to more impactful results and strengthened financial sustainability. Focus has increased on infrastructure, especially renewable power (including in the Low Income States). IFC will leverage its significant presence in microfinance to support SME finance for women, ramp up engagement in e-commerce and logistics and continue to support health services and scale up the use of PPPs.
- Sri Lanka: Enhanced government support for governance and private sector development creates opportunities to ramp up the infrastructure program (especially in energy and transport sectors), including PPP approaches.
- Nepal: Nepal is the only FCS in South Asia. There is strong potential for impactful development via continued progress on the hydropower sector.

CHALLENGES FOR IFC IN THE REGION

- Weak business cycle in manufacturing; excess capacity in traditional areas
- Pricing/liquidity - need to differentiate IFC value proposition

EXAMPLES OF TRADE-OFFS

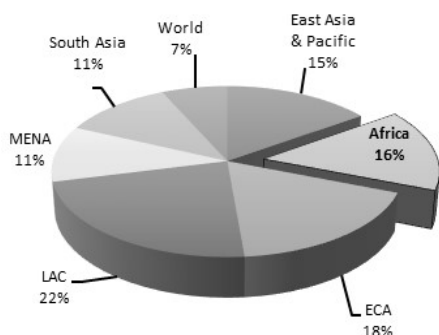
- Focus on impact and partnerships over transactional approaches may have short term impact, though delivering in the medium term.

SUB-SAHARAN AFRICA

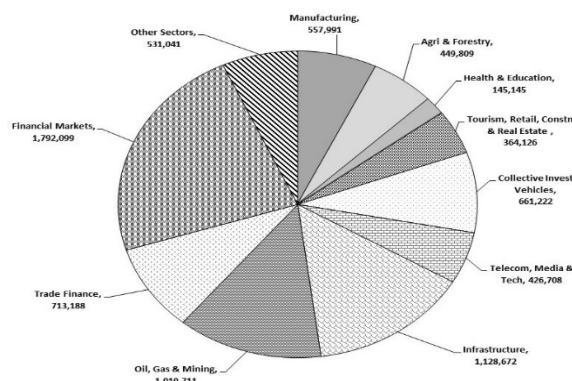
ECONOMIC OUTLOOK

Sluggish growth in Chinese and advanced economies, end of commodity super-cycle, beginning of US monetary policy normalization and Global financial market turmoil lead to slower growth (3.4% in 2015 versus 4.6% in 2014), widening fiscal deficits (4.1% in 2015 versus 3.2% in 2014), sustained capital outflows, lower export volumes (-24.3% 2015 Q3 Year to Year growth) and depreciating currencies in Sub-Saharan Africa.

AFR Portfolio by Region
(\$ million)
(as of FY16 Q2-end)



AFR Portfolio by Sector
(\$ million)
(as of FY16 Q2-end)



CONTEXT

Headwinds that are external and internal to Africa provide opportunities for IFC's strategic engagement in the region in the form of: treasury solutions, economic diversification and scaling up inclusive business initiatives. Currency depreciations call for deeper capital markets development for local currency issuances and swaps. The bust of the commodity cycle have further highlighted the need for African economies to diversify, and continue pushing the industrialization agenda. Challenging financial and fiscal environments are increasing several governments appetite for PPPs. Diverging growth perspectives provide opportunities for IFC to engage in countries that are net oil importers and benefiting from low prices and those that are mineral exporters and therefore suffering.

PRIORITY AREAS (SECTORS / THEMES / COUNTRIES)

IFC has to up its game in order to make a significant and lasting difference. In the past few years, IFC in Africa has been focusing on priority themes - infrastructure, agribusiness, SME development and capital markets.

- IFC funds power and urban infrastructure: e.g. housing/real estate; climate-related investments; and advisory focusing on renewable energy (especially through Scaling Solar).
- Agribusiness: IFC is promoting improved productivity by encouraging and facilitating the commercialization and mechanization of agriculture, and unlocking the animal protein and dairy sectors. The urge to bolster economic diversification calls for IFC to support agri-related infrastructure, logistics, and warehousing.
- SMEs: IFC supports access to finance and job creation. With the inclusive growth objective, IFC wants to move beyond simple SME finance (mostly funding) toward more well-rounded SME development

by providing funding and capacity. PPPs and Infrastructure (Gas-to-Power; Renewables) are areas of renewed focus for IFC. ICT-based activities are expected to boost growth in Africa.

- Country focus: Recently, IFC has been piloting a ‘deep dive’ approach on a selected group of regionally strategic countries where it can strive for greater impact.
- FCS/ IDA: The region continues to pay particular attention to FCS and IDA countries, and is seeking to further engage in new markets (Sudan and Zimbabwe).
- Capital markets development: To fund the next phase of infrastructure development, and as a means to finance green growth. IFC’s approach is to expand the range of instruments for local currency financing to clients, increase mobilization of institutional investors, provide additional roles in securities transactions (Co-Lead Manager, Underwriter), establish platform for bond origination and secondary sales (DOSS initiative), and roll out education initiatives.

