

IFC's FY14 Business Plan & Budget

**Approved by IFC's Board of Directors on June 20, 2013
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GLOSSARY

A2F	-	Access to Finance
AS	-	Advisory Services
ACF	-	Africa Capitalization Fund
AEF	-	Africa Enterprise Fund
ALAC	-	Africa, Latin America and Caribbean Fund
AMC	-	Asset Management Company
CAGR	-	Compound Annual Growth Rate
CAO	-	Compliance Officer/Ombudsman
CASA	-	Conflict Affected States in Africa
CCFP	-	Critical Commodities Finance Program
CoE	-	Centers of Expertise
D&I	-	Diversity and Inclusion
DE	-	Development Effectiveness
DEG	-	Deutsche Investitions- und Entwicklungsgesellschaft
DOTS	-	Development Outcome Tracking System
DSC	-	Deployable Strategic Capital
EAP	-	East Asia and Pacific region
EBRD	-	European Bank for Reconstruction and Development
ECA	-	Europe and Central Asia region
EE	-	Energy Efficiency
EF	-	Equity Fund
ESG	-	Environment, Social and Governance
FCS	-	Fragile and Conflict Situations
FI	-	Financial Intermediary
FM	-	Financial Markets
FMO	-	Financierings-Maatschappij voor Ontwikkelingslanden
FMTAAS	-	Funding Mechanism for Technical Assistance and Advisory Services
FTE	-	Full-Time staff Equivalent
GAAP	-	Generally Accepted Accounting Principles
GAFSF	-	Global Agriculture and Food Security Program
GHG	-	Green House Gases
GIF	-	Global Infrastructure Fund
GKO	-	Global Knowledge Office
GTFP	-	Global Trade Finance Program
GTLF	-	Global Trade Liquidity Program
GTSF	-	Global Trade Supply Finance
GWFP	-	Global Warehouse Finance Program
IBRD	-	International Bank for Reconstruction and Development
IDA	-	International Development Association
IDD	-	Integrity Due Diligence
IDG	-	IFC Development Goal
IEG	-	Independent Evaluation Group
IFC	-	International Finance Corporation
IFI	-	International Financial Institutions
IFRS	-	International Financial Reporting Standards

IIC	-	Inter-American Investment Corporation
IMO	-	Integration Management Office
IO	-	Investment Officer
IOC	-	Istanbul Operations Center
IPP	-	Independent Power Project
IS	-	Investment Services
JBP	-	Joint Business Plan
KMPG	-	Knowledge Management Practice Group
LAC	-	Latin America and the Caribbean region
LTF	-	Long-Term Finance
MAS	-	Manufacturing, Agribusiness and Services
MENA	-	Middle East and North Africa region
MFI	-	Microfinance Institution
MIC	-	Middle Income Country
MIGA	-	Multilateral Investment Guarantee Agency
MSME	-	Micro, Small and Medium Enterprise
NGO	-	Non-Governmental Organization
NOF	-	Nationality of Focus
PBGI	-	Performance Based Grants Initiative
PCRF	-	Post-retirement Contribution Reserve Fund
PEBP	-	Post Employment Benefit Plan
PEP	-	Private Enterprise Partnership
PPP	-	Private Public Partnership
RAB	-	Regular Administrative Budget
RE	-	Renewable Energy
RBCF	-	Russian Bank Capitalization Fund
SA	-	South Asia region
SBA	-	Sustainable Business Advisory
SCF	-	Strategic Climate Fund
SDF	-	Subordinated Debt Fund
SEF	-	Small Enterprise Fund
SME	-	Small and Medium Enterprise
SRP	-	Staff Retirement Plan
SSA	-	Sub-Saharan Africa region
SSRP	-	Supplemental Staff Retirement Plan
STF	-	Short-Term Finance
TAB	-	Total Administrative Budget
TMT	-	Telecom Media & Technology
WBG	-	World Bank Group
WDR	-	World Development Report

Executive Summary

- i) *IFC's FY14 Business Plan & Budget* sets forth the business targets for FY14 and seeks Board authorization for the budget required to achieve these targets. The proposed budget will support growth in all three of IFC's business lines – Investment Services (IS), Advisory Services (AS), and IFC's Asset management Company (AMC) – and a special focus on Fragile and Conflict Situations (FCS) and other challenging IDA countries.
- ii) Section I of the report provides an updated forecast of the Corporation's FY13 results as a status check late in the fiscal year so as to better inform the proposed FY14 business plan. Section I also presents a status check on IFC's most critical asset – a highly skilled and diverse set of staff with the global development knowledge to deliver IFC's mandate. Section II sets forth the FY14 business plan for IS, AS, and AMC and the plans for FCS and other challenging IDA countries, which are all aligned with Scenario 2 from the *IFC Road Map FY14-16*. Section II also describes plans for World Bank Group (WBG) collaboration. Section III presents the status and outlook for the AMC. Section IV begins by explaining the strategy and budget planning process to the Board to further highlight Management's prudent efforts to deliver robust growth with a limited budget increase and continue to seek efficiencies through selectivity, trade-offs and internal reallocations. This Section goes on to discuss IFC's productivity and portfolio– the business context within which the FY14 business plan and budget has been developed. Finally, this section sets forth the FY14 budget proposal with detailed focus on budget reallocations as well as the incremental resources required to meet the solid growth planned with a special emphasis on FCS and other challenging IDA countries.
- iii) The FY14 budget proposal calls for a regular administrative budget of \$720.5 million, a real increase of 3.5% with respect to FY13; application of the World Bank Group's price adjustment mechanism makes it 5.0% in nominal terms. The proposed increase reflects significant efforts to reallocate existing budget towards strategic priorities through use of the 2% productivity tax and clarify the selectivity filters being applied and the trade-offs being made to allow for limited growth in investment programs. The resulting budget proposal then provides for both overall investment program growth and expansion in FCS and other challenging IDA countries as described in the Road Map by allocating additional budget to Investment Operations while maintaining an overall flat budget for support functions. This highlights IFC Management Team's emphasis on productivity gains; namely, support functions must meet the increasing demands for services from continued growth in investment operations without the benefit of incremental resources – essentially doing more with the same. The staff cost component of the FY14 administrative budget is expected to increase by 5.0% in real terms. This overall increase in staff costs reflects the growing cost to support a workforce spread across 110 offices in 101 countries. IFC's headcount is expected to increase by 7% from FY12-end to reach 4,024 by the end of FY13, with 57% of staff in country offices. Further controlled growth in staff numbers is planned for FY14 with an emphasis on strategic staffing and placing investment staff in or near FCS.
- iv) **Investment Services.** IFC's Investment Services aim to deliver the Corporation's development mandate through financially sustainable investment in private enterprises in the developing world. The FY13 investment program is expected to deliver \$21.7 to 23.6 billion in total commitments comprised of \$16.1 to \$17.3 billion for IFC's own account in 555 to 585 projects (of which about 250 to 295 are expected to be in IDA countries), and \$5.6 to \$6.3 billion of mobilization. The Long-Term Finance (LTF) component of IFC's own account commitments represents \$10.1 to \$10.8 billion in 350 to 370 projects. Short-Term Finance (STF) is expected to account for \$6.0 to \$6.5 billion in 205 to 215 projects. For FY14,

total commitments are expected to increase to \$23.0 to \$25.5 billion comprised of \$17.0 to \$18.9 billion for IFC's own account in 595 to 640 projects (of which about 265 to 320 in IDA countries), and \$6.0 to \$6.6 billion of mobilization. The LTF Component of IFC's own account commitment volume represents an estimated \$10.6 to \$11.8 billion in 375 to 400 projects. STF is expected to comprise \$6.4 to \$7.1 billion for IFC's own account in 220 to 240 projects. Focused efforts will also be made to develop a solid pipeline of projects in FCS and other challenging IDA countries.

v) **Productivity.** One of IFC's internal benchmarks for the productivity and efficiency of its Investment Services is the number of weighted commitments per full-time staff equivalent (FTE). This metric remains one of the key measures by which investment staff can gauge how efficiently and financially effectively new business is being delivered. The 12-month average productivity on a quarterly rolling basis shows a steady trend over the past three years that is expected to continue into FY14. While the number of weighted new projects per FTE F+ has not increased at the rate envisioned by the IFC 2013 initiative, maintenance of IFC's investment output ratio is reasonable considering that more projects are being done in IDA countries which require more effort than non-IDA countries; and global financial and political uncertainties have limited opportunities for investment in certain regions.

vi) **Advisory Services.** Advisory Services is the second pillar of IFC's value proposition to clients. AS complements Investment Services by sharing IFC's global knowledge and expertise with private and public sector clients, improving the business environment in emerging markets, and strengthening the capacity, standards and know-how of private sector clients— thereby extending IFC's reach into challenging markets. A series of reforms to strengthen the impact and effectiveness of AS was launched in 2006, and contributed to 75% of AS projects achieving positive development outcomes in FY12 – an all-time record. The total FY14 AS spending envelope is \$414 million, comprising IFC contributions of \$155 million (net of price increase) and donor and client contributions of \$259 million. This represents an 8% increase from FY13 planned spend of \$382 million. IDA countries will remain the main focus, and are expected to account for over 60% of the AS program during FY14-16. FCS will also be a major focus, and are expected to grow to around 20% of the program by FY16. Reflecting these areas of emphasis, AS work will increasingly be concentrated in Africa and South Asia, which together are expected to account for nearly half of the AS program by FY16. During FY14, Management will continue to move ahead with reforms to strengthen the AS business. This will include measures to continue to enhance WBG collaboration, deepen partnerships, strengthen results measurement, as well as a continued focus on talent management and the funding model. As part of the latter goal, it is proposed to introduce a second phase of FMTAAS partial mainstreaming from FY14 for \$20 million, and to simplify aspects of FMTAAS governance.

vii) **AMC.** The IFC Asset Management Company is the third pillar of IFC's business. The AMC mobilizes additional funding from third-party investors who are interested in investing alongside IFC in developing countries. Furthermore, AMC improves IFC's financial sustainability by preserving the Corporation's scarce capital and increasing its net income, thereby expanding IFC's capital base. In FY14, the AMC will continue to manage its funds' existing investments while expanding their portfolios. Efforts will also be given to the continued marketing of the Catalyst Fund and Global Infrastructure Fund (GIF) to potential investors to reach the target size for these funds and to develop the Middle East North Africa Fund (MENA Fund) which aims to have a first close in FY14. Other fund ideas will also be developed and brought to the Board for consideration. These funds could include an Asia Fund, follow-on funds to the CapFund and ALAC Fund, a Global Fund-of-Funds, and a Climate Debt Fund.

viii) IFC's management and staff strive to deliver the Corporation's development agenda as collaborative members of the World Bank Group (WBG). Close collaboration is essential to leverage development through the private sector. As discussed in the *IFC Road Map FY14-16*, IFC is actively pursuing collaborative approaches across its strategic focus areas, including: FCS, climate change, infrastructure and agribusiness in Africa, vocational training, and capital markets development. Concerted regional efforts are being made to develop potential transformative joint regional and country-level activities. IFC and MIGA will continue to pursue joint business development and knowledge-sharing. In addition, IFC is actively pursuing the integration of its HR, Corporate Relations and IT functions with those of IBRD and MIGA in an effort to support Dr. Kim's vision of one World Bank Group.

ix) **Fragile and Conflict Situations (FCS).** FCS is an urgent development priority for the WBG and is a key component of IFC's FY14-16 strategy. IFC is proposing a significant step-up in FCS over FY14-16 as well as greater emphasis on other challenging IDA countries, especially those which face similar challenges to FCS but are not on the Harmonized FCS list. In this process, IFC will implement a differentiated engagement strategy depending on country context, with a main focus on access to infrastructure, finance and markets. IFC is poised to deepen its engagement in FCS with two IFC directors (one IS, one AS) guiding the mainstreaming of FCS into IFC's operations, and a Global FCS Coordinator to facilitate all FCS activities within IFC. The plan is to increase investments in FCS by at least 50% above FY12 levels (\$537 million for IFC's own account) by FY16, and to continue AS program growth with the aim of reaching over 20% of the total AS program by FY16. As a result of a differentiated engagement strategy in FCS, IFC expects investment volumes in FY16 to come from three focus areas: power projects (30%), SME lending (20%) and agribusiness (30%) and other infrastructure (20%). To accomplish these goals, IFC plans a bold, comprehensive approach which includes: a) hiring a critical mass of FCS-dedicated investment staff; b) providing enhanced incentives for all staff to work in FCS; c) creating operational flexibility, including streamlined processes and simpler documentation; d) stretching IFC's normal risk tolerance, such as developing projects with inexperienced local sponsors, local currency components where currency hedging is not available, or higher risk portions which may need a first-loss tranche; and e) continuing growth of targeted AS programs that leverage increased opportunities for IS/AS alignment and that lay the groundwork for future private sector investment. This comprehensive approach, which aims for sustainable results in the long-term, would take time to implement and should be seen as an investment in the future.

x) **IDGs.** IFC implemented IDG2 (Health and Education services) and IDG3 (Access to Financial Services for MSMEs) during FY13 with positive results so far. This includes significant contributions in FCS; since most FCS have small populations, when IDG contributions are reported as a percentage of population, their country-level effect can be very significant. To further emphasize the importance of IDGs as one measure of development impact, IDG2 and IDG3 are included in FY13 departmental scorecards and management's performance objectives.

xi) The FY14 business plan and budget proposal presented herein for Board consideration maintains IFC's position as the leading global institution dedicated to private sector development. The Corporation will continue to grow its investment program and broaden the reach of its Advisory Services engagements, while laying the foundation for future investments in FCS by investing in staff dedicated to FCS work.

I. Strategic Context and Results

A. CONTEXT

1.1 While the worst of the economic crisis appears over for now, the World Bank foresees continuing fragility of the global economy in 2013, with global growth rates remaining low and unchanged overall. Developing countries are expected to continue to lead global growth, even while also grappling with poverty and inequality, long-term development challenges such as unemployment, food insecurity, and climate change, and country-specific challenges ranging from conflict and fragility to the middle-income trap.

1.2 While overall net capital flows to developing countries are expected to recover in 2013 after a reduction of about 20% in 2012, net private bank flows in 2013 will still be only slightly over a third of the 2008 levels, and the deleveraging process in European banks will continue. At the same time as the flow of private sector finance to developing countries is facing constraints, the need for finance for the private sector, especially in difficult markets, is growing and continues to exceed by far the supply from International Finance Institutions (IFIs).

1.3 IFC is seeing a robust increase in demand for its financing and integrated solutions to development challenges through the private sector, and is well-placed to respond with its unique offering. That response recognizes that a well-functioning public sector has an important role in supporting private sector development, and that by working together the public and private sectors can be most effective at addressing developing country needs.

1.4 The World Bank Group goals are to eradicate extreme poverty and boost shared prosperity, taking into account the need to promote environmentally sustainable development. In support of this, IFC's five Strategic Focus Areas continue to constitute the framework for prioritizing its activities across Investment Services, Advisory Services, and the Asset Management Company. IFC also continues to place a strong emphasis on gender as a cross-cutting theme. Following the 2013 World Development Report (WDR) on Jobs and the IFC Jobs Study, IFC will also put a special emphasis on jobs, which the majority of poor people consider their most likely pathway out of poverty. To help achieve the overarching WBG goals, IFC's activities across its focus areas promote both broad-based growth, which benefits the poor and contributes to shared prosperity indirectly, as well as more direct approaches.

1.5 While IFC will maintain its strategic focus on and continue strategy implementation in all five of its Strategic Focus Areas, it will put more focus on certain geographies, sectors and themes in the near to medium term. These are:

- Fragile and Conflict Situations and other challenging IDA countries;
- South Asia (including Afghanistan and Pakistan), with the intent to increase this region's share of IFC's own-account commitments to about 15% and of IFC's AS program to about 18% by FY16 (from 12% and 16% in FY12, respectively) (this increased focus will be in addition to the ongoing priority regional focus on Sub-Saharan Africa (SSA) and the Middle East and North Africa (MENA);
- Agribusiness and the food supply chain, and infrastructure, especially in SSA; and

- Climate change, with the intent that at least 20% of annual long-term finance (LTF)¹ and at least 10% of annual short-term finance (STF)² commitment volumes will be climate-related by FY15.

1.6 In implementing its strategy, IFC will continue to focus on development impact and financial sustainability, as well as on providing additionality to projects. IFC will continue to strengthen and expand its existing results measurement system, further rolling out the IFC Development Goals (IDGs), and demonstrating how its activities are contributing to the WBG goals. In addition, it will become even more critical to focus on profitability and financial soundness as IFC steps up in FCS and other frontier environments, and to maintain a balanced portfolio, including by continuing to address needs in Middle Income Countries.

1.7 Collaborative approaches across the WBG to leverage private sector activity are essential to achieve the WBG goals. IFC and other WBG entities will continue to build on increased strategic and project-level cooperation, and actively pursue collaborative approaches for transformational impact. Teams are now applying a more concerted effort to identify areas and opportunities where effective collaboration can add significant value. This includes joint work at the regional, country, sectoral and thematic level, such as joint business plans, and joint initiatives such as the Agribusiness in Africa Special Initiative (AGASI). IFC will also continue to increase impact through mobilization and partnerships, including with other IFIs and through extensive client networks.

1.8 The rest of this chapter describes expected FY13 results and IS and AS trends, and an update on AS, the AMC, and Human Resources. The next chapter presents the Business Plan for investments, AS and the AMC, and provides more detail on development impact, including the IDGs, WBG collaboration, and the increased emphasis on FCS and other challenging IDA countries.

B. INVESTMENT PROGRAM TRENDS AND EXPECTED RESULTS

1.9 IFC's FY13 Q1-3 program results have been robust, and IFC expects to end FY13 on a strong note, \$21.7 to 23.6 billion for total volume with \$16.1 to 17.3 billion for own-account and \$5.6 to 6.3 billion for mobilization; the expected results are all within the ranges projected in *IFC's FY13 Business Plan & Budget*. Growth compared to FY12 is 11% for total volume, 8% for own-account, and 22% for mobilization.

1.10 Highlights to expected regional investment performance in priority regions include: **SSA** is expected to meet its own account and project count targets and exceed its FY13 total volume target of \$4.2 billion. Performance has been strong across all three industry clusters, with FY13 Q1-3 levels for total mobilization (including MIGA), core infrastructure volume, and climate change volume, already exceeding levels than in any other year. **MENA's** strong expected performance is driven by financial markets which committed several large equity deals with mobilization, as well as high impact infrastructure projects in the telecom and energy sectors. **South Asia's** performance has been strong across all three industry clusters. The India program has shown good performance in both volume and

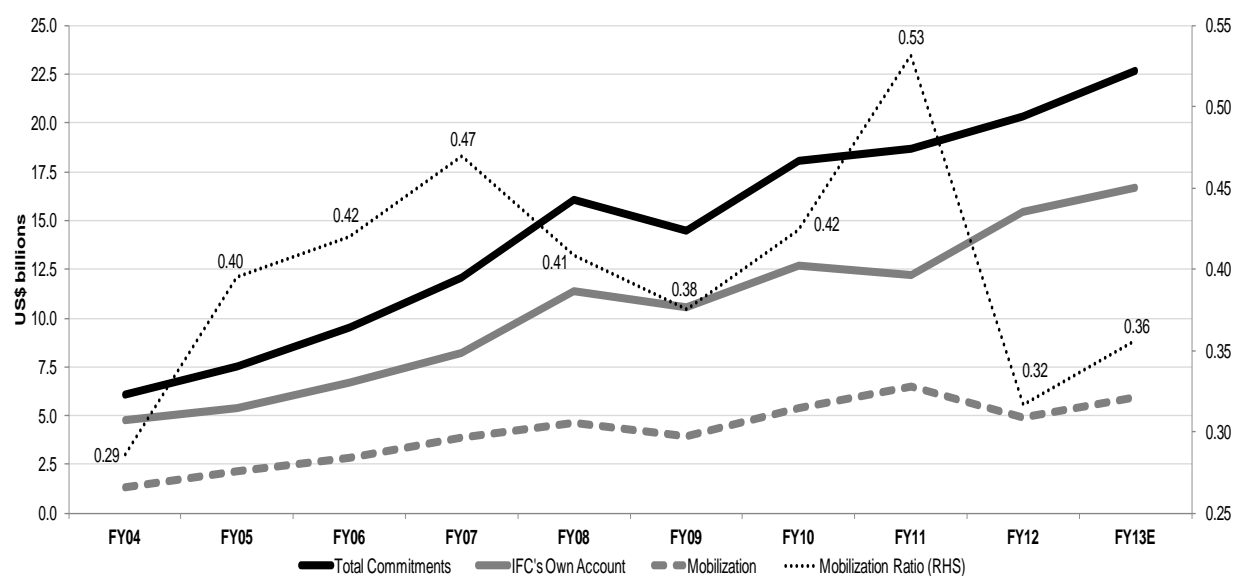
¹ For the purposes of this Paper, and as described in the *IFC Road Map FY14-16*, LTF comprises the traditional long-tenor products of equity and long-term debt, as well as some supply chain products such as the Global Warehouse Finance Program (GWFP), GTLP and CCFP, and other Trade and Supply Chain products (Structured Trade, Distributor Finance and Working Capital Systemic Solutions).

² The Global Trade Finance Program (GTFP) and the Global Trade Supplier Finance (GTSF) Program.

count, especially in the Low Income States. FY13 will be a record year for investments in Bangladesh and Bhutan.

1.11 Graph 1.1 shows the trends in total commitments (own account and core mobilization) between FY04 and FY13. Total commitments, including mobilization, have steadily grown from \$6.1 billion in FY04 to an estimated \$21.7 to \$23.6 billion in FY13 at an FY04-13 compound annual growth rate (CAGR) of 16%. The expected CAGR for core mobilization (which currently includes IFC's Syndicated Lending Program, the AMC, Initiatives, and PPP mobilization) over the same period is 18%, and for IFC's own account volume 15%. The Mobilization ratio reached a high of 0.53 in FY11 (\$0.53 mobilized for every \$1.00 invested by IFC), which was a record year for syndications with a few unusually large transactions, and is expected to reach around 0.36 in FY13, as mobilization volumes start to recover after the FY12 decline. Without including Short-Term Finance (STF), which has had no core mobilization component, the FY13 ratio would be 0.57, above the nine-year average of 0.40.

Graph 1.1: IFC's Total Commitments and Mobilization Ratio



1.12 IFC's Syndicated Lending Program, in particular its B-loan program, will continue to be the main contributor to overall core mobilization volumes, and is expected to be between \$2.8 to \$3.2 billion in FY13, a similar level as in FY12. AMC mobilization in FY13 is expected to be near \$1 billion (more than double the FY12 levels), as its funds increased investment activity. PPP mobilization is expected to increase significantly to a range of \$350 to \$400 million from a small base of \$41 million in FY12. IFC initiatives such as the Global Trade Liquidity Program (GTLP) and the Critical Commodities Finance Program (CCFP) have also had a major role in mobilizing third-party capital in both FY12 and FY13.³

1.13 Table 1.1 presents a further breakdown of IFC's own-account commitment volumes into LTF and STF. LTF (own account) is projected to have a CAGR of 7% over FY06-13E, leveraged by mobilization. The STF CAGR over the same period, from a low base, is 57%. With FY10 as the base year, the LTF and STF CAGRs are 5% and 21%, respectively. Expected FY13 LTF volume, at around \$10.1 to \$10.8 billion,

³ As described in footnote 2, GTLP and CCFP are LTF products.

represents an increase of around 13% above FY12; expected STF volume at around \$6.0 to \$6.5 billion represents an increase of around 0.5%.

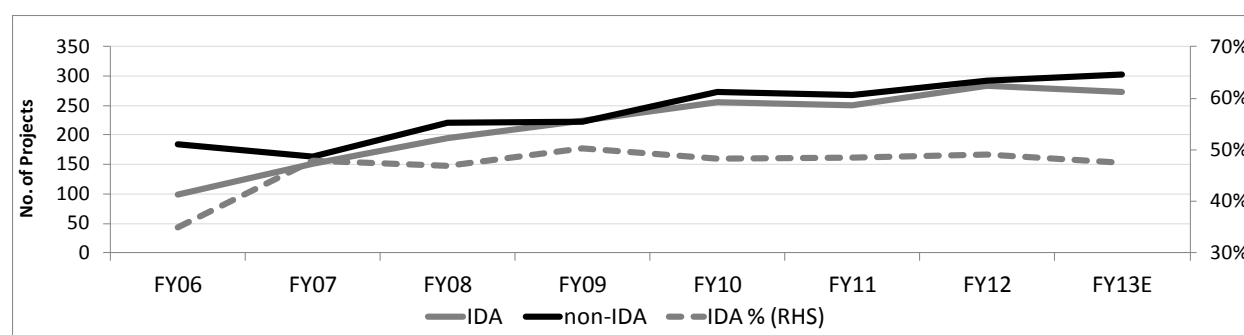
Table 1.1: IFC's Own Account Commitment Volume⁴

US\$ millions

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E
LTF	6,434	7,447	9,969	7,667	9,109	7,491	9,241	10,100 - 10,800
STF	269	772	1,429	2,880	3,555	4,694	6,221	6,000 - 6,500
Total	6,703	8,219	11,398	10,547	12,664	12,186	15,462	16,100 - 17,300

1.14 IFC expects its overall project count for FY13 to be 555 – 585, with LTF 350 – 370 and STF 205 – 215. It also expects to remain within the IDA target range of 45-50% of investment projects in IDA countries, with 250 – 295 projects in IDA countries. As depicted in Graph 1.2, the number of IFC projects in IDA has grown significantly over the last decade, from 99 in FY06, at an FY06-13 CAGR of 16%, compared to a CAGR for non-IDA projects over the same period of 7%. IFC has also significantly increased the number of IDA countries in which it invests, from 32 in FY06 to 58 in FY12.

Graph 1.2: IFC's Number of Commitments – IDA vs. Non-IDA Countries



C. ADVISORY SERVICES

1.15 Advisory Services are an increasingly important tool for IFC to deliver its development mandate. Management has introduced wide-ranging reforms since 2006 to strengthen the impact and effectiveness of the AS business. IFC's strategy for AS forms an integral part of IFC's overall strategic directions as laid out in the *IFC Road Map FY14-16*, and an annual update on AS-specific issues is provided separately to the Board.⁵

Program Directions & Results

1.16 AS continued a focused growth trajectory in FY13, with expected total spend of \$382 million, a 5% increase over FY12. Development Effectiveness ratings continued to improve, with 75% of projects

⁴ LTF and STF amounts from FY09 to FY11 are slightly different than was reported in *IFC's FY13 Business Plan & Budget* due to the revision in LTF definition cited in footnote 2.

