

# **IFC STRATEGY & BUSINESS OUTLOOK FY16-18**

## **Growing For Impact**

**INTERNATIONAL FINANCE CORPORATION**

*Version redacted and disclosed in accordance with IFC's 2012 Access to Information Policy, following discussion by IFC's Board on April 7, 2015.*

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## EXECUTIVE SUMMARY

1. **The global economy is struggling to gain momentum** as growth rates diverge among major economies and activity is less robust in some major developing countries. The level of global growth in 2014 was 2.6%, higher than in 2012 or 2013, but lower than initially expected. GDP growth estimates for the 2014-2017 period remain below pre-crisis rates, in particular in developing countries. The impact of the global crisis has not disappeared – the level of global GDP is 7% below the level that would have been observed had the pre-crisis trend continued<sup>1</sup>. Oil prices, which dropped steeply in 2014, and other commodity prices are expected to remain weak over the forecast horizon. The disappointing global growth and the structural decline of growth in developed markets, has strong implications for the private sector and on the ability to reach the World Bank Group (WBG) goals.

2. **The financial landscape is changing, with higher levels of risk aversion in emerging markets.** Many traditional financing sources for emerging markets growth, especially for the private sector, are no longer available. Furthermore, the destination of capital flows has been changing, away from equity placements, bank loans, Europe and Central Asia, and financial services, and towards bond issuance, East Asia, Latin America, and the manufacturing, agribusiness and services sectors.

3. Functioning, self-sustaining **private sector markets** responding and adapting to economic needs and demands are **central to the sustainability of development and essential to achieving the WBG goals and the post-2015 development agenda**. The private sector is a powerful engine for innovation, productivity and economic growth, and a major contributor to jobs, taxes, products and services, and poverty reduction. The levels of financing and activities needed to reach the Sustainable Development Goals will greatly outstrip the capacity of the public sector. This is an opportunity for the WBG to work together to mobilize the private sector for development.

4. The first WBG strategy, as endorsed by the Board of Governors in October 2013, **confirmed this central role of the private sector in achieving the two WBG goals**:

- To end extreme poverty – reduce the percentage of people living on less than \$1.25 a day to 3% by 2030; and
- To boost shared prosperity – foster income growth of the bottom 40% of the population in every developing country.

The goals are to be achieved in ways that are environmentally, socially and economically sustainable.

As part of this year's annual strategic planning, budget and performance review process, the WBG identified six FY16-18 institutional priorities for achieving the goals: delivery, focus, operating model, public-private sector balance, resource mobilization and partnerships and knowledge.

5. **IFC's growth is critical to maximize its contribution to reaching the goals, especially in light of this challenging external context – business as usual will not be enough.** The macro environment of slower projected growth and rising inequality, and the changing financial landscape, increase the need and opportunities for IFC. With global growth being below expectations, IFC recognizes the world in which it operates requires an urgent response from the private sector. As the largest global development finance institution focused on the private sector, IFC can provide leadership, connect supply of financing sources with demand and opportunities for investments, play a role in de-risking emerging markets and stimulating growth through demonstration effects, and leverage lessons of experience while diversifying risk.

6. **IFC is not pursuing growth for growth's sake, but overall growth for both greater impact and financial sustainability.** Although scale is important, volume is an outcome and not a driving factor. The

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<sup>1</sup> Pre-crisis growth trend estimated at 3% per year, in line with the average real GDP growth between 1991 and 2007.

quality of IFC's activities is key – both developmentally and financially. With an increased level of activity and stronger foundations, IFC can play a greater catalytic role.

7. **IFC's overall strategy remains unchanged**, with continued focus on contributing to the WBG strategy and goals. IFC's selectivity will be guided by opportunities that enable it to integrate impact and financial sustainability, and where it can foster economic growth while responding to client demand and addressing priorities emerging from the Systematic Country Diagnostics (SCDs) and Country Partnership Frameworks (CPFs). IFC sees needs and opportunities across regions and sectors, but needs to watch for the effects of the volatile environment on both its own portfolio and the risk profile of potential engagements as it selects areas for growth.

8. IFC will **explore emerging opportunities and frontiers where it can engage for greater impact in addition to growth in established priority areas**, including an even stronger focus on Fragile and Conflict Situations and maintaining its IDA targets. Sub-Saharan Africa, South Asia, and Middle East and North Africa are still key regions given poverty levels and particular challenges. In Middle Income Countries, where 70% of the global extreme poor reside<sup>2</sup>, IFC will remain highly selective in its engagement. Work in sectors such as infrastructure, agribusiness, financial markets, health and education continues to be important, and will benefit from increasing collaboration across the WBG, including through new platforms such as the Global Infrastructure Facility, which will help to advance the public-private partnerships (PPP) agenda. In addition, jobs (where the private sector has a critical role to play), climate (where IFC is uniquely positioned to help clients address causes and effects of climate change, including through programmatic initiatives and collaboration across the WBG), and gender, continue to be important cross-cutting strategic themes.

9. IFC continues to build a **strong WBG approach** to reach the goals, including through joint Global Practices (GPs), Joint Implementation Plans and other high impact engagements, as well as by using the SCDs and CPFs to identify and support the best private and public sector solutions for development and to determine the appropriate sequencing of World Bank, IFC and MIGA engagements. IFC's new organizational structure is facilitating these joint approaches to country strategies and engagements.

10. IFC is a leader in private sector development, both within the WBG and within the development finance community. IFC aims to **leverage this leadership by working more with clients and partners**, traditional and new, to accelerate its contribution towards achieving the goals. These partnerships can play a critical role in helping attract private financing while providing integrated development and financing solutions to emerging market clients. This includes through **mobilization** and new platforms for crowding in financing, such as through the Asset Management Company (AMC).

11. As part of IFC's Refocus, **IFC continues to strengthen its delivery model**. This includes the continued implementation of the new approach to client relationship management, improving efficiency, enhancing results measurement, ensuring additionality, and integrating investment and advisory services.

12. IFC's growth is enabled by a **holistic portfolio approach** that will over time enable it to maximize its contribution to the goals. IFC aims to achieve high development impact and financial sustainability over the portfolio as a whole, allowing it to take greater risks on individual investments. In taking on more risk, IFC needs to remain vigilant for the impact of these additional risks and market volatility on portfolio and capital, and adjust its business mix accordingly to include less risky projects in more stable environments. Mechanisms to support risk management at IFC include embedding environmental, social and governance risks into operations and through its Enterprise Risk Management Framework.

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<sup>2</sup> Based on PovcalNet data as of February 2014. URL: <http://iresearch.worldbank.org/PovcalNet/index.htm>.

13. IFC's strategy and planned growth will enable it to direct more resources to where contribution to the goals is greatest. **Highlights of the potential investment program trajectory** include:

- Relatively ambitious overall long-term finance (LTF) growth rate. With the objective to maximize its growth given its capital position, IFC aims for a potential Total LTF investment volume<sup>3</sup> growth trajectory of 8-10% per year during FY15-18.
- The average annual outstanding short-term finance<sup>4</sup> portfolio is expected to grow by about 5-10% per year.

14. IFC's **Advisory Services** (AS) strengthens the capacity and development impact of firms, helps governments design and implement PPP transactions, and helps governments and non-government institutions improve the enabling environment for private investment. AS extends IFC's footprint, especially in challenging markets. In these areas AS often leads the way for IFC, and is a crucial part of its growth strategy. To take AS to the next level and to further strengthen client focus and impact, AS was brought together with investment services and other IFC departments, as well as relevant GPs.

15. In order to ensure successful implementation of its strategy, and its future ability to deploy capital where it is most needed, **IFC needs to remain financially strong** by generating sufficient returns on its investments and by managing its financial resources, including capital, in an effective manner. In addition to revenue streams from investment and advisory services, enhanced equity management and treasury contribution will further boost IFC's financial strength.

16. Financial results are a key driver of **capital adequacy**, and may be impacted by market volatility and adverse macro conditions. IFC's net income is difficult to predict and will be closely monitored, especially in light of these macro conditions. IFC will continue to employ prudent capital management, while maintaining overall capital that is consistent with a triple-A rating.

17. IFC's Strategy and Business Outlook FY16-18 has focused on the medium-term strategic and business outlook for IFC. This needs to be seen in the context of a **longer-term vision** for what IFC wants to achieve and how it wants to operate. In order to fulfill its mission and make a lasting and significant impact on achieving the goals, while also trying to maximize its current capacity, IFC will need to grow and shape its capabilities in human and financial capital as well as its more intangible convening power and influence.

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<sup>3</sup> IFC's own-account LTF plus core mobilization. Core mobilization (the syndicated loan program, initiatives, PPP mobilization, and AMC) excludes MIGA and other non-core mobilization, which could mobilize at least an additional \$1 billion (approximately) each year for FY16-18.

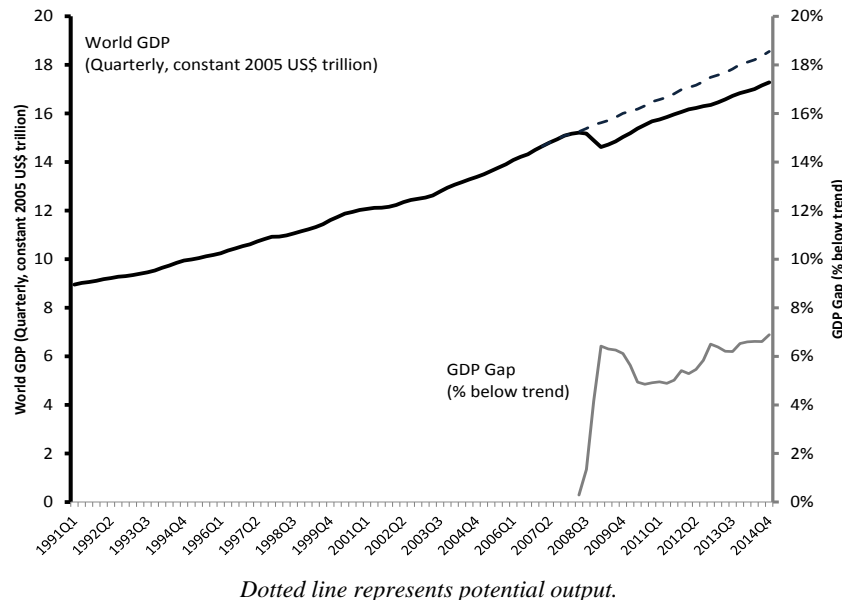
<sup>4</sup> Global Trade Finance Program (GTFP) of less than one year and Global Trade Supplier Finance (GTSF) program.

## I. STRATEGIC CONTEXT

### EXTERNAL ENVIRONMENT

1.1 The global economy is still struggling to gain momentum. The level of global growth in 2014 was 2.6%, higher than in 2012 or 2013, but lower than initially expected. GDP growth estimates for the 2014-2017 period remain below pre-crisis rates, in particular in developing countries and some major economies. The impact of the global crisis has not disappeared – the level of global GDP is 7% below the level that would have been observed had the pre-crisis trend continued<sup>5</sup> (see Figure 1 below).

FIGURE 1: STATE OF THE GLOBAL ECONOMY



Source: World Bank, Global Economic Monitor (December 2014).

1.2 If there is no acceleration of economic growth, macroeconomic conditions are likely to delay meeting the 2030 target for the WBG poverty goal by several years and also impact the achievement of the shared prosperity goal. Key features of the slow-moving recovery are low commodity prices, continued accommodative monetary policies in major economies, and weak global trade. These forces are likely to continue in the medium term, although financial conditions will tighten gradually.

1.3 Oil prices dropped steeply in 2014, and other commodity prices are expected to remain weak over the forecast horizon. This should help support global economic activity in the medium term, but will initially be more than offset by persistent headwinds in several large high-income and emerging economies. The large real income shifts associated with the 45% drop in oil prices between 2014 and 2015 may cause financial and economic strains in some oil exporters while the benefits to oil importers will be more diffuse. The drop in oil prices will reduce global inflation by some 0.6-1.2 percentage points in 2015.

1.4 Financial conditions are expected to tighten gradually and capital inflows to developing countries to moderate somewhat. Investors are expected to distinguish increasingly between countries based on economic and financial vulnerabilities, growth prospects, and policies (including reform agendas). Meanwhile, global trade is expected to continue to grow at its modest post-crisis rate, limiting prospects for export-driven growth in emerging and developing economies.

1.5 Global growth is projected to recover gradually in the medium term, rising to 3.0% in 2015 and 3.2%

<sup>5</sup> Pre-crisis growth trend estimated at 3% per year, in line with the average real GDP growth between 1991 and 2007.

in 2017, with divergent trends in major economies. While activity in the United States (US) and the United Kingdom has gained momentum as labor markets tighten and monetary policy remains accommodative, the recoveries in the Euro Area and Japan were delayed as financial and structural bottlenecks persist (Table 1). China, meanwhile, is undergoing a carefully managed slowdown. India and Mexico are bright spots with robust growth prospects for 2015, supported by reform-oriented governments and improving confidence, while headwinds remain significant in Brazil and South Africa. In other developing countries, the easing of the forces that held back growth in 2014 – domestic policy tightening, political uncertainties, and supply-side constraints – together with recovery in high-income countries, will support accelerating growth in developing countries, from 4.4% in 2014 to 5.4% by 2017. Medium-term growth prospects for both high-income and developing countries, however, are below the highs reached prior to the financial crisis, particularly so for developing countries (Figure 2).

TABLE 1: THE GLOBAL OUTLOOK IN SUMMARY

	2014e	2015f	2016f	2017f
<i>Real GDP, % change from previous year</i>				
<b>World</b>	<b>2.6</b>	<b>3.0</b>	<b>3.3</b>	<b>3.2</b>
<b>High-income countries</b>	<b>1.8</b>	<b>2.2</b>	<b>2.4</b>	<b>2.2</b>
United States	2.4	3.2	3.0	2.4
Euro Area	0.8	1.1	1.6	1.6
Japan	0.2	1.2	1.6	1.2
United Kingdom	2.6	2.9	2.6	2.2
Russia	0.7	-2.9	0.1	1.1
<b>Developing countries</b>	<b>4.4</b>	<b>4.8</b>	<b>5.3</b>	<b>5.4</b>
China	7.4	7.1	7.0	6.9
Indonesia	5.1	5.2	5.5	5.5
Turkey	3.1	3.5	3.7	3.9
Brazil	0.1	1.0	2.5	2.7
Mexico	2.1	3.3	3.8	3.8
Egypt <sup>2</sup>	2.2	3.5	3.8	4.0
India <sup>2,3</sup>	5.6	6.4	7.0	7.0
Pakistan <sup>2,3</sup>	5.4	4.6	4.8	4.9
South Africa	1.4	2.2	2.5	2.7
Nigeria	6.3	5.5	5.8	6.2

Source: World Bank, Global Economic Prospects (GEP), January 2015.

Note: PPP = purchasing power parity; e = estimate; f = forecast.

1. Aggregate growth rates calculated using constant 2010 U.S. dollars GDP weights.

2. In keeping with national practice, data for Bangladesh, Egypt, India, and Pakistan are reported on a fiscal year basis in table 1. Aggregates that depend on these countries are calculated using data compiled on a calendar year basis.

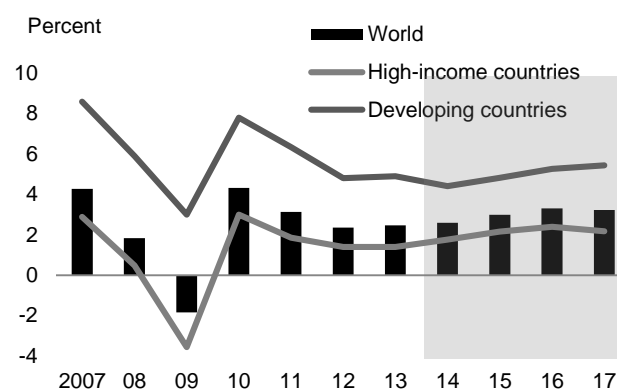
3. Real GDP at factor cost, consistent with reporting practice in Pakistan and India.

1.6 Risks to the global growth outlook are tilted to the downside and include the possibility of a prolonged period of stagnation or deflation in the Euro Area or Japan, which would especially impact countries with which these economies have strong trade and financial ties; possible renewed financial market volatility as monetary policy in major economies proceeds on different timelines; the potential for low oil prices to strain balance sheets in oil-producing countries; potentially greater spillovers from intensifying geopolitical tensions in several parts of the world; and, while it is a low-probability scenario, a sharper-than expected slowdown of growth in China.

1.7 Recent scenario analysis presented in the January 2015 edition of Global Economic Prospects finds that per capita growth in the developing countries would need to be at least 4% annually between 2015 and 2030, an unprecedented rate, to achieve a 3% poverty goal.

1.8 Preliminary findings in the Global Monitoring Report<sup>6</sup> indicate that incomes among the poorest 40%

FIGURE 2: MEDIUM-TERM GROWTH BELOW PREVIOUS HIGHS



Source: Global Economic Prospects (January 2015).

<sup>6</sup> World Bank Group. 2015. *Global Monitoring Report 2014/2015: Ending Poverty and Sharing Prosperity*. Washington, DC: World Bank.



grew faster than for the population as a whole in 58 out of 86 countries for which data was available for the latest 5-year period between 2002 and 2012. In 13 countries, income or consumption of the poorest 40% grew by more than 7% annually during this period. However, in 18 countries, incomes actually declined among the poorest 40% of the population. Moreover, while gaps in living standards have narrowed in many countries, the well-being of low-income households – as measured by access to education and health services – remains below that of households in the wealthier 60%. Children in the poorest households are two to three times as likely to be malnourished than those in the top 60%. This requires careful investigation into the growth elasticity of poverty to identify patterns of growth and investment that work best to lift people from poverty. It requires a deeper understanding of investments and policies that will benefit lower income quintiles, providing avenues of upward mobility, such as education, labor market policies, social safety nets, and access to finance.

