

**CONFIDENTIAL**

**FY10 BUSINESS PLAN  
AND BUDGET**

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**IFC** International Finance Corporation



# FY10 BUSINESS PLAN AND BUDGET

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## EXECUTIVE SUMMARY

i. The purpose of this paper is to present IFC's FY10 business plan and budget for consideration by the Board. It is intended to translate strategic priorities into a business plan, with resources allocated accordingly. The structure of the paper has been enhanced this year to better focus on the key messages. Part I presents the business plan and the general context in which IFC operates. It lays the framework for the budget proposal which is described in Part II. Part III lays out the recommendations for the budget.

ii. The global financial crisis has drastically changed the situation for most developing countries around the world. Recent progress in poverty reduction is in danger of being reversed as foreign direct investment is pulling back from emerging markets. IFC had been in a growth mode until the crisis struck. The Corporation has adapted quickly to the unfolding crisis and has proactively revised its strategy to address the unique needs of the private sector in its client countries. In fact, the Management Group and staff spent about three months reviewing the investment pipeline to determine which projects were not appropriate or feasible given the crisis. This resulted in a slightly scaled back investment program for FY09. The financial crisis, with ensuing losses for IFC, has affected IFC's capital capacity which also limits its ability to continue the recent growth in investments. While IFC's core priorities have not changed – frontier markets, climate change, infrastructure, agribusiness, and financial markets (with particular emphasis on micro, small and medium enterprises) – the Corporation's overall strategy has shifted from an emphasis on growth to a focus on its countercyclical role while at the same time working to enhance risk management, stabilize its portfolio, mobilize partners and help existing clients weather the financial crisis. IFC will continue to emphasize work in the poorest countries where the Corporation's limited resources can have the biggest developmental impact. This strategy was fully elaborated in *IFC Road Map FY10-12* and has been translated into a firm business plan and budget in this paper.

iii. IFC expects commitments in FY09 to be at least in the range of \$10.2 to \$11.0 billion in 420 to 460 projects, with 215 to 230 of these projects in IDA countries. Compared to FY08, this is 2% lower in terms of volume but an increase of 13- 24% in total project numbers, 27-36% higher for projects in IDA. IFC will leverage its FY09 commitments with an additional \$5 to \$7 billion in mobilizations.<sup>1</sup> It is also important to note that the product mix of new commitments has changed. In FY08 19% of commitments were equities. This is expected to increase to 21% in FY09. The FY10 business plan calls for new commitments to be in a slightly higher range of \$11 to \$12 billion in about 460 projects with half of these in IDA countries. Mobilizations are expected to remain at the FY09 levels. At the same time that IFC is pursuing new commitments and mobilizations, greater emphasis will be given to managing IFC's portfolio and addressing client challenges that have been caused by the financial crisis. The strategy to meet these challenges in each region has been updated since Board discussion of *IFC Road Map FY10-12* so revised regional strategies are elaborated in Part I.

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<sup>1</sup> This does not include mobilizations for IFC's crisis response initiatives.

iv. While commitment volume is expected to grow modestly as a result of IFC's capital constraints, there is significant demand for IFC financing due to tight credit markets. The excess demand will force the Corporation to be more selective and choose only those projects which have the greatest IFC additionality and development impact. IFC's systems – both for evaluation and ongoing monitoring through the development outcome tracking system (DOTS) – already put IFC in a leadership position in the area of development results measurement. To ensure IFC projects continue to deliver development impact, monitoring and evaluation will be further upgraded in FY10 through the introduction of "DOTS-2", which will help to improve data quality, provide faster access to results, and thus allow IFC to feed this information even faster into strategy and operations. In the short run, development results are expected to deteriorate due to the global financial crisis: Eastern Europe, the region which has been hit first and hardest, already shows a significant deterioration of development results, and other regions are likely to follow. By working closely with its clients, and through its various crisis initiatives, IFC is trying to mitigate the effects of the crisis. Looking ahead, IFC's past experience shows that some of the best development results have been achieved where IFC invested in the wake of a crisis, and IFC hopes to replicate this success.

v. IFC is rising to meet increased client demand and the challenges of the global financial crisis through newly created crisis response initiatives which complement the traditional investment and advisory services programs. The Management Group and staff have rallied to quickly develop new vehicles through which the Corporation can help the private sector in developing countries cope with the global financial crisis. These initiatives will combine IFC funds with contributions mobilized from governments, private enterprise, and other international financial institutions. Donors have made firm commitments of \$5 billion to fund these programs and IFC will continue working to raise additional funds. To facilitate contributions from donors, IFC established the IFC Asset Management Company (AMC), LLC as a wholly owned subsidiary of IFC in January 2009. In addition to facilitating contributions, the AMC will ensure efficient implementation of some of the initiatives. While many of these initiatives have already been approved by the Board, they are reviewed in this paper (paras. 1.64 to 1.77) to provide a full picture of IFC's activities in response to the global financial crisis.

vi. *IFC's FY09-11 Business Plan and Budget* called for an indicative budget increase in FY10 of 10%, but growth is no longer planned in either the investment program or the budget for the duration of the financial crisis. During FY09, The Management Group proactively managed the Corporation's spending and as the scope of the financial crisis became clear, Departments were told to limit their expenditures to 95% of their budgets. The Management Group also decided to suspend variable pay programs such as market premiums and long term performance awards. Planned recruitment was also reduced so that IFC would not increase its cost base entering FY10. IFC will continue this proactive approach going forward and is proposing a flat Regular Administrative Budget of \$522 million for FY10. The budget does, however, represent an increase of 4% to 8% over FY09 expenses. This results directly from the Management Group's decision to limit FY09 spending through the aforementioned cost cutting measures. The incremental increase of budget above spending will: (i) support the further expansion of IFC's field presence into IDA countries; (ii) provide additional resources to investment departments

for portfolio management and crisis response, (iii) augment portfolio management and credit review functions, (iv) cover necessary increases to IT maintenance & support costs; and (v) allow IFC to resume payment of variable pay programs (assuming the Corporation's financial position is positive). The Management Group will continue to proactively manage IFC's spending in FY10. If the financial crisis were to worsen, the Corporation may once again decide to cut spending or reallocate resources to fund client workouts and restructurings.

vii. The proposed budget is the result of an enhanced planning process which begins at the end of the first quarter and culminates with the Board discussion of this paper. The process first establishes the Corporation's strategy and resultant business plan. The Management Group then undertakes intensive deliberations in conjunction with all departments to determine the staffing and budget needed to deliver the business plan. One of many positive outcomes of this deliberative, structured process is the fact that the Regular Administrative Budget will remain flat despite unavoidable increases in corporate overheads. This was achieved through the introduction of a 3% productivity tax on all departments early in the planning process. Later in the planning process, the Management Group was able to reallocate the proceeds from this tax to fund strategic priorities such as portfolio management in addition to covering the rise in overheads.

viii. The Management Group's decision to introduce a productivity tax forced departments to tighten control over spending so that they can continue their existing work program with fewer resources. This has been an important step which IFC plans to continue in FY11 and beyond. The Corporation's focus on productivity and efficiency is not, however, limited to the productivity tax. In fact, IFC has been monitoring and improving the efficiency and productivity of its core business 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 has been steadily improving since FY03. The number of commitments per \$ million of budget has improved from 0.67 in FY03 to an estimated 0.90 in FY09. Similarly, the dollar of commitment per dollar of budget has increased from 13 in FY03 to an estimated 22 in FY09. These trends hold true for IFC's investments in IDA countries as well. It is important to note that all of these productivity ratios have improved at a time when IFC has been increasing its number of projects in frontier countries.

ix. IFC is taking the further step of benchmarking itself against other international financial institutions (IFIs). This effort is in line with good governance practices that IFC promotes to its clients. A dialogue has been started with other private sector development institutions regarding possible measures for comparing productivity. While this effort is ongoing, IFC has looked at data for several IFIs to review basic input-output metrics similar to those mentioned above. Overall, IFC is within the broad range of the comparator institutions which are discussed in Part II.

x. IFC will also contribute to the institutional productivity and efficiency of the World Bank Group by increasing its cooperative efforts with IBRD. There is close cooperation on strategy formulation, policies and systems, and projects. The Bank

Group's country assistance strategies are created with IFC collaboration to ensure that public and private sector development complement one another and to make sure that private sector issues are accurately addressed. IFC is working closely with IBRD on joint financial crisis response, climate change strategy, food crisis response and the foundations/partnerships strategy. IFC also shares IT systems and support networks within the Bank Group, as well as HR systems and administrative policies. These shared systems help drive efficiencies through economies of scale.

xi. Advisory services have become an integral part of IFC's offering to clients and an important component of the Corporation's response to the crisis. They contribute significantly to IFC's additionality by improving the business enabling environment for the private sector as well as the capabilities of private firms and service providers. The Management Group has proactively decided to reduce the budgeted FMTAAS contributions from \$130 to \$97 million, but the overall FY10 budget for advisory services will stay largely flat at \$297 million, reflecting additional mobilization of donor and client contributions.

xii. Reflecting the overall corporate shift, IFC's human resources strategy has shifted from managing staff growth to strategic staffing in response to the crisis. Planned recruitment during FY09 was reduced by 40% with most of the cuts affecting planned hires at headquarters so that IFC's field presence would continue to grow. The Management Group set a ceiling of 3,550 total staff for the end of FY09 which represents 7% growth over FY08. The share of field-based staff will have increased to 55%, up from 53% at the end of FY08. In FY10, IFC plans to replace turnover and limit hiring at headquarters to a bare minimum for essential central control and risk management functions. The total workforce is projected to grow modestly.

xiii. IFC's decentralization strategy has enabled the transformation of IFC from a headquarters-centric organization to a decentralized one, underpinned by the movement of senior staff to field and increased hiring of local staff with the delegation of decision-making authority to field offices. As two thirds of IFC's clients are local, staff who are close to the clients and know the local markets can make informed decisions more quickly than a headquarters-centric decision-making process would allow. Following this model, IFC has recently posted a full time country officer in Kabul, Afghanistan. IFC will continue to decentralize by sending additional senior staff to the field in FY10. The staff to be sent are sector, credit, environment & social development, and legal experts who will lead project teams with clients, mentor local hires, and disseminate IFC's corporate culture. By the end of FY09, IFC will have staff in 107 offices in 83 countries and plans to further expand its presence in frontier countries in FY10 including Jamaica, El Salvador, Bhutan, Cote d'Ivoire (official re-opening) Guinea, Mali, and Tanzania. The overall decentralization strategy and experience so far is detailed in the recent discussion note *IFC's Decentralization Experience 2002-2008*.

xiv. IFC's financial performance and its capital adequacy have been significantly impacted by the global financial crisis. Furthermore, IFC's capital adequacy shows declining levels of strategic capital in FY09 and possibly in FY10. The Management Group is closely monitoring the Corporation's financial capacity to absorb additional

shocks from the marketplace, while maintaining flexibility to fulfill its development mandate, implement its business strategy, and play a counter cyclical role. A full analysis of IFC's financial capacity is presented in the recent *Annual Report on Financial Risk Management and Capital Adequacy*.

xv. IFC's history shows that it has done well during economic downturns. The Corporation finds opportunities in the problems presented by crises and lays the seeds for future growth by playing a countercyclical role. IFC's Management Group has a proven track record of proactively managing both the budget and the business to ensure that IFC continues to maximize its development impact and its value to clients. Given the particular severity of the present financial crisis, the Corporation is vitally needed now more than ever. IFC remains a highly relevant global institution which is partnering to reform the banking sector in developing countries and bring tier one banks back into the frontier. IFC's work helps create jobs and improve the lives of the poor. The FY10 business plan and budget provides a solid foundation for continuing this important role.



## PART I: BUSINESS PLAN AND CONTEXT

1.1 The global landscape has changed dramatically. The current crisis, which started in developed countries, is causing significant flight of financing and a high risk of continuing deleveraging in most of the developing countries. Past gains and momentum towards poverty reduction are in danger of being reversed, with the poorer markets being most vulnerable. The nature of the impact of the present crisis in developing countries, particularly on the private sector, and IFC's business is uncertain.

1.2 IFC's equity portfolio performance and profitability during the first three quarters of this fiscal year have already been affected, and IFC could face a capital constraint by FY11. At the same time, the needs in IFC's markets have never been greater, and a combination of private and public sector approaches will be required to ensure a sustainable recovery. This is where IFC, together with other members of the World Bank Group, aims to play a leadership role.

### A. FY09 PROGRESS REPORT

1.3 IFC has made significant achievements over recent years. It has reached the ambitious development impact targets of its first three-year plan, in particular the growth in IDA and other frontier markets, which accounted for 56% of projects in FY08. It has shown strong development results and leadership in results measurement, and 71% of IFC's investment operations had high development outcomes in FY08. It has increased its focus on additionality, with over \$5 billion of mobilized funding in FY08 (compared to \$2.9 billion of mobilized funding in FY06).

1.4 IFC expects commitments in FY09 to be at least in the range of \$10.2 to \$11.0 billion in 420 to 460 projects with 215 to 230 of these projects in IDA countries. Compared to FY08, this is 2% lower in terms of volume but an increase of 13- 24% in total project numbers, 27-36% higher for projects in IDA. Table 1.1 shows that results in several regions could be lower due to the global financial crisis. IFC also expects to mobilize \$5 to \$7 billion from participant investors.

**Table 1.1: FY06-09 Commitments by Region**

US\$ millions

	FY06 Actual		FY07 Actual		FY08 Actual		FY09 Range Estimate*			
	Amt	YoY%	Amt	YoY%	Amt	YoY%	Amt		YoY%	
East Asia & Pacific	982	33%	944	-4%	1,634	73%	1,100	-	1,200	-33% - -27%
Europe and Central Asia	2,083	8%	1,786	-14%	2,680	50%	1,900	-	2,150	-29% - -20%
Latin America & Caribbean	1,747	25%	1,781	2%	2,943	65%	2,400	-	2,600	-18% - -12%
Middle East & North Africa	668	112%	1,217	82%	1,442	18%	1,300	-	1,400	-10% - -3%
South Asia	507	14%	1,073	112%	1,264	18%	1,200	-	1,250	-5% - -1%
Sub-Saharan Africa	700	57%	1,379	97%	1,380	0%	1,500	-	1,700	9% - 23%
World	16	-83%	39	44%	56	44%	800	-	850	1329% - 1418%
<b>Total</b>	<b>6,703</b>	<b>25%</b>	<b>8,220</b>	<b>23%</b>	<b>11,400</b>	<b>39%</b>	<b>10,200</b>	-	<b>11,000</b>	-11% - -2%

\* This range represents the Management Group's projection for the Corporation which does not equal the mathematical totals of the low- and high-ends of the individual regions.

1.5 IFC's recent growth strategy enables it to deliver development impact through more programmatic approaches, utilizing both its investment and advisory businesses. IFC continues to make significant progress in increasing cooperation with other members of the World Bank Group—closer collaboration is even more important as the whole Group responds effectively to the crisis. The key to what IFC has been able to achieve is the strength of its staff, and IFC has successfully recruited and on-boarded a large number of high quality staff at all levels, with particular focus on recruitment in the field to strengthen IFC's decentralization effort.

1.6 During FY09, the Corporation increased its focus on portfolio management in view of the global economic crisis and in line with decentralization and industry cluster implementation. Strong emphasis was placed on proactively reaching out to clients to help them assess their vulnerabilities in the difficult environment and to determine where IFC could be of greatest assistance.

1.7 In line with the Business Process Improvement initiative introduced in FY09, quarterly portfolio review meetings were optimized during the year to improve overall portfolio oversight and to better address potential portfolio issues as early as possible. In addition, a departmental portfolio scorecard was initiated to further improve portfolio oversight and improve portfolio work quality.

1.8 Increased accounting requirements for fair valuation of equity and debt instruments were addressed through the strengthening of valuation processes and the upgrading of related support systems. Investment departments were responsible for more of the valuation process and central oversight of valuation activities were strengthened through ongoing involvement of the portfolio valuation team.

1.9 Throughout the year a number of country stress tests were conducted to proactively review risks in the Corporation's financial and non-financial investment portfolio. The models and relevant results were shared with management and portfolio units. Development of forward looking asset allocation models continued during the year.

1.10 Considerable progress has also been made in improving IFC's efficiency and productivity. The Business Process Improvement initiative currently underway will further enhance performance. In response to the crisis, IFC swiftly implemented measures to ensure more effective resource allocation, including setting departmental spending limits at 95% of their budgets to retain some flexibility for crisis response re-allocation, and more strategic recruitment to meet changing needs. Furthermore, IFC introduced a productivity tax for the FY10 budget to strengthen productivity gains and enable further reallocation. In addition to these measures, the Corporation acted quickly to develop new vehicles which complement its traditional businesses. These new crisis response initiatives have already mobilized resources from governments, private enterprise, and other international financial institutions.

## B. THE FY10 STRATEGY AND BUSINESS PLAN

1.11 Greater development impact remains IFC's primary goal, and together with additionality, is the main filter for all its activities. In working towards this goal, IFC must balance many things to ensure that its business model is sustainable, as highlighted during discussions of *IFC Road Map FY10-12*. Challenges to be balanced include (i) the strong and growing demands from its clients for IFC investment and advisory services, against the need for prudence and smart choices in the use of IFC's capital and budget; (ii) the need to increase the human and financial resources dedicated to managing its portfolio against the demands for more IFC financing for new projects and the expansion of its mobilization and crisis initiatives; (iii) the commitment to long-term partnerships by supporting existing clients who value IFC's willingness to help them in good times and bad against the needs of new clients, particularly in the more frontier markets; and (iv) IFC's priority of increasing its share of investments in frontier markets, in particular IDA countries against growing crisis needs in middle-income countries.

1.12 As IFC pursues these many aspects of its business, it will continue to be guided by its five priorities<sup>2</sup>, focusing externally on where the development impact and additionality will be greatest, and internally on delivering that impact as efficiently as possible from as close to the clients as possible. Through its evolving and decentralized delivery model—critical for both stronger portfolio management and improved client responsiveness, especially in times of crisis—IFC aims to expand significantly its reach to more frontier markets and people, especially those at the base of the economic pyramid.