⁵ IFC Management provided its last Annual Update on Advisory Services to an Informal Meeting of the Board in September 2012, and plans to provide a similar update in early FY14.

achieving positive development outcomes, up from 72% in FY12 and 67% in FY11. Client satisfaction also remained strong at 88% in FY12.

1.17 IDA countries remain the primary AS focus area, and are projected to account for more than 60% of the program in FY13, with Fragile and Conflict Situations accounting for around 16% of the program.⁶ Reflecting these emphases, Sub-Saharan Africa and South Asia are expected to account for around 40% of the AS program in FY13. AS work on climate change also continues to grow, and is expected to account for 18% of the AS program in FY13.

Progress in Strengthening AS Delivery and Funding Models

1.18 The momentum of reforms launched in 2006 to improve the impact and effectiveness of AS continues. Major areas of focus in FY13 have included continued efforts to strengthen results measurement, the AS talent model, financial management systems, and efficiency and productivity metrics.

1.19 The funding model for Advisory Services draws on contributions from donors, clients and IFC. As part of IFC's *FY11 Business Plan & Budget*, the Board endorsed Management's four-prong strategy for strengthening the AS funding model: (a) Strengthening donor contributions; (b) Strengthening client contributions; (c) Better leveraging, and partially mainstreaming, IFC's contributions; and (d) Implementing further improvements to financial management systems and processes. Progress in implementing this strategy during FY13 is outlined below.

1.20 ***Strengthening donor contributions.*** Ongoing efforts to enhance the role of donor contributions focus on strengthening the strategic management of key donor relationships while actively developing new partnerships with corporate, philanthropic and other non-traditional partners. While the external funding environment continues to be challenging, contributions in FY13 remain robust. Donor/partner commitments were \$211 million as of FY13 Q3-end, lower than the record level achieved in the same period in FY12, and higher than the same period in FY11. Given the close fit between the AS component of IFC's strategy and donor priorities, and the deepening of key partnerships, Management is confident that our donor partners will continue to be an important source of AS funding for the foreseeable future.

1.21 ***Strengthening client contributions.*** The main goals of IFC's policy are to ensure any subsidy embedded in AS pricing is justified by the public benefits involved, and to use client contributions as a tool for strengthening client commitment to implementation. Reflecting these goals, the policy recognizes contributions made directly to project implementation in addition to fees paid to IFC. IFC remains the pioneer among IFIs in adopting a comprehensive approach to pricing AS; most IFIs provide such services on a grant basis, although some are considering adopting pricing models similar to IFC's.

1.22 The benefits of the pricing policy from an impact and effectiveness perspective are increasingly clear. Projects involving client contributions tend to be more successful and client surveys also show that clients who contribute to projects report higher levels of satisfaction. FY13 saw further progress in implementing the policy. In the first half of FY13, 95% of newly approved projects included client

⁶Based on World Bank list of Fragile and Conflict Situations as of July 2012.

contributions in some form, up from 87% in FY10. Clients were projected to contribute 40% of total costs of these projects, including 33% in cash fees to IFC (up from 26% in FY10).

1.23 ***Better leveraging and partially mainstreaming IFC's contributions.*** IFC's contributions to AS are important to mobilize donor contributions and to pursue strategic initiatives in areas where donor support has not yet crystallized. IFC is contributing \$155 million to AS in FY13, or around 41% of total AS costs. Donor and client contributions are expected to increase over time, creating the potential to increase the leverage of IFC's contributions.

1.24 Management began rolling-out the first phase of its plan to partially mainstream IFC's financial contribution to AS following Board approval of the plan as part of *IFC's FY11 Business Plan & Budget*. The plan involves shifting funding for designated "backbone" staff positions from FMTAAS and Trust Fund Administrative Fees to IFC's administrative budget. Based on the success of the first phase, Management has prepared a proposal for a second phase that would take effect from FY14 (see paras 4.93 – 4.99).

1.25 ***Strengthening AS financial management systems.*** To complement and reinforce the above measures, IFC is continuing to strengthen financial management systems and processes for the AS business. During FY13, efforts focused on preparing for the phased roll-out of a major upgrade of financial management processes and systems for AS, beginning with budget control, funds management, and budget forecasting, in partnership with the World Bank.

D. AMC

1.26 AMC is one of the three pillars of IFC's value proposition to clients. It augments IFC's traditional mobilization for clients by providing a vehicle for third-party investors to invest in IFC projects while benefitting from the rigorous financial, social and environmental standards through which IFC filters its investments. AMC is discussed in detail in Section III. The following provides an update on the status of AMC-managed funds in FY13.

1.27 As of March 31, 2013, AMC manages approximately \$5.2 billion across six funds:

- i) the \$3 billion IFC Capitalization Fund, LP (CapFund), consisting of an Equity Fund (EF) and a Subordinated Debt Fund (SDF);
- ii) the \$1 billion IFC African, Latin American and Caribbean Fund, LP (ALAC Fund);
- iii) the \$182 million Africa Capitalization Fund, Ltd. (AfCap Fund);
- iv) the \$275 million IFC Russian Bank Capitalization Fund (RBCF);
- v) the \$500 million target size, with first close at \$281.5 million, IFC Catalyst Fund (Catalyst Fund); and
- vi) the \$1 billion target size, with first close at \$500 million, IFC Global Infrastructure Fund (GIF).

1.28 As of March 31, 2013, AMC-managed funds have made investment commitments of approximately \$2.83 billion in 54 transactions, some involving investments by more than one fund in the same company.

1.29 Since inception, the CapFund has made commitments to 19 banks for a total of \$2,047 million; the ALAC Fund has made 17 investment commitments for a total of \$600 million; the AfCap Fund has made six investment commitments for a total of \$103 million; and the RBCF has made two investment

commitments totaling \$78 million. During the first three quarters of FY13 alone, the CapFund committed a total of \$779 million to 10 banks; the ALAC Fund committed a total of \$252 million to seven companies; the AfCap Fund committed \$92 million to four banks; and the RBCF committed \$78 million to two banks.

Table 1.2: Cumulative AMC Fund Investments as of March 31, 2013

US\$ millions

	AMC-Managed Funds Investment						Country/Region
	EF	SDF	ALAC Fund	AfCap Fund	RBCF	Total	
Banco Continental	24.5					24.5	Paraguay
Komercijalna Banka	60.9					60.9	Serbia
Banco de Oro	172.3					172.3	Philippines
Bank South Pacific	53.3					53.3	Papua New Guinea
Heidelberg Cement			35.0			35.0	Africa Region
Ecobank	104.1	75.0	43.8	27.3		250.2	Africa Region
Guaranty Trust Bank			7.5			7.5	Nigeria
Guardian Holdings Ltd.			18.8			18.8	Trinidad & Tobago
City Express			30.0			30.0	Mexico
Vietinbank	124.8	125.0				249.8	Vietnam
Ahli United Bank	125.0	165.0				290.0	Bahrain/MENA
Fichosa	32.0	38.0				70.0	Honduras
NBS Bank	5.1			3.4		8.4	Malawi
Medanito			24.0			24.0	Argentina
African Railways Ltd.			24.4			24.4	Kenya/Uganda
Bank Muscat	112.5	170.0				282.5	Oman
Sura Holdings			75.0			75.0	Colombia
Saham Finance			47.4			47.4	Africa Region
Rialto Energy			9.9			9.9	Cote d'Ivoire
UT Bank				7.5		7.5	Ghana
Armajaro Trading Co.			25.0			25.0	Africa and LAC
Persianas Property			37.0			37.0	Nigeria
Xacbank		40.0				40.0	Mongolia
Diamond Bank				22.8		22.8	Nigeria
Canopus			35.5			35.5	Brazil
Banque Centrale Populaire	127.5			22.6		150.1	Morocco
PetroNova			12.2			12.2	Colombia
CorpBanca	127.5		75.0			202.5	Chile
Banco BHD		25.0				25.0	Dominican Republic
Banco GyT		100.0				100.0	Guatemala
Orient Express Bank					23.1	23.1	Russia
Credit Bank of Moscow					55.0	55.0	Russia
ACLEDA		40.0				40.0	Cambodia
Laureate			50.0			50.0	LAC Region
Amen Bank	24.1			19.3		43.4	Tunisia
Commercial Bank of Ceylon		75.0				75.0	Sri Lanka
RCBC	100.0					100.0	Philippines
Interenergy			50.0			50.0	Dominican Republic
Total	1,193.6	853.0	600.4	102.9	78.1	2,828.0	

E. HUMAN RESOURCES

1.30 Since FY05, IFC's headcount has increased by 63%, growing from 2,433 to 3,957 by the end of the third quarter of FY13. IFC experienced its strongest growth in staffing levels from FY05 to FY08, when the number of employees increased by approximately 11% per annum (from 2,433 to 3,325). From FY09 to FY11, IFC's Management Team shifted the staffing strategy from managing growth to responding to new market realities and business needs, with a focus on increasing productivity and shifting resources closer to clients. Headcount remained virtually unchanged during this period reaching a total of 3,438 staff at FY11-end. The increase in headcount to 3,957 by FY13 Q3 (5.2% growth since FY12-end) is largely the result of delayed recruitment related to the IFC 2013 reorganization and workforce growth in strategic job streams and functions. Building on the experience of FY11-13, Vice Presidents will manage their own headcount levels with quarterly reporting to the IFC Management Team.

Table 1.3: IFC Staff Counts

	Headquarters	Field	Total	Field as % of Total
Advisory Services				
FY11-end	235	854	1,089	78%
FY12-end	234	900	1,134	79%
FY13-Q3	239	956	1,195	80%
Corporate Support				
FY11-end	746	107	853	13%
FY12-end	818	131	949	14%
FY13-Q3	851	147	998	15%
Investment Services				
FY11-end	555	941	1,496	63%
FY12-end	618	1,062	1,680	63%
FY13-Q3	638	1,126	1,764	64%
Total Staff				
FY11-end	1,536	1,902	3,438	55%
FY12-end	1,670	2,093	3,763	56%
FY13-Q3	1,728	2,229	3,957	56%
FY13-end (forecast)	1,734	2,290	4,024	57%

1.31 IFC maintains its strategic objective of operating closer to its clients in an effort to better serve them and increase development impact. As a result of IFC's deliberate efforts, 56% of staff are currently located outside Washington DC, compared to only 44% in FY05. Reflecting IFC's commitment to increasing its role in IDA countries, staff presence in IDA countries has increased from 384 to 860 since FY05, and the number of IFC offices⁷ in IDA has grown from 41 to 56.⁸ One of IFC's priorities for growth

⁷ Offices with IFC staff on Open/Term Appointments only (offices with only consultant presence excluded).

⁸ As of 03/31/13 per IFC HR Dashboard.

in the field, particularly in IDA and post-conflict countries is ensuring adequate representation of senior staff with sufficient tenure with the organization ("culture carriers") to on-board and mentor new staff, ensure transfer of skills and know-how, and maintain a strong corporate culture. As of March 31, 2013, 26% of staff members in the field have GG+ grades with more than four years tenure at IFC, compared to only 13% as of FY05-end.

1.32 Diversity and Inclusion (D&I) remain key areas of strategic importance for IFC. IFC's growth and decentralization strategy fueled improvements for most D&I Compact and Board diversity targets, as recruitment efforts emphasized diversity among new recruits. While IFC has shown overall positive trends, challenges in achieving some targets remain, with the most pronounced gaps in Nationalities of Focus (NOF), due to the composition change in the NOF⁹, and Women Managers where the gap to goal (to move from 30% to 50% women managers) is 82 staff members¹⁰. This gap can be partly attributed to the recent increase in the target for Women Managers from 28% to 50% in FY09 to further promote gender parity in the World Bank Group. To track development of the leadership pipeline for managerial positions, IFC's indicator for professional women now focuses on GG-GH women. In FY13 IFC has further supported the female leadership pipeline by introducing a guideline around GF+ recruitment which is to reach 50% Women.

1.33 In FY13 to date, the most notable IFC D&I Compact increase has occurred for Part II Managers (increase from 37.9% as of FY12-end to 39.1% at FY13 Q3-end).

Table 1.4: Diversity & Inclusion at IFC

		Target	FY11	FY12	FY13 Q3-end	Gap to Goal* (# of Staff)
Sub-Saharan Africa and Caribbean GF+ Staff	HQ & CO Appt	12.5%	10.7%	10.7%	10.9%	46
	HQ Appt (net)	10%	9.0%	8.5%	9.1%	15
Women Professionals (GG-GH) [†]		40%	35.6%	37.0%	37.8%	62
Part II GH+ Women		10%	9.2%	10.7%	11.9%	(15)
Women Managers		50%	26.9%	31.1%	31.4%	82
Part II Managers		40%	34.6%	37.9%	39.1%	3
NOF GF+		25%	24.5%	15.4%	15.1%	na ¹¹

Net Staff = all non-coterminous regular staff.

*Assuming constant population size. Source: HR Query, data only includes Coterm and Net staff.

[†]Indicator to enhance pipeline for managerial positions.

Strategic HR Objectives

1.34 IFC staffing and talent management functions are working in partnership with IBRD colleagues to leverage synergies across the Group and best serve IFC's specific talent needs. To support IFC's operations and ensure that the right people are in the right place to advance its mission, IFC mobilizes, retains and develops talent in specific ways:

⁹ The following nationalities are no longer NOF: Germany (58 GF+ staff as of FY13 Q3), Turkey (55), Egypt (47), Italy (31), Argentina (27), Indonesia (21), Morocco (10), Thailand (3) and Romania (8).

¹⁰ Assumes constant population size.

¹¹ Change in NOF nationalities has not yet been accompanied by IFC D&I Compact update.

1.35 **Strategic Staffing.** IFC matches projected business needs with long-term talent trends by analyzing the current talent pool in a way that helps managers make strategic people management decisions. Strategic Staffing, launched as part of the FY13 business strategy cycle, helps managers evaluate if staff growth is in line with achieving IFC's business objectives and how IFC's footprint affects organizational risk and client relationships. In FY14, this product will be expanded in population and scope to include additional cost considerations.

1.36 **Strengthening Leadership Development and Talent Management.** IFC is now in the fifth year of an annual talent review process where staff are evaluated vis-à-vis their potential contributions to the corporation. In FY13, this process has been further strengthened by more clearly linking it to strategic staffing. The process is also instrumental to identifying Leadership Development program needs for the organization. Three of the key programs (Global Business Leadership Program, Corporate Leadership Program and Team Leaders Training) have scaled up significantly in the last two FYs, from a total of 392 participants in FY10-11 to 607 participants in FY12-13: a 55% increase. In FY14, IFC will launch an organizational review to inform a more robust talent management strategy to include elements such as a career dashboard for Staff and the development of career paths for major business streams and functions.

1.37 **Attracting and Leveraging Top Talent.** IFC recognizes that the success of a knowledge-based organization rests on its ability to identify and attract top talent. In FY14, IFC will further develop its sourcing function and external partnerships to enhance the recruitment process and pipeline and leverage the success of its talent review process through the development of a virtual Talent Marketplace – allowing managers to more efficiently source talent for short-term needs. The organization's recent success in strengthening in the mobility function through fully dedicated mobility coordinators will be reinforced in FY14 by the implementation of a mobility tracking tool which will improve the flow and availability of critical information across the function.

1.38 **Strengthening Accountability for Performance Management.** IFC has strengthened accountability for people management as demonstrated by near 100% completion of performance objectives and evaluations by line managers. This will be further enhanced following the implementation of ePerformance as part of the HR systems upgrade to Peoplesoft 9.1. Following ePerformance adoption, IFC line managers will own people transactions, executed in the context of position management – a new framework for IFC where positions, not people, are the central components to business planning. This will require significant outreach to support line managers as this framework is implemented.

1.39 **Expanding the Framework for Awards and Recognition.** IFC seeks to more clearly align staff performance to its organizational goals by expanding the rewards framework to incentivize priorities such as work in Fragile and Conflict Situations, Climate Change, South-South transactions and WBG collaboration. In FY13, the Investment Achievement Sheet supported investment staff differentiation and recognition by more clearly delineating project and client-specific contributions. In FY14, this will be expanded in investment to support department-specific priorities and IFC is also exploring leveraging the Achievement Sheet concept to other business streams such as Advisory Services.

1.40 **Supporting the Compensation & Benefits Review Steering Committee.** IFC works closely with the Bank in the Compensation and Benefit Framework review for the WBG. This includes the review of mobility benefits, which is being undertaken in two phases. Phase I, completed in FY13, succeeded in enhancing mobility benefits for staff recruited into local positions outside their home country. Phase II

will consist of a more comprehensive review, including mobility strategy and the review of other elements of the mobility framework such as extended assignment benefits, short-term development assignment benefits and mobility premium for staff hired into internationally recruited positions at HQ.

1.41 ***Enabling HR capacity to support the business.*** IFC took significant steps in FY13 to strengthen and develop HR capacity with a focus on client service. This has included transferring a number of HR-related transactions from client service to WBG shared services, allowing more time for client relationship management and supporting IFC's business and its staff. In FY14, this will increase significantly, with the advent of Manager Self-Service in the context of the WBG HR system (Peoplesoft) upgrade. This will further enhance the nature of HR client service interactions with people managers.

Performance-Based Variable Pay Programs

1.42 IFC's performance-based variable pay programs, anchored in external best practice and adapted to suit the needs of a public sector organization, have been a fundamental building block of IFC's HR and total remuneration strategy. IFC has developed these award programs over time to reward top performers and behaviors that model corporate values such as excellence, commitment, integrity, teamwork, and diversity. By aligning its awards programs with strategic priorities, IFC ensures that corporate priorities are linked to staff performance throughout the organization.

1.43 The variable pay programs not only offer the opportunity to recognize and differentiate top performers, but also help to address competitive market pressures. These pressures are amplified by the fact that WBG salaries are aligned against a single payline, anchored at the 75th percentile of both public and private sector organizations, to broadly reflect occupational functions for the group as a whole. The single payline approach fails to acknowledge significant market differentials for critical workforce segments such as investment and core finance functions. While IFC's variable pay programs cannot and are not intended to compete with private sector bonus schemes in terms of payout potential, they at least partially address this gap and reflect the IFC's private sector oriented culture.

1.44 For FY14, IFC's budget proposal includes \$15.8 million to fund its variable-pay programs including Long-Term Performance Awards, Corporate Awards, and Annual Performance Awards Program (Performance Awards Budget).

II. FY14 Business Plan

A. DEVELOPMENT IMPACT

2.1 **Development Impact and Jobs Focus.** IFC's clients will continue to deliver development impact through activities that support inclusive and sustainable growth as a means to eradicate extreme poverty and pursue shared prosperity. A strong focus will be on job creation because for many in developing countries, a job offers the best chance for escaping poverty. The IFC Jobs Study, which complements the recent WDR on jobs, confirms that key elements of IFC's overall strategy – in investment climate, infrastructure, access to finance, and training and skills – are crucial to support private sector job creation. The study also highlights implications for IFC's strategy and operations, such as applying a jobs lens in strategies, strengthening the value chains of clients, and ensuring that private sector needs are appropriately taken into account in tertiary education and vocational training. A small team has been put in place to focus on implementation of the study findings with the aim of helping IFC prioritize activities – at the country and sector level – with respect to jobs. The team will work with operational counterparts within the World Bank Group, and in collaboration with other partners.

2.2 IFC has maintained its poverty focus as it implements the Poverty Action Plan. The agreed corporate approach to poverty was described in the *IFC Road Map FY13-15*. IFC has adapted its evaluation strategy to include a focus on building a pipeline of evaluations and studies that will deepen understanding of how its activities impact poverty. IFC will also strengthen its results monitoring framework to better capture poverty impacts.

2.3 IFC aims to remain a leader among IFIs in results measurement. Understanding the impact of its activities and feeding lessons learned from results continues to be a priority, as IFC refines the way it measures results. IFC's integrated results measurement system incorporates the IFC Development Goals; the Development Outcome Tracking System (DOTS) for monitoring development results; and systematic evaluations of both IS and AS activities. Alongside development results, IFC will continue to track its additionality and study the demonstration effects of its operations. IFC will also test and implement additional monitoring instruments and evaluative approaches to better assess and understand impact. Innovations such as the poverty scorecard, which respond to client feedback, will be rolled out more broadly. Efforts to strengthen the results measurement system will continue within the context of broader WBG work to operationalize the overarching WBG goals. In this process, IFC will expand the existing system to demonstrate how its activities are contributing to the WBG goals, and explore appropriate alignment between World Bank and IFC results measurement frameworks.

2.4 IFC will continue to pursue the IDGs. Box 2.1 summarizes the current status and the aspirations for FY14-16.

Box 2.1: IFC's Development Goals – Illustration of Work In Progress

IDG		Unit	FY12 IDG Targets	FY12 IDG Commitments	Targets (FY14-16)*
1	Increase or improve sustainable farming opportunities	farmers m	0.4	1.0	4.6
2	Improve health and education services	people m	1.7	9.3	11.3
3	a) Increase access to financial services micro/individual clients	clients m	15.9	32.8	82.9
3	b) Increase access to financial services SME clients	clients m	1.2	1.5	4.6
4	Increase or improve infrastructure services	people m	19.3	32.8	75.4
4	a) Utilities		N/A	20.4	48.2
4	b) Transport		N/A	11.2	8.7
4	c) Telecom		N/A	1.2	18.5
5	Economic Growth/Gross Value Added	\$ m	N/A	N/A	N/A
6	Greenhouse Gas Emissions Reduced	m tCO2 eq/yr	1.7	1.8	18.4

Note "FY12 Commitments" refers to IFC's progress in signing or committing projects that during implementation are expected to achieve the anticipated development results.

* Pending final confirmation.

In FY13, IDG2 and IDG3 went live – i.e. were included in departmental scorecards and management's performance objectives. IDG5 – Economic Growth / Gross Value Added currently being piloted with no targets.

IDG6 – Climate Change FY12 targets and commitments refer to two pilot regions only.

IFC is working on complementary metrics for agribusiness and climate change. It is also exploring the development of two more IDGs – initial work has started on goals for IFC's contributions to economic growth and for firms benefiting from trade and regulatory services.

The table above only shows targets and commitments achieved to date. IFC will start reporting actual results delivered under IDG-contributing projects once the first full cohort of projects reports data at the end of FY14.

2.5 The FY14-16 IDG targets on average reflect a 5%-6% annual growth in IFC's dollar commitment volume for own-account. In general, the growth of IDG targets has been outpacing investment targets, with the most notable increase in IDGs 1 and 2. Due to their cross-sectoral nature, the IDGs do not map exactly to IFC's budget projections, so that precise projections of incremental IDG targets based on additional budget are difficult to derive.

2.6 IFC is projecting that the Road Map's Scenario 2 will result in a 50% increase in volume in FCS between FY12 and FY16. Past experience with the IDGs shows that there have been significant contributions in FCS. Some FCS infrastructure projects, particularly in power generation, have been among the larger contributors to IDG4. Most FCS have small populations, so when IDG contributions are normalized (expressed as a percent of population size) their country-level effect can be very significant. For example, FY13 infrastructure commitments in Côte D'Ivoire are expected to reach 11.65% of the population compared to an average reach of 0.66%.

2.7 Beyond the IDGs, the Road Map's Scenario 2 will allow IFC to deliver greater development impact more broadly, through increased support of private-sector-led growth and job creation. It will create more opportunity for IFC's demonstration effect, and for collaboration with the World Bank and MIGA to leverage the comparative strengths of the whole WBG and maximize development results. For more information on the expected development impact of IFC's increased focus on FCS and other challenging countries, including IDGs, please see section E below.

B. INVESTMENT SERVICES

2.8 IFC will continue to pursue its own-account investment program growth within its projected capital and budget resources, directing these resources to where development impact is greatest. It will also ensure its own financial sustainability through diversification in the geography, sector and product mix of its investment projects. IFC is increasingly considering economic capital, portfolio impacts and profitability to guide the level and mix of its business. Table 2.1 below presents FY10-12 actuals and an indicative breakdown of expected investment volumes and project count for FY13 and FY14.

Table 2.1: Key Investment Program Metrics FY10-FY14P

US\$ millions

	FY10	FY11	FY12	FY13E		FY14P	
				low	hi	low	hi
Volume							
LTF	9,109	7,491	9,241	10,100	10,800	10,600	11,800
STF	3,555	4,694	6,221	6,000	6,500	6,400	7,100
Mobilization	5,377	6,474	4,896	5,600	6,300	6,000	6,600
Total	18,041	18,660	20,358	21,700	23,600	23,000	25,500
Number of Projects							
LTF	359	324	365	350	370	375	400
STF	169	194	211	205	215	220	240
Total	528	518	576	555	585	595	640
o/w IDA	255	251	283	250	295	265	320

Note: Mobilization does not include IFC-MIGA mobilization

2.9 The FY14 business plan calls for total commitment volumes of \$23.0 to \$25.5 billion in 595 to 640 projects; this represents an increase of around 7% in total volume and 8% in project count above expected FY13 levels based on the midpoints of the ranges (midpoints are the basis for growth rates described in this paper).

2.10 Mobilization is projected to reach \$6.0 to \$6.6 billion in FY14, a 6% increase above expected FY13 levels. The Syndicated Loan Program, the main contributor to core mobilization, is expected to show a gradual increase. PPP Mobilization is also expected to increase. FY14 AMC mobilization is expected to remain around \$1 billion with commitments from new funds off-setting fully committed funds such as the Equity CapFund. As market events over the last several years have caused fundamental shifts in availability and utilization of investment capital, IFC seeks to build on past Initiatives mobilization success with its crisis-response products (such as GTLP and CCFP) by seeking innovative approaches to adapting to market shifts.

2.11 IFC-MIGA mobilization continues to be included in IFC-internal scorecards and performance metrics. By the end of FY13, IFC is expecting to have enabled in excess of \$500 million in MIGA guarantees, and is projecting nearly \$850 million in FY14.

