

**FY11 BUSINESS PLAN
AND BUDGET**

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EXECUTIVE SUMMARY

- i. The purpose of this paper is to present IFC's FY11 business plan and budget for consideration by the Board. IFC's strategic priorities which were discussed at length in *IFC Road Map, FY11-13 – Maximizing Impact, Unlocking our Potential* are translated herein into a business plan along with the budgetary resources necessary to deliver it. Part I presents the context in which IFC operates along with the business plan and a short review of IFC's strategy. Part II outlines the IFC 2013 initiative. Part III presents IFC's Asset Management Company (AMC). Part IV describes in detail the FY11 budget proposal. Part V then sets forth the recommendations for the administrative and capital budgets, advisory services facilities, and delegated authorities.
- ii. While the worst of the global financial crisis has passed, its effects are still felt as the world economy begins to recover. The recovery is, however, likely to be slow, uneven, and fragile. Capital flows to developing countries have not returned to pre-crisis levels and are not expected to do so in the near future. This means that the availability of long-term financing throughout the developing world will be limited for some time to come which, in turn, constrains private sector growth, especially in IDA countries and frontier markets. IFC will continue to maximize development impact and additionality within its limited resources, while remaining financially sustainable. Building on its leadership in results measurement, IFC will take the next step and phase in the implementation of forward-looking Corporate development goals. IFC will also increase its focus on mobilizing funding from other sources, in particular through its Asset Management Company, thereby leveraging IFC's resources to the fullest extent, and generating the greatest development impact where it is most needed. IFC's strategy will be a critical part of the WBG's efforts in the five priority areas set out in the WBG's Post-Crisis Directions Paper.
- iii. IFC expects commitments in FY10 to be in the range of \$11.5 to \$12.5 billion, in 480 to 540 projects with about 50% of these projects in IDA countries. Compared to FY09, total commitments will be 9%-19% higher in terms of volume, and 7-21% more projects. IFC should leverage its commitments in FY10 with \$4.5 to \$5.5 billion in mobilization. Looking forward to FY11, the business plan calls for new commitments to be in the range of \$12.0 to \$13.4 billion – a 6% increase over the midpoint of the estimated FY10 range – in 515 to 565 projects with about 50% in IDA countries. Mobilization is expected to increase to a range of \$5.0 to \$7.0 billion in FY11.
- iv. To deliver this business program, IFC proposes a Regular Administrative Budget of \$608 million which is 1.9% higher than FY10 in real terms (4.3% including the budget price adjustment). The Management Team has prudently used FY10 budgetary resources and will continue to do so in FY11. The proposed nominal increase for FY11 is slightly less than the expected growth in new commitments, and overall the budget still represents only about 2% of IFC's disbursed portfolio. Further, the proposed \$11 million real increase in Regular Administrative Budget compared to FY10 Budget represents 0.06% of IFC's capital as of March 31, 2010. The Management Team proposes this modest increase to expand the Corporation's activities which can have the highest development impact and to grow IFC's field presence by opening four new offices in IDA countries. Specifically, the increase would allow IFC to undertake critical new work such as: the formulation of a Global Palm Oil Strategy and Global

Agribusiness Approach; the creation of a private education investment strategy in the Arab world to enhance and refocus post-secondary education; or the creation of a Climate Change Department to spearhead IFC's efforts in this strategic priority. The Management Team feels that the benefits of these and other new programs greatly outweigh the small incremental cost and help build the foundation for expanded business in the future.

v. At the same time, IFC will be implementing the IFC 2013 initiative which is the next step in an ongoing evolution of IFC's organizational structure, processes, and incentives to better align with its strategic priorities. The primary objectives of IFC 2013 are to: a) expand IFC's Development Impact; b) strengthen IFC's ability to be financially sustainable; c) improve Client Satisfaction; d) strengthen talent management and people development; and e) better leverage Global Knowledge in a decentralized environment. To achieve these objectives, IFC is strengthening its development objectives, including the adoption of development goals, adopting measures to strengthen financial sustainability, aligning the performance management cycle to the strategy and budget cycle, and revising the organizational structure of investment operations to be supported by Operations Centers which bring decision-making, execution capacity and support functions closer to clients. Front-line staff are also expected to become more functionally specialized which will further increase efficiency. This paper summarizes the incremental costs and benefits of the IFC 2013 Program. These include incremental upfront costs totaling \$7.6 million during FY10 and FY11 and incremental recurring costs of about \$2.4 million per annum from FY11. These incremental costs are included in the proposed FY11 budget. The IFC 2013 program will also generate a range of quantifiable and qualitative benefits. Productivity improvements are projected to gradually ramp up with the introduction of the Istanbul Operations Center in FY11, and amount to the equivalent of \$28 million per annum by FY13 when the new model is fully operational across all of our operations. These savings would be redeployed to meet the growing demands for new investments and to enhance IFC's development impact.

vi. The Corporation continues to monitor the efficiency and productivity of its investment operations and has done so for several years. The primary metric used is a comparison of investment outputs (commitments) to inputs (budget). The ratio of commitments (both in terms of project count and dollar volume) per dollar of budget steadily improved from FY03 to FY09. The trend has flattened in FY10 and is expected to remain so in FY11 as a result of the effects of the global financial crisis on the investment pipeline and IFC's subsequent response as well as more investments being made in equity and in IDA/frontier, which are more costly per dollar invested. IFC initially shifted its attention during the crisis to help existing clients weather the downturn. The Corporation also enhanced its portfolio supervision activities; this focus both assists clients companies and ensures that IFC's balance sheet remains healthy and generates the revenues necessary to keep IFC sustainably profitable. As changes resulting from IFC 2013 are implemented, the efficiency and productivity metrics should show steady annual improvements.

vii. Significant progress has been made in increasing cooperation among WBG entities, which remains an important corporate goal for IFC to enhance overall development impact. In addition to a joint Vice Presidency and joint Departments working in a number of core sectors, IFC is building on continuing close cooperation in the areas of strategy, policies and systems, and projects. Particular opportunities for closer cooperation this year included the WBG crisis response (also in conjunction with other IFIs), the partnership with MIGA, coordination within regions, and country strategies. WBG Cooperation in the field is also enhanced, particularly in

IDA and post-conflict countries. Looking forward, IFC's strategy is a critical part of the five specific and inter-related WBG priorities in a post-crisis world. IFC has also been deeply involved in the development of a WBG Information Management and Technology (IMT) strategy.

viii. Advisory Services is an integral part of IFC's full value proposition to clients. It complements IFC's investment program while also reaching clients and constituencies that the investment program could not. Advisory Services contribute at two levels: by improving the business enabling environment for the private sector in general, and developing the potential of individual private firms and entrepreneurs. The overall FY11 budget proposed for Advisory Services is \$355 million, comprising donor and client contributions of \$211 million; IFC's contribution through FMTAAS of \$110 million; and \$34 million from IFC's Regular Administrative Budget and administrative fees levied on donor contributions. The Management Team is also proposing a new funding model for the Advisory Services business which is focused on four main measures to strengthen the AS funding model which would be implemented as part of the IFC 2013 initiative for Advisory Services. The four key measures are: i) strengthening client contributions; ii) strengthening donor contributions; iii) better leveraging, and partially mainstreaming, IFC's contributions; and iv) implementing further improvements to financial management systems and processes. Pending consultations with staff on how this model would affect AS staff, the new funding model will be phased in over FY11 to be fully in place for the start of FY12.

ix. The Asset Management Company (AMC) was established in FY09 to manage third-party capital. It was created to allow IFC to further expand the range of its investment mobilization. Specifically, the AMC helps mobilize equity investments in developing countries from the substantial liquidity accumulated by sovereign, pension and other institutional investors. By tapping into these investors, the AMC allows IFC to scale up its equity investment activities in a capital efficient manner. The AMC also allows for the creation of targeted initiatives that address the specific developmental objectives of IFC's shareholders and partners. The AMC will reimburse IFC for its costs incurred in supporting the AMC in two ways. First, for IFC costs related to the operation of the AMC such as staff on External Service with Pay, office occupancy, IT & communications, and travel. Second, the AMC will pay transaction fees to IFC for its costs and activities related to sourcing, negotiating, closing and monitoring transactions completed for AMC funds. The AMC is discussed in this paper to give a full picture of IFC's planned development efforts for FY11. This is presented for information only as there is no budget approval required from the IFC Board for AMC beyond the \$4 million already approved in November 2008 (*IFC President's Report -Sovereign Funds Initiative-African, Latin American and Caribbean Fund*) and December 2008 (*IFC President's Report-World Region-Proposed Investment in Bank Recapitalization Fund*) for the establishment of AMC and its initial two funds. So far, \$2 million of this \$4 million has been drawn down by AMC.

x. IFC's staff grew by 37% from FY05 to reach 3,325 at the end of FY08, compared to a growth rate of 112% in investment commitments and 126% in advisory operations. This deliberate growth period has been followed by a more stable pattern over the last two years. IFC had 3,384 staff at the end of the third quarter of FY10 (which is slightly lower than FY09-end of 3,402) and is expected to see only a moderate growth in staff numbers by the end of the fiscal year. IFC's human resources (HR) and staffing strategy has, therefore, shifted from managing growth to responding to new market realities and business needs. At the same time, IFC has been

transforming itself into a decentralized organization in which field-based staff account for 54% of total staff, up from 44% in FY05, by hiring mainly in the field. The HR strategy also supports the implementation of IFC 2013, through the development of new organizational structures focused around Operations Centers. The Operations Centers will encourage further staff decentralization and presence in IDA and frontier regions. By being closer and more responsive to clients, IFC aims to improve staff productivity, efficiency and flexibility within a relatively constrained budget.

xi. The global financial crisis severely disrupted markets throughout the world and caused millions to slip back into poverty. The recovery seems to have begun but it remains a bumpy road. The aftermath of the crisis presents IFC a unique opportunity to expand its catalytic role – both through mobilization and the demonstration effect – to help meet the immense needs of the private sector in developing economies. IFC’s value proposition – investment, advisory services, and the Asset Management Company (AMC) – offers clients and partners a full spectrum of products and services to address their unique needs. The FY11 business plan and budget presented here for the Board’s consideration should allow IFC to fulfill this role while laying the groundwork that will deliver even greater additionality and development impact in the years to come.

Part I: Business Plan and Context

1.1 The global economy appears to be on a path to recovery, although progress is likely to be slow, uneven and fragile. Weak bank lending means that capital flows are not recovering to pre-crisis levels, and this situation is expected to persist in the future. Long-term financing conditions will therefore remain tight, with the private sector in developing countries being most affected, particularly in IDA countries. The crisis has set back the fight against poverty and made development challenges even more formidable.

1.2 Nonetheless, developing countries will be an important engine of growth, aided by a resurgent private sector. As a result of the restricted external financing conditions, as well as the tremendous needs, the demand for IFC's services has never been greater. IFC is well positioned to respond to this opportunity for the delivery of more private-sector-led development impact. As part of the World Bank Group (WBG), IFC shares the comparative advantages of presence, knowledge, finance, leadership in global public goods, and convening power. In addition, IFC has a proven track record as the world's preeminent development institution focused exclusively on the private sector. IFC's clients and programs are delivering development impact, and IFC is a leader in measuring and reporting on its development results.

A. FY10 PROGRESS REPORT

1.3 IFC has made significant achievements over recent years and despite the crisis has continued to deliver strong development results through investments, mobilization and advisory services.

1.4 In response to the crisis, IFC not only worked on broader crisis initiatives to help address systemic issues, but also redirected staff resources to portfolio management and prioritized individual engagements with portfolio clients to assess their needs for additional investment and advisory support. Now that the worst of the crisis seems to have passed for many countries, IFC is helping clients build for the future through its financing, advice and innovative approaches.

1.5 IFC expects investment commitments in FY10 to be in the range of \$11.5 to \$12.5 billion, in 480 to 540 projects, with around 50% of these projects in IDA countries. IFC expects to leverage its commitments in FY10 with \$4.5 to \$5.5 billion in mobilization.

Table 1.1: FY07-10 Investment Commitments by Region
US\$ millions

	FY07 Actual Amt	FY08 Actual Amt YoY%	FY09 Actual Amt YoY%	FY10 Range Estimate Amt YoY%
East Asia & Pacific	944	1,634 73%	1,197 -27%	1,400 - 1,500 17% - 25%
Europe and Central Asia	1,786	2,680 50%	2,146 -20%	2,850 - 3,000 33% - 40%
Latin America & Caribbean	1,781	2,943 65%	2,721 -8%	2,500 - 2,800 -8% - 3%
Middle East & North Africa	1,217	1,442 18%	1,260 -13%	1,650 - 1,900 31% - 51%
South Asia	1,073	1,264 18%	1,215 -4%	1,100 - 1,200 -9% - -1%
Sub-Saharan Africa	1,379	1,380 0%	1,824 32%	2,000 - 2,100 10% - 15%
World*	39	56 44%	184 229%	
Total	8,220	11,400 39%	10,547 -7%	11,500 - 12,500 9% - 19%

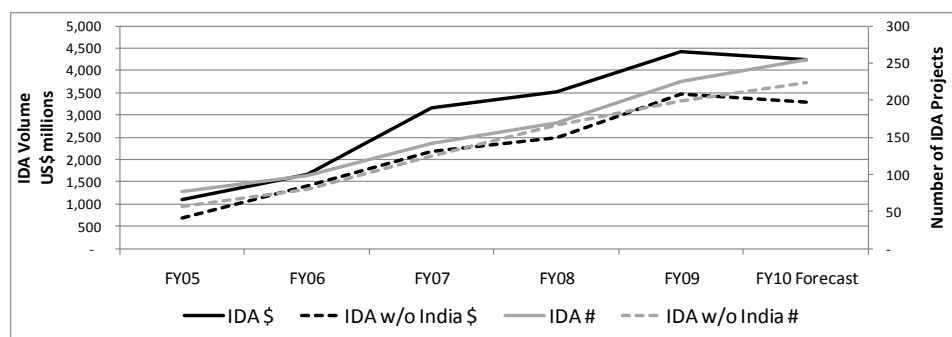
*FY10 world commitments have been allocated among the regions

1.6 India is IFC's largest single country exposure. While managing exposure in a disciplined way, IFC expects to commit around \$1 billion for its own account in FY10-12, in line with commitments in the prior two years. This would be supplemented by mobilization from banks and other resources. IFC is also making a concerted effort to deliver an increasing share of investments in the rest of the region, i.e. Bangladesh, Bhutan, Nepal, Maldives and Sri Lanka.

1.7 In Latin America and the Caribbean, FY08 yielded unusually high volumes, while FY09 progressed as expected, given the regional strategy of broader reach (more countries, frontier and Central America and the Caribbean) which translated into more projects of a smaller size on average. In FY10 IFC's total impact in the region will, however, be stronger than indicated by the lower commitment volumes shown in Table 1.1 since a high share of mobilization takes place in this region.

1.8 The number of IDA commitments tripled between FY05 and FY09, and the share increased from 32% in FY05 to 50% in FY09. IDA commitment volume quadrupled over the same period to \$4.4 billion, or 42% of volume (from \$1.1 billion, or 21%, in FY05). The compound annual growth rate (CAGR) of IDA investments was 41% in the FY05-09 period (50% without India), compared to 18% for IFC as a whole and 4% for the BRCT¹ (without India). IFC is expected to invest about \$4.0-\$4.5 billion in IDA countries by the end of FY10.

Graph 1.1: Investment Commitments in IDA, FY05 – FY10



1.9 Frontier regions in Middle Income Countries (MICs) are also an important part of IFC's frontier strategy. Nearly 70% of the world's poor live in MICs, often in frontier regions. IFC's investments in IDA countries plus frontier regions were 59% of total investment projects in FY09 and 51% of investment volume and the percentage is expected to remain roughly the same in FY10.²

1.10 Development Outcome Tracking System (DOTS) results on an un-weighted basis show that in FY09, 71% of IFC's investment operations had high development outcomes (based on rating as of June 30, 2009 for projects approved in calendar years 2000-05), meeting or exceeding financial, economic, environmental and social, and private sector development performance benchmarks and targets. This is the same percentage as in FY08, and substantially higher than FY06 and FY07 results. While Europe and Central Asia experienced a substantial deterioration of development results due to the effects of the global financial crisis, this

¹ BRCT: Brazil, Russia, China and Turkey

² The FY10 list of Frontier Regions in MICs is on IFC's Corporate Strategy Department's Homepage on the IFC Intranet.

deterioration was compensated for by improvements in other regions. Results weighted by IFC's investment volume were even stronger at 82% in FY09.

1.11 IFC's Advisory Services program has experienced a period of rapid growth with average annual growth rates of 30% in FY06-09. The business is now going through a consolidation phase, with project spend growth in FY10 expected to be around 6%. In FY09, the DOTS score for advisory services was 58%, a decline from 67% in FY08. The lower FY09 score resulted from a formal product review that led to the closure of a substantial number of unsuccessful projects. Going forward, the focus will be on products that are likely to result in better development outcomes.

1.12 The AMC is a subsidiary of the IFC and was established in FY09 to manage third party capital in the form of private equity funds. As of April, 2010, the AMC is managing one of IFC's crisis initiatives, the IFC Capitalization Fund. AMC has also received commitments of four investors in addition to IFC with the total amount up to \$800 million for the Africa, Latin American and Caribbean Fund, which is targeted to raise a total of \$1 billion and will co-invest in IFC's equity transactions in those regions. The AMC is also developing other regional and sectoral funds.

1.13 IFC's Five Pillars³ remain the strategic framework within which IFC prioritizes its activities, and selects its programs, projects and clients, using the screen of greater development impact, additionality, and financial sustainability. As to additionality, IFC prioritizes engagements where others are unable or less willing to provide the critical capital, expertise and experience to enable successful development outcomes. This approach has resulted in an increasing percentage of investment and advisory programs in IDA countries, Sub-Saharan Africa, frontier regions in MICs and Fragile Situations⁴, and a strategic focus on Micro, Small and Medium Enterprises (MSMEs), as well as climate change and the Base of the Pyramid (BOP), in particular in MICs.

1.14 As to financial sustainability, IFC's strategic capital over the medium term is closely driven by aggregate program levels, product mix and financial performance, and IFC must maintain adequate resources to preserve its AAA rating. With the crisis, early signs of capital constraint were emerging and IFC responded with discipline to help safeguard its financial sustainability so that it can continue to deliver development impact over time.

1.15 Steps taken included making trade-offs and focusing on areas of biggest development potential, carefully balancing the need for future revenue streams, largely coming from equity, with the capital intensity of equity relative to debt and shorter-term products, and strengthening risk and portfolio management. IFC stepped up the proportion of trade finance in its product mix – less capital intensive than other instruments but critical to maintaining the flow of much needed trade – and also focused on prudent equity investments and more quasi-equity instruments such as convertible loans. For IFC's advisory services, significant progress has been

³ The Five Pillars are: 1. Strengthening the focus on frontier markets (IDA countries, Fragile Situations, and frontier regions in middle income countries); 2. Building and maintaining long-term client relationships with firms in developing countries, using the full range of IFC's products and services, and assisting their cross-border growth; 3. Addressing climate change, and ensuring environmental and social sustainability activities; 4. Addressing constraints to private sector growth in infrastructure, health, education and food supply chain; and 5. Developing local financial markets through institution building, the use of innovative financial products and mobilization, and focusing on micro, small and medium enterprises.

⁴ Fragile Situations have: either a) a harmonized average Country Policy and Institutional Assessment (CPIA) country rating of 3.2 or less, or b) the presence of a UN and/or regional peace-keeping or peace-building mission during the past three years.

made in strengthening the long-term funding model, including through greater emphasis on client contributions and strengthening its partnerships with donors. These efforts are starting to pay off, but IFC must continue to focus on the financial sustainability of its investment and advisory businesses.

1.16 In recent years, IFC has made good progress towards operational efficiency and effectiveness, at both the strategic and organizational levels. This puts IFC in a strong position to evolve to a new level of improved efficiency and client service through the IFC 2013 initiative. This is discussed in more detail in Part II.

B. FY11 STRATEGY AND BUSINESS PLAN

1.17 IFC will maximize impact through a focused approach, prioritizing activities based on greatest development impact, additionality and financial sustainability, and enhanced mobilization. IFC's strategy will be a critical part of the WBG's efforts in the five priority areas set out in the WBG's Post-Crisis Directions Paper. The IFC 2013 initiative will enhance IFC's ability to deliver development impact in a financially sustainable way, including through an improved delivery model. The FY11 strategy is fully articulated in *IFC Road Map, FY11-13*; regional strategies are reviewed in this section to provide context for the business plan and budget.

1.18 Building on its leadership in results measurement, IFC will phase in the implementation of a set of high-level development goals that will provide a forward-looking framework for developing strategies across investments, advisory services and the AMC, with measurable indicators of progress. The proposed development goals will be discussed with the Board at a Technical Briefing in May.

1.19 These development goals will not be the only drivers of IFC's corporate strategy. In addition to ensuring financial sustainability, IFC needs to ensure that a focus on maximizing global reach does not distort project choices between large and small countries. Country and sector strategies will consider the tradeoffs between contributing to global development goals and country-specific priorities and impacts. IFC is also working to establish sub-goals for particular groups of countries or categories of beneficiary. Importantly, IFC also recognizes that measures flowing from development goals cannot capture the whole of IFC's contribution to private sector development, including the demonstration effects flowing from successful projects.

1.20 The Five Pillars, supported by the new development goals, will remain the framework within which IFC will prioritize activities based on where the opportunities for development impact and additionality can be maximized in a financially sustainable way. IFC would therefore continue to focus on:

- Frontier markets: IDA countries, Fragile Situations, frontier regions in MICs;
- Climate change, where IFC can take a leadership role in private sector involvement
- Micro, small and medium enterprises and the needs at the BOP; and
- Financial inclusion, social and physical infrastructure and water, and food security.

1.21 IFC will aim to maintain its investments in IDA countries at around 45-50% of total projects, but at the same time needs to maintain a careful balance between lower- and higher-risk

activities in order to preserve its financial sustainability, as well as being mindful of the resource-intensity and average size of projects in more difficult markets.

1.22 IFC will continue to engage in a focused manner in MICs. Not only do 70% of the world's poor live here, but the economic prosperity brought about by a vibrant private sector in these countries is critical to the prospects of surrounding, often poorer, countries given sub-regional dependencies. From an IFC portfolio perspective, a sufficient balance is needed to optimize development impact, financial sustainability and risk profile. Engagement in MICs also supports climate change mitigation, addressing the needs of the BOP, South-South investment, technology transfer, and a truly global knowledge-base. Mobilization is also expected to increase in MICs.

1.23 IFC will aim to build up its equity portfolio. IFC is projecting that 21-23% of its FY10 and FY11 program for its own account will be equity, compared to 20% in FY09. The ability to draw on funds managed by the AMC will help IFC play a more important role supporting its clients with much-needed risk capital. In order to strengthen further the Corporation's focus on equity, as part of the re-alignment of investment departments under IFC 2013, new senior positions focusing on equity are being created in each of the real, infrastructure and financial markets sectors, to work closely with IFC's Corporate Equity Department. An informal Board meeting on IFC's equity strategy will be scheduled.

1.24 Short-term finance, in particular trade finance, will continue to be an important part of IFC's activities in FY11, projected to account for around 22% of volume. The largest share of this business is forecast to be in Sub-Saharan Africa and Latin America and Caribbean (CLA).

1.25 As noted in the Road Map, Sub-Saharan Africa is projected to be the fastest-growing region, with its share of IFC own-account volume increasing from 12% in FY08, 17% in FY09 to around 18% in FY11 – and forecast to reach about 21% by FY13. As can be seen in Table 1.2, IFC volume for its own account in CLA and Europe and Central Asia is projected to remain stable.

1.26 Increasing mobilization from private sector and other partners is a key part of IFC's strategy of leveraging its own resources in order to increase development impact. However, in order to maximize the potential from mobilization, it is important that IFC commit a significant level of its own funds alongside its partners. Europe and Central Asia and Latin America & the Caribbean are likely to be a focus for mobilization activity.

1.27 The FY11 business plan calls for new commitments to be in the range of \$12.0 to \$13.4 billion – a 6% increase over the midpoint of the estimated FY10 range – in 515 to 565 projects with about 50% in IDA countries. IFC will continue to leverage its own investments with mobilization which is expected to increase to a range of \$5.0 to \$7.0 billion.