1.13 Commitments in FY09 are estimated to be at least in the range of \$10.2 billion to \$11.0 billion in 420 to 460 projects, with mobilizations of \$5 to \$7 billion. IFC will continue to build on its achievements and the comparative advantage of both the Corporation and the whole World Bank Group, as it addresses, together with its partners, the tremendous needs of its clients, both in the shorter term crisis response and over the longer term. In light of the capital constraint IFC is facing and the need for caution in a volatile environment, IFC is proposing only moderate growth for FY10, with commitments in the range of \$11 to \$12 billion, and mobilizations are estimated at the same levels as FY09. IFC's Management Group has also established a stretch target of \$14 billion for IFC's commitments which would be achievable if there is an earlier than expected global recovery. Considering the recent volatility in the global economy, however, it is also conceivable that much worse than expected developments in the external environment could dramatically lower IFC's projected business program.

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<sup>2</sup> The five priorities are: (i) strengthening the focus on frontier markets (IDA countries, fragile and conflict-affected situations, and frontier regions of middle income countries); (ii) building and maintaining long-term relationships with firms in developing countries, using the full range of IFC's products and services, and assisting their cross-border growth; (iii) addressing climate change, and ensuring environmental and social sustainability; (iv) addressing constraints to private sector growth in infrastructure, health, education and food supply chain; and (v) developing local financial markets through institution building, the use of innovative financial products and mobilization, focusing on micro, small and medium enterprises.

**Table 1.2: FY09 and FY10 Commitments by Region**  
US\$ millions

	<b>FY09 Estimate</b>		<b>FY10 Projections</b>		<b>FY10 Stretch Targets (+18%)</b>
	Amount		Amount		Amount
East Asia & Pacific	1,100	- 1,200	1,500	- 1,600	1,900
Europe & Central Asia	1,900	- 2,150	2,450	- 2,600	3,050
Latin America & Caribbean	2,400	- 2,600	2,300	- 2,500	2,950
Middle East & North Africa	1,300	- 1,400	1,300	- 1,400	1,650
South Asia	1,200	- 1,250	850	- 950	1,100
Sub-Saharan Africa	1,500	- 1,700	1,950	- 2,200	2,600
World	800	850	650	- 750	900
<b>Overall Range*</b>	<b>10,200</b>	<b>- 11,000</b>	<b>11,000</b>	<b>- 12,000</b>	<b>14,150</b>
<b>o/w IDA</b>	<b>4,000</b>	<b>- 5,000</b>	<b>4,500</b>	<b>- 5,500</b>	<b>6,500</b>

\* This range represents the Management Group's projection for the Corporation which does not equal the mathematical totals of the low- and high-ends of the individual regions.

1.14 To complement its own investment program, the Corporation will be aiming for much greater reach and significant increase in development impact through mobilization, both via its traditional channels and the newer models of mobilization being pioneered in some of the crisis response initiatives. IFC aims to deliver further growth in frontier markets, particularly in IDA countries, maintaining the IDA percentage around 50% of a growing number of projects. It will also strengthen its approach to SMEs and reaching the base of the pyramid.

### **C. REGIONAL STRATEGIES FROM IFC ROAD MAP FY10-12**

1.15 During this year's planning cycle, IFC's Management Group spent a significant amount of time and effort to discuss the specific circumstances of individual regions since the global financial crisis has affected each one differently. The regional strategies summarized in the following paragraphs have been updated since they were presented in *IFC Road Map FY10-12*.

#### ***East Asia & the Pacific***

1.16 IFC's strategic priorities in East Asia and Pacific for both advisory and investment operations are to: (i) focus on IDA countries, (ii) lead regional efforts to mitigate climate change; and (iii) promote inclusive growth and rural development in middle-income countries where the majority of the region's poverty is concentrated. Within those strategic priorities, the economic context in the short-term requires that IFC focuses on the financial soundness of existing investment portfolio clients by helping them proactively manage through the downturn. IFC's major areas of vulnerability in the region in terms of exposure and concentration of risk are China (financial sector, building materials, manufacturing), the Philippines (power sector) and Indonesia (financial sector). IFC's pipeline has been refocused as a result of greater selectivity—IFC pursues projects

scoring highest on strategic fit and with highest additionality. There is also a clear shift toward equity and quasi-equity instruments to ensure more adequate compensation for risks. There are seventeen offices in the region, seven of which are in IDA countries (Timor-Leste, Vietnam (2 offices), Cambodia, Papua New Guinea, Mongolia, and Laos).

1.17 IFC is maintaining its focus on IDA countries in the region and its advisory services presence in the Pacific is being extended from two countries (Papua New Guinea, Timor Leste) to six (Solomon Islands, Vanuatu, Samoa and Tonga). In China, IFC is focusing on investments related to climate change, as well as renewable energy (wind and solar) and green construction materials (insulation and energy-efficient lighting). IFC is also investing in frontier/rural areas and the western part of China, including rural finance and food production. Advisory services are focused closely on micro/rural finance and on climate change/energy efficiency.

1.18 IFC's short-term strategy on the advisory side complements that on the investment side. As part of the crisis response, IFC is actively exploring opportunities to expand advisory offerings in corporate governance, financial market infrastructure, business enabling environment, and firm-level support on issues such as risk management. These facilities are expected to enhance IFC's capacity in the region to engage more effectively in infrastructure projects that may be on hold due to funding constraints, as well as with projects in banking recapitalization, microfinance and trade finance.

### ***Europe & Central Asia***

1.19 The region has proven to be particularly vulnerable to the global financial crisis. As a result, countries in Europe and Central Asia are likely to see several years of low growth or even declines—in some cases double-digit—as the global economic downturn continues to affect the region through the decline in global demand, fall in commodity prices, and a slowdown in the flow of remittances. The crisis is likely to reverse some of the overall earlier gains in poverty reduction. Both the financial and real sectors are affected. Some local banks have failed and many of the foreign-owned banks depend on financing from parents, which are also coping with problems at home. Manufacturing and service companies have been forced to delay or cancel capital investments and to decrease staffing in many cases. In infrastructure, the region may see delays and difficulties in completing key infrastructure projects.

1.20 In order to meet its strategic priorities in these challenging times, IFC is responding to the current crisis to support the private sector's ability to contribute to a return to growth and to address the challenges its clients face. In particular, IFC has strengthened its portfolio management and is helping its portfolio clients survive the crisis. IFC is selectively offering financial support to existing clients in key sectors. To respond quickly to its clients' needs for liquidity, IFC is changing its product mix to include more short-term finance, unfunded products/guarantees and quasi-equity. To facilitate the resumption of trade in the region, IFC is dramatically increasing the usage of the Global Trade Finance Program. IFC is also refocusing advisory services to

respond to the needs of clients in the crisis. In several countries, IFC has undertaken training for banks on non-performing loans management and for real sector companies on crisis management. In some cases, this advice to private banks and companies is complemented by work, coordinated with the World Bank, to improve the non-performing loans work-out and bankruptcy frameworks. Given the continuing dearth of private sector funding, IFC is actively leading efforts to seek public/private partnerships amongst governments, multilateral financial institutions, bilateral financial institutions and the private sector to maximize mobilization. This mobilization includes IFC's efforts as part of the Joint IFI Action Plan in Support of Banking Systems and Lending to the Real Economy in Central and Eastern Europe, the Bank Recapitalization Fund, and the Global Trade Liquidity Program. IFC is well represented in Europe & Central Asia with staff in 27 offices across the region, including an expanding regional center in Istanbul. While one office is scheduled to close during FY10, there will still be seven offices in IDA countries (Armenia, Azerbaijan, Bosnia-Herzegovina, Georgia, Kyrgyz Republic, Tajikistan, Uzbekistan).

### ***Latin America & Caribbean***

1.21 The Latin America and Caribbean (LAC) region has not been immune to the global financial crisis and is expected to experience negative economic growth for the first time in more than 20 years. The crisis has hit the region through various channels and is reflected in sharp drops of more than 50% in cross-border capital flows, in volume and value terms. Falling commodity prices and export volumes will lead to an increase in the region's forecast current account deficit in 2009 to \$92.4 billion from a \$26.5 billion deficit in 2008.

1.22 Furthermore, growth in remittances has leveled off, impacting countries (such as Haiti, El Salvador, and Honduras) which are highly dependent on these flows (although the local currency equivalent will increase as exchange rates weaken). The region is experiencing a significant restriction in availability of trade lines and a virtual shut down of cross border investment and flows, coupled with risk aversion by domestic financial institutions. The real sector is increasingly being affected as exports decline and infrastructure projects have been put on hold and jobs shed.

1.23 IFC's investment and advisory services strategy in LAC as described in *IFC Road Map FY10-12* remains very much in place as it was directed to support clients during this crisis. In addition, IFC has been in close contact with IBRD and regional multilateral institutions (IADB, CAF, CABI and CDB) to organize a targeted, temporary, and timely response. The size of this initiative is estimated to reach \$92 billion during the next two years (including mobilization from countries, donors, private sector investors, and other partners). The initiative is equivalent to about 2.6% of regional GDP and aims to: (a) facilitate trade; (b) protect the vulnerable; (c) support infrastructure projects; and, (d) help stabilize the financial sector.

1.24 Support through IFC, including mobilization, could reach up to \$8 billion over the next two years, plus \$5 billion in trade finance (with mobilization and rotation). To

support its trade finance activities, IFC expects to double its guarantee program and extend it to additional countries and banks. IFC also plans to make considerable use of the Global Trade Liquidity Program. To help stabilize the financial sector, IFC is already implementing funds from the Bank Recapitalization Fund after closing its first investment in LAC with Banco Continental of Paraguay. In addition, it has also begun implementing the Microfinance Fund; 16 out of 34 projects signed as of mid-April were in LAC, helping to protect the vulnerable. The proposed Food Fund will help complement activities targeted in that direction as well. Finally, on the infrastructure side, IFC has advanced discussions on funding with international financial institutions and countries for the Infrastructure Crisis Facility. IFC will open two new offices in the region during FY10 (Jamaica and El Salvador) which will bring the total number of offices in the region to 16, four of which are in IDA countries (Bolivia, Haiti, Honduras, Nicaragua).

### ***Middle East & North Africa***

1.25 The initial impact of the global crisis in the Middle East and North Africa has been greater in countries with stronger links to global financial markets. The second round impact is now being felt on the region's real sector through: (i) lower oil prices for oil exporting countries; (ii) declining remittances and foreign direct investments; (iii) reduced demand for exports; and (iv) decline in tourism and trade-related services. With the tightening of global financial market conditions, investments and lending from international private sources seem to be contracting in the region. Even though sufficient liquidity remains, the lending premium has been increasing, thus affecting the availability of financing at reasonable terms for the private sector.

1.26 The current external environment does not change IFC's short- and long-term investment and advisory services strategy of focusing on IDA and conflict-affected countries. While most conflict-affected countries in the region have been largely insulated from the financial crisis, they may be at risk from a decline in external assistance. IFC's continued focus on these countries is hence of critical importance. IFC's composition of activities in IDA countries such as Pakistan may change in the short-term, as IFC provides more investment and advisory services to help existing clients weather the crisis.

1.27 The on-going crisis could also affect (in the short-term) IFC's strategy of focusing on financial markets and infrastructure development. Although the region's financial sector and IFC's existing and potential client banks have had little direct exposures to "toxic assets," banks are feeling the impact of the crisis through the downturn in the real economy, especially in the real estate and construction sectors. Infrastructure development is also affected as the demand for such services as ports and transport is declining and the sponsors are revising their investment strategies.

1.28 Supporting South-South investments has been a major part of IFC's investment activities in the last few years. This strategy may also be affected in the short-term as the financial positions of sponsors in the GCC are being negatively affected and projects are

being delayed. Finally, the provision of advisory services will be affected as the fund-raising of PEP-MENA II is becoming difficult given changes in donors' priorities in light of the crisis. IFC is represented in all three IDA countries in the region (Afghanistan, Pakistan, and Yemen) and has a total of 12 offices throughout the region.

### ***South Asia***

1.29 Although South Asia has been somewhat isolated from the global financial crisis, with lower trade and capital flows as a percentage of GDP than many other emerging markets, the impact of the crisis is nonetheless being felt across the region. The immediate impact has been on stock markets (the Bombay Stock Exchange, for example, is down some 55% since its January 2008 peak); on real estate prices, which softened throughout the region; and on exchange rates, which have depreciated (the Indian Rupee has lost 29% against the US dollar since January 08). According to World Bank estimates, GDP growth in South Asia fell to an estimated 6.3% in 2008, from 8.4% in 2007, and is expected to drop further to 5.4% in 2009, but to recover somewhat to 7.2% in 2010.

1.30 IFC has adjusted its investment and advisory services strategy in South Asia in response to the crisis. While the three pillars of the regional strategy (economic inclusion, climate change and regional integration) remain valid, the method of implementation through both investments and advisory services is being adjusted. The immediate priority has been to work with existing portfolio clients to help them respond to the crisis. As elsewhere, IFC is faced with strong demand for new financing. Outside of India, IFC has been able to increase its investment program significantly, including much-needed trade finance. IFC is playing an important counter-cyclical role in the region through disbursements against existing commitments. In the longer term, IFC will continue to leverage its unique position in order to bring in additional financing, whilst remaining within existing country exposure limits. This will include making effective use of IFC's global crisis response facilities (especially the Infrastructure Crisis Facility), working with other international financial institutions, and mobilizing as much as possible. IFC's advisory services staff are working on building a Public-Private Partnership business and on leading IFC's expansion into frontier and low income states. There are eight IFC offices located in four different IDA countries in the region (Bangladesh, India, Nepal, Sri Lanka). A small office in Guwahati, India will close in FY10 but IFC will be opening a new office in Bhutan. This will add to the number of IDA offices but keep the total at eight.

### ***Sub-Saharan Africa***

1.31 Although Sub-Saharan Africa was not as hard hit as other emerging markets at the onset of the global economic crisis, the region is now being very much affected through curtailed investment, lower export earnings, drop-offs in remittances, and lack of international financing, all resulting in sharply lower growth. These factors have impeded the implementation of the Africa regional strategy for IFC in a number of ways: (i) micro-, small and medium enterprise lending programs have slowed, as banks



conserve resources and adopt more restrictive lending practices; (ii) extractive industries projects are all largely being cancelled or postponed, with few exceptions (gold, coal); (iii) countries dependent on extractive industries exports are suffering general declines affecting all sectors, causing delays in investments more broadly; and (iv) the environment for private infrastructure projects has become increasingly difficult, with the economic uncertainty and decline in credit availability.

1.32 At the same time, much critical investment is still proceeding, but now with sharply limited commercial financing prospects. The drying up of credit internationally has strengthened the counter-cyclical role for IFC, leading to increased demand from projects which previously may have been financed commercially. In other cases, the type of support needed from IFC has evolved, from guarantees and risk sharing facilities to funding or providing liquidity as well. For natural resource projects still going ahead, there is increased demand. For telecommunications projects in more established markets, there is strong demand now for IFC; to date IFC has responded to those with established client relations. There remains a shortage of infrastructure and health projects which IFC will work to address. In trade finance, the growth in volumes of guarantees under the Global Trade Finance Program (GTFP) has dropped off, as banks now seek funding support as well. IFC is responding with the Global Trade Finance Liquidity Program (GTLP), providing short term funding for trade transactions.

1.33 As a result, IFC's project pipeline has evolved considerably during the course of the year. The net effect has been positive in terms of demand for IFC financing. Countries which have been most affected by the crisis to date are those which have been most open to international capital movements, and also to trade, for example South Africa and Nigeria. IFC's new business focus has been largely on countries where it has not been as active, and thus has been able to increase the number of countries with investment projects. IFC has a strong field presence in the region with 24 offices throughout Sub-Saharan Africa. New offices are planned for Guinea, Mali, and Tanzania in FY10, along with the official re-opening of IFC's Cote d'Ivoire office. The office in Cape Town, South Africa will close in FY10. All locations except South Africa are in IDA countries.

#### **D. HUMAN RESOURCES AND STAFFING**

1.34 During the past three years of strong growth, IFC successfully recruited and on-boarded 1,816 highly qualified, diverse staff at all levels. During that period, IFC's staff increased from 2,433 to 3,325 at the end of FY08. This growth strategy was accompanied by learning and leadership development programs as well as incentive and awards programs to attract, retain and develop high performers. In FY09, IFC's human resources (HR) and staffing strategy shifted from managing growth to responding to new market realities and business needs.

1.35 HR's strategy now focuses on making IFC's organization as responsive and agile as possible in an uncertain business context. Improving staff productivity, efficiency and flexibility in a flat budget environment is another priority. Planned recruitment in FY09 was reduced by 40%. In FY10, IFC will need to ensure that existing staff are managed

effectively and skills are aligned with the business and product mix. This focus helps IFC to accomplish its main business strategy – stronger development impact and client focus through further staff decentralization and presence in IDA and frontier regions.

### ***Staffing and Recruitment***

1.36 Based on 11.5% budget increase for FY09, IFC had planned to hire 720 new staff in the current fiscal year. When the impact of the financial crisis became clear in the fall of 2009, IFC suspended about 280 of planned FY09 recruitment to conserve financial resources and retain flexibility to match the Corporation's changing needs. It was decided to limit the IFC headcount to 3,550 staff by June 30, 2009. In order to achieve these targets and ensure that hires were aligned with IFC's strategic priorities, a centralized hiring control was introduced requiring Vice-Presidential approval for every external hire.

**Table 1.3: IFC Staff Count**

	Headquarters	Country Offices	CO as % of Total	<b>Total</b>
Investment & Corporate Support				
FY08-end	1,332	802	38%	<b>2,134</b>
FY09-end (forecast)	1,357	975	42%	<b>2,332</b>
Advisory Services				
FY08-end	234	957	80%	<b>1,191</b>
FY09-end (forecast)	236	975	81%	<b>1,211</b>
<b>Total Staff</b>				
FY08-end	<b>1,566</b>	<b>1,759</b>	<b>53%</b>	<b>3,325</b>
FY09-end (forecast)	<b>1,593</b>	<b>1,950</b>	<b>55%</b>	<b>3,543</b>

1.37 The impact of reduced recruitment showed results in the third quarter, given the length of the hiring process. While 173 and 117 new staff joined in the first and second quarters of FY09, respectively, only 87 joined in the third quarter and 65 are expected to join in the fourth quarter. Current estimates indicate that IFC will hire approximately 442 new staff in FY09, consisting of 265 Investment and Corporate Support and 177 Advisory Services staff. With expected staff turnover of 6%, down from 9% in FY08, this will allow IFC to remain within its FY09 headcount ceiling of 3,550; a net addition of 225 staff and an increase of about 7% compared to staff onboard at the end of FY08.