2.12 LTF own-account volumes in FY14 are expected to range between \$10.6 and \$11.8 billion in 375 – 400 projects, an increase of 7% and 8%, respectively, above expected FY13 levels. FY14 equity volumes are expected to be around 25% of own-account LTF, the same share as projected for FY13. IFC is projecting STF commitments of \$6.4 to \$7.1 billion in 220 – 240 projects in FY14; this represents an increase of 8% and 10%, respectively, above expected FY13 levels.

2.13 The Business Plan calls for 265 – 320 projects in IDA countries in FY14, representing 45-50% of overall IFC investment projects, a similar range as expected in FY13. In the past few years, 27-29% of IFC's projects and 17-21% of volume have been in IDA-only countries. Beyond FY14, several countries are scheduled to graduate from IDA (as well as some to blend status). If commitments in these countries are excluded, in FY12 IDA commitments would have accounted for 39% of projects and 31% of volume, compared to 49% and 38% if they are included. In light of these graduations and in the context of the evolving WBG strategy, IFC will review options for alternative targets for discussion with the Board during FY14.

2.14 Table 2.2 below presents an indicative breakdown by region of FY13 estimates and FY14 projections for own-account, mobilization and total volumes. Expected FY13 and FY14 IDA volumes range between 35% and 40% of overall IFC own-account volumes.

Table 2.2: Total Commitments by Region
US\$ billions

	FY12 Actual			FY13 Estimate						FY14 Projection					
	IFC	Mob	Total	IFC		Mob		Total		IFC		Mob		Total	
East Asia & Pacific	2.5	0.4	2.9	2.5	– 2.8	0.8	– 0.9	3.3	– 3.7	2.7	– 3.0	1.2	– 1.3	3.9	– 4.3
Europe & Central Asia	2.9	1.1	4.0	3.3	– 3.4	0.8	– 0.9	4.1	– 4.3	3.2	– 3.6	0.8	– 0.9	4.0	– 4.5
Latin America & Caribbean	3.7	1.3	5.0	3.8	– 4.2	1.6	– 1.8	5.4	– 6.0	3.9	– 4.3	1.9	– 2.1	5.8	– 6.4
Middle East & North Africa	2.2	0.7	2.9	1.8	– 1.9	0.6	– 0.7	2.4	– 2.6	1.9	– 2.2	0.5	– 0.6	2.4	– 2.8
South Asia	1.3	0.3	1.6	1.5	– 1.6	0.4	– 0.4	1.9	– 2.0	1.8	– 2.0	0.5	– 0.5	2.3	– 2.5
Sub-Saharan Africa	2.7	1.2	4.0	3.2	– 3.4	1.4	– 1.6	4.6	– 5.0	3.5	– 3.8	1.1	– 1.2	4.6	– 5.0
World	0.1	-	0.1	-	– -	-	– -	-	– -	-	– -	-	– -	-	– -
IFC	15.5	4.9	20.4	16.1	– 17.3	5.6	– 6.3	21.7	– 23.6	17.0	– 18.9	6.0	– 6.6	23.0	– 25.5
o/w IDA	5.9			5.6	– 6.9					6.0	– 7.6				

Note: Mobilization does not include IFC-MIGA mobilization

2.15 **Sub-Saharan Africa**, IFC's top regional priority, will remain one of the fastest-growing regions in FY14-16, expected to surpass Latin America and the Caribbean (LAC) for the highest share of own-account volume by FY16 (around 22% from 18% in FY12). The region is projected to account for around 20% of total commitments, in FY14 (19% in FY12), and around 20% of own-account commitments. IFC will aim to maintain momentum in infrastructure investment levels, continuing on the growth path established in FY12. IFC will continue to expand its financial markets activity through direct investments and advisory services support. It expects to continue increasing its trade and supply chain lines, to offset the retreat of other financiers from some markets, and to provide an entry point for IFC into more challenging markets. IFC also aims to expand its agribusiness activities with a focus on intermediaries able to reach large numbers of smallholders, support for food and cash crop finance through banks, and project finance, and will start staffing up as part of a plan to hire a critical mass of dedicated staff for the Agribusiness in Africa Special Initiative over FY14-16.

2.16 In **MENA**, IFC had a record year in FY12, showing strong counter-cyclical activity to boost investor confidence in the region post Arab-Spring. Despite operating in a 'new normal' of prolonged

political and economic instability, IFC is set to deliver a solid program in FY13, and the projected FY14 program shows a modest increase over FY13 expectations, driven primarily by an expected build up of the investment program in FCS. However, further deterioration of the fragile security situation and political uncertainties could impact IFC's program in the short-term. The further slowdown of the reform momentum and weakened macroeconomic environment will also likely affect business development in the region. Assuming no further deterioration in the operating environment, IFC will strive to maintain the strong program momentum experienced over the last few years in Pakistan, with a view to further diversifying its portfolio across sectors. In Afghanistan, IFC will continue business development efforts to identify viable projects with high development impact and grow its program. See paras 4.70 to 4.72 for more detail on increased investment resource allocation to MENA.¹² In both countries, strong AS programs will complement the investment engagement.

2.17 In Europe and Central Asia (ECA), the current economic challenges have exacerbated legacy issues across the region such as lack of competitiveness, over-reliance on commodities, and limited access to financing. Economic growth is not picking up, people continue to lose their jobs, and governments struggle to fund infrastructure projects that would support growth. These challenges create renewed demand for IFC products and services. IFC's focus areas remain infrastructure, financial markets and building competitiveness with a cross-cutting focus on climate change. IFC will seek opportunities for more transformative interventions by private sector investors in infrastructure through both its financing and advisory services for PPPs, by supporting domestic capital market development as foreign financing flows still at pre-crisis levels, and by fostering regional integration as demand for exports from Euro-zone markets continues to decline. IFC expects to maintain a significant program of \$3.2 to \$3.6 billion for its own account in FY14. This could increase based on demand for IFC investments in markets affected by ongoing financial challenges. In FY14, infrastructure projects will remain an important part of IFC's program in ECA. However, IFC recognizes that infrastructure projects usually take a long time or might suffer from a withdrawal of potential financiers and/or a significant increase in funding costs, resulting in project delays or cancellations. Also, should the loan syndications market remain subdued in FY14, as was the case in FY13 – as a result of potential borrowers continuing to tap the bond markets – the expected ECA mobilization may be affected.

2.18 Latin America and the Caribbean (LAC) continues to be the largest region in terms of volumes, with its share of total volumes in FY14 expected to be around 25% and own-account commitments around 23%, compared to 25% and 24%, respectively, in FY13. The expected increase in mobilization since FY12 is mostly due to expanding the pool of B-lenders to non-traditional participants, increasing PPP volume and continuing to leverage the AMC as part of LAC's equity strategy. Foreseeable challenges to the program continue to be domestic investment climates (affected by both internal and external factors), the indirect impact of policies adopted to prevent currency appreciation and maintain competitiveness (hampering short and medium-term capital flows) and the lingering effects of the global crisis, which impact LAC's financial sector as well as FDI to the real sector.

2.19 East Asia and Pacific (EAP) will continue to have a strong and stable program for investment and advisory work in the region, focused on the core strategic themes of climate change, inclusive growth and global/regional integration, with renewed effort to increase mobilization, and scale up equity and South-South investments. EAP will continue to place a strong emphasis on building its programs in the IDA countries of the region, strengthening South-South engagements with sponsors investing within and

¹² While Afghanistan and Pakistan are part of IFC's MENA region, the increased emphasis on these two countries forms part of IFC's increased emphasis on South Asia.

outside the region, and enhancing collaboration within the WBG by working closely on the six joint transformational projects already identified and described in IFC's FY14-16 Road Map.

2.20 Activity in **South Asia** (SA) is projected to further increase in FY14 as the region is projected to account for around 10% of total commitments in FY14 (9% in FY13, 8% in FY12) and around 11% of own-account commitments in FY14 (9% in FY13, 8% in FY12). To help the region grow out of extreme poverty, past conflict, and climate change vulnerabilities, IFC is addressing development challenges with a focus on: (i) inclusive growth; (ii) climate change; and (iii) global/regional integration. IFC will place a strong emphasis on growing its program in the frontier in South Asia (India's Low Income States, Bangladesh, Sri Lanka, Nepal, Bhutan, and Maldives), with a focus on promoting sustainable growth and economic inclusion. IFC will also support the expansion of companies from South Asia to other emerging markets, especially Africa. Please see MENA above for plans in Afghanistan and Pakistan.

C. ADVISORY SERVICES

2.21 Over FY14-16, total AS spending is projected to increase by an average of around 6% annually, reaching around \$414 million in FY14 and \$462 million in FY16 with IFC's contributions remaining stable at \$155 million (net of price increase). As a result of increased efficiency, spending on projects is expected to increase at a faster rate, with spending on client-facing projects expected to increase from \$233 million in FY14 to \$264 million in FY16.

2.22 As in the past, IDA countries will remain the primary focus and are expected to continue to account for over 60% of the program through FY16. Fragile and Conflict Situations will also be a major focus, and can be expected to grow to around 20% of the program, due to increased synergies with IS.¹³ Climate change will be given greater emphasis, increasing from 16% in FY12 to almost 25% by FY16.

2.23 Within this overall plan, projected spending by region is summarized in Table 2.3. It shows that share of total project spending in Sub-Saharan Africa and South Asia is expected to continue to grow strongly, approaching half of the total AS program by FY16. The regional shares indicated in the table may be subject to adjustment based on regular reviews of business plans. In particular, the level of activity in MENA may increase as a result of efforts to respond to the unfolding situation in the region.

Table 2.3: Advisory Services Program by Region – Project Spending†

	FY12		FY13E		FY14E		FY15E		FY16E	
	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
East Asia & Pacific	28	14%	31	14%	33	14%	34	14%	36	14%
Europe and Central Asia	34	17%	34	16%	36	16%	38	15%	41	15%
Latin America & Caribbean	21	11%	24	11%	27	12%	28	11%	29	11%
Middle East & North Africa	18	9%	21	10%	24	10%	26	11%	27	10%
South Asia	28	14%	30	14%	35	15%	37	15%	39	15%
Sub-Saharan Africa	57	29%	63	29%	69	30%	76	30%	84	32%
World	11	5%	11	5%	9	4%	9	3%	9	3%
Total	197	100%	215	100%	233	100%	248	100%	264	100%

Note: Includes non-Client-facing project spend and AS funded through Performance Based Grants Initiative.

†Totals may not add due to rounding.

¹³ Based on the World Bank FY13 list of Fragile and Conflict Situations.

2.24 Planned total project spend by business line is summarized in Table 2.4. The Access to Finance and Investment Climate business lines will continue to dominate.

Table 2.4: Advisory Services Program by Business Line – Project Spending[†]

	FY12		FY13E		FY14E		FY15E		FY16E	
	\$m	%	\$m	%	\$m	%	\$m	%	\$m	%
Access to Finance	63	32%	66	31%	72	31%	77	31%	82	31%
Investment Climate	57	29%	64	30%	70	30%	74	30%	77	30%
Public-Private Partnerships	30	15%	31	15%	34	15%	37	15%	41	15%
Sustainable Business Advisory	48	24%	55	24%	57	24%	60	24%	64	24%
Total	197	100%	215	100%	233	100%	248	100%	264	100%

Note: Includes non-Client-facing project spend and AS funded through Performance Based Grants Initiative.

[†]Totals may not add due to rounding.

D. AMC

2.25 In FY14, AMC will continue to manage the funds' existing investments and expand the portfolios of the CapFund, ALAC Fund, AfCap Fund, RBCF, Catalyst Fund and the Global Infrastructure Fund (GIF). AMC will continue to market the Catalyst Fund and GIF to potential investors to reach the target size for these funds and to develop the Middle East and North Africa Fund (MENA Fund) which aims to have a first close in FY14. AMC will also develop other fund ideas and bring them forward for the Board's consideration. These funds could include an Asia Fund, follow-on funds to the CapFund and ALAC Fund, a Global Fund-of-Funds, and a Climate Debt Fund. It should be noted that the timing, final size and structure of these ideas is dependent on IFC's future growth plans, strategic focus, and investor appetite. AMC mobilization in FY14 is expected to remain around \$1 billion. Further details are presented in Section III.

E. FRAGILE AND CONFLICT SITUATIONS

2.26 While IFC will continue to implement its strategy in all of its five Strategic Focus Areas, as more fully discussed in the IFC Road Map FY14-16, and will remain active in Middle Income Countries (MICs) as well as less developed markets, it will increase the emphasis in certain key areas. FCS is an urgent development priority for the WBG, as described in the 2011 WDR on Conflict, Security and Development, and is a key component of IFC's FY14-16 strategy. IFC is proposing a significant step-up in FY14-16 in FCS¹⁴ and greater emphasis on other challenging IDA countries, especially those which face similar challenges to FCS but are not on the Harmonized FCS list. In this process, IFC will implement a differentiated engagement strategy depending on country context¹⁵, with a main focus on access to infrastructure, finance and markets, collaborating with the World Bank and MIGA to leverage the comparative strengths of the Group as well as other partners. IFC is also proposing to combine the existing Africa Enterprise Fund (AEF and Small Enterprise Fund (SEF) delegated authorities into a new FCS/Low Income IDA Program with delegated authority for investments up to \$2.5 million (see paras 5.9 – 5.12).

¹⁴ As contained in the Harmonized FCS List - developed by the World Bank in cooperation with the African Development Bank and the Asian Development Bank. The list is updated annually, based on countries' Country Policy & Institutional Assessment ratings and presence of peace-keeping and peace-building missions.

¹⁵ The exact mapping of FCS to this strategic typology is not static, and evolves as country conditions, and the composition of the FCS List, evolve.

Table 2.5: A differentiated approach to IFC engagement in FCS

Pacific Microstates	Oversee via Pacific Regional Facility
Overt conflict/dangerous conditions	Engage as/when conditions permit
Lacking political will to implement reforms	Encourage reform on a limited/opportunistic basis
Weak investment climate (but political will)	Focus on increased AS-led engagement
Increasing investment potential	Focus on increased AS-IS
Countries not on the list	Learn from above approaches

Current Status

2.27 IFC is now on solid footing to deepen its engagement in FCS. It has assigned two IFC directors (one IS, one AS) to guide the mainstreaming of FCS into IFC's operations, and has appointed a Global FCS Coordinator, supported by a small team funded by an FCS special initiative budget. By FY13-end, the team will also include a senior level Operations Officer based in the WBG Hub in Nairobi to coordinate IFC's FCS activities with the World Bank.

2.28 IFC's FCS investment volume and project count increased in FY12 compared to FY11, reversing a decline in recent years and ensuring that share of annual own-account investment volume remained at 4%, and of project count remained at 8%. As of March 31, 2013, the FCS share of first three quarters own-account volume remained at 4%, while the share of project count reduced to 7%. However, we do not expect that FCS volumes at the end of FY13 would be significantly higher than those for FY12, translating into an expected reduction in FCS share of IFC own account volume. IFC's AS program in FCS grew to 18% of the overall AS program in FY12, and is expected to remain at this level in FY13 —helped by IFC's Conflict Affected States in Africa program, established in 2008 as a five-year program in partnership with donors to facilitate, support and accelerate private sector development work on the ground.

Elements of increased FCS focus

2.29 IFC now aims to increase investment volumes in FCS by at least 50% above FY12 levels (\$537 million in own-account volume) by FY16, and to continue AS program growth with the aim of reaching over 20% of the total AS program by FY16.¹⁶ IFC will not be able to do so without a bold, comprehensive approach supported by additional budget resources. Even with solid footing and increased strategic focus, IFC cannot do so with its current approach and resources. Based on its experience in FCS and other challenging environments so far, the proposed bold, comprehensive approach includes:

- a) Hiring a critical mass of FCS-dedicated investment staff with seniority, appropriate skills and expertise, and, preferably, local knowledge and networks, and place them in or near FCS to maximize emerging opportunities and develop new ones. This would likely be a mix of local and

¹⁶ FY14-16 projections for IS and AS are based on the FY13 Harmonized List of FCS. The Harmonized List is reviewed annually and the composition thereof may therefore change going forward.

international staff, including returning diaspora, with the dedication to the country or region to stay for a long period and build relationships and pipeline on the ground, and would likely require an enhanced compensation package (see para 4.56 for further detail);

- b) Providing enhanced incentives for all staff working on FCS, such as performance and corporate awards;
- c) Creating more operational flexibility for projects in FCS, by developing streamlined processes, simpler documentation, appropriate Integrity Due Diligence (IDD) screening criteria and a potentially phased approach to engagement based on Environment, Social and Governance (ESG) milestones met. IFC will also approach the Board with a proposal to apply delegated authority to FCS projects under a certain size threshold;
- d) Supporting the development of projects in FCS outside IFC's normal risk tolerance, which would lead to increased capital requirement, such as with inexperienced local sponsors with limited resources and smaller investments, local currency components where currency hedging is not available, or higher risk portions which may need a first-loss tranche. This risk cover would be scalable to give IFC the ability to adjust depending on available resources, and to work with other members of the WBG to support the private sector in these countries; and
- e) Continued growth of targeted AS programs that leverage increased opportunities for IS-AS alignment and that lay the groundwork for future private sector investment. IFC has decided to broaden its Conflict Affected States in Africa (CASA) program, with a foreseen growth in staff on the ground in SSA, and possibly in other regions.

2.30 As IFC continues to implement its differentiated approach, including engaging in overt conflict/dangerous conditions as conditions permit, it would also need resources to ensure the safety and security of its staff, both for those in-country and on visiting missions.

2.31 This comprehensive approach, which aims for sustainable results in the long-term, would take time to implement and should be seen as an investment in the future. Starting FY14, the right investment staff needs to be hired, on-boarded, placed in the location most appropriate to the need, and supported through training and knowledge sharing. IFC also expects that it would take some time to develop the criteria for operational flexibility and to refine its approach to increased risk tolerance, and it will keep the Board briefed in the process.

2.32 Even with the staff, criteria and approach in place, the identification, development and structuring of any type of project in these challenging environments are typically more difficult and resource-intensive and take longer, and may be impacted by security considerations. Power projects in particular have a long gestation period in any environment, and in many FCS, upstream policy or regulatory reform may be needed to open specific infrastructure services to private sector investment, or where the sector environment is already open, upstream work may be needed to identify where and how the private sector can contribute and support bankable projects.

Program Aspects

2.33 Even with the 50% increase¹⁷ in FCS investment volumes compared to a 26% increase in non-FCS investment volumes between FY12 and FY16, IFC does not expect that the FCS share of its own-account volumes would increase much into FY16. However, as IFC gains more experience in implementing its new approach and in handling these difficult markets, it may be able to do more over time as conditions allow, taking into account costs and risks. One also needs to bear in mind the value of the demonstration effect of one or a few successful projects.

2.34 Other important program aspects include additional countries for IFC FCS activity, investment project count and size, and mix of LTF/STF, sectors and instruments.

- a) As of June 30, 2012, IFC was active in 22 FCS countries¹⁸ for IS and 26 for AS, and would now aim to deepen its engagement starting with Cote d'Ivoire, Guinea, Haiti and Nepal; new engagement would be explored as the situation on the ground changes in some countries such as Libya and Syria;
- b) Given that many projects in FCS are, and are expected to remain, relatively small, the expected increase in FCS volumes would likely be supported by a relatively larger increase in project count; IFC will aim to do a mix of larger and smaller projects in FCS, depending on country context and development needs;
- c) In FY12 two-thirds of new FCS commitment volume was LTF. While STF has an important role to play in FCS, including to open doors to broader relationships with financial institutions in these challenging environments, IFC will aim to have LTF constitute at least two-thirds of the increase in commitment volumes. It also expects to convert at least 50% of its GTFP relationships in FCS into longer-term investments during FY14-16;
- d) Given that lack of access to power is seen as the top constraint for businesses in FCS, this will be one of IFC's key engagement areas in FCS, and IFC will also address other infrastructure needs. At least 10 new infrastructure projects are expected to be committed over the next 3 years, with the majority being in the power sector. Other pressing constraints to address will be access to finance and markets¹⁹. Access to finance activities will include GTFP, A2F advisory engagements to help local financial institutions to improve their performance and provide much needed financing, in particular to local SMEs, and investments in non-bank financial institutions, including microfinance and leasing institutions. IFC expects to ramp up its lending to at least 12 local financial institutions by FY16, using the Global SME Finance Facility as its main vehicle, and seek market entry through GTFP lines to an additional 12 banks. Access to market activities will include helping farmers reach regional and global markets through agri value chains, and integrating SMEs into local supply chains of major private investments such as in mining. Agribusiness will be the mainstay of projected investment targets in manufacturing, with at least 6 new projects; and

¹⁷ IFC's current program aspirations are based on the countries and territories contained in the FY13 Harmonized FCS List; a longer-term FCS outlook is somewhat complicated by annual adjustments of the list.

¹⁸ As per the FY12 Harmonized List of 33 countries.

¹⁹ According to World Bank Enterprise Survey data, 56% of firms in FCS report access to power as a major constraint to business, and 41% of firms in FCS report access to finance as a major constraint to business.

- e) IFC will employ a range of financial instruments, including trade finance, loans, guarantees, and equity. IFC would explore more local currency options that would allow it to support banks in lending in local currency, as most FCS SME borrowers are not in a position to deal with the risks associated with foreign currency. It will continue to apply blended finance as appropriate within the context of the SME Financing Facility and Global Agriculture and Food Security Program (GAFSP).

Development impact

2.35 Beyond volume and project count increases in FCS, the real contribution of the FCS strategic thrust lies in increased development impact. To date, overall development outcome ratings of investment projects in FCS have consistently been an average of 20% lower than average ratings in non-FCS. While this level of results could be considered satisfactory, given the difficult operating environment, IFC will strive to improve its development outcome ratings for investment projects in FCS, as it continues to draw lessons from past experience, by reducing this gap in performance from an average of 20% lower to an average of 10% lower, by the end of FY16. As part of IFC's preparation for this increased involvement, staff are analyzing the underlying reasons. The intention is to determine those factors which lie within IFC's control and can be addressed, and those which relate to the increased risk inherent in these challenging markets. For AS, the FCS outcome rating has been as good as for non-FCS countries. Even as AS goes deeper into the toughest markets, IFC will strive to maintain the AS rating.

2.36 A key component of development impact should be the demonstration effect of a successful project, perhaps one of the first investments in a sector after conflict. FCS present difficult environments for demonstration effect, but projects can be designed to maximize its occurrence. A recent study indicates that the chance of replication improves when IFC supports first movers; when regulations or standard contracts which can guide a marketplace or facilitate transactions are shown to work; and where credible communication mechanisms, through recognized organizations, government agencies and/or NGOs, are put in place, among others. Given the nature of the challenges, interventions that are undertaken in close collaboration with the World Bank and MIGA to leverage the comparative strengths of the whole WBG are more likely to be successful and maximize development results.

2.37 Many FCS have small populations, so the number of people benefiting from improved goods or services as a result of IFC's interventions will also be small. However, experience testing the IDGs, has shown that a significant number of projects in FCS have a very high normalized reach²⁰ i.e. the share of the population that benefits can be proportionately higher. There are also some examples, particularly in infrastructure, where IDG projects are among the larger contributors to IDGs in absolute numbers. For example, an infrastructure project in the West Bank and Gaza is expected to reach 935,000 people, which translates into a normalized reach of more than 20% (compared to an average of 1% for weighted normalized reach for global Infra-utility projects).

2.38 The largest contribution to development impact, however, is expected to be through private-sector-led inclusive and sustainable growth and job creation. Power is critical to development, contributing to broad-based growth and providing much-needed jobs in the broader economy. Without

²⁰ Reach divided by country population, a measure used to reflect that larger IDG contributions are easier to achieve in countries with larger populations.

the required infrastructure these businesses are unable to grow, contribute to broad-based growth and provide much-needed jobs. IFC's poverty literature reviews also show that infrastructure investments, especially power, can have a positive impact, on growth.

2.39 IFC will also focus on access to finance and markets which are two other pressing constraints to growth and job creation. Easing access to finance impacts the poor indirectly through financial deepening and directly through SME growth and hence job creation. IFC's Jobs Study found that removing obstacles such as access to power and finance can result in significant job growth²¹.

2.40 **Additionality.** IFC's additionality in FCS is expected to be strong, as it provides financial and non-financial risk mitigation to clients who are engaging in these areas, shares technical, market and industry knowledge, promotes environment, social and governance standards, and works with the World Bank to improve the investment climate. IFC will be playing its rigorous due diligence and standard setting role and working with credible, responsible private sector investors.

2.41 **Financial Sustainability.** IFC's history in FCS shows that risk-adjusted returns for both loan and equity have been lower than for non-FCS projects, although financial returns excluding costs were actually higher. IFC has also looked at its experience investing in very small projects in difficult markets through its Africa Enterprise Fund and Small Enterprise Fund. Overall, these small direct investments performed poorly, with a high percentage of non-performing loans compared to the rest of IFC's business and higher costs. Overall, higher relative expenses have been associated with smaller projects (i.e. small projects have higher expenses as a percentage of exposure). Given the modest increase in volume of its portfolio, the additional risk associated with FCS is expected to be manageable, but with a careful results measurement based approach to analyze impact and make strategic shifts as needed.

2.42 **WBG Collaboration.** IFC will work closely with its WBG counterparts, as this development priority requires a joint WBG approach. One such avenue is through Joint Business Plans (JBPs) at the country level. These JBPs will outline a joint World Bank-IFC-MIGA approach to promoting private sector investment in-country, and will involve either single- or multi-sector approaches, depending on the country context. JBPs are planned for all active FCS by the end of FY16. Several are currently in preparation, including Côte d'Ivoire, Myanmar, and Nepal. In Nepal, the WBG will support the energy sector, particularly in hydro-power.

2.43 In addition, enhanced coordination between the IFC office and the World Bank Global Center for Conflict, Security and Development in Nairobi, as well as WBG co-location at country level, will reinforce opportunities for greater impact. IFC will continue to participate in the World Bank's Community of Practice for FCS, a program designed to encourage innovative and creative thinking about development solutions in FCS, with a particular focus on design and implementation of operations.