Table 1.2: FY10 and FY11 projected Commitments by Region
US\$ millions

	FY10 Estimate Amount	FY11 Projections Amount	FY10 Estimate % of Total	FY11 Projections % of Total
East Asia & Pacific	1,400 – 1,500	1,550 – 1,800	12% - 12%	13% - 13%
Europe & Central Asia	2,850 – 3,000	2,700 – 3,000	25% - 24%	23% - 22%
Latin America & Caribbean	2,500 – 2,800	2,500 – 2,800	22% - 22%	21% - 21%
Middle East & North Africa	1,650 – 1,900	1,800 – 2,050	14% - 15%	15% - 15%
South Asia	1,100 – 1,200	1,200 – 1,350	10% - 10%	10% - 10%
Sub-Saharan Africa	2,000 – 2,100	2,250 – 2,400	17% - 17%	19% - 18%
IFC	11,500 – 12,500	12,000 – 13,400	100% – 100%	100% - 100%
o/w IDA	4,000 – 4,500	4,300 – 4,800	35% - 36%	36% - 36%

1.28 IFC's Advisory Services (AS) business has grown rapidly since its formal inception in FY05. Following this period of growth AS focused on consolidating reforms during FY10. Beginning in FY11, the AS business is expected to resume steady and focused growth. Project spending in Sub-Saharan Africa should be particularly robust, reaching 29% of total project spending by FY13. In line with IFC's strategic pillars, the Infrastructure and Sustainability (primarily climate change) Business Lines will be important areas of focus, accounting for 14% and 9% respectively by FY13. Growth in IDA countries is forecast to remain at 60% of project spending despite the expected graduation of some large countries from IDA status. Work in fragile and conflict-affected states is expected to stabilize at nearly 20% of spending, while frontier areas of MICs will remain at just over 10%. Spending on climate change is forecast to grow strongly – from less than 5% to nearly 20%.

1.29 The Asset Management Company (AMC) is the third branch of IFC's total value proposition to clients. In FY11, the AMC will actively work with IFC and third-party investors to activate the Africa, Latin American and Caribbean Fund. It will also be exploring the development of other regional and sectoral funds while managing and seeking additional investors for the IFC Capitalization Fund. Overall, it is expected that the AMC will complete transactions in all regions and industries by the end of FY11.

C. REGIONAL STRATEGY SUMMARIES FROM IFC ROAD MAP, FY11-13

1.30 **Sub-Saharan Africa.** IFC is expected to show the fastest growth in this region, reaching over \$3.2 billion by FY13, and will combine investments and advisory in a programmatic way within its three strategic pillars - enhancing MSME support, proactive project development with increased focus on infrastructure and agribusiness, and improving Africa's investment climate. A key priority is closing the energy gap, including through clean production. In addition, IFC will continue implementing the IFC - WB Health in Africa Initiative with its partners, expand its Post-Conflict Initiative to include Côte d'Ivoire, pursue a regional leadership role on climate change, pay particular attention to projects that promote regional integration, and work closely with other regional departments to foster sustainable South-South investment in Africa. In FY11, the Corporation also plans to open new offices in Bamako, Dar Es Salaam, Lusaka, and Ouagadougou.

1.31 **Middle East and North Africa.** This region remains one of IFC's focus areas where IFC will aim for continued growth. IFC will continue to focus on access to infrastructure,

finance, and IDA countries and Fragile Situations as well as on originating South-South investments. IFC will have an enhanced focus on sustainability, climate change and water, access to private education and health services, education for employment (E4E) to match the skills needs of the future, and agribusiness. IFC will also aim to open new markets such as Libya and Iraq and plans to open an office in Baghdad.

1.32 South Asia. There are clear signs of economic recovery in this region, where 40% of the global population living on less than \$1.25 a day resides. Industrial production and manufacturing continue to pick up, and in India, in particular, stronger domestic demand supports the recovery. The WB forecasts that the region would grow at 6.9% in 2010 and 7.4% in 2011. Despite this, developmental challenges abound in the region. The outlook for remittances inflows is difficult, as delayed effects of the global economic slowdown impact labor earnings. Inflation is also rising in India, Bangladesh, Sri Lanka and Bhutan due primarily to a sharp rise in food prices. Finally, natural resource sustainability and climate change continue to be significant development challenges in the region; Bangladesh and the Maldives are among the countries most likely to be affected in the world.

1.33 To support the budding recovery and help cope with these challenges, IFC's strategy in the South Asia region aims to support: (i) economic inclusion of those living at the base of the pyramid; (ii) climate change mitigation and adaptation, including water resource management; and (iii) global integration especially through sustainable South-South investments. Leveraging WBG resources and building on seamless efforts between IFC's investment and advisory services are key elements of IFC's approach.

1.34 East Asia and Pacific. IFC's strategic priorities in East Asia and Pacific are to mitigate climate change in the region, which produces 40% of the global CO₂e emissions, reach the rural underserved, help make urbanization more sustainable, and create more competitive markets. In China and Indonesia, the largest economies and top GHG emitters, the focus is on mitigating climate change. In China, IFC is also working to enhance the development impact of South-South investment, particularly in Africa. In the Pacific Islands, IFC delivers investments and advisory services that help diversify opportunities and link communities to markets. Overall, IFC will seek to scale up impact through financial intermediaries, integrated advisory and investment operations, mobilization, and World Bank collaboration. Advisory spending will be flat, and targeted to the regional climate change theme and to providing access to finance and infrastructure. IFC investment is expected to increase in IDA countries and Indonesia, with China expected to continue to decline as a share of the overall program. IFC is on track to exceed \$100 million in Pacific investment for the first time.

1.35 Latin America and Caribbean. In IFC's largest region based on portfolio, IFC's own account growth will be tempered and focused. However, IFC expects to be able to mobilize significant amounts, supplementing its own investments. IFC will continue increasing its activity in smaller countries and IDA countries, with a focus on Central America, the Caribbean and growth recovery and employment. In both the Caribbean and Central America IFC's offices and staff presence have been expanded and programs are gaining traction. In the Amazon, an advisory team is in place, and there are growing opportunities for sustainable engagement. Engagement in MICs will continue to be selective, with a focus on economic inclusion at the BOP, climate change, basic infrastructure (water, electricity and transport) and impact at scale through mobilization and programmatic approaches. In Brazil, IFC will also focus on Small and

Medium Enterprises (SME) support, social sectors and a competitive environment for infrastructure investment. In Mexico, IFC will focus on the business enabling environment, a programmatic WBG approach to infrastructure, and on microfinance and health and education.

1.36 Europe and Central Asia. IFC will continue to play an important role to address the impact of the crisis in this hardest hit region. IFC will focus investment and advisory activities to expand significantly its reach to the poor, with a strong emphasis on Central Asia and the Caucasus, and to address the region's climate change agenda. In addition to its own financing, IFC will mobilize more and promote South - South partnerships. IFC has doubled investment staff in Central Asia and Azerbaijan and grew annual commitments 18 times since FY06. In the lower income countries of the region, support to SME financing will remain a priority as will direct investments in key sectors, such as agribusiness. In the MICs, IFC will focus on crisis recovery and on developing the countries' economic potential and mitigating climate change. In Russia, for example, IFC will focus on crisis recovery in the short term, and on climate change and frontier regions in the longer term. The focus in Turkey will be on increased competitiveness, infrastructure and climate change.

D. HUMAN RESOURCES AND STAFFING

1.37 After a period of strong growth between FY05 and the end of FY08, when IFC's staff increased from 2,433 to 3,325, headcount has grown at a modest rate in the last two years to reach 3,384 on March 31, 2010. In FY09 and FY10, IFC's human resources (HR) and staffing strategy shifted from managing growth to responding to new market realities and business needs. Despite the slowdown in recruitment, IFC has continued its transformation to a decentralized organization. Field-based staff now account for 54% of IFC's total staff, up from 44% in FY05, with most hiring taking place in the field.

1.38 Through the IFC2013 initiative, IFC continues to strive for stronger development impact and client focus. HR's strategy supports the implementation of IFC 2013, through the set up of a new organization around Operations Centers. The Operations Centers will encourage further staff decentralization and presence in IDA and frontier regions. By being closer to clients, and more responsive, IFC aims to improve staff productivity, efficiency and flexibility.

Staffing and Recruitment

1.39 As a result of the financial crisis in FY09 and the headcount limits imposed by the Management Team, recruitment of new IFC staff in FY10 focused on strategic priorities and replacement of departures. Recruitment fell to 113 staff in the first half of FY10, down from 127 in the second half of FY09 and 290 in the first half of FY09. In the second half of FY10, IFC expects to hire about 130 new staff. Total recruitment in FY10 is, therefore, expected to account for about 240 new staff which compares to 417 hires in FY09 and an average of 575 hires per year between FY05 and FY08. With expected staff turnover of 8%, down from 9% in FY09, IFC staffing levels are expected to remain relatively flat in FY10 compared to the 3,402 staff onboard at the end of FY09.

Table 1.3: IFC Staff Count

	Headquarters	Country Offices	CO as % of Total	Total
Investment & Corporate Support				
FY08-end	1,332	802	38%	2,134
FY09-end	1,344	917	41%	2,261
FY10-Q3	1,341	954	42%	2,295
FY10-end (forecast)	1,335	972	42%	2,307
Advisory Services				
FY08-end	234	957	80%	1,191
FY09-end	231	910	80%	1,141
FY10-Q3	227	862	79%	1,089
FY10-end (forecast)	226	867	79%	1,093
Total Staff				
FY08-end	1,566	1,759	53%	3,325
FY09-end	1,575	1,827	54%	3,402
FY10-Q3	1,568	1,816	54%	3,384
FY10-end (forecast)	1,562	1,838	54%	3,400

1.40 IFC's Management Team closely monitors FY10 recruitment to ensure alignment with the strategic staffing objectives of decentralization, presence in IDA countries and increased number of senior specialists (Grade GG+). As of March 31, 2010, 69% of all FY10 hires were in the field, 28% in IDA countries and 28% were GG+ staff. This is in line or slightly above FY09 trends when 68% of hires were in the field, 28% were in IDA countries and 25% were GG+ staff. In FY10, staff presence in the field and in IDA countries remained stable compared to FY09 at respectively 54% and 20%. During the same period the proportion of GG+ staff went up from 37% to 40% (including promotions).

Diversity and Inclusion

1.41 Building on the progress that IFC has already made on WBG diversity targets, IFC is maintaining its commitment to diversity and inclusion. In FY10 (Q3), IFC reached 46% GF-GG female staff, up from 37% in FY03 and 41% in FY06. During the same period, Sub-Saharan African/Caribbean representation improved from 7.9% (FY03) and 8.4% (FY06) to 8.8%. Furthermore, while the focus is on improving IFC's ratio of Part II Managers which has been affected by staff departures, IFC has made significant progress on representation for female managers which increased to 30% in FY10 (Q3) from 21% in FY03 and 25% in FY06. The representation of staff from Nationalities of Focus increased from 19.0% in FY06 to 22.3% in FY10 (Q3). IFC's focus has been to systematically align recruitment, performance management, leadership development and training as well as incentive programs to its diversity and inclusion goals as well as improve communication of progress against these goals to staff.

Table 1.4: Diversity at IFC

Category	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10 Q3	IFC D&I Target	WB Diversity Target
Part II Managers	36.6%	37.4%	36.3%	34.5%	34.1%	32.9%	31.6%	33.1%	37%	43% - 48.5%
Women Managers	20.7%	25.2%	26.8%	25.0%	24.4%	27.7%	29.2%	29.6%	28%	30% - 35%
SSA/CR GF+ (HQ)	7.9%	6.9%	7.0%	8.4%	9.2%	8.8%	9.1%	8.8%	10%	10%
Women (GF-GG) HQ+CO	37.2%	35.9%	38.2%	41.1%	41.4%	43.7%	44.1%	45.6%	45%	45%
Nationalities of Focus (NOFs) - HQ Only				19.0%	19.9%	21.1%	21.9%	22.3%	25%	-

The Outlook for FY11

1.42 In FY11, IFC will continue to implement the new IFC 2013 organization and reassign staff to Operations Centers. HR priorities will include the finalization of roles and job descriptions for this new organization to clarify reporting lines and promote greater accountability.

1.43 IFC's overall workforce is projected to increase modestly in FY11. Staffing plans will support new initiatives and address critical skill gaps. Priorities for recruitment will include the Operations Centers in addition to staff with financial restructuring, equity, portfolio, and risk management experience. Advisory Services will focus on hiring experts in its five business lines: Access to Finance, Corporate Advice, Investment Climate, Infrastructure, and Environment & Social Sustainability.

1.44 With respect to geographic focus, the region where IFC will continue to recruit most staff should be the Sub-Saharan Africa region. Another priority will be adding external skills to the Istanbul Operations Center once internal assignments have been finalized. In this first Operations Center as well as across IFC, improving diversity, despite limited hiring, will continue to be a main focus of IFC's recruitment efforts. The Management Team will continue to monitor recruitment very closely to ensure priority areas are targeted. Hires in middle-income countries (other than Operations Centers) as well as in HQ should be limited. Planned new hires in Washington will concentrate on positions which benefit from being located at headquarters as a center of global industry leadership, knowledge management and risk management.

Mobility

1.45 IFC's capacity to redeploy staff globally will be essential to IFC's decentralization efforts, as well as to the implementation of the reassignment of staff to Regional Operations Centers within the IFC 2013 organization. IFC intends to revamp its relocation service that was introduced in FY08 to support mobility. This revamp will proceed following the analysis of services offered by the vendor including the differences between corporate and regional support. Current service includes direct access to a mobility coordinator, pre-departure and destination country briefings, identification of in-country resources to support relocation, and enhanced career support for relocating spouses. Although the service is currently available to all regions, it will provide additional support (e.g. spousal support) in FY11 to staff relocating to IFC's first Operations Center in Istanbul.

Global Career Framework and Talent Management

1.46 In light of IFC 2013, IFC's strengthened Global Career Framework ensures the long-term sustainability of the new operating model. In FY09, IFC launched this framework to provide opportunities for professional development to staff, regardless of point of hire or duty station. As part of the implementation of the Global Career Framework, IFC had also introduced a global approach to talent management, beginning with department-level talent reviews linked to the mid-year performance review. These discussions, which continued for a second year across the Corporation in the Spring 2010, help directors and their management teams assess key staff for appropriate career development opportunities.

Staff Development and Performance Management

1.47 The IFC 2013 initiative calls for a greater focus on people development and performance management. Further strengthening people development will help to improve staff productivity and efficiency as well as leverage staff skills and talent, particularly in the field. IFC has been revamping its learning and leadership programs over the last years and will accelerate these efforts going forward. In particular, the delivery of leadership programs for high potential staff, Corporate Leadership Program (CLP) and Global Business Leadership Program (GBLP) will be doubled to two cohorts per program per fiscal year. These leadership development initiatives will include a particular focus on maintaining commitment to diversity and inclusion. IFC will also continue to increase training offerings in the field and roll out eLearning modules and other web-based training courses.

1.48 Redesigning IFC's performance management tool is another of IFC 2013 key objectives. This includes clear objective setting and accountability as well as a performance management cycle in line with the fiscal year. Commencing in FY11, objectives of VPs and Directors will be set before the beginning of the fiscal year and those of Managers and staff before the end of the first quarter of the new fiscal year.

Compensation and Incentives

1.49 IFC continues to work closely with IBRD on a comprehensive review of the WBG compensation and benefits model in order to design an appropriate framework to support a global recruitment model that would facilitate staff decentralization and mobility. This review includes the Quadrennial Benefits Survey (QBS) which is a study jointly sponsored by the World Bank Group (WBG) and the International Monetary Fund (IMF) every four years in order to assess international and local competitiveness of benefits; and the HR Framework study for a Global Bank which will focus primarily on compensation design alternatives for the future global bank employment model.

1.50 Alignment of clear accountability and incentives is a main objective of IFC 2013. By aligning its awards programs with the strategic priorities of the Corporation, IFC ensures that corporate priorities resonate throughout the organization. In FY10, IFC intends to reinstate all variable-pay programs, as well as the review of market premium for eligible staff, that were temporarily suspended in the previous year in response to the global financial crisis. IFC's

variable-pay and market premium programs are funded through three Board approved mechanisms:

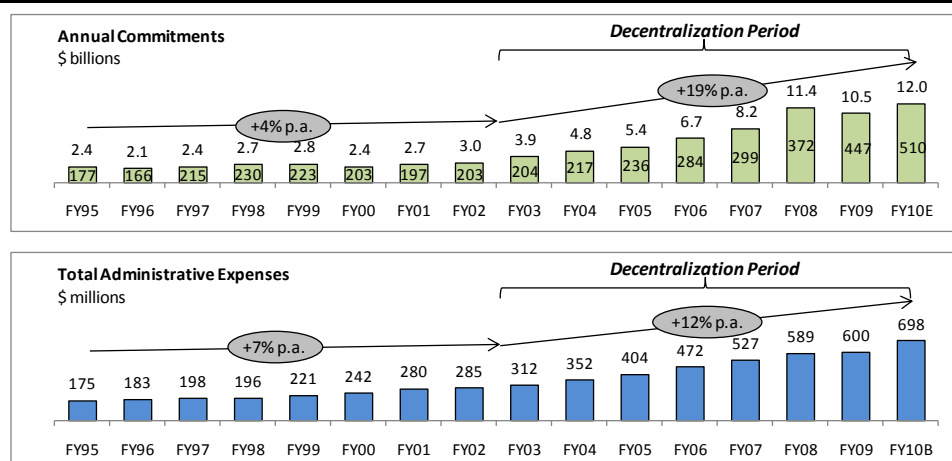
- **Market Premium:** The Market Premium is a non-pensionable allowance of between 8 to 12% of the MRP paid to staff in core finance functions (e.g. Treasury, Risk Management, etc.) where comparator organizations pay 35% or more above the Bank Group's MRP (approved by the Board in the 1998 WBG Compensation Review). For FY11, IFC is including a budget of \$1.8 million for this program.
- **Performance Awards:** The budget allocation for the annual awards program is authorized for between 1% and 1.5% of IFC's payroll (IFC/R98-231). For FY11 programs, IFC is requesting a budget of \$2.8 million.
- **Long-Term Performance Awards (LTPA):** This program is funded through the use of the funding analogous to the Market Premium. Although the Market Premium program has been authorized by the Board to be paid to all staff in core finance functions, which include Investment Officers, IFC introduced the LTPA as a mechanism to distribute these funds to Investment staff solely on the basis of performance. For the FY11 program, the funding for the LTPA would be about \$6.6 million.

PART II: IFC 2013

A. BACKGROUND

2.1 As was discussed in the *IFC Road Map, FY11-13*, IFC 2013 is the next step in an ongoing evolution of IFC's organizational structure, processes, and incentives to better align with its strategic priorities. IFC began the decentralization process in earnest in FY02 with the movement of Regional Departments into the field. Five years later, in FY07, IFC embarked on "Vision 2010" which aimed to bring more staff, as well as decision-making, closer to clients. These decentralization efforts have helped IFC achieve notable improvements across a variety of fronts, as was detailed in the *Board Paper on IFC's Decentralization Experience*. Figure 2.1 below demonstrates the strong link between these decentralization efforts, growth and increased productivity. Being closer to the client has strengthened IFC's ability to develop new business and achieve the economies of scale that are available in a rapid growth environment.

Figure 2.1: Growth of Total Administrative Expense and Commitments



1 Total administrative expenses as actually spent for each fiscal year (does not include Advisory Services).

2 Project count is shown inside each bar.

2.2 Decentralization has also led to greater presence and a tripling of investments in IDA countries between FY05 and FY09, including significant expansion in coverage and commitment across Africa. South-South investments have been significantly expanded, and client satisfaction has improved significantly. Annex 1 provides further information on the benefits of decentralization to date.

2.3 Notwithstanding the substantial gains from decentralization, growing feedback from clients and from staff indicated that the changes had also introduced complexity in some areas and that IFC was not fully realizing the benefits of a decentralized operating model. The IFC 2013 Initiative was launched to better understand these limitations and opportunities and to determine how best to position IFC for continued success in the future.

2.4 The IFC 2013 program entails incremental upfront costs related to diagnostic, design and planning work, as well as incremental recurring costs for implementing changes in our delivery model for investment services, such as the additional expenses of Operations Centers to enhance

our delivery capacity closer to clients. The following paragraphs describe both the incremental costs and expected incremental benefits of this program.

B. DIAGNOSTIC, DESIGN AND PLANNING FOR IFC 2013

2.5 The up-front work on IFC 2013 is being carried out by a dedicated team of full time in-house staff led by a Director (the Change Management Office), support from external consultants, principally McKinsey and Co., for various aspects of this program (including experience from other organizations undertaking similar change initiatives), and volunteers from various parts of the organization who have contributed to the initiative while maintaining their normal work responsibilities. The majority of this work is being undertaken during fiscal year FY10 although some ongoing central monitoring and support capacity will be maintained during FY11 to ensure that there is effective follow-through on the proposed changes.

2.6 The following paragraphs describe the work undertaken in this phase of the program. As indicated, the up-front costs include the following work that is being conducted in three stages over the course of FY10, building towards a launch date of July 1, 2010. This work began with investment operations and was followed by work focusing on how Advisory Services will fit within the emerging model.

2.7 **Diagnostic Review (June '09 – September '09).** The diagnostic evaluation, with an emphasis on Investment Operations, was undertaken in early FY10 by McKinsey and Co. Staff and management were engaged broadly: nearly 2,000 staff participated in an organization-wide survey, and interviews and small-group meetings were held with all Vice Presidents (VPs), approximately 25 directors, 50 managers and 50 staff members. It identified a number of unintended consequences from the ongoing decentralization effort as well as clear opportunities for further improvement (these were detailed in the Road Map paper). In this phase, the Management Team determined that it was critical to address these issues to position IFC for the future, and confront the risks inherent in decentralization related to talent management, global knowledge and risk management. A separate deep dive diagnostic on AS was undertaken at the end of 2009.

2.8 **Design of IFC 2013 Solution (October '09 – February '10).** Following the conclusion of the diagnostic review, the Management Team undertook a broad series of discussions with staff and line management to determine how to design solutions to the challenges identified in the diagnostic, and position IFC for the future. External consultants continued to provide support on best practices and also to ensure that the issues raised in the diagnostic were being reflected in the design choices. The results of this phase were the establishment of broad objectives for IFC 2013, and a design framework identifying the key elements of IFC 2013 (see Box 2.1). The recommendations stemming from the Design Phase were presented to the Board in a technical briefing in February 2010 and then in the Road Map.

2.9 **Implementation Planning Phase.** Following the endorsement of the Management Team in January 2010 and the Board in February 2010 and as part of the Road Map discussions, work has continued on implementation planning for IFC 2013 with a view towards the July 1, 2010 launch date. The work of this phase has including finalizing methodologies, baselines and targets for development goals, to re-defining roles and accountabilities, re-organizing certain

Departments and re-assigning affected staff, and designing improved processes on a broad range of issues.

Box 2.1: Objectives and Key Elements of IFC 2013

Objectives of IFC 2013

With the view of moving IFC from good to great, IFC 2013 was launched with the following objectives:

- Expand IFC's Development Impact
- Strengthen IFC's ability to be financially sustainable
- Improve Client Satisfaction
- Strengthen talent management and people development
- Better leverage Global Knowledge in a decentralized environment

Key Elements of IFC 2013

To achieve the 2013 Objectives, the following elements are being implemented under IFC 2013:

- Strengthening its development objectives, including the adoption of development goals
- Adopting measures to strengthen IFC's financial sustainability
- Launching of a new **performance management approach** that aligns with the strategy and budget cycle
- Revisions to the organizational structure to clarify roles:
 - **Global Industry Groups** with a mandate to develop global and industry leadership in areas where IFC has or can establish comparative advantages
 - **Regional Client Service Groups** supported by **Operations Centers (OCs)**, bringing decision making, execution capacity and support functions closer to clients
 - An increase in the **functional specialization** of front-line staff to further efficiency and accountability
 - The **alignment of advisory, risk and non-client-facing operations staff** with the new structure

For further details on these elements, please see *IFC Road Map, FY11-13*.