1.9 Climate change poses one of the most significant challenges to development in our lifetime<sup>7</sup> – without confronting climate change, there is no hope for sustaining growth and poverty reduction. Climate change threatens to reverse development gains, with severe weather events and resource constraints disproportionately affecting the poor. If the international community is to stabilize warming at 2°C, as agreed in 2009, the world must achieve zero net emissions of greenhouse gasses before 2100, while simultaneously building resilience against climate impacts. The substantial technological, institutional, and behavioral change needed will be a challenge, but also an opportunity to transform society. Governments are already implementing low-carbon policies; investors are starting to divest from high-carbon assets and placing funds into green bonds; while businesses are seeing profitable returns from climate-smart projects. An ambitious deal reached at the Paris UN Conference in December 2015 to curb emissions and mobilize funding would further strengthen long-term demand for low carbon and resilient green growth in both the public and the private sectors.

## FINANCIAL LANDSCAPE

1.10 The disappointing global growth, as outlined above, and the structural decline of growth in developed markets to real growth rates now at and often well below 2%<sup>8</sup>, has strong implications for the private sector.

1.11 The financial landscape is changing, with higher levels of risk aversion in emerging markets (EM). Many traditional financing sources for EM growth, especially for the private sector, are no longer available. Deteriorating fundamentals in EM and a stronger US dollar are putting pressure on many EM corporates who had built up debt stock levels due to an extended period of low interest rates. For many, rolling over those larger dollar-denominated debt levels is starting to become more costly and could have important negative effects on private sector development. Access to financing for many corporates could decline as a result of these trends, with the consequent impact on private sector activity and employment. Growing debt stocks in the corporate sector could represent a risk in the medium term, in particular if interest rates in developed countries increase and the US dollar keeps strengthening relative to local currencies, but also as a result of investors' concerns about the capacity of certain local corporates to roll-over their debts. Corporates directly exposed to oil prices are suffering across EM countries in a disproportionate way to the much larger number of corporates who benefit from the secondary impact of lower oil prices. All of these factors enhance the volatility and riskiness of emerging markets.

1.12 Over the last four to five years and since the global financial crisis, the composition of capital flows to emerging markets has changed significantly, towards more bond flows and away from bank lending and equity placements. As a result of record low interest rates and abundant liquidity, bond issuance represented around 50% of total gross capital flows to emerging markets in the 2012-14 period.

<sup>7</sup> World Bank Group. 2014. *Turn Down the Heat: Confronting the New Climate Normal*. Washington, DC: World Bank.

<sup>8</sup> Six major economies, US, Japan, Germany, Britain, France, and Italy, showed nominal growth rates about 8% during several years in the 1980s, none experienced nominal growth rates above 4% during 2010-2014. Real growth has declined for all six precipitously after 2008 to below 2%, and most are closer to zero now or even below. See also *Secular stagnation – The long view*. Blog post by Buttonwood in [www.economist.com](http://www.economist.com), November 3, 2014. Retrieved from: <http://www.economist.com/blogs/buttonwood/2014/11/secular-stagnation>

1.13 At the regional level, most of the growth in capital flows has been directed to East Asia and Latin America. The two regions attracted almost two-thirds of gross capital flows to emerging markets in 2014 and are significantly above the levels observed before the global financial crisis. Further, Europe and Central Asia (ECA), the region with the largest share of flows before the crisis, is now attracting capital flows that are below pre-crisis levels – even before the big decline during 2014 resulting from a collapse in flows to Russia and Ukraine.

1.14 There has also been a modest shift in the destination of capital flows to the private sector in emerging markets – mainly shifting away from financial markets and towards the manufacturing, agribusiness and services sectors. Flows to the infrastructure and natural resources sectors are similar to pre-crisis levels, while flows to financial markets are still below the pre-crisis record reached in 2007.

## **WBG STRATEGIC CONTEXT**

1.15 The WBG has set two goals as endorsed by the Board of Governors in April 2013, to guide WBG action:

- To end extreme poverty – reduce the percentage of people living on less than \$1.25 a day to 3% by 2030; and
- To boost shared prosperity – foster income growth of the bottom 40% of the population in every developing country.

Securing the long-term future of the planet and its resources (environmental sustainability), ensuring social inclusion (social sustainability), and limiting the economic burden future generations will inherit (economic sustainability) underpin WBG actions.

1.16 The first WBG strategy, as endorsed by the Board of Governors in October 2013, confirms the central role of the private sector in achieving the goals<sup>9</sup> as detailed in last year's IFC strategy paper<sup>10</sup>.

1.17 In response to the external challenges, member states of the United Nations are expected to agree on the Declaration of Sustainable Development Goals (SDGs) in September 2015, aimed at shifting the pattern of growth to make it more economically, socially and environmentally sustainable.

1.18 The SDGs can be viewed as a foreshadowing of client demand for the WBG and others<sup>11</sup>. Like the WBG goals, they focus on reducing poverty and building shared prosperity. They call for action across the full range of global practices (GPs) and Cross-Cutting Solutions Areas (CCSAs), and for a far deeper partnership with the private sector in development. Agreement on the SDGs is intricately related to two other agreements in which the WBG is playing an important role: Financing for Development will be debated in Addis Ababa in July 2015, and Climate Change in Paris in December 2015.

## **PRIVATE SECTOR AS A DRIVER IN DEVELOPMENT**

1.19 Functioning, self-sustaining private sector markets responding and adapting to economic needs and demands are central to the sustainability of development and essential to achieving the WBG goals and the post-2015 development agenda. The private sector is a powerful engine for innovation, productivity and economic growth, and a major contributor to jobs, taxes, products and services, and poverty reduction. The levels of financing and activities needed to reach the SDGs will greatly outstrip the capacity of the public sector. The private sector is indispensable, be it in financing or the implementation of environmental, social and governance standards in the supply chain. There is a substantial need to transform the global economy,

<sup>9</sup> The World Bank Group (WBG) Strategy, Chapter IV, section A.

<sup>10</sup> IFC Road Map FY15-17: Implementing the World Bank Group Strategy.

<sup>11</sup> The proposed SDGs goals currently cover: poverty, food security and nutrition, health, education, gender, water and sanitation, energy, employment, infrastructure, inequality, urban development, sustainable consumption, climate change, ecosystems, and partnership.

and for companies of all sizes to play a more significant role.

1.20 IFC and other development institutions are critical partners to help businesses fulfill their potential to contribute to development. In many developing countries there are significant risks, knowledge gaps, and investment climate issues that limit private sector engagements. This is an opportunity for the WBG to work together to mobilize the private sector for development. IFC, the WB and other international finance institutions<sup>12</sup> (IFIs) help the private sector bridge these gaps through a range of investment, convening and advisory services that can bring in the private sector, while encouraging inclusion and high standards. For more detail, see section Leveraging Partnerships below.

## II. STRATEGIC DIRECTIONS

### THE IMPERATIVE FOR IFC’S GROWTH – WHY DO WE NEED TO GROW?

2.1. The challenging macro environment of slower projected growth and rising inequality, and the changing financial landscape, increase the need and opportunities for IFC. With global growth being below expectations, IFC recognizes the world in which it operates requires an urgent response from the private sector. IFC’s growth is critical to maximize its contribution to reaching the WBG goals, especially in light of this external context – business as usual will not be enough. As the largest global development finance institution focused on the private sector, with a global reach and decentralized operations, and the ability to leverage the whole WBG, IFC can:

- Provide leadership for private sector involvement in emerging markets;
- Connect supply of financing sources with demand and opportunities for investments which will have an impact on poverty reduction and addressing inequality;
- Play a role in de-risking emerging markets and stimulating growth through demonstration effects and ability to crowd-in investments; and
- Leverage lessons of experience across regions and sectors while diversifying risk.

2.2. IFC is not proposing growth for growth’s sake, but overall growth for both greater impact and financial sustainability. Although scale is important, volume is an outcome and not a driving factor. The quality of IFC’s activities is key – both developmentally and financially. IFC’s ambition is driven by the nature of its engagements and how effectively it is deploying its resources.

2.3. IFC differentiates itself from commercial financiers by ensuring additionality through: provision of needed finance beyond what is available from commercial sources; providing comfort to other investors; establishing important standards in areas such as environmental, social and governance (ESG); bringing parties together for advice, knowledge sharing and project development; and bringing in important technical, industrial and financial knowledge and innovation. With an increased level of activity and stronger foundations IFC can play a greater catalytic role.

### DELIVERING ON THE WORLD BANK GROUP GOALS

2.4. As the principal private sector-facing arm of the WBG, IFC is well-positioned to continue to play a key role in the WBG’s efforts to deliver on the goals by working through the private sector. IFC activities contribute to the WBG goals primarily through: (i) supporting economic *growth*, focusing on the “opportunity deprived”, i.e. those segments of the population that have unequal access to income-generating opportunities; (ii) creation of *jobs* (direct, indirect and induced); and (iii) addressing *access* gaps to critical goods and services. See Box 1 below for more details.

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<sup>12</sup> IFIs include multilateral development banks and bilateral development finance institutions.

**BOX 1: GROWTH, JOBS AND ACCESS TO SERVICES UNDERPIN IFC'S CONTRIBUTION TO THE WBG GOALS**

**GROWTH** –Broad-based growth is critical for ending poverty and advancing progress toward shared prosperity. IFC contributes:

- By structuring and/or investing (and crowding in more private capital) in key infrastructure that improves resource utilization, facilitates further investment in a range of sectors and/or is an enabler of entire sectors. Whether IFC helps structure investment (through public-private partnerships) or invests directly, IFC's work helps to facilitate and catalyze increased investment in sectors (e.g. power, transport, water) which allow industry to operate more efficiently (e.g. through reduction in outages in power or water and improvement in services in ports or airports).
- Through innovation and enhancing sector competitiveness, with demonstration effects that bring in new investors, and deepen upstream and downstream linkages. Examples include helping the first small and medium-enterprise (SME) bank program and mortgage lender in Uganda; investing in a hotel in post conflict Rwanda (which has supported 1,100 indirect jobs since 2007, including women-owned suppliers); and helping a paper producer in Pakistan integrate SMEs into their supply network and dramatically increase their use of domestic recycled paper.
- By catalyzing market transformation via firms and sectors that are at a tipping point to move onto a higher level of value addition or disrupting the market and creating inter-industry linkages and spillovers. For e.g., Nepal Hydropower generation will reduce the 16 hour power cuts, and build a high voltage transmission line for exporting power to India; and Azura-Edo IPP, the first project-financed greenfield independent power project in Nigeria since the country's ambitious power sector reforms, is expected to form a replicable model for future power plants in the country, and as such pave the way for further private sector investment in the energy sector of Nigeria, a country where it is estimated that only 35% of the population has access to electricity.
- By enhancing the business enabling environment for the private sector through public sector reform. For e.g., supporting efficient regulations and procedures in trade logistics (such as ports in Colombia), improving registration processes or tax payment procedures for SMEs, thus improving access to markets and reducing time spent on procedures.
- By supporting financial sector development, cross-border investment and trade.

**JOBS** – IFC works closely with the Jobs Cross-Cutting Solutions Area (CCSA) to better understand how IFC activities affect different aspects of job creation:

- By increasing quantity of direct, indirect and induced jobs via investments in anchor clients who have strong and deep supply chains, and with strong backwards and forward linkages.
- By enhancing quality and sustainability of jobs through programs like the Better Work program targeting labor compliance in global apparel value chains; partnerships with the ILO on labor standards compliance for global value chains; and promoting improved technology and sustainability standards in its investments.
- By building skills and improving employability through targeted skill-building programs (e.g. E4E initiative for Arab youth, which is focused on solutions to prepare youth for jobs through vocational education and training); and improving the investment climate for private education and advocacy.

For further details on how IFC contributes to job creation please see Jobs section in Cross-Cutting Strategic Themes below.

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

- Improving opportunities for women, for e.g. in the value chain through a risk sharing facility with a client bank in Nigeria.
- Increasing high quality healthcare for lower income populations, for e.g. through a credit line to a client bank to lend to small healthcare providers in Kenya; and increasing health care services for base of the economic pyramid in Mexico (eye care services at an affordable rate).
- Increasing high quality education for lower income populations, for e.g. in Colombia increasing access to quality education for students in remote areas and from low segments of the population.
- Increasing access to services in remote rural areas, for e.g. improving access to credit in Peru by investing in microfinance institutions; enhancing the availability of services, such as solar lighting solutions in Africa and South Asia, hospitals in rural Brazil and continuing education in Colombia.
- Improving quality, for e.g. enhancing access to potable, clean water in villages in India, and in another project with very high reach (8.8 million patients) increasing access to high quality services in India for dialysis centers.
- Lowering the cost of services, for e.g. cement investments which substitute imports and provide inputs to other industries.
- Improving access to reliable facilities, for e.g. by supporting the reconstruction of the port sector in Haiti, increasing container and bulk handling capacity and increasing competition in the market.
- Improving access to electricity, for e.g. by helping avert load-shedding in Nigeria, where only 20% of the electricity demand is estimated to be satisfied by the grid, through the construction, operation and maintenance of a 450 MW gas-fired open-cycle power plant and the construction of a 330kV transmission line and an underground gas pipeline spur connecting the power plant to the country's main gas trunk line.

2.5. Sustainability underpins the goals and is a key part of the WBG strategy, and IFC should maintain its leadership and convening role in sustainability. This leadership is founded on IFC's Sustainability Framework<sup>13</sup>. IFC's experience with clients strengthens its knowledge of the challenges firms face, and solutions that enable business and grow markets in a sustainable way. To maintain this leadership, IFC must stay at the forefront of the sustainability issues likely to impact private sector investment, work with industries in understanding their emerging issues, and leverage its role in the WBG to address the broader contextual environment which is fundamental to the private sector's success and impact.

## **OPPORTUNITIES FOR GROWTH – WHERE DO WE SEE POTENTIAL?**

2.6. IFC's overall strategy remains unchanged. IFC's selectivity will be guided by opportunities that enable it to integrate impact and financial sustainability, and where it can foster economic growth while responding to client demand and addressing priorities emerging from the SCDs and CPFs. This will include a mix of engagements with high-impact potential in smaller and more challenging countries, doing more in medium to larger reformer economies, in sectors with long-term growth potential, and playing a countercyclical role. With more coordination across the WBG, IFC will also help craft private-public solutions to the most pressing development challenges, while focusing on areas where IFC can have the most additionality and achieve the greatest impact.

2.7. IFC sees needs and opportunities across regions and sectors, but needs to stay vigilant for effects of the volatile environment on both its own portfolio and the risk profile of potential engagements as it selects areas for growth. IFC will explore emerging opportunities and frontiers (some of which are described below), in addition to growth in established priority areas, including an even stronger focus on FCS and maintaining its IDA targets.

2.8. Africa, South Asia, and Middle East and North Africa (MENA) are still key regions for IFC given poverty levels and particular challenges. In Middle Income Countries (MICs), where 70% of the global extreme poor reside<sup>14</sup>, IFC will remain highly selective in its engagement and continue focus on areas such as: innovation, inclusion, frontier regions, climate change, and South-South/regional integration. There are many opportunities to grow WBG engagement with MICs, including through Joint Implementation Plans (JIPs) such as Cities in Colombia, through public-private partnerships (PPPs), and climate change in China. Jobs, climate, and gender continue to be important cross-cutting strategic themes for IFC operations.

### **A) EMERGING OPPORTUNITIES FOR IFC**

2.9. The rapid pace of economic and social change, the emergence of new technologies, and shifting demographics, offer new opportunities for IFC to demonstrate leadership and have a greater impact.

2.10. Financial technology. IFC is expected to reach 600 million new, unbanked account holders by 2020, through its commitment to the WBG universal financial access goal<sup>15</sup>. Access to a transaction account is a stepping stone to financial inclusion for individuals, as an account or electronic instrument to store money, send and receive payments, is the basic building block to manage financial lives, which includes a full range of formal financial services. Reaching this goal will require IFC to invest in alternative delivery channels, including mobile telephony, technology, network and payment companies; and FinTech<sup>16</sup> through financial infrastructure (e.g. ATMs), new distribution channels (e.g. similar to eBay for financial services), and new

<sup>13</sup> The Sustainability Framework includes IFC's sustainability strategy, policies and eight Performance Standards, as well as its Corporate Governance Approach and methodology.

<sup>14</sup> Based on PovcalNet data as of February 2014. URL: <http://iresearch.worldbank.org/PovcalNet/index.htm>.

<sup>15</sup> The WBG universal financial access goal is a collective effort; the WBG will contribute to delivering accounts to reach at least 40% of the excluded, or one billion clients, of which IFC is expected to reach 600 million clients. 25 focus countries have been defined for the goal, housing 76% of the world's unbanked, including India with 22.8% of the world's unbanked and China with 16.2%, at the top of the list.

<sup>16</sup> Technology driven innovation of financial services and the underlying infrastructure required for the production and distribution of financial products.

transaction accounts (e.g. similar to PayPal). IFC will help clients scale and deploy technology to reduce cost of reach, and scale up client microfinance institutions (MFIs) to reach more people.

2.11. Promoting local entrepreneurship. Building strong local businesses can contribute significantly to net employment growth and help enhance competitiveness and productivity by introducing new products, developing novel business models and opening new markets. IFC is aiming to play an increasing role in promoting local entrepreneurship, both directly and through the joint Trade & Competitiveness (T&C) GP. Examples include initiatives such as the E4E Initiative for Arab youth, and education investments to help reduce the skills mismatch with private sector needs; focusing on industrial clusters and economic diversification to create jobs; and through the T&C GP, helping governments identify opportunities for growth and constraints to successful entrepreneurship, develop entrepreneurship eco-system strategies and target solutions, and build capability within government agencies. T&C's role in assisting client governments to design and implement investment climate policies will help enable integration of local business with global value chains (GVCs). In particular, such policies aim to remove barriers to Foreign Direct Investment (FDI) and aim to link local business with this FDI; and enhance opportunities for local businesses to join GVCs through transfer of new technology, managerial skills and business models.

2.12. New frontiers in manufacturing, agribusiness, health and education are constantly evolving given the competitive dynamics of market forces and IFC is pursuing new and innovative projects in a number of promising areas, including:

- Education technology, on both the institutional side (schools and universities applying technology) and on the provider/developer side, with new education tools driven chiefly by new and inexpensive technology.
- Specialized medical service providers with innovative, low-cost business models who, through scale and replication, are able to expand access for routine services such as eye surgery, kidney dialysis, etc. to lower income groups and through public payer systems.
- PPPs in health, such as the current program on hospital management in Turkey, in which IFC is supporting the first wave of large-scale PPP investments; as well as other initiatives such as the joint WBG Private Participation in Health in India initiative which leverages public funding for expanding health care access and quality.
- Consolidation among mid-tier agricultural traders, driven in part by lower commodity prices, to create more competitive groups able to accelerate the shift to more proactive supply chain management and more asset-intensive business models.