1.38 Due to close monitoring by the Management Group, FY09 recruitment is strongly aligned with strategic staffing objectives of decentralization, presence in IDA countries and senior specialists (Grade GG+). As of March 31, 2009, 67% of all FY09 hires were in the field, 27% in IDA countries and 25% were GG+ staff. Overall field presence increased from 53% in FY08 to 55%, the proportion of GG+ staff went from 34% to 37% (including promotions) and presence in IDA countries was maintained at 20% despite having 72 staff from Indonesia and Albania which are no longer being counted as IDA staff in FY09.

### ***The Outlook for FY10***

1.39 In FY10, enhancing the flexibility and mobility of staff and developing IFC's capacity for organizational agility to adapt and respond quickly to business needs will become an increasingly important success factor. In order to address the need for improved staff productivity, allocation and mobility, HR's priorities in FY10 will be to develop staff and provide them with a global career framework and mobility support. These strategic staffing and leadership development initiatives will include a particular focus on maintaining commitment to diversity and inclusion.

1.40 Staff planning for FY10 was fully integrated in the FY10-12 planning cycle so it is driven by business projections. IFC's overall workforce is projected to go up modestly. Staffing plans will support new initiatives and address critical skills gaps. Priorities for recruitment will include people with financial restructuring, equity, portfolio, and risk management experience. Advisory Services will focus on hiring mid-career experts in the business lines of Access to Finance and Business Enabling Environment.

1.41 The geographic focus for recruiting new staff will be the Sub-Saharan Africa and Southern Europe & Central Asia regions, accounting for more than 40% of all planned hires. Despite reduced hiring, improving diversity will continue to be a main focus of IFC's recruitment efforts. The Management Group will continue to monitor recruitment very closely to ensure priority areas are targeted. Hires in middle-income countries as well as in HQ will be limited. Planned new hires in Washington will be restricted to positions which benefit from being located at headquarters as a center of excellence, knowledge management and risk management. As part of IFC's further decentralization effort, candidates selected for its Global Transaction Team (GTT) program for MBA graduates will begin their careers in regional offices rather than in Washington as in previous years. In FY10, GTT selection panels for the FY11 cohort will be held in the field.

### ***Mobility***

1.42 In an effort to respond effectively to emerging staffing considerations as business needs change across sectors and regions, IFC is developing an organizational capacity to redeploy existing staff to locations where they are most needed. Departments are encouraged to further decentralize senior staff and HR will enhance coordination of opportunities.

## ***Global Career Framework and Talent Management***

1.43 IFC's value proposition for potential recruits and existing staff is the ability to offer dynamic and challenging career opportunities worldwide. To this end, IFC has launched a new Global Career 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 has introduced a global approach to talent management, beginning with department-level talent reviews linked to the mid-year performance review. These discussions, which took place across the Corporation for the first time this spring, help directors and their management teams assess key staff for appropriate career opportunities.

## ***Learning and Staff development***

1.44 In FY09, HR has provided several training opportunities linked to the global crisis, including restructuring, portfolio and risk management. The "Storm Watch" training for Investment Officers in several locations leveraged lessons from experience in past economic crisis situations. These initiatives will be continued in FY10. Furthermore, to support the development of the leadership cadre, managerial and leadership development programs are being enhanced; several are being done jointly with IBRD. IFC is also participating in the WBG managerial 360° process.

## ***Compensation***

1.45 IFC continues to work closely with IBRD on a comprehensive review of the WBG compensation framework with the objective to develop a global recruitment model to facilitate staff decentralization and mobility. As a response to the global financial crisis and aligned with the World Bank, variable pay programs such as Market Premium payments for treasury staff and Corporate and Long-Term Performance Awards payments for investment staff were suspended in FY09.

1.46 In FY10, depending on the situation of the global economy, IFC intends to resume its variable pay and market premium programs. IFC is including a FY10 budget of \$7.1 million for its variable pay programs which includes the Annual- and Long-term Performance Awards, Scorecard Awards, Corporate Awards, Spot Awards and SmartLessons. In addition, the Market Premium<sup>3</sup> program will require a budget of \$1.8 million for FY10. Each member of IFC's Management Group has volunteered to forego his/her salary increase in FY10. The aggregate savings of \$145,000 will be contributed from the FY10 Regular Administrative Budget to IBRD's Vulnerability Financing Facility.

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<sup>3</sup> The Market Premium is a non-pensionable allowance of between 8-12% of MRP paid to staff in jobs where comparator organizations pay 35 percent or more above the Bank Group's MRP. Although the Market Premium is authorized to be paid to all staff in those career streams where the premium has been approved based on market differentials (including treasury, some risk management functions, and investment professionals), IFC introduced the LTPA as a mechanism to distribute these funds to Investment Officers (IOs) solely on the basis of performance.

## ***Diversity and Inclusion***

1.47 In FY09, IFC reached 44% net GF-GG female staff, up from 37% in FY03 and 41% in FY06. During the same period, sub-Saharan African/Caribbean representation improved from 8% (FY03) and 8.4% (FY06) to 9%. 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 FY09 from 21% in FY03 and 25% in FY06. The representation of staff from Nationalities of Focus increased from 19% in FY06 to 22% in FY09. 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 to staff.

**Table 1.4: Diversity at IFC**

<b>Category</b>	<b>FY02</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09 Q3</b>	<b>IFC D&amp;I Target</b>	<b>WB Diversity Target</b>
Part II Managers	38.0%	36.6%	37.4%	36.3%	34.5%	34.3%	33.0%	32.4%	<b>37%</b>	<b>43% - 48.5%</b>
Women Managers	23.4%	20.7%	25.2%	26.8%	25.0%	24.1%	27.3%	29.5%	<b>28%</b>	<b>30% - 35%</b>
SSA/CR GF+ (HQ)	7.3%	7.9%	6.9%	7.0%	8.4%	9.2%	8.8%	9.1%	<b>10%</b>	<b>10%</b>
HQ+CO Women (GF-GG)	36.1%	37.2%	35.9%	38.2%	41.1%	41.4%	43.7%	44.4%	<b>45%</b>	<b>45%</b>
Nationalities of Focus (NOFs) - HQ Only					19%	20%	21%	22%	<b>25%</b>	-

## **E. DECENTRALIZATION**

1.48 The decentralization of IFC's investment operations is an evolving process which began in 2002 when it started to move staff and processes closer to clients, principally in response to the changing client base. Initially, this was done by moving portfolio management functions to the field and later by strengthening business development capacity in the field. Over the last few years, an increasing amount of deal execution has also been led from the field.

1.49 A dedicated focus on further strengthening decentralization in 2006-07 identified the following principles and objectives for IFC's efforts on this front:

- Develop strategic, programmatic relationships with clients.
- Put the right people in the right place: ensure that knowledge and skills are located where they are needed—and in the right amounts.
- Enhance the risk management function in the field.
- Promote knowledge management, as IFC's global knowledge is what IFC clients value most.

1.50 To further these objectives, in FY08, under the Global/Local initiative, IFC delegated certain elements of decision-making to the field and piloted the approach in the Asia regional departments. Based on a satisfactory experience with the pilot, IFC's Management Group has decided to roll this approach out to all of regions in FY09. To be

eligible for processing under Delegated Authority, transactions need to have measurable development impact, clear additionality and role for IFC, have no sponsor, environment or social issues, and meet a number of other quantitative criteria. The Delegated Authority limits are as follows: US\$50 million for total exposure, including US\$25 million for equity/quasi-equity exposure, and US\$100 million for syndications (for Sub-Saharan Africa: US\$25 million for total exposure, US\$7.5 million for equity/quasi-equity exposure, and US\$75 million for syndications). In all cases, transactions continue to be presented to the Board as for all IFC projects.

1.51 Today, 60% of IFC's business is with local clients and 54% of its staff is located in field offices. Out of 107 IFC offices, 42 are now in IDA countries where staff presence has doubled over the last seven years. In FY10 new offices are scheduled to open in four additional IDA countries (Bhutan, Guinea, Mali, and Tanzania).

1.52 One noteworthy result of decentralization is that the total number of projects being managed in the field is rising and there are improvements in processing time. In FY08, 33% of IFC's commitments were led by primary Investment Officers based in the field compared to just over 20% in FY06. Departments that began to decentralize earlier such as Global Financial Markets and Global Manufacturing Services were able to achieve greater delegation of task management to the field. With widespread rollout of Global/Local to all regions in FY09, project management in the field across all industry groups is expected to increase to 50%.

1.53 At the same time, IFC has seen a decline in average transaction processing time by a third since FY01. A concerted effort on a corporate-wide business process improvement and knowledge management, through the formation and support of industry based practice groups is expected to further improve IFC's ability to strengthen client satisfaction while operating in a highly decentralized environment. IFC's decentralization has not only led to efficiency gains but has also helped tailor approaches to the specific needs of countries and frontier markets, so that IFC can have a greater impact on the sustainable private sector development of emerging economies.

1.54 IFC's decentralization strategy and the associated costs were fully elaborated in *IFC's Decentralization Experience* which was presented to the Board on May 14, 2009. In discussions on decentralization, the Management Group committed to providing additional analysis of the costs associated with decentralization along with a direct cost comparison to IBRD's decentralization costs. Table 1.5 summarizes the total decentralization costs that were presented in *IFC's Decentralization Experience*. The costs associated with decentralization, however, are far outweighed by the significant benefits that the Corporation has realized. Specifically, the decentralization model has supported IFC's efforts to make progress in key priority areas: (i) expanded footprint in IDA countries and frontier regions; (ii) greater development reach; (iii) increased impact in strategic sectors; and (iv) improved client responsiveness.

**Table 1.5: IFC's Decentralization Costs**  
US\$ millions

	<b>FY02</b>	<b>FY09E</b>
Field Staff Costs (IRS + LRS)	36	161
<i>Relocation Benefits for IRS</i>	9	34
<i>Salary Costs - IRS</i>	16	57
<i>Salary Costs - LRS</i>	11	70
Capital Facilities	0	5
Rent	5	20
Telecommunications	3	8
Information Technology	9	25
Total IFC Travel	36	88
<b>Total</b>	<b>89</b>	<b>307</b>

1.55 All of the costs associated with decentralization are primarily driven by the increase in the number of staff IFC has in the field. In FY02, there were 742 staff in the field comprised of 138 internationally recruited staff (IRS) and 604 locally recruited staff (LRS). Staff in the field is projected to grow to 1,993 in FY09, comprised of 371 IRS and 1,622 LRS. During the decentralization period, the number of field staff nearly tripled, while headquarters staff grew by only 20%. In the last two years, operations staff has started to decline at headquarters, a trend that is expected to continue. This resulted in a significant shift in the percentage of staff in the field, from 36% in FY02 to 55% in FY09. As the field presence has grown, the Corporation has maintained a consistent decentralization model in which senior staff are sent to the field to share global expertise and disseminate IFC's culture to a larger number of local hires. IFC has maintained this balance over the decentralization period, as evidenced by the fact that the ratio of LRS to IRS has remained at 4.4:1.

1.56 The growth in field staff has naturally increased the cost of salaries and benefits associated with decentralization. As Table 1.5 shows, Field Staff costs grew from \$36 million to \$161 million. In addition to the absolute growth in the number of staff, the growth in salary and benefits costs reflects the annual Bank Group SRI increases, which in some countries have been close to 20% due to local market conditions. Average relocation benefits for IRS have also increased from \$69,000 to \$91,000 per staff in line with World Bank Group policies.

1.57 Capital Facilities costs represent the expense to build-out and expand existing and new offices. These have grown from \$400,000 in FY02 to \$5 million in FY09. There are two factors driving this steep increase. The number of field offices has grown from 81 to 107, while at the same time the total number of staff in the field is projected to grow from 742 to 1,993. While IFC's field offices vary greatly in size, these figures show that on average, each office went from housing 9 staff in FY02 to 19 staff in FY09. These factors are similarly responsible for the growth in Rent costs.

1.58 The costs for Telecommunications reflects the absolute growth in field staff as well as a broader and more complex set of communications tools. Today, IFC staff rely

more heavily on 24/7 technologies such as blackberries and sophisticated communications links providing data, phone and video than they did when IFC began decentralizing. Information Technology costs have similarly increased in line with the greater complexity and number of IT systems used by staff during an ordinary business day in all the time zones of the globe. The FY09 cost of \$25 million also includes \$6 million for new desktop and laptop computers associated with the recent ED5 roll-out across the Bank Group.

1.59 One of the main factors driving the increase in IFC's total travel costs is the significant increase in airfares over recent years. The number of trips taken each year has also increased, but it is more than outpaced by the growth in the number of investment projects IFC commits and supervises each year. Travel remains an important means of sharing IFC's global knowledge and technical expertise even in a decentralized environment.

1.60 Overall, IFC will spend approximately \$307 million for expenses associated with its decentralized operations in FY09, representing 34% of total IFC spending. This includes IFC's administrative budget, FMTAAS and donor funding for advisory services, as well as other sources of funds such as fees.

1.61 IBRD has approached the question of decentralization costs in a slightly different manner. In the *Medium Term Strategy and Finance Paper* IBRD defines decentralization costs as only the incremental cost of field-based activities in operational VPUs. Specifically, the IBRD methodology includes the salaries and benefits of local staff, field benefits (not salaries) for IRS, consultant costs, rent, telecommunications and other administrative costs for offices. Using this method, IBRD's FY09 decentralization cost is \$270 million. Using the IBRD methodology, IFC's FY09 decentralization cost is \$192 million, or 21% of its total spending. This methodology still shows significant growth in IFC's decentralization costs from FY02 to FY09 as shown in Table 1.6 below.

**Table 1.6: Decentralization Costs using the IBRD Methodology**

US\$ millions

	<b>IFC FY02</b>	<b>IFC FY09E</b>	<b>IBRD FY09<sup>†</sup></b>
IRS Relocation Benefits	9	34	55
Local Salary & Benefits	22	101	118
Equipment/Building	5	20	50
Other Costs	11	37	49
<b>Total <sup>‡</sup></b>	<b>47</b>	<b>192</b>	<b>270</b>

<sup>†</sup>12 month total as of FY09 Q2-end.

<sup>‡</sup>Totals may not add due to rounding.

1.62 IFC has also conducted a pro forma analysis to determine if the Corporation would have saved money had it not decentralized but continued to grow at headquarters. This analysis assumes that IFC would have grown at the same rate in overall staff numbers, but that the share of staff in the field would have remained at the FY02 level of 36%. Staff who were actually hired in the field would have been hired at headquarters, and fewer IRS would have been sent to the field. The pro forma analysis shows that a



static field presence would have produced some reductions in all cost categories, but this would have been more than offset by the increased cost of hiring staff at headquarters, providing them offices, and further increasing the volume of travel. The conclusion of this analysis shown in Table 1.7 indicates that, based on the underlying assumptions, IFC has actually reduced costs by undertaking decentralization, with up to \$100 million of savings in FY09 alone.

**Table 1.7: FY09 Hypothetical Savings from Decentralization**  
US\$ millions

	<b>Reductions in the Field</b>	<b>Increases at HQ</b>	<b>Estimated Savings</b>
Relocation	(11)	-	(11)
Salaries	(47)	118	71
Capital Facilities	(2)	6	4
Rent	(7)	16	9
Telecommunications	(3)	4	1
Information Technology	(9)	15	6
Travel	-	22	22
<b>Total*</b>	<b>(80)</b>	<b>180</b>	<b>100</b>

\*Total may not add due to rounding.

1.63 As discussed with the Board, IFC considers decentralization to be a successful strategy from both a cost and business model perspective. The Corporation is closer to its clients and able to react quickly to real needs as they unfold in local markets. While there have been significant costs associated with decentralization, it is likely that costs would be even higher if IFC had remained a headquarters-centric organization. Going forward, the Management Group believes that continuation of the “One IFC” decentralization strategy and cost structure remains sustainable in FY10 and beyond, and plans to send additional senior staff to the field during FY10.

## **F. CRISIS RESPONSE INITIATIVES**

1.64 IFC has launched a broad and targeted set of initiatives to help private enterprises cope with the global financial and economic crises. Financing for these initiatives combines IFC funds with contributions mobilized from various sources, including governments and other international financial institutions. IFC is proposing commitments of \$5.0 billion for its own account and already has firm pledges from donors of an additional \$5.0 billion. IFC will continue working to mobilize funds from donors.

**Table 1.8: IFC's Crisis Response Initiatives**  
US\$ billions

	IFC	Mobilizations 5/12/09
<i>Under way in FY09</i>		
IFC's Recapitalization Fund	1.0	2.0
Microfinance Enhancement Facility	0.2	0.2
Expanded GTFP	1.0	
Global Trade Liquidity Pool	1.0	0.7
Infrastructure Crisis Facility	0.3	2.1
Advisory Support	0.0	
Subtotal	3.5	5.0
<i>To begin in FY10 (Indicative)</i>		
Distressed Asset Recovery Program	0.5	
EM ECA Facility	0.3	
Global Food Fund	0.5	
Subtotal	1.3	
<b>Total</b>	<b>5.0</b>	<b>5.0</b>

1.65 To date, all crisis response initiatives have been structured such that implementation would be done utilizing current industry department capacity and realize synergies with existing programs. Any additional capacity requirements will be covered by fee or other income generated by the initiatives themselves. The business model for the initiatives is, however, still being developed so the exact costs cannot yet be firmly established. The current estimate is for \$3 million of expenses, but this could reach as high as \$8 million depending on the final details of the business model.

1.66 During FY09, the initiatives described in the following paragraphs have been launched or are under consideration.

1.67 **Global Trade Finance Program (GTFP).** This program was approved by the Board on December 18, 2008 (*Proposed Increase and Modification of Investment in Global Trade Finance Program (GTFP IV) to Provide Emergency Relief in Response to the Global Financial Crisis*)). The program, which was increased from \$1 billion to \$3 billion in response to the financial crisis, provides unfunded support in the form of guarantees for trade transactions in emerging markets. The expansion is expected to support about \$6 billion of additional trade per year. More than 100 banks are in the investment pipeline under various stages of consideration. IFC's strategy is to add more banks in countries where the Corporation already has coverage and to provide coverage under the program to additional countries. IFC's target is to increase the number of countries covered by the program from 74 to more than 100 in FY10.