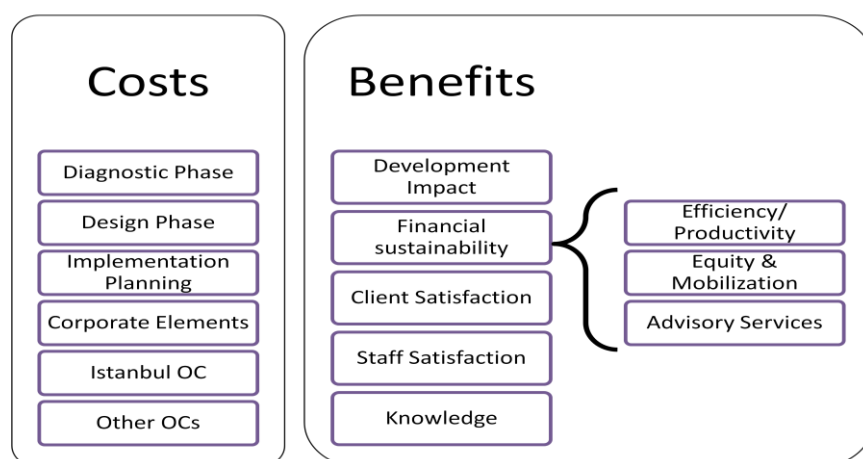
2.10 The next step for IFC 2013 includes launching both the Istanbul Operations Center and the DC-based reorganization in July. This will be accompanied by the strengthened performance framework, numerous business process improvements, the enhanced equity strategy and a number of pilots and initiatives with regard to global knowledge. The Istanbul Operations Center will be evaluated in the second half of FY11 in order to determine how best to organize the rollout of additional Operations Centers for FY12. The Board will be briefed on progress under IFC 2013 on a regular basis.

C. THE COSTS AND BENEFITS OF IFC 2013

2.11 IFC's Management Team expects the incremental up-front and ongoing costs of the IFC 2013 program to be modest, driven primarily by the early work to diagnose, design and plan the changes, and put in place the key elements of the Operations Center. Such incremental costs will be fully recouped within two to three years from incremental benefits including efficiency and productivity gains and growth in IFC's portfolio, including equity. In addition, the Management Team expects to see non-financial benefits, including to development impact, client satisfaction,

staff satisfaction and in IFC's management of its global knowledge. These are laid out in Figure 2.2.

Figure 2.2: Cost-Benefit of IFC 2013



2.12 Up-front costs. The costs of the dedicated Change Management Office and the external consultants to conduct the up-front work in FY10 will come to approximately \$ 5.6 million (Annex 2). This includes the diagnostic work, the design phase and the implementation planning phase. This is an investment in IFC's future that comes to less than 1% of the FY10 Regular Administrative Budget and has been fully covered through the re-allocation of resources under the current budget. A further \$2.0 million (Annex 2) is expected to be spent in FY11 on the Change Management Office and external consultants. This represents approximately 0.3% of the proposed FY11 Regular Administrative Budget and will be funded as part of the corporate productivity tax being implemented in FY11. Incremental costs that will be ongoing for IFC 2013, including the rollout of the Istanbul Operations Center are detailed below.

2.13 Benefits from Implementing IFC 2013. The benefits of introducing the IFC 2013 changes fall into five categories: Development Impact, Financial Sustainability (including efficiency), Client Satisfaction, Talent Development and Global Knowledge.

2.14 Development Impact. IFC has made considerable strides in recent years in extending the Corporation's reach by growing the business in IDA countries and frontier regions. As will be discussed later in paras 4.16 – 4.17, IFC's experience indicates that projects in these priority areas tend to be more resource intensive than projects in more developed countries due to a combination of country and project specific factors. The same is also true of projects where IFC mobilizes funds from other sources (in these cases, the additional costs are associated with complexity and/or coordination). The Corporation has also prioritized the growth of business in new areas, such as climate friendly investments, which require more intensive business development efforts. As the following table indicates, IFC expects to continue to grow its investments in all of these areas during the FY11-13 period to enhance the impact of the Corporation's activities. In a constrained capital and budget environment, IFC will need to rely increasingly on the productivity gains emanating from the IFC 2013 Program (see paragraph 2.17) to achieve these goals.

Table 2.1: Selected IFC 2013 Benefits – Investment Operations

	FY10	FY13
Proportion of projects in IDA/Frontier ¹	59%	60%
Mobilization Ratio ²	42%	50%
Percent of Commitment \$ Volume with a Climate Change component	8.3%	20%

¹IFC's Target for percent of projects in IDA countries remains 50%.

²Mobilization ratio is defined as the sum of loan participations, parallel loans, A-loan participation sales, and non-IFC investment portion of structured finance, including mobilization through the AMC funds and IFC Initiatives, divided by IFC direct investments, and the IFC portion of structured finance and AMC fund investments.

2.15. IFC 2013 also identified opportunities for furthering the development impact of our activities in the coming years by: (a) setting Development Goals as a way of driving the growth of our business in areas with key development challenges (this was presented in the Roadmap paper and will be the subject of a Technical Briefing to the Board in May); and (b) for Investment Operations, establishing Global Industry Departments in order to enhance our leadership and transfer global best practices in focus sectors such as MSME finance, Water and Food (see the *IFC Road Map, FY11-13* for more details). These changes will be supported by the establishment of improved knowledge management and delivery practices, and revisions to IFC's scorecard and performance evaluation systems.

2.16 **Financial Sustainability.** Recognizing the additional demands on resources and the additional risks faced as IFC continues to push its development agenda, IFC 2013 has identified opportunities for strengthening the Corporation's financial sustainability in the coming years by: (i) improving the efficiency of Investment Operations, in large part through the creation of Operations Centers and changing the way IFC operates; (ii) increasing the proportion of equity investments; and (iii) strengthening the financial sustainability of Advisory Services. While IFC seeks to grow its portfolio, it aims to maintain the target Return on Average Net Worth before IDA Transfers at about 8% per year. The following paragraphs summarize and quantify the impact of these measures.

2.17 **Efficiency & Productivity.** The IFC 2013 Diagnostic identified opportunities for efficiency improvement in Investment Operations by: (a) consolidating decision making and execution capacity closer to clients and ongoing streamlining of processes and (b) enhancing the productivity of staff in the regions through targeted development of knowledge and skills and increased functional specialization of staff.

- (a) Efficiency in execution – Under the revised organization structure, responsibility and accountability for transaction execution and portfolio management will rest with the Regional Industry Directors. In addition to clearly defining this accountability, as indicated in the Road Map paper, IFC expects to generate efficiency improvement in this area by locating management with decision making capacity closer to clients in Operations Centers, by gradually increasing critical mass of execution capacity in these locations and by monitoring end-to-end processing efficiency improvements.

Furthermore, IFC will continue its business process improvement work to streamline its processes across the corporation.

- (b) **Productivity** – The IFC 2013 Diagnostic also identified opportunities for increasing productivity of staff in Investment Operations by increasing functional specialization and improving transfer of skills and knowledge, especially for staff hired in country offices who have not benefited from IFC’s traditional apprenticeship model due to lack of proximate experienced staff.

2.18 As indicated in Annex 3 and further described in the Road Map paper, IFC projects that the full implementation of these changes will generate productivity improvements (measured in number of commitments per dedicated investment staff) on the order of 20% in the output of investment staff by FY13. Achieving these improvements in the program mix and growth rate without productivity gains would cost an additional \$28 million per annum. These gains would allow IFC to either grow its overall investment programs more than would otherwise be feasible or undertake a more resource intensive mix of investments as indicated in paragraphs 2.14 – 2.15 on Development Impact above.

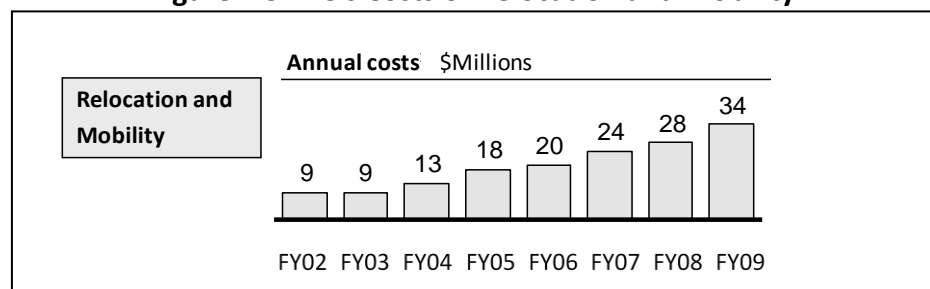
Table 2.2: Improvement in Productivity FY10-FY13 – Investment Operations

	FY10	FY11*	FY13*	Change
# of Commitments / New Business Investment Staff FTEs	0.66	0.68	0.79	20%

*Depending on the resource intensity of new business.

2.19 **Costs of the Istanbul Operations Center.** As can be seen in Figure 2.3 below, decentralization of Investment Operations has required steady growth in IFC’s expenses related to relocation and mobility year on year (with costs being partially offset by lower costs of staff based in field offices). Going forward, staff relocation will continue to be an important element in ensuring IFC has the right people in the right place. Such costs are part of IFC’s core budget and would have been incurred regardless of IFC 2013 and the introduction of the Operations Center model.

Figure 2.3: IFC’s Costs of Relocation and Mobility



2.20 As indicated in the supplement to the Road Map, staff numbers in Istanbul are expected to rise from 86 in April FY10 to up to 140 by the end of FY11. This includes some staff who will be hired from outside and some who will be relocated from DC and other field locations. While Istanbul will see a faster than average staff growth in the coming year, it will be offset by reduced growth in other offices in the ECA-MENA region. However, IFC will incur incremental

recurring costs in Istanbul from the decision to make it an Operations Center, with decision-making integrated management structure in the time zone. This includes the mobility costs of a Vice President and three Operational Directors, as well as a Director of Risk and a Financial Controller. The net incremental cost of moving and providing benefits to these staff will be around \$1.8 million per annum, as indicated in Annex 2.

2.21 The Management Team is not presently projecting the cost of additional Operations Centers in other time zones as this will depend on the lessons from Istanbul and the eventual location of these Operations Centers. IFC will be monitoring the Istanbul experience closely, including leading indicators such as decision making in the field, improvements in cycle time and productivity improvements to determine how best to structure and roll out additional Operations Centers in an effective manner. However, two new Industry Directors will be appointed to serve in Asia starting in FY11, and their relocation and benefits costs of approximately \$0.6 million are included as part of the incremental recurring costs of IFC 2013.

2.22 **Enhancing IFC's approach to equity investments.** Having a strong equity portfolio will be a critical part of IFC's financial sustainability. IFC has consistently been able to generate strong returns from its equity investments due to the strong additionality provided by IFC which is valued by clients. IFC's equity also fills an important financing gap in emerging markets. As part of IFC 2013, an assessment was made of the optimal level of Equity investments to sustain IFC's financial performance in the future, taking into account the risk profile of current activities. As a result, IFC aims to gradually increase the proportion of equity commitments from 20% today to 25% by FY13. The Management Team will present its analysis and conclusions to the Board in an informal Board meeting early in FY11. This increased focus on equity will also provide the foundation for AMC growth, which is expected to result in additional mobilization of \$1 billion per annum by FY13. While IFC will look to increase the relative level of equity investments and mobilization, it will do so in a disciplined and responsible manner. In order to do this the Corporation will need to strengthen its origination and structuring capacity for these types of investments. The recently established Global Industry Departments will take the lead in identifying opportunities for increased equity investments consistent with the strategic development priorities indicated in the Road Map paper. This approach is consistent with the overarching direction of IFC 2013 to increase specialization of staff whether by function, industry or product.

2.23 **Financial Sustainability of Advisory Services.** The AS component of IFC 2013 is focusing on opportunities to further strengthen impact and effectiveness under four broad themes: (a) Organization and accountability; (b) Funding model; (c) Talent Management and People Development; and (d) Operational Efficiency. A specific proposal to improve the funding model for AS is presented in paragraphs 4.61 – 4.84.

2.24 Table 2.3 summarizes the incremental investment that IFC is making to implement IFC 2013, and the expected contribution these investments are expected to make to its financial sustainability. More importantly, greater financial sustainability enables IFC to grow its development impact and the unique value added that it can provide to client through its global knowledge.

Table 2.3: Financial Costs and Benefits of IFC 2013
(for details see Annex 2 and Annex 3)

Incremental Costs		Incremental Benefits per annum by FY13	
Up-Front Costs		<ul style="list-style-type: none"> Productivity Gains per annum** \$28 million Advisory Services TBD 	
• FY10	\$5.6 million		
• FY11	<u>\$2.0 million</u>		
Total Up-Front Costs	\$7.6 million		
Incremental Recurring Costs per annum		Not Financially Quantifiable	
• Istanbul OC Incremental	\$1.8 million	• Greater Development Impact	
• Asia Director Relocation/Benefits (2)	\$0.6 million	• Greater Knowledge & Innovation to Clients	
• Other Operations Centers Costs*	TBD	• Greater Client & Staff Satisfaction	

* Incremental IFC 2013 costs related to other OCs are expected to be of a similar order

**Productivity gains for FY11 are estimated at \$3.9 million

2.25 Client Satisfaction. IFC 2013 seeks to improve client satisfaction by: (i) improving IFC's ability to provide value-add for clients, including transfers of best practices, through the creation of the Global Industry Departments; and (ii) placing accountability for client service in Regional Industry Departments who are responsible for improving delivery capacity with the introduction of Operations Centers. Decentralization has already reaped benefits in terms of client satisfaction with IFC's overall services. However, clients remain dissatisfied with IFC's level of responsiveness and cumbersome processes and procedures. IFC is seeking to improve processing times from an average of 234 days in FY09 to 180 days in FY13. In turn, this should show positive benefits in terms of business development, helping us to be more selective and focus in areas where IFC can have the greatest impact.

2.26 Talent Management & People Development. Perhaps the greatest area of stretch and challenge identified in the diagnostic was the lack of mentoring and support available to new staff spread across over 100 offices. IFC 2013 aims to strengthen how the Corporation manages people and performance across the organization, and develop stronger mentoring and career tracks for staff. This is being done by placing more senior people in the field, co-locating staff in Operations Centers, putting in place clearer reporting lines, a performance management approach which better aligns staff performance with organizational performance, and a talent management structure which gives Managers accountability for developing staff and supporting global careers. Field-based staff now comprise 54% of IFC's total staff, up from 36% in FY02. IFC has also made progress in increasing the percentage of senior staff who are based in the field vs headquarters, growing from 31.5% in FY07 to 37.5% at the end of FY10 Q3. This trend is expected to continue so that by FY13, up to 45% of IFC's GG2+ staff will be based the field. There has also been an increase in the number of projects being led by investment officers in the field, growing from 21% in FY06 to 36% in FY09.

2.27 Global Knowledge. Clients, Staff and Stakeholders regularly express the view that the global nature of IFC and its ability to deliver global expertise to local clients is the key area of comparative advantage at IFC. That advantage is put at risk as staff decentralize and become more regionally focused, so it has been a key priority of the Management Team to develop a robust approach to managing global knowledge that can counteract the fragmentation that can come from decentralization. IFC is looking carefully at the lessons from IBRD's experience in moving to a more regionally driven business model to develop an approach in this area. The

Corporation is strengthening Global Industry Leadership and creating strong links between industry-focused staff in the Global and Regional Departments.

2.28 As mentioned in the *IFC Road Map, FY11-13*, IFC has appointed a Global Head of Knowledge to focus on knowledge issues to facilitate the embedding of knowledge in Investment and Advisory operations. IFC is also working on developing appropriate incentives for creating, sharing and using knowledge. The Management Team is reviewing the experience of the anchor and sector networks and the interaction with regional departments in the Bank in an effort to create organizational models that fully capture the value of IFC's tacit and explicit knowledge. IFC's Knowledge Office has been part of the WBG Knowledge Strategy Council and has set up a series of monthly meetings to exchange information and to undertake joint efforts in various aspects of the knowledge agenda such as tools for social collaboration, knowledge products etc. The benefit of this approach is expected to be greater focus and concentration of effort in areas of high development impact, stronger integration of Advisory and Investment Services, greater innovation and sector leadership globally. Given the strong link between business process and knowledge processes, IFC also expects there to be benefits in terms of easier access to operational best practices and lessons learned. These should lead to both higher client satisfaction and staff satisfaction.

2.29 In sum, the Management Team believes the investment that is being made in the new IFC 2013 model will lay the foundation for future growth in IFC's portfolio, and more importantly IFC's contribution to development impact. It will require significant dedication and focus in the coming years to implement this multi-faceted initiative, but the rewards far outstrip the risks.

D. IMPLEMENTATION RISKS

2.30 The global nature of IFC's operations could be diluted as the Corporation moves to a more regional delivery model. This key risk was identified early on in the IFC 2013 process and the Global Industry Groups were created and are being strengthened to address this risk. IFC is also drawing on lessons from the World Bank's experience in this area by creating Global Industry teams, including staff from both the Global and the Regional Departments, with a common set of objectives and evaluation process, and a global approach to their career development.

2.31 The success of the Operations Center concept depends in part on the Corporation's ability to establish a career framework that provides mobility opportunities to those who aspire to an international career. The joint IBRD/IFC work on the Global Bank initiative would be instrumental in providing more flexible compensation tools to support a globally mobile workforce.

2.32 The changes in incentives and organizational structures will need to be complemented by behavioral changes on the part of staff for IFC to fully realize the potential benefits of the 2013 program. IFC is changing its performance management approach to foster these changes but the Management Team recognizes that these types of changes are among the most difficult to realize in practice and often take longer to realize than anticipated.

PART III: THE ASSET MANAGEMENT COMPANY (AMC)

3.1 IFC Asset Management Company, LLC (AMC) is a wholly-owned subsidiary of IFC that manages third-party capital. The creation of AMC was approved by the Board in December 2008. AMC was established as a Delaware Limited Liability Company in January 2009.

3.2 AMC was created to help intermediate the substantial liquidity accumulated by sovereign, pension and other institutional investors and the varied investment opportunities that exist in developing countries, influencing global portfolio allocations in favor of long-term sustainable equity investing in these economies. The AMC fund management platform allows IFC to scale up its equity investment activities in a capital efficient manner. It also allows for the creation of targeted initiatives that address the specific developmental objectives of IFC's shareholders and partners. The AMC is discussed in this paper to give a full picture of IFC's planned development efforts for FY11. This is presented for information only as there is no budget approval required from the IFC Board for AMC beyond the \$4 million already approved in November 2008 (*IFC President's Report -Sovereign Funds Initiative-African, Latin American and Caribbean Fund*) and December 2008 (*IFC President's Report-World Region-Proposed Investment in Bank Recapitalization Fund*) for the establishment of AMC and its initial two funds. So far, \$2 million of this \$4 million has been drawn down by AMC.

3.3 **Development Impact and IFC Additionality.** AMC enhances and expands IFC's developmental reach by "crowding in" commercial long-term investors to emerging markets. AMC seeks to influence investors' long-term portfolio allocations by delivering consistent performance of funds under AMC management and thus demonstrating the diversification and performance benefits as well as the growth opportunities that exist in emerging markets. AMC-managed funds are also attractive to DFI investors who look to gain economies of scale and scope and efficiencies that IFC can provide by leveraging its investment expertise and organizational footprint.

3.4 In addition to AMC's primary development impact of mobilizing and catalyzing commercial long-term capital for developing economies, all AMC investments aim to have positive developmental impact at the project level by virtue of following IFC's investment approach, policies and Performance Standards. In many instances, project-level developmental impact will be significantly increased due to the increased availability of capital afforded by joint investment by IFC and AMC-managed funds.

3.5 **Operations.** AMC's operations are based on the private equity model of investing, enhanced by co-investment and service agreements with IFC that allow AMC to leverage IFC's investment processes, organizational infrastructure and global knowledge without duplicating resources and business processes. Under this model, IFC is responsible for the origination and appraisal of investments, while investment decision making and certain elements of fund-specific transaction structuring are the responsibility of independent AMC investment teams that owe their fiduciary duties to the funds they manage. All AMC investments are executed following IFC's policies and Performance Standards. As of April 2010, AMC had a staff of 15 professionals.

3.6 **Governance.** AMC has a Board of Directors that is chaired by Lars Thunell, IFC's EVP & CEO. Other directors on the AMC Board include: Mr. Gavin Wilson, AMC CEO; Mr. Declan Duff, who was a Vice-President at IFC until his retirement from IFC in January 2009; and Mr. Guy de Chazal, who was a Managing Director of the venture capital group of Morgan Stanley until his retirement in 2007. Mr. de Chazal also serves as a member of IFC's Corporate Equity Committee.

3.7 Each AMC-managed fund has an advisory board that is comprised of investor representatives not affiliated with either AMC or IFC. Typically, an advisory board and/or the fund investors as a whole have the right inter alia to approve exceptions to the fund's investment guidelines proposed by the fund manager (AMC), to review potential conflict of interest situations and to terminate AMC's role as the fund manager.

3.8 Independence of day-to-day operational decisions by AMC management, a functioning AMC Board which includes non-IFC staff as directors, the maintenance of separate books, records and bank accounts by AMC from those of IFC, and the hiring of AMC's own staff (including seconded staff from IFC who owe a duty of loyalty to AMC) are all important elements of the governance structure that allows AMC to maintain operational independence from IFC. This corporate separateness is needed to minimize IFC's legal liability under the "piercing of the corporate veil" doctrine, under which the separate status of a company and its shareholder might otherwise be ignored.

3.9 **Oversight by IFC Board.** The IFC Board oversees AMC operations through the IFC management structure and IFC's status as AMC's sole shareholder. AMC management will provide periodic updates to the IFC Board similar to this Update on the IFC Asset Management Company. Newly proposed AMC funds in which IFC is an investor will be brought to the IFC Board for approval. At the project level, although AMC makes its own investment decisions on behalf of the funds it manages, under the co-investment model, IFC will bring the same project to the IFC Board by dint of IFC's direct investment.

3.10 **Conflicts of Interest.** AMC addresses conflicts of interest between IFC and AMC-managed funds through several mechanisms: (i) IFC's investment in AMC-managed funds in order to align interests with other fund investors; (ii) the co-investment model allows IFC and AMC-managed funds to align interests at the project level through joint investments; (iii) the AMC fund management team for each fund owes their fiduciary responsibility to the fund and makes independent investment decisions on each investment opportunity; (iv) AMC has established procedures for handling conflicts of interest that has been approved by the AMC Board and will be applicable to all AMC-managed funds; and (v) one of the primary functions of the advisory board of each fund is to review how conflicts of interest are handled.

3.11 **Funds under Management.** AMC currently manages two funds. The \$3 billion IFC Capitalization Fund (CapFund), comprising a \$1.7 billion Subordinated Debt Fund and a \$1.3 billion Equity Fund, was set up in partnership with Japan Bank for International Cooperation (JBIC) as part of IFC's response to the global financial crisis and launched in February 2009. JBIC has contributed \$2 billion to the CapFund and IFC \$1 billion. The African, Latin American and Caribbean Fund (ALAC Fund) was established as part of the Sovereign Funds Initiative (SFI). As of April 2010, the ALAC Fund has received commitments from four sovereign and pension investors with a total committed amount of up to \$600 million. The current Limited

Partners are: SOFAZ (Azerbaijan), Korea, PGGM (Netherlands), PIF (Saudi Arabia). In addition, IFC has committed up to \$200 million to the ALAC Fund. Each AMC-managed fund is a separate legal entity. The CapFund is established in Delaware and the ALAC Fund in the UK. AMC is in the process of raising funds for the IFC Africa Capitalization Fund, a Mauritius company, which will include EIB, AfDB, OFID and Abu Dhabi as shareholders. It is expected that this Fund will have its initial closing by the end of May 2010. AMC policy is to price its fund management services in line with market practice charging fund investors a management fee and a performance fee.

3.12 Future Funds. In addition to the IFC Capitalization Fund (both the global CapFund and the Africa CapFund) and the ALAC Fund, IFC is working on establishment of a bank capitalization fund for Russia, called the Russia Bank Capitalization Fund, and other initiatives in the infrastructure, food security and climate change areas. New AMC funds will be niche products that maximize IFC additionality and impact. New funds will be presented for approval by IFC's Board.

3.13 AMC growth is dependent on IFC. The defining element of the pace of AMC growth is the equity pipeline that IFC can originate and execute on behalf of AMC-managed funds. Some of our investors raised concerns that current IFC equity pipeline will not be sufficient to invest the funds without significant scale-up of the IFC's equity business. IFC is focusing significant organizational resources to further expand its equity origination and execution capacity, train staff, share knowledge, improve efficiency, streamline investment processes and engage with clients with a particular emphasis on equity investing.

3.14 It is important to note that the flexibility and targeted nature of the AMC's platform allows IFC to create tailor-made investment solutions for investors, IFC shareholders and clients that would address specific geographic or sectoral investment opportunities and generate significant developmental impact.

3.15 Economics of a Fund. AMC policy is to price its fund management services in line with market practice charging fund investors a management fee and a performance fee ("Carry Interest"). The management fee is typically structured as an annual fee of 1% - 2% on investors committed capital during the investment period of the Fund (usually years 1 to 5) and then 1% - 1.5% on invested capital after the investment period (usually years 6 to 10). The Carried Interest is paid to the General Partner and is typically up to 20% of net profits after the investors in that Fund have received all their contributed capital plus a preferred return (usually 8%). The Carried Interest is structured so that all Limited Partners are first returned all capital contributions made to the Fund. The General Partner typically will receive the Carried Interest later in the life of the Fund, typically around year seven or eight.