2.13. Emerging partners and platforms. IFC is exploring new and innovative ways of working with strategic clients and partners to leverage its leadership in bringing together resources, expertise and ideas. The model of creating a “platform” from which to launch distinct but similar individual projects can help to mobilize resources to support a sector with pent-up demand but also supply constraints. The integration of comparative business strengths in a platform helps to leverage financial partners as well as mobilize resources across the full value-chain. By working with strategic partners with large-scale implementation capacity and a shared interest in expanding production rapidly, IFC can help to create a more harmonious relationship with stakeholders and bring capital flows to where they are needed most. See Box 2 below for an example of how IFC is collaborating with a strategic partner to transform the housing market across Sub-Saharan Africa (SSA) – demonstrating the viability of large-scale housing delivery, enhancing supply chains, and transferring knowledge.

**BOX 2: CITICC AFRICA HOLDINGS LTD.****Background:**

- The housing sector in Sub-Saharan Africa (SSA) is underdeveloped and unable to meet demand.
- IFC realized that the traditional piecemeal approach of financing individual developers was not effective in addressing the increasing housing deficit across the continent given the lack of technical capacity, logistics expertise and financial strength of local developers to build at scale and address demand. IFC searched for a partner committed to Africa with a proven track record, financial depth, ability to efficiently execute large-scale affordable housing projects using a programmatic approach.
- CITICC Africa Holdings Ltd (CAHL) is an innovative partnership between IFC and CITIC Construction Co. Ltd., a multinational Chinese construction and engineering company, formed to expand affordable housing in Africa.
- CAHL is a platform from which individual housing development projects will be launched in various African countries in conjunction with local partners.
- IFC holds 20% of the equity in CAHL, while CITIC holds 80%, with a total expected capitalization of \$300 million.

**Impacts of the Project:**

- The ability to achieve scale is critical to accelerate the development of local supply chains, reduce construction materials costs and enhance affordability.
- CAHL will support up to 30 housing development projects across SSA, which are expected to range in size from 1,000 to 8,000 units each.
- CAHL will enable IFC to complement other direct investments in housing development and mortgage finance with a more systematic and programmatic approach. CITICC brings to the initiative: experience in delivering large scale construction projects, ability to achieve scale utilizing the platform by developing multiple projects simultaneously, and financial depth. IFC brings: the ability to combine housing development with mortgage finance, global affordable housing experience, contacts with governments and local construction/development firms, green buildings standards, and environmental and social standards.
- The CAHL platform has the potential to accelerate the market response to Africa's housing deficit with well planned, energy-efficient, affordable housing units well beyond what IFC could do through supporting individual projects.
- Over a period of ten years CAHL expects to construct and sell tens of thousands of housing units, demonstrating the viability of the industry, still in its early stages of development in most of Africa.
- The project will create significant numbers of jobs in construction.
- The project will boost demand for locally manufactured building materials (e.g. cement, steel and aluminum fabrication, glass and tile).

**B) FCS**

2.14. FCS remain an urgent development priority for IFC, as highlighted in last year's strategy paper. The WBG will deepen its engagement in FCS. IFC's impact is not only to facilitate achievement of the WBG goals in these countries, but also to help reduce the perception of geopolitical risks for global investors by improving investor confidence and, in turn, boost overall economic growth. IFC is continuing its strong focus on increasing private investment in FCS, with a Vice President in charge of FCS, and is on track to achieve a 50% increase in own-account investments between FY12 and FY16<sup>17</sup>. IFC will continue to invest strategically in FCS, where its financing can deliver the most impact. To that end, it will continue to prioritize investments that remove major constraints to business growth: those that provide increased access to infrastructure, with a focus on power; access to finance, with a focus on small and medium-enterprises (SMEs); and access to markets, with a focus on agribusiness supply chains. For example, IFC is increasing access to finance to SMEs and expanding its reach to women entrepreneurs, through its \$15 million investment in Rawbank S.A.R.L. in the Democratic Republic of the Congo, which will increase services to SMEs in a country where the banking penetration rate is less than 2%.

<sup>17</sup> IFC has adjusted its reporting of FCS results so that going forward, it will report long-term finance (LTF) and short-term trade separately. This is consistent with the revised institution-wide approach of reporting new commitments in terms of LTF while using average outstanding portfolio to report short-term trade activities. IFC will aim to meet its target, which would imply that its own-account levels of LTF increase by 50% between FY12 and FY16 – specifically, from \$358 million to \$537 million. IFC will also aim to maintain its current levels of trade activity in FCS.

2.15. Given the scale and nature of the challenges in FCS, IFC needs to maintain a persistent focus on new approaches and solutions. This includes continuing to refine IFC's operational approach to FCS: for example, IFC is considering enhancements to its incentives framework in order to better encourage staff to work on projects in FCS. Such enhancements would recognize the added difficulty, longer timeframes, and smaller deal sizes typical of FCS investments, which are often a deterrent to investment officers; and would balance these challenges by ensuring positive career recognition for work in these difficult markets. IFC is also re-evaluating its approach to risk in FCS, with the goal of providing industry teams a "safe space" to make high-impact investments that have a higher level of perceived risk but which, in some cases, may not offer rates of return fully commensurate with this risk. If IFC were to significantly scale up these kinds of high risk investments in FCS, it would need to balance this with investment in more stable markets, as further outlined in the Managing Risk section below, or with support from external sources of funding, such as donor funding. As it explores these possibilities, IFC will be evaluating the potential financial impact of expansion in these markets.

2.16. Beyond the enhancement of its strategic approach and its internal realignment to bring more opportunities to fruition, IFC will be looking at new ways to catalyze further investment by exploring risk sharing solutions with development partners. Partnerships with bilateral donors, such as the Global SME Facility and Global Agriculture and Food Security Program (GAFSP) blended finance programs, have improved deal flow and development impact in FCS. For example, a \$5 million investment alongside GAFSP will support Malawi Mangoes Limited's expansion of fruit production and processing operations as well as exports. Through its smallholder outreach and development programs, the company plans to increase employees fourfold over the next four years to about 2,600 full time staff, and during this time, it also plans to increase the number of farmers who supply fruit to the company to approximately 6,000. IFC will seek to develop blended finance solutions for FCS in sectors and/or geographies that are not covered by existing facilities. IFC will also enhance its use of targeted advisory services (AS) and the Conflict-Affected States in Africa (CASA) program to further stimulate potential IFC investments. Finally, IFC will identify ways through which existing "upstream" approaches for early-stage companies or projects – including InfraVentures and SME Ventures – can have further success in generating investment opportunities for IFC in FCS. IFC will also continue to seek out a range of innovative approaches and partnerships, such as its growing partnership with the g7+ group of 20 fragile states<sup>18</sup>, to enhance its reach and impact in FCS.

2.17. IFC also plays a role in the WBG's coordination of activities in FCS. This includes active participation in the CCSA, ensuring a more strategic approach at the country level through a robust private sector dimension of the SCDs and CPFs, and continuing to work with select GPs to promote an enabling investment climate for businesses and develop essential financial infrastructure. Such engagements will help ensure that IFC's activities in FCS are part of a more holistic and coordinated effort to achieve further private investment and job creation in FCS. There are several JIPs under development in FCS, including Myanmar Power and Burundi Agribusiness/Power, taking into account learning from other successful JIPs such as Nepal Hydropower<sup>19</sup>. In addition, IFC has an important role to play within crisis/emergency response, such as the Ebola crisis, where IFC's role was based on its view that continued private sector operations were key to achieving stability, rebuilding confidence, and restoring growth in the Ebola-affected countries.

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<sup>18</sup> The g7+ is a voluntary association of 20 countries that are, or have been, affected by conflict and are now in transition to the next stage of development. The g7+'s objectives are to learn from each others' experiences, and to advocate for reforms to the way the international community engages in conflict-affected states.

<sup>19</sup> Nepal was on WBG FCS list while this Joint Implementation Plan was initiated; since FY15 Nepal is no longer FCS.



## C) IDA

2.18. The WBG recently completed the IDA17 replenishment, which raised \$52.1 billion. The WBG strategy and the IDA replenishment Board Report<sup>20</sup> recognize that a key to raising the impact of IDA is to leverage the private sector. The report emphasizes synergies between IDA, IFC, MIGA and IBRD, and puts a high priority on JIPs. There is a specific commitment to carry out 20 JIPs in IDA countries, at least ten of which are in FCS<sup>21</sup>. JIPs will focus on tackling constraints and catalyzing private sector financing for key sectors and industries in individual countries and are expected to generate spillovers in the form of knowledge transfer, job creation, revenue generation and market stimulus. Ongoing strategic dialogue on IDA policy priorities includes a focus on leveraging private resources towards ending extreme poverty; optimizing WBG synergies for transformational engagements, including regional solutions; and stepping up country-level support for fostering an environment for private sector development and international private investment. Instruments to catalyze private sector are expanded to include partial credit guarantees and policy-based guarantees, in addition to partial risk guarantees.

2.19. IFC continues to have IDA targets in its Corporate Scorecard (see Annex II) while also maintaining the bulk of its AS program in IDA countries, based on the current IDA country definition. These targets may be revisited as countries graduate from IDA status.

## D) OTHER OPPORTUNITIES FOR SCALING UP

2.20. IFC will aim to develop business in areas which are already delivering impact and performing well. Some of the areas identified for growth, include: (i) agribusiness; (ii) private health care and education provision, particularly to help open new market segments; (iii) global infrastructure, particularly power and clean energy, including scaling-up IFC's Cities Initiative; (iv) telecom and broadband; (v) venture capital; (vi) capital markets development and local currency financing; (vii) access to finance, including trade and the Debt and Asset Recovery Program (DARP); and (viii) South-South and cross-border investments. To help address the challenge of unemployment, IFC also aims to help large-scale manufacturing clients with complex financing requirements in frontier markets, especially Africa. For more detail on industry strategies, see Annex I.

2.21. IFC will continue to integrate advisory and investment operations in agribusiness. In particular, it will focus on firms which work with smallholder supply chains, generating increased yields and productivity, while meeting higher quality and ESG standards demanded by the global marketplace. By supporting the expansion of animal protein production to meet market demand, IFC will help its clients provide improved nutrition, implement food safety standards, and improve sustainability. In addition, IFC will invest in the expansion of formal retail networks which brings strong consumer benefits along with formalization of supply chains, including in food retail through improved adherence to standards.

2.22. In health, to reap the benefits of scale, IFC will support the expansion of hospital networks, which can bring cost efficiencies and quality care provision to new markets. In education, IFC will invest in the expansion of large university systems to increase access to education and provide a supply response to the increased demand for higher education that governments are unable to meet.

2.23. Development of WBG approaches in these key areas expands strategic collaboration which can further open new market segments. For example: (i) in agriculture/agribusiness a joint strategy has been in place, and collaboration continues with joint country-level approaches e.g. in Nigeria, Mali, and several others; (ii) in health, an approach for WBG support to the private sector in health care provision was developed over the past

<sup>20</sup> World Bank. 2014. *Additions to IDA resources: seventeenth replenishment - IDA17: maximizing development impact*. Washington, DC: World Bank Group. <http://documents.worldbank.org/curated/en/2014/03/19330911/additions-ida-resources-seventeenth-replenishment-ida17-maximizing-development-impact>

<sup>21</sup> IDA17 JIP commitment: Carry out WBG joint implementation plans in at least 20 IDA countries (of which at least ten in FCS), including joint frameworks to measure results; and carry out a systematic assessment of implementation and results.

year, including IFC support to expand private capacity; and (iii) in education there is a joint strategy, collaboration on regulatory issues in Chile and Kenya, and a comprehensive evaluation of a new innovative project for low cost schools in Kenya.

2.24. Infrastructure, with particular focus on power and clean energy. The global infrastructure landscape is characterized by unprecedented opportunities for growth – low income markets are opening up to private sector investment, whereas multiple MICs are targeting quantum leaps in private sector participation with policy reforms, as well as looking for other developing markets in which to invest. Certain energy sub-sectors, such as natural gas and solar, are experiencing substantial shifts in technology and economics. A new era of large-scale infrastructure developments around extractives appears to be emerging – mainly in Africa. IFC is well-positioned – owing to its expertise, local presence, “solutions capacity” and franchise value – to respond well to these changing dynamics. The current backdrop presents IFC with the ideal opportunity to further boost transformational engagements, while consolidating its financial sustainability. At the same time, key challenges remain – as a significant proportion of these interventions are multi-sectoral, with long gestation periods and undertakings in very complex and often difficult environments.

2.25. In the near to medium term, IFC will maintain its focus on infrastructure in Africa – now IFC’s largest infrastructure program. While results are impressive and prospects are good – including in extractives, natural gas, solar, and in reformer countries – there is still much work to be done with governments to create good projects. IFC will work closely with the Global Infrastructure Facility (see Box 3 below), recently established as a global platform for collaboration among public and private partners, to support high-quality preparation, financial structuring and risk mitigation for infrastructure projects in emerging markets and developing economies. IFC’s work in MICs will continue – and it will look to advance its engagements in Colombia, Mexico, Brazil, Nigeria and Indonesia, among others.

**BOX 3: GLOBAL INFRASTRUCTURE FACILITY (GIF)**

Global Infrastructure Facility (GIF) support will focus on complex infrastructure projects with strong potential to achieve financial viability and sustainability and to attract long-term private capital. Specifically, the GIF will support some of IFC’s PPP advisory activities by providing resources for project preparation and arranging as well as upstream and feasibility studies. It will also complement the work of IFC’s InfraVentures by helping governments prepare viable projects and/or engage private developers. Better project design work undertaken by governments may help provide InfraVentures and its equity partners with stronger projects in which to invest. Finally, given the GIF’s aspiration of bringing institutional investors into infrastructure through long-term finance, there is a possibility of collaboration with the AMC to expand the WBG’s engagement with sovereign wealth funds and other long-term investors across different financial products.

2.26. Given the improved economics of renewable energy, IFC seeks to use multiple mechanisms – for example “quasi merchant” and “fully merchant” transactions, as well as “market making” – to promote use of certain technologies in this space. Shifting natural gas markets will allow IFC to play an increasing role in the transportation of natural gas, as well as gas-based downstream generation plans across emerging markets. As more IDA countries, notably in Africa and Asia, develop plans for large-scale hydropower development, IFC will seek to partner with the public and private sectors to help bring increased power generation capacity on-stream.

2.27. Through AS, IFC provides advice to transmission and distribution companies on improving their operations, as well as advice to clients on introducing technology to increase clean energy production. IFC also provides advice in PPPs to help governments partner with the private sector to improve basic services, including engaging in complex PPP energy projects. IFC is pursuing joint sector-level engagements with the Energy & Extractives GP and MIGA, typically through JIPs. Such engagements are designed to bring the combined expertise and resources of the WBG to bear in situations where governments are implementing ambitious energy sector reforms that require a combination of private and public financing, advisory, and risk mitigation. Examples of JIPs currently under implementation in the energy sector include Nigeria, Burundi, Myanmar and Nepal, while multiple additional energy-focused plans are in the design phase.

2.28. To respond to increased urbanization and greater concentration of economic activity in cities, as well as poverty and growing problems around service delivery, IFC is implementing its Cities Initiative (see Box 4 below) – a model for governments, utility companies and private sector service providers to work in tandem to meet stakeholder needs and catalyze impact. Finally, IFC will partner with investors and governments to support development of mega-scale transport (shared-use) and power assets around extractives.

**BOX 4: IFC'S CITIES INITIATIVE**

Cities are critical for economic growth and poverty reduction. 80% of global GDP is currently generated by cities and 70% of the emerging markets population is expected to live in cities by 2050. Cities also generate about 70% of the world's greenhouse gases. Urban density, agglomeration and proximity are fundamental to human advancement, economic productivity and social equity. Yet in many cities inadequate infrastructure stifles development and drives up costs. Strategic city interventions can reduce urban poverty and boost shared prosperity by creating jobs, improving service delivery, employment productivity and overall resilience to economic, financial, environmental and climate shocks.

IFC is scaling up its financial and advisory services offerings to help cities become more competitive (more attractive places for people to live and firms to operate) by: (i) strengthening institutions and regulations; (ii) improving critical infrastructure and environmental sustainability; (iii) fostering skills and innovation; and (iv) expanding access to finance. IFC is uniquely positioned to bring together municipalities, utilities and private sector players to comprehensively address the most pressing needs of cities in emerging markets. IFC's Cities Initiative is aimed at scaling up proven approaches and exploring new ways to leverage its core strengths to position IFC as a leading solution provider to cities in emerging markets. In addition to ongoing efforts in the green buildings, energy efficiency, water and waste sectors, and urban transport, IFC is looking to: pilot strategic cities engagements (a relationship-based model with municipalities); scale up investments in technology-based urban solutions (leveraging IFC's telecom, media and technology experience with other core sector expertise); unlock new ways to improve access to municipal finance (e.g. by piloting successful developed market pooled financing mechanisms in select emerging markets); and develop bankable models for street lighting projects.

The overall Cities strategy is evolving in close coordination with the WB (including through the GPs), and specific business development approaches and opportunities are being identified directly and through partnerships with strategic private sector players, cities associations, and select donors (e.g. Rockefeller Foundation).

2.29. Over time, IFC's advantages in the infrastructure and natural resources sectors will be more about its expertise and global presence, which are expensive and difficult to replicate, and less about its balance sheet. IFC's key role is to facilitate the financing of private sector-led projects, as well as intermediate between clients, governments, and investors.

2.30. In the near to medium-term, IFC will continue to pursue investments in telecom and broadband – areas where significant progress has been made in developing countries but great potential for improving people's lives remains. Mobile phone penetration has exceeded forecasts and outpaced the roll-out of other infrastructure, but access and affordability to mobile phones remains a challenge in FCS countries. A driver of economic growth and enabler of private sector activity and entrepreneurship, broadband penetration is lagging behind, with the most acute deficits in Africa and non-urban areas. IFC is concentrating its efforts on last-mile connectivity and supporting infrastructure to promote access to broadband and partnering with key regional and global clients to expand mobile phone access in frontier and FCS countries. One way of expanding affordable mobile phone and information technology (IT) services is through the sharing of infrastructure, for example the offerings of independent tower companies to mobile network operators or IT service companies and data centers that enable outsourcing and off-shoring.