1.68 **Bank Recapitalization Fund (BRF).** This fund was approved by the Board on December 18, 2008 (*World Region-Proposed Investment in Bank Recapitalization Fund*) and aims to provide additional capital for banks in developing countries to ensure they can continue to lend and support economic recovery and job creation through the crisis. The fund will make subordinated loans and equity or equity-linked investments in systemically important private banks or state-owned banks that are on a clear path to

privatization. The IFC Board approved the fund and a commitment by IFC of \$1 billion to the fund. Since its first closing in February 2009, the Fund has committed \$20 million (of which IFC's share is \$12 million) in 1 investment in Banco Continental (Paraguay). The current investment pipeline consists of 15 Equity Fund investments (of which 6 have a parallel Subordinated Debt Fund (SDF) co-investment) with total commitments of up to \$1,335 million through June 30, 2010 (IFC's pro-rata share represents \$579 million).

**1.69 Microfinance Enhancement Facility (MEF).** This facility was approved by the Board on December 18, 2008 (*World Region-IFC Microfinance Liquidity Facility (MLF) Initiative-Note*). This facility is expected to provide refinancing to more than 100 microfinance institutions in up to 40 countries. It will support lending to as many as 60 million low-income borrowers in many of the world's poorest countries. MEF is a short-to medium-term facility consisting of initial contributions of \$150 million from IFC and \$130 million from KfW. The facility is managed by BlueOrchard Finance, responsAbility Social Investments AG, and Cyrano Management, three of the industry's leading fund managers. A signing and launch event was held on February 5, 2009 and the Investment Committee has to date approved loans to 36 MFIs (operating in 16 countries).

**1.70 Infrastructure Crisis Facility (ICF).** This facility was approved by the Board on December 18, 2008 (*World Region-Proposed Investment in Infrastructure Crisis Facility*). This Facility was established to bridge the gap in available financing for viable, privately funded or public-private-partnership projects that face financial distress as a result of the crisis. The facility also aims to ensure a minimum level of continued new-project activity in a sector where restarting project-development plans could take several years. The facility consists of debt and equity components providing short- to medium-term financing for infrastructure projects. It also will include advisory services to help governments design or redesign public-private-partnership projects. IFC will invest up to US\$300 million equivalent in the equity fund over three to five years. IFC expects commitments from KfW of Germany (contribution of €600 million to the Facility's Debt Trust) and France's Proparco (creation of a €1 billion parallel facility to the Debt Trust) and an MOU was signed on April 25, 2009 to this effect. The target close for the Debt Trust is June 2009.

**1.71 Global Trade Liquidity Program (GTLP).** This program was approved by the Board on March, 31 2009 (*World Region-Proposed Investment in Global Trade Liquidity Program*). This initiative brings together governments, development finance institutions (DFIs), and private sector banks to support trade in developing markets and address the shortage of trade finance resulting from the global financial crisis. The GTLP begins operations in May 2009, channeling much-needed funds to back trade in developing countries. With targeted initial commitments of \$5 billion from public- sector sources, it will be able to support up to \$45 billion of trade. The program has received a commitment of \$1 billion from IFC, and indications of planned commitments also from other governments and DFIs, including the CDC, Canada, and the Netherlands. Standard Chartered Bank and South Africa's Standard Bank were the first banks approved by the IFC Board on March 31, 2009.

1.72 **Sovereign Funds Initiative (SFI).** This initiative was approved by the Board on November 6, 2008 (*Sovereign Funds Initiative-African, Latin American & Caribbean Fund*) and is envisaged as a long term platform to engage with sovereign investors to attract capital to emerging markets. Discussions with funding partners are ongoing with the first closing targeted for August 31, 2009.

1.73 IFC's crisis response initiatives also include programmatic regional efforts in collaboration with the other IFIs. Three regional programs have been launched in FY09:

- (i) **Eastern Europe.** IBRD, MIGA, IFC, EBRD and EIB pledged to provide up to €24.5 billion to support the banking sectors in central and Eastern Europe and to fund lending to businesses hit by the global economic crisis.
- (ii) **Latin America and the Caribbean.** The LAC Multilateral Crisis Initiative was initiated to pool global financing from public and private sources and scale-up and replicate ongoing crisis response initiatives. Participating DFIs are IBRD, IFC, CAF, CDB and IADB.
- (iii) **Sub-Saharan Africa.** A Joint Action plan for Africa has been proposed to leverage additional financing, protect important ongoing programs and support investment ready initiatives. This is being co-led with the Africa Development Bank and includes institutions in the African Financing Partnership, an alliance of IFIs formed by AfDB to support development activities in Africa and includes entities such as EIB, FMO, DEG, and KfW.

**Box 1.1: The IFC Asset Management Company, LLC (AMC)**

The biggest step IFC has taken to address the financial crisis was the establishment of the IFC Asset Management Company, LLC as a wholly owned subsidiary of IFC. The AMC will ensure efficient implementation of some of the initiatives described here and will facilitate contributions by other IFIs, governments, and NGOs. The AMC was incorporated in the U.S. state of Delaware in January 2009 as a limited liability company. Initially it will manage the Bank Recapitalization Fund and Sovereign Funds Initiative (SFI). Other funds are expected to be added in the future. The CEO and the Fund Manager have been announced. The Management Group is still developing a reporting mechanism to track the budget and costs of the AMC. The report will be shared with the Board in due course.

1.74 In addition to the programs underway in FY09, there are other initiatives being developed that are targeted for Board approval and implementation in FY10.

1.75 **Distressed Asset Recovery Program (DARP).** This will be a private sector program for addressing financial sector and systemic clean-up of banking systems resulting from increased distressed assets given the financial crisis. As an initial step, an investment program of approximately US\$50 million for IFC's account to expand servicer/platforms network and at a later stage, a Distressed Asset Investment Facility of potentially up to \$500 million for IFC's account that will mobilize private and IFI

funding. The Distressed Asset Investment Facility would acquire distressed assets pools. DARP also envisages advisory services provided to banks and government agencies to support work out and capacity building for insolvency regimes. This program has been cleared by the Management Group and will be presented to the Board for consideration in the near future.

1.76 There are two more initiatives still under review by IFC's Management Group. Once these proposals have been revised and cleared by the Management Group, they will be presented to the Board for consideration:

- (i) **Export Credit Agency Initiative (ECA).** This initiative will address the current shortage of trade finance for emerging markets. ECA would facilitate the use of local banks and local currencies in OECD ECA guarantee programs and work with reinsurance companies to support export credit reinsurance facilities to emerging market ECAs. It would also work to establish a global export credit agency for smaller markets..
- (ii) **The Global Food Fund.** This fund is proposed to address short term liquidity constraints in the global food-supply chain and provide long term growth capital to food processing, beverage, and primary production companies. Through the fund, IFC would join forces with financial institutions that have specific expertise in areas such as agri commodity trade finance.

1.77 The aforementioned programs are directly related to IFC's investment operations. IFC's advisory services have also developed a crisis response strategy (*Advisory Services Financial Crisis Response-Note*). It is largely focused on the financial and infrastructure sectors, with dual objectives of addressing short-term needs while implementing medium-term reforms. Those objectives will be achieved through programs aimed at improving financial stability, increasing access to finance (including trade finance), strengthening corporate governance, improving the business enabling environment, and supporting public-private partnerships in infrastructure. The strategy has been designed in close coordination with the World Bank and is aligned with the efforts of other World Bank Group entities. The crisis-response package involves refocusing existing programs, designing new crisis-response programs, and scaling up select current programs that could serve clients well during the crisis. The package covers four business lines – Access to Finance (including trade finance), Business Enabling Environment, Corporate Advice, and Infrastructure.

## G. FINANCIAL CAPACITY

1.78 IFC assesses capital adequacy using the Board approved Capital Adequacy, Pricing and Risk (CAPRI) framework, which establishes minimum capital adequacy requirements for the Corporation's current portfolio and future balance sheet growth.

1.79 IFC's financial performance and its capital adequacy are significantly impacted by the external market environment. In recent years, the financial performance and capital adequacy have been very strong, driven by strong emerging market equities. However, the sharp decline in financial markets, resulting from the current global crisis, has resulted in the decline of IFC's overall return on net worth since the beginning of FY09 and is projected to be negative for the fiscal year. IFC is projecting an operating loss for FY09 primarily driven by higher levels of estimated loan loss provisions and equity write-downs, and lower levels of dividends and realized capital gains projections, as compared to the recent past. The Corporation's expected FY10 financial performance is also estimated to be low relative to previous years.

1.80 Furthermore, IFC's capital adequacy assessment shows declining levels of strategic capital in FY09 and possibly in FY10. These indicative financial capacity projections assume that the impact of the financial crisis on the Corporation's financial performance will take place mostly during FY09 and FY10 with slow recovery beginning in FY11. IFC is closely monitoring its financial capacity to absorb any additional shocks, while maintaining flexibility to fulfill its development mandate, implement its business strategy, and play a counter cyclical role.

1.81 In the event that the economic downturn worsens within the current fiscal year and further impacts IFC's financial loss, the Corporation's financial capacity constraints would intensify beginning in FY10, assuming the same program volumes and product mix. In this case, the Corporation will need to adjust program levels and product composition over the medium term in order to manage capital effectively. Should actual financial performance be better than the base case estimates, IFC would have stronger capacity to meet client demands.

1.82 A more detailed analysis of IFC's financial capacity will be presented to the Board in *Potential Options to Enhance IFC's Financial Capacity*.

## PART II: FY10 BUDGET

### A. ANTICIPATED SPENDING IN FY09

2.1 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 Group generally aims to keep spending to roughly 3% below total spending authority.<sup>4</sup>

2.2 As the depth and breadth of the global financial crisis became clear in the Fall of 2008, the Management Group proactively decided to take additional measures to limit spending. Specifically, Departments were directed to curtail planned staff growth and limit their overall spending to 95% of their FY09 budget. The Management Group also decided to suspend variable pay programs and market premium payments for FY09 as it would be incongruous to award bonuses and market premiums when the Corporation is expected to post an operating loss. These steps were taken to i) demonstrate the Corporation's serious attitude towards financial management at the outset of the financial crisis, ii) change the Corporation's course from investment growth to crisis management, and iii) limit the effect of administrative expenses against the bottom line. These additional cost cutting measures will result in lower than customary spending in FY09. Spending is now projected to be in the range of 92% to 95% of total spending authority, which is below the customary range of 95% to 97%.

2.3 In order to foster prudent management of resources, the Board has authorized IFC to carryforward any underrun against its annual spending authority up to a maximum of 5% of total budget from one fiscal year to the next (*Carryover of Unspent Budgets Across Fiscal Years*). The exact amount of this carryforward is determined once the fiscal year is complete. IFC's estimated FY09 spending is likely to be more than 5% below budget due to the Management Group imposed cost containment measures discussed above. Since the Corporation decided not to redeploy all of this cost saving towards crisis response assistance for clients in FY09, IFC will carryforward the standard 5% underrun to form the FY10 contingency and to enable achievement of the stretch targets, if applicable. The Management Group would also like to carryforward an additional amount to directly fund crisis response in FY10. Towards this end, the Management Group proposes that an amount roughly equal to the budget of the suspended variable pay programs, \$7 million, be used as a one-time special carryforward to fund a Crisis Response Contingency. This would be used to fund special crisis response activities above and beyond the normal support that IFC offers its clients. IFC would not release this special contingency until it has consulted with the Board on specific proposals for use during FY10.

2.4 It should be noted that the original plan for FY09 was one of continued growth and the Board approved an 11.5% increase to the Regular Administrative Budget to support the growth strategy. A large portion of this increase was reduced by the

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<sup>4</sup> Spending authority = Total administrative budget + carryforward from previous years' underspend

Management Group's decision to limit Departments to a 95% spending. Some of the FY09 budget increase funded unavoidable increases in overheads which are locked in at the beginning of the fiscal year. However, most of the anticipated increase in spending associated with the 11.5% increase has been used by investment departments to expand IFC's field presence under the decentralization strategy. This is evidenced by the projected increase in the percentage of investment staff in the field from 53% at the end of FY08 to 55% by the end of FY09.

## **B. FY10 ADMINISTRATIVE BUDGET**

### ***Enhanced Strategy and Budget Process***

2.5 In consultation with the Budget Committee, IFC introduced a more structured planning process during the FY09 cycle. This process starts by formulating the Corporation's strategy and business plan, which then determines the staffing and budget resources required to deliver the business plan. Merits of this process were assessed at the conclusion of the FY09 cycle. The Management Group decided that the process was fundamentally sound, and incremental improvements have been introduced to the FY10 planning cycle.

2.6 This enhanced process has delivered tangible benefits in developing the Corporation's strategy, business plan and budget as it has become a deliberative tool for management. For FY10, the structured planning process:

- (i) provides the Management Group a better understanding of the external environment and allows IFC to gauge its operational capabilities in a more precise and timely manner;
- (ii) reasserts the Management Group's leadership in determining the expansion or stabilization of the business program for each Region and Sector at early stage of the planning cycle;
- (iii) directly links the strategy to staff planning which then drives the budget formulation; and
- (iv) allows IFC to adapt to a changing environment more quickly and effectively.

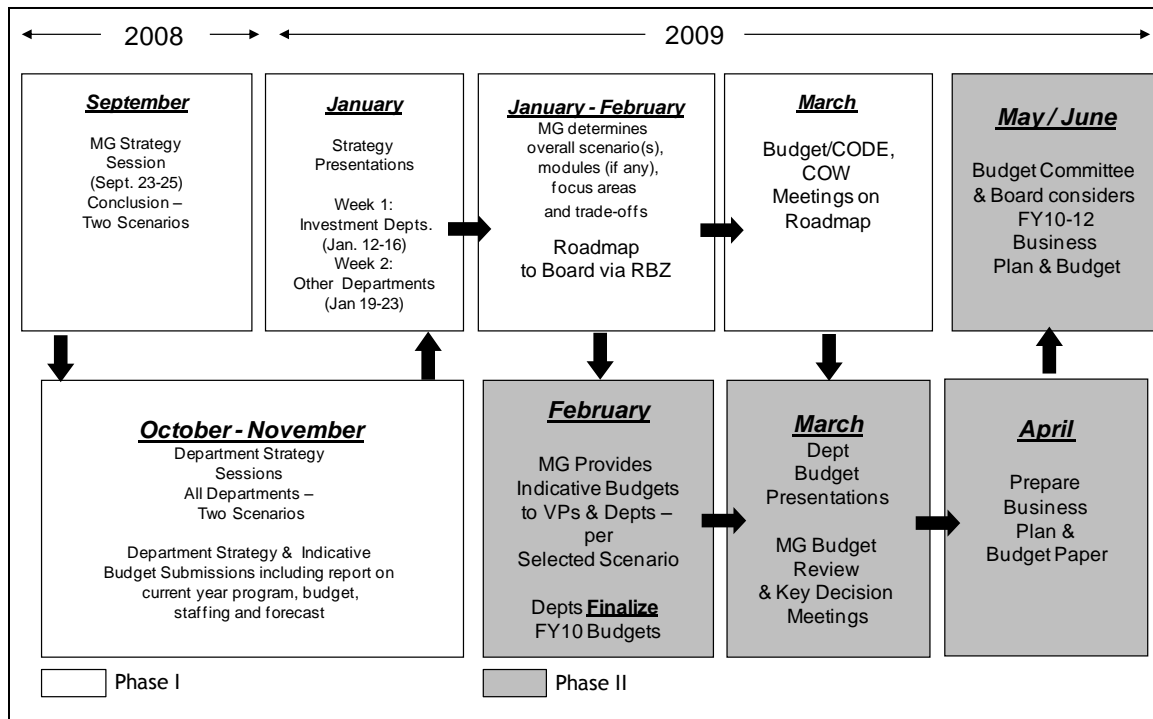
2.7 The final point was highlighted as the financial crisis unfolded during the core period of the planning cycle. The Management Group quickly adjusted its thinking from continuation of previous years' growth strategy to a strategy focused on crisis response and portfolio stabilization.

2.8 The Strategy and Budget planning process consists of two phases, both of which conclude with Board deliberations. The key stages in the planning cycle are shown in Figure 2.1. Phase I focused on the question of what IFC's investment and advisory services strategy should be given the state of the global economy. This phase concluded in March 2009 with Board discussion and endorsement of the strategy outlined in *IFC Road Map FY10-12: Creating Opportunities in Extraordinary Times*. As requested by the Board, two strategic scenarios were presented, a "Middle Case" or "Flat Growth



Scenario” and a “High Case” or “Moderate Growth Scenario”. The Middle Case was recommended by IFC and subsequently supported by the Board on April 2.

**Figure 2.1: FY10-12 Strategy & Budget Planning Cycle**



2.9 In Phase II, departments specified the staff plans and budget requirements that would be necessary to deliver the strategy and business plan laid forth in the selected Middle Case. The Management Group reviewed the staffing and budget proposals with a keen eye towards cost containment. Budget was then reallocated between departments from low priority activities to more strategic priorities with the goal of maintaining a flat Regular Administrative Budget for FY10. This phase will conclude with Board consideration of this FY10 Business Plan and Budget proposal.

2.10 **Improving the Planning Process.** There are several noteworthy improvements that were introduced to the FY10 process. This year all departments formulated a work program in October and November using the structured approach that was used in the FY09 cycle only by Investment Departments. Investment Department work programs were the first to be done so that Investment Support Departments could lend their perspective to the investment strategy deliberations. Once the investment program was determined, Investment Support Departments were able to determine their own work program which logically should be a product of the investment program. Corporate Support Departments then followed with their strategies and work programs.

2.11 In addition to strategy and work program, departments were asked to propose indicative budgets and staffing plans during this early phase. The Management Group thus had a comprehensive view of the proposed strategy and budget implications in early

January which allowed more informed decision-making as Phase II unfolded. This had a positive impact on the further decentralization of staff, as plans were accelerated to move some staff from headquarters to the regions before the end of FY09

2.12 The third major improvement occurred during Phase II. Since indicative budgets and staff plans were introduced in Phase I, it took much less time for departments to formulate detailed budgets and staff plans once their strategy and work program was decided. The budget and staff plans were simply refined in Phase II, rather than being created from the ground up as was done in the FY09 cycle. This efficiency gain provided time for IFC's Management Group to introduce Matrix Staffing and Matrix Budgeting for all Investment Departments. The Management Group described the concept at the outset of Phase II 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 Management to align and realign resources, as required"*.