3.16 Payments to IFC. The AMC will pay IFC for its costs incurred in supporting the AMC and for services rendered. The AMC also reimburses IFC for certain operational expenses including occupancy, IT and Communications, travel and other expenses IFC incurs on behalf of the AMC and also reimburses IFC for all staff costs related to those on External Service With Pay. A proforma P&L for the AMC, including payments to IFC is presented in Annex 7.

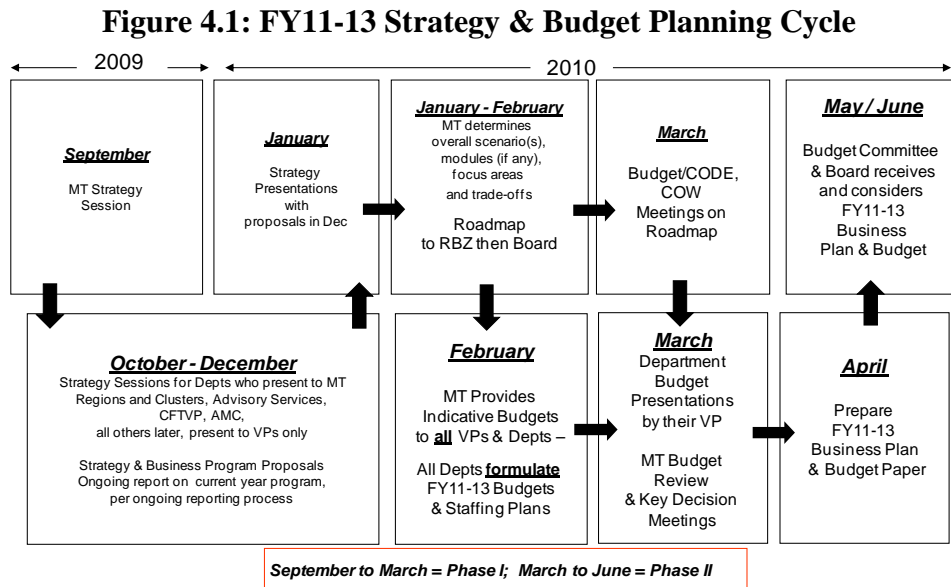
PART IV: FY11 BUDGET

A. THE STRATEGY & BUDGET PLANNING PROCESS

4.1 The strategy and budget process conducted for FY11 built upon the enhanced process that was introduced during the FY10 planning cycle. This structured planning process is designed to:

- (i) provide the Management Team a better understanding of the external environment so it can gauge the Corporation's operational capabilities in a precise and timely manner;
- (ii) assert the Management Team's leadership in determining the expansion or stabilization of the business program for each Region and Sector at an early stage of the planning cycle;
- (iii) directly link the strategy to staff planning which then drives the budget formulation; and
- (iv) allow IFC to adapt to a changing environment more quickly and effectively.

4.2 The strategy and budget planning process again consists of two phases, both of which conclude with Board deliberations. The key stages in the planning cycle are shown below in Figure 4.1. Phase I focused on the question of what IFC's strategy should be across investments, advisory services and the AMC given the state of the global economy.



4.3 To further streamline the process, the Management Team engaged only the departments that were directly pursuing the Corporation's business lines, i.e. departments that were conducting the Investment Program, Advisory Services, Treasury and the AMC. The Departments were directed to develop a detailed strategy and business plan under defined budget and headcount constraints, including the assumption of a 3% productivity tax which would be differentiated at a later stage. Phase I concluded in early April 2010 with Board discussion of the strategy in *IFC Road Map, FY11-13*.

4.4 At the beginning of Phase II, the Management Team revisited and scrutinized the FY11-FY13 Business Plan to determine the actual budgetary resources required to execute the proposed programs. The budgetary requirements were determined by reviewing the approved business program, actual spending patterns from FY09 & FY10, efficiency trends and the availability of additional funding sources such as fees. As a result, the Management Team agreed on indicative Vice Presidential budget envelopes for FY11 at the outset of Phase II. Since the new organizational structure for investment operations is still being worked out, the envelopes for each VP and the departments under them are being revised. This effort will be completed by June 30. Since the organizational structure and, therefore, the budgets for departments is still being determined, a total Investment Operations budget is presented in Table 2.1 without a breakdown into vice presidencies or departments. Phase II will conclude with Board consideration of the recommendations in this paper.

4.5 **Improving the Planning Process.** There are several noteworthy improvements that were introduced to the FY11 process. This year the assessment of capital adequacy was introduced and integrated into business planning during Phase I. This allowed the Management Team and Departments to see the immediate impact of their proposed investment program on the Corporation's capital. Adjustments to the planned investment program were then made as necessary.

4.6 Departments could also see their investment proposals in the context of the total proposed IFC investment program as the formulation phase progressed. The information was available for their review at a summary level as well as in detailed matrix form showing product types, IDA countries, frontier regions in MICs, climate change, SMEs and portfolio. Details on mobilization – both traditional and related to initiatives, including mobilization through AMC – were also included for review, and for the first time, the plan for mobilization was actively formulated by Departments at a granular level rather than an overall IFC projection made centrally. This early integration allowed the Management Team to clearly see how the overall investment program was evolving during the formulation phase. Furthermore, Industry Departments decided on their investment programs not individually but as part of Industry Clusters. This allowed Regional Department to reconcile with just three counterparts instead of nine and allowed Industries to better understand the reasoning of their Regional counterparts.

4.7 **The Role of VPs.** One of the process changes introduced this year is the new evolved role that VPs played in the planning cycle. This year, the Corporation's Vice Presidents took on a much more "vertical" role in actively setting parameters in Phase I and formulating budgets within their Vice Presidencies in Phase II.

4.8 This change was more visible during budget formulation in Phase II. Instead of determining over 40 different departmental budgets, Vice Presidential budget envelopes were determined which can later be allocated to departments by the Vice President. This approach necessitated a more intense engagement from Vice Presidents. It also meant that FY11 Administrative Budget proposals to the Management Team were presented by the Vice Presidents themselves, cutting the time required for budget deliberations from two weeks to only one, which was felt by the Management Team as a significant efficiency improvement in the budget process.

4.9 **Staff Mapping.** Staff mapping was originally introduced to facilitate efficiency gains as much as to identify staff roles executing the investment program. During the FY11 planning cycle, staff mapping was also conducted with the aim of providing the IFC 2013 planners a precise understanding of individual staff roles in matrix format. This has facilitated the allocation of staff to global or regional industry units under the IFC 2013 reorganization; the result of this is to be able to allocate VP and Department level budgets once the new organizational structure, still being determined, will be in place.

4.10 The Management Team described the staff mapping concept succinctly as follows:

The purpose of the matrix is to enable the formulation of budgets according to the respective Region-Industry Investment program matrix and the associated Region-Industry staff mapping matrix. The Matrix will further enable analysis of specific staffing ... which will be reviewed by the Management Team to align and realign resources, as required.

4.11 Staff mapping has again proven to be an essential tool to support staffing and budget proposals within Investment Operations, as illustrated in Box 4.1.

Box 4.1: Matrix Staffing & Budgeting

The Corporation's investment program has always been expressed in matrix format (Industries/Regions). For example, a certain region (Sub-Saharan Africa) was expected to commit ten projects in a specific sector (Agribusiness). To bring the sequence Program-determines-Staffing-determines-Budget to full realization, both the Sub-Saharan Africa Department and the Agribusiness Department were asked to determine which staff from their respective departments would actually be responsible for delivering the Agribusiness investment program in Sub-Saharan Africa. There are three primary components of the staff complement required to deliver an investment program:

- a) Staff from the Regional Department;
- b) Staff from the Industry Department based in the Region; and
- c) Staff from the Industry Department based at HQ and assigned to projects in the specified Region

For example, the Sub-Saharan Africa and Agribusiness departments would determine that 13 staff are required to deliver the Agribusiness investment program in Sub-Saharan Africa. This might be comprised of four Sub-Saharan Africa staff; five Agribusiness staff based in Africa; and four more Agribusiness staff who are based in headquarters.

Delivering new commitments is, however, only half of the investment program. The ongoing supervision of the growing investment portfolio is the other half. To continue the example, the number of Agribusiness portfolio companies in Sub-Saharan Africa is 30. Staff Mapping would not only have determined that 13 staff are required to deliver new business, but that an additional six staff are needed for portfolio supervision. Here the composition might be one staff from the Sub-Saharan Africa department; three Agribusiness staff based in the Region; and another two Agribusiness staff based in headquarters.

The staff mapping discussions were led by Regional Country Managers and Industry Managers and facilitated by the HR Account Managers. The process provided insight into the actual demand, availability and necessity of individual staff and allowed the Management Team to make discretionary decisions when determining appropriate staffing levels and skill sets for each matrix intersection (i.e. Agribusiness in Sub-Saharan Africa)

Identifying the staff levels for a given point within the existing Region/Industry Matrix logically leads to the determination of corresponding budgets for each matrix intersection. This initial mapping exercise, in turn, provides a base line for the determination of adequate staffing and budget resources under the organization structure envisioned under IFC 2013.

4.12 **Reporting Improves Planning.** Budget-based planning methods which steer corporate decision making often display an inherent shortage of information with which to make business-based decisions on resource allocation. This was true during the financial crisis and remains true as IFC slowly navigates in thawing circumstances. The comprehensive quarterly management report, which was introduced beginning in the first quarter of FY09, is now firmly established. This report presents quarterly business and financial results from all areas of the corporation both operational and non-operational. Any issue requiring the Management Team's attention is highlighted for discussion and/or decision. Included are results from the investment program, advisory services, profitability, loan pricing, staffing, scorecard progress, treasury results, capital adequacy, as well as budget information, efficiency and productivity, and mobilization and crisis response update. With the report as a guiding framework, the Management Team strives to set aside sufficient time each quarter to discuss all aspects of the Corporation's operations. This year, the FY10 Q2 discussion took place just before Phase II, i.e. at the very time when the Management Team determined the individual Vice Presidential Administrative Budget envelopes. Of particular significance at that point were actual staffing and spending trends which affected the determination of VP budget envelopes for FY11.

B. FY11 ADMINISTRATIVE BUDGET

4.13 The result of the strategy and budget planning process was the investment program proposed in Table 1.2 (page 10) and the budget required to deliver the business plan which is presented in this section. Based on the work program and IFC's strategic priorities, the Management Team proposes a Total Administrative Budget (TAB) of \$724.3 million which represents a 1.7% real increase over FY10 TAB (3.8% including the budget price adjustment⁵). The Total Administrative Budget combines the Regular Administrative Budget (RAB) proposal – which is fully under the IFC Management Team's control – of \$608.5 million with \$115.8 million of 'Below the Line' items (IFC's share of the Corporate Secretariat & Board and IEG, plus contributions to staff retirement plans) which are not under the direct control of the Management Team. Management recommends the Total Administrative Budget of \$724.3 million for approval in Part V of this paper.

4.14 The Regular Administrative Budget (RAB) is, however, the benchmark used to determine discretionary budget growth, since it excludes 'Below the Line' items that fluctuate independently of budget allocations.⁶ IFC's Management Team proposes an FY11 RAB of \$608.5 million, an increase of only \$11 million or 1.9% in real terms (\$25 million or 4.3% including the budget price adjustment). It is important to place the FY11 RAB proposal in the proper context of IFC's program growth in recent years and expected growth in future years.

⁵ Formulation of the WBG adjustment for price increases is explained in Annex 5.

⁶ During FY10, IFC aligned its treatment of 'Below the Line' items with that of IBRD. The Budget Committee endorsed this approach at an oral briefing on December 14, 2009 (*Alignment of the Classification of IFC's "Below the Line" Budget Items*). 'Below the Line' items now comprise only IFC's share of the Corporate Secretariat & Board and IEG and contributions to staff retirement plans.

Budget Growth in Context

4.15 IFC embarked on a steady growth path beginning with the reorganization of FY02 to help meet the ever growing demand for its services. Compared to FY02, the FY11 RAB proposal is a little more than twice the FY02 RAB while new business would have quadrupled to the projected FY11 level of \$12.5 billion. During this time IFC's disbursed portfolio has also outpaced budget growth going from \$11 billion in FY02 to \$27 billion as of FY10 Q3. RAB as a percentage of the disbursed portfolio has actually declined by 10% from 2.5% in FY02 to a projected 2.2% in FY11. While the absolute growth of IFC's business is evident, it is equally important to note that the scope of activities and the complexity of the Corporation's work has greatly increased. IFC has been pioneering new financial products, initiating local currency bond offerings, and lending in local currencies. At the same time, the Corporation has evolved from being a lender of last resort doing one-off project finance deals to being a partner of choice that builds long term relationships with its clients. During this time, IFC has also shifted its focus to IDA countries while emphasizing development impact and additionality. IFC also plans to grow the number of equity deals which are necessarily more complex and therefore more resource intensive than straight forward loans or trade finance deals. Similarly, the Corporation has been leveraging its own investment with mobilization; while this greatly expands the financing IFC can bring to a client, mobilization requires additional IFC resources to develop and nurture partnerships with banks and other IFIs. The greater breadth and depth of IFC's work has driven the absolute growth in budgetary requirements over the last few years. The greater availability of budgetary resources has allowed the Corporation to reach bottom of the pyramid populations that were not directly reached by IFC's work ten years ago.

4.16 Another factor contributing to expense growth is the type of projects IFC is investing in, specifically projects in IDA countries and equity investments. IFC has steadily increased its focus on IDA over the last several years as discussed in para 1.8. While this improves the delivery of development impact, it also comes at an incremental cost. The resources used to deliver projects in IDA countries produce less commitment volume proportionally than projects in Non-IDA countries. Specifically as Table 4.1 below shows, projects in IDA (excluding trade finance) in FY09 delivered only 67% of the commitment volume as in non-IDA countries using the same level of direct expenses. IFC's productivity would, therefore, be higher if allocating resources to projects in non-IDA countries.

Table 4.1: IDA vs Non-IDA productivity

Based on FY09	IFC Avg	Non-IDA	IDA
Volume Committed per Dollar Spent (excl trade finance)	33	40	27

4.17 IFC's focus on IDA is also seen in staff growth. Since FY06, investment operations staff located in IDA countries has increased by 69% while staff growth in non-IDA countries has been limited to 11%.

4.18 It is similarly more costly to do equity projects as shown in Table 4.2. In FY09, equity projects delivered only 58% as much commitment volume for each dollar of expense as non-equity projects. While loans and guarantees may deliver more commitment volume for the expense incurred, equity is a critical component of IFC's financial sustainability. Equity also

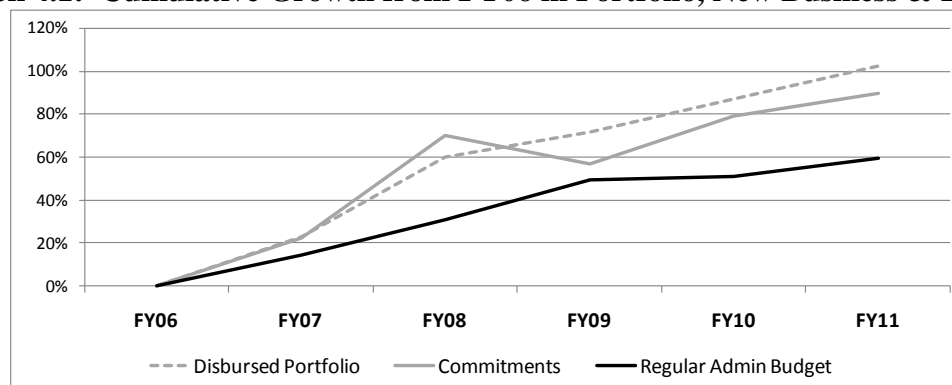
fills an important financing gap in emerging markets and the additionality that IFC's equity investment provides is highly valued by the Corporation's clients.

Table 4.2: Equity vs Non-equity cost intensity

Based on FY09	IFC Avg	Non-equity	Equity
Volume Committed per Dollar Spent	55	64	36

4.19 In more recent years, growth has been steady if not as drastic as that seen when looking back to FY02. If we consider the trends over the last five years with FY06 as a baseline (Graph 4.1 below), IFC's use of resources to deliver its investment program is still compelling and is expected to improve further from the organizational improvements being implemented with the IFC 2013 program. From FY06, the annual investment program should nearly double from \$6.7 billion to the FY11 projection of \$12.7 billion. The disbursed portfolio follows this trend as well growing from \$14 billion to nearly \$28 billion by the end of FY10. In line with its strategy, IFC has been reaching more IDA countries with disbursed portfolio growing from 54 IDA countries at the end of FY06 to \$6.6 billion in 62 countries at the end of FY10 Q3. The FY11 RAB proposal is, however, only 58% higher than FY06 RAB of \$386 million and has dropped from 2.8% of the disbursed portfolio in FY06 to an estimated 2.2% for FY11. Graph 4.1 below shows that the disbursed portfolio and commitments are growing at a significantly higher rate than the budget.

Graph 4.1: Cumulative Growth from FY06 in Portfolio, New Business & Budget



Budget versus Spending

4.20 Prudent financial management requires the Corporation to maintain a margin of safety between the authorized budget and the actual level of spending. Unexpected swings in cost items (especially those that are not directly controlled by IFC) could otherwise create the risk of IFC inadvertently overspending the annual budget. For this reason, the Management Team generally aims to keep spending to well below total spending authority.⁷ In FY09, the Management Team proactively decided to take additional measures to limit spending in light of the global financial crisis. This resulted in a lower than customary rate of spending in FY09 compared to budget authority. In FY10, spending continues to be closely monitored and is expected to be in a range of 91% to 93% of total spending authority.

⁷ Spending authority = Total administrative budget + carry-forward from previous years' under spend

4.21 Because of the lower than normal spending in FY09, actual RAB spending in FY10 is expected to be about 10% higher (\$53 million) than actual spending in FY09. Corporate overheads account for 66% (or \$36 million) of this projected spending increase since FY09 largely reflecting the resumption of incentive pay programs which the Management Team elected not to pay out in FY09 as a result of the poor financial results. The rest of the increase in overheads is mostly due to IT cost increases; specifically; a) IT security which is IFC's share of the Bank Group's Office of Information Security; b) IT maintenance & support costs reflecting the Corporation's growing portfolio of IT systems; c) depreciation charges which reflect prior year capital investments in new IT systems, country office facilities which underpin IFC 2013, and improvements to the F-building. Investment Operations accounts for another 10% (or \$5 million) of the projected expense growth and further augmentation of the Risk Management function accounts for an additional 12% (or \$6 million). The remaining 12% (or \$6 million) of spending growth from FY09 to FY10 is spread across other support functions.

4.22 The FY11 RAB proposal would reflect spending growth of up to 7.5% or \$42 million; this reflects anticipated RAB spending of 97% in FY10 plus the proposed FY11 real increase of 1.9% and the budget price adjustment. About 48% of this growth (or \$20 million) would be driven by Investment Operations, including the incremental costs for the new Istanbul Operations Center and absorption of salary/promotion increases not covered by the price factor. In addition to the IOC, it is anticipated that investment staff will be added in other regions to prepare for further growth in new business and to provide sufficient resources to manage IFC's growing portfolio which in turn drives IFC's profitability. Another 40% (or \$17 million) of the projected growth in spending in FY11 would be in Corporate Overheads where depreciation charges should go up by \$2 million and IT maintenance costs should again increase by \$5 million or 15%, reflecting the running costs for new IT systems that are being built to support the Corporation's global presence and the greater complexity of IFC's business. The Management Team has carefully reviewed all cost increases during the budget process and is working with the World Bank Group CIO to implement cost containment measures under a new IT governance model.

FY11 Regular Administrative Budget (RAB) Proposal

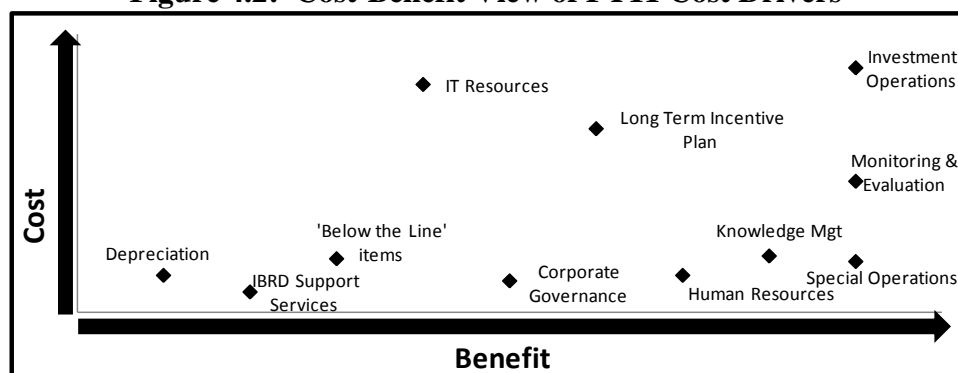
4.23 As stated above in para 4.14, the Management Team proposes an FY11 Regular Administrative Budget (RAB) of \$608.5 million which is \$11 million or 1.9% more than FY10 in real terms (\$25 million or 4.3% including the budget price adjustment). The proposed discretionary increase of \$11 million will fund new programs that the Management Team considers compelling and necessary to expand IFC's additionality and development impact in the context of IFC's strategic pillars and the organizational changes associated with the IFC 2013 initiative. The new programs mainly include: a) formulation of a Global Palm Oil Strategy and Global Agribusiness Approach for IFC's future engagement in this sector; b) creation of a private education investment strategy in the Arab world to enhance and refocus post-secondary education, including technical and vocational training, and creating linkages between labor markets and education; c) creation of the Climate Business Solutions Department which will focus and coordinate IFC's efforts to develop new investment products that address climate change; d) establishment of a Knowledge Management Department which will determine and implement best practices for knowledge management in a globally decentralized organization such as IFC, in line with Bank Group knowledge management initiatives; e) creation of a Change

Management unit to coordinate, monitor, and report on the implementation of the IFC 2013 strategy; and f) creation of a Management Secretariat unit to act as Secretary to the Management Team which includes two Vice-Presidents located in the field, and coordinate IFC's policies and procedures to ensure there is central control to support decentralized decision making. These initiatives are spread across various Vice-Presidencies.

4.24 The budget price adjustment of 2.4% which is proposed by IFC on the basis of the price factor methodology approved by the Board contributes \$14 million to the \$25 million FY11 RAB increase. This provides for a) the staff structural adjustment for Washington appointed staff salaries and salaries related costs; b) country office specific structural salary adjustments to respective country office salaries costs; c) country-specific CPI to respective country office non-salary costs; d) exchange rate adjustment to non-USD based costs; and e) US-CPI to USD based non-salary costs.

4.25 The Management Team had many items to consider when formulating the FY11 budget proposal. In addition to new programs that will be funded by the proposed increase, there were a number of cost increases that had to be absorbed without contributing to the budget increase. This was accomplished by reducing budgets in other areas where FY10 spending patterns indicated reduced budgets were warranted. The relative benefits of these range significantly as shown in Figure 4.2 for illustrative purposes. The single largest budget increase goes to Investment Operations. This will fund modest incremental costs for the Istanbul Operations Center and targeted increases for critical sectors such as financial markets. The second largest increase is for IT resources – including overheads costs – which are necessary to support core business operations. While IFC would prefer to choose only items which are high benefit/low cost, there will always be non-discretionary cost drivers which must be covered from year to year, and the impact on economic capital needs to be considered, which is addressed in the *IFC FY10 Annual Report on Financial Risk Management*.

Figure 4.2: Cost-Benefit View of FY11 Cost Drivers



4.26 Table 4.3 below shows the FY11 RAB proposal grouped by Vice Presidency and business function. The FY11 departmental budgets reflect the net effects of a differentiated 3% productivity tax – which has been redistributed to cover unavoidable cost increases and strategic priorities – as well as increases for the new initiatives described above. The FY09 Actual and FY10 Budget figures for individual line items in Table 4.3 have been restated to reflect the FY11 organizational structure; the totals are unaffected.