2.44 Another example through which IFC is also exploring other ways to catalyze private sector investment and impact in FCS within the context of broader WBG approaches is MIGA's Conflict-Affected and Fragile Economies Facility (CAFEF). Through a first-loss layer of \$100 million, CAFEF aims to mobilize three times this amount in political risk insurance capacity for cross-border investments in FCS. Given very high risk as well as prudential exposure limits, MIGA, other multilateral insurers, export

²¹ According to World Bank Enterprise Survey data, 56% of firms in FCS report access to power as a major constraint to business, and 41% of firms in FCS report access to finance as a major constraint to business.

credit agencies, and private reinsurers face limits in their ability to do business in FCS. IFC is considering various options to support this facility.

F. WORLD BANK GROUP COLLABORATION

2.45 Close collaboration is essential to leverage development through the private sector. IFC is actively pursuing collaborative approaches in the following strategic focus areas: FCS, climate change, infrastructure and agribusiness in Africa, vocational training, and capital markets development. Concerted regional efforts for potential transformative joint regional and country-level activities are described in the following paragraphs.

2.46 In **Sub-Saharan Africa**, IFC intends to leverage WBG capacity and partnerships through activities that have a clear line of sight to poverty reduction and shared prosperity. There are a diverse set of areas, ranging from JBPs for specific sectors and countries, complementary work on investment climate reform, and collaboration at the project level in areas such as power, water and mining. One example of a potentially transformative joint effort is the Nigeria Joint IDA-IFC-MIGA Energy Business Plan.

2.47 In **MENA**, several ideas for joint WBG work have been identified at recent joint regional management team meetings, and proposals in early stages of preparation and discussion are being developed in the areas of solid waste management in Morocco, employment and training in Tunisia and Morocco, and housing finance in Saudi Arabia. In Pakistan and Afghanistan,²² potential areas of collaboration include energy, access to finance and infrastructure, including enhancing mobile financial services.

2.48 In **ECA**, in a series of recent joint regional, sub-regional and country management team discussions IFC and the World Bank have agreed on modes of collaboration and a number of priority areas for joint review, development and implementation. These areas span a range of themes, including food security, climate change, regulatory reform for increased investment, sub-national finance, capital markets development, and health and education, and a range of sub-regions and countries.

2.49 In **Latin America and the Caribbean**, World Bank and IFC regional management have discussed areas of closer collaboration, and established working groups on competitiveness, energy, extractive industries, innovation, PPPs, small states, and Haiti to determine joint action. In the meantime, collaboration between the World Bank and IFC AS in LAC continues.

2.50 In **EAP and South Asia**, in addition to further integration of joint work on priority country and sector strategies, including joint business plans, there have been ten projects identified for World Bank and IFC collaboration in FY14-16. These cover a range of countries (six in EAP, and three in South Asia), and focus on agribusiness, infrastructure (especially power), financial inclusion, gender, SMEs and health. Both regions have joint work in FCS: the energy and finance sectors in Myanmar, and the power sector in Nepal.

2.51 IFC/MIGA exhibits continued joint business development and knowledge sharing. New business jointly delivered by IFC/MIGA in FY13 is expected to increase to more than \$500 million or to nearly triple compared to the FY12 levels. In FY14 it is expected to increase to nearly \$850 million.

²² Program and impact in South Asia are contributed to both by the IFC MENA Region (Afghanistan and Pakistan) and the IFC South Asia Region (rest of the sub-continent).

III. IFC Asset Management Company

A. OVERVIEW

3.1 Established in January 2009,²³ AMC today is an integral part of IFC's value proposition to clients, alongside its traditional Investment Services and Advisory Services. It is fully integrated into IFC's Strategic & Business Planning process, and decisions to start new AMC-managed funds are driven by IFC's strategy, which also drives origination at the project level. AMC's results are included in IFC's reporting to the Board and its financial statements are fully consolidated into IFC's financial statements. AMC activities are presented for information only as there is no budget approval required from the IFC Board for AMC.²⁴

3.2 AMC's purpose is to mobilize and invest third-party capital in productive private enterprises in developing countries, enhancing IFC's development impact and financial sustainability by increasing both the size and number of investments IFC can transact. By giving other investors access to IFC's footprint, pipeline, investment approach and standards, AMC can "crowd-in" other capital directly through its investments and indirectly through the strong demonstration effect thereof.

3.3 AMC's value proposition is based on two fundamental premises: (i) that there is more demand for IFC's financing services than IFC has capacity to meet from its own balance sheet and (ii) that there is long-term capital which is interested in investing in developing economies but is not currently finding its way there. By mobilizing this incremental capital to co-invest with IFC on a sustained basis, AMC can simultaneously help investors achieve their investment objectives and help IFC implement its development mandate.

3.4 AMC serves as the manager of funds targeted at institutional investors who are looking to initiate or expand their presence in developing countries, and overcome initial barriers to entry in these markets, and who are also interested in accessing IFC's investment approach, global reach, policy framework and standards, and the superior track-record that has emanated therefrom. Investors in AMC's existing funds represent a balanced mix of institutions by region and investor type.

3.5 AMC improves IFC's financial sustainability by preserving IFC's own capital and increasing IFC's net income (both absolutely and on a risk-adjusted basis), thereby adding to its equity base and its ability to invest more in the future. In addition, IFC will over time achieve a leveraged return on its investments as fund performance fees are realized. AMC also supports IFC's own account equity business by enabling more transactions, with greater resulting risk diversification for IFC's equity portfolio, and an increased focus on equity business development funded partly by fees from AMC.

3.6 AMC helps IFC achieve greater reach and more development impact by enabling it to finance a larger number of transactions, including larger investments it might not otherwise have been able to complete, while making more efficient use of its scarce capital. All co-investments involving IFC and AMC-managed funds are made *pari passu*; and the development impact of investments made by AMC-managed funds is measured in the same way as IFC's own-account investments, using IFC's

²³ IFC Board approved the creation of AMC in December 2008.

²⁴ IFC's Board approved \$4 million for AMC in November 2008 and December 2008 for the establishment of AMC and its initial two funds. Of this \$4 million, only \$2 million has been drawn down and no further approvals are sought at this time since AMC is cash-flow positive.

Development Outcome Tracking System. AMC's development impact is also measured at the fund level and in terms of its contribution to IFC's overall attainment of the IFC Development Goals.

B. AMC OPERATIONS

3.7 AMC relies upon IFC for investment sourcing, processing and portfolio supervision services. The IFC/AMC interaction is governed by support services agreements associated with each fund that AMC establishes. This process ensures both access to IFC's investment pipeline and implementation of IFC's investment approach, policies and performance standards. IFC's strong investment track record has attracted investors to AMC-managed funds, and it is in investors' interest that consistent implementation of this approach and these policies and standards by both IFC and AMC continue.

3.8 The AMC investment teams work closely with IFC investment teams to ensure that investments meet the parameters of the respective funds and are structured properly in line with the funds' requirements (e.g., with respect to tax). AMC staff review transactions and provide feedback to IFC investment teams in order to achieve better outcomes for both IFC and AMC-managed funds. The extent of the AMC team involvement depends on the nature and complexity of the investment and the size of the potential exposure for the fund in question.

3.9 AMC teams are responsible for constructing a fund portfolio in line with the respective fund's investment objectives (e.g., with regard to sector, country, region, single asset, vintage, and listed/non-listed diversification criteria). The fund teams are also responsible for presenting investment proposals to the respective fund's investment committee and for performing any additional analysis the investment committee may require. At the end of the third quarter of FY13, AMC had a staff of 48 professionals.

C. NEW FUNDS

3.10 In addition to the existing funds and their investments, AMC intends to raise additional funds that enhance IFC's impact. AMC will continue to market the IFC Catalyst Fund and IFC Global Infrastructure Fund to increase their capital commitments to their target size.

3.11 **IFC Middle East and North Africa Fund (MENA Fund).** The MENA Fund was approved by the Board on November 10, 2011. The MENA Fund is targeting commitments of \$300 million and will invest in the MENA region across all sectors, leveraging investment opportunities in the region to restore investor confidence, support capital markets, help scale up access to finance, and increase employment opportunities. IFC's commitment is 20% of the total fund size, up to \$100 million (the dollar limit only being relevant if the fund size were enlarged). MENA Fund is expected to have its first close in FY14.

3.12 **Other Funds.** As mentioned in the *IFC Road Map FY14-16*, AMC will develop other fund ideas and bring them forward for the Board's consideration. These funds will likely include an Asia Fund, follow-on funds to the CapFund and ALAC Fund, a Global Fund-of-Funds, and a Climate Debt Fund. It should be noted that the timing, final size and structure of these ideas is dependent on IFC's future growth plans, strategic focus, and investor appetite.

D. AMC FEES TO IFC

3.13 AMC's policy is to charge investors market rates for managing funds. With these revenues, AMC covers its own direct expenses and pays IFC fully for the resources it provides, with the overall objective of making a net profit. AMC pays fees to IFC to compensate for the services it provides in developing funds and in providing sourcing, execution and supervision services. AMC pays four types of fees to IFC:

- *Transaction Fees:* Fees paid when the transaction is completed and disbursed. For the CapFund this fee is calculated based on actual expenses (subject to a cap and floor), and for ALAC Fund, AfCap Fund, RBCF, Catalyst Fund and GIF this fee is based on the transaction size (subject to a cap and floor).
- *Supervision Fees:* An annual fee is paid for each portfolio company supervised. In addition, if upon the agreement of the AMC and IFC, unusual supervision costs are incurred, these will also be reimbursed.
- *Fund Development Fees:* For each fund launched, a fee based on the total fund size paid in three equal installments starting from the year after the first close. (This does not apply to the CapFund.)
- *Business Development Fee:* For selected funds, a fee to help strengthen resources in regions and sectors to ensure sufficient deal pipeline is generated and portfolio monitoring is effective. This fee is based on the total fund size and is paid over five years in equal installments.

3.14 In addition, AMC-managed funds reimburse IFC for the funds' share of out-of-pocket expenses related to transaction costs, broken deal costs and supervision costs. Where IFC receives mandate fees from the investee company as part of a transaction, the pro rata portion of those fees is netted against expenses reimbursed and/or fees payable by AMC. In addition, AMC makes a regular payment to IFC for services provided such as office space and to reimburse IFC for expenses it incurs on behalf of AMC or its funds. In a few situations, AMC may also reimburse IFC for a portion of the compensation of selected IFC staff who spend a majority of their time on AMC-related work. AMC's financial statements are fully consolidated into IFC's, so any net income that AMC makes flows through to IFC's Profit & Loss. A pro forma projected income statement for the AMC for FY13 and FY14 is summarized in Annex 5.

3.15 In FY12, AMC incurred expenses of \$17.6 million in fees to IFC and reimbursement of expenses. This consisted of: \$5.5 million of transaction fees; \$3.5 million of fund and business development fees; \$1.3 million of supervision fees; \$0.2 million of out-of-pocket expense reimbursements; and \$7.1 million of other cost reimbursements (including \$3.5 million for compensation for staff on external service, \$1.8 million of reimbursements for travel, insurance and professional fees paid by IFC on behalf of AMC and \$0.8 million of occupancy charges).

3.16 During FY13 Q1-3, AMC incurred expenses of \$23.0 million in fees to IFC and reimbursement of expenses. This comprised: \$12.3 million for transaction fees; \$1.5 million for fund and business development fees; \$1.6 million for supervision fees; \$0.6 million of out-of-pocket expense reimbursements; and \$7.0 million for other cost reimbursements.

For full year FY13, AMC forecasts to pay \$30.7 million in fees and expense reimbursements comprising: \$14.9 million for transaction fees; \$2.7 million for fund and business development fees; \$2.2 million for supervision fees; \$1.2 million for out-of-pocket expense reimbursements; and \$9.7 million for other cost reimbursements.

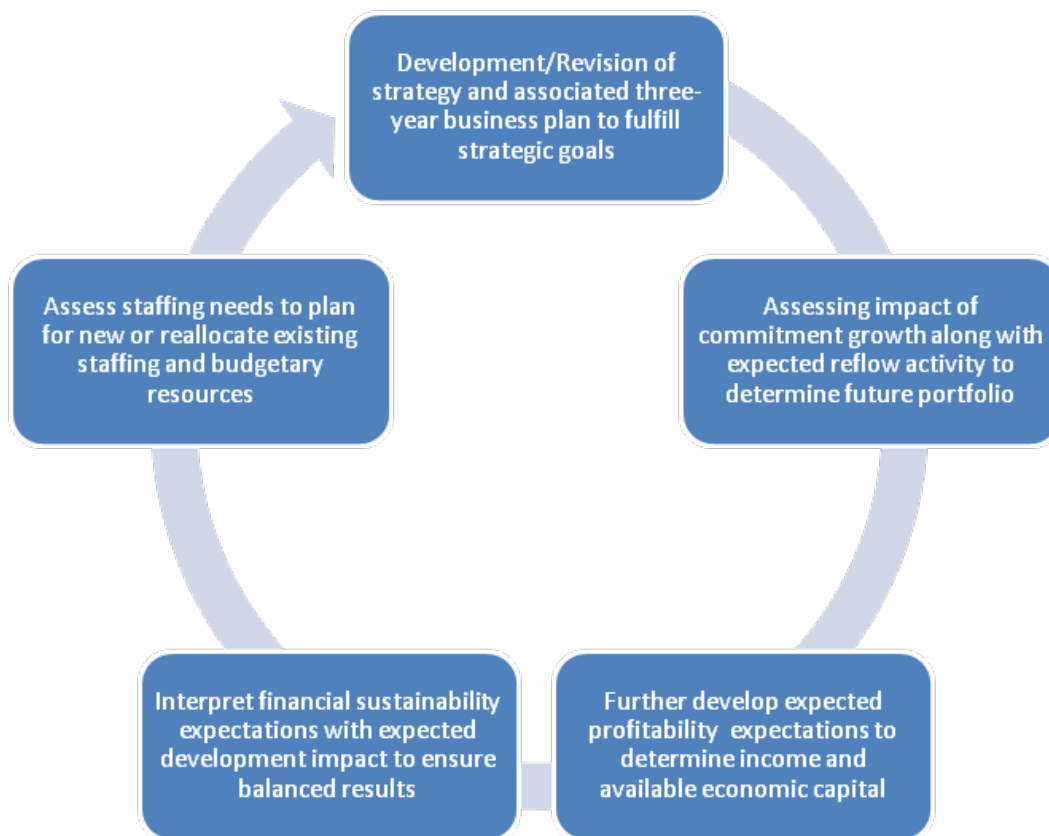
3.17 For FY14, AMC projects to pay IFC a total of \$22.5 million in fees, (excluding out-of-pocket expenses). Of this, IFC departments will be authorized to use up to \$18.2 million to fund their AMC-related work, including investing in equity origination and processing, with any remainder flowing to IFC's bottom line. The above mentioned fees exclude out-of-pocket reimbursements projected at \$1.5 million and other cost reimbursements of \$11.9 million.

IV. FY14 Budget

A. STRATEGY & BUSINESS PLANNING PROCESS

4.1 IFC has a well established practice of linking its budget to the Corporation's strategic priorities. This is depicted below in Figure 4.1 in the annual planning cycle which begins with the development or revision of strategy and the associated three-year business plan to ensure it fulfills the Corporation's strategic goals. The strategic discussions determine the growth trajectory for the investment and advisory programs which are the means by which IFC achieves its development impact. Management then assesses the impact of this growth on portfolio, profitability and available economic capital to ensure that it remains financially sustainable. This, in turn, leads to an assessment of staffing needs and budget required to deliver the planned program. The finite nature of IFC's budgetary resources then informs the limitations on strategic reach as the planning cycle starts afresh in the following year.

Figure 4.1: The Planning Cycle – Aligning Budget Resources, Results & Profitability with Strategy



4.2 The Corporation's budget has traditionally been formulated from the bottom up with departments creating detailed proposals for the Management Team's consideration. This process generally took more than a month of elapsed time culminating in several days of detailed presentations by VPs to their colleagues. While this approach was very thorough, the consolidation of all proposals typically yielded an aspirationally high indicative budget at the Corporate level. The Management Team

would then spend two days or more prioritizing items with input from the Controller and debating the relative merits of each until the list was reduced to a reasonable budget level for consideration by the Board.

4.3 Following this cycle’s strategic discussions in December 2012, IFC’s Management Team decided to further streamline the budget process and reinforce the direct link between strategic decisions and budget allocations. Towards this end, the Management Team determined the strategic allocation of potential budget increases on a top down basis – drawing upon detailed input from departments – through several iterative discussions of strategic priorities, operational capacity and demonstrated need. This process took much less elapsed time and eliminated several days worth of Management Team meetings while still reaching consensus on budget allocations by vice presidency; reducing the number of meeting days is estimated to have saved more than \$100,000 in travel costs alone. The result is the budget proposed herein with clear indication of how the increase will be used to further the Corporation’s strategic priorities.

Flexible Resource Use to meet Strategic Priorities

4.4 Responsibility for budget management resides with each department to ensure there is clear accountability for budget usage. However, the organizational view of budgets does not provide a complete picture of resource utilization from a strategic perspective. Figure 4.2 below provides a schematic view of IFC’s Business Model. While resources are allocated to specific departments within the matrix, budget is not tied to individual projects and resource usage can flow to projects across the matrix where needed regardless of budget ownership to meet strategic program targets. In practice, staff gets deployed across the matrix regardless of reporting lines in an effort to achieve targets and deliver development impact in line with the Corporation’s strategy.

Figure 4.2: IFC’s Business Model in a Matrix

		Asia		CAF/LAC		EMENA		Global	
		CEA	CSA	CAF	CLA	CEU	CME		
Investment Operations	Financial Markets	Director		Director		Director		Director	VP Global Industries
	Infrastructure & Natural Resources	Director		Director		Director		Director	
	Manufacturing, Agri and Services	Director		Director		Director		Director	
	Trade & Supply Chain							Director	
	Climate Change							Director	
Advisory Services	Access to Finance	Manager	Manager	Manager	Manager	Manager	Manager	Director	VP Advisory Services
	Investment Climate	Manager	Manager	Manager	Manager	Manager	Manager	Director	
	Public Private Partnerships	Manager	Manager	Manager	Manager	Manager	Manager	Director	
	Sustainable Business Advisory	Manager	Manager	Manager	Manager	Manager	Manager	Director	
	Regional Heads Advisory	Regional Mgr	Regional Mgr	Regional Mgr	Regional Mgr	Regional Mgr	Regional Mgr		
	Region	Director	Director	Director	Director	Director	Director	Director	
		VP Asia		VP CAF/LAC		VP EMENA			

4.5 Staff record their time in the IFC TRS system which then allocates the spending to projects or other activities thus reflecting the actual resource usage rather than budget utilization by organizational structure. For example, an Investment Officer (IO) in a global industry can be deployed to any region to work on projects or disseminate knowledge to staff and clients. These efforts are captured via time recording so that Management can see where effort is expended regardless of who holds the budget. Similarly, if FCS or IDA projects in MENA would benefit from an identified infrastructure expert from LAC, there is no need to formally reassign the staff and shift budgets entailing administrative time and cost. Rather, the staff simply works on the project as needed in another region and records their time as such. This practice captures the actual use of resources across the matrix rather than a rigid view of budget usage based on reporting lines and budget ownership (this also constitutes the cost basis used to measure on a monthly basis the profitability of each investment project). In this manner, Management can monitor both budget usage and project spending, and redirect spending to strategic priority areas as needed. When the next planning cycle begins, Management can reassess with a view to reallocate budgets if there is a compelling need to do so based on actual spending patterns.

Productivity Gains, Selectivity and Trade-Offs

4.6 A critical consideration throughout the planning cycle is IFC's need to re-allocate cost-savings and efficiency gains given the finite resources available to the Corporation. IFC's Management Team, therefore, began its FY14 budget deliberations by imposing a 2% productivity tax on all department administrative budgets. Departments were clearly directed to maintain a steady state program within 98% of their FY13 budget. Doing the same with less is the means by which Management ensures productivity gains, which can be re-allocated. The only way departments can, in fact, do the same with less is to be selective and make choices. Such trade-offs are required for operational departments as well as support functions. For instance, the Corporate Strategy Department will discontinue the Internal Client Satisfaction Survey so as to focus on growth in its core responsibilities and engagement with external clients. The Accounting & Financial Operations Department has off-shored significant accounting support work to keep its costs stable over the last years. Similarly, the Risk Management & Portfolio Vice-Presidency has internally shifted resources from its various departments to the Investment & Credit Department to fund continued decentralization of Credit Review staff who are critical to timely investment processing. These are only a few examples of the kinds of choices made by support functions to limit costs while maintaining service levels necessary to support front line operations.

4.7 Across Investment Operations all areas of client engagement within the region-industry matrix are reviewed to optimize the development impact of IFC's activities. In some cases, IFC disengages completely from a sector if the development needs or resources requirements make disengagement a logical choice. More broadly, departments selectively filter the choice of investment projects or the de-emphasis of sectors based on the relative strength of IFC's additionality and its ability to deliver developmental impact. The following paragraphs describe some of the choices made within each Industry Cluster and region.

4.8 In line with its strategic plans, IFC will increase in relative terms the focus of its activities towards Sub-Saharan Africa, South Asia, and MENA while continuing to serve EAP, ECA and LAC regions which have a large concentration of MICs.

4.9 **Financial Markets.** The Financial Markets sector will globally de-emphasize select business by applying four filters: Sustainability, Shared Values, Development Impact, and Relationship Potential.

4.10 *Sustainability.* IFC will not engage with businesses which are not perceived to be sustainable, based on previous experience. Under this filter, most businesses with the following characteristics will be reduced: a) Financial Intermediaries (FIs) overly dependent on unstable wholesale funding; b) FIs without sustainable competitive parity in terms of distribution network, distribution cost, market share, cost structure, funding, etc.; c) Start-up FIs in already adequately served markets, unless they have exceptional management and very strong equity backers; and d) Products where market appetite has decreased dramatically, such as secondary mortgage market securitizations, until markets begin to recover.

4.11 *Shared Values.* IFC will not engage with businesses that do not share basic values in terms of financial inclusion, responsible finance, Environmental & Social standards, and climate objectives. IFC will de-emphasize: a) FIs that focus on aggressive consumer finance with high pressure sales and very high interest rates; b) FIs that do not share IFC's inclusion goals in terms of MSME reach and gender inclusion; and c) FIs that present problematic environmental or climate issues such as auto and motorcycle finance companies, except in very under-developed markets and in FCS where this is one of the only ways to jump-start the market.

4.12 *Development Impact.* IFC will de-emphasize FIs where its quantifiable development impact cannot be determined. This will reduce general lines of credit and equity investments that are not clearly linked to development outcomes as well as smaller FIs, where associated impacts are small, unless there is a strong demonstration effect.

4.13 *Relationship Potential.* Based on IFC's "Partners in Development" approach, the Corporation will also de-emphasize "one-off deals" with FIs that clearly have low relationship potential. However, IDA countries and FCS will be an exception to this filter so that IFC can fulfill its role in IDA and FCS.

4.14 In practice, all of these filters will be stronger in more developed markets and weaker in less developed markets, and in FCS. More simply, this means that IFC's standards and expectations increase as markets develop and so that dynamic selectivity is applied according to each individual market situation in any given region.

4.15 **Infrastructure.** IFC will continue to give priority to growing infrastructure investments in Africa, South Asia and MENA with a relatively stable engagement in East Asia Pacific, Europe & Central Asia, and Latin America & Caribbean. Infrastructure focus will be on regions/areas where the infrastructure gap is most acute and the role for IFC to support private infrastructure is strongest. While this can vary by sub-sector as described below, the first three regions offer either massive gaps in connections to basic services and/or limited financing capacity. Africa in particular, has been a long standing focus area for infrastructure. Both the InfraVentures facility that was set up five years ago and the more recent "Africa Infrastructure Initiative" reflect the effort and resources allocated for infrastructure. The focus and growth in Africa and the creation of better conditions for private infrastructure investment in a number of Sub Saharan African countries has led to a significant growth in infrastructure investment in Africa in FY12 with further progress expected for FY13. In those regions where financing availability is relatively strong, IFC's role is likely to be concentrated in sub-sectors such as renewable energy (RE) that are relatively new and where investor perceptions of risk are highest.

4.16 *Renewable Energy Focus and Selectivity.* IFC will continue to grow renewable energy overall, but be more selective on RE technologies or locations that require significant ongoing subsidies. Many new RE projects require government support in some form (subsidy, feed in tariffs, regulatory RE supply requirements, etc.) compared to the cost of the most economic alternative fossil fuel. Governments see the support provided as justifiable for a number of possible reasons including the global climate mitigation impacts of such projects, supply portfolio diversification benefits, and also because of the learning and local industry development benefits that can be gained from early experience in technologies that promise to become increasingly important. However, there are a number of cases where governments have subsequently revised the terms and conditions offered where these have been seen to be too generous or not affordable. To manage its exposures going forward, IFC will carefully consider the degree of support offered and limit its exposure to projects that look "expensive" relative to possible country benefits and where support is required over long periods.

4.17 *De-emphasizing Fossil Fuels.* There will be no investments in coal-fired power unless a project has exceptional merits and the country has no viable alternatives. Generally coal remains the most economic source of new base load power in developing countries without access to untapped hydro or low cost gas. This looks likely to remain the case for the immediate future notwithstanding steady falls in the costs of new renewable energies. However, consistent with the overall WBG approach, the Corporation's limited resources and its approach to balancing climate change and other demands, IFC will not support new coal fired power except where the development case and IFC role are compelling. An important exception will be support for the rehabilitation of existing coal fired power (or district heating) projects where the new investment supported by IFC leads to a net reduction in GHGs measured on a lifetime basis compared to the alternative outcome. IFC will actively pursue carbon capture and sequestration projects if and when they become viable.

4.18 *Pull back from overly competitive/volatile sub-sectors.* In transport, IFC expects few airline projects, and none or exceptional ocean shipping given over-capacity in the sector. The intensely competitive nature of the airline business means relatively few opportunities for competitive investments are likely and IFC investment will be extremely selective. Shipping is an extremely cyclical industry, with many parts currently suffering large over-capacity. The risks and alternative sources of financing available indicate a weak role/high risk option for IFC engagement.