#### **Box 2.1: Matrix Staffing & Budgeting: An Example**

The Corporation's investment program has always been expressed in matrix format. 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.

2.13 The staff mapping negotiations 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 IFC's Management Group to make discretionary decisions when determining appropriate staffing levels and skill sets for each matrix point (i.e. Agribusiness in Sub-Saharan Africa).

2.14 Identifying the staff complement for a given point within the Region/Industry Matrix logically leads to the determination of corresponding budgets for each matrix point. This initial mapping exercise, in turn, provides a base line for monitoring the use of staff and budget within the Region/Industry matrix. The mapping process will be reviewed early in FY10 and enhanced for use in the FY11 cycle.

2.15 **Reporting Enhances 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 is particularly true in volatile times such as the current financial crisis. In parallel to the actual planning process, the Management Group has, therefore, introduced a comprehensive quarterly management report beginning in the first quarter of FY09. This report presents quarterly results from all areas of the corporation both operational and non-operational. Any issues requiring the Management Group's attention are highlighted for discussion. Included are results from the investment program, advisory services, profitability, loan pricing, staffing, treasury results, capital adequacy, as well as budget information, efficiency and productivity, and crisis response status. The Management Group has set aside a full day each quarter to go through the report so that every aspect of the Corporation's operations is discussed in one sitting. In addition to the intrinsic value of such a comprehensive review, the discussions have had a profound impact on the strategy and budget planning cycle. The comprehensive and detailed review of the Corporation's status at both Q1 and Q2 contributed to the Management Group's decision to limit staff recruitment and department spending during FY09. The review also informed deliberations on crisis response, decentralization, client support, and other critical challenges that IFC must address. This has further broken down functional silos within the Corporation by providing a single comprehensive view of the Corporation and made the overall planning process more fluid and adaptive. This follows the enhancement of *IFC's Quarterly Report to the Board* which came from discussions with the Budget Committee.

### ***FY10 Regular Administrative Budget***

2.16 The Regular Administrative Budget is the benchmark used to determine discretionary budget growth, since it excludes items that fluctuate independently of budget allocations (such as contributions to the staff retirement plan, field security, and Board costs) or items which are the product of previous budget allocations (such as depreciation). In discussion of *IFC Road Map FY10-12*, the Board endorsed the 'Middle Case' which called for a flat Regular Administrative Budget, i.e. no growth from FY09 to FY10 in real terms. This is what IFC now proposes in Table 2.1.

**Table 2.1: FY10 Administrative Budget Proposal**  
US\$ millions, in constant FY09 dollars<sup>5</sup>

By Business Function	FY08 Budget	FY09 Budget	FY10 Proposed Budget	% Change over FY09
Investment & Portfolio Operations	250.5	283.0	274.3	-3%
Investment & Portfolio Support	63.3	68.1	68.7	1%
Risk Management	43.1	51.9	49.6	-4%
Advisory Services	20.6	21.1	21.4	1%
PSD & IFC Chief Economist	9.4	7.5	7.5	0%
Treasury	14.9	16.3	16.1	-1%
Corporate Support	16.6	16.9	16.5	-2%
<b>Total Departments</b>	<b>418.4</b>	<b>464.9</b>	<b>454.2</b>	<b>-2%</b>
Total Corporate Overheads	30.6	49.3	58.6	19%
<b>Operating Budget</b>	<b>449.0</b>	<b>514.2</b>	<b>512.8</b>	<b>0%</b>
Corporate Governance	6.0	7.4	8.8	19%
<b>REGULAR ADMINISTRATIVE BUDGET</b>	<b>455.0</b>	<b>521.7</b>	<b>521.7</b>	<b>0%</b>
Other Budget Items	142.9	150.2	172.2	15%
<b>Total Administrative Budget</b>	<b>597.9</b>	<b>671.9</b>	<b>693.9</b>	<b>3%</b>

2.17 IFC's Management Group believes that a flat budget is the prudent approach considering the depth and breadth of the financial crisis and its corresponding effect on the Corporation's capital position. A flat Regular Administrative Budget will still allow IFC to increase its FY10 spending by 4% compared to anticipated FY09 expenses as shown in Table 2.2. This increase results directly from the Management Group's decision to limit FY09 spending through the previously described cost cutting measures.

**Table 2.2: Regular Administrative Budget – FY09 Forecast Spending v FY10 Budget**  
US\$ millions

	FY09 Budget	FY09 Forecast Spending	FY10 Budget	as % of FY09 Budget	as % of FY09 Spending
Regular Administrative Budget	521.7	501.3	521.7	0%	4%

2.18 The 4% increase of budget above FY09 forecast spending will be used to: (i) support the further expansion of IFC's field presence into IDA countries through decentralization; (ii) provide additional resources to investment departments for portfolio management and crisis response, (iii) augment portfolio management and credit review

<sup>5</sup> The structural adjustment of 0.72% increases the FY10 total administrative budget to \$697.9 million. This year's adjustment is based on the new methodology approved by the Board to maintain a more accurate value of the Bank's budget, both in US\$ and Non-US\$ currencies. It is explained in Annex 3.

functions, (iv) cover necessary increases to IT maintenance & support costs; and (v) allow IFC to resume payment of variable pay programs (assuming the Corporation's financial position is positive). The Management Group will continue to proactively manage IFC's spending in FY10. If the financial crisis were to worsen, the Corporation may once again decide to cut spending.

2.19 The Management Group is confident these goals can be achieved, and has pushed for productivity gains to help the Corporation accomplish this. At the outset of the FY10 planning cycle, the Management Group decided to institute a 3% productivity tax to ensure that all departments achieved productivity gains. Implementation of the tax is fully explained in paras. 2.42 and 2.43. The net benefit of the productivity tax is reflected in the Regular Administrative Budget of \$521.7 million as budget has been reallocated within the total. Use of the productivity tax did, in fact, allow IFC to maintain a flat Regular Budget in spite of unavoidable increases for Corporate Overheads and Corporate Governance (see paras. 2.27 to 2.33) while still allocating additional resources to risk management functions that are critical in managing IFC's portfolio and assisting clients during the crisis.

### **C. REGULAR ADMINISTRATIVE BUDGET BY BUSINESS FUNCTION**

2.20 The Corporation's Regular Administrative Budget can be broken down into components on different bases depending on the purpose of the analysis. Since the budget has been formulated to provide the resources necessary to deliver IFC's FY10 business plan, the Management Group feels it is important to highlight the budget by its component business functions as shown in Table 2.1. The following paragraphs explain the composition of each business function along with associated costs.

#### ***Investment & Portfolio Operations***

2.21 This group comprises IFC's investment departments and operational Vice-Presidencies which have primary responsibility for delivering IFC's investment program and working with clients in IFC's portfolio. These operational departments account for more than 50% of IFC's Regular Administrative Budget at \$274 million. The overall budget for IFC's Investment & Portfolio Operations is being reduced by 3%, in line with the productivity tax. The reduction is relatively even across all industry and regional departments (the budgets for each industry and regional department can be found in Annex 1). This reflects the Management Group's decision to scale back the growth in new business and focus on supporting existing clients through the financial crisis. Productivity gains will be evidenced by the fact that commitments are expected to stay at the FY09 levels in all regions, except South Asia, while more time and resources will be spent supervising projects to ensure, as much as possible, the health of IFC's portfolio. At the same time, investment departments will continue the decentralization of senior staff.

## ***Investment & Portfolio Support***

2.22 This comprises the departments which have a direct role in support of the investment program. Due to the financial crisis, the Management Group is focusing on the quality of IFC's portfolio work. The overall budget for this group will, therefore, increase by 1% as proceeds from the productivity tax have been allocated to the Credit Review and Corporate Portfolio Management departments to augment their work. Specifically, a new team is being created in Corporate Portfolio Management to oversee and rate investment department portfolio work quality and staff skills. Greater attention will also be given to the analysis of exposures, performance, and compliance at the corporate level. Equity portfolio management systems will continue to be upgraded to address accounting transition requirements. New equity valuation screening software will be developed to identify potential valuation problems more efficiently and work will continue on developing an asset allocation model operating under the constraints of environmental and developmental impact. The Credit Review department will use its budget increase to further decentralize its staff to Europe, Africa, and East Asia.

2.23 The Environment & Social Development and Legal departments' budgets will be reduced in accordance with the productivity tax. Despite the reductions, both departments will continue decentralizing their staff so that important environmental reviews and legal work can take place in the field in close cooperation with clients.

## ***Risk Management***

2.24 The Corporation's risk management function has been reorganized at the margins during the second half of FY09. The back office function has been folded into the Accounting & Financial Operations Department (formerly Controller's & Budgeting and Financial Operations) in line with industry best practice. As part of this change, a new Integrated Risk department was created. This department is leading the Corporation's capital adequacy review (see paras. 1.78 to 1.82). These organizational changes were cost neutral. Overall, the budget for the risk management category will decrease by 4% reflecting the productivity tax.

## ***Advisory Services***

2.25 A large part of IFC's Advisory Services activities are funded from IFC's Funding Mechanism for Technical & Advisory Services (FMTAAS) and donor funds; this is discussed at length starting on page 46. There is, however, a small group of departments which are funded from IFC's administrative budget that work on advisory services, primarily providing central coordination, oversight and support, and transactional work on infrastructure of SMEs. The group as a whole will receive a 1% increase reflecting the expansion of advisory work for infrastructure and SMEs.

## ***Treasury***

2.26 The Treasury function's budget will be reduced by 1% in FY10. This reflects productivity tax reductions to the Treasury Operations and Syndications & Resource Mobilization groups offset by an increase to the Structured & Securitized Products group. Treasury will further expand local currency lending where feasible and continue to manage the Corporation's liquid assets in a very volatile market. The outlook for syndications is unclear and will depend on the direction the financial crisis takes. The increased budget for the Structured & Securitized Products group will allow it to meet client needs brought on by the crisis.

## ***Corporate Support and Overheads***

2.27 Corporate Support and Overheads represent a broad category of expenses which are not directly attributable to individual departments, but are necessary for the normal functioning of the Corporation. Responsibility for these corporate-wide expenses is assigned to specific departments based on their expertise. The total budget for Corporate Overheads is increasing by 19% to \$58.6 million, largely driven by increases to IT Maintenance & Support.

2.28 **IT Maintenance & Support.** The largest component of Corporate Overheads is IT Maintenance & Support. These costs support all aspects of IFC's business. Software license fees, hardware maintenance fees, and application support services fees are contractually required to operate the IT systems used by the Corporation in the execution of its business. IT Maintenance & Support costs are primarily driven by the cumulative capital investments IFC has made in its IT systems and infrastructure. As IFC's business has grown and become more complex, the business requirements for IT systems and support have grown substantially resulting in an increased portfolio of IT assets. Staff growth and decentralization have also added to IT capital costs and the associated overheads required for downstream maintenance and support. IFC's overall IT maintenance and support program is closely coordinated with IBRD's Information Solutions Group (ISG) to ensure consistent approaches across both institutions and to benefit from economies of scale where possible. For instance, IFC relies on ISG for its general ledger and resource management transactions (SAP) and HR systems (Peoplesoft). The associated costs of running these systems are charged back to IFC through service level agreements which are based on head count or usage.

2.29 The overhead budget for IT Maintenance & Support is expected to increase considerably from \$21.7 million in FY09 to \$30.6 million in FY10. The Management Group recognizes that this is a significant increase and carefully reviewed every aspect of the IT program; this review realized cost savings of nearly \$3 million which is reflected in the FY10 budget. One factor driving the cost increase is the transition to a new outsourcing vendor following the dismissal of Satyam. The substantial capital investment approved by the Board for FY09 also created additional incremental running costs for software licenses and support. \$25.8 million of the total FY10 cost is for

services provided by outsourced vendors; the remaining \$4.8 million is paid to IBRD for services provided by ISG.

**2.30 Overheads Managed by HR.** The overhead budgets managed by IFC's Human Resources Vice-Presidency account for \$21 million of total Corporate Overhead costs and cover a wide range of services that support and develop IFC's staff. The budgets for all items under this category are unchanged from FY09 despite the moderate growth in staff numbers during the year. The largest single component of this category is Corporate Training at \$5 million which the Management Group believes is modest in an organization of roughly 3,500 staff (less than \$1,500 per staff). The other large components are the variable pay programs. While the Management Group has decided not to make payments under these programs in FY09 as discussed earlier, the Corporation must be poised to recognize staff achievements in FY10 if the financial crisis abates. These two components account for 68% of the overheads managed by Human Resources.

**2.31 Facilities Management.** The third largest category of Corporate Overheads are the administrative costs for running the F-building in Washington, D.C. and other GSD-provided services. The total FY10 budget is \$13 million, an increase of 3% due to higher costs coming from GSD based on IFC's usage, and the reduction in rental income since IFC is using more of the F-building for its own staff.

**2.32 IBRD Support Services.** This category comprises services that IFC receives from IBRD because there is an economy of scale in having a single Bank Group entity responsible for such services. These include HR services, GSD, Controllers services, Library services, and charges from ISG which are not managed by IFC's IT department (telecoms services and HR IT systems). The total budget for these items is being reduced by 4% in FY10 to \$11.3 million due to cost savings generated by ISG.

### ***Corporate Governance***

**2.33** This category represents IFC's share of Bank Group functions which address corporate governance. It is comprised of the Conflict Resolution function, the Anticorruption and Fraud unit, the external auditors, and the Conflicts & Evaluations Office. While the total dollar cost for these functions is relatively small at \$9 million in FY10, this does represent a 19% increase from FY09. The increase is due to the expansion of Bank Group initiatives in which IFC is required to participate.

## **D. TOTAL ADMINISTRATIVE BUDGET**

**2.34** The Total Administrative Budget comprises the Regular Administrative Budget plus items that fluctuate independently of discretionary budget allocations. These are i) Depreciation expenses which are the product of previous capital budget allocations; ii) costs for the Corporate Secretariat & Board; iii) Contributions to the Staff Retirement Plan; and iv) Other items such as the Compliance/Officer/Ombudsman and the Independent Evaluation Group.



**Table 2.3: Total Administrative Budget Proposal<sup>6</sup>**  
US\$ millions

	<b>FY08 Budget</b>	<b>FY09 Budget</b>	<b>FY10 Budget Proposal</b>	<b>% Change over FY09</b>
<b>Regular Administrative Budget</b>	<b>455.0</b>	<b>521.7</b>	<b>521.7</b>	<b>0%</b>
<b>Other Budget Items</b>	<b>142.9</b>	<b>150.2</b>	<b>172.2</b>	<b>15%</b>
Total Depreciation	38.1	40.5	41.8	3%
Corporate Secretariat & Board	16.8	22.6	16.6	-27%
Risk-based Internal Control	1.9	2.0	0.8	-62%
Ombudsman / Compliance Advisor	2.2	2.9	2.7	-7%
Field Security	4.1	5.8	9.3	62%
Business Continuity	3.2	3.3	3.1	-6%
Independent Evaluation	4.7	5.3	5.3	-
Contributions to SRP, SSRP & RSBP	71.8	67.9	92.7	37%
<b>Total Administrative Budget</b>	<b>597.9</b>	<b>671.9</b>	<b>693.9</b>	<b>3%</b>

**2.35 Depreciation.** Overall depreciation expenses will increase in FY10 by 3% from the FY09 budget. This increase is driven by the Corporation's increased capital spending, primarily for IT systems.

**2.36 Corporate Secretariat & Board.** IFC's budget for the Corporate Secretariat & Board is declining by 27% in FY10. This is a direct result of IFC's decision to streamline its processing and seek delegated authorities from the Board. Costs for the Board are shared between Bank Group members based on each institution's use of Board time. Through streamlined procedures and delegated authorities, IFC has reduced its use of Board time relative to the Bank.

**2.37 Field Security.** This item is increasing by 62% due to unstable conditions in many of the countries in which IFC works. While costs for the physical security of staff and buildings in the field are going up, the majority of the increase is due to the recently established WBG Office of Information Security (OIS). IFC and OIS are coordinating with each other to assure that congruent security practices are followed for all IT Security functions. IFC's Information Security program will focus on its specific requirements and operations and will collaborate with OIS on all other security requirements. IFC's share of OIS costs represent an incremental increase of \$1.5 million for FY10.

**2.38 Contributions to SRP, SSRP, & RSBP.** Contributions to the Staff Retirement Plan and the Retired Staff Benefits Plan are increasing significantly as a direct result of the global financial crisis. Since financial markets have declined around the world, and asset values have decreased, the Bank Group must make a significant contribution to ensure that staff pensions are properly funded to meet anticipated benefits requirements.

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<sup>6</sup> See footnote 5, page 33.

2.39 Compared to FY09 forecast spending, Other Budget Items will increase by 21% as shown in Table 2.4, largely driven by the required increased Contribution to the staff retirement plan. This results in the Total Administrative Budget being 8% higher than FY09 forecast spending.

**Table 2.4: Total Administrative Budget – FY09 Forecast Spending v FY10 Budget**  
US\$ millions

	<b>FY09 Budget</b>	<b>FY09 Forecast Spending</b>	<b>FY10 Budget</b>	<b>as % of FY09 Budget</b>	<b>as % of FY09 Spending</b>
<b>Regular Administrative Budget</b>	521.7	501.3	521.7	0%	4%
Other Budget Items	150.2	141.9	172.2	15%	21%
<b>Total Administrative Budget</b>	671.9	643.1	693.9	3%	8%

2.40 IFC's annual spending authority comprises the Total Administrative Budget plus the carryforward from previous years underspending as described in paras. 2.1 to 2.4. Because of the Management Group's decision to proactively cut costs in FY09 in response to the unfolding financial crisis, IFC will be able to carryforward 5%, or \$33.6 million, of its FY09 Total Administrative Budget. Spending Authority for FY10 will, therefore, be \$727.5 million. Table 2.5 shows that FY10 Spending Authority will be 4% higher than FY09 Spending Authority and 13% above FY09 Forecast spending.