Table 4.3: FY11 Regular Administrative Budget Proposal – Nominal Terms*

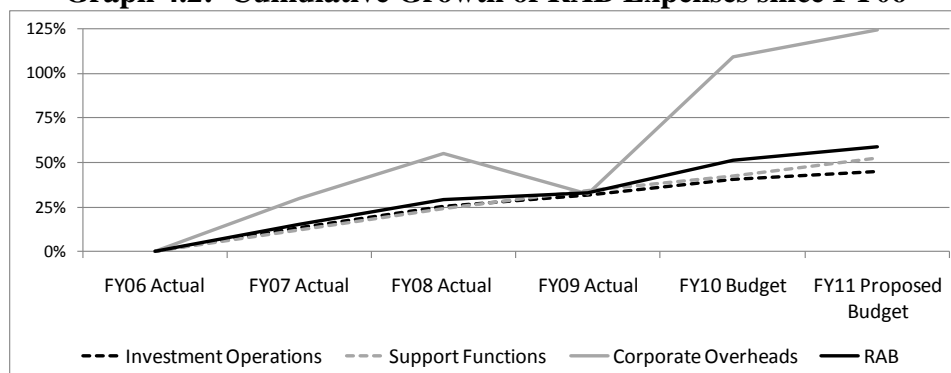
US\$ millions

	FY09 Actual	FY10 Budget	FY11 Proposed Budget	\$ Change Over FY10	% Change over FY10
Investment Operations	261.8	276.2	285.6	9.4	3.4%
Advisory Services	37.6	38.9	39.9	1.0	2.6%
Private Sector Development	5.5	6.1	6.4	0.3	4.9%
Risk Management	33.1	38.2	38.9	0.7	1.8%
Information Technology	17.3	15.8	18.6	2.8	17.7%
Accounting & Financial Operations	14.1	16.1	16.3	0.2	1.2%
Finance & Treasury	18.3	19.5	19.7	0.2	1.0%
Human Resources	13.6	14.1	16.6	2.5	17.7%
Legal	22.5	23.7	24.3	0.6	2.5%
Executive Vice President (incl. Change Mgt and Corp. Strategy)	8.3	8.8	12.8	4.0	45.5%
Total Departments	432.1	457.3	479.1	21.8	4.8%
Total Corporate Overheads	73.9	117.1	119.4	2.3	2.0%
Operating Budget	505.9	574.4	598.5	24.1	4.2%
Corporate Governance	7.3	8.9	10.0	1.1	12.4%
REGULAR ADMINISTRATIVE BUDGET	513.2	583.3	608.5	25.2	4.3%

*Totals may not add due to rounding.

Highlights of Budget Growth

4.27 It is customary to view one year's budget proposal in comparison to the previous year as shown in Table 4.3. These incremental changes do not, however, tell the entire story. When individual functions are viewed over time, the drivers of IFC's costs and the trade-offs made to contain costs while growing IFC's business come into perspective. It is clear from Graph 4.2 that Corporate Overheads have driven significant costs increases over the last five years. It is worth mentioning that a significant portion of the Corporate Overheads is directly driven by Investment Operations and Support Functions, such as facilities management expenses, variable pay expenses, IT institutional overhead expenses, depreciation charges, security and IT security expenses, corporate training expenses, all such costs which are usually allocated to operational departments in other organizations. Nonetheless, direct resources for IFC's front line Investment Operations and other Support Functions have been steadily, if less drastically, increasing since FY06 in response to demand for IFC's services. The rationale for these increases over time is addressed in the following paragraphs, followed by an expanded discussion of IFC's Corporate Overhead costs.

Graph 4.2: Cumulative Growth of RAB Expenses since FY06

4.28 Investment Operations. Investment Operations is comprised of client facing departments which are responsible for delivering new business and directly managing the Corporation's investment portfolio. These are front line staff and management who interact with existing and prospective clients and partners to deliver IFC's core investment services. The proposed \$286 million budget for these functions accounts for nearly 50% of RAB and comprises three separate Vice-Presidencies: i) Asia, ECA, & MENA; ii) Africa & CLA; and iii) Global Industries. At this writing the detailed organizational structure for each VPU is still being finalized, thus a breakdown of Investment Operations into its components would be premature. The FY11 budget for Investment Operations will increase only marginally but this must be considered in the overall context of IFC's business and growth trends over the last few years. In the last five years, budget for Investment Operations has grown by 45% compared to growth in new business of 64% and an even higher growth of 87% in the disbursed portfolio. This points to steady efficiency improvements even while IFC has been pioneering new financial and complex products and moving further into IDA and frontier markets, as well as investing increasingly in equity, which is more resource intensive.

4.29 Risk Management. As IFC began to grow its program and balance sheet, the Management Team recognized that IFC's Risk Management function needed enhancing in order to catch up and then keep up with a growing and greater complexity of financial products and services. At the same time IFC has been expanding its field presence both in terms of staff and decision-making capabilities. This redoubles the need for a strong Risk Management function and is reflected in the fact that the Risk Management budget has grown by 81% since FY06 to the proposed level of \$39.9 million in FY11. To emphasize the importance of managing risk in a decentralized environment, the Management Team has already appointed a Regional Risk Director to be located in the Istanbul Operations Center. The Director will be responsible for most aspects of risk for the region, especially credit and special operations. This model is expected to be replicated in due course as other Operations Centers are established.

4.30 Treasury. The Treasury function's budget has been increasing since FY06 but should only increase marginally from FY10 to FY11 reflecting salary inflation more than off-setting the productivity tax. The significant growth in budget has been directly driven by the expanded line of financial products offered to clients. Core Treasury has led the Corporation's efforts in local bond offerings and local currency lending. The Structured & Securitized Products group has helped tailor financial products to the unique needs of each client and has also developed local currency products solutions for clients. The Resource Mobilization group leads IFC's effort on traditional B-loan mobilization while supporting the AMC and other initiatives in their development. The increasing complexity of IFC's investment offerings combined with the need to actively manage the Corporation's liquid assets in a very volatile market environment led IFC to strengthen this function over the last 5 years. Its current composition and funding level will allow IFC's Treasury function to support all aspects of the Corporation's investment program.

4.31 Information Technology. IFC's IT Department has grown significantly to support the Corporation's IT needs. The IT Department budget has nearly doubled since FY06 (including planned 18% growth from FY10 to FY11) in order to manage the growing portfolio of IT systems and the development of new ones. As IFC continues to move its operations closer to its clients under the IFC 2013 initiative, IT capabilities will be essential to support decentralized business processes and ensure that the Corporation's global expertise is available to staff who are

closest to clients. Focus areas will include collaboration and knowledge sharing tools, workflow modifications for delegated authority and other business process improvements, and innovation in mobile technology, connectivity infrastructure, and application access. Simultaneously, decentralized business operations demand more rigorous risk management, which can only be achieved through more sophisticated and robust business intelligence capabilities. As the areas of portfolio supervision and corporate value at risk take on increasing criticality, the supporting IT solutions also become more vital. The related costs for software licenses and contractors to maintain existing systems is discussed below under Corporate Overheads.

4.32 Corporate Overheads. A significant portion of Corporate Overheads is directly driven by Investment Operations and Support Functions, such as facilities management expenses, variable pay expenses, IT institutional overhead expenses, depreciation charges, security and IT security expenses, corporate training expenses, all such costs which are usually allocated to operational departments in other organizations. Corporate Overheads have increased significantly, more than doubling from \$57 million in FY06 to \$119 million proposed for FY11. This outpaces growth in all other areas of the Corporation; nonetheless, these represent essential costs which form a solid foundation upon which IFC has been able to grow its business program and extend its development impact and additionality. The single largest element within this category are IT Maintenance & Support charges which cover fees for software license, hardware maintenance, and application support services which are required to operate the IT systems used by the Corporation. These have grown from expenses of \$9.3 million in FY06 to a proposed budget of \$34.5 million in FY11. These expenses are administered by IFC's IT Department and have been driven by:

- the growth of the IT asset portfolio from prior-years' capital programs;
- the headcount growth and decentralization of IFC;
- increased investment transaction volumes; and
- requests by the business for additional IT support.

4.33 IFC's IT Department has carefully scrutinized every element of the IT maintenance & support budget to limit its growth from FY10 to 13%. IFC's IT Strategy Council which is chaired by the VP Risk Management continues to ensure that when decisions are made to develop new systems the impact on future maintenance & support costs is taken into consideration. To help minimize the continuing growth of these costs and to determine IFC's IT capacity to support IFC 2013, IFC conducted an IT Readiness Review during FY10. This review, combined with current WBG IT reviews which recommend a Federated approach to IT management, point to the need for enhancing IFC's IT effectiveness through: i) improved governance; ii) organizational rationalization through synergy within WBG; and iii) acquisition of critical talent and skills to better support IFC 2013 and engage with the WBG IMT mandates. IFC will begin implementing the recommendations of this study in FY11.

4.34 A further area of IT cost increases has been for IT security which will total \$5.8 million in FY11, an increase of 32% over FY10. IFC's security program is aligned with the WBG Office of Information Security (OIS) which began operations in FY09 to address IT security breaches. IFC and OIS now coordinate efforts to ensure that congruent security practices are followed for all IT Security functions. IFC's share of OIS costs for FY11 should be \$2.4 million. In addition to the coordinated work with OIS, IFC's Information Security program focuses on IFC specific requirements and operations.

4.35 General security costs affording the safety of IFC's staff and buildings throughout the world have also increased substantially. This results from increased numbers of staff in the field and the unique security concerns of each office location. As IFC moves further into frontier regions and conflict affected countries, security costs will necessarily go up. In addition, payments made through IBRD to the UN for field security have gone up rapidly as a result of terrorist attacks and threats in some countries.

4.36 IFC's facilities costs have increased by over \$5 million from FY06 to reach \$13 million in FY11, although the FY11 budget should be in line with the FY10 figure. Most of the increase is the result of IBRD no longer renting space in the F-building and no longer paying IFC rental charges which offset the absolute cost to IFC. Since IFC has grown and IBRD consolidated its space requirements, IFC's use and thus the cost borne by IFC for the F-building has increased.

4.37 Depreciation is now included under Corporate Overheads since IFC has aligned its treatment of 'Below the Line' items with IBRD's practice. Depreciation has increased substantially over the last five years, growing by 59% to reach an estimated \$43 million in FY11. There are several factors contributing to this growth, half of which is driven by the significant capital investments IFC has made in its IT systems. The rest of the increase reflects the cost for country office facilities which house IFC's expanded field presence as well as ongoing capital improvements to the F-building. Depreciation will continue to increase as the Corporation continues to augment its field presence and as new critical IT systems are completed.

C. PRODUCTIVITY AND EFFICIENCY

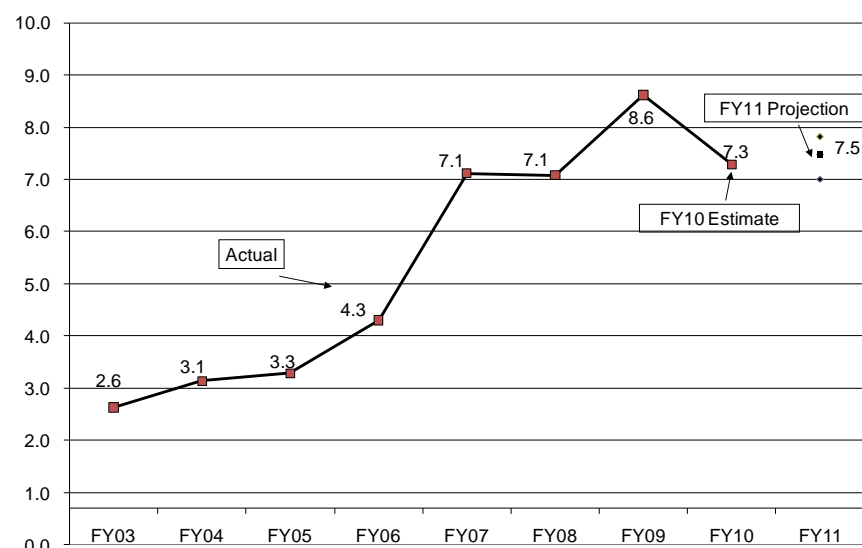
4.38 IFC's Management Team is committed to continuous improvement in the Corporation's productivity and efficiency. There are two major sets of metrics which the Management Team uses to maintain control of costs, understand the relationship between costs (inputs) and investment results (outputs), and measure IFC's progress against comparable institutions. These are i) the investment operations productivity ratios; and ii) benchmarks against other international financial institutions.

Investment Operations Productivity Ratios

4.39 Since the IFC Reorganization at the beginning of FY03, the Corporation has measured the productivity of its Investment Operations by comparing its output in terms of both commitment volume and number of commitments to its Regular Administrative Budget (RAB), although this analysis does not reflect the increased focus and efforts on the portfolio by the Corporation over the last years (as shown in graphs 4.12 and 4.13). Overall, the trends are positive, showing steady productivity gains since FY03 with stabilization since FY09 due to the major corporate initiatives centering on decentralization and closeness to the client within Vision 2010 and IFC 2013 as well as the prudent response to the crisis starting in FY09. Data used for the FY03-11 timeline show actual data for FY03 to FY09, estimates for FY10, and plan figures for FY11.

4.40 Graph 4.3 shows a significantly positive trend in the ratio of dollar of commitments per dollar of budget for the investment program in IDA Countries. The increase of this ratio was driven by growth in IDA volume from FY03-09 from \$783 million to \$4,424 million greatly outpacing budget growth during the period. The FY11 ratio of 7.5 means that the underlying productivity for FY11 would be 6% higher than the ratio that was achieved in FY08 and slightly higher than estimated for FY10.

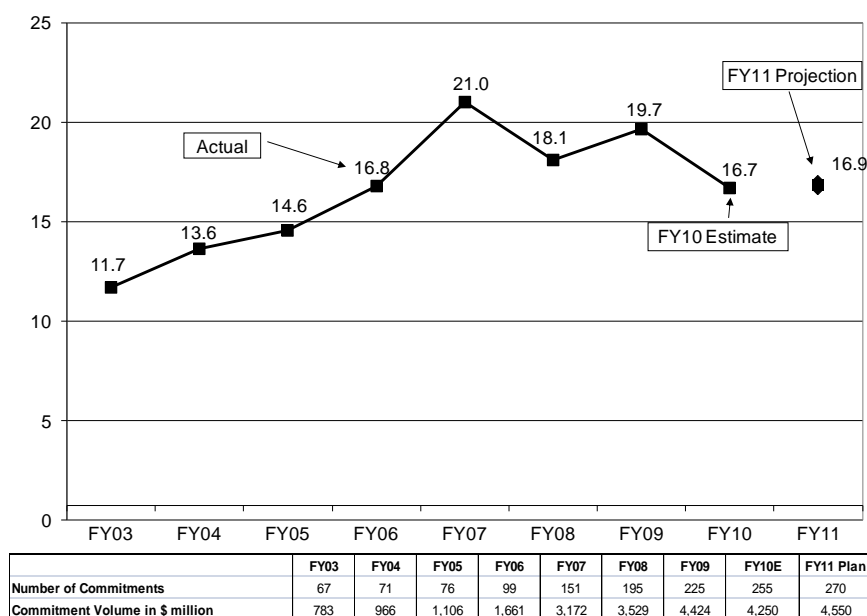
Graph 4.3: \$ of IDA Commitments per \$ of Budget



	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10E	FY11 Plan
Regular Admin Budget in \$ million	297.6	307.9	336.8	386.1	445.7	498.6	513.2	583.3	608.5
Commitment Volume in \$ million	783	966	1,106	1,661	3,172	3,529	4,424	4,250	4,550

4.41 The number of projects in IDA countries has also increased from 67 in FY03 to an estimated 255 in FY10 and is expected to rise again in FY11 to 270. FY11 would increase against the FY10 Estimate. The average size of commitments in IDA countries shown in Graph 4.4 is expected to increase marginally in FY11 after a decline in FY10.

Graph 4.4: Average Size of IDA projects⁸
US \$ millions

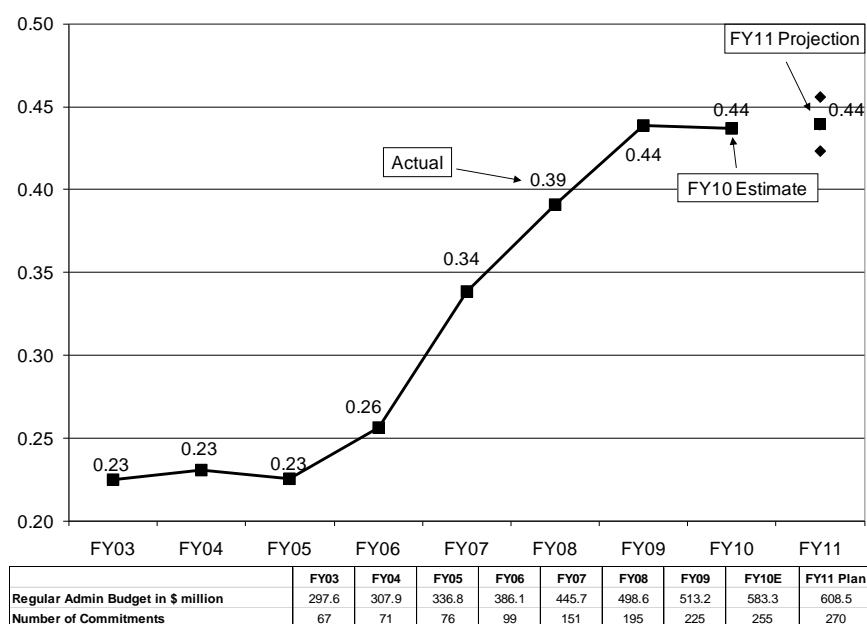


	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10E	FY11 Plan
Number of Commitments	67	71	76	99	151	195	225	255	270
Commitment Volume in \$ million	783	966	1,106	1,661	3,172	3,529	4,424	4,250	4,550

⁸ Note that the Number of Commitments for Trade Finance projects for the entire period FY03-11 are shown according to the new methodology for counting Trade Finance projects.

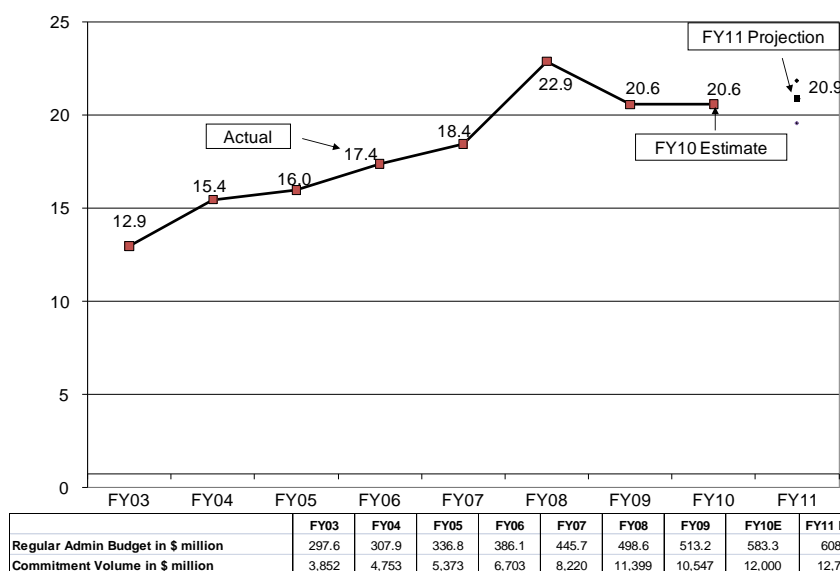
4.42 Continued growth in the number of commitments in IDA countries has resulted in a steady increase in the ratio of number of IDA commitments per \$1 million of budget. This measure of productivity has doubled from 0.22 in FY03 to 0.44 in FY09, a 100% improvement in the cost of delivering an IDA project (Graph 4.5). It is expected to stabilize at 0.44 for FY10 and FY11.

Graph 4.5: Number of IDA Commitments per \$ m of Budget⁹



4.43 The productivity gains exhibited by IDA ratios are mirrored by the ratios based on total IFC commitments as shown in Graphs 4.6 and 4.7. The ratios stabilize in both FY10 and FY11 at the level of FY09 Actual. While the FY11 ratio of 20.9 is somewhat lower than in FY08 Actual – which experienced a disproportionate growth in commitments before the global financial crisis hit – FY11 reverts to the general upward trend visible since FY03.

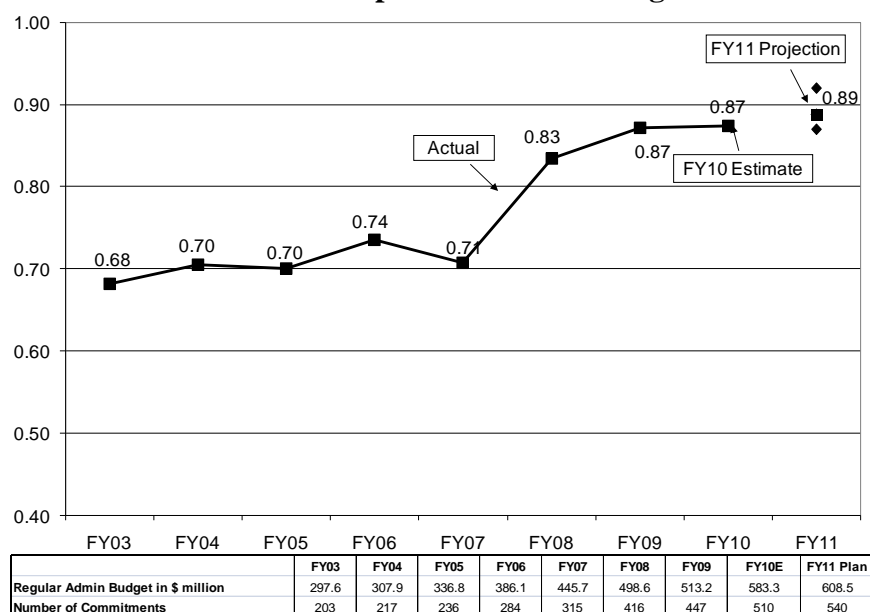
Graph 4.6: \$ of Commitment per \$ of Budget – incl. Trade Finance



⁹ Note that the Number of Commitments for Trade Finance projects for the entire period FY03-11 are shown according to the new methodology for counting Trade Finance projects.

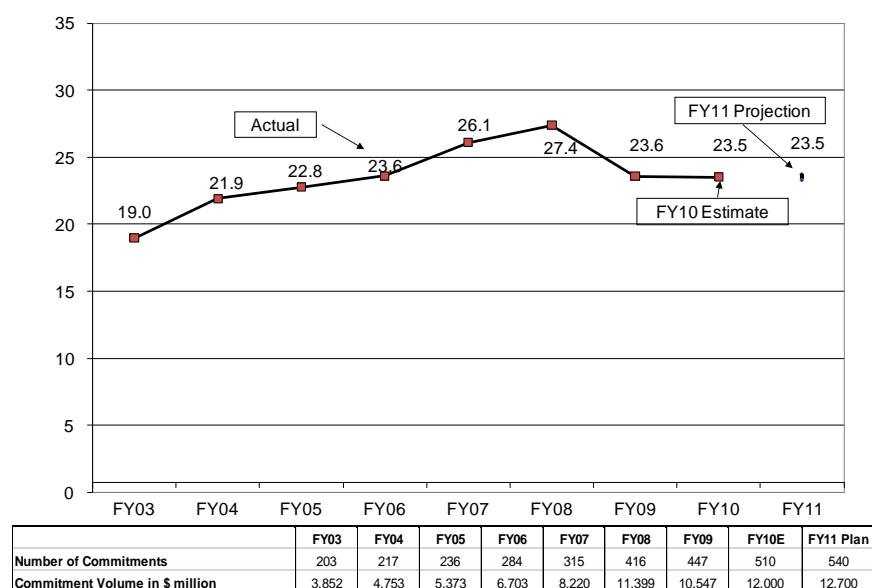
4.44 The ratio displayed in Graph 4.7 will continue to improve due to continuation of expected strong growth in number of Commitments.

Graph 4.7: Number of Commitments per \$ million of Budget – incl. Trade Finance¹⁰



4.45 The average size of IFC's projects reached a peak in FY08 and is now expected to revert to levels seen prior to the crisis.