2.31. IFC will continue to expand its venture capital (VC) mandate and strengthen its position in emerging markets by leveraging its global network and patient capital base to foster innovation and technology transfer with the continued goal of delivering measurable financial and developmental returns. Following on both regional and sectoral expansion of its cleantech business in the recent past, IFC will continue to build out its corporate venture platform to pursue opportunities globally, with a focus on education, health-tech and e-commerce.

2.32. Capital markets development represents another important area of focus for closing the infrastructure financing gap, and for providing much needed financing for longer term capital investments such as housing and equipment. IFC will work in close coordination with the WB in this area and will focus on local currency bond issues, securitizations and other capital markets instruments.

2.33. IFC Treasury contributes to the development of local capital markets and innovative local currency financing solutions through:

- Direct IFC issuance in selected markets and expanding the universe of counterparts to raise local currency through derivatives;
- Assisting IFC clients in gaining access to local capital markets through anchor investments and credit enhancement of their bond/securitization transactions; and
- Continued focus on new capital markets product development to crowd in private investment, such as participations in, and innovative ways to support, infrastructure investments (see Box 5 below for example of IFC Masala bonds).

**BOX 5: IFC MASALA BONDS**

IFC continues to be a key development partner when focusing on deepening capital markets. In November 2014, IFC issued a ten-year, 10 billion Indian rupee bond (equivalent to \$163 million) to increase foreign investment in India, mobilizing international capital markets to support infrastructure development in the country.

The “IFC Masala bonds” marked the first rupee bonds listed on the London Stock Exchange. They were issued under IFC’s \$2 billion offshore rupee program and were at issuance the longest-dated bonds in the offshore rupee markets, building on earlier offshore rupee issuances by IFC at three-, five- and seven-year maturities. The vast majority of investors in the bond were European insurance companies.

IFC invested the bond proceeds in an infrastructure bond issued by Axis Bank, an IFC client.

The IFC Masala bonds set a triple-A benchmark for offshore rupee issuances and paved the way for more foreign investment to help meet India’s private sector development needs.

In March 2014, IFC became the first multilateral institution to list renminbi-denominated bonds on the London Stock Exchange. In June 2014, IFC issued the first renminbi-denominated green bonds listed on the exchange. IFC previously became the first issuer of Panda bonds in China’s domestic capital markets, and has also issued Dim Sum bonds listed in Hong Kong SAR, China. IFC was also the first to set up a program to regularly issue offshore renminbi-denominated discount notes.

2.34. In addition to developing new ways to address the universal access goal (as described above in the section Emerging Opportunities For IFC), IFC will expand its work in insurance, housing and agrifinance in order to reach more people who lack access to finance. IFC will continue to ramp up platforms which support SMEs, working with client financial institutions (FIs) to close the SME financing gap, estimated at \$1 trillion. IFC will help scale up SME market leaders, engage in new technologies and increase focus on underserved segments. IFC will also collaborate with the joint Finance & Markets GP in areas such as promoting financial inclusion, and job creation through SME finance. To facilitate financial markets development, thematic areas of coordination across the WBG include universal financial access, SME finance and jobs, and capital markets, as described above.

2.35. Trade drives economic growth by increasing economic productivity, providing new markets for producers, and building stronger and more integrated firms. Trade also enhances the availability of critical goods such as food, energy and medical supplies. Fundamental, enduring shifts in industry dynamics have changed the economics of trade finance. A simultaneous increase in “Know Your Customer” operational costs and capital requirements has diminished return on capital for cross-border confirming banks, widening the preexisting gap in trade finance supply and requiring IFC’s engagement more than ever before. Beyond trade finance, working capital to suppliers, SMEs, agricultural producers and value chains in emerging markets remains both necessary and scarce. IFC will therefore continue the provision of working capital and

commodity finance in innovative ways. It will continue to support emerging market trade finance, and seek opportunities to grow its core business and expand offerings to deepen its reach.

2.36. Through DARP, IFC will continue to grow a global network of distressed asset platforms that enables it to quickly and effectively introduce problem-debt resolution into emerging markets, thus restarting the local financial system and improving access to finance for individuals and firms more quickly after a crisis.

2.37. South-South and cross-border investments provide a means to encourage growth in capital flows both within and towards emerging markets. IFC can be a leader in facilitating and growing the scope of emerging markets as destinations and origins of capital flows. The emergence of regional champions through South-South investments across all sectors can bring innovation and higher quality and efficiency to new markets. Through active client relationship management, IFC is a well-positioned partner to support clients in building strong pipelines and promoting cross-border and South-South transactions, with a range of thematic focus areas at the sector and country levels.

2.38. For example, in East Asia and Pacific (EAP) IFC develops client partnerships to identify large, impactful cross-border opportunities. In MENA, Gulf Cooperation Council (GCC) investors remain key cross-border investors to support private sector development. In South Asia, there are opportunities to disrupt markets by co-investing in platform companies while partnering with domestic and international players to target large assets, such as the Indian railways value chain. In Africa, leveraging existing and building new relationships with larger international sponsors, North-South and South-South, to support infrastructure and agribusiness projects, is a valuable tool for promoting private sector-led growth, particularly in FCS.

## **E) REGIONAL STRATEGIES**

2.39. The WBG goals guide the WBG's strategic directions and engagement at the country, regional and global level.

2.40. Overall strategic directions in regions with the highest levels of poverty center on growth, productivity, and inclusion. In the Africa and South Asia regions, home to 80% of the world's poorest people<sup>22</sup>, this includes work to improve productivity along the agriculture value chain, develop quality infrastructure, and enable affordable access to energy and other services. All regions seek to foster competitiveness to attract private sector investment and create jobs. Although there are commonalities in strategic direction across the regions, the focus of country and regional programs varies to reflect a broad diversity of needs and level of development. For example, social inclusion often includes programs in health and education, but in less developed countries, the focus is on access to quality services, while in MICs, with already high levels of access to service, work is concentrated on bolstering health and education quality.

2.41. IFC is an active participant in the new joint approach to country engagement (see section WBG Collaboration below). IFC is integrated within the recent WBG regional updates, and the following further details areas where IFC will focus at the regional level.

### **AFRICA**

2.42. IFC strategy in Africa has three main priorities: *bridging the infrastructure gap, helping to build a productive real sector across the continent, and becoming a leader in fostering inclusive business approaches*. The priorities are aimed at addressing Africa's big challenges: rapidly increasing urbanization, the need to industrialize to achieve structural transformation of its economies, and grow and expand SMEs to create jobs.

2.43. In infrastructure, IFC has targeted helping increase energy supply and power transmission, and improving regional transport. IFC places a special emphasis on helping FCS expand access to power, including through scaling up solar power generation on a competitive basis.

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<sup>22</sup> PovcalNet, 2011 data.

2.44. To create a more competitive and productive real sector and stimulate job creation, IFC is pursuing investments in agribusiness value chains, recognizing that 60% of Africans derive their livelihoods from agriculture<sup>23</sup>. IFC is helping encourage modern retail in the food sector, increase exports, improve yields, and support commodity exchanges and FIs dedicated to serving farmers and agribusiness enterprises. IFC is also supporting job creation through labor-intensive businesses that address the housing value chain: manufacture of construction materials, property development, and financing mortgages.

2.45. To lead in the creation of inclusive business IFC is encouraging an improved business enabling and regulatory environment. IFC supports efforts to improve small business organization and capacity building. IFC is encouraging programs and initiatives that improve access to markets. Leveraging its extensive network of financial institution clients, IFC is supporting efforts to increase access to finance through a wide range of product offerings, including leasing and credit lines, among others. IFC is encouraging the expansion of low cost technologies such as mobile banking that support smaller businesses and primary producers.

2.46. The WBG will support the governments of the three Ebola affected countries, Guinea, Liberia and Sierra Leone, on reaching zero Ebola cases and rebuilding their economies. This will include fiscal support, extending safety nets, ensuring delivery of basic services and food security, and providing support for the private sector with a focus on FIs, SMEs, and particularly small farmers and local entrepreneurs. The Ebola epidemic has galvanized unprecedented attention on African health systems, potentially creating new opportunities for WBG support and greater domestic political will and global commitment to build better and more resilient health systems capable of dealing with communicable disease outbreaks across the continent.

#### **EAST ASIA AND PACIFIC (EAP)**

2.47. IFC strategy in EAP rests on three key priorities: *inclusive growth, climate change and global integration*. Despite softening growth rates across the region, East Asia and the Pacific remained the leader of global growth in 2014<sup>24</sup>. So far, the region's developing countries navigated the global economic crisis relatively well, maintaining high levels of economic growth. However, ensuring sustainable and inclusive growth is a major challenge for the region that will require raising productivity, resolving environmental challenges and addressing wide-ranging vulnerabilities of the poor.

2.48. A key priority in achieving these goals is supporting investments in infrastructure. Access to power remains a critical constraint to growth in the region and an area where IFC can make a significant contribution. For example, in Myanmar where around 70% of the population does not have access to power<sup>25</sup>, IFC is engaging with both public and private players to help address this significant constraint. In Indonesia, where demand for power is projected to grow around 8% per year through 2021<sup>26</sup>, IFC sees opportunities emerging in geothermal, hydro and other renewable energy. In China, IFC is focusing on clean energy and technology, and water and wastewater solutions. Connectivity is a major focus area, with emphasis on investments and advisory services in airports, ports, shipping, mobile/broadband and internet. Manufacturing and agribusiness are central to job creation and a key area of focus for IFC in countries like China, Indonesia, Philippines and Vietnam. IFC is also targeting improved health and education services through private solutions complimenting public service delivery platforms. Finally, IFC's investment and advisory work in the financial sector helps improve availability and affordability of financial services for individuals, as well as for micro, small and medium-enterprises (MSMEs). With climate change being especially detrimental to the poorest and most vulnerable developing countries of the region, IFC is actively engaging companies in the region to help them pursue environmentally sustainable solutions for their business.

<sup>23</sup> Source: International Labor Organization.

<sup>24</sup> Source: World Bank. <http://www.worldbank.org/en/publication/global-economic-prospects/summary-table>

<sup>25</sup> Source: World Bank. <http://www.worldbank.org/en/news/video/2013/10/15/electricity-for-a-bright-myanmar>

<sup>26</sup> Source: <http://energy-indonesia.com/02electricitylaw/0130213RUPTL.pdf>

2.49. The focus on global and regional integration aims towards bringing quality clients and partners from China, Japan, Korea, Singapore and Malaysia to frontier markets through investments in cross-border projects in key sectors, including infrastructure (power, renewable energy) and the financial sector (mobile technology, microfinance). With IFC's global expertise in emerging markets, it helps companies expand outside their home countries in environmentally and socially sustainable ways.

#### **EUROPE AND CENTRAL ASIA (ECA)**

2.50. In the environment of lower growth, intensified capital outflows, declining energy prices and increasing geopolitical tensions, IFC's strategy in ECA remains as relevant as ever. It supports private sector growth, while addressing the key development challenges of the region: lack of competitiveness and weak investment climate, inadequate access to finance, and large infrastructure gaps, with a cross-cutting imperative to tackle the causes and consequences of the climate change. Under the umbrella of these strategic priorities IFC is trying to increase its impact by scaling up the investment and advisory program in three areas: *strengthening local capital markets, promoting sustainable cities and developing energy infrastructure*. These engagements are aimed at helping the region avoid reversals in both poverty reduction and shared prosperity gains in the face of growing economic and social vulnerabilities (See Box 10 below on Ukraine and Russia).

2.51. Development of local capital markets will help countries diversify their financing and mobilize domestic resources for investments. IFC will help introduce innovative solutions for mobilizing domestic savings to finance growth-enhancing and social infrastructure, real sector projects, housing, and durable consumer goods. To achieve greater impact, IFC will leverage existing WBG Capital Market initiatives, including WB engagement at the regulatory level.

2.52. ECA's underdeveloped and deteriorating infrastructure limits access to markets and services for the population and businesses. This challenge is amplified by increasing urbanization pressures, especially in MICs. An increasing part of vulnerable populations relocate to the cities where they seek economic opportunities to improve their lives. Therefore, development of sustainable cities is essential. IFC aims to improve urban infrastructure – including transport, district heating, solid waste, healthcare, education – through its investments, PPP transaction advisory and sub-national finance. In a number of countries, this is becoming an increasingly joint effort with the WB and MIGA.

2.53. ECA countries have some of the highest GHG emissions in the world. Energy intensity of many individual countries is extremely high. This challenge is amplified by subsidized energy prices, which do not provide incentives to modernize industrial and residential sectors. Many ECA countries face sizable energy shortages. At the same time, some of them have a significant potential to develop clean energy, including hydro, wind and solar. To tackle energy challenges and realize available opportunities, IFC helps countries increase energy generation, diversify energy sources and improve energy efficiency. It prioritizes support for cross-border energy trade, clean energy, and energy efficiency in power, district heating and solid waste. IFC promotes South-South investments in the sector, bringing investors from the Middle East and Asia to ECA, and remains open to supporting privatization of distribution and transmission assets.

#### **LATIN AMERICA AND THE CARIBBEAN (LAC)**

2.54. IFC's strategy in LAC is tailored to address the region's main development challenges: low productivity, high inequality, climate change and natural resource management and low regional/global integration. As such, key strategic themes in LAC include: *innovation and competitiveness, inclusive growth, regional/global integration, and climate solutions*. In order to maximize impact and additionality, IFC is focusing on interventions in the following sectors: infrastructure, sustainable cities development, capital market development, financial access and inclusion, energy, telecom and agribusiness.

2.55. In LAC, infrastructure is key to increasing productivity, integration and social inclusion. IFC is seeing increased demands in roads, ports, PPPs, logistics and urban transport. Similarly, as LAC is the most urbanized

region, IFC is scaling up its investment and advisory services to improve city competitiveness and sustainability. The LAC Cities Initiative is focusing on improving urban infrastructure and services in the water, waste, energy, green building, urban transport and telecom sectors. Telecom is also part of the connectivity agenda on the national level, especially through access to broadband services and network improvement.

2.56. Access to finance for MSMEs remains an integral part of the inclusion agenda in LAC. IFC is looking to tap into financial innovations such as mobile banking and smart payments to improve access on a smaller scale, and tap into capital markets to leverage funding for long-term projects on a larger scale.

2.57. Finally, the LAC region is abundant in many resources which require sustainable management. IFC seeks to bring best practices to the agribusiness sector, while sustainably developing the sector's potential as a principal global supplier. IFC is also working to develop the region's potential in liquefied natural gas and renewables such as solar, geothermal and wind.

#### **MIDDLE EAST AND NORTH AFRICA (MENA)**

2.58. IFC has increased its program in the MENA region since the Arab Spring, with growing programs especially in Egypt, Pakistan, Jordan, Morocco, Tunisia, and Iraq. IFC's investments have been complemented by a strong advisory services program which has helped improve the investment climate and corporate governance practices, build capacity among SMEs, strengthen financial infrastructure, and support PPPs. IFC's engagement has not only helped boost investor confidence but also assisted the private sector at a time when MENA countries are struggling with political and security uncertainties, depressed growth, and increasing levels of unemployment.

2.59. Amidst increasing challenges of steep oil price declines, continued economic and political volatility, and low investor confidence, IFC is maintaining a flexible strategy in the region of promoting private sector development in order to fuel growth and job creation. Key strategic pillars to achieve this are supporting investments in *infrastructure (especially power and renewable energy)*, *strengthening financial institutions and increasing access to finance*, *reducing skills mismatch with private sector needs*, and *fostering entrepreneurship*. IFC's engagements are also aimed at easing the constraints to doing business through investment climate reforms and fostering regional integration through South-South investments. In particular, GCC and Asian investors remain key supporters private sector development, and are also becoming active global players to help diversify regional risk. It is also important to diversify the South-South investor base in MENA, especially given the recent fall on oil prices and potential impact on GCC intra-regional investment flows. IFC teams are therefore working on attracting Asian investors into MENA. From a country perspective, strong focus will be on: (i) seizing the window of opportunity for reforms and investment in Egypt, especially in the infrastructure sector, with a focus on power; (ii) continuing to ramp up engagement in Pakistan, especially in the energy sector in close collaboration with the WB; (iii) maintaining the momentum of strong growth in Jordan; (iv) supporting private sector efforts in FCS such as Iraq, West Bank and Gaza, and Afghanistan, as well as in Yemen and Libya when conditions improve; and (v) opening up markets for the private sector in Algeria.

2.60. Within this overarching strategy, key priorities include helping the public and private sectors in the region tackle the critical energy gap that constrains private sector productivity. Renewable energy (hydro, wind, and solar), transmission and distribution in sectors with meaningful reforms, and gas to power based generation will all be areas of focus in many MENA countries. Given the need to promote job creation and entrepreneurship, IFC will try to increase its interventions in services and information and communications technology (ICT) sectors, especially in the areas of tourism, retail, hospitality (including green buildings), broadband, VC and private equity funds.



## SOUTH ASIA

2.61. In South Asia, IFC's strategy focuses on four main areas: *providing financial inclusion, creating infrastructure solutions, promoting jobs, and developing capital markets*. With almost 39% of the world's poor living in South Asia, growth and inclusion in the region remain critical to the WBG achieving its goals.

2.62. With 650 million unbanked in the region<sup>27</sup>, delivering on universal financial access remains a central goal. IFC is working on addressing obstacles to accelerating financial inclusion through payments and financial technologies (FinTech). Special emphasis is also being placed on investing in MFIs and working with state banks to achieve scale in access to finance.

2.63. Widespread lack of access to the grid and significant amounts of power outages persist across South Asia. To address these issues and other infrastructure gaps, IFC is working in the areas of clean energy and integration, focusing on renewables, hydropower generation, cross-border transmission and power trade schemes, connectivity (roads and railways) including through PPPs, and partnerships with strong foreign partners both inside and outside the region.

2.64. To address the increasing demand for jobs in South Asia, IFC continues to support the garments (Bangladesh, Sri Lanka) and tourism (India, Nepal) sectors. IFC is also committed to helping financially distressed companies requiring capital restructures or adjustments affected by cyclical downturns. Additionally, IFC is focused on developing the right instruments for long-term investments and deepening the region's capital markets.