4.19 *Pull back from sub-sectors in Telecom Media & Technology (TMT) where role is weakened.* In TMT, there will be fewer investments in mainstream mobile telephony, mainly in IDA with a focus on FCS. Given resource constraints, it is necessary to defer the development of IT-enabled services business, except ePayments. IFC has played a strong role in the past in helping finance the development of new cell phone networks in Africa and elsewhere. In many cases, markets have passed their period of fastest growth in the extension of the cell phone voice network and companies are relatively well established with good cash flows. Industry focus is now more on slower growth and increased competition by generating efficiencies from existing networks including, for example, the use of common third party provided infrastructure such as cell towers. In such an environment, IFC's role, especially in terms of provision of equity funding, is less strong with the exception of some markets where risks are perceived as higher and market development less advanced; for example, IFC's recent investment to support the expansion of the cell phone network in Afghanistan. The area of IT enabled services is taking off and IFC will concentrate particular effort on payments services (epayments).

4.20 *Greater selectivity in support of Investment in Funds.* IFC will not pursue general infrastructure funds, but only RE/climate funds and TMT funds selectively (1-2 per year max). IFC sees a relatively

limited role in supporting general purpose infrastructure funds especially given issues about coming to arrangements for specific IFC requirements such as non/extremely selective support of coal power investments (an important part of general purpose funds). RE and TMT are the exceptions given IFC's climate change focus and the role of specialist "venture capital" type funds in helping support the nascent IT sector in many countries.

4.21 Manufacturing, Agribusiness & Services. IFC will focus on expanding three strategic sectors: i) Agribusiness/food security, ii) Health and iii) Education. In contrast, IFC projects constant absolute levels of activity for Manufacturing, and Tourism/Retail/Property. Those sectors would thus decline in relative terms, as IFC expects to be more selective, in particular in middle-income countries where most of the potential demand is. Geographically, in line with Corporate priorities, efforts will be focused on expanding activity and impact in Sub-Saharan Africa and South Asia. Given resource constraints, there will be further focus on projects and sponsor groups which promise greater impact, implying fewer small projects (<\$15 million) except in special cases (such as FCS or strong regional priorities). IFC will also limit the potential growth of short term finance to those cases which provide entry in an effort to position IFC in particular markets or with sponsors where potentially strong impact can be achieved. IFC will continue to exercise selectivity with respect to projects which bring strong impact, additionality, and contribute to regional and corporate objectives. This selectivity already limits our role compared to potential demand in many markets, in particular the large Middle Income Countries.

4.22 Climate Change. Climate Change is a relatively new area of focus for IFC so trade-offs in this area will be limited to the de-emphasis of biofuel. However, as IFC has publically announced its target of achieving \$3 billion in climate-related investment by FY15, Management has developed a clear lens of selectivity to guide staff in pursuing the Climate Change agenda across all sectors and regions. In markets that are too immature for investments, IFC will focus on a limited selection of demonstration projects. Advisory Services will take the lead, in conjunction with the World Bank, in analyzing and helping remove market barriers. The sub-sectors of focus are new renewable energy technologies, particularly for mobile towers, energy access, adaptation, and agri resource efficiency.

4.23 In mature markets where IFC has already had successful investments, the Corporation's engagement will be scaled through aggregation mechanisms such as financial intermediaries, vendor finance, and retailers with major supply chains. The sub-sectors of focus will be grid-tied RE, green buildings, industrial resource efficiency, and energy efficiency (EE) components. While climate work has been mostly limited to SMEs, IFC is ready to focus on somewhat larger projects and companies where GHG impact can be greater, particularly in MICs. In IDA countries, the focus will be on clean energy access and adaptation.

Reallocations from Productivity Tax

4.24 After trade-offs were made, IFC's Management Team then considered how to reallocate the proceeds from the 2% productivity tax. This year, the productivity tax yielded \$11.2 million of Regular Administrative Budget for reallocation which has been used to fund strategic priorities. Details of how the tax proceeds were reallocated follow in para 4.53. It is only once selectivity and trade-offs were considered and reallocations completed that Management decided that incremental resources are required to fund further expansion in FCS and investment growth as well as support for IT programs. It is only after completing this process that Management determined that a 3.5% real increase was necessary to achieve the business growth and expanded reach into FCS and other challenging IDA

countries commensurate with Scenario 2 of the *IFC Road Map FY14-16*, which assumed a 4% real increase in Regular Administrative Budget.

B. PRODUCTIVITY AND EFFICIENCY

4.25 The monitoring of productivity and efficiency in order to understand the optimal mix of resources for strategic and sustainable investment output remains at the forefront of IFC Management priorities. IFC continues to examine how to maximize effective new business delivery as well as monitor an evolving and complex portfolio, whilst utilizing resources effectively.

Box 4.1: IFC Productivity Ratios

- Ratio 1:** Number of Weighted Commitments per GF+ Staff Year
Ratio 2: \$ Millions of Total Commitment Volume per GF+ Staff Year
Ratio 3: \$ Total Commitment Volume per \$ Cost
Ratio 4: Cost per Number of Weighted Commitments
Ratio 5: Cost per Number of Weighted Portfolio Companies
Ratio 6: Number of Weighted Portfolio Companies

New Measure - Ratio 7: Net Loan and Fee Revenue from Investment Operations'
 Coverage of Expenses: Loan Income contractually due adjusted for borrowing costs,
 plus fees (financial, service, other), over total administrative expenses

Weighting Factors: Two data inputs are weighted before being applied in the respective formulas:

- a) C_c – Number of Commitments is weighted resulting in W_c – Number of Weighted Commitments
- b) P_p – Number of Portfolio Companies is weighted resulting in W_p – Number of Portfolio Companies

For example, C_c – Number of Commitments is weighted based on empirical evidence reflecting work intensity involved for investments given the geographic location (IDA or non-IDA) of the investment project along with its underlying financial instruments (Loan/Equity/GTFP/other Guarantees). These differentiations result in a total of six weighting factors ranging from 133% for an equity investment in an IDA country to 10% for a GTFP investment in a non-IDA country. After applying the weightings the number of new investment commitments in FY12 moved from 576 nominal (C_c) to a weighted number of investment commitments (W_c) of 453.

Weightings for portfolio clients apply additional factors beyond financial instruments including credit risk ratings, environmental categories as well as involvement of third party investors.

Staff years are computed based on actual staff time recorded for past periods and staff planning figures transposed into staff year equivalents for planned years.

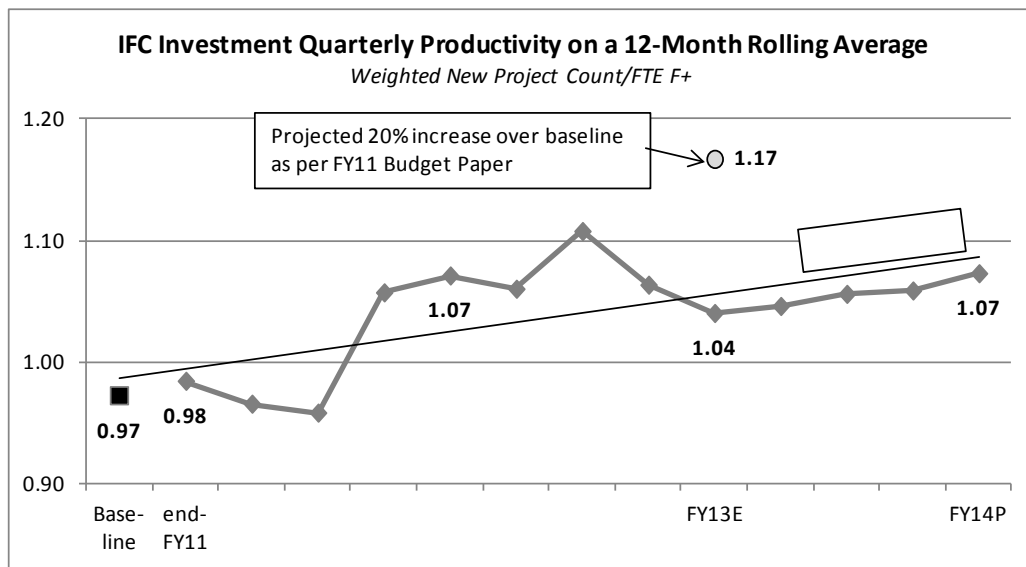
Methodology update from FY13 Business Plan and Budget paper: Staff years are computed based on actual staff time recorded for past periods, with adjustments for: (1) removal of pro-rated resources associated with exceptional budget increases for non-project producing activities such as Sustainability Framework training as well as Integrity Due Diligence and credit support in field offices; and (2) revision of FY10 full-time equivalent to include actual time recorded within FY10 prior to 2013 organizational structure implementation; ensuring consistency across time periods.

4.26 IFC's internal metrics continue to evolve. The internal benchmark of number of weighted commitments per full-time equivalent remains one of the key measures by which regional and industry staff can gauge the efficiency of new business delivery. The metric itself is now being reported however on a 12-month average as opposed to a point-in-time result. An examination of IFC's 12-month average productivity on a quarterly rolling basis smoothes seasonal anomalies and shows a steady trend over the past three years that is expected to continue into FY14. While the number of weighted new projects per

staff year has not increased at the rate originally hoped in advance of 2013 implementation, the maintenance of IFC's investment output ratio is a reasonable development given the following:

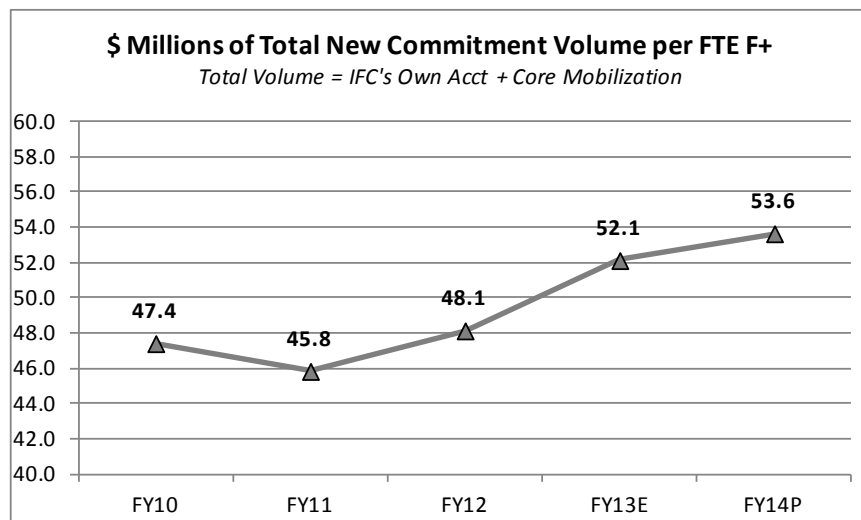
- a) **Decentralization advances.** IFC's decision to expand its decentralization is already paying measurable dividends in increase of client satisfaction, delivery against IDG targets, diversification of the pipeline, and hands-on management of the portfolio. For example, the number of IDA countries in which IFC committed new projects grew by 57% from 37 in FY07 to 58 in FY12. The number of non-IDA countries also grew by 42% from 31 to 44 over that time. Though these figures have been fairly consistent since FY09, the large number of (especially IDA) countries with active business development continues to require significant resources for various activities including monitoring local business conditions, traveling to locations without offices and interacting with government officials. This is also true of supervision on the portfolio side, with 65 IDA countries and 64 non-IDA countries represented in the portfolio in FY12. The percentage of staff in IDA countries has increased by half from 15% in FY09 to 22% in FY13 H1. Additionally, the share of investment staff in country offices (i.e., outside of HQ, the Istanbul Operational Center, or Regional/Sub-Regional offices) has grown since FY07 (from 18% in FY07 to 25% in FY13 H1). However, this figure has been fairly steady since FY10. It is unclear whether a shift could have materially reduced productivity improvements over FY10-12. Still, the fact that so many staff are in small offices that tend to (1) have less supporting staff and (2) be in more difficult business environments could be significant. 58% of offices with less than ten staff are in IDA countries, compared with 43% of offices of 10+ staff being in IDA countries. IFC continues to examine its office ecology and refine its balance of critical mass versus direct geographic footprint, understanding that this will involve conscientious trade-offs, including possible effects on productivity as currently measured.
- b) **Manageable growth and risk in the midst of financial and political instability.** Productivity levels decreased following the implementation of the 2013 reorganization concurrent with the Arab Spring, but they recovered even in the face of continuing global financial market instability. Even as IFC has expanded its portfolio management efforts in response to ongoing financial market volatility, investment teams have continued to book new investments at an equal pace over time, growing IFC's assets at a manageable rate. IFC has also recently introduced the role of one or more Financial Sustainability Champions for each investment department as well as a wider corporate Financial Sustainability Network in order to help focus on key drivers, improve forecasting, and proactively manage financial risks on a portfolio basis.

Graph 4.1: Ratio 1 - Number of Weighted Commitments per Staff Year

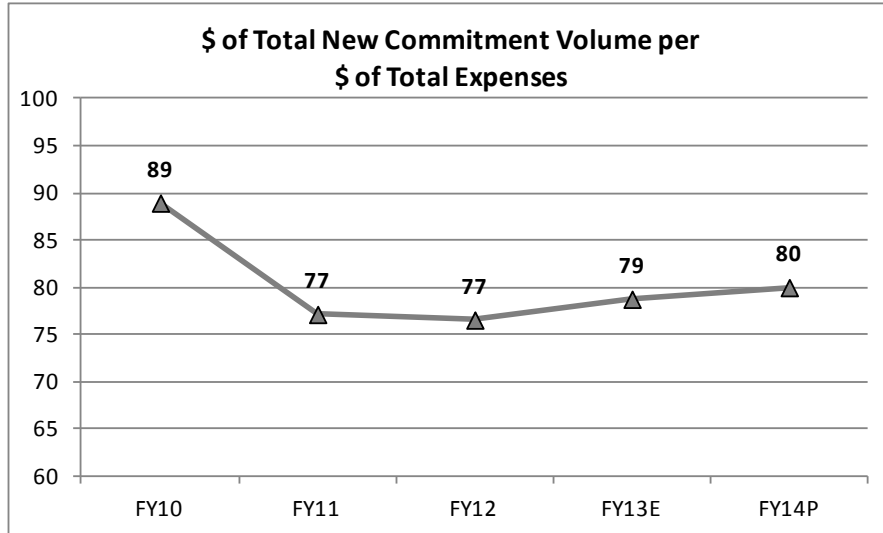


4.27 Improvements in volume and cost productivity. An examination of additional productivity metrics shows improvements in absolute terms. Total new commitment volume per staff year has shown an upward trend since FY11 (projected to continue in FY14). The ratio of total commitment volume to total expenses has also increased over time. While it will take time for those investments to carry out their expected maturity and generate financial returns, they will contribute to the growing committed portfolio requiring dedicated oversight.

Graph 4.2: Ratio 2 - \$ Millions of Total Commitment Volume per Staff Year

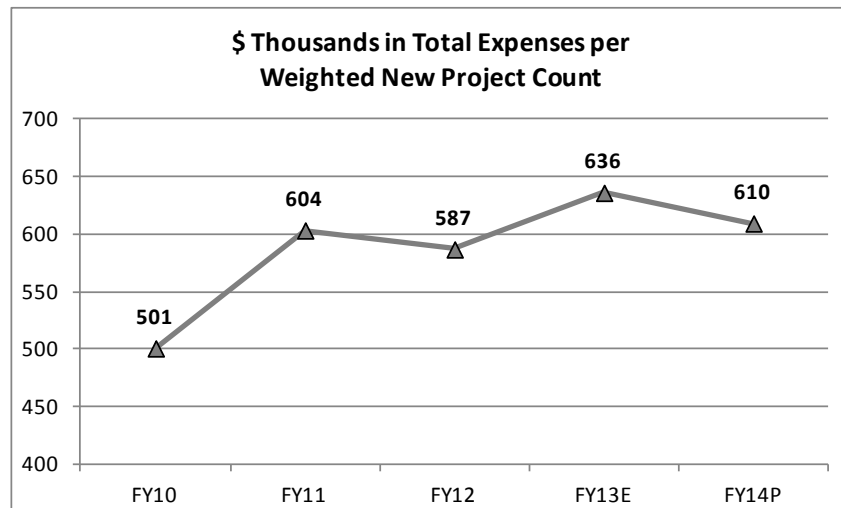


Graph 4.3: Ratio 3 - \$ Total Commitment Volume per \$ Cost

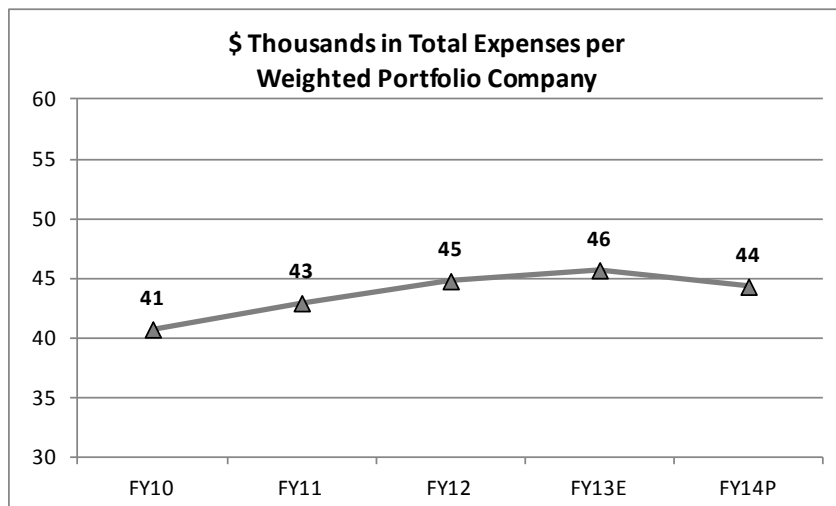


4.28 Total expenses per weighted new project count as well as per weighted portfolio company are both expected to slightly increase in FY13 but then decrease in FY14. This reflects IFC's proactive cost management in concert with its strategic staffing; the corporation has made deliberate trade-offs resulting in quality output without undermining needed staff increases and allocations.

Graph 4.4: Ratio 4 - Cost per Number of Weighted Commitments

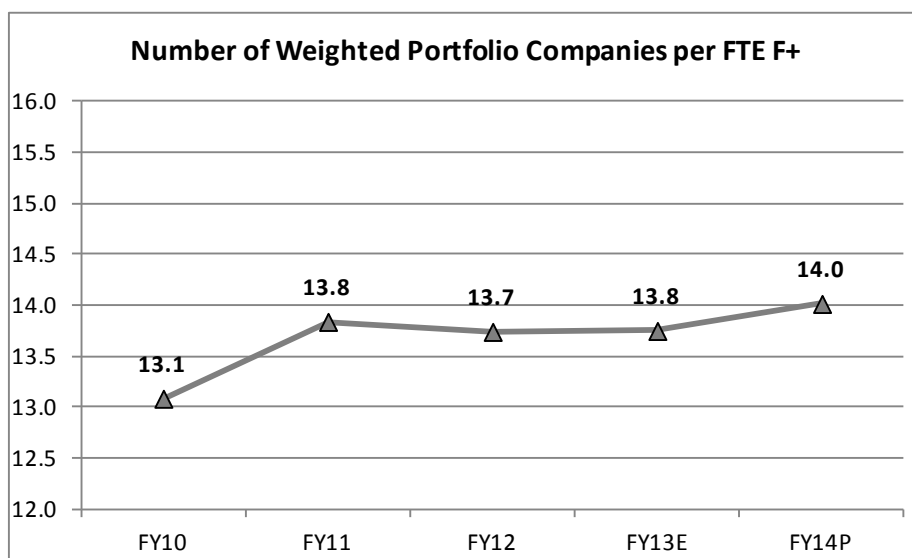


Graph 4.5: Ratio 5 - Cost per Number of Weighted Portfolio Companies



4.29 At the same time, resources have tightened on the portfolio front. The number of weighted portfolio companies per staff year has stayed fairly flat but is expected to increase. Attentive portfolio management is vital both to the profitability of IFC's existing portfolio and to IFC's ability to provide innovative new products and services to its clients as their needs change over time (e.g., expanding into other South countries). The corporation risks reaching an unsustainable load of portfolio company oversight per staff member, which would warrant additional resources.

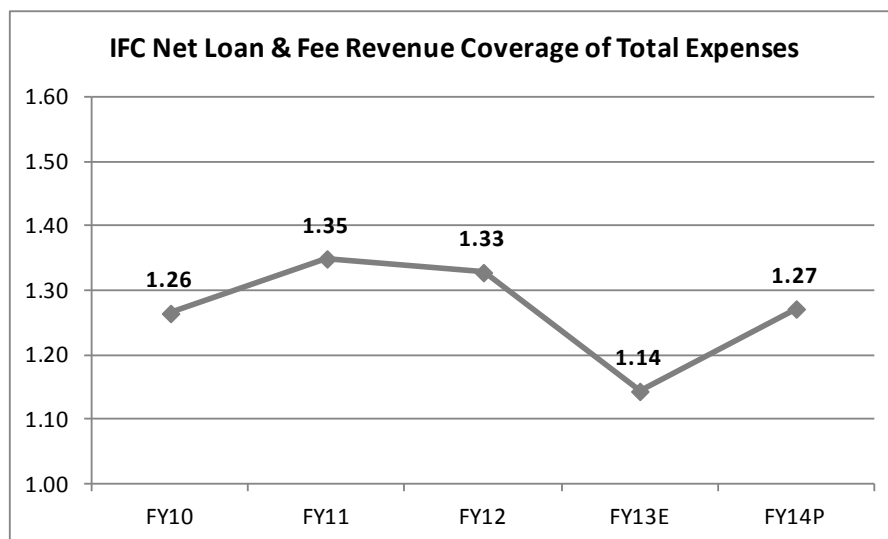
Graph 4.6: Ratio 6 - Number of Weighted Portfolio Companies



4.30 **Results over process.** Productivity is one of several valuable measures of IFC's activities. Still, IFC's achievements against its dual goals of development impact and financial sustainability are paramount. IFC's net loan and fee revenue from investment operations has consistently surpassed the corporation's total spending against administrative budget, with stable dividends and more volatile realized capital gains driving the bulk of IFC's cash income alongside solid revenue from liquid assets.

The strengthening of IFC's Sustainability Framework, Integrity Due Diligence and overall risk functions (particularly in the field) is more difficult to capture quantitatively, but it is important for achieving strong project and portfolio results nonetheless. When coupled with impressive delivery against the IFC Development Goals and client satisfaction rates, IFC's stable net loan and fee revenue coverage of expenses points to an effective use of resources.

Graph 4.7: Ratio 7 - IFC's Expense Coverage Ratio



BENCHMARKING WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

4.31 Graphs 4.8 – 4.13 below show ratios comparing IFIs that work with the private sector. The underlying data is based on Annual Report figures, and includes all products (loan, equity, guarantees). The institutions included are:

- I. DEG – Deutsche Investitions- und Entwicklungsgesellschaft
- II. EBRD – European Bank for Reconstruction and Development
- III. FMO – Financierings-Maatschappij voor Ontwikkelingslanden
- IV. IIC – Inter-American Investment Corporation
- V. IFC – International Finance Corporation

4.32 In considering these results, differences in each IFI's mission, scope of operation, geographical coverage, product mix and other characteristics need to be taken into account. A brief summary of some key characteristics for each institution are in Table 4.1.

Table 4.1: Business Models of Comparator IFIs

Organization	Staff Size	Business Model – Key Points
IFC	3,763 [†]	Decentralized Focus on the frontier Advisory services Mobilization
DEG	457 [‡]	Global – mostly centralized Broad range of sectors and country income levels
EBRD	1,611 [‡]	Europe Mostly MICs Recently expanded investments to Turkey and MENA Some public sector
FMO	283 [‡]	Global - centralized Focus on financial institutions, energy, housing Broad range of country income levels Some government programs
IIC	107 [‡]	Latin America SME focus

[†]FY12 count including Advisory Services staff

[‡]2011

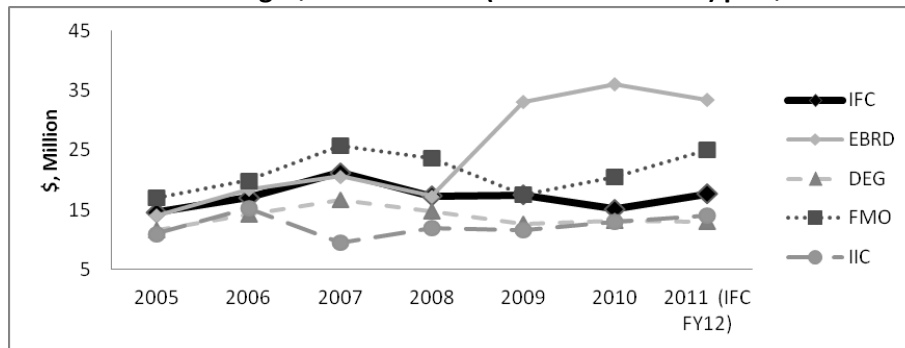
4.33 Some of the key features of IFC compared to other institutions that may increase costs or affect the ratios include:

- More global coverage than many of these institutions (e.g. EBRD, IIC)
- Established and growing presence in IDA countries, Fragile and Conflict Situations, and the frontier regions
- Pioneer in innovative approaches and products, establishing global standards, and developing measurement systems
- Significantly decentralized with 56% of its staff located in 101 different countries
- Significantly smaller project size than EBRD
- Different portfolio valuation methods under US GAAP versus IFRS. Whereas IFC values its equity investments mostly at cost in the portfolio, EBRD uses the fair value method which means its portfolio reflects higher market valuations than IFC. This affects the ratios in graphs 4.3 and 4.7

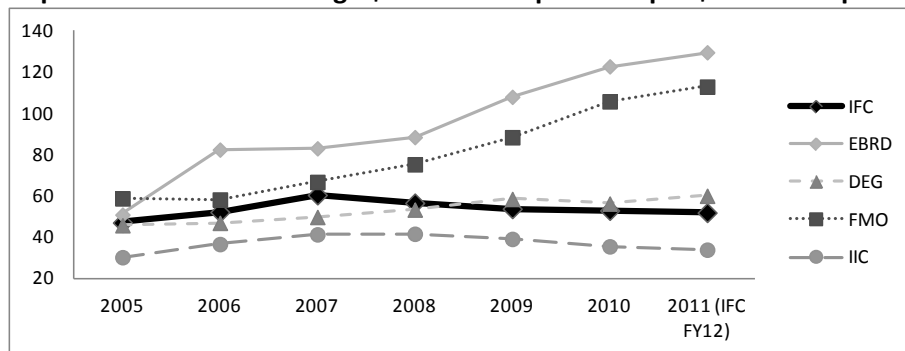
4.34 Many of these characteristics require additional staff but also create significant value for IFC's clients and the development community. These efforts are the core of IFC's unique additionality which makes apples-to-apples comparisons with other IFIs difficult. The comparisons do provide a useful perspective regarding the broad positioning of IFC productivity within the development community and how its position evolves over time, but should not be used too strictly to grade IFC's productivity against other institutions.