Graph 4.8: Average Size of IFC Commitments – incl. Trade Finance¹⁰
US \$ millions

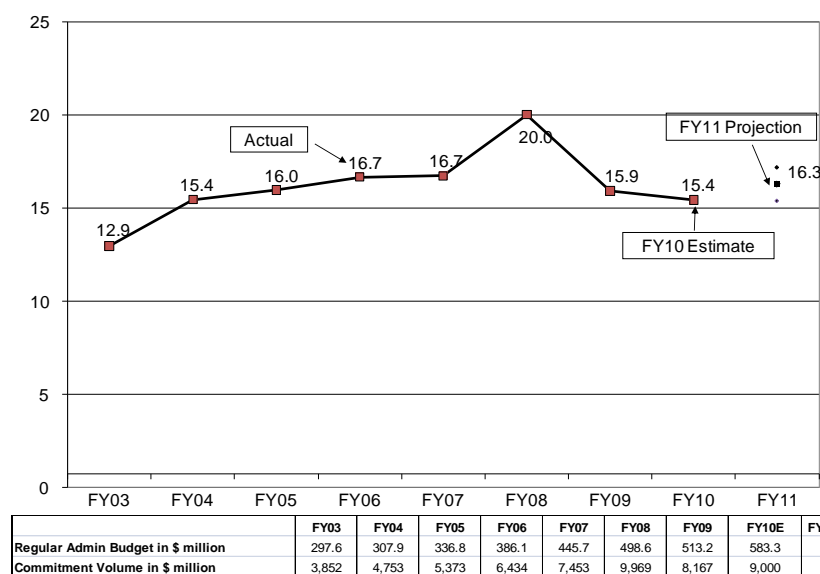


4.46 If Trade Finance is excluded the trend of the productivity is not very different as when displayed if Trade Finance is included in the overall IFC Commitment Volume (see Graph 4.9).

¹⁰ Note that the Number of Commitments for Trade Finance projects for the entire period FY03-11 are shown according to the new methodology for counting Trade Finance projects.

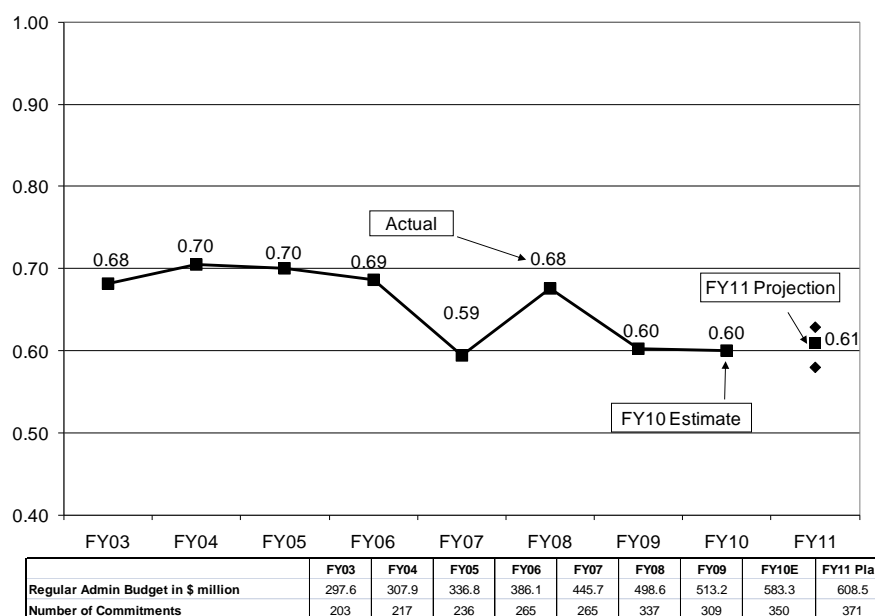
Ratios return to levels seen prior to the crisis and are relatively somewhat lower than for ratios that include Trade Finance. This is caused by a higher share of Trade Finance projects expected for FY10-11 compared to the period prior to FY09.

Graph 4.9: \$ of Commitment per \$ of Budget – excl. Trade Finance



4.47 The ratio displayed in Graph 4.10 reflects the reality of a higher share of Trade Finance projects among all IFC projects during the period FY10-11 compared to the period prior to FY07 when Trade Finance projects started to become a significant part of number of projects that IFC committed. As a result the ratio has declined in prior years but is now expected to stabilize at around 0.61.

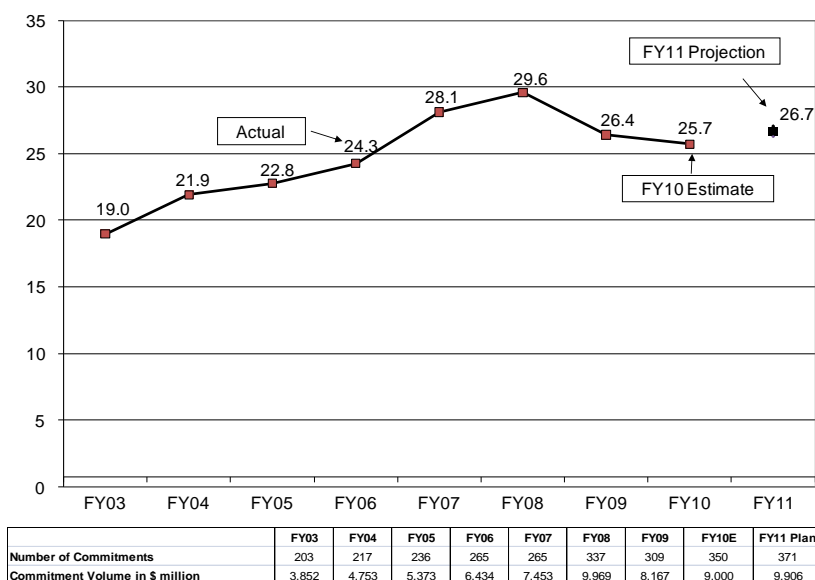
Graph 4.10: Number of Commitments per \$ million of Budget - excl. Trade Finance



4.48 Since Trade Finance projects tend to be smaller than non-Trade Finance projects, the average project size of projects excl. Trade Finance is larger than the overall average size of projects. The values of the ratio displayed in Graph 4.11 are, therefore, higher than the one shown in the

corresponding ratio shown in Graph 4.8 that includes Trade Finance projects. The trend, however, is similar with average project sizes now being smaller than during the peak of FY08, a trend that is intended as more projects are geared towards IDA and frontier countries.

Graph 4.11: Average Size of IFC Commitments – excl. Trade Finance
US \$ millions

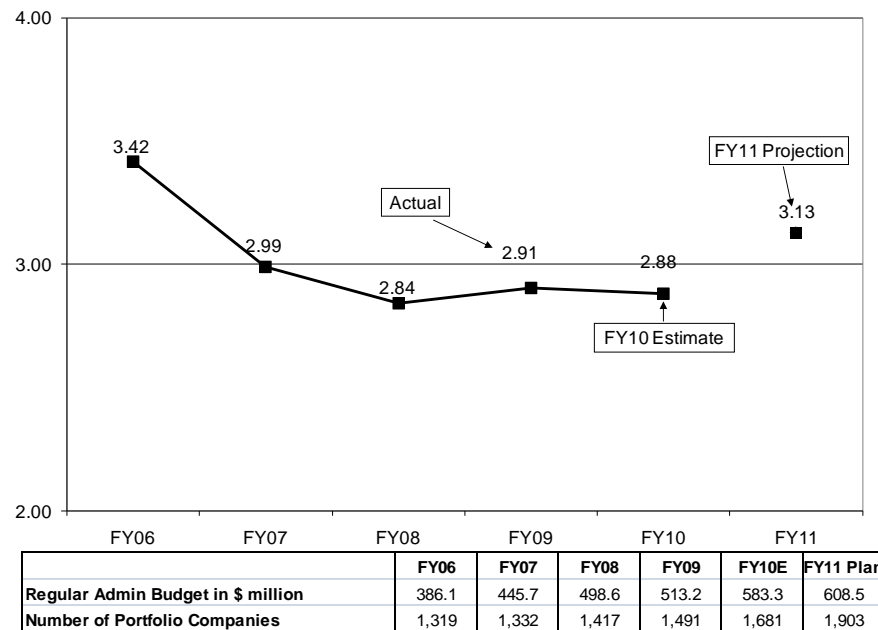


4.49 The following two graphs display corresponding productivity ratios that compare the investment portfolio for the Corporation's own account with the Regular Administrative Budget.

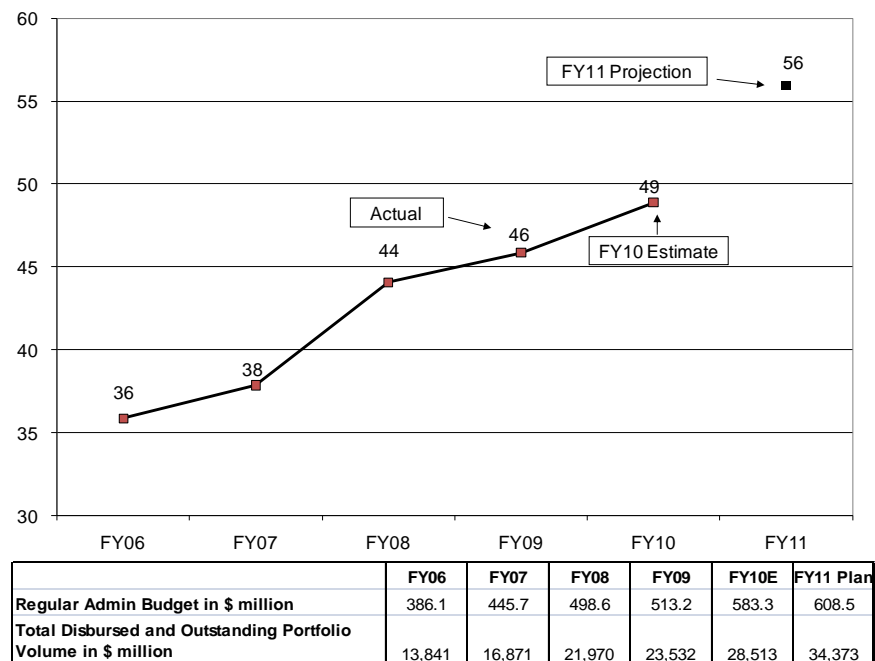
4.50 Graph 4.12 below illustrates the ratio of the number of portfolio companies per million of Regular Administrative Budget. Figures for FY06-09 are actual data, FY10 shows the Estimate and FY11 the Plan. Graph 4.13 compares Disbursed and Outstanding Portfolio Volume per \$ million of Regular Administrative Budget. As portfolio volume has grown faster since FY06 than the number of portfolio companies (which is also reflected in a rising average size of projects as illustrated in Graph 4.8), the ratio of portfolio companies per \$ million of budget expected for FY11 of 3.13 is 10% higher than the actual ratio of 2.84 achieved in FY08.

4.51 Graph 4.12 shows an increase since FY08 reflecting an accelerating growth of the number of portfolio companies exceeding the growth of the Regular Administrative Budget expected for the period FY08 Actual to FY11. Graph 4.13 displays a stable upward trend of increasing disbursed and outstanding portfolio volume that is outpacing the growth of the Regular Administrative Budget since FY06. The ratio of 56 expected for FY11 is 56% higher than the actual ratio of 36 in FY06. The estimated increase for FY10 is 10% higher than the actual figure for FY09 and for the FY11 Plan, another increase of 11% is expected bringing the ratio to 56.

Graph 4.12: Number of Portfolio Companies per \$ million of Budget – incl. Trade Finance
US \$ millions



Graph 4.13: Disbursed and Outstanding Portfolio Volume per \$ million of Budget – incl. Trade Finance
US \$ millions

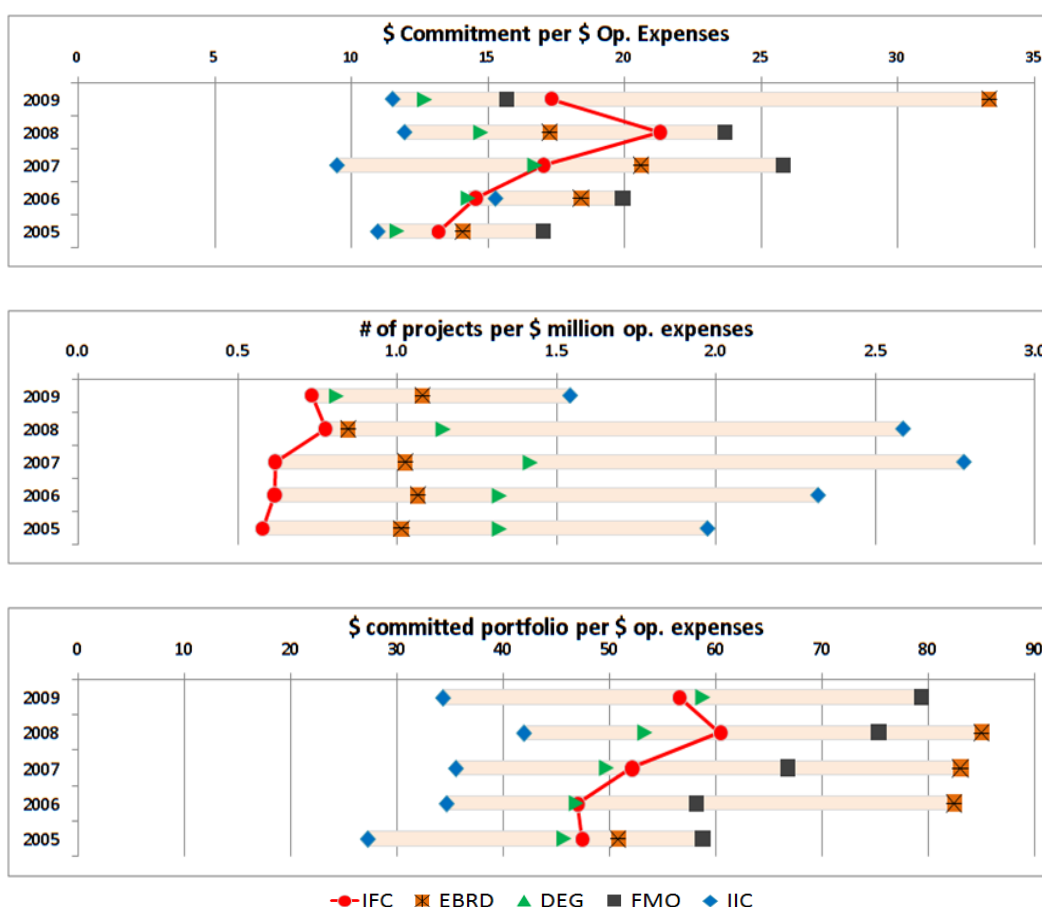


Benchmarking with other International Financial Institutions (IFIs)

4.52 The 2009 financial crisis presented special circumstances of operations for the IFIs. This is reflected in some unusual swings in the productivity parameters. In particular, a number of FY09 productivity ratios for various IFIs declined due to lower volumes, while some of EBRD's productivity ratios increased due to significant new business. As for IFC, the productivity ratios do not fully capture the volume associated with IFC's efforts on the various crisis initiatives and the corresponding amounts committed.

4.53 As shown in the charts below, IFC's overall performance is within the broad ranges of most comparators, notwithstanding the negative impact of deterioration of the US dollar versus Euro in the past years. IFC's productivity ratios have improved over the FY05-08 period – both in terms of operating expenses and staff – for both new business and committed portfolio. In 2008, while the comparators experienced deterioration in their productivity ratios in terms of number of projects, IFC experienced an improvement in its ratios.

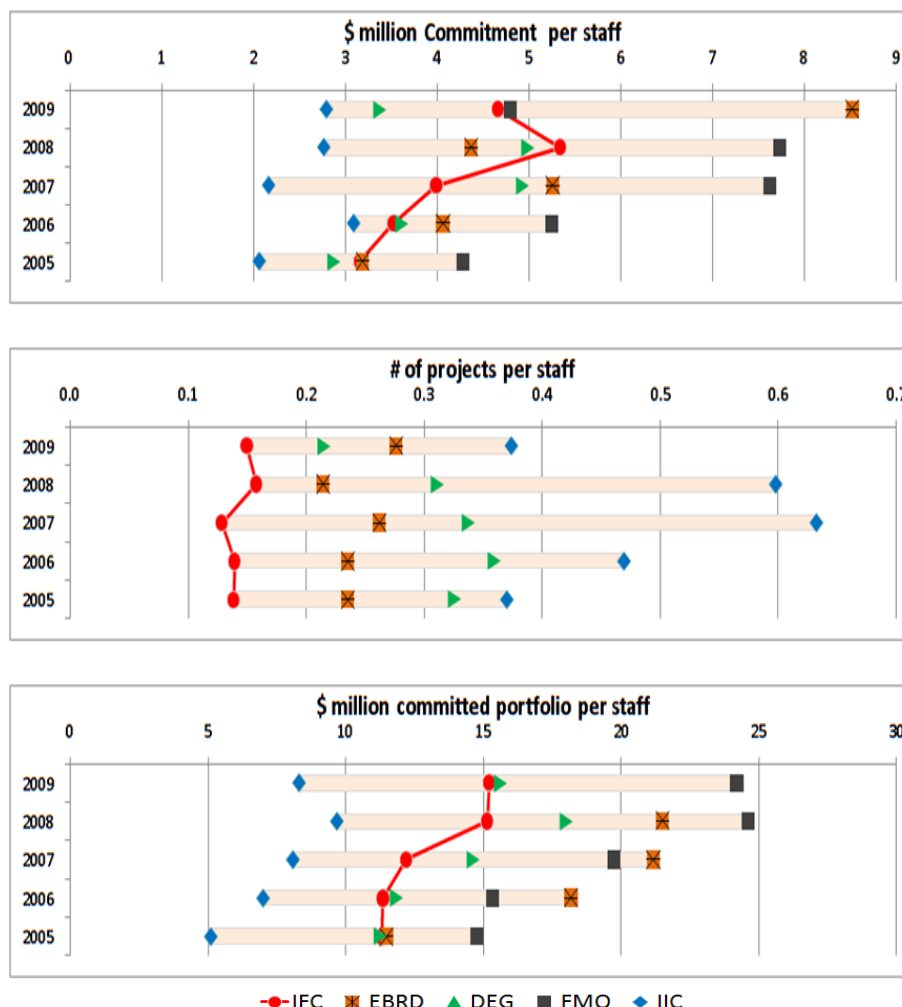
Chart 4.1: Benchmarking IFC's Productivity (per \$ Operating Expenses)



Source: Common Performance Assessment System (COMPAS) 2008 Report (COMPAS 2009 report not available), Annual Reports, press releases and internal sources.

Notes: (1) EBRD figures include both public and private operations, 2009 portfolio data not available; (2) FMO figures include government funds; (3) IIC figures based on approvals and not commitments; and (4) IFC figures are as at end of the fiscal year; total number of projects does not include trade finance.

Chart 4.2: Benchmarking IFC's Productivity (per Staff)



Source: Common Performance Assessment System (COMPAS) 2008 Report (COMPAS 2009 report not available), Annual Reports, press releases and internal sources.

Notes: (1) EBRD figures include both public and private operations, 2009 portfolio data not available; (2) FMO figures include government funds; (3) IIC figures based on approvals and not commitments; and (4) IFC figures are as at end of the fiscal year, total number of projects does not include trade finance.

4.54 It has to be kept in mind that each IFI has a different mission, scope of operations, geographical coverage and concentration, IDA and frontier reach, product mix and other characteristics, and these differences need to be taken into account when interpreting the data. For example, some institutions focusing on smaller investments have relatively higher productivity ratios by number of projects than they do by dollar investments.

D. ADVISORY SERVICES

4.55 In recent years, Advisory Services (AS) have grown into an increasingly important tool for IFC to deliver its development mandate. To better realize this potential, the Management Team has introduced wide-ranging reforms since 2006 to strengthen the focus, impact and professionalization of the AS business. IFC's strategy for AS forms an integral part of IFC's overall strategic directions laid out in the *IFC Road Map, FY11-13*, including the IFC 2013 initiative. The Management Team provides the Board with regular updates on the advisory business.¹¹

Program Directions, FY11-13

4.56 Following a period of rapid growth, the AS business went through a consolidation process during FY10 to help embed recent reforms. For the period FY11-13, the AS business is expected to resume steady and focused growth reaching annual spending of \$426 million in FY13.

Table 4.4: AS Total Spending Plan FY10-13

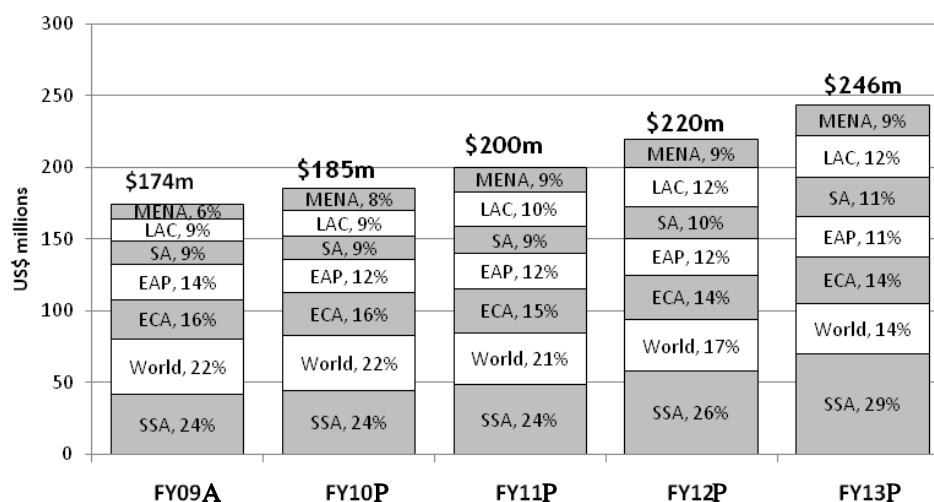
US\$ millions

FY09	FY10B	FY11	FY12	FY13
316	343	355	387	426

4.57 FY10 spending against the plan of \$343 million is expected to be in the range of \$300-310 million. This includes funding from donors and clients of 57% and IFC of 43%. The underspend of 10-12% is largely due to the ongoing effects of the crisis, and the consolidation process as part of management reforms in the AS business. In FY11, IFC expects expenditures to grow in line with the plan in Table 4.4.

4.58 Within this overall plan, project implementation spending by region is summarized in Graph 4.14. Over this period, the share of project spending in Sub-Saharan Africa is projected to continue to grow strongly – reaching nearly 30% of spending by FY13.

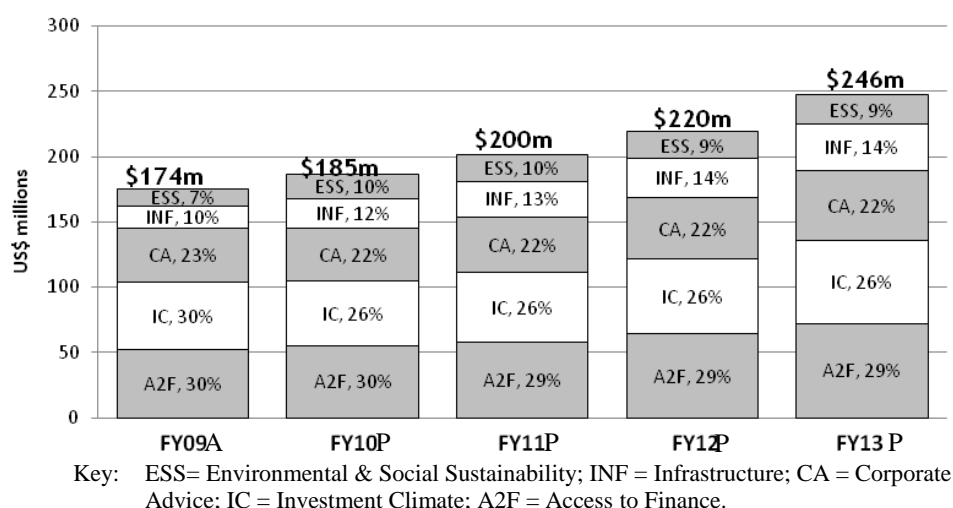
Graph 4.14: Project Implementation Spending by Region, Plan FY10-13



¹¹ The Management Team is scheduled to provide the Board with a Technical Briefing on Advisory Services in June 2010.

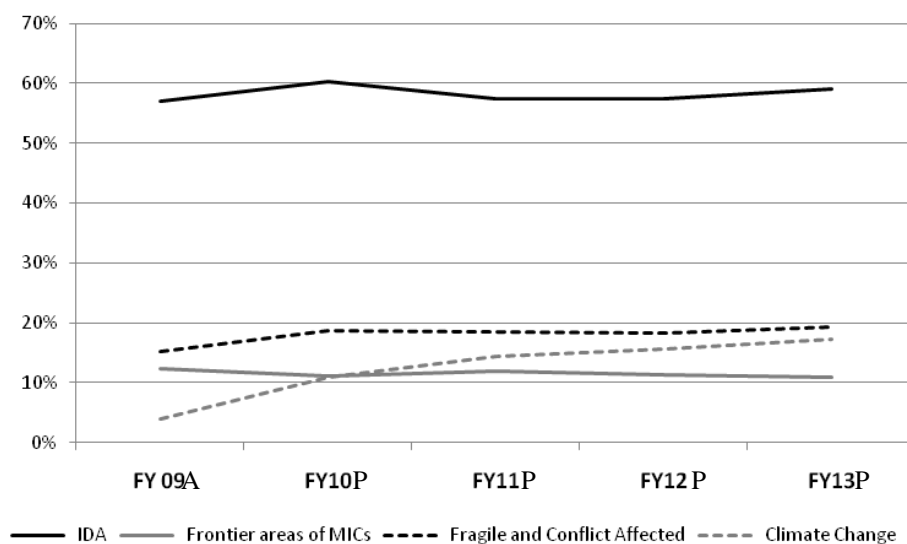
4.59 Planned project implementation spending by business line is summarized in Graph 4.15. Over this period, the Infrastructure business line is expected to grow in importance, accounting for 14% of spending by FY13.