## F) CROSS-CUTTING STRATEGIC THEMES

2.65. Jobs, climate, and gender continue to be important cross-cutting strategic themes for IFC operations.

2.66. Jobs. The World Development Report 2013 outlines the positive linkage of jobs to poverty reduction and economic growth, and to social cohesion and empowerment. The private sector has a critical role to play in addressing this jobs challenge as nine out of ten jobs are created by the private sector. This role is important not only in terms of provision of more jobs, but also better and more inclusive jobs. As the private sector arm of the WBG, IFC plays a significant role in job creation not only by developing a private sector, but by engaging in sectors and firms which provide potential for further upstream and downstream indirect and induced linkages, while also contributing to increasing overall productivity of an economy through more effective allocation of factor inputs, including labor. Through the private sector IFC can also play a significant role in generating inclusive jobs, such as jobs for women and youth. For examples of IFC programs supporting this agenda see Box 1 above.

2.67. There are, however, significant gaps in evidence on the role of the private sector in job creation and how IFC's suite of activities can be even more effectively utilized to maximize job creation by private sector clients. This is being addressed at various levels in collaboration with the Jobs CCSA. Firstly, the use of the new Jobs Diagnostics Tool as input during the SCD process will provide a systematic method of diagnosing the constraints to job creation at a macro level, assessing both supply and demand issues by looking at household and firm-level data alike. The new tool, developed in support of an IDA17 commitment, will help inform country programs to help support private sector job creation. 13 IDA countries as well as some non-IDA countries have requested support to undertake the multi-sectoral diagnostic during FY15, and the intent is to mainstream jobs diagnostics in future SCDs.

2.68. Secondly, building sector-specific estimation methodologies for measuring job creation by IFC clients is an ongoing activity which will be further refined in the future. Robust analytical work will be done to analyze job impacts for key emerging trends that are also likely to impact IFC clients, such as urbanization and the

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<sup>27</sup> Source: World Bank.

changing nature of value chains due to technology. Finally, joint country-specific programs are being designed which focus on sector-specific deep dives with a dominant focus on engaging the private sector, in a way that not only develops the private sector but also creates more, better and inclusive jobs. One example is the Let's Work Partnership in Mozambique, which uses a multi-stakeholder, value-chain-focused approach to develop a comprehensive, private sector investment-led jobs strategy in that country.

2.69. Climate. IFC is catalyzing private sector action on climate change through direct investments, mobilizing and leveraging finance, convening stakeholders, and setting global standards, to promote growth that is climate-smart and sustainable. IFC is actively engaging the private sector on climate action and is coordinating its climate work within the Climate Change CCSA. IFC will seize opportunities for low-carbon and resilient growth through programmatic initiatives, collaboration across the WBG, and client-focused tools.

2.70. IFC will continue to expand its large-scale renewable energy business, including advisory assistance and investment capital to the WBG's "Scaling Solar" initiative, a one-stop solution offering African governments rapid procurement of utility scale solar energy. Captive renewable energy use in commerce, agribusiness, and industry, will be a growth area, particularly through new investment models aggregating projects through end users or vendors. By the end of FY16, IFC plans to launch the EDGE Green Buildings market transformation program in 10 countries, covering 75% of GHG emissions from new buildings in emerging markets. Further growth will come from collaboration with the Cities Initiative, with focus on climate-smart waste and water. To help understand the risks and effects of climate change, IFC is creating a tool to identify and mitigate financial, environmental, and social risks resulting from climate impacts, with initial focus on ports and water transport, forestry and pulp and paper, and insurance.

2.71. Strategically blending donor funds alongside its own commercial investments in a targeted and disciplined manner, IFC catalyzes climate-smart investments that would not otherwise happen. IFC is managing more than \$700 million in donor funds which has enabled it to develop new products, become a first mover in new technologies, and complete transactions in FCS. Going forward, IFC is also seeking accreditation as an intermediary and implementing entity of the Green Climate Fund (GCF). Access to GCF and other climate finance will enable IFC to continue using blended finance as a powerful tool to support the climate strategies of IFC's industry and regional departments and help step-up IFC's level of ambition.

2.72. In addition to direct investments, IFC will scale-up work with FIs, as an effective way to enable scale and expand reach in supporting climate-smart business in emerging markets. For example, IFC will focus on sophisticated FIs in MICs and continue to support climate-smart trade. IFC will launch the Climate Assessment For FI Investment (CAFI) tool in FY16 to help client FIs account for climate-related on-lending. IFC continues to lead on new financial instruments such as green bonds and Pilot Auction Facility for Methane, making investors more familiar with clean technologies and setting standards for the market. IFC's green bond strategy focuses on growing the green bond investor base and finding opportunities for products in new markets and currencies.

2.73. A joint IFC-WB extended management team as well as joint IFC-WB technical teams for climate policy and financial innovations have been formed to harmonize and leverage public-private approaches across the WBG on climate change. Climate considerations will continue to be incorporated into project design and implementation. WBG collaboration on climate is underway across regions, particularly in areas of energy, green buildings, and infrastructure. The Africa Affordable Housing Program is proposing to use the EDGE Green Buildings tool to make homes not only affordable but green, precipitating a market transformation in target countries. Within the context of JIPs, such as Nepal Hydropower, the WBG is helping to shift regional power production from coal to clean hydro. In several countries, e.g., Brazil and India, joint WBG teams are approaching city mayors to present a range of WBG financing options (public, private and PPP) for efficient street lighting.

2.74. **Gender.** Evidence shows a society with greater gender equality and diversity is more productive and efficient than one without<sup>28</sup>. The private sector plays a critical role in advancing equal opportunities for women and men, through the provision of access to finance, jobs and technology. Working to enable equal access to more and better jobs, assets and services will be at the core of the new WBG gender strategy, to be launched in autumn 2015. The inclusiveness of the growth process, including gender issues, will be among the key questions analyzed in all SCDs. In addition, joint project work, guided by gender action plans, is ongoing for example in Papua New Guinea where the WBG launched a gender specific analysis of agricultural value chains, to increase joint interventions in FY15/16.

2.75. Central to IFC's gender work is helping clients build robust business performance by making them aware of, and invest in, the value women can bring either as a defined consumer segment, as employees in particularly male dominated sectors, as business leaders or as entrepreneurs and suppliers. IFC's commitment to advancing gender equality is anchored in a strong business case and in client demand for "gender-smart" solutions, which has significantly grown over the past five years. IFC will continue to stimulate and respond to market demand by expanding women's access to credit, saving, housing and insurance products, by advising companies on their workforce and talent management using a new standardized gender certification tool, as well as through building the capacity of women in supply chains and as entrepreneurs including through SME financing and a new entrepreneurship training curriculum. IFC's Gender Secretariat, which is also part of the Gender CCSA, supports staff and clients in implementing gender-smart solutions.

### **III. BUSINESS PLANNING – HOW WILL WE ACHIEVE OUR AMBITIONS?**

#### **LEVERAGING PARTNERSHIPS**

3.1. IFC is a leader in private sector development, both within the WBG and within the development finance community. IFC aims to leverage this leadership by working more with partners, traditional and new, to accelerate its contribution towards achieving the goals. These partnerships can play a critical role in helping attract private financing while providing integrated development and financing solutions to emerging market clients.

3.2. **Network of clients.** By leveraging its partnerships with its vast network of clients, IFC can catalyze additional private investment to unleash growth and enhance impact. The recently implemented client engagement model (see section below in Enhancing IFC's Delivery Model) and increased focus on clients at all levels is aimed at deepening client relationships to bring together resources, expertise and ideas to achieve maximum impact. This approach will enable IFC to continue to move from a transactional focus to a more strategic approach that builds long-term partnerships to help solve critical development challenges in line with SCDs and CPFs. Examples of such emerging partnerships include:

- IFC's deepening partnership with EDF, the leading French power utility, has developed from a traditional project finance relationship in large markets, to a multi-project partnership with a focus on high-priority geographies such as Africa and FCS. IFC's co-development partnership with EDF in the potentially transformational 420MW Nachtigal hydro in Cameroon is an example of the results such partnerships are poised to deliver.
- IFC is backing an early-stage venture led by the founder of the Ethiopian Commodity Exchange, a former IFC AS Client, to develop a platform to build commodity exchanges throughout Africa with the goal of replicating its success in significantly increasing Ethiopian farmers' incomes. To date, this has included helping to get the Ghana Commodities Exchange started, with new commodity exchanges in other locations likely to follow.

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<sup>28</sup> Sources: (i) *Women, Work, and the Economy: Macroeconomic Gains from Gender Equity*, IMF September 2013 (ii) *Global Gender Gap Report 2014*, World Economic Forum (iii) *World Development Report 2012: Gender Equality and Development*, World Bank 2012.

- IFC's strong partnership with Colombia's Pacific Rubiales, which involved an initial \$150 million equity investment to build a new port terminal designed for the shipment of Colombia's crude exports, has recently led to a larger engagement aimed at reducing key infrastructure bottlenecks. IFC, the IFC Global Infrastructure Fund and other investors plan to invest \$320 million in Pacific Midstream Ltd., a growing company that will play an important role in improving the country's oil and gas pipeline network.

3.3. IFC continually searches for new solutions to public-private challenges including, on a case-by-case basis, working with state-owned-enterprises (SOEs), both in their home countries and abroad. In many countries infrastructure development has been historically dominated by SOEs. However, as growth opportunities decline in their domestic markets, SOEs may seek opportunities for taking their capital and expertise abroad, where they are obliged to operate as commercial investors. IFC can provide an understanding of the regulatory framework and its in-country experience, including a spectrum of relationships, both helpful for investors new to a country.

3.4. IFIs, OECD, UN, and the G20. To maximize its impact IFC needs to be able to leverage the knowledge, influence and resources of a broad group of partners, for instance to be most effective in addressing investment climate issues, providing and disseminating knowledge, and in structuring complex PPPs. Donor and partner governments increasingly look to IFC to help them intensify their operations in private sector development. IFC is seen as an honest broker in dialogue between the private and public sector, and an institution that can ignite private sector thinking across institutions. By directly engaging in global fora, IFC is influencing positions on global development finance and helping mobilize private resources for sustainable development.

3.5. IFC has taken a leadership role in shaping global/multilateral development fora that target the private sector. Through the Partnerships for Prosperity (P4P) Secretariat housed within IFC (part of the Global Partnership for Effective Development Cooperation in which IFC has been engaged since the fourth High-Level Forum on Development Effectiveness in Busan in 2011), IFC together with donors, international organizations and business associations is shaping engagements with business to help deliver private sector development solutions at the country level.

3.6. IFC is part of the Business Steering Committee for the Financing for Development (FfD) Conference in Addis Ababa in July 2015. The Committee has been formed by the UN to inject a private sector perspective in considering the best means of unlocking private flows that are essential to support the post-2015 SDGs.

3.7. IFC, together with the WB, is extensively engaged with the multilateral development banks (MDB) heads group in developing a joint MDBs FfD paper on critical issues in FfD (see Box 6 below). IFC has taken a lead with the EBRD on the private sector chapter for this paper.

3.8. IFC and the WB are collaborating in conceptualizing the thematic focus of the G20 development agenda, led by the Turkish government. In particular, IFC is contributing expertise in inclusive business models, and how to embed these within policy frameworks.

**BOX 6: IFC IN FINANCING FOR DEVELOPMENT (FFD)**

A key stepping stone towards helping end extreme poverty and boost shared global prosperity by 2030 is the Financing for Development (FfD) Conference, taking place in Addis Ababa, Ethiopia in July 2015.

The third of its kind, the FfD conference will focus on generating predictable, long-term investment and financing towards sustainable development outcomes. It is also the first building block in the post-2015 agenda, occurring ahead of the launch of the Sustainable Development Goals (SDGs) in September 2015 and the 21st Conference of the Parties (COP21) on the UN Framework Convention on Climate Change in December 2015.

IFC is committed to helping achieve a balanced and ambitious outcome at the FfD Conference – one that reflects the changes in the development finance landscape, and which outlines how all relevant actors across the development spectrum can work together to mobilize and use effectively, all sources of finance available for sustainable development.

Central to IFC's focus is highlighting the importance of crowding-in private sector investment into areas of sustainable development through an array of financial instruments, and a range of public sector levers on private sector engagement. Enabling environments – economic, legal and regulatory – are crucial to attracting private sector finance, whether it is international or domestic.

A core component of IFC's engagement is helping coordinate business consultations. In particular, IFC will facilitate discussions relating to the importance of environmental, social and governance considerations across the value chain, the pertinent role of SMEs in expanding job creation, and the role of finance in tackling the infrastructure deficit.

IFC's participation in the FfD process is a reflection of its firm belief that business is an essential vehicle for delivering a more prosperous, cleaner and equitable world to the next generation.

3.9. **Development Partners.** IFC is continuing to grow its relationships with development partners both in traditional areas of advisory services as well as in new blended finance and returnable capital instruments with a focus on priorities such as climate change, agribusiness, gender, infrastructure, financial inclusion and SMEs. In addition, IFC and the WB are developing a coordinated fundraising strategy especially for the joint GPs and CCSAs. While coordination will take place around approaching partners, IFC will continue to fundraise for its own activities while ensuring stronger alignment between fundraising efforts and strategic priorities through strengthened governance and deepening of the relationship management approach. The new joint WBG Trust Fund instrument for advisory services will allow more seamless integration of public and private activities to meet client needs.

3.10. **Blended Finance**<sup>29</sup> allows IFC, and its development partners, to catalyze high-impact investments in the areas of climate change, agribusiness and SME financing, that would not otherwise happen due to unfavorable market conditions and market failures. More importantly, blended finance is helping lead to sustainability of new and untested business models and markets, paving the way for long-term commercial financing. This work continues to remain a small, yet effective, portion of IFC's total business.

**MOBILIZATION**

3.11. IFC, as stated in its Articles of Agreement, was originally established to serve as a catalyst to increase the flow of capital into productive private investments in members' countries. Mobilization – raising and deploying investors' capital to meet clients' financing needs – continues to be a central component of IFC's business model and an increasingly important part of IFC's strategy. Partnering with other investors allows IFC to preserve – and fully leverage – its limited resources, while maximizing its development impact. Since its establishment in 1957, IFC has mobilized over \$70 billion from over 400+ investors – including international commercial banks, local emerging market banks, multilateral and bilateral development banks, funds, insurance companies and central banks – for over 1,200 financings for clients, in more than 110 emerging markets. The types of mobilization vehicles/platforms IFC uses – as well as the number and type of

<sup>29</sup> In the context of IFC, blended finance refers to a financing package comprised of concessional funding provided by development partners (i.e. donors) and commercial funding provided by IFC, to support high-impact private sector projects. IFC's blended finance approach, endorsed by IFC's Board in March 2012, employs a set of principles which ensure that such deployment is selective and disciplined, including minimizing the embedded subsidy element in order to promote long-term financial sustainability.

investors with which IFC partners – continue to evolve and expand in response to investors’ and clients’ changing needs.

3.12. IFC’s Syndicated Loan Program will continue to remain a key component of IFC’s overall core mobilization efforts. Through FY18, IFC expects to continue to grow the number and volume of its syndicated loan activities, particularly in priority sectors and regions.

- IFC will continue to broaden its co-investor base to include increased participations by emerging market (local) banks and IFIs through its syndicated parallel lending activities, and by institutional investors via existing – and new – debt core mobilization products tailored to meet their (and borrowers’) evolving needs, such as B-Bonds and local currency products.
- IFC also aims to expand its Managed Co-Lending Portfolio Program (MCP) which was launched in FY14 with an initial \$3 billion pledge from People’s Bank of China (PBoC) / State Administration of Foreign Exchange (SAFE). Targeted investors will include those looking to diversify across IFC’s global portfolio as well as customized MCP initiatives in key areas of regional and sectoral strategic importance to IFC.
- Due to the significant infrastructure needs in Africa, IFC also expects to be utilizing the warehousing/underwriting pilot program whereby IFC will take larger exposures for its own account with the intent to “sell down” to co-financiers prior to disbursement.
- IFC will also continue to utilize a broader range of WBG risk mitigation products in order to attract increased commercial co-financiers’ participation in syndicated loans to IDA and FCS clients.
- IFC will continue to use existing loan exposure management products to support IFC’s efforts to manage its balance sheet more actively, helping to preserve IFC’s own capital.

3.13. Building on the success of Initiatives such as IFC’s Global Trade Liquidity Program (GTLP) and Critical Commodity Finance Program (CCFP) in mobilizing third party capital, IFC will continue to innovate, seeking to apply similar mobilization structures to unaddressed or new market challenges.

3.14. Given that governments worldwide continue to face increased demands from their citizens for expansion or improvement in infrastructure and public services, and also face access and finance gaps due to budget constraints, PPP mobilization remains a critical platform. Volumes from PPP mobilization are not linear, especially within regions; as such it is expected that there will be continuing volatility in the amounts of PPP mobilization depending on the size and scale of the relevant PPP project activity. Overall, IFC expects an increase in the amounts mobilized over the FY16-18 period.

#### **BOX 7: WORKING WITH PPPS**

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

Priority sectors for IFC’s PPP program in the medium-term are power and transport. IFC has also developed considerable expertise globally in the health sector and will continue leveraging it to respond to client needs.

IFC will continue developing strategic engagements on PPPs with the WB under various modalities which vary by region – examples include: West Bank and Gaza Solid Waste Management PPP – the first PPP in that territory, ONAS in Tunisia, Ganga project, Senegal Desalination, India UMPP Ultra Mega Solar Park, WBG Private Participation in Health in India initiative, and Manila and Cebu bus rapid transit projects. IFC has been closely engaged within the CCSA and will continue to strengthen collaboration and look for close linkages with the Transport & ICT, and Energy & Extractives GPs.

3.15. The IFC Asset Management Company (AMC) continues to be an important mechanism for increasing IFC’s development impact and reach in its strategic focus areas by mobilizing third-party capital to expand the

supply of long-term finance in developing countries, while at the same time allowing investors to access IFC's global investment pipeline, network of relationships, philosophy and standards.

3.16. AMC's value proposition can be viewed from the perspective of four stakeholders: developing countries, investee companies, investors and IFC.