4.35 Looking at trends over time, the ratios were clearly affected by the 2009 financial crisis, as volumes of various IFIs fluctuated widely, with several declining, and EBRD increasing significantly. In contrast, the 2011 results show that the ratios are slowly coming back in line and there appears to be more stability compared to 2009. Overall, IFC's performance is within the broad ranges of most comparators.

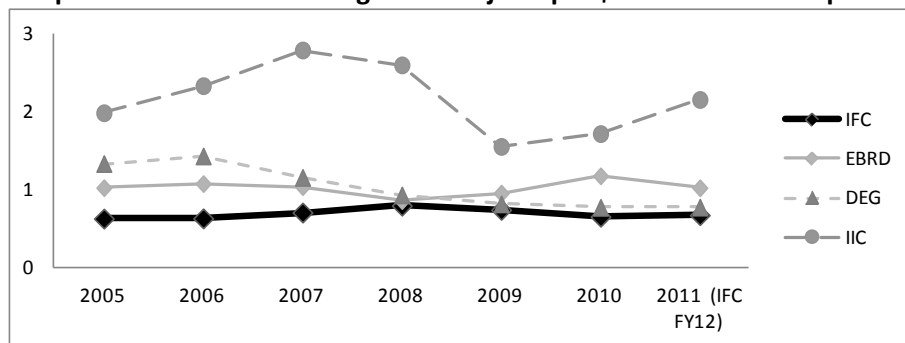
Graph 4.8: IFI Benchmarking - \$ Commitment (excl. mobilization) per \$ Admin. Expenses



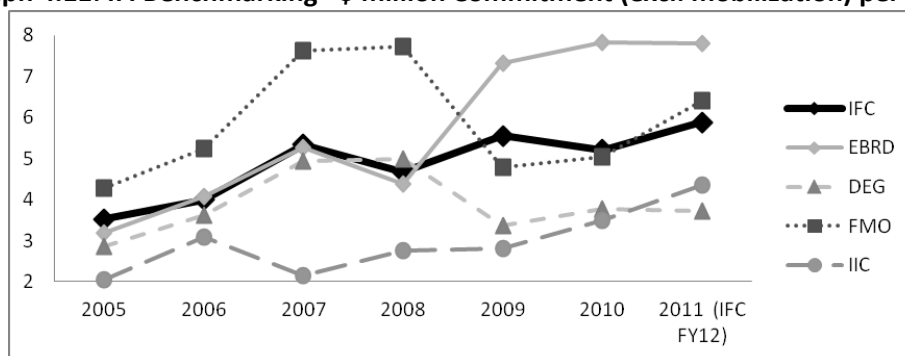
Graph 4.9: IFI Benchmarking - \$ Committed portfolio per \$ Admin. Expenses



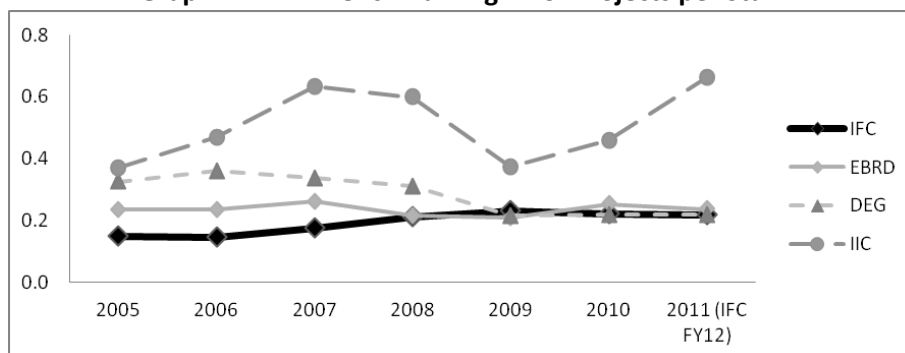
Graph 4.10: IFI Benchmarking - # of Projects per \$million Admin. Expenses



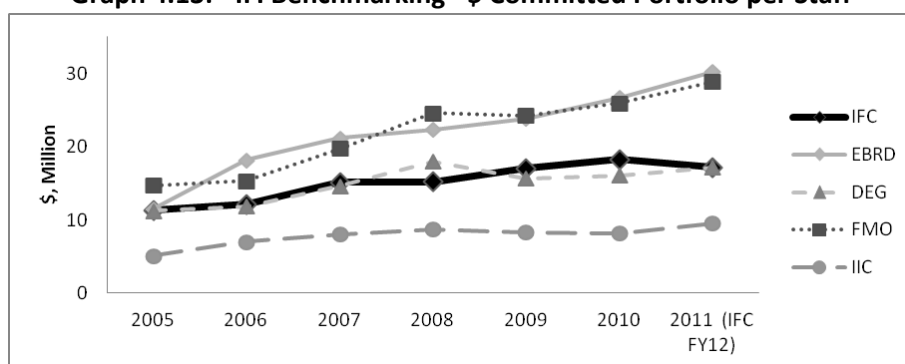
Graph 4.11: IFI Benchmarking - \$ million Commitment (excl. mobilization) per Staff



Graph 4.12: IFI Benchmarking - # of Projects per Staff



Graph 4.13: - IFI Benchmarking - \$ Committed Portfolio per Staff



C. WORLD BANK GROUP INTEGRATION

4.36 IFC is committed to President Kim's vision of an integrated World Bank Group. Thus far, the HR, Corporate Relations and IT functions were chosen as quick wins for integration as there was already significant overlap between IBRD and IFC in these areas. Resource implications of integration, although not envisaged to be significant, are still being closely monitored in order to manage any unexpected impact. The following provides an update from IFC's perspective on results to date.

Information Technology

4.37 The information and technology units of the World Bank Group are working to integrate functions to create a Group-wide information and technology organization. The aim is to find synergies in terms of better performance and delivery for the WBG institutions, reduction of duplication, increase in purchasing power, improved knowledge sharing and efficiency gains over time.

4.38 Specifically, an integrated information and technology function is being established to achieve the following goals:

- **Transformation:** Invest in strategic, market-driven opportunities in mobility, video, information access and cloud computing to make a transformative impact on the World Bank Group.

- *Alignment:* Align IT vision, culture and service delivery with World Bank Group strategy and business objectives.
- *Improvement:* Improve the WBG world-wide IT service agility, risk management, and cost-effectiveness through a scaled and standardized approach.
- *Big Picture:* Enable WBG-level data analytics, reporting, knowledge sharing and system interoperability.
- *Simplicity:* Decrease duplication and complexity in the WBG IT environment.
- *Careers:* Increase potential career opportunities for WBG IT staff.
- *Completion:* Complete the implementation of the WBG Federated IT Operating Model.

4.39 A dedicated Integration Management Office (IMO) was mobilized in January 2013 to coordinate the change process. The IMO is also coordinating development of the new organizational structure to create an efficient, consolidated and agile information and technology organization for the Group. To date, the process has included multiple discussions with stakeholders around basic principles, scope and approach; discovery sessions with the Leadership Team to complete the “as-is” organizational model; a two-day workshop with GH+ staff to begin constructing the new “to-be” functional organizational model; and a series of open sessions and dialog with IT staff to review the “as-is” and “to-be” functional organizational model. A decision workshop with the Leadership Team then finalized the new organizational model.

4.40 Under the integrated model, IFC retains governance over its capital investment program, ensuring that IFC business priorities are served. Robust shared services agreements should be in place by July 1, 2013 for all services provided to IFC by IBRD, ensuring that scope, performance levels, and pricing are clear. IT teams will continue to work closely with IFC and IBRD business risk, legal, and information security stakeholders to ensure risks stemming from the use of new technologies (e.g. Mobile, Social), delivery approaches (e.g. Cloud Computing), and IT departmental integration are identified and addressed within established tolerances. IFC will retain an Office of the CIO to advocate IT priorities, coordinate governance, manage the business relationship, manage IFC specific business solutions and monitor service levels on behalf of IFC and its constituents.

4.41 In addition, a Change Management Steering Committee consisting of Directors from IFC and IBRD was established to provide guidance and oversight for the change process. Various working groups are reviewing key areas for the integration such as HR policies standardization (i.e. narrow-banding, competencies and titles); budget, sourcing and funding model (i.e. use of CapEx, asset ownership); governance, risk and oversight (i.e. shared services agreements, decision bodies, and controls), as well as technology and access impact (i.e. access to IFC systems, email). Finally, multiple townhalls and weekly informal Q&A sessions have been and will continue to be conducted with staff, ahead of the effective date of the integrated function, i.e. July 1, 2013.

Human Resources

4.42 In December 2012, President Kim announced a re-alignment of MDs’ responsibilities to enable further synergies and enhance institutional effectiveness and results. As part of this re-alignment, the IFC and IBRD Human Resources functions will be integrated to ensure HR operations, policies and systems strengthen and improve talent and leadership management across the institution, securing the WBG’s position as the employer of choice among development banks and maximizing the WBG’s developmental impact.

4.43 The WBG HR integration is led by a Steering Committee, supported by a project team staffed by IBRD and IFC. The Steering Committee has endorsed an initial focus on the Centers of Expertise (CoEs) to identify areas of best practice, overlaps, and gaps, and to standardize processes and practices where useful to the business. The structure of CoEs will be decided by June 30, 2013 and staff mapping to these CoEs complete by October 31, 2013. HR business partners will remain with each organization to serve regional and network clients. To minimize disruptions to the FY13 HR program, current management teams and reporting will remain in place until October 1, 2013. This timeline also allows for meaningful engagement across the HR function.

4.44 During the last quarter of FY13, the HR integration project team has been evaluating work programs and staff assignments to the CoEs, establishing FY14 objectives and the Service Level Agreements (SLAs) with CoEs, and harmonizing differences in IBRD and IFC HR practices (e.g. narrow banding and performance awards), the outcomes of which will be instructive for the institution overall.

4.45 The HR Steering Committee chairpersons hosted a townhall for HR staff on March 13, 2013 and the WBG's collaboration website (Scoop) provides a forum to inform staff and engage with the project team. Individual Directors and Managers are holding weekly meetings with staff to keep them updated on progress and key decisions. Throughout the process, the project team and Steering Committee will be organizing and managing key stakeholder events and communications.

D. FY14 BUDGET

4.46 IFC's Management Team proposes a Total Administrative Budget (TAB) of \$933.0 million including \$20.5 million for Phase 2 of FMTAAS Partial Mainstreaming. The proposed FY14 TAB represents a \$62.3 million,²⁵ or 7.3% nominal increase (\$901.3 million, or 6.0% in real terms) over FY13 TAB. The Total Administrative Budget combines the Regular Administrative Budget (RAB) proposal – which is fully under IFC's Management Team control – of \$731.2 million with \$181.3 million of 'Below the Line' items, namely IFC's share of the Corporate Secretariat & Board and IEG costs, plus contributions to staff retirement plans.²⁶ Management recommends the Total Administrative Budget of \$933.0 million shown in Table 4.2 for approval in Section V of this paper.

²⁵ Excluding Phase 2 of FMTAAS Partial Mainstreaming of \$20.5 million in nominal terms.

²⁶ Beginning with this FY14 proposal, IFC has adopted IBRD's Post-retirement Contribution Reserve Fund (PCRF) in order to reduce the volatility of IFC's budgetary contributions to the post retirement benefit plans, as discussed in paras 4.72 – 4.75.

Table 4.2: Proposed FY14 Total Administrative Budget†

US\$ millions

	FY12 Actuals	FY13 Restated Budget	FY14		Real		Nominal	
			Real Budget	Nominal Budget	\$ Δ Over FY13	% Δ Over FY13	\$ Δ Over FY13	% Δ Over FY13
Regular Administrative Budget‡	663.2	696.1	720.5	731.2	24.4	3.5%	35.1	5.0%
Corporate Secretariat & Board	18.9	20.4	18.0	18.3	(2.4)	-11.7%	(2.1)	-10.1%
Independent Evaluations Group (IEG)	5.9	6.5	6.9	7.0	0.4	5.8%	0.5	7.6%
Contributions to Staff Retirement Plans	107.2	127.2	156.0	156.0	28.8	22.6%	28.8	22.6%
Subtotal 'Below the Line'	132.0	154.1	180.9	181.3	26.8	17.4%	27.2	17.6%
Administrative Budget	795.3	850.2	901.3	912.5	51.1	6.0%	62.3	7.3%
Phase 2 of Partial FMTAAS	-	-	20.1	20.5	20.1	-	20.5	-
Total Administrative Budget	795.3	850.2	921.4	933.0	71.2	8.4%	82.8	9.7%

†Totals may not add due to rounding.

‡Excluding Phase 2 of Partial FMTAAS Mainstreaming.

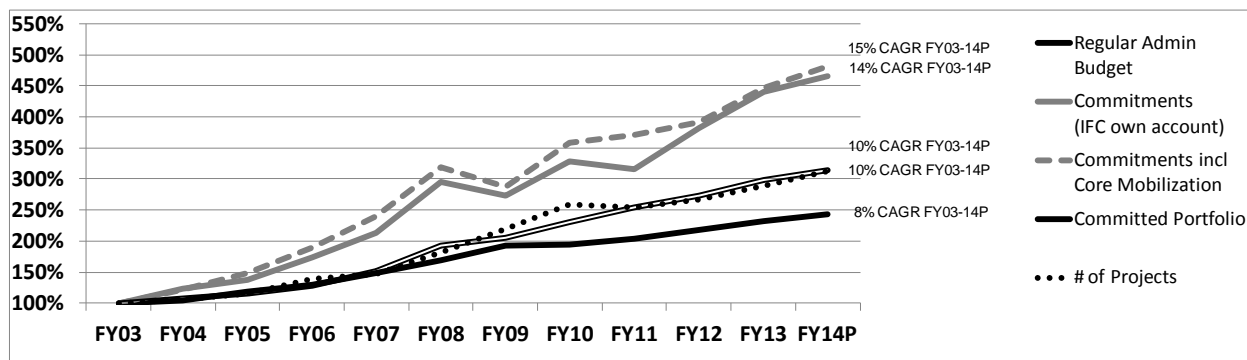
4.47 The Regular Administrative Budget (RAB) is, however, the benchmark used to measure discretionary budget growth since it excludes 'Below the Line' items which are not under the direct control of the Management Team. IFC's Management Team proposes a real increase of 3.5%, or \$24.4 million (5.0%, or \$35.1 million including the budget price adjustment) over FY13 RAB of \$696.1 million.

BUDGET GROWTH IN CONTEXT

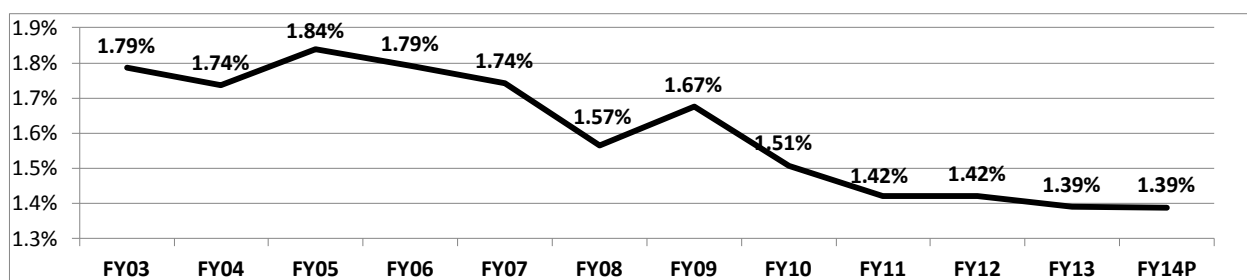
4.48 IFC continues to make strides to innovate and grow its business to meet clients' needs in developing countries. At the same time, IFC's Management Team pays close attention to the prudent use of resources as it pursues the dual goals of delivering development impact and maintaining financial sustainability. A holistic approach to managing IFC's business means matching IFC's budget and associated expenses with the scale, breadth and depth of its operations.

4.49 The nature of IFC's role as a development institution also means that the Corporation undertakes many activities in response to mandates from its stakeholders, including member countries, civil society, partners, and clients; these include the development of monitoring and evaluation tools, integrity due diligence work, environment & social impact studies to name a few. Such activities require resources beyond what might be indicated by a straight-forward view of the underlying investment volume and project count growth. Even with these additional costs, IFC's business growth still outpaces its budget growth. The proposed 5.0% nominal increase in regular administrative budget remains well below the 8% compounded annual growth rate in RAB since FY03 and estimated 15% CAGR in total commitment volume over the same period. IFC's budget as compared to its output in terms of commitments (Graph 4.14) or as a percentage of its portfolio (Graph 4.15) reflects favorably upon the Corporation's ability to achieve strong growth in its business while limiting its budget growth in relative terms.

Graph 4.14: Relative Growth since FY03 for Selected Financial Measures



Graph 4.15: RAB as % of Committed Portfolio



THE REGULAR ADMINISTRATIVE BUDGET PROPOSAL

4.50 The proposed increase of 3.5% or \$24.4 million (5.0% or \$35.1 million including the budget price adjustment) to the Regular Administrative Budget (RAB) is shown on an organizational grouping basis in Table 4.3. The increase is primarily allotted to Investment Operations which will grow by 3.2% in real terms while keeping the corporate support departments flat (i.e., support higher volumes with same budgets). Information technology and corporate overheads also receive increases reflecting investment in these functions in previous years and strategic need to ramp-up operations.

Table 4.3: FY14 Regular Administrative Budget Proposal†
US\$ millions

	FY12 Actual	FY13 Restated Budget	FY14 Proposed Real Budget	\$ Real Change Over FY13	% Real Change Over FY13
Investment Operations	318.9	341.6	352.4	10.8	3.2%
Advisory Services‡	42.8	43.9	43.3	(0.6)	-1.4%
Private Sector Development	7.8	8.8	8.5	(0.3)	-3.2%
Risk Management & Portfolio	36.6	42.2	42.1	(0.1)	-0.2%
Treasury & Syndications	16.1	17.4	17.7	0.3	1.7%
Information Technology	19.0	18.9	20.1	1.2	6.4%
Human Resources	18.6	19.5	19.1	(0.4)	-2.0%
Legal	24.7	25.8	26.2	0.4	1.4%
Accounting and Financial Operations	16.5	18.4	18.7	0.3	1.6%
Environment & Social Development	22.1	23.4	23.4	(0.0)	-0.2%
Executive Vice President	2.1	2.5	3.5	1.0	
Subtotal Operations & Corporate Support‡	525.2	562.4	574.9	12.6	2.2%
Corporate Overheads	128.3	122.5	133.6	11.1	9.1%
Operating Budget‡	653.5	684.9	708.5	23.7	3.5%
Corporate Governance	9.7	11.2	11.9	0.7	6.2%
Regular Administrative Budget‡	663.2	696.1	720.5	24.4	3.5%

†Totals may not add due to rounding.

‡Excluding FY14 FMTAAS partial mainstreaming of \$20.1 million in real terms.

COMPOSITION OF THE BUDGET INCREASE

4.51 As described in para 4.6, IFC's Management Team began budget deliberations by imposing a 2% productivity tax on all department administrative budgets with the direction that they must maintain a steady state program within 98% of their FY13 budget. To achieve this, both operational departments as well as support functions made trade-offs within their programs to prioritize work of strategic importance. This process ensured that cost savings were sought before the proceeds from the productivity tax were reallocated to strategic priorities as described below in para 4.53. Following the reallocation, Management then considered what incremental budget was necessary to fund planned growth in investment programs.

4.52 As shown below in Table 4.4, formulation of the FY14 budget proposal explicitly follows the building blocks described in the *IFC Road Map FY14-16*. Specifically, the budget proposal of +3.5% builds upon the +1.0% outlined in Scenario 1 "to fund increases in IT expenses as well as other non-discretionary items" with funding for IDA countries, AGASI, South Asia, Infrastructure, Performance Awards and other corporate initiatives achieved through reallocations of existing budget. Scenario 2 – which was endorsed by the Board subject to discussion of the detailed budget proposal – then adds an additional +2.5% to fund ramped up efforts in FCS as well as additional investment program growth.

Table 4.4: FY14 RAB Proposal – Composition of Strategic Building Blocks

	US\$ million	%Δ RAB
FY13 RAB	696.1	
2% Productivity Tax on Department Budgets*	(11.2)	-1.6%
Reallocation of Tax proceeds:	11.2	1.6%
South Asia	1.5	0.2%
Agribusiness in Africa Special Initiative (AGASI)	1.7	0.2%
IDA countries	1.0	0.1%
Infrastructure	1.5	0.2%
Performance Pool	1.3	0.2%
Performance Awards	3.2	0.5%
Initiatives (Busan/Health in Africa & India/Innovation/PQIP**)	1.0	0.1%
Information Technology and Overheads	7.0	1.0%
IT Depreciation	3.4	0.5%
IT Maintenance and Support	0.6	0.1%
IT Project Administrative Expenses	1.2	0.2%
Shared Service Agreements	1.6	0.2%
CAO	0.2	0.0%
FCS and Growth	17.4	2.5%
FCS	7.0	1.0%
Growth in Investment Operations & Support	10.4	1.5%
Proposed FY14 RAB - Real	720.5	3.5%

Scenario 1 Base Case +1.0%

Scenario 2 Increment +2.5%

Proposed RAB Increase +3.5%

*2% tax on Department budgets of \$562.4 million equals 1.6% of RAB of \$696.1 million.

** Partner Quality Improvement Program

Reallocations of Tax Proceeds

4.53 The productivity tax is applied to ensure the Corporation achieves productivity gains as described in para 4.24 above. As outlined in the *IFC Road Map FY14-16*, the proceeds of the tax - \$11.2 million – will be used to fund numerous items of strategic priority along with necessary funding for Performance Awards. Reallocations have been made to fund: a) focused efforts in South Asia (including Afghanistan and Pakistan); b) IFC's involvement in the joint WBG Agribusiness in Africa Special Initiative (AGASI); c) further resources for IDA countries; d) work in the Infrastructure sector; e) a Performance Pool which provides productive investment departments with additional resources to grow their programs; f) Performance Awards to incentivize staff further; and g) several initiatives such as the Busan Initiative, Health in Africa, Health in India, Innovation and the Partner Quality Improvement Program to ensure IFC has accurate information records for all its partners in a systematic manner.

Information Technology and Corporate Overheads.

4.54 In line with Scenario 1 and 2 of the Road Map, 1% of the proposed increase will fund Information Technology and Overheads. Nearly half of the increase in this category, \$3.4 million, will cover the increase in IT depreciation. This non-cash charge reflects past capital investment in IT systems necessary to support a global organization with an increasingly complex business. Similarly, there is an additional \$0.6 million for IT maintenance and support overheads; staff growth and increased field presence have added to downstream IT maintenance and support costs. These pay for software license fees, hardware maintenance fees and application support services necessary to operate the IT systems

used by the Corporation in the execution of its business. The increase in IT maintenance and support costs is usually commensurate with the increase in underlying capital expenditure. The proposed amounts are significantly lower due to productivity gains and better controls. There is also provision of \$1.2 million for Project Administrative Expenses to cover the incremental assessment costs associated with new IT capital projects. Shared Service Agreements represents a broad category of expenses for services received from IBRD which are not directly attributable to individual departments, but are necessary for the normal functioning of the Corporation. There is also a small provision for the Compliance Officer/Ombudsman (CAO).

FCS and Growth

4.55 The Corporation's increased emphasis on FCS countries requires a critical mass of investment staff dedicated to FCS located in or very close to FCS countries. \$7.0 million of the proposed RAB increase is directed towards this effort. Specifically, IFC plans to hire sixteen additional Investment Officers at Grades GG and GH who will be fully dedicated to the generation of FCS investments. These staff will be located in or near priority FCS countries which currently lack adequate senior staff presence. Recruitment efforts to fill these positions will target the diaspora from respective FCS countries as well as other qualified individuals from each region. Current plans put ten new staff in Sub-Saharan Africa; three in MENA, two in EAP and one in South Asia. These staff will work either as front line business developers while coordinating efforts with World Bank and liaising with governments or as investment staff responsible for investments in priority sectors in FCS.

Table 4.5: A differentiated approach to IFC engagement in FCS

-

Pacific Microstates	Oversee via Pacific Regional Facility
Overt conflict/dangerous conditions	Engage as/when conditions permit
Lacking political will to implement reforms	Encourage reform on a limited/opportunistic basis
Weak investment climate (but political will)	Focus on increased AS-led engagement
Increasing investment potential	Focus on increased AS-IS
Countries not on the list	Learn from above approaches

4.56 This FCS staffing plan accounts for about \$5.6 million of the proposed incremental budget for FCS. The remaining amount provides for security costs necessary to operate in FCS countries, field-based support staff to assist the IOs, and training to enhance staff capacity across FCS, including existing staff. In addition to this incremental funding, IFC already has in place an FCS Coordination Unit covering internal FCS knowledge management as well as liaison with external FCS-related organizations and events. Further elaboration on FCS plans for Africa, MENA, South Asia and East Asia & Pacific follow.

4.57 **Sub-Saharan Africa.** Under the World Bank's FY13 classification, 18 of Sub-Saharan Africa's 49 countries are classified as FCS, corresponding to half the world's total FCS. Increasingly, Africa's poorest populations are located in regions affected by conflict. Furthermore, Africa's conflict-affected countries present a spectrum of development levels. The severity, duration, and nature of conflict-related problems they confront also differ greatly. This complex set of conditions requires a range of

approaches from the IFC and World Bank Group partners. Addressing conflict is critical for the WBG to attain its development goals both in Sub-Saharan Africa and globally.

4.58 In Africa, agribusiness, infrastructure, especially power and SMEs will continue to be priority focus areas in FCS. The Agribusiness in Africa Special Initiative (AGASI) will be an important element of IFC's commitment to this focus area. IFC's Infrastructure in Africa initiative (ASI), launched in 2011, is now fully operational and will expand its scope to FCS countries. IFC will maintain its strong focus on improving financial inclusion for MSMEs, households and women, through programs with banks and other FIs in FCS. IFC will also engage more strategically with emerging markets companies to promote South-South investments in FCS. There is also significant potential for impact through increased regional integration by catalyzing South-South investments.