Graph 4.15: Project Implementation Spending by Business Line, Plan FY10-13



4.60 Planned project implementation spending by key strategic priorities is summarized in Graph 4.16. Excluding world projects, IDA is forecast to remain steady at around 60% of spending despite expected graduations of some large countries. Spending in fragile and conflict-affected states is expected to stabilize at nearly 20%, while spending in frontier areas of MICs would remain steady at just over 10%. Spending on climate change is forecast to grow strongly from less than 5% in FY09 to nearly 20% by FY13.

Graph 4.16: Project Implementation Spending By Key Strategic Priority (excluding World Projects), Plan FY10-13



Strengthening the Funding Model for Advisory Services

4.61 *IFC's FY10 Business Plan & Budget* signaled that IFC's Management Team would consider the sustainability of the funding model for Advisory Services, including the role of the Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS). The review has been completed and the proposed approach is detailed below.

4.62 The funding model for AS draws on contributions from clients, donors, and IFC. During FY11-13, IFC proposes to pursue four main measures to strengthen the AS funding model which would be implemented as part of the IFC 2013 initiative for Advisory Services. The four key measures are:

- (i) Strengthening client contributions;
- (ii) Strengthening donor contributions;
- (iii) Better leveraging, and partially mainstreaming, IFC's contributions; and
- (iv) Implementing further improvements to financial management systems and processes.

4.63 **Strengthening client contributions.** While IFC has been seeking client contributions to some advisory products for many years, in 2007 the Management Team adopted a pricing policy intended to apply consistent principles across all Advisory Services. The main goals of the 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 client contributions in forms other than fees paid to IFC, such as cash or verifiable in-kind contributions made directly to project costs. IFC remains the pioneer among IFIs in adopting a comprehensive approach to pricing Advisory Services – indeed, most continue to provide such services on a grant basis.

4.64 A recent review of lessons of experience in implementing the 2007 pricing policy showed that client contributions are playing a growing role in funding AS projects.¹² Based on year of project approval, in FY09 83% of client-facing AS projects expected client contributions (up from 64% in FY08), and the expected share of total project costs contributed by clients was 35% (compared with 25% in FY08). The review also noted recent IEG findings that projects involving client contributions tended to be more successful, and findings from client surveys which showed that clients who contribute to projects report higher levels of satisfaction.

4.65 Going forward, the Management Team plans to continue to strengthen application of its AS pricing policy through two main measures:

- ***Elaborating business line- or product-specific implementation guidelines.*** The 2007 policy was crafted in broad terms to ensure room for experimentation and the exercise of judgment when applying principles to particular products and projects. As experience accumulates, more detailed guidance is being provided to staff. Detailed guidelines have already been developed for the Infrastructure and Investment Climate business lines, and guidelines for other business lines and specific products are under development and expected to be rolled out during late FY10 and FY11.
- ***Strengthening relevant monitoring and reporting systems.*** As part of its broader financial management system reforms for AS (see para 4.84), the Management Team is

¹² *IFC Advisory Services: Approach to Pricing.*

giving priority to improvements to systems and processes for recording and managing client contributions.

4.66 Given their focus on addressing market failures and achieving strong development impact, IFC's Advisory Services cannot be funded by client contributions alone. A subsidy element is inherent in almost every AS project, with the extent of the justified subsidy based on an assessment of the balance of private and public benefits associated with the project. An undue emphasis on maximizing client contributions could skew project selection in favor of projects that generate a larger share of private benefits and a lower share of public benefits, thus reducing development impact. Such a strategy might also raise questions over IFC's role and additionality vis-à-vis private service providers. Client contributions are expected to account for 35% of total costs of client-facing projects by FY13.

4.67 **Strengthening donor contributions.** Official donors are the single largest funding source for IFC's AS. Recent and ongoing efforts to enhance the role of donor contributions focus on strengthening the strategic management of key donor partnerships while actively developing new partnerships, including with corporate, philanthropic and other non-traditional partners. Based on these efforts, contributions from donor and clients are expected to increase from the planned \$207 million in FY10 to \$285 million in FY13, or from 60% to 67% of total AS spending.

4.68 **Better leveraging and partially mainstreaming IFC's contributions.** IFC's contributions to Advisory Services are important to mobilize donor contributions and to pursue strategic initiatives in areas where donor support has not yet materialized. IFC currently contributes around 40% of total AS costs, or \$136 million in FY10. The bulk of this contribution (\$97 million in FY10) is sourced from designations of IFC net-income through FMTAAS. Additional contributions (\$39 million in FY10) are sourced from IFC's Regular Administrative Budget (reported within Administrative Budget) and from administrative fees (reported within Total Resources) levied on donor contributions.

4.69 **Strengthening Leverage.** Going forward, IFC proposes to achieve greater leverage of its contributions by expanding the role of client and donor contributions, as outlined above. During FY11-13, leverage is expected to increase progressively so that IFC's contribution accounts for around 33% of total AS costs in FY13 (see Table 4.5).

Table 4.5: Increasing Leverage of IFC Contributions: Plan, FY11-13
US\$ millions

	FY09 Actual		FY10 Budget		FY11 Budget		FY12 Plan		FY13 Plan	
	Amt	%	Amt	%	Amt	%	Amt	%	Amt	%
IFC (all sources)	159	50%	136	40%	144	41%	136	35%	141	33%
Donors and clients	157	50%	207	60%	211	59%	251	65%	285	67%
Total AS Spend	316	100%	343	100%	355	100%	387	100%	426	100%

4.70 **Partially Mainstreaming IFC's Contributions.** Beginning in FY12, the Management Team proposes to shift the bulk of IFC's contribution to AS to the Regular Administrative Budget (RAB). The proposal has two core elements:

- (a) Funding for a defined “backbone” of IFC’s around 1,100 AS staff would shift to the RAB. Currently, funding sources for AS staff vary significantly across and even within departments, complicating management oversight of the AS business. This also makes it more difficult to establish a coherent career framework for AS staff engaged to deliver our AS business on a day-to-day basis, regardless of donor priorities, and to share staff between the AS and IS businesses.
- (b) FMTAAS would be retained as a funding source, but with a sharpened focus on providing funding to support particular partnerships and programs, rather than core business costs. Administrative and governance arrangements for FMTAAS would also be reviewed to enhance the clarity, consistency, effectiveness and efficiency of the funding mechanism.

4.71 In addition to recognizing that AS is now a core business of IFC, and demonstrating IFC’s commitment, the proposal has the potential to strengthen the funding model for AS in several ways:

- Enhancing the stability, consistency, and transparency of funding for core AS expenditures;
- Simplifying the funding of functions that serve both AS and IS businesses, allowing shared platforms where most efficient; and
- Facilitating the development of a more coherent HR strategy for AS staff.

4.72 *Consideration of Alternative Approaches to Definition of Backbone Positions.* The Management Team considered alternative approaches to defining positions that should comprise the “backbone”, and hence the extent of the funding that would shift to the RAB. Three main categories of position were considered:

- AS Leadership:* This includes the Vice President for Business Advisory Services and her front office; the leadership of the Partnerships and AS Operations Department; Regional Heads of Advisory Services; Global Business Line Leaders; and Regional Business Line Leaders.
- AS Product & Functional Specialists:* This includes key product leaders and specialists; a cadre of seasoned program managers; and specialists in key AS-specific functional areas such as monitoring & evaluation, portfolio management, and partner relations.
- IFC Corporate Support:* This includes key finance, HR, IT, communications, and knowledge management positions that focus on providing support to AS.

4.73 The number of positions in each of category and the impact on shifting the additional positions to the RAB are summarized in Table 4.6.

Table 4.6: Potential Components of AS Backbone & Funding Implications

	AS Leadership	AS Product & Functional Specialists	IFC Corporate Support	Total
No. of positions	46	160	90	296
No. of positions not already funded from RAB	37	120	83	240
Est. shift in funding to RAB for remaining positions in FY12 (incl. staff costs, travel & overheads)	\$20m	\$38m	\$12m	\$70m

4.74 The Management Team considered the pros and cons of several options. These were:

- *No change.* This option would perpetuate challenges with the current mix of funding sources.
- *Include only AS Leadership:* This category represents a high priority in terms of developing a coherent career framework, but would extend the benefits of the proposal to only a modest number of positions, 37, and with negligible impact, \$20 million, on the overall funding model and hence would not capture all benefits envisioned under para 4.71.
- *Include AS Leadership and AS Product & Functional Specialists.* This would extend the benefits of the proposal to an additional 120 positions, and a further \$38 million in AS funding. As noted below, this and other options will not adversely affect IFC's income statement. However, some may see concern in the reported increase in RAB.
- *Include all 3 categories.* The addition of key IFC Corporate Support positions further extends the benefits of the proposed funding model. In addition, funding these positions from RAB would facilitate the implementation of shared business support between investment services and advisory services where this makes sense. As noted below, this and related options will not adversely affect IFC's income statement. However, some may see concern in the size of the reported increase in RAB, and believe it may impact our future profitability adversely, notwithstanding that the proposed off-setting reduction in FMTAAS and administrative fees would mean the impact would be neutral.

4.75 The Management Team concluded that all three categories were essential incidents of a fully-functioning AS backbone that would be needed regardless of shifts in donor priorities. The size of the backbone would remain relatively stable, and leverage a larger pool of project-specific staff and consultants. It thus concluded that the preferred approach would be to shift funding for all three categories of staff to the RAB.

4.76 *HR Implications of the Proposal.* Adoption of the proposal would involve shifting funding for around 240 additional staff to the RAB. The remaining 800 AS staff are mainly engaged to execute specific programs and projects. Those staff would continue to be funded from current sources, which are dominated by donor and pooled donor-FMTAAS resources.

4.77 Shifting funding for the proposed positions to the RAB will not materially affect the employment terms and conditions of relevant staff. The overwhelming majority of staff in positions proposed to be included in the backbone are employed under coterminous term contracts, and they would shift to regular term contracts. The small number of staff in these positions currently on coterminous open-ended contracts would be subject to case-by-case consideration. All adjustments to contracts would be made on a consistent basis after appropriate consultation.

4.78 *Implications for IFC Income Statement.* Adoption of the proposal would bring the total contribution from IFC's Administrative Budget to around \$91 million in FY12. The repositioned FMTAAS would contribute around \$45 million in FY12, for a total IFC contribution of \$136 million (see Table 4.7). The increase in the RAB would be off-set by a reduction in resources required from FMTAAS and administrative fees on donor trust funds. Since relevant funding sources appear as expenses on IFC's income statement, the increase in RAB would be off-set by decreases in other items. The impact on IFC's income statement would therefore be neutral.

Table 4.7: Estimated impact of proposed shift in IFC funding sources: Plan, FY10-13
US\$ millions

	FY10		FY11		FY12		FY13	
	Amt	%	Amt	%	Amt	%	Amt	%
FMTAAS	97	71%	110	76%	45	33%	46	33%
Admin Budget	21	15%	21	15%	91	67%	95	67%
Admin fees	18	14%	13	9%	-	-	-	-
Total IFC	136	100%	144	100%	136	100%	141	100%

Note: Assumes all admin fee on donor funds is recognized as IFC income during FY12.

4.79 *Implications for IFC Capital Situation.* The impact will depend on decisions on FMTAAS designations, which are in turn dependent on approval of the partial mainstreaming. Designation proposals will be made in the FY10 Net Income: Retained Earnings and Designated Retained Earnings paper, and will reflect feedback from the Board on the partial mainstreaming.

4.80 *Implications for Donor Partnerships.* Adoption of the proposal would not affect IFC's commitment to existing partnerships with donors. FMTAAS would continue to be the primary vehicle for funding partnerships. Going forward, IFC would seek to leverage its contributions in the form of RAB-funded staff, as well as our contributions from FMTAAS. This would be the explicit basis for developing new partnerships. For ongoing partnerships, IFC would seek partner agreement to recognize contributions in the form of staff funded from the RAB as off-setting our pledged contributions from FMTAAS.

4.81 *Implications for Administrative Fees on Donor Funds.* Under the new model, IFC would continue to levy administrative fees on donor trust funds to cover the costs of managing those funds. During FY11 consideration would be given to alternative approaches to managing and applying these fees.

4.82 *Implementation Approach.* The new funding model would be introduced with effect FY12 to allow time to refine budget estimates, fully evaluate staffing implications, consult with donor partners, develop refined rules and procedures for FMTAAS, and put in place appropriate budgeting, costing, and reporting arrangements.

4.83 The FY12 Business Plan and Budget paper will propose firm budgetary figures for FMTAAS, the revised model, the increase in administrative budget resulting from the shift in composition of funding for AS, and the necessary resolutions for Board approval.

4.84 **Strengthening AS financial management systems.** To complement and reinforce the above measures, the Management Team proposes to continue reforms to strengthen financial management systems and procedures for the AS business. As part of the IFC 2013 initiative, priority is being given to:

- Developing consistent cost-allocation principles across the AS business, which will enhance IFC's ability to benchmark the relative effectiveness and efficiency of different projects, regions, and business units.
- Improving and simplifying systems for managing a business involving multiple funding sources, supported by appropriate risk management and IT solutions.
- Strengthening systems for recording and managing client contributions.

Designation of FMTAAS in FY10

4.85 Since inception of FMTAAS in FY05, \$850 million of retained earnings has been designated through FMTAAS to IFC Advisory Services. At the end of FY10, this pool of funding will be largely exhausted via commitments made since FY05 to multi-year, multi-donor regional, global and business line programs ranging in duration up to the end of FY14.

4.86 While all FY11 programs are already fully funded within the existing designations, AS programs renewing after FY11 (presently FY12 \$41 million, FY13 \$42 million) will require funding during FY11 from FMTAAS in order to enable continuity of activities and to signal to donors IFC's sustained financial support.

4.87 The annual designation of retained earnings to FMTAAS was suspended in FY09 due to the financial crisis. Designation proposals for FY10 will depend on approval of the mainstreaming proposal outlined above. Designation proposals will be provided in the FY10 Net Income: Retained Earnings and Designated Retained Earnings paper due for Board consideration in August, and will reflect feedback from the Board on the partial mainstreaming.

E. CAPITAL BUDGET

4.88 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 FY11, the total recommended capital budget is \$40.9 million.

Table 4.8: FY11 Capital Budget Proposal
US\$ millions

	FY10 Budget	FY11 Proposed Budget
Headquarters Facilities	3.7	5.8
Country Office Facilities	12.7	14.1
Information Technology	24.3	20.0
Contingency	1.0	1.0
Total	41.7	40.9

Headquarters Facilities

4.89 The Headquarters Facilities portion of the capital budget funds improvements and other work on the F-building. The increase from the FY10 budget funds an expanded scope of work planned for the coming year to support organizational realignments while continuing annual capital improvements required to keep the building functioning properly. In addition to the necessary replacement and upgrade of obsolete equipment in the cafeteria and other parts of the building, new 'hotelling space' will be created for use by field staff visiting HQ and STCs. There will also be a significant effort to upgrade/replace the HQ data center infrastructure to address major reliability, capacity, and equipment end-of- life issues. Security enhancements that have been developed in collaboration with WBG Security are also planned. Capital

investments in the F-building continue to include energy conservation measures which reduce energy and water consumption and garnered LEED PLATINUM¹³ certification.

Country Office Facilities

4.90 The Country Office Facilities budget proposal reflects the IFC 2013 strategy, which includes continued decentralization and growth in the field. IFC currently has 98 offices in 87 countries supporting over 2,500 staff and consultants in the field. IFC collocates its country offices with IBRD whenever feasible – 55 of the 98 offices are collocated. 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 FY10, seven new offices have opened (Bangui, Conakry, Kerson, San Salvador, Kingston, Kolkata, Thimpu) and three have closed (Cape Town, Kitwe, Yekateringburg). Provided there is sufficient funding available, there are plans to open another six offices in FY11 (Bamako, Dar Es Salaam, Lusaka, Ouagadougou, Asuncion, Baghdad). The proposed FY11 capital budget of \$14.1 million will entail work on approximately 28 Country Offices. By the end of FY11, IFC should have 103 offices in 90 countries – 61 of the offices would be collocated.

4.91 IFC is currently underway with a major construction project to build a new IFC/IBRD collocated office in Accra, Ghana which will accommodate 170 WBG staff. The architectural design is essentially complete and a request for expressions of interest has been issued for potential construction bidders. Substantial completion of the building is scheduled for the fall of 2012. In addition, capital budget of \$1.7 million has been earmarked for capital improvements to the Istanbul office to provide additional space for the Regional Operations Center.

Information Technology

4.92 The Information Technology capital budget is significantly lower than FY10. This results from projects that began in FY10 but whose implementation phase will continue into FY11 creating a capacity constraint on the development of new systems. In spite of the fact that IFC’s IT function is operating at 50% higher capacity than it was in FY06, demands for new IT systems continue to grow commensurate with the expansion of IFC’s work program. The proposed FY11 IT capital program combines the requested FY11 capital budget of \$20 million with funding from prior year approvals. It should fund \$36 million of capital investments for IT in FY11 as follows:

- **Steady State Operations (\$11.5 million).** The Steady State program is associated with the natural capacity growth and technology obsolescence of the existing IT infrastructure. It represents activities associated with supporting the existing infrastructure to ensure system reliability and to facilitate capacity growth such as replacement and enhancement of hardware and systems software such as PCs, network and application servers, operating systems, and relational database management systems. The costs are a function of new IT investments and anticipate a moderate future growth due to the continuous decline in hardware costs.

¹³ 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.

- **Information Security (\$2.5 million).** The Information Security program will strengthen existing security measures in the areas of network, internet, and PCs. Improvements will also be made in the area of user access in support of Internal Controls over Financial Reporting (ICFR). In addition, IFC will be required to implement a number of initiatives directed by the WBG Office of Information Security (OIS), as it aggressively seeks to upgrade information security across the WBG.
- **Mandatory and Discretionary Program (\$22.0 million).** The mandatory program includes IT projects to support the Corporation's compliance mandates (such as compliance with accounting rules, laws and regulations plus internal and external audit recommendations) and contractually obligated software upgrades. The discretionary program will give priority to IFC's critical IT needs, based on their alignment with IFC's business and IT strategic priorities. All initiatives will be aligned with the broader WBG IMT framework.

4.93 Key projects planned for FY11 include completing the deployment of an Equity Accounting Management System, system enhancements needed to support AMC activities, and establishing an Advisory Projects portal to support the Advisory Services product line. The funding also includes initiatives to develop tools to improve the ability of staff to work remotely thereby improving productivity and ensuring business continuity. As an example of how past investments helped IFC in this area, IFC staff in Washington, DC were able to conduct their mission critical work from home during the unprecedented winter 2010 snow storms that paralyzed the Washington, DC Metropolitan area for over a week.

F. TOTAL RESOURCES

4.94 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). As discussed above, these allocations are significantly leveraged through donor funding which allows IFC to greatly extend its Advisory Services reach. Table 4.9 provides a comprehensive statement of the total resources that are needed and used to deliver IFC's full development impact.

Table 4.9: IFC's Total Resources

US\$ millions

	FY09 Actual	FY10 Budget	FY11 Budget	Variance FY11 vs FY10
Total Administrative Budget	600.4	697.9	724.3	26.4
Carryforward of Unspent Budget from Previous Fiscal Year	-	40.6	34.9	(5.7)
Environmental/Social Mediation and Conflict Resolution	0.6	0.5	0.8	0.3
Jeopardy Expenses	7.0	15.0	15.0	-
Expenses associated with IFC's Treasury & Portfolio activities	12.1	12.5	15.5	3.0
Borrowing Expenses	2.6	2.5	2.5	
Custody and Settlement Costs	9.2	9.8	11.0	
Structured Finance	0.2	0.2	0.2	
Equity transaction Costs	-	-	1.8	
Expenses offset by fee income	45.8	51.6	77.9	26.3
Client Fee	38.3	41.7	60.5	
Privatization Fees	4.2	3.7	2.3	
B-Loan Management Unit (CMOBL)	2.9	3.2	3.3	
Mobilization Fees	0.3	-	-	
Crisis Response Initiatives Fee (GTLP)	-	2.0	4.8	
AMC	-	1.0	7.0	
Special Initiatives	0.7	1.4	1.0	(0.4)
Infra Ventures	0.3	0.1	-	
Frontier Privatization Fund	-	0.3	-	
PBGI-Access to Infrastructure	0.2	1.0	1.0	
IDA/IFC Initiative for SME Support in Africa	0.1	-	-	
Strategic Initiative for Sub-Saharan Africa	0.1	-	-	
Contributions to Advisory Services (AS) and related Programs	144.9	135.1	138.1	3.0
FMTAAS	127.6	97.0	110.0	
PBGI	5.0	13.0	11.6	
IFC Ventures	0.9	7.0	3.4	
Advisory Services Administrative Fees	11.3	18.1	13.1	
Total IFC Resources	811.3	954.6	1,007.6	53.0
Donor/Client Contribution to Advisory Services	157.4	207.0	211.0	4.0
Total Resources Used	968.7	1,161.6	1,218.6	57.0

Environmental/Social Mediation and Conflict Resolution Contingency Fund

4.95 The Environmental/Social Mediation & Conflict Resolution Contingency Fund was established in FY03 for an initial three-year period to cover the costs incurred in resolving exceptionally complex mediation or conflict resolution cases. The costs covered by the Fund are out-of-pocket expenses directly related to a handful of specific cases. The Fund is not used to cover any of the ongoing costs of the Compliance Officer/Ombudsman. The established practice is for the Fund to be replenished periodically to the full original amount of \$0.8 million.

Jeopardy Expenses

4.96 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 FY11 is proposed to remain at \$15 million which will allow sufficient flexibility in the event of stress on IFC's portfolio given the current uncertainty in global financial markets.

Expenses associated with IFC's Treasury & Portfolio Activities

4.97 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 and Citibank. 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.

Expenses Offset by Fee Income

4.98 The Corporation 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. 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 Management Team decided to expand the authority to use fees in FY11 in order to provide greater flexibility and incentives to Departments generating those fees and support the AMC efforts. Since fees are mostly 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. The use and collection of fees is monitored on a quarterly basis.

Special Initiatives

4.99 **PBGI – Access to Infrastructure.** This program was approved by the Board in FY06. It enables private service providers to extend services to customers that otherwise it would have been financially viable to serve. This product has enabled IFC to enhance access to basic services in frontier markets beyond what would have been possible just with classical IFC instruments.

PART V: RECOMMENDATIONS

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

A. ADMINISTRATIVE BUDGET AUTHORITY

Administrative Budget

- i) A total administrative budget for FY11 of \$724.3 million.

B. CAPITAL BUDGET AUTHORITY

Capital Budget

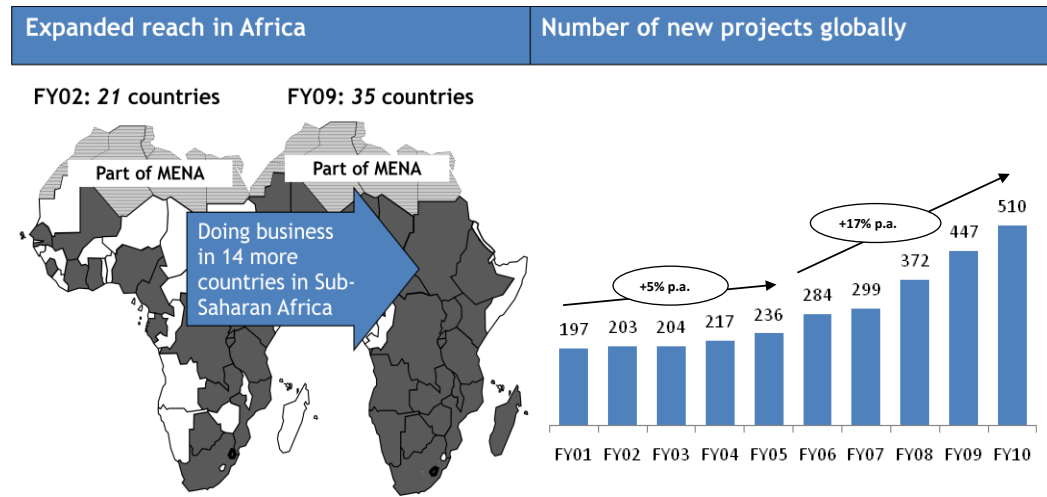
- ii) A capital budget for FY11 of \$40.9 million.