- *For Developing Countries:* By helping to channel investors' money to developing countries, AMC helps to fund private sector development and growth in these markets. It also strengthens the demonstration effect of IFC's projects to other capital providers, increases the number and size of projects that IFC finances, and supports attainment of the IFC Development Goals (IDGs).
- *For Investee Companies:* AMC enables investee companies to access larger investments from IFC, via the AMC-managed funds themselves as well as via direct co-investment by the fund investors. In addition, it allows these companies to diversify their shareholder bases with a new set of reputable investors. Investee companies have shown appreciation for having the relevant AMC fund's investors as indirect investors, especially as the companies think about future potential fund-raising needs and the high-quality nature of AMC's investors.
- *For Investors:* AMC provides investors with a unique platform to invest in emerging and frontier markets. Investors benefit from IFC's established investment expertise, market access and organizational infrastructure in these markets, built up over 55 years of first-hand investment experience.
- *For IFC:* AMC improves IFC's financial sustainability by preserving IFC's own capital and increasing IFC's net income (both absolutely and on a risk-adjusted basis), thereby adding to its equity base and its ability to invest more in the future. In addition, IFC will over time achieve a leveraged return on its investments as fund performance fees are realized. AMC also supports IFC's own account equity business by enabling more transactions, with greater resulting risk diversification for IFC's equity portfolio, and an increased focus on equity business development funded partly by fees from AMC.

3.17. AMC has increased its assets under management, attracted a diverse group of high caliber investors, hired an experienced team of professionals to manage the funds and developed a robust governance framework that capitalizes on IFC's strengths while maintaining requisite decision-making independence as a manager of third-party funds with the concomitant fiduciary duties. Now that the platform has been built, AMC has the opportunity to broaden and deepen its product offering to enhance IFC's investment business as well as mobilizing additional sources of third-party capital.

3.18. AMC is currently marketing the IFC Financial Institutions Growth Fund, IFC MENA Fund and IFC Emerging Asia Growth Fund. AMC is developing other fund ideas including, a Global Fund-of-Funds, Women Entrepreneurs Opportunity Fund and follow-on fund to the IFC African, Latin American and Caribbean Fund. The precise fund mix and size of each new fund will be dependent on IFC's future growth plans, strategic focus and investor appetite.

#### **ENHANCING IFC'S DELIVERY MODEL**

3.19. IFC's Management Team put in place IFC's Refocus, to: (i) bring clearer internal accountability; (ii) deepen and broaden engagement with partners and clients; and (iii) create an operating environment where IFC and its mission consistently take precedence over the specific objectives of individual units. To bring clearer accountability, IFC established three new Vice Presidential Units (VPUs), with the main purpose of strengthening its focus on supporting private sector development through delivering integrated solutions to clients by using a full range of investment and advisory services and expertise across the WBG. The main elements of the new structure are:

- *Global Client Services VPU:* replaces a triple-matrix and provides a single platform for execution of all IFC investment and advisory products with much more enhanced client focus.

- *Corporate Risk & Sustainability VPU*: provides a single platform to group all the existing IFC functions critical to its brand to manage key risks at both micro and macro levels. It also allows IFC to deliver comprehensive solutions to its clients to help them improve their standards as a way to mitigate their risks and grow into competitive and sustainable businesses.
- *Global Partnerships VPU*: serves as a platform to work in close partnership with the WB, donors, and other public sector players to focus on creating opportunities for higher impact by synthesizing IFC and private sector-focused inputs with public sector initiatives.

3.20. To deepen and broaden engagement with partners and clients, IFC has developed a new approach to client relationship management. This began in July 2014 with the appointment of dedicated client coverage staff, known as Client Leaders. These Client Leaders interface with regional and industry staff, balancing local and client knowledge needs with global industry expertise, and bring together resources where they are most impactful in helping clients reach their goals.

3.21. A critical success factor is ensuring that Client Leaders and other client-facing staff are equipped with the right data and analytical tools to anticipate and respond to client needs. These include: (i) a new, fully integrated Client Relationship Management (CRM) tool; (ii) client segmentation (e.g. by sustainability practices, or gender challenges) that will enable IFC to better target client needs and enhance the additionality of its offerings; and (iii) comprehensive Client Briefings, to provide investment teams with a solid understanding of the client's profile, operating context, strategy, and history with IFC.

3.22. A key facet of creating an enhanced operating environment is improving the efficiency of IFC's processes. To this end, the organization has conducted a thorough diagnostic to identify "pain points" that slow down operations. The diagnostic identified the main causes to be linked to culture and behaviors, and not entirely due to structures or processes themselves. The consolidation of risk-related functions into a single VPU is expected to also result in some efficiency gains by virtue of looking at risks using a parallel, rather than sequential, approach. As a result of the diagnostic, an efficiency improvement pilot is underway in LAC, which introduces changes to current practices that are focused on changing behaviors (see Box 8 below). The pilot approach allows for a continuous improvement process, testing of recommended approaches, encouragement of new ideas, and learning through implementation, with a plan to roll out lessons learned to other regions. IFC has also introduced more delegation to transaction managers to reduce bottlenecks and improve efficiencies.

#### **BOX 8: EFFICIENCY IMPROVEMENT PILOT IN LAC**

Timely delivery of quality services is essential to supporting IFC's clients, many of whom operate in volatile markets. A team of senior IFC investment and risk professionals conducted a thorough diagnostic to measure IFC's responsiveness to clients. The team found that while IFC's investment process is in line with the industry and other peer institutions, IFC is slower in delivering to clients. The team identified the main reasons to be behavioral and cultural in nature – how staff from different roles and functions work together throughout the investment process. One of the key recommendations is to establish a partnership model between IFC investment and risk functions based on lessons learned from recent successful experiences within EDC and GE Capital.

The simplified and interconnected organizational structure that is now in place in the Refocused model is conducive to changing how IFC works internally to deliver to clients. A number of recommendations on project management practices, project segmentation based on risk profile, and parallel instead of sequential execution of process steps are currently being implemented on a pilot basis in the LAC region. The objective of the pilot is to test approaches that would lead to a significant increase in responsiveness to clients commensurate with the deal complexity and maintaining IFC's robust standards. IFC expects to see the greatest improvements in processing times across lower risk and straightforward projects, recognizing that complex and high risk projects require more time. The implementation of the pilot will inform the roll out of successful practices across IFC.

3.23. Improvements in results measurement. IFC's results measurement system (framework) is comprised of three mutually reinforcing components: (i) a monitoring system for annual tracking of development results and performance (DOTS); (ii) the IDGs which provide corporate-level targets to reflect IFC's strategy and



areas of greatest development needs; and (iii) a systematic in-depth evaluation program to articulate and assess the impact of IFC's work.

3.24. Over the last two years, IFC has been moving towards addressing the impact of operations beyond individual transactions to better understand how it has contributed to the development of the private sector in specific sectors and economies. With the introduction of the WBG goals, the need to articulate this impact has grown.

3.25. In this context, a series of improvements to IFC's results measurement framework was endorsed by its Board in July 2014. The changes aim to increase the value of monitoring and evaluation (M&E) to operations and clients, and to maximize IFC's contributions to the WBG goals<sup>30</sup>. These changes seek to:

- Enable IFC to systematically assess the extent to which operations meet not only financial profitability targets but also serve the development needs of economies and sectors in which clients operate. There is a greater need to understand this impact, track progress, and foster evidence-based decision-making in operational and management teams.
- Provide concrete evaluative evidence to help articulate the pathways through which the private sector contributes to economic development and poverty reduction.
- Provide business intelligence that enhances growth opportunities for IFC clients, drawing on staff expertise, monitoring data, evaluative evidence, and global knowledge.
- Ensure synergies and efficiencies with the GPs in results measurement.

3.26. While working on improvements, IFC intends to preserve the elements that have worked well, which include: the branding, aggregation and reporting features, and the external assurance related to DOTS; linking development results to incentives, for example by cascading results indicators (that build on the IDGs) from the WBG Scorecard into the IFC Corporate Scorecard; leveraging partnerships, and maintaining IFC's leadership amongst IFIs. In addition, IFC will continue to foster the best group of professionals on results measurement within the organization and across the WBG, through the implementation of the Results Measurement and Evidence Stream (RMES).

3.27. IFC will focus on a better articulation of sector impacts on jobs and growth; demonstrating impact of its interventions at the country, sector and/or strategic program level; and taking a streamlined and client-centric approach to monitoring the results of individual transactions. IFC is making progress in the following areas:

- From using results primarily for reporting, to using M&E to add value to clients and operations. IFC is starting to develop business analytics for clients that want to articulate their development impact and make informed decisions based on insights from this data, and can, in some cases help secure additional funding. Currently, four such projects are underway in two regions.
- From an ad-hoc demand-based evaluative approach, to a strategic portfolio approach that assesses evidence gaps to demonstrate sector impact. Evaluations have been launched on four sectors: SME finance, manufacturing, agriculture, and power. IFC is formalizing the evaluation disclosure policy to enable wide public dissemination of findings outside IFC and the WBG.
- From transaction level monitoring, to assessing results at the program, country, and/or sector level. During the first half of FY15, results measurement staff have started to engage with teams in several of the SCD/CPF processes. The work on CPFs opens opportunities to support joint implementation plans for a specific sector in a country.
- From process-heavy reporting, to streamlined transaction level M&E for greater effectiveness. Progress in this area includes indicator simplification and streamlining (any investment project on

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<sup>30</sup> These will come from promoting private enterprise, with the primary objective of creating quality jobs and expanding inclusive economic growth, while maintaining a focus on sustainable development.

average will track a maximum of eight indicators). IFC has also worked with the Independent Evaluation Group (IEG) to enhance the self-evaluation program for investments, in order to increase operational relevance, avoid duplication and enhance learning (through discussion of extreme cases with management).

- From an IFC-focused results agenda, to WBG and IFI harmonized approaches to results, in a collaborative manner. The process of harmonization of indicators with a group of IFIs continues, and is now focused on a smaller set of qualitative indicators related to private sector development, and will be finalized by June 2015.

3.28. Ensuring Additionality. IFC's additionality is the unique benefit or value-added it brings to a project that a client would not otherwise have. In addition to financial risk mitigation, such as providing longer tenors, IFC's additionality can be beyond financial, including areas of knowledge, innovation, and standard and policy setting. IFC continues to enhance guidance for staff to ensure a consistent approach to additionality across its activities, and is considering ways to improve its guidelines, training programs, Board communications, and mechanisms for management oversight.

3.29. Integration of Advisory Services. IFC's AS strengthens the capacity and development impact of firms, helps governments design and implement PPP transactions, and helps governments and non-government institutions improve the enabling environment for private investment. AS extend IFC's footprint, especially in challenging markets. In these areas AS often leads the way for IFC, and is a crucial part of its growth strategy.

3.30. Over recent years, IFC has been pursuing a series of reforms to enhance the impact and effectiveness of AS, including strengthening project governance, results measurement and business planning systems, as well as building a flexible funding model that leverages contributions from IFC, donor partners and clients. IFC has established a substantial advisory global footprint, including an active portfolio (of over 650 projects in more than 100 countries with an annual spend of almost \$400 million<sup>31</sup>) with a strong focus on IDA (66%), FCS (20%), and climate change (25%); continuous improvement in efficiency and development results; and consistently strong client satisfaction.

3.31. *New structure*. To take AS to the next level and to further strengthen client focus and impact, it was brought together with investment services (IS) and other IFC departments, and relevant GPs:

- Work with firms, and PPP transaction advice to governments, continues to be delivered directly by IFC, supported by new mechanisms to strengthen WBG collaboration. AS continues to sharpen its focus on enhancing IFC's value proposition with clients, in order to strengthen its development impact. The funding model of advisory work with firms will place growing emphasis on client contributions.
- Work with governments on the enabling environment for private sector development is delivered through two joint GPs: Trade & Competitiveness, and Finance & Markets. In addition, health-related AS is now delivered through the Health GP.

3.32. Industry-specific advisory work with firms is managed alongside IS; advisory work that cuts across industries, as well as advice to governments on PPP transactions, is managed by IFC's Cross-Cutting Advisory Solutions department (see Box 9 below); environment, social and governance advice to firms is managed by IFC's ESG department. Active projects and trust funds are mapped accordingly.

3.33. AS-specific support services have been consolidated into a single group that supports IFC AS delivered via GPs and by IFC directly. The group comprises AS governance and policy, AS controller and financial management, portfolio management, systems and reporting and trust fund management. Support on other matters, such as results measurement and partnership relations, are also provided to both IFC and GPs by relevant IFC departments.

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<sup>31</sup> As of end-FY14.

3.34. *Implications for funding model.* A key part of recent and ongoing reforms has been to strengthen the sustainability of the AS funding model, which draws on a combination of IFC, donor, and client sources. Reforms have included the partial mainstreaming of IFC's contribution to AS from IFC net income (FMTAAS) to IFC's administrative budget; the strengthening of donor partnerships; and the upgrading of financial management systems. Contributions from clients have also increased as part of a broader strategy to ensure subsidies are justified, and to strengthen client ownership and commitment.

**BOX 9: CROSS-CUTTING ADVISORY SOLUTIONS**

There is a significant amount of advisory work that cuts across industries, at the firm-level and market level, including providing advice to governments on PPP transactions. This work entails providing technical advisory solutions that can be deployed across multiple sectors/industries, including supporting transformational initiatives in key IFC priorities and markets.

Strategic focus for this cross-cutting advisory work includes:

(i) *PPPs*

- Supporting governments to design and implement PPP transactions to increase private sector participation; increasing focus on power and transport; continuing work on agribusiness, waste, water, health and education.
- Engaging in more complex / transformational projects, including in FCS.
- Engaging strategically in MICs, including building capacity of government PPP units.
- Working with the PPP CCSA to unlock private investment in priority sectors/ countries.

(ii) *Energy and resource efficiency*

- Working on energy solutions for investment clients to increase access to reliable, cost-effective energy; address resource availability risk; and manage production more efficiently to minimize losses and costs.
- Working with groups of firms including benchmarking, market research and best practice models.
- Facilitating dialogue among private, public, and civil society actors to identify investment needs and drive reform in water stressed, developing economies (e.g. Water Resources Group).

(iii) *SME and value chain solutions*

- Improving business management skills of SMEs at the market level, particularly in FCS, in real sector value chains, and as SME clients of financial institutions.
- Improving labor conditions in the garment sector (e.g. Better Work, supported by ILO).

(iv) *Corporate finance*

- Providing advice on match-making, mergers and acquisitions, bespoke research, pre-IPO support, leveraging IFC experience in emerging markets and network of clients.

This cross-cutting work represents a current portfolio value of over \$300 million with its largest exposure in Africa, and over 300 active client engagements of which a significant portion are in IDA and in climate change.

3.35. Global Treasury. IFC is establishing two regional hubs (Europe, Asia), in addition to Washington, through which Treasury will be able to meet its objective of generating an additional \$1 billion in income for IFC over the next ten years and provide services to internal and external clients.

- Three fully functional hubs will allow treasury to be “open 24/7” and provide timely responses to clients, IFC's key global financial counterparties, and market opportunities; and
- Additional income-generating opportunities to be explored include fees for client solutions and collateral rehypothecation; investments in emerging market corporate and interbank bonds; IDA portfolio management and two-way credit support annexes.

3.36. Knowledge. IFC's corporate knowledge function, the Global Knowledge Office (GKO), seeks to create efficiency and effectiveness for IFC staff and businesses through knowledge management services and collaboration tools. GKO programs in FY16 will be focused around three key themes: (i) information management, particularly in relation to operational content; (ii) support to decision-making, to ensure that business decisions do not rely on past experiences that are no longer relevant but incorporate in a meaningful manner the experiences and insights of others, including lessons learned from failures; and (iii) collaboration, as knowledge segregated within institutional boundaries (departments, regions, parts of the WBG) is a key obstacle to innovation for clients.

3.37. To cite a few examples: (i) content management audits and support services are offered by the GKO to departments to enhance streamlined access to reliable, consistent and relevant information pertaining to operational processes; (ii) innovative efforts to drive use of lessons learned as part of project design and implementation have been initiated as well as the visibility and access to lessons learned programs that exist across the WBG; (iii) Technical Master Classes, a program offered by the GKO since FY12 to foster the transfer of key expertise to pre-identified groups of staff, continues to expand; and (iv) knowledge and business collaboration technologies are becoming more the norm across the WBG, and their piloting, deployment and improvements are supported by the GKO, in close collaboration with IT and other WB business collaboration counterparts. Across all aspects of its work program, the GKO focuses on the nature of the knowledge to be captured, surfaced and transferred:

- *Scarcity* – What coverage for any given area of expertise does IFC have? Is there one person only with this knowledge? Is this knowledge captured?
- *Criticality* – What knowledge is most important for staff to be efficient in their daily work program? What knowledge is critical for a newcomer to be effective rapidly?
- *Complexity* – How difficult is it to gain this knowledge? How complex are the tasks and roles being considered?

This framework allows the GKO to focus its support to IFC operations, and partner on WBG-wide programs that support a cohesive knowledge and collaboration agenda while responding to specific institutional priorities.

## **WBG COLLABORATION**

3.38. IFC continues to build a strong WBG approach to reach the goals, including through the GPs, JIPs and other high impact engagements, as well as by using the SCDs and CPFs to identify and support the best private and public sector solutions for development and to determine the appropriate sequencing of WB, IFC and MIGA engagements. IFC's new organizational structure is facilitating these joint approaches to country strategies and engagements. Working together as the WBG in select areas will further enable progress towards the institutional priorities.

3.39. WBG approach to country engagement. At the country level, the new SCDs present an evidence-based assessment and prioritization of countries' binding constraints and key opportunities to achieve the WBG goals. The CPFs then reflect a country program designed around the country's own development goals, the SCD priority areas, and the WBG comparative advantage. Early indications from the first SCDs and CPFs under preparation suggest that these tools serve as an effective framework for better focusing WBG country strategies on high impact areas.

3.40. In addition to engagement through the SCDs and CPFs, the WBG uses a Regional Coordination Mechanism (RCM) in each region to identify and oversee areas of enhanced collaboration. Through the RCMs, regional teams of the WB, IFC and MIGA will continue to select JIPs and transformational engagements for select countries or areas of work that leverage WBG synergy on issues with the potential for high impact. Initial JIPs such as Myanmar Power have started to materialize. There are several other JIPs under implementation, such as Burundi Agribusiness/Power; several more under design, such as Skills Development in MENA; and a strong early stage pipeline. WB and IFC program leaders will coordinate solutions. IFC appoints program leaders dedicated to JIP coordination in the more complex, multi-sector JIPs.