4.59 IFC's investment program in FCS in Africa has been strongly helped by The Conflict Affected States in Africa program (CASA), established in 2008 as a five-year program in partnership with donors to facilitate, support and accelerate private sector development work on the ground. The second phase of CASA intends to provide tiered support to all 18 FCS in SSA, with the possibility of including regional stabilization efforts such as the Special WBG Sahel and Great Lakes Regional Initiatives.

4.60 To meet its FCS goals in Africa, IFC plans to put at least ten new investment staff on the ground. This will include a core of IOs to process FCS deals, located in the regional hubs of Nairobi and Dakar to ensure operational flexibility and optimal coverage of FCS countries. The remaining four senior staff, mainly covering the business needs of countries, will be located in country in priority FCS countries currently lacking senior presence.

4.61 **MENA.** IFC is currently operating in six FCS countries in MENA. These include Afghanistan and Yemen (which are also IDA countries), Iraq, West Bank and Gaza, Syria, and Libya. Of these countries, Libya is the only country where IFC has yet to have any direct engagements, but we are working closely with the World Bank to identify both investment and advisory opportunities to support the private sector over the coming year.

4.62 IFC has a growing and diversified investment and advisory program in Iraq and West Bank and Gaza, and will strive to keep up this momentum over the coming year. In Afghanistan and Yemen, IFC is actively working to increase integrated investment and advisory engagements especially in the areas of MSME access to finance, PPPs, and infrastructure. Business development efforts will be increased in MENA FCS countries to identify both local partners as well as foreign investors from within the region and outside that will take comfort from partnering with IFC.

4.63 To ensure success, IFC plans to increase staff on the ground in both Afghanistan and Iraq, as well as leverage its staff in the Cairo and Dubai Offices. This region will also use budget for security in the short-term as the operating environment for business development is difficult and costly. Areas of focus in FCS countries include financial sector (especially A2F and financial infra), infrastructure including PPP support, and selective engagements in manufacturing and services with strong Sponsors.

4.64 **South Asia.** Nepal continues a prolonged political transition. The difficulty in agreeing on a constitution or setting a date for constituent assembly elections highlights this fragility. In this challenging environment, IFC continues to support and advocate for the private sector, in close coordination with the World Bank and other development partners. Investment Climate remains as IFC's leading advisory services program while the Access to Finance and Sustainable Business Advisory

business lines are expanding. Investment services in Nepal focus particularly on financial markets and infrastructure development. As Nepal appears to be at the cusp of a political breakthrough, the need for a critical mass of dedicated investment staff becomes imperative, to escalate investment support while filling market gaps and leveraging effective advisory engagement. The frequent change of counterparts and long gestation of projects mean that it is critical to build relationship and trust through active local follow-up. IFC is also focusing on the joint development of the hydropower sector along with the World Bank, with potentially transformative impacts on job creation and poverty alleviation in Nepal. To support all these objectives IFC plans to hire two senior investment staff for Nepal to cover the financial and infrastructure (power) sectors, and supporting resources at a junior level (three staff).

4.65 **East Asia Pacific.** FCS countries in the region are Myanmar, Timor-Leste, and Pacific island economies. In all of these countries the region has adopted a joint WBG approach, and aims to work together on a joint business plan approach which outlines a joint World Bank-IFC/MIGA approach to promoting private sector investment in-country, and which involves either single- or multi sector approaches, depending on the country context. For example in Myanmar, the WBG will collaborate on institutional and regulatory reform, transforming the power sector, and supporting the growth of microfinance and SME banking. The overall focus will be on aligning both investment and advisory services to achieve development objectives as articulated in the joint WBG Country strategies and EAP's own Regional Strategy. Key sectors with potential for transformational effect will be a core part of the strategy including supporting basic infrastructure needs – power and telecom and building strong and inclusive MSMEs in the agriculture and manufacturing sectors.

4.66 Additional staff will be added to both Myanmar and the Pacific region to ensure that adequate managerial capacity is available to deliver in these more difficult environments. These new hires will serve needs from existing offices in or near FCS. In Myanmar, IFC and the World Bank are relocating from temporary co-located space to a permanent WBG office to help the WBG to more fully respond to the significant opportunity for increased impact. Implementation has already begun in Myanmar where there is clear opportunity for WBG collaboration and potentially transformational programs in infrastructure and access to finance. IFC expects to ramp up its investment program in Myanmar to \$150 to \$300 million per year within the next five years.

4.67 In Timor-Leste, a new joint WBG Country Strategy has recently been approved by the Board, and this will focus particularly on maximizing the opportunity of working together with the World Bank on overall economic development with a focus on private sector development and investment, with a clear gender focus. In the Pacific microstates, efforts will be coordinated through a Pacific regional strategy working again in close collaboration with the WB and AusAID as the main regional bilateral donor.

4.68 **Growth in Investment Support and Operations.** The strategic growth scenario set forth in Section 2 requires additional budget resources to ensure that investment growth can be maintained in the medium to long-term. This determination began with the assumption that the investment program could remain flat using 98% of the FY13 budget. Working from this basis, IFC's Management Team then determined that incremental resources of \$10.4 million devoted to growth in Investment Operations & Support will achieve the desired outcome for strategic growth. Additional resources will be deployed to selective regions and sectors, with particular emphasis on infrastructure and agribusiness, two of the most critical sectors driving economic development. Resources are also being added to critical investment support functions such as Environmental & Social and Legal which play an integral role in the investment lifecycle.

4.69 Funds devoted directly to growth in Investment Operations will largely be used to ensure there is a critical mass of staff who can support and sustain the growth in investment volumes and number of projects in the coming years. In order to optimize deployment of staff to better support Investment Operations, Management has reviewed investment staffing over the past year. This comprised a comprehensive mapping of staff by role, seniority and location which then informed the FY14 staffing plan and budget allocations. The resulting staffing strategy ensures that IFC deploys the right mix of staff in client-facing roles to align with evolving business needs. It aims to ensure that senior staff are appropriately leveraged by analysts, and that IFC has the right specialist skills in the right places to serve clients. The strategy aims to strike the right balance between global and regional staffing, and promote greater sharing of staff across departments, projects and across AS and IS. It also aims to improve the process for reassigning staff to and from field-based positions to ensure that IFC's expertise can be deployed efficiently. In order to maintain operational flexibility, most new hires will be located in regional hubs where they can serve the entire region and share knowledge with a critical mass of colleagues.

4.70 A recent review of Istanbul Operations Center (IOC) provides ample evidence that this model of locating a critical mass of management and investment staff in a hub better serves a region than spreading staff too thin across the whole region. At the IOC, staff count has increased from 66 in June 2009 to around 176 today. The IOC is at the center of the EMENA organizational structure and serves the region by concentrating management and investment staff in single location that is closer to clients and front line staff. The IOC has contributed to higher investment volumes, more projects and extended development impact across the region's priorities of SMEs, job creation and infrastructure development. The lessons from the IOC will be key guides as new staff are deployed to meet the demand for growth in investment operations.

ADMINISTRATIVE BUDGET BY COST CATEGORY

4.71 Table 4.6 below provides the indicative breakdown of the administrative budget by cost category. It is important to note that budgets are fungible and subject to reallocation so the actual composition of spending by cost category may be different during the fiscal year. The FY14 budget is, therefore, an estimated breakdown which will be analyzed and amended as necessary early in FY14, when complete cost data for FY13 is available. The FY14 estimate is based on department budget proposals. Nonetheless, the estimate changes the balance between fixed (78%) and variable costs (22%) by only 1% within the regular administrative budget through focused cost management. Similarly, the relative share of each cost category is expected to change by 1% in FY14, with staff costs accounting for 62% of the regular administrative budget.

Table 4.6: Administrative Budget by Cost Category†
US\$ millions

	FY12		FY13		FY14			
	Actual Expenses	As % of RAB	Restated Budget	As % of RAB	Real Admin Budget	As % of RAB	Nominal Admin Budget	As % of RAB
Fixed Expenses	501.2	76%	534.9	77%	559.7	78%	568.4	78%
of which:								
Staff Salaries and Benefits	391.3	59%	426.7	61%	448.0	62%	455.9	62%
Communications and IT	27.9	4%	28.8	4%	28.8	4%	29.1	4%
Depreciation	45.7	7%	42.6	6%	46.1	6%	46.1	6%
Equipment and Building	36.4	5%	36.8	5%	36.8	5%	37.2	5%
Variable Expenses	162.0	24%	161.2	23%	160.8	22%	162.8	22%
of which:								
ST. Consultants and Temps.	18.5	3%	18.6	3%	18.6	3%	18.8	3%
Operational Travel	42.3	6%	42.9	6%	42.6	6%	43.1	6%
Representation and Hospitality	1.3	0%	1.4	0%	1.4	0%	1.5	0%
Contractual & Other Expenses	99.9	15%	98.3	14%	98.2	14%	99.4	14%
Regular Administrative Expenses (RAB)	663.2	100%	696.1	100%	720.5	100%	731.2	100%
Other Expense Items:	132.0		154.1		180.9		181.3	
Independent Evaluation	5.9		6.5		6.9		7.0	
Corporate Secretariat & Board	18.9		20.4		18.0		18.3	
Contribution to SRP, SSRP, & PEBP	107.2		127.2		156.0		156.0	
Administrative Expenses	795.3		850.2		901.3		912.5	
Phase 2 Partial FMTAAS Mainstreaming					20.1		20.5	
Total Administrative Expenses	795.3		850.2		921.4		933.0	

†Totals may not add due to rounding.

4.72 IFC has decided to adopt IBRD's Post-retirement Contribution Reserve Fund (PCRF) in order to reduce the volatility of IFC's budgetary contributions to the post retirement benefit plans. IFC will follow the PCRF governance practices as set forth in *Smoothing Budgetary Contributions to the Post-Retirement Benefits Plans: Establishment of a Post-Retirement Contribution Reserve Fund* Adoption of the PCRF ensures that IFC and IBRD follow the same framework in budgeting for pension contributions.

4.73 The PCRF will be used to top up the administrative budget contribution to the benefits plans when contributions determined by the Pension Finance Committee are higher than the target contributions, and will receive funds from the budget when the PFC-determined contributions are lower than the target contribution. The PCRF's assets cannot be used for any other purpose than for post retirement contributions.

4.74 IFC's budgetary contribution to the post-retirement benefit plans will be 35% which is the contribution rate expected to provide a reasonable estimate of the long-term funding requirements. The target size – the size the PCRF must achieve before it is used to top up contributions to the benefits plans – for IFC's share of the fund is yet to be determined. Adoption of the PCRF mechanism adds \$1.8

million to the FY14 budget for IFC's Contribution to Staff Retirement Plan (SRP), Supplemental Staff Retirement Plan (SSRP) and Post Employment Benefit Plan (PEBP).

4.75 The PCRf is being managed by the Bank, under the oversight of Executive Directors, at arm's length from the Trust overseen by the Pension Finance Committee. IFC's contributions to the PCRf will **not** affect the determination of allocable income available for IDA or other Designations as IFC, unlike IBRD, does not make any adjustments to pensions as reported in the income statement in its determination of allocable income. While the PCRf is a reserve fund, it is neutral to IFC's balance sheet; a swap of two difference classes of assets.

4.76 Table 4.7 below provides further details of the staff cost component of IFC's regular administrative budget. The budget for total staff cost is expected to increase by 5.0% from FY13 to FY14 in real terms. In nominal terms the increase will be 6.8% from FY13 to FY14. The budget for Headquarters salary cost is expected to increase by 4.1% in real terms in FY14 while the Country Office component is expected to increase by 7.2% in real terms, reflecting the focus of selective new hiring in the field.

Table 4.7: Staff Costs
US\$ millions

	FY12 Actual	FY13 Restated Budget	FY14	
			Real Budget	Nominal Budget
Headquarters Staff	201.2	215.8	224.6	228.9
Country Office Staff	60.5	64.2	68.8	69.9
Benefits	129.6	146.7	154.6	157.1
Total Salary & Benefits	391.3	426.7	448.0	455.9

Box 4.2: KNOWLEDGE MANAGEMENT AT IFC

Global knowledge is a key competitive advantage of IFC. IFC strives to deliver best-in-class knowledge and innovation to clients, and has institutionalized mechanisms, tools and programs to capture knowledge and facilitate knowledge flows in individual departments and across the institution.

The Global Knowledge Office (GKO) was established in 2009 as part of the recommendations made under IFC 2013. This small, specialized unit is in charge of coordinating corporate knowledge management (KM) and collaboration programs.

- An IFC-wide knowledge management practice group (KMPG) was established that meets biweekly and has been critical to several programs across the Corporation. The steady development of a KM function through dedicated staff and consultants has filled the ranks of this KMPG.
- In 2010 IFC acquired an enterprise license of the Jive software, the social business collaboration platform behind iCollaborate. The World Bank also acquired a Jive license subsequently, paving the way for Group-wide collaboration through a common technology platform for the first time.
- Since October 2011 IFC has been rolling out a program of Technical Master Classes to create an avenue for senior IFC experts to transfer critical operational and experiential knowledge that exists almost exclusively in the tacit. Seasoned staff, pending retirees, and deep subject matter experts are coached into sharing with a targeted audience their decision-making process through in-depth workshops focused on real-life case studies and situations.
- Finally, a speaker series launched by the GKO in 2010, “Knowledge Talks” has disseminated best practices on knowledge, organizational effectiveness and innovation from external and internal sources. This speaker series became a WBG initiative in February 2013.

With the appointment of a new Global Head of Knowledge for IFC in August 2012, a new phase for the development of the knowledge agenda opened for IFC. An action plan for corporate-wide pilots and initiatives was established in March 2013 following the completion of a current state assessment. The implementation of this action plan will take place over FY14-16. This corporate strategy aims at supporting and enriching department-wide programs.

In knowledge teams in the global industries departments – Financial Markets (FM), Manufacturing, Agribusiness, and Services (MAS), Infrastructure, Trade & Supply Chain Solutions and the Climate Business Group – provide training and facilitate the adoption of collaboration tools and methods. This includes providing guidance on how to set-up and manage successful Practice Groups. The teams also organize learning events, develop and disseminate case studies, and strive to integrate knowledge in the overall strategy of the business.

In 2012, the knowledge team in FM launched the Jobs Marketplace initiative that seeks to facilitate knowledge sharing and professional development between regions through short-term assignments. The team is currently developing a client-to-client collaboration pilot in relation to the “Banking on Women” program. MAS has developed and centralized all codified knowledge and maintains an inventory of its knowledge products. The Infrastructure knowledge team has created client relationship and project support tools in order to streamline business development and transaction processing efforts. The Climate Business Group is currently developing a Climate Business Storybook that will serve as a central resource on Climate Business efforts in IFC.

Cost of Knowledge. IFC spends about \$0.9 million annually for resources fully dedicated to Knowledge including the GKO. This does not, however, capture all of the resources IFC puts towards its knowledge efforts each year. In addition to the dedicated resources, most departments engage in knowledge activities which are not formally expensed against knowledge initiatives. In coordination with other IFIs, IFC recently undertook an informal review of the imputed cost of knowledge activities. Due to the informal nature of this new initiative to cost knowledge, it was agreed among the participating IFIs that the cost estimates are not sufficiently robust for reporting or comparisons at this stage. Nonetheless, IFC’s result reveals that overall the Corporation spends about 17% of Regular Administrative Budget on knowledge (compared to IBRD’s estimate of 20%).

USE OF FEES

4.77 IFC has a long established practice of using fees from clients to directly cover out-of-pocket expenses incurred for the client's project such as travel, consultants, and outside legal counsel. Similarly, clients pay service fees for work associated with its investment projects. The Corporation also receives privatization fees and mobilization fees to offset direct expenses associated with these activities. The general principle in the usage of fees is to match an expense with a fee source before the expense is incurred. The established practice works as decision on the use of such resources and the appropriate funding levels are assessed at the institutional level rather than in the business unit silos, as underlined by a recent IAD audit.

4.78 IFC is careful to ensure that fee budgets for the upcoming year do not exceed likely fee collections. Up to 40% of service fees can be used for staff costs to provide flexibility to the investment departments. Since the remaining fees are also used to cover variable costs such as travel, consultants, and outside legal counsel, IFC can extend its activities using fees without adding to the permanent cost base of the Corporation.

4.79 The Management Team decided to keep FY14 service fee budget flat at the FY13 level of \$58.3 million which represents 75% usage of eligible estimated fees; this is considered to be a prudent cap on the fees usage even though management expects an increase in fees collection in FY14. AMC fees are similarly budgeted for flat at FY13 level and will be adjusted as the year unfolds with a clearer view of the fees earned. AMC fees earned in IFC can be used to cover staff costs incurred in business origination and development activities as well as portfolio supervision. The use and collection of fees is closely monitored and reported on a quarterly basis.

BUDGET VERSUS SPENDING

4.80 Prudent financial management requires the Corporation to maintain a safety margin between the Board-authorized budget and IFC's actual level of spending. If the Corporation did not maintain this safety margin, unexpected swings in cost items could cause IFC to inadvertently overspend its annual budget. To ensure against this possibility, the Management Team aims to keep spending below IFC's total spending authority which comprises the administrative budget plus the carryforward from previous year's underspending. In FY13, spending continues to be closely monitored and is expected to be in a range of 98% to 99% of the administrative budget, and 93% to 94% of total spending authority (administrative budget plus 5% carryforward).

ADVISORY SERVICES

4.81 In FY14, total AS spending is planned to increase by 8% over FY13, reaching \$414 million (net of price increase). As in the past, funding will come from three sources: donors, clients, and IFC.

IFC Contribution

4.82 It is proposed that IFC's contribution in FY14 be \$155 million, which is substantially stable (net of price increase) relative to FY13. IFC would thus contribute 37% of planned total AS spending. Consistent with the broader AS funding strategy discussed with the Board since FY11, this would increase slightly the leverage of IFC's contribution vis-à-vis donors and clients.

4.83 After the second phase of FMTAAS partial mainstreaming the bulk of IFC's contribution (\$73 million) would be sourced from designations of IFC net income through FMTAAS. The remaining \$82 million of IFC's contribution would be sourced from: a) IFC's administrative budget (\$59 million); b) Trust Funds Administrative Fees (\$12 million); and c) part of the Performance Based Grants Initiative used to support AS projects (\$11 million).

Partial Mainstreaming of IFC's Contribution

4.84 As part of *IFC's FY12 Business Plan & Budget*, the Board endorsed Management's proposal to shift a larger share of IFC's contribution to AS to the administrative budget, with claims on FMTAAS and Trust Fund Administrative Fees to be reduced accordingly. Three benefits are expected:

- i. Enhanced management transparency of IFC's investment in, and its commitment to, one of its key businesses;
- ii. Stronger financial foundation of AS by reducing exposure to possible fluctuations in IFC's net income and other claims on that income; and
- iii. Simpler financial and HR management, particularly for functions that serve both Advisory and Investment Services, making it easier to establish common platforms where efficient.

4.85 The approach to partial mainstreaming has two main elements:

- i. Funding for a defined "backbone" of AS positions shifts to the Administrative Budget. Positions to be included in the backbone are those that are essential to the effective functioning of the AS business in the long-term, regardless of shifts in operational strategy or donor priorities. Remaining AS positions are engaged mainly to execute specific projects, and will continue to be funded from current sources, which are dominated by donor or pooled donor-FMTAAS resources; and
- ii. FMTAAS will be retained as a funding source for AS, but with a sharpened focus on providing support to particular partnerships and programs, rather than core business functions.

4.86 As discussed in *IFC's FY12 Business Plan & Budget*, partial mainstreaming is being implemented in phases. The first phase, effective from FY12, covered 49 mainly leadership and managerial positions and a shift of \$22 million in funding. Based on this experience, Management is proposing to introduce a second phase of partial mainstreaming from FY14, covering around 46 additional technical and functional specialist positions and \$20 million in funding (Table 4.9).

Table 4.8: Phase Two of Partial Mainstreaming: Expanded AS Backbone & Funding Assumptions

Roles/Positions Proposed to be Mainstreamed	Number of Positions	Shift in Funding to Admin Budget in FY14
Global product specialists	26	\$11m
Lead operations support functions	10	\$4m
Senior results measurement functions	10	\$4m
Phase One adjustment (to allow full costs coverage)		\$1m
Total (incl. costs of field benefits, overheads, travel & communication)		\$20m

4.87 **Implications for IFC's Administrative Budget & IFC's Contribution.** Implementation of phase two of partial mainstreaming would add \$20 million to the administrative budget in FY14, on top of the current contribution from the administrative budget to AS of around \$39 million. As with phase one, this increase would be directly off-set by an equivalent reduction in resources required from FMTAAS, bringing FY14 FMTAAS spending authority down from \$93 million to \$73 million. Partial mainstreaming is thus not expected to change the level of IFC's overall contribution to AS (Table 4.9).

Table 4.9: Impact of Phase Two of Partial Mainstreaming on IFC's Contributions to AS†

	FY12A		FY13E		FY14P (w/o phase two mainstreaming)		FY14P (with phase two mainstreaming)	
	\$m	%	\$m	%	\$m	%	\$m	%
FMTAAS	95	60	93	59	93	60	73	47
Admin Budget	40	25	39	25	39	25	59	38
TF Admin Fees	10	6	12	8	12	8	12	8
PBGI	13	8	12	8	11	7	11	7
Total	158	100	156	100	155	100	155	100

†Totals may not add due to rounding.

4.88 **Implications for FMTAAS.** Implementation of phase two would leave FMTAAS in place as an important funding source for AS costs not associated with the AS backbone. Total demands on FMTAAS would be reduced which, in turn, would reduce the level of designations of IFC retained earnings needed to sustain FMTAAS. As in the past, Management will make a recommendation to the Board on designations to FMTAAS from FY13 retained earnings as part of the annual Net Income Paper.

4.89 **Implications for Donor Partnerships.** Shifting the source of IFC's contribution to AS between the administrative budget and FMTAAS does not affect the financial position of donors or IFC's agreements with donors.

4.90 **HR implications.** The shift in funding of positions to the administrative budget will not affect the employment terms and conditions of relevant staff.

FMTAAS Annual Spending Authority & Designations

4.91 For FY14, Management proposes to keep the annual spending authority from FMTAAS flat at \$73 million after the second phase of partial mainstreaming.

4.92 Since inception of FMTAAS in FY05, \$1,014 million of IFC's retained earnings has been designated for AS through FMTAAS.²⁷ FMTAAS was designed to provide a cushion against annual fluctuations in net income, originally equivalent to around three years of prospective annual FMTAAS spending.²⁸ As a result of the global financial crisis and other demands on IFC income, there was no

²⁷ Including a transfer of the remaining \$5.2 million balance of designations for Performance Based Grant Initiative approved as part of IFC's FY11 Business Plan & Budget.

²⁸ As part of IFC's FY12 Net Income Paper, the Board endorsed a proposal to expand this cushion to 5 years of projected FMTAAS spend.

designation to FMTAAS from IFC's FY09 retained earnings, and the designation from FY10 retained earnings was limited to \$10 million. The designation from FY11 retained earnings was \$69 million, and from FY12 was \$80 million (Table 4.10).

Table 4.10: FMTAAS Designations from Retained Earnings vs. Spending Authority
US\$ millions

	FY05-FY09A	FY10A	FY11A	FY12A	FY13E
FMTAAS Designation from Prior FY Earnings	850	-	10	69	80
Re-designation from PBGI to FMTAAS	-	5	-	-	-
FMTAAS Spending	(441)	(101)	(106)	(93)	(93)
Resulting FMTAAS Cushion (year-end)	409	313	217	193	180

Note: FY12 FMTAAS spend of \$95 million is presented net of \$2 million accounting transition adjustment during FY12. The total remaining credit of \$25.2 million from the transition adjustment is expected to be amortized by the end of FY15.

4.93 To support the FY14 AS spending plan and ensure sustainable funding of the AS strategy for the following years, it is expected that a new designation from FY13 retained earnings will be required. As in the past, Management will make a recommendation as to the amount of the designation in the FY13 Net Income Paper.

CAPITAL BUDGET

4.94 The Corporation's capital budget funds Headquarters and Country Office facility needs, as well as IFC's investment in Information Technology necessary to support the Corporation's unique business model. For FY14, the total recommended capital budget is \$83.8 million, 6% lower than FY13.

Table 4.11: FY14 Capital Budget Proposal
US\$ millions

	FY12 Budget	FY13 Budget	FY14 Budget
Headquarters Facilities	5.3	4.9	3.5
Country Office Facilities	17.8	25.4	24.0
Information Technology	45.0	57.6	54.9
Contingency	1.0	1.5	1.5
Total	69.0	89.4	83.8

Headquarters Facilities

4.95 The Headquarters Facilities portion of the capital budget is used to fund required building improvements, space optimization and other work at the F-building. The scope of work planned for FY14 will support organizational realignments while continuing annual capital improvements required to keep the building functioning well and properly maintained. Included are critical improvements such as Upgrades to the Security Operations Center, Phase I of the Green Roof Systems project, final phase of building wide carpet replacements, and office reconfiguration to support organizational realignments.

Capital investments in the F-building continue to include energy conservation measures which reduce energy and water consumption to maintain LEED PLATINUM²⁹ certification.

Country Office Facilities

4.96 The Country Office Facilities budget proposal reflects IFC's continued decentralization and growth in the field. IFC currently has 110 offices in 101 countries supporting over 2,800 staff and consultants in the field. IFC co-locates its country offices with IBRD wherever feasible – 79 of the 110 offices are co-located. As IFC's field presence has grown, new offices are added and others are closed to ensure that the location of staff in the field maximizes contact and support for IFC's clients. In FY13, four new offices have opened (Ashgabat, Turkmenistan; Seoul, South Korea; Vienna, Austria; and Yangon, Myanmar). No offices were closed in FY13. IFC plans to open one new office in FY14 in Belem, Brazil. The proposed FY14 capital budget of \$24 million will fund work on approximately 27 Country Offices, including \$4.5 million for land purchase in Lagos, Nigeria. By the end of FY14, IFC should have 111 offices in 101 countries – 79 of the offices would be co-located. There is currently a major construction project underway to build a new IFC office in Dakar, Senegal at a total cost of \$19.6 million (of which \$5.3 million is to be funded from the FY14 capital budget). It will accommodate 130 staff, including visiting missions. Substantial completion of the building is scheduled for FY15 Q2.