ANNEX 1

BENEFITS OF DECENTRALIZATION TO DATE

Success with decentralization, has helped IFC achieve notable improvements and reinforces the importance of on-going decentralization and change initiatives now envisioned under the IFC 2013. Decentralization has allowed IFC to achieve important results which include improved development reach with strong IDA performance and regional presence, productivity gains, and building partnerships with local clients, among others. As IFC's focus turns to the next phase of decentralization, the Management Team has reviewed the progress to date on a number of items reported in the Discussion Note to the Board on *IFC's Decentralization Experience (2002-2008)* which was discussed with the Board on May 14, 2009. IFC 2013 allows us to build on the accomplishments achieved over the past several years and capitalize on some clear opportunities for improvement.

Development Impact and IDA Reach. Decentralization has helped IFC achieve significant improvements in its IDA footprint and development reach. IFC has expanded its presence in IDA with offices in 46 countries. The number of IDA commitments has also tripled between FY05 and FY09 with about 50% of the FY10 projects expected to be in IDA countries (compared to 32% in FY05). Going forward, with the introduction of Development Goals, IFC will become even more focused on sectors that have high potential for development impact, enabling the Corporation to grow its development effectiveness significantly.



Productivity and Efficiency: The cost to generating \$1 million in commitments has shown a marked improvement since 2003.

Cost of generating \$1 million of Commitment

	Total admin expense for each \$1 million of volume commitment (US\$ thousand)	Total admin expense (US\$ million)	Commitments (US\$ million)	Number of Commitments	Average transaction size (US\$ million)
FY03	80	312	3,900	204	19
FY04	73	352	4,800	217	22
FY05	75	404	5,400	236	23
FY06	70	472	6,700	284	24
FY07	64	527	8,200	299	27
FY08	52	589	11,400	372	31
FY09	57	600	10,500	477	23
FY10*	58	698	12,000	510	23

*The FY10 figures for commitment volume and number are estimates; the total admin expense is the budget amount.

Client Service. Decentralization is also helping IFC build and enhance its client relationships in developing countries with local clients. Staff and decision-making is moving closer to the client in a deliberate and phased manner to achieve better client service. As of March 31, 2010 54% of IFC total staff are based in the field up from 36% in FY02 and represented across 98 offices, including a significant presence in 46 IDA countries. This has also been accompanied by a shifting dependence on IFC staff in the field, as noted in the client survey results.

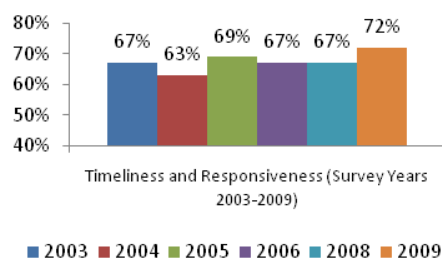
Clients' shifting dependence on IFC staff

<i>Do you depend more on HQ staff or field office staff?</i>							
	2003	2004	2005	2006	2007	2008	2009
Field Office	35%	34%	35%	39%	42%	49%	50%
HQ	65%	66%	65%	61%	59%	51%	50%

Source: IFC Operational Strategy Department

The most recent client survey has shown positive results being achieved during the decentralization period which IFC expects to expand upon during IFC 2013. One of the key targets in IFC 2013 is to further develop client relationships in order to build client satisfaction. The Management Team expects client satisfaction to continue to improve as decision-making gets closer to the client. These changes are intended to improve client service where there are clear opportunities for ongoing improvement.

Client Survey Results: "Timeliness and Responsiveness"



ANNEX 2
COSTS OF IFC 2013
 US\$ MILLIONS

	<u>Up-Front Costs</u>		<u>Ongoing</u>
	FY10	FY11	FY11-
<u>Change Management Office (\$3.5m total)</u>			
FY10: Cost of 1 Change Director, 1 Senior Staff, 1 Analyst and 1 ACS	\$1.50		
FY11: Cost of one Senior Manager, one Senior Staff, an Analyst and ACS, also incidental funding related to external consultants.		\$2.00	N/A
<u>Consultants FY10 (\$4.1 m total)</u>			
Diagnostic Phase: Comprehensive assessment of organizational effectiveness through surveys, interviews and focus groups, data analysis and benchmarking against other institutions. Included series of discussions with top management to take stock of the findings and determine the best path forward.	\$0.89		
Design Phase: Establishment and support for the work of Committees established to design solutions for IFC 2013, including the Change Management Committee, Investment Process Review Committee, People & Leadership Committee, Equity Committee, Development Goals Working Group, Management Reporting Working Group	\$2.14		
Implementation Planning Phase: Support for the Committees and line management to prepare for July 1 launch date, including staff and management reorganization, defining and formalizing new roles of various Departments, implementing new people & leadership measures and supporting communications and engagement with staff.	\$1.10		
<u>Istanbul Operations Center (\$1.8 total)</u>			
Includes the cost of relocating the Regional Management Team and Financial Controller to Istanbul. Other costs are neutral as they are either part of IFC's normal operating costs or are offset by savings elsewhere, e.g., staff not moving to other cities, etc.			
Average Re-Location and Benefit Costs for the following staff:			
• Regional VP (1), Regional Industry Directors (3), Risk Director (1)			\$1.50
• Financial Controller			\$0.30
<u>Relocation of Other Directors to the Field (2 –Asia)</u>			\$0.60
Total Known Incremental Costs of IFC 2013	\$5.63	\$2.00	\$2.40 (annual)

--Does not include the costs of future Operations Centers, but does include the recurring FY11 relocation and benefit costs of placing two additional Directors in Asia starting in FY11.

--Does not include other decentralization costs that IFC has been incurring as part of its normal operating budget.

ANNEX 3

PRODUCTIVITY BENEFITS EXPECTED FROM IFC 2013





CALCULATION

1. Productivity is defined as *Number of Commitments / Staff year*

- Number of commitments is generated adding:
 - (i) Total number of commitments (excluding Trade finance)
 - (ii) 25% of Trade Finance commitments (in order to weight for the reduced amount of work needed)
- Staff year:
 - (i) Calculated as total time spent in a year by all F1+ Investment Staff (IOs, Specialists, Managers) on new business
 - (ii) Calculation is based on Time Recording System data

2. IFC expects that the introduction of expert choreography, functional specialization and co-location, will allow the Corporation to increase productivity from 0.66 to 0.79 in the FY10-FY13 period, corresponding to a 20% increase.

Sources of productivity improvements

Levers		Productivity improvement ¹ Percent	Disruption in system	Cost
①	Introduce greater specialization and new processes			
	<ul style="list-style-type: none"> Separate Client Service (responsible for negotiation and structuring) and Execution Separate portfolio management role Introduce BPI and other process improvements 	6-10		
②	Create operation Centers			
	<ul style="list-style-type: none"> Create end-to-end teams Co-locating investment staff with appropriate support staff and decision makers Establish an investment middle office for transactional IO tasks 	7-14		

1 Productivity improvements calculated as percent increase in dollars in own account commitments per dollar of administrative cost

Improvement in Productivity FY10-FY13 – Investment Operations

	FY10	FY11*	FY13*	Change
# of Commitments / New Business	0.66	0.68	0.79	20%
Investment Staff FTEs				

*Depending on the resource intensity of new business

- The improvement in productivity would allow IFC (assuming same mix of deals) to realize 120 additional commitments by FY13 (+32%) by increasing number of Staff by 10%.
- The realization of 120 commitments at current level of productivity would otherwise require the increase of additional ~120 resources (Analysts and IOs) costing approximately ~\$28 million.

Benefits (costs avoided)

	FY10	FY13
Commitments	375	495
# Resources FY10 Prod	568	749
# Resources New Prod	568	624
Cost with current prod. (\$ Mill.)	125	165
Cost with new prod. (\$ Mill)	125	137
Cost saving		27.5

5. However, the expected change in mix towards more resource-demanding commitments (higher % of IDA countries, equity and mobilization) may reduce the actual productivity improvement achievable.

ANNEX 4
ADMINISTRATIVE BUDGET BY COST CATEGORY*
US\$ millions

	FY09 Actual		FY10 Budget		FY11 Budget	
	Actual	Cost Category as % of RAB	Budget	Cost Category as % of RAB	Budget	Cost Category as % of RAB
Fixed Expenses	390.8	76%	447.1	77%	467.3	77%
of which:						
Staff Salaries and Benefits	306.9	60%	351.2	60%	367.5	60%
Communications and IT	20.6	4%	24.1	4%	25.2	4%
Depreciation	37.0	7%	41.8	7%	43.1	7%
Equipment and Building	26.3	5%	30.0	5%	31.4	5%
Variable Expenses	122.5	24%	136.1	23%	141.2	23%
of which:						
ST. Consultants and Temps.	12.8	2%	12.4	2%	13.0	2%
Operational Travel	37.0	7%	28.6	5%	29.9	5%
Representation and Hospitality	1.3	0%	2.1	0%	2.2	0%
Contractual Services	45.5	9%	50.3	9%	52.7	9%
Services and Support Fees	19.5	4%	21.8	4%	21.6	4%
Other Expenses	6.4	1%	20.9	4%	21.9	4%
Regular Administrative Expenses (RAB)	513.3	100%	583.2	100%	608.5	100%
Other Expense Items:	87.1		114.6		115.8	
Independent Evaluation	5.2		5.3		5.6	
Corporate Secretariat & Board	21.3		16.6		15.3	
Contribution to SRP, SSRP, & RSBP	60.7		92.7		94.9	
Total Administrative Expenses	600.4		697.9		724.3	

*This provides an estimated breakdown of the FY11 Budget proposal by major cost items. It will be analyzed and amended as necessary early in FY11, when complete cost data for FY10 is available.

ANNEX 5

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 was approved by the Board for IBRD/IDA (*Price Adjustment to the World Bank Administrative Budget, April 1, 2009 (R2009-0050)*). Subsequently, in June 2009 the Board approved the adoption of the same price factor for IFC (*IFC/R2009-0126/3*).

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

- Apply the Board-approved, Washington-appointed staff structural 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 FY11, the overall budget price adjustment is 2.56%. The budget price adjustment results in an increase of \$14.7 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:

- Washington-appointed staff salaries and salaries-related costs : The price adjustment factor for Washington-appointed staff salaries and salaries related costs (weight = 45%) is based on Management's recommendation of a 2.4% salary structure adjustment (2010 Review of Staff Compensation for the World Bank Group - (paper number being assigned))
- Country-office-specific structural salary adjustments to country office salaries costs: The price adjustment factor for Country-office-specific structural salary adjustment to country office salaries costs (weight =9%) is based on the 2009 set of adjustments, which is 6.3% before applying exchange rate adjustment.
- 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 =10%) is based on the 2009 annual increase reported in IMF publication World Economic Outlook, April 2010, which is 6.1% before applying exchange rate adjustment.
- Exchange rate adjustment to non-USD based costs: The price adjustment factor for exchange rate adjustment to non-USD based costs (weight = 19%) is based on USD equivalent of local currency expenditures using the most recent twelve month average rates (April 2009 - March 2010) and comparing it to the USD equivalent of local currency expenditures using the prior twelve month average rates (April 2008 - March 2009), which yields -2.0%

- US-CPI to USD based non-salary costs: The price adjustment factor for US-CPI to USD based non-salary costs (weight = 36%) is based on the US-CPI average forecast of 2010 and 2011 annual increases reported in IMF publication World Economic Outlook, April 2010, which is 1.9%.

In terms of implementation, the Management Team 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 6

CORPORATE SCORECARD

IFC Corporate Goals	Indicators		FY08 Actual	FY09 Actual	FY10 Estimate	
Greater Development Impact	Investments : DOTS Score		71%	71%	70%	1
	Advisory Services: % of projects with Development Effectiveness rated "Satisfactory" or better		67%	58%	60%	
	Pillar 1	\$ commitment in Sub-Saharan Africa	1,380	1,824	2,000 – 2,100	
		\$ commitment in Middle East and North Africa	1,442	1,260	1,650 – 1,900	
		# of projects in IDA Countries	195	225	240 – 270	
		% of AS spend in IDA Countries	58%	57%	55%-60%	
		% of projects in frontier region	10%	9%	8%	
	Pillar 2	Number of South-South projects	62	52	40-55	
		\$ investment in South-South projects	1,913	1,449	1,500-1,800	
	Pillar 3	Climate change: \$ investment in RE/EE	906	1,034	900-1,100	2
	Pillar 4	\$ commitment in infrastructure	2,819	2,385	2,500-3,000	3
		\$ commitment in health and education	315	223	350-400	
		\$ commitment in agribusiness	762	714	550-650	4
	Pillar 5	\$ commitment in financial markets	4,605	4,709	5,500-6,000	5
		\$ commitment in MSME	2,877	2,969	2,800-3,200	6
Greater Client Satisfaction	Investment: % Overall Client Satisfaction		85%	85%	n/a	7
	Advisory Services: % Satisfied and above		77%	88%	n/a	8
Greater WBG Cooperation	Client Survey (IFC and the WB are working well together)		47%	67%	n/a	9
	# of joint WB/IFC investment projects committed		6	16	16	
	# of joint WB/IFC Active advisory projects		81	125	123	
Disciplined and Sustainable Growth	Total \$ Commitment (IFC own account)		11,399	10,547	11,500-12,500	
	Mobilization Ratio		0.42	0.38	0.42	10
	Total \$ Investments (IFC own account + IFC \$ mobilized)		16,151	14,511	16,000-18,000	
	Productivity: # of projects committed		416	447	480-540	
	Productivity: # of committed projects / RAB		0.82	0.96	0.78-0.88	
	Portfolio Management Rating		-	-	<=2	11
Sound Finances	Capital Adequacy: Total resources available (\$ bn)		15	14.7	16.7	
	Minimum resources required (\$ bn)		10.3	10.9	13.1	
	Liquidity: Externally funded liquidity level (min. 65%)		104%	163%	150%	
	Overall liquidity level (min 45%)		62%	75%	64%	12
	Leverage Ratio		1.6	2.1	2.5	
	Return on Average Net Worth (annualized based on FYTD performance)		9%	-3%	11%	
High Quality, Diverse and Engaged Employees	% Overall job satisfaction		73%	n/a	72%	13
	% of staff who felt "My manager provides me with timely feedback to enhance my performance"		62%	62%	71%	14
	% of Women staff (GF-GG)		41%	44%	46%	
	% of Women Managers staff		27%	29%	30%	15
	% of Sub-Saharan/Caribbean nationals		9%	9%	9%	
	Part 2 managers		34%	31%	33%	

Notes

1. DOTS score based on Development Outcome ratings as of June 30, 2009 for projects approved between calendar years (CY) 00-05.
2. IFC's target is to double to triple its RE/EE volumes over the FY09-11 period compared to the \$1.1 billion invested in FY05-07.
3. Include commitments in infrastructure, communications and information technologies and subnational finance.
4. Include only IFC's investments in the agribusiness, and not the entire food supply chain.
5. Excludes private equity and investment funds.
6. 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.
7. Annual External Client Survey
8. Annual External Client Survey
9. Annual External Client Survey
10. Mobilization ratio is defined as the sum of loan participations, parallel loans, A-loan participation sales, and non-IFC investment portion of structured finance, including mobilization through the AMC funds and IFC Initiatives, divided by IFC direct investments, and the IFC portion of structured finance and AMC fund investments.
11. Introduced mid-FY08. Based on three dimensions: (i) diversification; (ii) performance, and (iii) quality. Rating on a scale of 1 (superior performance); 2 (adequate), and 3 (needs improvement).
12. Liquid resources as a % of next 3 yrs' estimated cash requirements.
13. FY08 results based on biannual World Bank Group Staff survey conducted in FY07.
14. FY09 results based IFC "Pulse Survey" conducted in January 2009.
15. The IFC and World Bank Group D&I Compact Indicator has changed from % of women (H+) staff to % of women managers.

ANNEX 7
THE ASSET MANAGEMENT COMPANY (AMC)

IFC Asset Management Company
Estimated Pro-Forma Profit & Loss ¹
 US\$'000s

	FY10	FY11
Cap Fund Cost Recovery	10,000	15,000
Management Fees	2,206	28,810
Total Revenue	12,206	43,810
IFC Service Fee ²	7,287	19,191
IFC Out-of-Pocket	1,275	3,050
AMC Direct Expenses	2,500	13,000
IFC Chargeback	2,200	5,945
Profit / (Loss)	(1,056)	2,624
Payments to IFC	10,762	28,186
Percent of Total Revenue	88.17%	64.34%

¹ Assumes Russia Bank Capitalization Fund and Infrastructure Fund are initiated in FY11

² Service fee includes Transaction, Supervision & Fund Development Fee
 Service Fees are still under negotiation with IFC

ANNEX 8
CONTRIBUTIONS TO ADVISORY SERVICES FY05-FY15
US\$ millions

	Region	FY05-08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	Total
AMSCO - African Management Services Company	CAF	2.4								2.4
APDF - Africa Project Development Facility	CAF	6.0								6.0
Mozambique SME Initiative	CAF	3.0								3.0
Chad Capacity building	CAF	1.6								1.6
SME Solution Center	CAF	4.0								4.0
Uganda Bujagali	CAF	0.8								0.8
Global Business School Network	CAF	3.1								3.1
Africa Trade Finance	CAF	4.3								4.3
Africa SWAT Team	CAF	1.4								1.4
Investment Climate Facility - Africa	CAF	30.0								30.0
Chad Cameroon- Access to Finance (FINADEV)	CAF	1.5								1.5
PEP-Africa-Private Enterprise Partnership in Africa	CAF	24.0	7.5	7.5	8.9	8.9	9.3	9.8	10.2	86.0
Subtotal CAF		82.1	7.5	7.5	8.9	8.9	9.3	9.8	10.2	144.0
PNG Microfinance	CEA	1.5								1.5
Indonesia SME Credit Line	CEA	2.0								2.0
PEP-ACEH	CEA	1.0								1.0
Tsunami Matching Grant East Asia	CEA	0.9								0.9
CEA Corporate Governance & Institution Building	CEA	2.0								2.0
EAST ASIA Centralized TA	CEA	2.6								2.6
PEP-Pacific-Private Enterprise Partnership in Pacific	CEA	2.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	8.6
PEP-Philippines	CEA	4.0	1.0	1.0	1.0	1.0	1.0			9.0
PENSA - Program for Eastern Indonesia SME Assistance	CEA	3.0	2.0	2.0	2.0	2.0	2.0			13.0
PEP-China-Private Enterprise Partnership in China	CEA	5.8	2.4	2.4	2.4					13.0
MPDF - Mekong Private Sector Development Facility	CEA	3.0	2.0	2.0	2.0	2.0	2.0			13.0
Subtotal CEA		28.6	8.2	8.2	8.2	5.8	5.8	0.8	0.8	66.6
Central Asia Corporate Governance (PEP)	CEU	2.3								2.3
Belarus and Georgia TA (reallocation from CBF)	CEU	0.4								0.4
PEP - Private Enterprise Partnership	CEU	22.2	6.1	6.1	6.1					40.5
BIDF - Balkans Infrastructure Development Facility	CSE	1.5								1.5
SEED - Southeast Europe Enterprise Development	CSE	0.5								0.5
Romania Competitive Study	CSE	0.5								0.5
Banca Comerciale Romania	CSE	0.4								0.4
PEP-SE - Private Enterprise Partnership Southern Europe	CSE	4.4	1.5	1.5						7.3
PEP-ECA	ECA	-			3.9	10.0	10.0	10.0	10.0	43.9
Subtotal ECA		32.1	7.6	7.6	10.0	10.0	10.0	10.0	10.0	97.2
Hurricane Relief	CLA	0.5								0.5
LACP - SMEP -Latin America SME Program	CLA	18.0								18.0
LACP-additional funding	CLA	3.0								3.0
LAC MSME	CLA	2.0	3.2	6.2	6.2	2.4				20.0
LAC	CLA	-	10.3	8.3	8.5	12.7	14.8			54.6
Subtotal CLA		23.5	13.5	14.5	14.7	15.1	14.8	-	-	96.1
Earthquake Relief-Pakistan	CME	1.5								1.5
PEP - MENA	CME	18.2		12.0	12.0	12.0	12.0	12.0		78.2
Subtotal CME		19.7	-	12.0	12.0	12.0	12.0	12.0	-	79.7
Tsunami Matching Grant-South Asia	CSA	0.3								0.3
SEDF - South Asia Enterprise Development Facility	CSA	2.0	1.0	1.0	1.0	1.0	1.0			7.0
SLDF-South Asia Enterprise Development Facility -Sri-Lanka	CSA	1.6	0.4	0.3	0.3	0.3	0.3	0.3		3.5
SAIF	CSA	1.0	1.0	1.0	1.0	1.0				5.0
Subtotal CSA		4.9	2.4	2.3	2.3	2.3	1.3	0.3	-	15.8

Note: In accordance with the FY05 Business Plan (IFC/R2004-0114/4), FY06-08 Business Plan (IFC/R2005-0200) , FY07-09 Business Plan (IFC/R2006-0208), FY08-10 Business Plan (IFC/M2007-0042) and Use of IFC's FY08 Net Income: Retained Earnings and Designation of Retained Earnings (IFC/R2008-0265) \$850 million was designated from IFC's FY04 to FY08 net income to FMTAAS . This table reports the activities to be funded by FMTAAS that have been approved by IFC's Management Team during FY05 to FY10. The FMTAAS funding extends through the life of the respective programs as shown.

CONTRIBUTIONS TO ADVISORY SERVICES FY05-FY15 (CONTINUED)

US\$ millions

	Region	FY05-08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	Total
CBF - Capacity Building Facility	Global	7.7	-	-						7.7
CCF - Corporate Citizenship Facility	Global	2.2	-	-						2.2
EOF - Environmental Opportunities Facility	Global	4.0	-	-						4.0
Strengthening Grassroots Business Initiative (GBI)	Global	14.0	0.5	-						14.5
SFMF - Sustainable Financial Markets Facility	Global	2.0	-	-						2.0
TATF - Technical Assistance Trust Fund	Global	5.0	-	-						5.0
AIDS - IFC Against AIDS	Global	3.2	1.2							4.4
ACCION	Global	3.5	1.0	0.5						5.0
Global Housing Finance Facility	Global	2.7	0.3							3.0
Global Credit Bureau	Global	2.0	-	-						2.0
Global ICT Facility	Global	1.0	-	-						1.0
Sub-National Finance	Global	5.0		-						5.0
Investee Financial Institution TA Program	Global	5.0	1.0	-						6.0
Innovation fund	Global	2.0	2.0	2.0						6.0
Global Funds	Global	3.0	3.0	3.0						9.0
FIAS - Foreign Investment Advisory Services	Global	13.0	4.0	4.0	4.0					25.0
Global Corporate Governance Forum (GCGF)	Global	4.0	1.5	1.5						7.0
Gender Entrepreneurship Markets (GEM)	Global	4.5	1.6	3.2	3.8					13.1
Development Collaboration Partnership Fund (DevCo)	Global	11.0								11.0
SBI	Global	2.2	3.8	3.3	3.4					12.7
Sustainability Business Innovator-Global Environmental Fund	Global	-	0.9	1.5	1.4					3.8
GEF	Global	2.5	1.5	3.0	3.0					10.0
GBF	Global	-	5.0	5.0	5.0					15.0
Agribusiness Plan for Rising Food Prices	Global	-	1.0	2.5	6.0					9.5
Business Incubator	Global	-	1.0	1.0	1.0					3.0
Financial Mechanisms for Climate Change	Global	-	1.0	1.0	1.0	1.0	1.0			5.0
Community Development & Extractive Industry	Global	8.0	2.0							10.0
CES Policy Unit	Global		1.5	1.0						2.5
Health in Sub-Saharan Africa	Global			1.0						1.0
Performance Standards	Global				0.5					0.5
Global Extractive Industries Policy Support Fund (EITI)	Global	-	1.0	0.4	3.6					5.0
Monitoring & Evaluation	Global	3.0	1.0							4.0
Subtotal Global		110.5	35.8	33.9	32.7	1.0	1.0	-	-	214.9
Total		301.3	75.0	86.0	88.8	55.1	54.2	32.9	21.1	714.3