3.41. This approach to country engagement enables IFC to use the analytical resources of the WBG for understanding and prioritizing country-level opportunities and constraints, and ultimately to build consensus on creative, durable and impactful solutions. In SCDs and CPFs, IFC's focus is on the role of the private sector. The opportunity to increase IFC's voice – and the role of the private sector – in a joint WBG country strategy process requires substantial effort. For IFC, this can only be met by undertaking these processes with a high degree of consistency and efficiency. To help manage this change, the Global Partnerships VPU supports

IFC regions with economic and risk-related analysis, and partners with WB colleagues to produce SCDs. In contributing to SCDs, IFC draws on resources from across the institution, particularly industry departments, ESG, and results measurement.

3.42. All SCDs and CPFs are joint. For countries in which private sector solutions are more relevant to key opportunities and constraints, and where collaboration with the WB and MIGA will have the highest benefits, IFC focuses more analytical resources on critical development needs and areas that can be addressed through the private sector. IFC is also introducing a consistent analytical approach across regions that is targeted to specific types of countries, better leveraging skilled resources across regional or functional divisions, and making its interaction with key stakeholders, particularly the private sector in countries, more consistent in order to draw out the lessons most effectively. IFC has held joint meetings with the WB at the regional level (the RCM) which have helped to share perspectives on upcoming country engagement, as well as JIPs.

3.43. Gender, fragility, jobs, PPPs, and climate are cross-cutting themes critical to achieving sustainable growth. IFC continues to work closely within the CCSAs to help set a strategic agenda, set common targets, improve knowledge, develop practical approaches, measure results and forge key partnerships that strengthen the private sector contribution to integrated development solutions.

3.44. The IFC-MIGA business development program continues to deliver strong results. Streamlined joint implementation and a client-focused approach have resulted in over \$2 billion of joint program volume in the past four years<sup>32</sup>, 50% of which was delivered in FY14. This represented an 85% increase over the previous year, making this a leading edge of WBG collaboration.

3.45. The IFC-MIGA joint program continues to focus on WBG strategic priority areas (e.g., power, capital markets development), while maintaining its focus on IDA and FCS. In FY14, over 40% of the joint business volume was in IDA and FCS countries.

3.46. In the FY16-18 period, the IFC-MIGA partnership strategy aims at further scaling up joint operations by maintaining its focus in strategic priority areas and replicating its successes in sectors and regions allowing for holistic joint implementation between various WBG entities. Strong emphasis on WBG client solutions and enhanced efficiency will continue to support the joint strategy implementation.

## MANAGING RISK

3.47. IFC's growth is enabled by a holistic portfolio approach that will over time enable it to maximize its contribution to the goals. IFC aims to achieve high development impact and financial sustainability over the portfolio as a whole, allowing it to take greater risks on individual investments. IFC's ability to do more projects that have substantial direct and indirect impacts but which might be higher risk, such as in new industries or FCS, is complemented by financially more robust projects in more stable markets. IFC has higher tolerance for operational and financial risks in projects with potential for high development impact than in other investments.

3.48. IFC is committed to maintaining a prudent approach to risk management and financial sustainability. In aiming for growth and taking on more risk, IFC needs to remain cognizant of the impact on portfolio volatility, especially in the current macro environment, and adjust accordingly for the additional risk. Investments with higher than normal levels of risk are given greater management and Board scrutiny, under the guidelines for internal and Board approvals. By concentrating management attention on higher risk activities, IFC can carefully manage these risks. Bringing these investments to the Board under regular procedure provides the Board the opportunity to provide guidance on their risk appetite.

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<sup>32</sup> IFC-MIGA business development volume is based on the amount of MIGA guarantees for joint projects.

3.49. Conversely, IFC aims to streamline investment processing for lower risk investments, such as repeat transactions with existing clients in good standing, or senior loans to well performing banks. This differentiated approach to processing increases IFC's operational efficiency and client responsiveness while allowing greater focus to managing higher risks elsewhere in the portfolio. Likewise, IFC's approach to the supervision of its loan portfolio is driven by the risk rating assigned to projects in the portfolio, with closer monitoring and review of higher risk projects.

3.50. Managing the risk in IFC's portfolio. Maintaining a highly diversified portfolio is a key risk mitigation strategy for IFC, and analysis shows that geographical diversification, where IFC is particularly strong, is considerably more important than sector diversification. IFC maintains diversification primarily through its country and single obligor limits, which it monitors carefully. IFC also engages in regular stress-testing at the corporate level (as well as stress-testing at the regional or country level as needed) to try to detect weaknesses and vulnerabilities in its portfolio.

3.51. IFC also takes a relatively conservative approach to managing its equity portfolio. Specifically, it is cushioned against equity losses by: (i) the high levels of capital it holds against equity investments; and (ii) the fact that it excludes unrealized capital gains from its capital adequacy calculations, so changes in unrealized capital gains do not impact it. In addition, IFC – with its strong capital position, low leverage and high liquidity – has the financial comfort to be a long-term investor. Unlike many financial institutions with less robust liquidity positions, IFC does not have to sell at a loss during a crisis situation, but can wait until markets recover. Indeed, some of its best buying opportunities have come in the aftermath of country crises, where IFC can play a countercyclical role.

3.52. Macro instability, market volatility and recent portfolio performance. Recent macroeconomic tensions and market volatility (particularly in commodity prices) have had a relatively small negative impact on IFC's portfolio. On the loan portfolio, this impact shows up in the average loan credit risk rating (CRR) and the non-performing loans (NPLs). However, it is also worth noting that, compared to the Asia crisis, the Russian default or the Argentine default in the late 1990s and early 2000s, the recent macro-instability and market volatility has had only a minor effect on IFC's loan portfolio. Similarly for equity, macro turbulence and the sharp drop in commodity prices have generated higher volatility which has had an adverse impact on the accounting income from IFC's equity portfolio. Nevertheless, IFC's decision to execute equity sales swiftly in the first part of FY15 has helped offset the negative developments in emerging market stock markets.

3.53. For the medium term, IFC is very carefully monitoring the potential effect the current uncertain macroeconomic environment may have on its portfolio, especially in MICs. There are a number of MICs which could be subject to an imminent credit rating downgrade from the international rating agencies. History has shown that a country rating downgrade often leads to increased NPLs in IFC's loan portfolio. IFC would also expect the current conditions to continue to increase volatility on its equity portfolio over the medium term.

**BOX 10: UKRAINE AND RUSSIA**

**Ukraine:** Since the beginning of the crisis in Ukraine, IFC has been committed to supporting the export revenue-generating sectors of the Ukrainian economy. IFC has worked closely with IBRD in a challenging environment characterized by macroeconomic, geopolitical and banking sector risks. Demand for IFC's support in Ukraine remains high with potential in agribusiness and related infrastructure. With more market stability, IFC envisions prospects to scale up the investment program in several priority areas, including privatizations of SOEs, solid waste, district heating and sub-national finance.

**Russia:** The Russian economy has been negatively affected by the fall in oil prices, international sanctions and increased policy uncertainty. In 2014, the Ruble lost about half of its value, capital outflows reached a record high and the economy grew at the slowest rate since 2009. Russia's sovereign credit rating was downgraded to one notch below the investment grade by two major rating agencies. Russian corporates experienced similar downgrades. IFC's program in Russia – which historically contributed about a quarter of IFC's new investment commitments in ECA annually – is being hit by the current crisis. No new investment commitments have been made in Russia since July 2014. IFC's loan portfolio remains resilient and continues to generate income. Notwithstanding the difficult external environment, IFC continues to support its portfolio clients and implement advisory projects. IFC's strategic priorities in Russia remain valid. They include improving resource efficiency, deepening financial intermediation, developing infrastructure, and supporting value-added manufacturing and agribusiness, with increasing focus on the country's less developed regions.

3.54. Managing ESG risks in its portfolio and promoting sustainable practices is an integral part of IFC's business and risk management approach which is embedded into operations and the project cycle. IFC has continued to refine its risk management approach to holistically integrate non-financial risks on the same level as commercial risks. Integrating financial and non-financial risks at the transaction and at the corporate level allows IFC to take informed risks critical to achieving the objectives of development impact and financial sustainability. IFC's Refocus allows it to view all of its engagements from an integrated risk perspective and deliver integrated solutions-including direct client support.

3.55. As IFC expands activities, particularly in more challenging markets, it will work with clients who are increasingly operating in countries with difficult contexts where potential high-reward business investments and sustainable inclusive growth face complex ESG risks. This is especially true in FCS. In these contexts a strategic focus on sustainability is fundamental to business success, sustainable job opportunities, and inclusive growth. In an effort to help manage these risks, IFC is continuing to help build the capacity of its clients in these areas, and reinforcing its approach to more proactive portfolio management to address ESG risks with increased focus on supporting complex and transformational transactions. This requires best-in-class ESG risk management and flexible solutions to enhance IFC's clients' ability to manage and more effectively mitigate risks. At times, this includes helping clients to address risks that are beyond their ability or responsibility to solve alone, to leverage the WBG to find durable solutions, and to work with other stakeholders to help unlock investments that are constrained by significant ESG risks. Despite these efforts, as IFC grows its investments in more complicated and challenging environments, it should expect stresses in the portfolio on ESG issues which it may not always be able to mitigate.

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

3.57. Having introduced its Enterprise Risk Management (ERM) Framework in FY14, as extensively outlined in last year's strategy paper, IFC is implementing enhancements in its risk management practices.

These efforts include the development of explicit statements<sup>33</sup> of IFC's appetite for taking risk in furtherance of its mission, identification of associated metrics, and setting thresholds to aid the monitoring of risk exposures, and to prompt action to mitigate risk when necessary. There is regular reporting to senior management of risk exposures, by reference to such thresholds, in certain risk categories. Efforts are underway to expand the use of metrics and thresholds as a risk management tool for the other risk categories within the ERM Framework. The statements, metrics and thresholds will reflect IFC's changing risk profile in light of its growth strategy. IFC is also reviving the use of an internal survey of management and other senior staff as a means of gauging its risk culture and the effectiveness of its risk management.

3.58. The Integrity Due Diligence (IDD) process applies to IFC engagements from inception through implementation, and continues until final disposition. It is an integral part of AS and IS operations and training is mandatory for all operational staff. In FY15, IFC saw further strengthening of its IDD process. Improvements include more standardized IDD documentation and mandatory IDD signoff, now fully integrated in both AS and IS operations' workflows. This resulted in more referrals for in-depth work on projects with integrity risks by an independent integrity risk oversight unit.

### **GROWING THE PROGRAM**

3.59. IFC's strategy and planned growth will enable it to direct more resources to where contribution to the WBG goals is greatest. As noted in last year's strategy paper, IFC seeks to place greater emphasis on the quality of what it does in terms of impact, rather than on the quantity of what it does as reflected in volume terms – volume is an outcome and not a driving factor.

3.60. FY16-18 Investment Program. Highlights of the potential program trajectory include:

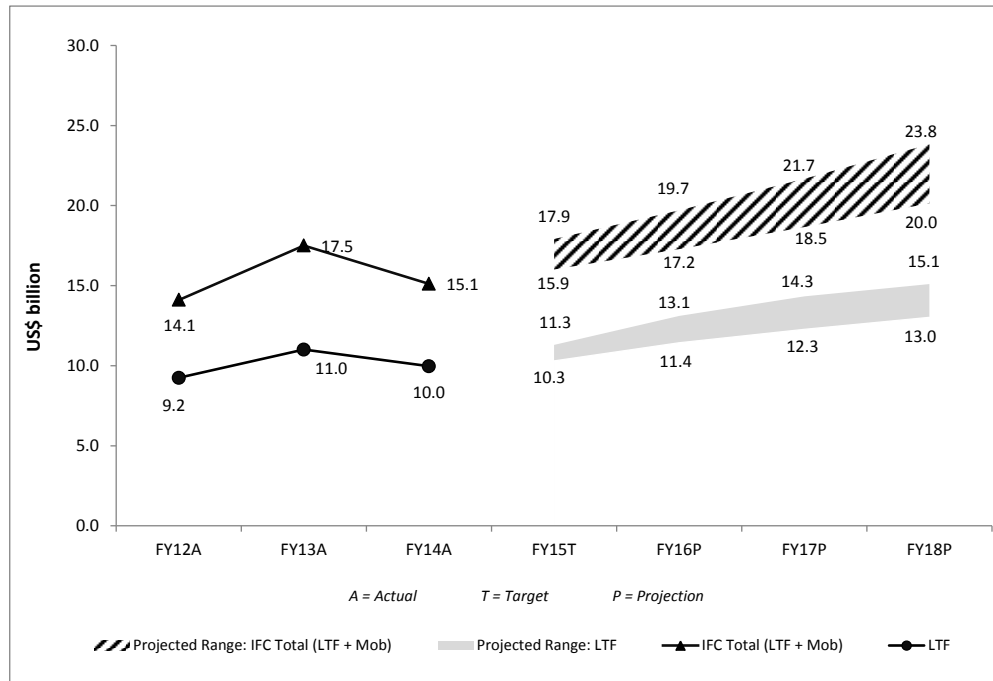
- More ambitious overall LTF growth compared to recent years' projections. With the objective to maximize its growth given its capital position, IFC aims for a potential Total LTF investment volume<sup>34</sup> growth trajectory of 8-10% per year during FY15-18.
- The average annual outstanding short-term finance<sup>35</sup> (STF) portfolio is expected to grow by about 5-10% per year.

<sup>33</sup> Through Risk Appetite Statements, IFC defines the type and amount of risk that its management deems to be acceptable in the pursuit of overall financial and strategic goals.

<sup>34</sup> IFC's own-account LTF plus core mobilization. Core mobilization (the syndicated loan program, initiatives, PPP mobilization, and AMC) excludes MIGA and other non-core mobilization, which could mobilize at least an additional \$1 billion (approximately) each year for FY16-18.

<sup>35</sup> Global Trade Finance Program (GTFP) of less than one year and Global Trade Supplier Finance (GTSF) program.



**FIGURE 3: POTENTIAL LTF PROGAM TRAJECTORY FY16-18****TABLE 2: POTENTIAL LTF PROGAM TRAJECTORY FY16-18**

Commitment Volume (\$ Billions)	FY12A	FY13A	FY14A	FY15T	FY16P	FY17P	FY18P	CAGR FY15T-18P
Long-Term Finance (LTF)	9.2	11.0	10.0	10.3 - 11.3	11.4 - 13.1	12.3 - 14.3	13.0 - 15.1	8 - 10%
Mobilization	4.9	6.5	5.1	5.6 - 6.6	5.7 - 6.6	6.3 - 7.3	7.0 - 8.7	8 - 10%
Total (LTF + Mobilization)	14.1	17.5	15.1	15.9 - 17.9	17.2 - 19.7	18.5 - 21.7	20.0 - 23.8	8 - 10%

3.61. IFC projects that LAC will continue to have the highest share of Total LTF volume, and Africa the highest share of own account LTF, in line with last year's IFC strategy paper. South Asia, LAC, Africa and MENA would be the fastest growing regions. The share of Total LTF of each industry would remain relatively stable.

3.62. For STF, starting in FY15, IFC has changed its reporting practice to the average annual outstanding portfolio balance in a given fiscal year, and reports this separately from its LTF business, thereby aligning with commercial bank practice and more appropriately indicating the relative size of its STF business, its characteristics and capital use.

**TABLE 3: STF AVERAGE OUTSTANDINGS PROJECTIONS FY16-18**

STF (\$ Billions)	FY12A	FY13A	FY14A	FY15T	FY16P	FY17P	FY18P	CAGR FY15T-18P
Average Outstandings	2.6	2.8	3.0	2.6 - 2.8	2.6 - 3.2	2.8 - 3.4	3.0 - 3.7	5 - 10%

3.63. As global trade continues to recover from its crisis low, it is emerging markets that are leading the growth, increasing the proportion of South-South trade. And it is often emerging markets that require trade finance to support shipments of goods across borders. Meanwhile, recent market events have and will result in a further reduction of its supply. Cross-Border confirming banks, whose engagement is required for goods to move across borders, are facing increased capital requirements, making capital increasingly scarce and requiring a higher return from each client relationship. Concurrently, increased "Know Your Customer" requirements and related due diligence has raised the cost of each relationship exponentially, thus increasing revenue needed from each. Banks and markets that fail to provide enough business to meet new revenue hurdles, including both smaller clients and smaller economies, are finding their access to finance drastically

reduced. This exacerbates the short fall of trade finance in emerging markets that has existed for some time. Thus, the need for STF continues to grow.

3.64. Advisory Services. Following strong growth in recent years, total AS spend is planned to slow in FY15-16 to help consolidate reforms and facilitate transition to the new organizational structure. AS will look to engage with greater selectivity based on corporate priorities and increase its development impact. New efficiencies are expected from working more closely with GPs and with industry departments. AS has had a strong emphasis on IDA, FCS and climate change for several years. This emphasis is expected to continue under the new organizational arrangements.

#### **IV. FINANCIAL SUSTAINABILITY – HOW DO WE SUSTAIN FINANCIAL CAPACITY?**

4.1. In order to ensure successful implementation of its strategy, and its future ability to deploy capital where it is most needed, IFC needs to remain financially strong by generating sufficient returns on its investments and by managing its financial resources, including capital, in an effective manner.

4.2. IFC will pursue its ambition for more growth taking into account the increased volatility in many markets, which could impact its risk, portfolio and capital. That being said,

- IFC has the financial capacity to achieve its growth ambitions in the medium-term.
- IFC's capacity to deliver depends on its financial results, a key driver of capital adequacy. IFC's net income comprises several drivers directly impacted by market volatility, and is therefore closely monitored and difficult to predict.
- Total expenses over the three-year strategic period will be closely managed to ensure the most efficient use of resources, consistent with the expenditure review.

#### **REVENUE DRIVERS**

4.3. IFC has three main pillars of revenue streams: Investment Services (including AMC), Advisory Services, and Liquid Asset Management (LAM).