**Table 2.5: Spending Authority – FY09 Forecast Spending v FY10 Budget**  
US\$ millions

	<b>FY09 Budget</b>	<b>FY09 Forecast Spending</b>	<b>FY10 Budget</b>	<b>as % of FY09 Budget</b>	<b>as % of FY09 Spending</b>
<b>Total Administrative Budget</b>	671.9	643.1	693.9	3%	8%
Carryforward	29.8	-	33.6	13%	NA
<b>Spending Authority</b>	701.7	643.1	727.5	4%	13%

## **E. PRODUCTIVITY AND EFFICIENCY**

2.41 IFC's Management Group is committed to continuous improvement in the Corporation's productivity and efficiency. The ongoing Business Process Improvement initiative discussed in *IFC Road Map FY10-12* is one important element of this effort that approaches the question of productivity and efficiency from a process viewpoint. In the budget context, there are three focus areas which help the Management Group maintain absolute 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 productivity tax, ii) investment operations productivity ratios, and iii) benchmarking against other international financial institutions.

### ***Productivity Tax***

2.42 As noted earlier, the Management Group decided to implement a 3% productivity tax beginning with the FY10 to ensure that all departments, both operational and support, manage their resource use as carefully as possible. Following the experience of the Bank, a flat tax of 3% was imposed on every department for this first year of the productivity tax and pooled centrally. The starting point for FY10 department budgets was, therefore, 97% of a department's FY09 budget with no commensurate change in their work requirements. This forced all departments to tighten their belts and review all expenditures to make sure they were necessary for program delivery. Some departments identified lower priority programs that could be eliminated during the financial crisis and were able to reduce their budgets further than 97%. The Management Group then allocated the proceeds of the productivity tax and additional savings to cover the increased cost of Corporate Overheads and Corporate Governance and to fund strategic priorities. In this way, the decentralization effort and risk management functions were provided extra resources within the overall flat envelope to augment client support during the financial crisis.

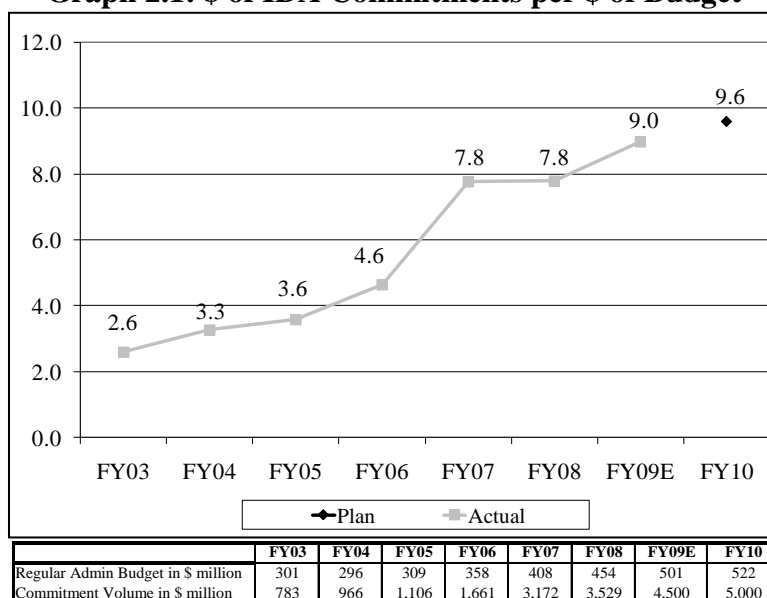
2.43 During the course of FY10, the Management Group will review the program requirements and productivity gains of each department to determine a differentiated tax for FY11. This follows the Bank's practice of starting with a flat tax and then differentiating the tax based on actual results. This staged approach allows the Corporation, which has been growing its budget since FY04, to adjust to the effects of the productivity tax during FY10. The Management Group will then reward the most productive departments with a lower tax and impose a relatively higher tax on less productive departments in FY11.

### ***Investment Operations Productivity Ratios***

2.44 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. Overall, the trends are positive, showing steady productivity gains since FY03. Data used for the FY03-10 timeline show actual data for FY03 to FY08, estimates for FY09, and plan figures for FY10.

2.45 Graph 2.1 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 FY03-07 from \$783 million to \$3,172 million greatly outpacing budget growth during the period.

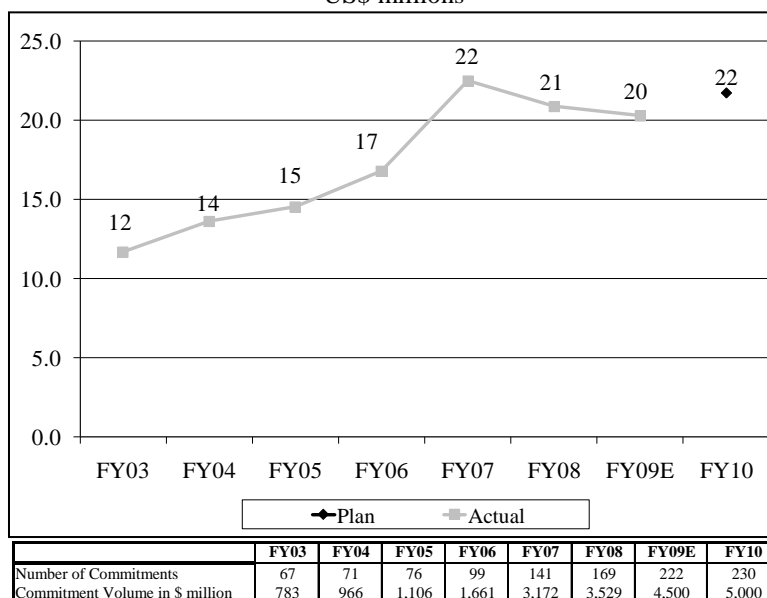
**Graph 2.1: \$ of IDA Commitments per \$ of Budget**



2.46 The number of projects in IDA countries has also increased from 67 in FY03 to an estimated 222 in FY09 and is expected to rise again in FY10 to 230. The FY09 estimate is 31% higher than the FY08 outcome; FY10 would be 36% higher than FY08. Since volume and project number are increasing at similar rates, the average size of commitments in IDA countries is expected to remain in the FY07 to FY09 narrow range of \$20 to \$22 million.

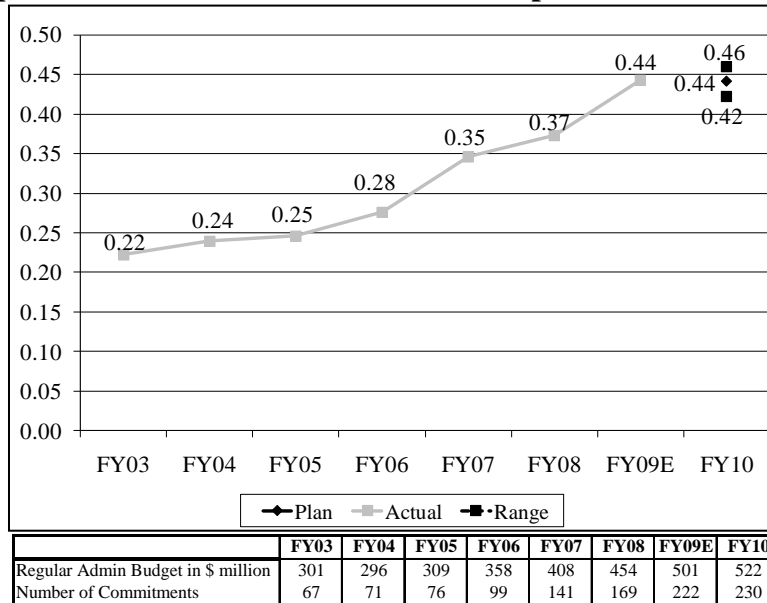
**Graph 2.2: Average Size of IDA projects**

US\$ millions



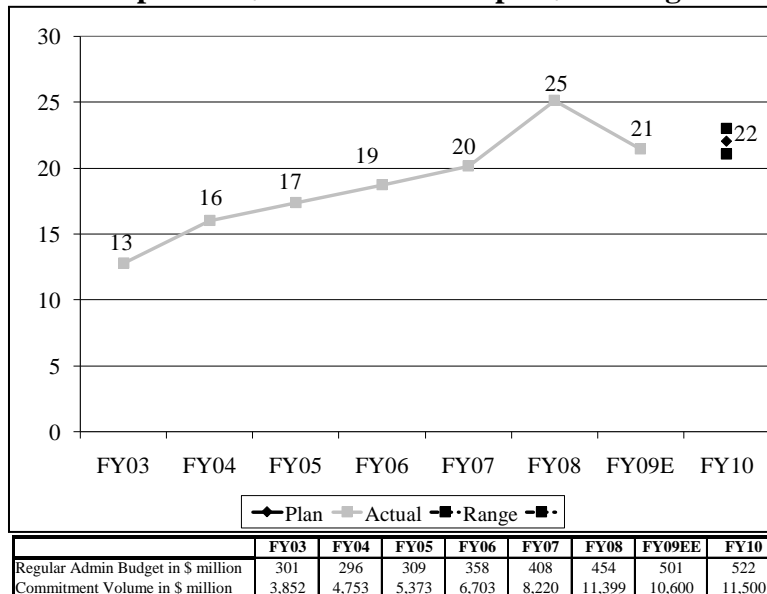
2.47 Continued growth in the number of commitments in IDA countries has resulted in a steady increase in the ratio of number of IDA commitments per \$ million of budget. This measure of productivity has risen from 0.22 in FY03 to an estimated 0.44 in FY09, a 100% improvement in the cost of delivering an IDA project (Graph 2.3).

**Graph 2.3: Number of IDA Commitments per \$ million of Budget**



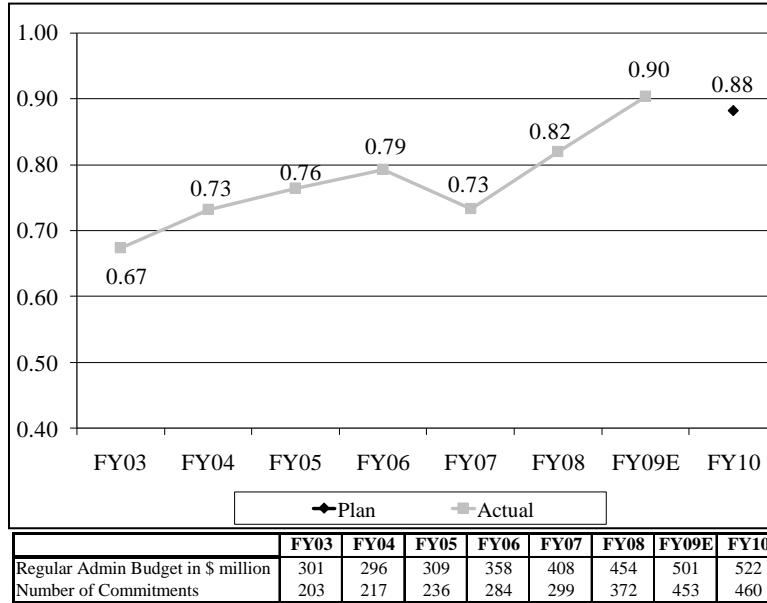
2.48 The productivity gains exhibited by IDA ratios are mirrored by the ratios based on total IFC commitments as shown in Graphs 2.4 and 2.5. The ratios decline somewhat in FY09 and FY10 based on the conservative investment program the Management Group anticipates next year, but will still be well above the FY03 to FY08 range.

**Graph 2.4: \$ of Commitment per \$ of Budget**



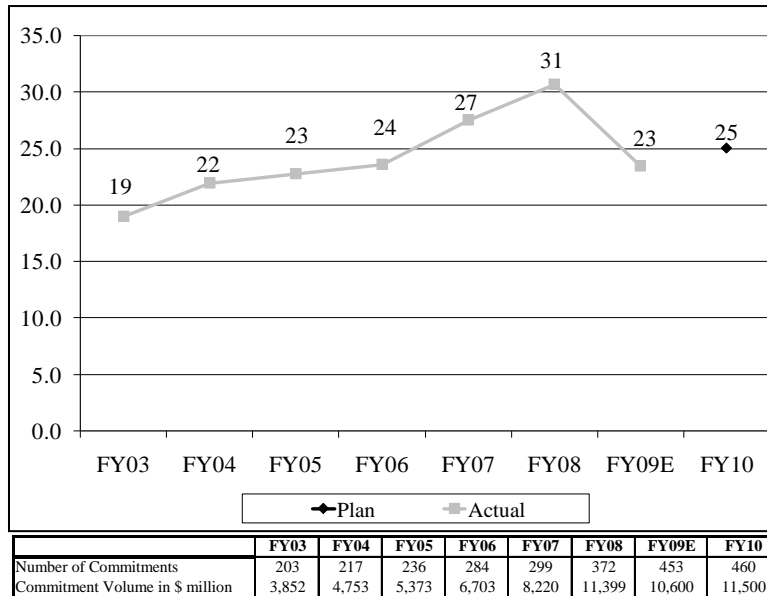
2.49 IFC's effort to grow the number of commitments is demonstrated by the fact that the average annual growth for number of overall commitments is 12% from FY03 to FY10. This is reflected in productivity gains shown in Graph 2.5; it costs IFC about 26% less to deliver projects in FY09 than it did in FY03.

**Graph 2.5: Number of Commitments per \$ million of Budget**



2.50 The average size of IFC's projects reached a peak in FY08 but is expected to decline in FY09 and FY10 as a result of the financial crisis.

**Graph 2.6: Average Size of IFC Commitments**  
US\$ millions



## ***Benchmarking of International Financial Institutions (IFIs)***

2.51 During FY09, IFC has been working to improve productivity measures used to compare operations with other IFIs. A dialogue has been started with other private sector development institutions regarding possible measures for comparing productivity. While a number of institutions have emphasized the difficulty of comparisons when there are significant differences in geographic orientation, client size, sectoral focus, level of “frontier” efforts, etc., the institutions have also provided information on their accounting and metric systems and available productivity measures that may help identify new areas where comparisons can be made.

2.52 One new data source that has proven helpful is the expanded COMPAS (Common Performance Assessment System) program. While originally set up to facilitate comparison of development outcome results among public sector multilateral development institutions, for the last two years metrics comparing private sector operations have also been developed, under IFC leadership. This year a number of new operating metrics have been included that were previously not available, including investment department staffing levels. IFC has worked with this data as well as data from Annual Reports to improve comparative information, and the results are presented in Table 2.6 below.

2.53 Overall, IFC is within the broad range of the comparators. Within the group, EBRD remains the best comparable because of its size and scope of operations and product mix. The other institutions are much smaller, and IIC and FMO focus on smaller investments (IIC because of its explicit SME mission, FMO in part because the data includes the effect of its work to support government funds targeted at small business). The major issue in comparing IFC with EBRD is the different geographic focus, with IFC’s global reach and having substantial and growing operations in IDA countries. To help facilitate the comparison, data on IFC’s Europe operations (CEU in particular) are broken out separately in the table, and do show a closer alignment with EBRD’s productivity ratios.

2.54 There remain a number of important differences between EBRD and IFC that must still be considered. In particular, part of EBRD (about 20 percent) is in operations in the public sector and benefit from the large scale of operations in a single region. There are also some practices at EBRD that may provide particular efficiencies, such as the significant number of operations done under “frameworks” with single Board approval for a number of projects under a common approach -- a type of delegated authority and programmatic approach. IFC’s own efforts at delegated authority and programmatic approaches as well as other efforts under the Business Process Improvement Program is expected to help improve operating efficiencies.

2.55 IFC will continue to refine and update the benchmarking process. Additional data is becoming available from other institutions under COMPAS, and IFC will continue its efforts to improve the quality of the data provided, continue the dialogue with other IFIs, and determine how best to benchmark efficiency.

**Table 2.6: Comparison of IFI Productivity**

Productivity Ratios	IFC (2008)		EBRD*	DEG	FMO**	IIC***	Notes
	All	CEU	2008	2008	2007	2008	
<b>1. Commitment Volume</b>							
- Commitment Volume / Total Administrative Expenses	21.2		20.9	15.7	25.8	12.2	
- Commitment Volume / Total Staff (\$ millions)	5.0		5.3	3.9	7.2	2.8	1, 2
- Commitment Volume / Staff Working on Investments (\$ millions)	12.5	12.4-13	16.1				3, 4
<b>2. Committed Portfolio</b>							
- Committed Portfolio / Total Administrative Expenses	60.3		84.6	47.9	66.7	41.9	
- Committed Portfolio / Total Staff (\$ millions)	14.1		21.5	15.4	18.6	9.7	1, 2
- Committed Portfolio / Staff Working on Investments (\$ millions)	35.6	43.4	65.1				3, 4
<b>3. Number of Commitments</b>							
- # of Commitments / Total Admin Expenses (per \$ million)	0.7		0.8	1.1	2.8	2.6	5
- # of Commitments / Total Staff	0.16		0.21	0.27	0.8	0.6	1, 2, 5
- # of Commitments / Staff Working on Investments	0.4	0.4-0.6	0.6				3, 4, 5
<b>4. Number of Portfolio Projects</b>							
- # of Portfolio Projects / Total Admin Expenses (per \$1 million)	3.4		4.0			8.2	
- # of Portfolio Projects / Total Staff	0.8		1.0			1.9	1, 2
- # of Portfolio Projects / Staff Working on Investments	2.0	2.1	3.0				3, 4
<b>5. Number of Portfolio Companies</b>							
- # of Portfolio Companies / Total Admin Expenses (per \$1 million)	2.8				7.2		
- # of Portfolio Companies / Total Staff	0.7				2.0		1, 2
- # of Portfolio Companies / Staff Working on Investments	1.6	1.6-2.1					3, 4
<b>6. Project Size (US\$ millions)</b>							
- Commitment Volume / Number of Commitments	30.6	20.9-31	24.8	14.3	9.3	4.7	5
- Committed Portfolio / Number of Portfolio Projects	17.6	20.2	21.4			5.1	
- Committed Portfolio / Number of Portfolio Companies	21.7	26.9			9.3		

Source: Common Performance Assessment System (COMPAS) Report, Annual Reports and Press Releases

Italic figures refer to 2007 data

\* EBRD figures include both public and private operations

\*\* FMO figures are based on its 2007 Annual Report and include government funds

\*\*\* IIC figures are based on approval volume and number of approvals, not commitments

Notes:

1. Number of IFC total staff includes regular staff funded by IFC administrative budget and the full-time equivalent (FTE) of short-term consultants working on investments

2. Number of EBRD total staff includes the total number of staff as of December 31, 2007, special contract staff, locally hired general service contract staff, and IFC estimate of the FTE of interns/short-term staff. This number will be updated when the 2008 EBRD Annual Report is released

3. Number of IFC staff working on investments includes regular staff with grade GE and above who are mapped to investment departments. This number does not include short-term consultants

4. Number of IFC CEU staff working on investments, when possible, is a range estimate between the adjusted full-time equivalent of normalized hours recorded in IFC internal system and the number from FY10 staff mapping exercise. This number does not include short-term consultants

5. Number of 2008 EBRD commitments is preliminary which was obtained from EBRD prior to the release of the 2008 EBRD Annual Report and will be updated if different; IIC ratios are based on number of approvals, not commitments



## F. ADVISORY SERVICES

2.56 In recent years Advisory Services (AS) has developed into an integral part of IFC's business. Today, AS is recognized as a critical tool for extending IFC's reach and expanding its development impact. By March 31, 2009, the AS business had grown to include a portfolio of 740 projects involving funding commitments of some \$900 million, and involving 850 GE+ staff. Following a period of growth, IFC's Management Group is stabilizing the size of the business to further strengthen focus and impact, and further strengthen the sustainability of the funding model. During FY10, AS spending and staffing levels are expected to remain basically flat.