NEW AREAS OF ENGAGEMENT

Going forward, IFC will innovate and diversify the span of its engagement across different product groupings and instruments using creative combinations of equity, investment, advisory services and mobilization, while leveraging political risk insurance through MIGA, credit guarantees through IDA, and engaging at a policy level through IBRD and IDA.

- Counter-cyclical support - Assisting long-term clients access markets with liquidity facilities
- Bridging the infrastructure gap - more private sector investments in transmission and distribution utilities while broadening its reach in transport infrastructure associated with mining and agribusiness
- Inclusive business propositions for smallholder farmers/coops/agri supply chain - financing aggregators, support agricultural infrastructure to improve efficiency and competitiveness, and facilitate the commercialization/mechanization of agriculture
- MSME and Financial Inclusion - SME development approach that enhances the business environment, provides capacity building including value-chain, sector, and gender driven programs, and leverages new technology (Mobile Financial Services, FinTech, Big Data etc.)
- Capital markets - expand the range of instruments for local currency financing to clients

CHALLENGES FOR IFC IN THE REGION

- Economic headwinds, governance and security risks: Since the support of host governments and the creation of enabling legal and regulatory frameworks (easing high duties and import bans, as well as resolving land issues) are key for establishing a hospitable private sector operating environment, these are a prerequisite to deepen IFC engagement. Other risks include competition, credit risk, resources, banking sector stress and equity markets.
- Financial: Profitability continues to be low as a result of small project sizes that challenge cost effectiveness, high administrative costs and relatively higher undisbursed commitments.
- Organizational: Staff time dedicated to non-client activities and internal processes. Furthermore, transformational engagements are resource intensive and involve trade-offs. Pushing the envelope to meet Africa’s needs and developing new products for higher impact, profitability and efficiency.

EXAMPLES OF TRADE-OFFS

- Increasing demand for private sector solutions in a continent facing urbanization, industrialization, infrastructure, fragility, jobs, and climate-related challenges makes it is very difficult for to prioritize its program. The region has shown some selectivity by adopting the Deep Dive Approach but still needs to continue its support to FCS and IDA countries.
- Rebuilding the equity base (mining), where IFC will not do many early stage exploration deals with listed juniors, instead focus on larger low-cost projects with well-funded strategic or financial partners.
- Exploration of more asset-level transactions which offer good protection versus corporate issues and liquidity.

ANNEX III. FCS AND LIC-IDA COUNTRIES LIST

FY16 IFC FCS LIST

Afghanistan, Angola, Bosnia and Herzegovina, Burundi, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte D'Ivoire, Eritrea, The Gambia, Guinea, Guinea-Bissau, Haiti, Iraq, Kiribati, Kosovo, Lebanon, Liberia, Libya, Malawi, Mali, Madagascar, Marshall Islands, Micronesia, Myanmar, Nepal, Sierra Leone, Solomon Islands, Somalia, South Sudan, Sudan, Syria, Timor-Leste, Togo, Tuvalu, West Bank and Gaza, Yemen, Zimbabwe

LOW INCOME IDA COUNTRY LIST

Bangladesh, Benin, Burkina Faso, Cambodia, Ethiopia, Kenya, Kyrgyz Republic, Mozambique, Niger, Rwanda, Tanzania, Tajikistan, and Uganda. Four countries are on the list that are not low income in FY15 but were in FY14 or FY13, these are Bangladesh, Kenya, Tajikistan and Kyrgyz Republic.