Table 4.12: IFC Country Offices

	FY13E		FY14 Plan	
	Offices	Countries	Offices	Countries
Sub-Saharan Africa	24	24	24	24
East Asia & Pacific	20	16	20	16
Europe & Central Asia (excl Part I)	22	22	22	22
Latin America & Caribbean	16	15	17	15
Middle East & North Africa	14	13	14	13
South Asia	8	5	8	5
Part I	6	6	6	6
Total	110	101	111	101

Information Technology

4.97 The FY14 Information Technology capital budget proposal of \$54.9 million supports front line staff needs and IFC's increasingly complex core business operations. The proposal takes into consideration user demand, the mitigation of IT risk, and foundational prerequisites for transformation. The work plan assumes a continued increase in IT delivery capacity fueled by a buy vs. build strategy, delivery efficiencies, and IMT synergies as discussed in paras 4.37 to 4.41. The proposed FY14 capital budget would fund two categories of investment:

²⁹ LEED (Leadership in Energy and Environmental Design) is an internationally recognized certification program that provides third-party verification that a building is designed and built using strategies aimed at reducing environmental impact and improving energy efficiency. LEED PLATINUM is recognized as the highest levels of LEED certification and is a substantial achievement for a building not originally designed with sustainable operations in mind.

4.98 **Steady State (\$23.3 million).** This category focuses on the established IT needs of the Corporation. These programs ensure the reliability of existing systems by addressing technical obsolescence and facilitating IT capacity growth necessary to accommodate IFC's growth.

- a) *Technologies, Platforms, Network, and Applications:* These investments fund the cyclical replenishment, replacement, and upgrades of hardware and systems software. The FY14 capital budget request includes expansion of support for "bring your own device", upgrades to videoconferencing, and expansion of TelePresence; replacement of PCs that have reached end of warranty; participation in a small pilot as WBG commences migration of Lotus Notes application to next generation platform; and improvements to data storage, disaster recovery infrastructure, database platforms, and networks.
- b) *Information Security:* Investments will continue to strengthen security measures in the areas of network, internet, PCs, user access and role management, security tools, and two-factor authentication. This program is executed in alignment with IMT and the Office of Information Security (OIS) to ensure comprehensive and consistent processes for all IT security functions.

4.99 **System Development (\$31.6 million).** These programs focus on the development of new or enhanced IT solutions to support IFC's lines of business. They include automation of business process changes, as well as the introduction of new business applications along with the modification of existing applications. Some are new multi-year programs, while others are continuation or completion of programs begun in prior years. The programs include:

- a) *Investment Operations:* First phase implementation of "i-portal" – IFC's new, modern workspace for investment operations; integrated technology solutions to capture and maintain partner data; new platform for managing existing and planned Short-Term Finance products; adaptation of existing IFC systems and tools for use by AMC so that AMC investments are managed automatically through standard IFC processes, while still segregated from IFC's investment portfolio and financial reporting.
- b) *Advisory Services:* Continued implementation of a robust, integrated financial management solution; a consolidated reporting platform to serve as a single and centralized source of data; enhancements to existing systems to further strengthen the governance process for Advisory Services; advanced analytics and scenario analysis capabilities; and automation of the recording, tracking, and collection of client contributions which is currently managed manually.
- c) *Finance:* Continued holistic renewal of core Loan platforms; replacement of the Fee Tracking System to address changing business requirements and technology obsolescence; enhancements to the Resource Management System to reduce the time required for closing and to capture additional data needed by the business for profitability analysis; implementation of an Options Sub-Ledger to capture and manage critical accounting transactions associated with derivatives.
- d) *Risk Management:* Implementation of a new Integrated Credit Risk Platform; implementation of Integrated Performance Analytics to operationalize the reporting of risk metrics, key risk indicators, compliance monitoring and bring risk-reward dimensions together in an intuitive and interactive way to help in better decision making; and resolution of security and performance gaps in loan pricing system and enhancements to LAM pricing system as the authoritative source of all prices for treasury reporting.
- e) *Human Resources:* Continued participation by IFC in WBG-wide system renewal initiative, ensuring that IFC-specific requirements are addressed and manage interim updates to IFC-only systems; and conduct a comprehensive review of the applications and data architecture of the

current HR Systems landscape to help the transition to upgraded systems that lead to increased efficiencies.

- f) *Information Security*: Deliver new and enhanced capabilities under WBG's next generation cyber security strategy, including stronger protection for the highest priority information assets, improved access controls, encryption, endpoint protection, and a cyber threat dashboard.
- g) *Information Management and Delivery*: Build data structures and warehouses required to provide robust reporting and analytics about IFC's partners, projects and results.
- h) *Email Platform*: IFC participation in WBG-wide migration from Lotus Notes email to a new market-leading platform.

E. TOTAL RESOURCES

4.100 The total resources used by IFC to deliver its overall operational program and development strategy are larger than the Total Administrative Budget alone. They include special programs approved by the Board in addition to the Total Administrative Budget, as well as IFC's use of fees charged to clients to offset out-of-pocket expenses incurred in the course of project work, including from the AMC. In addition, IFC has made allocations from net income to fund its contributions to Advisory Services. As discussed above, these allocations are significantly leveraged through donor and client funding which allows IFC to greatly extend its Advisory Services reach. Table 4.13 provides a comprehensive statement of the total resources that are needed and used to deliver IFC's full development impact.

Table 4.13: IFC's Total Resources†
US\$ millions

	FY12 Actuals	FY13 Restated Budget	FY14 Budget Nominal	Variance FY14 v FY13
Total Administrative Budget	795.3	850.2	933.0	82.8
<i>o/w Administrative Budget</i>	795.3	850.2	912.5	62.3
<i>o/w Phase 2 Partial FMTAAS Mainstreaming</i>	-	-	20.5	20.5
Carryforward of Unspent Budget from Previous Fiscal Year	-	40.5	42.5	2.0
Total Spending Authority	795.3	890.7	975.5	84.8
IFC's Contribution to Advisory Services (other than admin. budget)	120.0	118.9	98.6	(20.3)
FMTAAS	94.6	92.7	72.6	(20.1)
PBGI	13.1	11.5	11.5	-
IFC SME Ventures	1.8	2.3	2.3	-
Trust Fund Administrative Fees	10.4	12.4	12.2	(0.2)
Donor/Client Contribution to Advisory Services	202.9	226.8	258.8	32.0
Expenses associated with IFC's Treasury & Portfolio activities	15.5	15.2	16.9	1.7
Borrowing Expenses	1.9	2.5	2.8	0.3
Custody and Settlement Costs	11.7	9.5	10.5	1.0
Structured and Securitized Products	0.1	0.2	0.2	-
Equity Transaction Costs	1.7	3.0	3.4	0.4
Expenses offset by fee income	95.2	123.3	124.3	1.0
Client Fee	65.8	80.7	80.7	-
Privatization Fees	2.9	1.8	-	(1.8)
Syndicated Loan Management	3.5	4.2	4.3	0.1
Asset Management Company Fees	10.0	18.8	18.2	(0.6)
Asset Management Company Reimbursable	7.1	9.7	11.9	2.2
The Climate Change Program	0.4	0.7	0.6	(0.1)
Global Agriculture and Food Security Program	0.6	2.1	2.3	0.2
Global Trade Liquidity Program	3.4	4.4	4.4	-
Global SME Financing	-	-	0.8	0.8
Climate Investment Funds	1.4	1.0	1.2	0.2
Special Initiatives	4.4	8.8	6.8	(2.0)
Infra Ventures	3.4	4.7	5.0	0.3
IFC Post-2012 Carbon Facility	0.1	1.3	1.0	(0.3)
PBGI-Access to Infrastructure	0.2	2.0	-	(2.0)
Environmental/Social Mediation and Conflict Resolution	0.7	0.8	0.8	-
Jeopardy Expenses	1.4	12.0	12.0	-
IFC's Total Resources	1,234.8	1,395.7	1,492.9	97.2
<i>o/w</i>				
Investment & Support Services		859.3	897.4	38.1
Advisory Services		382.3	414.2	31.9
'Below the Line' (Corp. Sec., IEG, & Staff Retirement Plans)		154.1	181.3	27.2

†Totals may not add due to rounding.

4.101 **Expenses Associated with IFC's Treasury & Portfolio Activities.** IFC incurs expenses directly associated with its market borrowings such as outside legal counsel fees, auditor fees, prospectus printing costs, as well as rating agency fees. There are also custody and settlement fees paid to the custodians of IFC's equity and liquid asset portfolio, State Street Bank, Citibank, and external managers. In addition, some minor out-of-pocket costs are incurred in relation to business development for IFC's structured and securitized products. Equity transaction costs are not reimbursed by clients due to market practices. These costs are similar to those which clients pay as reimbursables on loan transactions.

4.102 **Expenses Offset by Fee Income.** As explained in paras 4.77 to 4.79, IFC charges its clients fees to offset many of the out-of-pocket expenses associated with the appraisal and supervision of investment projects; these are commonly called reimbursables. IFC uses fees in a prudent manner to offset expenses that are directly related to its investment program and other client-focused activities.

4.103 **Special Initiatives.** IFC InfraVentures was established in FY08) to help increase the number of private and PPP infrastructure projects in IDA countries and thereby increase the supply of scarce infrastructure resources to citizens and companies in these countries. The limited availability of project development resources remains a key bottleneck in the development of private and PPP infrastructure projects in IDA countries. InfraVentures helps address this issue by providing necessary early stage risk capital and active project development support by experienced IFC staff through a streamlined approval process. InfraVentures was established in accordance with the Board's authorization for a 5-year period ending in FY13. After a slow start, InfraVentures is now fully operational and the Fund has committed several project development investments while building a solid pipeline of possible private infrastructure projects. Through end of March 2013, InfraVentures has invested \$47.9 million representing 21 project development investments in IDA countries. IFC InfraVentures program is actively engaged in project development activities on a number of infrastructure projects and expects to commit another \$15.2 million for seven projects by fiscal year end. These include: two gas-fired Independent Power Projects (IPP) in Nigeria; a wind IPP in Kenya; a Heavy Fuel Oil-fired IPP in Senegal; a solar project in Vietnam; a hydro project in Nepal; and a Waste-to-energy project in Pakistan. InfraVentures spending for FY14 is estimated at \$5.0 million, which slightly above the level of expected spending in FY13. A budget of \$5.0 million is, therefore, proposed to cover InfraVentures administrative expenses for FY14.

4.104 **Jeopardy Expenses.** IFC designates a project as being a jeopardy case when the prospects for recovery of IFC's investment are in serious doubt due to expected future loan defaults, country/industry considerations, stock market factors or other factors as determined by the Management Team. The restructuring or recovery of such jeopardy cases often generates significant out-of-pocket expenses (e.g. for travel, consultants, auditors, and legal fees). To facilitate the tracking and reporting (and often the reimbursement) of these extraordinary jeopardy expenses, IFC sets up a separate expense account for each jeopardy case. The Board has traditionally recognized jeopardy expenses as being off-budget since, in the majority of jeopardy cases, IFC's ultimate recovery on its investments amounts to many times the expenses spent in the recovery process. The ceiling for FY13 is proposed at a stable amount of \$12 million which should allow sufficient flexibility in the event of stress on IFC's portfolio given the current uncertainty in global financial markets.

V. Recommendations

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

A. ADMINISTRATIVE BUDGET AUTHORITY

- i) Partial mainstreaming of \$20.5 million of IFC's Advisory Services contribution from FMTAAS into the total administrative budget.
- ii) A total administrative budget for FY14 of \$933.0 million, including \$20.5 million for the partial mainstreaming of IFC's contribution to Advisory Services.

B. CAPITAL BUDGET AUTHORITY

- iii) A capital budget for FY14 of \$83.8 million.

C. SPECIAL INITIATIVES

- iv) Authority to spend an additional \$5.0 million for IFC InfraVentures through FY14.

ANNEX 1: ADJUSTMENT FOR PRICE INCREASE

Each fiscal year, Management proposes a nominal US dollar budget which includes an adjustment for price changes based on external price movements. The budget price adjustment covers the effects of external price increases/decreases on IFC's total administrative expenses. Following extensive discussions between the Board and IBRD/IDA Management to maintain a more accurate value of the Bank's budget, both in USD and Non-USD currencies, revisions to the price factor methodology were approved by the Board for IBRD/IDA. Subsequently, in June 2009 Board approved the adoption of the same price factor for IFC. Thus, IFC uses the same methodology as the Bank; the resulting budget price adjustment is different for each institution reflecting differences in cost structures for IFC and IBRD.

This methodology derives a composite price adjustment factor from the following components:

- Apply the Washington appointed staff structural salary adjustment for Washington appointed staff salaries and salaries related costs
- Apply country office specific structural salary adjustments to their respective country office salaries costs
- Apply country-specific CPI to their respective country office non-salary costs
- Apply exchange rate adjustment to non-USD based costs
- Apply US-CPI to USD based non-salary costs

For FY14, the overall budget price adjustment is 1.6%. The budget price adjustment results in an increase of \$11.5 million. The budget price adjustment is the weighted average of the adjustment for the factors mentioned above, excluding depreciation and contributions to staff retirement benefits. The weights represent the respective share of these costs in the total administrative budget. The calculation of these constituent factors is explained below:

- a) Washington appointed staff salaries and salaries-related costs : The price adjustment factor for Washington appointed staff salaries and salaries related costs (weight = 44%) is based on Management's recommendation of a 2.0% salary structure adjustment (2013 Review of Staff Compensation for the World Bank Group).
- b) Country office specific structural salary adjustments to country office salaries and salary-related costs: The price adjustment factor for country office specific structural salary adjustment to country office salaries (weight = 11%) is based on the 2013 set of adjustments, which is 6.4% before applying exchange rate adjustment (2013 Review of Staff Compensation for the World Bank Group).
- c) Country-specific CPI to country office specific non-salary costs: The price adjustment factor for country-specific CPI to country office specific non-salary costs (weight =11%) is based on the 2012 annual increase reported in IMF publication World Economic Outlook, April 2013, which is 5.7% before applying exchange rate adjustment.
- d) Exchange rate adjustment to non-USD based costs: The price adjustment factor for exchange rate adjustment to non-USD based costs as in b) and c) above is based on USD equivalent of local currency expenditures using the most recent twelve month average rates (April 2012 - March 2013) and comparing it to the USD equivalent of local currency expenditures using the prior twelve month average rates (April 2011 - March 2012), which yields negative 5.3%.

- e) US-CPI to USD based non-salary costs: The price adjustment factor for US-CPI to USD based non-salary costs (weight = 34%) is based on the US-CPI average forecast of 2013 and 2014 annual increases reported in IMF publication World Economic Outlook, April 2013, which is 1.8%.

In terms of implementation, Management will make a detailed analysis by fiscal year end on how to fairly make the allocations to managing units for the price increase to maintain the purchasing power.

ANNEX 2: FMTAAS ANNUAL SPENDING

US\$ millions

	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Spending Authority	FY14 Spending Authority†
Sub-Saharan Africa	12.3	9.0	12.8	13.0	14.8
Latin America & Caribbean	12.5	12.4	12.3	9.9	9.3
Europe & Central Asia	12.0	10.0	7.7	7.2	6.9
Middle East & North Africa	9.3	11.0	9.8	7.6	8.0
East Asia & Pacific	12.5	9.9	9.5	8.1	9.8
South Asia	5.1	6.7	7.1	7.9	9.3
Regional Corporate Governance	-	-	-	2.3	-
Total for Regions	63.8	59.0	59.2	56.0	58.1
Access to Finance	8.4	8.6	7.8	8.2	7.8
Investment Climate	7.0	8.9	8.0	8.3	7.9
Sustainable Business Advisory	14.0	20.0	16.5	11.9	8.4
Public-Private Partnerships	3.7	3.4	1.7	2.5	2.4
Total for Business Lines	33.0	40.9	34.0	31.0	26.5
M&E, Contingency and Other	4.0	6.2	1.4	5.7	8.1
Total	100.8	106.1	94.6	92.7	92.7

†before Phase 2 of FMTAAS Partial Mainstreaming

ANNEX 3: FMTAAS ACTIVE COMMITMENTS TO ADVISORY SERVICES MULTI-YEAR PROGRAMS FY12-17

US\$ millions

	Region	FY12	FY13	FY14	FY15	FY16	FY17	Total
PEP - Africa - Private Enterprise Partnership in Africa	SSA	8.9	9.3	9.8	10.2			38.2
Subtotal SSA		8.9	9.3	9.8	10.2			38.2
PEP - Pacific - Private Enterprise Partnership in Pacific	EAP	0.8						0.8
PEP - Philippines	EAP	1.0						1.0
PENSA - Program for Eastern Indonesia SME Assistance	EAP	2.0						2.0
MPDF - Mekong Private Sector Development Facility	EAP	2.0						2.0
Advisory Services in East Asia and Pacific			13.0	13.0	13.0	13.0	13.0	65.0
Subtotal EAP		5.8	13.0	13.0	13.0	13.0	13.0	70.8
PEP - ECA	ECA	10.0	10.0	10.0	10.0			40.0
Subtotal ECA		10	10	10	10			40.0
LAC MSME	LAC	2.4						2.4
LAC	LAC	12.7	14.8					27.5
Subtotal LAC		15.1	14.8					29.9
PEP - MENA	MENA	12.0	12.0	12.0				36.0
Subtotal MENA		12.0	12.0	12.0				36.0
SEDF - South Asia Enterprise Development Facility	SA	0.8	0.8	0.8				2.4
SLDF - South Asia Enterprise Development Facility – Sri Lanka	SA	0.3	0.3	0.3				0.9
SAIF	SA	1.0	1.0	1.0	1.0	1.0	1.0	6.0
Subtotal SA		2.1	2.1	2.1	1.0	1.0	1.0	9.3
FIAS - Facility for Investment Climate Advisory Services	Global	4.0	4.0	4.5	5.0	5.5		23.0
FSBAS - Facility for Sustainable Business Advisory Services	Global	5.0	5.0	5.0	5.0	5.0		25.0
Financial Mechanisms for Climate Change	Global	1.0	1.0					2.0
Community Development and Extractive Industries	Global	1.2						1.2
Global Extractive Industries Policy Support Fund (EITI)	Global	0.8						0.8
Subtotal Global		12.0	10.0	9.5	10.0	10.5		52.0
TOTAL		65.9	71.2	56.4	44.2	24.5	14.0	276.2

ANNEX 4: CORPORATE SCORECARD

IFC Corporate Goals	Indicators	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Estimate	Note
Greater Development Impact	Investments : DOTS Score - % Mostly Successful or better	71%	67%	68%	>=65%	1
	Advisory Services: DOTS Score - % Mostly Successful or better	64%	67%	72%	>=65%	
	Strategic Focus Area 1					
	Commitment in Sub-Saharan Africa (\$ mn)	2,428	2,150	2,733	3,200 - 3,400	
	Commitment in Middle East and North Africa (\$ mn)	1,572	1,603	2,210	1,800 - 1,900	
	# of IS projects in IDA Countries	255	251	283	250 - 295	2
	Share of AS Program in IDA Countries, %	62%	64%	65%	63% - 65%	
	# of IS projects in Fragile and Conflict Situations	57	43	45	35 - 48	
	Share of AS Program in Fragile and Conflict Situations, %	n/a	17%	18%	16 - 18%	
	% of IS projects in frontier region	11%	11%	7%	8% - 10%	
	Strategic Focus Area 2					
	Commitments in Climate Related (\$ mn)	1,644	1,671	1,621	2,400 - 2,600	3
	Strategic Focus Area 3					
	Commitment in infrastructure (\$ mn)	2,205	1,958	1,695	2,500 - 2,800	4
	Commitment in health and education (\$ mn)	432	184	839	325 - 400	
	Commitment in agribusiness and food supply chain (\$ mn)	1,923	1,933	3,500	3,600 - 4,400	5
	Commitment in financial markets (\$ mn)	6,654	7,741	9,375	8,300 - 9,300	6
	Commitment in MSME (\$ mn)	5,279	6,020	6,077	5,500 - 6,500	7
	Strategic Focus Area 4					
	IDG 3a: # of individuals and microenterprises with access to financial services, clients (millions) (AS/IS)		22.9	32.8	28.1	
	IDG 3b: # of SMEs with access to financial services, clients (millions) (AS/IS)		0.4	1.5	1.14	
	Strategic Focus Area 5					
	Number of South-South projects	71	32	41	50 - 70	
	Investment in South-South projects (\$ mn)	1,654	1,034	1,515	1,500 - 1,800	
<p>1 The IS DOTS scores for FY10, FY11 and FY12 are based on Development Outcome Ratings for projects approved between CY2001-2006, CY2002-2007 and CY2003-2008, respectively. The estimates for FY13 would apply to projects approved between CY2004 and 2009.</p> <p>2 Excludes IDA portion of AS World projects.</p> <p>3 Climate Mitigation (Renewable Energy, Energy Efficiency, Non-RE/EE) + Climate Adaptation + Special Climate.</p> <p>4 Commitments in infrastructure (excluding oil, gas and mining), communications & information technologies and subnational finance.</p> <p>5 Agribusiness and food supply chain includes food & beverages production & processing, agri-related infrastructure, food packaging, agri-related chemicals and fertilizers, food retail, agri-related financing to FIs and trade finance for agri-products. Volumes include IFC own account in the Agribusiness Strategic Action Plan.</p> <p>6 Excludes private equity and investment funds.</p> <p>7 Includes direct MSME borrowers, financial institutions with more than 50% of their business clients being MSMEs, and any other investments that specifically target MSMEs as primary beneficiaries.</p>						

Continued on next page

CORPORATE SCORECARD (continued)

IFC Corporate Goals	Indicators	FY10 Actual	FY11 Actual	FY12 Actual	FY13 Estimate	Note	
Financial Sustainability	IFC Commitment (\$ mn)	12,664	12,186	15,462	16,100 - 17,300	8	
	Total Volume (IFC own account + Core Mobilization)	18,041	18,660	20,358	21,700 - 23,600		
	Mobilization Ratio	0.42	0.53	0.32	0.34 - 0.37		
	# of projects committed	528	518	576	555 - 585	9	
	Productivity: Cost per Number of Weighted Commitments (\$ Thousands)	501	604	587	620 - 650		
	Portfolio Management	Total Portfolio Score (Compliance and Relationship Management combined), %	75%	80%	88%	85%	10
	Profitability	Net Income before IDA grant (\$ mn)	1,946	2,179	1,658	900 - 1,300	
	Capital Adequacy:	Total resources available (TRA) (\$ bn)	16.8	17.9	19.2	20.0	11
		Total resources required (TRR) (\$ bn)	12.8	14.4	15.5	16.7	
	Liquidity:	Externally funded liquidity level (min. 65%)	190%	266%	327%	317%	
		Overall liquidity level (min 45%)	71%	83%	77%	81%	
	Leverage Ratio		2.2	2.6	2.7	2.8	12
		Return on Average Net Worth (annualized based on FYTD performance)	11.8%	5.9%	9.9%	4.3%	
Greater Client Satisfaction	Investment: % Overall Client Satisfaction	82%	83%	90%	80% - 85%	13	
	Advisory Services: % Satisfied and above	87%	87%	88%	80% - 85%	14	
High Quality, Diverse and Engaged Employees	% of Women staff (GF-GG)	45%	45%	45.0%	46.6% (Q3)	15	
	% of Women Managers	28%	27%	31.1%	31.4% (Q3)		
	% of Sub-Saharan/Caribbean Net staff (GF+ HQ Appt)	9%	9%	8.5%	9.1% (Q3)		
	% of managers from Part 2 countries	34%	35%	37.9%	39.1% (Q3)		
8 Defined as the sum of loan participations, parallel loans, A-loan participation sales, non-IFC investment portion of structured finance, and mobilization through the AMC funds and IFC Initiatives, divided by IFC direct investments and the IFC portion of structured finance and AMC fund investments.							
9 A weighting method to the number of committed projects according to the method as described in the FY12-14 and FY13-15 Business Plan and Budget paper. The underlying intention is to give more credit, i.e. more weight, to projects that occur in IDA countries and via equity products and less weight to TF projects.							
10 After wide consultations throughout IFC, the portfolio scorecard was refined to focus on (i) Compliance (timeliness, quality, record-keeping) and (ii) Relationship Management (prompt reply on amendments and waivers, follow-up on services promised to the IFC Board or Client, exemplary work). Compliance counts for 55%, and Relationship Management counts for 45%, with the overall benchmark/threshold being 80% (out of 100%).							
11 Liquid resources as a % of next three years' estimated cash requirements. Subject to change of Maturity of Market borrowings that can drop to 80%.							
12 Leverage (Debt/Equity) ratio is defined as the number of times outstanding borrowings plus outstanding guarantees cover paid-in capital and accumulated earnings (net of retained earnings designations and certain unrealized gains/losses).							
13 Annual External Client Survey.							
14 Annual External Client Survey.							
15 FY11 D&I estimates and associated calculations are based on IFC's FY 12-13 Diversity & Inclusion Compact.							

ANNEX 5: AMC PRO-FORMA P&L

IFC Asset Management Company

US\$ '000s

	FY12	FY13	FY14	
	Actual	Forecast	Base Case Projections	Upside Case Projections
Management Fees	16,688	23,475	35,049	42,833
Fund Expense Reimbursements	1,487	3,691	2,476	2,611
CapFund Cost Recovery	9,412	16,771	15,538	15,538
Total Revenue	27,587	43,936	53,063	61,032
Transaction & Supervision Fees	6,786	17,112	16,998	17,550
Out-of-pocket expenses	208	1,208	1,482	1,527
Business & Fund Dev Fees	3,464	2,689	5,544	6,502
IFC Chargeback	7,156	9,674	11,870	12,563
AMC Expenses	9,831	12,943	18,247	19,273
	27,445	43,626	54,141	57,415
Net Income / (Loss)	142	310	(1,078)	3,616

Notes

- FY14 Base Case projections include Equity Fund, Sub Debt Fund, ALAC Fund, AfCap Fund, RBCF, Catalyst Fund (\$400 million) and GIF (\$850 million)

- FY14 Upside Case projections include Base Case plus MENA Fund, IFC Catalyst Fund (+\$100 million) and IFC Infrastructure Fund (+\$150 million)