### *AS Strategy & Implementation*

2.57 Advisory services are an integral part of IFC's global and regional strategies, and contribute to each of IFC's strategic pillars. Over 50% of country-specific AS projects are in IDA countries, and AS figure prominently in the Corporation's climate change strategy. AS are also an integral part of IFC's crisis response strategy, allowing IFC to respond quickly to help clients address risk management and corporate governance issues, and also addressing new priorities in the business enabling environment (e.g. insolvency regimes).

2.58 In recent years, IFC has launched a raft of measures to strengthen the impact and professionalism of its AS business, and so translate IFC's corporate strategies into even stronger development results. The main measures were summarized in the background material to *IFC Road Map FY10-12*, and are outlined below.

- **Organization & Governance.** Since 2006, the AS business has been organized into five business lines,<sup>7</sup> with each led by a global Business Line Leader responsible for product development and quality assurance. In 2008, a dedicated Vice President for Advisory Services was appointed to lead the global business. Governance has also been strengthened by the development of new or strengthened policies and procedures governing issues ranging from the review, approval and supervision of AS projects and the administration of trust funds to the use of grants and the management of conflicts of interest.
- **Results Measurement.** Rigorous results measurement is central to IFC's efforts to strengthen the focus and impact of the AS business. IEG's recent review of IFC's advisory services confirmed IFC's leadership among IFIs in this space. At the AS project design and approval stage, all projects must specify intended results with standardized indicators and clear baselines. During project implementation, performance of individual projects is monitored through semi-annual Project Supervision Reports, and through regional portfolio reviews overseen by the Vice President for Advisory Services. On project completion, results are subject to independent verification and lessons learned are distilled and

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<sup>7</sup> The five business lines are: Access to Finance; Business Enabling Environment; Corporate Advice; Environment & Social Sustainability; and Infrastructure.

fed back into the process for designing new projects. In addition, IFC commissions external evaluations of its programs, with 35 such evaluations completed or underway during the past two years. These measures will shortly be complemented by new tools to assess the efficiency of AS projects, and cost-benefit assessments.

- **Product Focus.** To strengthen selectivity and focus, since 2007 IFC's menu of advisory products has been subject to regular review based on client demand, fit with IFC's distinctive competencies and strategic priorities, development results, and potential for scale and replicability. As a result of the most recent product review, IFC is exiting 14 products, affecting 90 projects (12% of portfolio) worth \$80 million (9% of portfolio value).
- **Client Contributions.** Since 2007, IFC has applied a pricing policy to its AS business. The goal of the policy is not revenue generation. Rather, the policy aims to: (i) strengthen client commitment to implementation, which IEG evaluations show leads to stronger development results; and (ii) ensure any subsidy is justified by the public benefits involved, thus avoiding market distortion and ensuring strong additionality. The policy recognizes client contributions in the forms of direct fees to IFC as well as indirect payments (e.g. paying costs of consultants engaged to assist in executing the project) and in-kind contributions. At March 31, 2009, 60% of portfolio projects included client contributions in some form.
- **WBG Collaboration.** Collaboration between IFC's AS business and other parts of the WBG has become increasingly seamless in recent years. IFC focuses on core products tied to its distinctive competence, and when assignments involve government clients World Bank staff are consulted at concept review stage and often serve as peer reviewers. In areas of common interest, there are a growing number of joint WBG approaches. This includes joint funding a delivery vehicles (eg, FIAS); joint publications (e.g. Doing Business report); joint products (eg, credit bureaus, collateral registries); joint projects (e.g. Bangladesh and Kenya); and joint staff (e.g. Belarus, Macedonia, Pacific Islands, Philippines and Ukraine). Coordination and collaboration is supported by a joint Vice President for Financial and Private Sector Development; a joint Investment Climate Department; joint Country Assistance Strategies; the IDA-IFC Secretariat, and common communities of practice and knowledge sharing events.
- **Resource Management.** In recent years IFC has launched a range of measures to strengthen the management of human and financial resources in the AS business and to improve operational efficiency. AS are also subject to IFC's broader Business Process Improvement initiative, and specialist AS working groups have been established for policies and procedures, AS quality assurance, and business processes and systems.

## ***IEG Review***

2.59 As part of its review of IFC's 2009 Development Results, IEG reviewed and made recommendations regarding the Corporation's AS work for the first time. IEG found that 70% of evaluated projects had satisfactory or better ratings for development effectiveness, and recognized the many initiatives IFC had launched to strengthen the focus and impact of its AS business in recent years. IEG also recognized IFC's leadership among IFIs in advisory services. Recommendations for further attention included the articulation of IFC's AS strategy; increasing the use of programmatic AS interventions; improving execution of the pricing policy; and continuing efforts to improve results measurement and knowledge management.

## ***AS Funding Model***

2.60 IFC's AS focus on addressing market failures, so full cost-recovery from clients is not feasible. The subsidy element must thus be funded by IFC and/or donors. The AS business draws on contributions from all three sources. The financial crisis is expected to place constraints on the funding capacity of donors and IFC. The Management Group is responding by curbing growth in the size of the business and strengthening the funding model.

2.61 **Donor Contributions.** Donor support for IFC's advisory services has been strong and growing, attracting an average of around \$150 million per year in recent years from 24 official donors and a growing number of non-official donors (e.g. Gates Foundation). Donors have recently pledged support of \$8 million to support the AS components of IFC's crisis response initiatives. Contributions from donors have exceeded IFC's contribution since FY08, and are expected to account for over \$155 million, or around 56% of projected spending, in FY10, compared with 47% in FY07.

2.62 **Client Contributions.** Contributions from clients have been expanding as a result of the pricing policy introduced in 2007. While the principal aims of the policy are to strengthen client commitment to implementation, and ensure any subsidy is justified by the public benefits involved, a side-benefit is to contribute to the diversification of funding sources for the advisory business. Around 60% of IFC's current portfolio of projects includes client contributions in some form, and about half of these involve direct fees to IFC. Fees to IFC are projected to reach \$27 million, or about 10% of projected AS spending, in FY10, compared with 6% in FY07.

2.63 **IFC Contributions.** Since FY05, IFC's contribution has been made through the Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS), a special designation of retained earnings. Recognizing the likelihood of fluctuations in IFC's financial performance, FMTAAS was designed to provide a stable funding source for the AS business while safeguarding IFC's financial position. Annual designations to FMTAAS are linked to IFC's financial performance through a sliding-scale formula based on net-income in the preceding year. This establishes a cap on the allowable level of designation. The Management Group has applied the formula conservatively, and after the first year has sought Board approval for designations that were substantially below that

allowable under the formula (Table 2.7). Designations peaked at \$230 million in FY07 and have been declining since. No designations are proposed to be made in FY10.

**Table 2.7: Designations to FMTAAS**  
US\$ millions

	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>
<b>IFC Net Income</b>	993	2,014	1,264	2,490	1,547	TBD	TBD
<b>Allowable Designation</b>	0	228	585	322	752	421	TBD
<b>Actual Designation</b>	-	225	125	230	170	97	0

2.64 Resources mobilized through FMTAAS have been husbanded cautiously. Spending from FMTAAS has been managed through a Management Group imposed annual cap on spending authority typically set below the level of the annual designation. This has allowed us to create a cushion that offsets the impact of variations in annual designations, and sufficient to secure the funding of 2-3 years of advisory services. Reductions in the level of designation thus have a lagged effect. For FY09, the spending cap was originally set at \$130 million, but in response to the unfolding crisis the Management Group proactively moved to curb spending and expects actual spend to be around \$110 million. For FY10, the Management Group proposes to allocate \$97 million in spending authority. Based on the projected increase in contributions from donors and clients, this will result in leveraging IFC's contribution by around 2:1.

2.65 The sustainability of FMTAAS as the preferred funding model for Advisory Services will be subject to a detailed strategic review in the first half of FY10. The results of this review and options for the future will be discussed at the latest in the FY11 Business Plan and Budget.

## G. CAPITAL BUDGET

2.66 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 FY10, the total recommended capital budget is \$41.7 million.

**Table 2.8: FY10 Capital Budget Proposal**  
US\$ millions

	<b>FY09 Budget</b>	<b>FY10 Proposed Budget</b>
Headquarters Facilities	7.2	3.7
Country Office Facilities	16.7	12.7
Information Technology	64.5	24.3
Contingency	1.5	1.0
<b>Total</b>	<b>89.9</b>	<b>41.7</b>

### *Headquarters Facilities*

2.67 The Headquarters Facilities portion of the capital budget funds improvements and other work on the F-building. In FY10, several projects are planned that will improve operational efficiency and energy conservation in the F-building (e.g. building control and systems upgrades, rooftop HVAC replacement, occupancy sensor switch installation for institutional meeting rooms, and building systems efficiency metering upgrades). Such energy conservation measures have resulted in considerable savings and efficiency improvements over the past few years, including a reduction in electricity costs of \$290,000 p.a.

2.68 The FY10 capital budget of \$3.7 million is about 50% less than the FY09 request. This is due to the fact that the FY09 capital budget included \$2.9 million for one-time renovation costs of the IFC cafeteria. In addition, capital improvement projects that were not seen as critical to the maintenance or operation of the building have been deferred to later years.

### *Country Office Facilities*

2.69 The FY10 Country Office Facilities capital budget proposal reflects the Corporation's continuing growth in the field resulting from the decentralization strategy. To ensure IFC's country offices provide adequate space to support growth in the field, the Management Group has instituted a 3-year facilities planning exercise with the regional departments to define their office needs based on staffing and business plans. Safety and security requirements are also factored into the planning process. Even where new offices are not being built, there are ongoing construction requirements to accommodate IFC's growing field presence by expanding or renovating existing offices. Security concerns also require the retro-fitting or enhancement of unsecured offices.

2.70 Maximum use is being made of prior years' capital budgets to fund new projects in order to reduce the country office facilities capital budget proposal in FY10. By the end of FY09, IFC will have 107 offices in 83 countries, and will have opened five new offices during the fiscal year (Bangui, CAR; Freetown, Sierra Leone; Kherson, Ukraine; Kolkata, India; Tegucigalpa, Honduras). An additional six locations are planned for FY10 (Kingston, Jamaica; San Salvador, El Salvador; Thimpu, Bhutan; Bamako, Mali; Conakry, Guinea; Dar Es Salaam, Tanzania). The FY10 capital budget of \$12.7 million will fund work on approximately 28 country offices that were identified in the current 3-year country office facility plan.

### ***Information Technology***

2.71 IFC's IT Strategy will continue to focus on the three areas outlined in FY09:

- (i) Support for IFC's decentralization strategy
- (ii) Enhanced risk management
- (iii) Operational excellence

2.72 As IFC continues to move its operations closer to its clients, IT capabilities will be essential to ensuring that the Corporation's global expertise is available to local 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.

2.73 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.

2.74 Finally, operational excellence continues to be a mandatory element of any IT strategy. Robust service level agreements are in place with IFC's vendor partners to ensure appropriate levels of production support, and operational efficiencies must continue to improve. Production hardware and software must also be upgraded or replaced in a timely manner to ensure reliability and facilitate capacity growth. Information security continues to require a careful and responsive approach in order to address increasingly sophisticated threats and protect the reputation of IFC and the WBG.

2.75 In addition to the established long term strategy, the FY10 plan includes a special focus on IT support for IFC's response to the global financial crisis. IT support is required to:

- a) facilitate execution of new IFC programs through modifications of existing systems and/or development of new systems; and
- b) provide required modifications and linkages between the Asset Management Company (AMC) outsource partners and IFC's internal systems

2.76 The proposed FY10 capital budget for IT projects is significantly lower than the FY09 amount. This results from the Management Group's decision to reallocate capital budget previously allocated to less critical projects to fund the IT support for IFC's Crisis Response Initiatives. While IFC's IT project development capacity is 50% higher than it was in FY06, the FY09 program proved to be overly ambitious, taking delivery capacity into account, therefore, a portion of the FY09 capital budget will be redeployed for crisis response.

2.77 The proposed \$24.3 million capital budget for FY10 will fund:

- Steady state operations - \$11.2 million;
- Mandatory programs - \$10.1 million; and
- Information security initiatives - \$3.0 million.

2.78 **Steady State Operations.** 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, relational database management system, etc. The costs are a function of new IT investments. Moderate future growth is anticipated due to the continuous decline in hardware costs.

2.79 **Mandatory Projects.** The Mandatory program includes IT projects to support the Corporation's compliance mandates (such as compliance with accounting rules, laws and regulations plus audit recommendations) and contractually obligated software upgrades. The initiatives planned for FY10 include implementation of audit recommendations for Donor Funded Investment Activities and Advisory Services Unit Level Budgeting and reporting. Accounting compliance initiatives include Option Cost Accounting, IFRS, and Internal Controls over Financial Reporting (ICFR). Software upgrades and replacements include those for IFC's Time Recording System (TRS), Treasury's SUMMIT application, Moody's Financial Analyst (MFA), and Enterprise Content Management (ECM) Infrastructure.

2.80 **Information Security.** The Information Security program will address infrastructure gaps including full disk encryption and USB "Flash Drive" Security, one of the largest vulnerabilities facing IFC. In addition, IFC will be required to implement a number of initiatives as the WBG Office of Information Security (OIS) aggressively seeks to upgrade information security across the WBG.

## **H. TOTAL RESOURCES**

2.81 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 items such as Contributions to Advisory Services (AS), and special programs approved by the Board in addition to the Total Administrative Budget. They also include funding sources such as fees from clients (e.g., for external legal advice). In addition, there are resources such as those provided by donors which are entrusted to IFC and

which are outside of its financial statements but are key in supporting advisory type developmental activity. Table 2.9 provides a comprehensive statement of the total resources that are needed and used to deliver IFC's full development impact. The table includes all items of this kind that have been approved by the Board or will be presented for Board approval this year.

**Table 2.9: IFC's Total Resources**  
US\$ millions

	<b>FY09 Budget</b>	<b>FY10 Budget</b>
<b>I. Total Administrative Budget</b>	<b>671.9</b>	<b>693.9</b>
<b>II. Carryforward of Unspent Budget from Previous Fiscal Year</b>	<b>29.8</b>	<b>33.6</b>
<b>III. One time Carry-forward for Crisis Response Contingency</b>	<b>-</b>	<b>7.0</b>
<b>IV. One-Time Special Initiatives</b>	<b>6.0</b>	<b>1.4</b>
Strategic Initiative for Sub-Saharan Africa	0.8	-
IDA/IFC Initiative for SME Support in Africa	0.6	-
Frontier Privatization Fund	0.0	0.3
InfraVentures	3.6	0.1
PBGI- Access to Infrastructure	1.0	1.0
<b>V. Environmental/Social Mediation and Conflict Resolution Contingency Fund</b>	<b>0.4</b>	<b>0.5</b>
<b>VI. Contributions to Advisory Services (AS) Programs</b>	<b>130.0</b>	<b>97.0</b>
<b>VII. Jeopardy Expenses</b>	<b>15.0</b>	<b>15.0</b>
<b>VIII. Expenses assoc. w/ IFC's Treasury &amp; portfolio activities</b>	<b>12.4</b>	<b>12.5</b>
<b>IX. Expenses offset by fee income</b>	<b>54.1</b>	<b>69.7</b>
a. Client Fees	33.0	41.7
b. Advisory Services Administrative Fees	11.4	18.1
c. Privatization Fees	4.1	3.7
d. B-Loan Administration Fees	3.1	3.2
e. Crisis Response Initiatives Fees	-	3.0
f. Mobilization Fees	2.5	0.0
<b>TOTAL</b>	<b>904.0</b>	<b>930.6</b>

<b>Resources Not Reflected in IFC's Financial Statements</b>	<b>FY09</b>	<b>FY10</b>
<b>Donor/Client Contributions to Advisory Services</b>	<b>190 - 210</b>	<b>190 - 210</b>

### *Special Initiatives*

**2.82 Frontier Privatization Fund.** The Frontier Privatization Fund (FPF) is a funding facility which support privatization/Public-Private Partnerships advisory transactions in frontier countries and/or sectors world-wide, mainly through the funding of technical consultants.

**2.88** The Management Group now requests the approval of the Board to extend the term of the FPF for an additional two years (FY09 – FY11). This extension refers only to the term of the FPF, with the conditions of use unchanged. No additional contribution would be made by IFC, except from advisory fees IFC receives from projects supported by the FPF.

**2.89** The FPF has continued to provide a valuable source of funding supporting the implementation of IFC advisory transactions in frontier countries and/or sectors. Funding was initially provided by an IFC contribution in FY01 of \$2.0 million. Additional contributions totaling \$2.8 million have been made from advisory fees IFC received from



projects supported by the FPF. Total funds contributed to the FPF since FY01 stand at \$4.8 million and commitments to date are \$4 million, leaving a current unused balance of funds of \$0.8million.