ANNEX IV. HIGHLIGHTS OF CURRENT EXTERNAL ENGAGEMENTS

External engagements	<ul style="list-style-type: none"> • Participating in the Global Commission on Business and Sustainable Development, which promotes private sector engagement with achieving the SDGs • Supporting the Sustainable Development Investment Partnership (SDIP), a platform for international banks and DFIs to share infrastructure project opportunities • Engaging with the MDB Heads work agenda on financing the SDGs (Billions to Trillions (B2T)) and 2030 Agenda implementation – we are helping the PPP CCSA organize the MDB Infrastructure Forum, and we are convening the MDB Task Force on Measuring Private Investment Catalyzed • Engaging with OECD and other DFIs/bilateral donors to develop a methodology for the measurement of official financing for private investment in developing countries • Engaging with the Global Impact Investors Network (GIIN) to promote scalable approaches to investing for measurable social impact, in line with IFC's experience • Supporting Think-20 (T20) events organized by the Shanghai Institute for International Studies, the Brookings Institute and the German Development Institute • Participating in the Coalition for Inclusive Capitalism Working Group that helps craft pathways and concrete steps that can be adopted by leaders throughout the investment and business community to make capitalism more inclusive • Taking part in the WEF Global Agenda Council on Sustainable Development • Participating in the ReDesigning Development Finance Global Project
WBG related	<ul style="list-style-type: none"> • Engaging continuously with the Vice Presidency for the 2030 Development Agenda, United Nations Relations, and Partnerships on the private sector voice in the various processes and reports for the UN Sec Gen and UNGA on the 2030 Agenda; WBG part of "UN family" and IFC biggest private sector organization • Contributing to various WBG and external documents/strategies on challenges to global development, multilateralism, etc. all linked to the theme of the multilateral system being "fit-for-purpose" to deliver on the 2030 Agenda, where private sector and private finance play a crucial role • Working on global events on aspects of the PSD agenda: e.g. at the Spring Meetings (Private Sector Solutions in FCS, Private Finance for Africa), the WBG Development Finance Forum in May (Unlocking Opportunities in Fragile Markets) – conceptualizing and promoting scaling up finance for (infra) investment, risk mitigation and public/private alignment of interests
UN related	<ul style="list-style-type: none"> • Linking the UN Financing for Development (FfD) Business Steering Committee and the Global Business Alliance (GBA) to ensure <ol style="list-style-type: none"> a) financing for development is a key part of 2030 implementation and b) the critical private sector role in the financing and sustainable development agenda • Responding to UN demand for IFC to play a distinct role in the Inter Agency Task Force (IATF) to define the outline for FfD and Addis Ababa Action Agenda (AAAA) follow up, and ensure implementation and monitoring of commitments made in Addis – IFC is making contributions on Capital Markets, Risk Mitigation, Blended Finance, Investment Climate • Supporting WB and IFC attendance at key ECOSOC Summits in 2016 - including the FfD follow up Summit (18-22 April) and the High Level Political Forum (11-22 July)

ANNEX V. IFC CORPORATE SCORECARD

FY16Q2 CORPORATE SCORECARD

Tier	Proposed Indicators	Baseline (FY15)	Targets	Actual	Actual as % of Target
GOALS AND DEVELOPMENT CONTEXT – See WBG Corporate Scorecard					
RESULTS		FY14-15 actual (cumulative)	FY14-16 (cumulative)	FY14-16 Q2 (cumulative)	FY14-16 Q2 Actual as % of FY14-16 Target
<i>Growth, inclusiveness, sustainability</i>	<u>IDGs:</u>				
	• Farmers reached, mn	2.49	4.64	3.32	72%
	• People reached with H&E services, mn	21.10	14.8	25.86	175%
	• A2F: Individuals and Microenterprises reached; SMEs reached, mn	88.53; 2.53	83.59; 4.61	106.07; 2.93	127%; 64%
	• People reached with infrastructure services, mn	115.71	75.36	138.68	184%
	• Reductions in GHG emissions, m tCO ₂ eq/yr	15.21	18.42	16.13	88%
PERFORMANCE		FY15 actual	FY16 (annual)	FY16 Q1-2	FY16 Q2 Actual as % of FY16 Target
<i>Development impact</i>	<u>Strategic priorities:</u>				
	• IDA: % LTF project count; % active trade accounts	36%; 52%	30-35%; 50-55%	31%; 53%	Within
	• FCS: LTF project count; active trade accounts ¹	43; 35	40-45; 35-40	15; 32	35%; 85%
	• Climate-related: % Total commitments	26%	20%	11%	Below
	• Gender: % of all IFC agribusiness, finance, and extractives AS projects that have a gender analysis/gender intervention integrated	25%	30%	20%	Below
	<u>Development Outcomes:</u>				
	• Econ Performance & Private Sector Development ratings, % satisfactory ²	55%; 70%	60%; 70%	N.a.	-
	• AS Development Effectiveness rating, % successful	78%	65%	76%	Above
<i>Financial sustainability</i>	• Return on net worth, % ³	6.3%	10%	2.6%	Below
	• Controllable income, \$mn	749	712	163	23%
<i>Delivery for clients</i>	• Client feedback IS; AS, % satisfied ²	82%; 91%	85%	N.a.	-
	• Median Mandate-to-Disbursement, days ⁴	N.a.	150	N.a.	-
	• Commitments: Total commitments; STF o/s portfolio, \$bn ¹	17.7; 2.8	17.2-19.7; 2.6-3.2	7.6; 2.7	41%; Within
	• o/w capital mobilized on commercial terms, \$bn	7.1	5.7-6.6	2.7	44%
<i>Managing talent</i>	• Staff diversity index ⁵	0.80	1.00 (FY18)	0.82	-

Footnotes

1) Mid-point of target range used to calculate % of target achieved.

2) Information not updated on a quarterly basis (annual only).

3) Return on net worth measured before IDA transfers.

4) Number changes as new projects are mandated, existing projects are disbursed or project completion timelines are revised.

Based on planned timelines for completion of existing projects, M2D as of Jan 21st 2016 is 197 days.

5) Target is for FY18.