2.90 An extension in the term of the FPF is requested to allow these funds to be used in support of current and pipeline projects. In addition, further payments will be made into the FPF from advisory fees received by IFC.

### ***Environmental/Social Mediation and Conflict Resolution Contingency Fund***

2.91 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***

2.92 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 Group. 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 FY10 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 market.

### ***Expenses associated with IFC's Treasury & Portfolio Activities***

2.93 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.

### ***Expenses Offset by Fee Income***

2.94 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 reimbursables generally include costs for travel, consultants, and legal counsel. The Corporation also receives privatization fees, and mobilization fees to offset direct expenses associated with these activities.

## **PART III: RECOMMENDATIONS**

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

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

#### **Administrative Budget**

- i) Adoption of the price factor methodology outlined in *Price Adjustment to the World Bank Administrative Budget-Proposed Methodological Revisions* and approved by the IBRD Executive Directors for IBRD on April 1, 2009. Refer to the proposal in Annex 2 of this paper.
- ii) A total administrative budget for FY10 of \$697.9 million, including the FY10 adjustment for price increase of \$4.0 million.
- iii) Special carry-forward of FY09 budget to fund a Crisis Response Contingency for FY10 of \$7.0 million to be released only after consultation with the Board. Refer to the proposal in paragraph 2.3.

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

#### **Capital Budget**

- iv) A capital budget for FY10 of \$41.7 million.

**ANNEX 1**  
**ADMINISTRATIVE BUDGET BY COST CATEGORY\***  
US\$ millions

<b>FY09</b>			<b>FY010</b>	
	<b>Budget</b>	<b>Cost Category as % of Regular Budget</b>	<b>Real Budget</b>	<b>Cost Category as % of Regular Budget</b>
<b>Fixed Expenses</b>	<b>384.6</b>	<b>73.7%</b>	<b>387.6</b>	<b>74.3%</b>
of which:				
Staff Salaries and Benefits	341.2	65.4%	345.1	66.2%
Communications and IT	22.3	4.3%	21.8	4.2%
Equipment and Building	21.1	4.1%	20.7	4.0%
<b>Variable Expenses</b>	<b>137.1</b>	<b>26.3%</b>	<b>134.1</b>	<b>25.7%</b>
of which:				
ST. Consultants and Temps.	12.5	2.4%	12.2	2.3%
Operational Travel	38.1	7.3%	37.2	7.1%
Representation and Hospitality	2.4	0.5%	2.3	0.4%
Contractual Services	43.5	8.3%	42.6	8.2%
Services and Support Fees	19.8	3.8%	19.5	3.7%
Other Expenses	20.8	4.0%	20.3	3.9%
<b>Regular Budget</b>	<b>521.7</b>	<b>100.0%</b>	<b>521.7</b>	<b>100.0%</b>
Depreciation	40.5		41.8	
Risk Based Internal Controls	2.0		0.8	
Field Security	5.8		9.3	
Business Continuity	3.3		3.1	
Ombudsman/Compliance Advisor	2.9		2.7	
Independent Evaluation	5.3		5.3	
Corporate Secretariat & Board	22.6		16.6	
Contribution to SRP, PEBP, & RSBP	67.9		92.7	
<b>Total Budget</b>	<b>671.9</b>		<b>693.9</b>	

\* This provides an estimated breakdown of the FY10 Budget proposal by major cost items. It will be verified and amended as necessary early in FY10, when complete cost data for FY09 is available.

## ANNEX 2

### ADJUSTMENT FOR PRICE INCREASE

Each fiscal year, IFC's Management Group 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. In the past years, the budget price adjustment was calculated using a formula which was agreed for the World Bank Group by the Budget Committee and the Personnel Committee on March 27, 2006. Under this methodology, the budget price adjustment was composed of two parts: one for Headquarters' salary and salary-related costs and the other for all other costs. The composite adjustment was derived by weighing each part in proportion to the relative size of Headquarters' salaries and other costs in the total budget.

Following extensive discussions between the Board and IBRD/IDA Management to maintain a more accurate value of the Bank's budget, both in US\$ and Non-US\$ currencies, revisions to the price factor methodology was approved by the Board for IBRD/IDA. IFC has traditionally used the same price factor methodology as IBRD/IDA and will adopt the revised price factor methodology beginning with its FY10 budget.

Under the revised budget price adjustment methodology, the price adjustment will reflect the following:

- Maintain the current practice on US\$ based salary and salary-related costs
- Apply country office specific structural salary adjustments to non-US\$ based salary costs
- Apply country-specific CPI to country office specific non-salary costs
- Apply exchange rate adjustment to non-US\$ based costs
- Apply US-CPI to US\$ based non-salary costs

For FY10, the overall budget price adjustment is 0.72% for IFC. The budget price adjustment results in an increase of \$4.0 million when applied to the Total Administrative Budget.<sup>8</sup> 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:

- USD based salary and salary-related costs : The price adjustment factor for USD based salary and salary related costs (weight = 48%) is based on Management's recommendation of a 1.5% salary structure adjustment (*2009 Review of Staff Compensation for the World Bank Group*)
- Country office specific structural salary adjustments to non-US\$ based salary costs: The price adjustment factor for Country office specific structural salary adjustment to

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<sup>8</sup> The increase is calculated as price adjustment applied to total administrative budget less depreciation and contributions to staff retirement benefits, or  $0.0072 \times (693.9 - 41.8 - 92.7) = 4.0$

non-US\$ based salary costs (weight =8%) is based on the 2008 set of adjustments, which is 10.1% 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 = 8%) is based on the forecast of 2009 annual increase reported in IMF publication World Economic Outlook, April 2009, which is 5.5% before applying exchange rate adjustment.
- Exchange rate adjustment to non-US\$ based costs: The price adjustment factor for exchange rate adjustment to non-US\$ based costs (weight = 16%) is based on US\$ equivalent of local currency expenditures using the most recent twelve month average rates (April 2008 - March 2009) and comparing it to the US\$ equivalent of local currency expenditures using the prior twelve month average rates (April 2007 - March 2008), which yields -6.8%
- US-CPI to US\$ based non-salary costs: The price adjustment factor for US-CPI to US\$ based non-salary costs (weight = 36%) is based on the US-CPI average forecast of 2009 and 2010 annual increases reported in IMF publication World Economic Outlook, April 2009, which is -0.5%.

In terms of implementation, IFC's Management Group 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 3 CORPORATE SCORECARD

IFC Corporate Goals	Scorecard Indicators		FY08 Actual	FY09 Estimate	Note
Greater Development Impact	Investments : Development Outcome (DOTS) Score		71%	60-65%	1
	Advisory Services: % of projects with Development Effectiveness rated "Satisfactory" or better		67%	60-65%	
	Pillar 1	\$ commitment in Sub-Saharan Africa	1,380	1,500-1,700	
		\$ commitment in Middle East and North Africa	1,442	1,300-1,400	
		# of projects in IDA Countries	169	215-230	
		\$ AS project expenditure in IDA Countries	65	60-67	
		% of projects in frontier region (investments)	10%	6-10%	
	Pillar 2	Number of South-South projects	62	35-40	
		\$ investment in South-South projects	1,913	1,100-1,300	
	Pillar 3	Climate change: \$ investment in RE/EE	906	750-950	2
	Pillar 4	\$ commitment in infrastructure	2,819	2,300-2,600	3
		\$ commitment in health and education	315	220-240	
		\$ commitment in agribusiness	762	700-750	
	Pillar 5	\$ commitment in financial markets	4,605	4,800-5,300	4
\$ commitment in MSME		2,877	2,200-2,800	5	
Greater Client Satisfaction	Investment: % Overall Client Satisfaction		85%	Not available	6
	Advisory Services: % Satisfied and above		77%	Not available	6
Greater WBG Cooperation	% of clients who felt "IFC and the WB are working well together "		47%	Not available	6
	# of joint WB/IFC investment projects committed		6	7-11	
	# of joint WB/IFC active advisory work		81	90-100	
Disciplined and Sustainable Growth	Total Commitment (\$ million)		11,399	10,200-11,000	
	Mobilization Ratio		0.46	0.39 (Q3)	7
	Total \$ Mobilized (IFC own account + IFC \$ mobilized)		16,151	8,418 (Q3)	
	Productivity: # of projects committed		372	420-460	
	Productivity: # of committed projects / regular administration budget		0.82	0.90	
	Portfolio Management Rating		-	<=2	8
Sound Finances	Capital Adequacy: Total resources available (\$ billion)		15.0	14.2 (Q3)	
	Minimum resources available (\$ billion)		10.3	10.6 (Q3)	
	Liquidity: Externally funded liquidity level (min. 65%)		104%	171% (Q3)	
	Overall liquidity level (min. 45%)		62%	65% (Q3)	9
	Leverage Ratio		1.6	1.8 (Q3)	
	Return on Average Network (annualized based on FYTD performance)		9.0%	-8% (Q3)	
High Quality, Diverse and Engaged Employees	% Overall job satisfaction		73%	Not available	10
	% of staff who felt "My manager provides me with timely feedback to enhance my performance"		62%	62%	11
	% of women staff (GF-GG)		41%	42-45%	
	% of women managers		27%	28-30%	12
	% of Sub-saharan/Caribbean nationals		9%	8-10%	
	Part 2 managers		34%	30-32%	

1. DOTS score based on a 3-year rolling average for projects approved between CY99-04 for FY08
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 sub-national finance.
4. Excludes private equity and investment funds.
5. 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.
6. Annual External Client Survey
7. Mobilization ratio is defined as a sum of loan participations, parallel loans, and non-IFC investment portion of structured finance, divided by IFC investments and IFC portion of structured finance.
8. 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).
9. Liquid resources as a % of next 3 yrs' estimated cash requirements
10. FY08 results based on biannual World Bank Group Staff survey conducted in FY07.
11. FY08 results based on biannual World Bank Group Staff survey conducted in FY07. FY09 actual result based on IFC administered "Pulse Survey" in January 2009.
12. The IFC and World Bank Group D&I Compact Indicator has changed from % of women (H+ ) staff to % of women managers..

**ANNEX 4**  
**ADVISORY SERVICES**  
**Contributions to Advisory Services FY05-FY14**  
**US\$ millions**

	Region	5 to FY08	FY09	FY10	FY11	FY12	FY13	FY14	Total
AMSCO - African Management Services Company	CAF	2.4	-	-	-				2.4
APDF - Africa Project Development Facility	CAF	6.0	-	-	-				6.0
Chad Cameroon Capacity Building	CAF	1.6	-	-	-				1.6
Mozambique SME Initiative	CAF	3.0	-	-	-				3.0
PEP-Africa-Private Enterprise Partnership in Africa	CAF	24.0	7.5	7.5					39.0
Chad Cameroon- Access to Finance (FINADEV)	CAF	1.5	-	-	-				1.5
SME Solution Center	CAF	4.0	-	-	-				4.0
Uganda Bujagali II (reallocation from CBF)	CAF	0.8	-	-	-				0.8
Africa Investment Climate (SWAT Team)	CAF	1.4	-	-	-				1.4
Africa Trade Finance	CAF	4.3	-	-	-				4.3
Investment Client Facility for Africa	CAF	30.0	-	-	-				30.0
Global Business School Network	CAF	3.3	-	-	-				3.3
<b>Subtotal CAF</b>		<b>82.1</b>	<b>7.5</b>	<b>7.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>97.1</b>
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
PEP-Pacific-Private Enterprise Partnership in Pacific	CEA	2.8	0.8	0.8					4.4
PENSA - Program for Eastern Indonesia SME Assistance	CEA	3.0	2.0	2.0	2.0	2.0	2.0		13.0
East Asia Deoartment (CEA) Centralized Management Functions	CEA	2.6							2.6
CEA Corporate Governance & Institution Building	CEA	2.0	-	-	-				2.0
Indonesia SME Credit Line	CEA	2.0	-	-	-				2.0
PEP-Philippines	CEA	4.0	1.0	1.0	1.0	1.0	1.0		9.0
Tsunami Matching Grant (East Asia and reallocation to PEP-ACEH)	CEA	0.9	-	-	-				0.9
PNG Microfinance	CEA	1.5	-	-	-				1.5
PEP-ACEH (reallocation from Tsunami Matching Grant)	CEA	1.0	-	-	-				1.0
<b>Subtotal CEA</b>		<b>28.7</b>	<b>8.2</b>	<b>8.2</b>	<b>7.4</b>	<b>5.0</b>	<b>5.0</b>	<b>-</b>	<b>62.5</b>
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				40.4
<b>Subtotal CEU</b>		<b>24.8</b>	<b>6.1</b>	<b>6.1</b>	<b>6.1</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>43.0</b>
LACP - SMEP -Latin America SME Program	CLA	23.0	13.5	14.5	14.7	15.1	14.8		95.6
LAC-Latin America Microfinance SME Program	CLA	0.0							0.0
Hurricane Relief (reallocation from CBF)	CLA	0.5	-	-	-				0.5
<b>Subtotal CLA</b>		<b>23.5</b>	<b>13.5</b>	<b>14.5</b>	<b>14.7</b>	<b>15.1</b>	<b>14.8</b>	<b>-</b>	<b>96.1</b>
PEP-MENA - Private Enterprise Partnership Middle East & North Africa	CME	18.2	-	12.0	12.0	12.0	12.0	12.0	78.2
Earthquake Relief-Pakistan (Reallocation from CBF-\$0.5m, TATF-\$1m)	CME	1.5	-	-	-				1.5
<b>Subtotal CME</b>		<b>19.7</b>	<b>0.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>12.0</b>	<b>79.7</b>
SEDF - SouthAsia 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-South Asia Infrastructure Facility	CSA	1.0	1.0	1.0	1.0	1.0			5.0
Tsunami Matching Grant-South Asia-reallocation to ACEH	CSA	0.3	-	-	-				0.3
<b>Subtotal CSA</b>		<b>4.9</b>	<b>2.4</b>	<b>2.3</b>	<b>2.3</b>	<b>2.3</b>	<b>1.3</b>	<b>0.3</b>	<b>15.8</b>
BIDF - Balkans Infrastructure Development Facility	CSE	1.5	-	-	-				1.5
SEED - Southeast Europe Enterprise Development	CSE	0.5	-	-	-				0.5
PEP-SE - Private Enterprise Partnership Southern Europe	CSE	4.4	1.5	1.5					7.3
Romania Competitive Study	CSE	0.5	-	-	-				0.5
Banca Commerciale Romania	CSE	0.4	-	-	-				0.4
<b>Subtotal CSE</b>		<b>7.3</b>	<b>1.5</b>	<b>1.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-</b>	<b>10.2</b>
Global ICT Facility	Global	1.0	-	-	-				1.0
Community Development & Extractive Industry	Global	8.0	2.0						10.0
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
SFMF - Sustainable Financial Markets Facility	Global	2.0	-	-	-				2.0
FIAS - Foreign Investment Advisory Services	Global	13.0	4.0	4.0	4.0				25.0
CES Sustainability Innovation Facility (SBI)	Global	2.2	3.8	3.3	3.3				12.6
GEF Private Sector Fund	Global	2.5	1.5	3.0	3.0				10.0
Strengthening Grassroots Business Initiative (GBI)	Global	14.0	0.5	-	-				14.5
TATF - Technical Assistance Trust Fund	Global	5.0	-	-	-				5.0
IFC Against AIDS	Global	3.2	1.2	-	-				4.4
Gender Entrepreneurship Markets (GEM)	Global	4.5	1.6	-	-				6.1
Microfinance Downscaling Facility (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 Corporate Governance Forum (GCGF)	Global	4.0	1.5	1.5					7.0
Sub-National Finance	Global	5.0	-	-	-				5.0
Investee Financial Institution TA Program	Global	5.0	1.0	-	-				6.0
Development Collaboration Partnership Fund (DevCo)	Global	11.0	-	-	-				11.0
Monitoring & Evaluation	Global	3.0							3.0
Global Funds	Global	3.0	3.0	3.0					9.0
Innovation Funds	Global	2.0	2.0	2.0					6.0
Grassroots Business Fund (GBF)	Global	0.0	5.0	5.0	5.0				15.0
Sustainability Business Innovator - Global Environmental Fund	Global	0.0	0.9	1.5	1.4				3.8
Financial Mechanism for Climate Change	Global	0.0	1.0	1.0	1.0	1.0	1.0		5.0
Gender Entrepreneurship Markets (GEM)	Global	0.0		3.2	3.8				7.0
Agribusiness Plan Action for Rising Food Prices	Global	0.0	1.0	2.5	6.0				9.5
Business Incubator	Global	0.0	1.0	1.0	1.0				3.0
Global Extractive Industries Policy Support Fund (EITI)	Global	0.0	1.0	3.5	5.5				10.0
<b>Subtotal Global</b>		<b>110.5</b>	<b>33.3</b>	<b>35.0</b>	<b>34.0</b>	<b>1.0</b>	<b>1.0</b>	<b>-</b>	<b>214.8</b>
<b>TOTAL</b>		<b>301.4</b>	<b>72.4</b>	<b>87.0</b>	<b>76.5</b>	<b>35.4</b>	<b>34.1</b>	<b>12.3</b>	<b>619.2</b>

Note: In accordance with the FY05 Business Plan, FY06-08 Business Plan, FY07-09 Business Plan, FY08-10 Business Plan and Use of IFC's FY08 Net Income: Retained Earnings and Designation of Retained Earnings US\$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 Group during FY05 to FY08. The FMTAAS funding extends through the life of the respective programs as shown.



**CONTRIBUTIONS/REDUCTIONS TO ADVISORY SERVICE (AS) PROPOSED FOR  
BOARD APPROVAL IN THIS PAPER  
US\$ millions**

<b>Advisory Service Program</b>	<b>Contribution/ Reduction</b>	<b>Region</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14</b>	<b>FY15</b>	<b>Total</b>
PEP-Pacific-Private Enterprise Partnership in Pacific	Contribution	CEA			0.84	0.84	0.84	0.84	0.84	4.2
Global Extractive Industries Policy Support Fund	Reduction	Global	1.0	0.4	3.6					5.0
<b>Total Proposed Contributions/Reductions from FMTAAS</b>			<b>1.0</b>	<b>0.4</b>	<b>4.4</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>9.2</b>