4.4. Investment Services offers a range of financial products to its clients to generate revenues in the form of returns and fees including: (i) net interest income, various types of fees, and dividends, all of which are fairly stable and predictable; (ii) realized capital gains, which are more volatile and therefore fairly unpredictable; and (iii) unrealized gains and losses, which are most volatile and unpredictable.

4.5. The unpredictable revenues can be affected by a number of factors that result in volatile financial performance, such as swings in global equity markets in emerging economies, economic downturns or upturns in certain IFC invested countries, and fluctuations in values of IFC's investment currencies against the US Dollar.

4.6. As part of the active management of its *equity portfolio*, IFC will continue to seek returns commensurate with the risk profile of each investment. Equity risk capital is critical for growth in emerging markets and IFC continues to see good investment opportunities in a number of sectors such as infrastructure; banking; agribusiness; extractives; telecom, media and technology; healthcare; and education. It is essential to note that the increasing volatility in emerging markets is expected to have a direct impact on the accounting income from equity investments in the near term. To ensure the long-term sustainability of its global equity franchise IFC will continue to maintain a consistent approach and to focus on enhancements in its approval procedures. The latter will ensure that staff with relevant experience make sound investment decisions both at entry and exit.

4.7. AMC invests third-party capital, enabling outside investors to benefit from IFC's expertise in achieving strong equity returns. AMC's policy is to charge investors market rates for managing funds. With these

revenues, AMC covers its own direct expenses and pays IFC fully for the resources it provides, with the overall objective of making a net profit. AMC contributes a relatively small but growing income stream to IFC's investment income.

4.8. Advisory Services revenues come from donor partnerships and client contributions as well as trust fund administration fees paid by donors. AS' long term financial sustainability is driven by several factors, including trends in the net income of IFC, AS' continued ability to mobilize donor/partner resources, and ability to increase client contributions. Another main driver is AS' continued ability to adjust costs (especially staffing costs) in line with any changes in drivers of AS external funding leverage.

4.9. Treasury. The objective of LAM in IFC's treasury operations is to achieve reasonable returns while maintaining risks to IFC within acceptable levels, all the while ensuring that funding for IFC investments is available as needed. The primary funding source for liquid assets for IFC is borrowings from market sources. Proceeds of borrowings from market sources not immediately disbursed into loans and loan-like debt securities (funded liquidity) are managed internally against money market benchmarks. The second funding source of liquid assets is that portion of IFC's net worth not invested in equity and equity-like investments (managed net worth), which is managed against a US Treasury benchmark.

4.10. IFC's assets are invested in a full range of highly rated financial instruments. LAM revenue is dependent on such factors as market trends and is therefore relatively volatile. IFC benefits from very low funding costs.

## RESOURCE UTILIZATION

4.11. A sizeable portion of IFC's expenses, as presented in its income statement (see Annex III), come from basic operations via the administrative budget. They include staff salaries and benefits, travel, consultants, contractual services, the payments made by IFC to IBRD through services and support fee contracts for various services like accounting, procurement, facilities management, insurance, treasury, risk, independent evaluation, internal audit, integrity, board, and chargebacks. The total resources used by IFC to deliver its overall operational program and strategy are larger than the administrative budget alone. Total resources, which include items such as contributions to AS, complement the total administrative budget. Total resources also include spending for IFC's fee-based activities which directly supports related sources of revenue. In addition, there are resources such as those provided by donors which are used by IFC and are key in supporting advisory-type developmental activity.

4.12. IFC is on track to generate gross expenditure review savings at or above the planned level for FY15. In the first half of FY15, IFC has re-invested all of these savings in its operations while still managing to decrease expenses.

4.13. *Operational results lead to financial sustainability.* By maintaining sustainable revenue streams and efficiently utilizing its resources, IFC generates income to contribute to its retained earnings, commitments to IDA, funding operations, building the capital base for increasing investments, and helping maintain IFC's triple-A credit rating.

4.14. One investment profitability metric under continual usage is net loan and fee revenue coverage of expenses. Over the past several years, this ratio has hovered around 1.3, showing IFC investment operations' ability to cover its costs through its more stable revenue drivers, with a healthy buffer. This benchmark of covering expenses with stable revenue sources is analogous to the WB's budget anchor.

## CAPITAL ADEQUACY

4.15. Managing IFC's capital adequacy is crucial to the fulfilment of IFC's mission. IFC needs to hold sufficient capital to protect against unexpected losses and maintain its triple-A rating. IFC's approach to capital

measurement and management is broadly aligned with global regulatory standards (the “Basel Accord”) and with the methodologies of the rating agencies. In addition, IFC maintains an ongoing dialogue with the rating agencies to ensure that it is aware of any change of methodology.

### **LONG-TERM PERSPECTIVE**

This paper has focused on the medium-term strategic and business outlook for IFC. This needs to be seen in the context of a longer-term vision for what IFC wants to achieve and how it wants to operate.

There are two major challenges to achievement of the WBG goals: weak, below-trend growth and rising inequality. IFC together with the whole WBG and its development partners, will need to: (i) offer growth solutions, in particular to allow untapped human potential, which exists everywhere, to be realized; and (ii) help to open up technological frontiers for all.

In order to fulfill its mission and make a lasting and significant impact on achieving the goals, while also trying to maximize its current capacity, IFC will need to grow and shape its capabilities in human and financial capital as well as its more intangible convening power and influence. IFC will need to grow key elements of its capacity:

- Intellectual capacity – strategic staffing which meets current gaps as well as anticipating emerging new needs; and thought leadership to support growth of the private sector.
- Leverage capacity – working with clients and partners, and developing new relationships and ways to mobilize resources for development.
- Financial capacity – generating sufficient returns on investments and managing financial resources effectively to allow for capital growth.

## ANNEX I. INDUSTRY STRATEGIES

### Financial Institutions Group (FIG) – Growth Opportunities and Strong Performance

- Working towards the WBG Universal Financial Access 2020 goal and creating jobs through global reach to SMEs.
- AS/IS integration enables deeper client relationships and leads to stronger impact.
- FIG is a key contributor to IFC's profitability, with strong capital gains and well-performing loan portfolio.

#### Enhancing Impact

- **Universal Financial Access Goal 2020:** FIG committed to bring access to 600mn unbanked people out of 1bn goal.
- **IDGs:** Incremental reach of 3.5mn SMEs and 120mn Micro enterprises/individuals by FIG clients by FY19 (from FY12-14 commitments).
- **Reach:** in 2013, FIG portfolio clients issued 5.4mn SME loans for \$275bn and 29mn Micro loans for \$28bn.
- **Helping countries most in need:** Over 50% of committed projects in IDA and FCS in FY14.
- **DOTS:** 70% of FIG projects rated as successful in development outcome. 80% of GTFP DOTS respondents reported IFC helped increase their TF business.

#### Strengthening Profitability

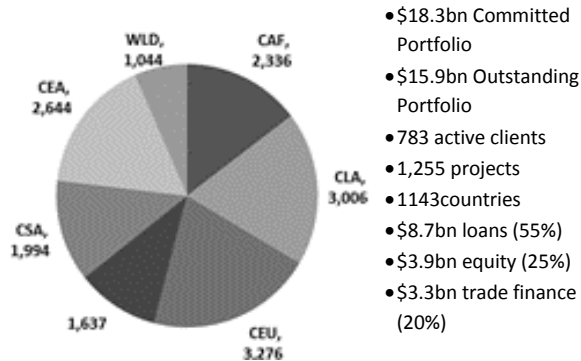
- FIG is a strong contributor to IFC's profitability.
- **Equity:** shift to active portfolio management.
- **Loans:** Good loan portfolio performance.
- **GTFP and Trade and Commodity Finance (TCF):** Strong performance for GTFP. Scaling up TCF.

#### Strategic Focus

- **Financial Inclusion:**
  - Working towards the WBG Universal Financial Access 2020 goal.
  - Investing in alternative delivery channels - mobile, non-FI point-of-sale, technology & payment companies.
  - Expand Insurance, Housing and Agrifinance to include poor.
  - Scale up client MFIs; help clients scale and deploy technology – reduce cost of reach.
- **SME/A2F for jobs:**
  - SME financing gap estimated at \$1tn, with 200mn MSMEs lacking access to credit. Closing this gap will enable the creation of 600mn jobs needed by 2030.
  - Scale up SME market leaders; engage innovators & new technologies.
  - Increase focus on underserved SME segments and on TCF.
- **Advisory integration and commercialization:**
  - Integrate AS and IS operations; prioritize clients for impact and profitability
  - Focus global AS products in five core areas: Core Banking, FinTech, Microfinance, SME and Climate.
- **GTFP:**
  - Trade is essential to economic growth, and thus poverty reduction.
  - The gap in emerging market trade finance is significant and increasing due to recent regulatory developments.
  - Continue to support emerging market trade finance. Seek opportunities to both grow the core business and expand offerings to deepen reach.
- **Climate Smart:**
  - Focus on sophisticated FIs in MICs, e.g. Banco Itau.
  - Continue to support climate-smart trade.

### Portfolio Performance (as of Dec. 31, 2014)

#### FIG Outstanding Portfolio By Region



#### FIG Advisory (as of Dec. 31, 2014)

- \$229mn portfolio, with largest exposure in SSA (\$60.3mn or 26%) and EAP (\$52.4mn or 23%).
- 191 active client engagements, o/w 112 in IDA, 26 in FCS, and 28 in Climate Change
- 119 active client engagements with IS Investees, o/w 48 Equity Clients
- 26 new clients engagements

Note: includes Access to Finance advisory, excluding Financial Infrastructure projects that moved to F&M GP.

Program	FY13 (Actual)	FY14 (Actual)	FY15 Estimate
Total LTF Commitments (\$M)	6,203	5,665	5,468 - 5,768
STF Outstanding Portfolio (\$M)	n/a	2,996	2,329 - 2,829
IDA - % of LTF project count	41%	48%	30% - 35%
IDA - % of STF active trade accounts	58%	58%	50% - 55%
FCS - # of LTF projects	6	6	n.a
Climate Change - % of LTF own account	10%	4%	7% - 9%
Climate Change - % of STF own account	9%	8%	9% - 11%

Note: For all tables, data from previous years may have been revised/ restated.

### New Opportunities and Challenges for Growth

- Growth in equity in Asia and Africa; portfolio challenges in several markets.
- **Fintech:**
  - New financial technologies and financing sources are fast emerging and represent a crucial pillar towards the achievement of Universal Financial Access goal.
  - Invest in new players such as internet companies and with financial intermediary clients (banks, MFIs, Postal Banks) to scale up reach through technology.
- **Local Capital Markets:**
  - There is an estimated \$22 trillion infrastructure financing needed by 2030.
  - Public financing constraints and bank de-leveraging require new capital market instruments to mobilize finance for infrastructure and longer-term capital investments - housing, equipment, etc.
  - Focus on local currency bond issues, securitizations, debt funds, and other capital markets instruments.
- **Trade and Commodity Finance:**
  - Expand structured commodity finance products to encompass additional countries, namely IDA/FCS and others where market challenges exist.
  - Leveraging FIG's operational platform and financial institution network to provide financial solutions to address systematic crises, e.g., Ebola.

#### Engagements with High Impact Potential in FIG

- *BTPN* - \$300mn investment in one of IFC's strategic partners in EAP focused on low income and MSMEs, including women borrowers.
- *Itau Climate Smart* - \$400mn financial package, supporting climate-smart projects in Brazil.
- *Ebola facility* - \$75mn rapid response for working capital and trade finance to local banks in the Ebola-affected countries for import of basic goods.
- *Credit Agricole (CACIB)* - \$88mn of un-funded synthetic IFC risk participation in up to \$2bn CACIB's predominantly trade finance credit assets. This award-winning transaction allows to grow trade finance in EM.
- *APRM BNPP* - Up to \$100mn unfunded risk sharing facility. The project's innovative structure allows IFC to mitigate credit risk of EM agro commodity players.

## Infrastructure and Natural Resources (INR) – Moving the Needle

- Global infrastructure landscape characterized by new scale of ambition, Africa on the rise, shifting energy markets and sources of financing, and the era of mega-extractives.
- Greater potential for IFC to be involved in a multitude of transformational engagements – creating significant development impact and generating impressive profitability.
- Over the long-term, IFC's value proposition will lie in its experience and presence rather than its balance sheet, and in intermediating between clients, governments and investors.

### Enhancing Impact

- Focus on high impact and transformational engagements including multi sector and multi country projects and programs.
- Strengthen collaboration and joint work with the WBG, particularly in IDA countries and FCS.
- Strategic integration and deployment of AS for IS business development and project enhancement.

### Strengthening Profitability

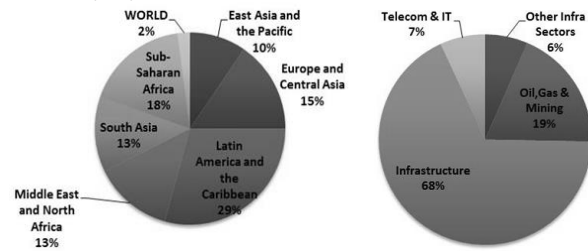
- Substantial increase in equity business, including through more focused origination and larger positions.
- Maintaining healthy equity returns and a heightened focus on portfolio value addition.
- More active mobilization and structuring - new approaches include underwriting and working with institutional investors.

### Strategic Focus and Priorities

- Strengthen focus in IDA countries, particularly in Africa and Asia, in infrastructure projects, solar and power generation, hydropower and extractives.
- Strong support for private and PPP infrastructure projects (IDA and MICs), leveraging new platforms such as the GIF.
- Scale-up engagements in MICs, including in infrastructure, energy sector reform and generation and project funding.
- INR remains key drivers of IFC's climate business. Maximize access to energy through private sector development of power generation, while minimizing the GHG emissions. Maintain strategic focus on expanding climate-related business into other Infra & NR sectors (Oils & Gas, Mining, and Transport).
- Ramp-up investments in the transport sector through partnerships and stronger collaboration across the WBG.
- Strengthen engagement and help enhance private investments in the global water sector and other non-power utilities, particularly in IDA countries. Help address critical developmental issues of access, scarcity and quality.

### Portfolio Performance (as of Dec. 31, 2014)

- IFC's INR committed portfolio amounts to \$13.4mn, of which \$10.5mn is outstanding.
- By product group, INR's committed portfolio: loan (82%) and equity (18%). By subsector: Infrastructure (68%), Oil, Gas & Mining (19%), Telecom & IT (7%) and Other Infra Sectors (6%).



#### Equity Portfolio

- IFC's equity portfolio in INR at Q2 FY15 amounts to \$2.4bn committed, of which \$1.8bn was outstanding.

#### Loan Portfolio

- IFC's loan portfolio in INR at Q2 FY15 amounted to \$11.0bn committed, of which \$8.7bn was outstanding.

### INR Advisory (as of Dec. 31, 2014)

- \$19mn portfolio, with largest exposure in LAC (\$11mn, or 58%)
- 11 active client engagements

Program	FY13 (Actual)	FY14 (Actual)	FY15 Estimate
Total Commitments (\$M)	4,753	4,889	5,000 - 5,200
o/w Oil, Gas and Mining (\$M)	736	635	1,000 - 1,200
IDA - % of LTF project count	41%	36%	35% - 40%
FCS - # of LTF projects	8	5	6 - 8
Climate Change - % of LTF own account	32%	44%	30% - 40%

Note: For all tables, data from previous years may have been revised/ restated

### Opportunities and Challenges for Growth

- *Africa* – solar, gas, reform situations, extractives, working with governments to create projects.
- *MIC Partnerships* – Colombia, Mexico, Brazil, Nigeria, Indonesia, India.
- *Solar & other renewables* - improving economics, innovative transactions – merchant solar in LAC, market making in MENA.
- *Natural gas development* - changing sector dynamics creates opportunities for transport as well as power generation.
- *Hydropower* – IDA countries with large scale plans: Asia and Africa.
- *Megaextractives* – undeveloped mineral wealth: countries want development multiplier, companies seek risk management, IFC uniquely placed to bring them all together.
- *Cities* – rapid urbanization generates need for new business models; IFC looking to pilot “multiproduct” approach, scale up and expand reach through new approaches and sector.
- The complexity of these interventions, together with long gestation periods and often very difficult environments, will remain key challenges.

### Engagements with High Impact Potential in INR

- *Scaling-up Solar* – unified WBG product of unprecedented breadth, comprising TA, market making activity, and standardization across multiple countries in Africa.
- *Brazil* – bringing together IFC advisory and investment teams with WB and MIGA for innovative project development, risk mitigation and structured finance products.
- *Cities* – piloting a model for governments, utility companies and private sector service providers to work in tandem to meet stakeholder needs and catalyze impact.
- *Megaextractives* – IFC partnership with investors and governments to support development of mega-scale, shared use transport and power assets.
- *Mexico Energy* – IFC asked by Mexico and China governments to manage a \$2bn fund to support groundbreaking reform in Mexico's energy sector.
- *Myanmar Power* – joint work with WB and MIGA to support reform efforts, entailing WBG support of \$1bn in 2013-16.
- *Pakistan Power* – coordinated, cross-institutional effort to facilitate investment of up to \$10bn in cheaper generation and assistance with policy reform.



## Manufacturing, Agribusiness & Services (MAS) – Driving Growth and Jobs

- Supporting sustainable economic growth and job creation which contributes to the WBG twin goals.
- Helping emerging markets manage the demands of rapid urbanization and capture growth driven by an expanding middle class.
- Supporting innovation that expands access to critical goods and services at all income levels, and increases income-earning opportunities for the poorest.

### Enhancing Impact

- Working with GPs to ensure strategic coherence (Agribusiness, Health, Education, and Trade & Competitiveness).
- Developing key value chains in programmatic fashion vs. project focus.
- Extending business models and supporting innovation (target lower income groups, BOP).
- Supporting energy/resource efficiency in agri and manufacturing, green buildings in TRP.
- Sector evaluations in key areas to better understand indirect and induced economic impact.

### Strengthening Profitability

- Realizing operational efficiencies, while preserving strong regional presence.
- Scale-up equity investments in selected sectors and situations.
- Implementing Deal Acceptance Criteria to screen higher risk clients.
- Addressing high non-performing loan levels.
- Monitor portfolio for risks/ opportunities from oil price decline.

### Strategic Focus

- Help create the next generation of Southern Multinationals by backing expansions outside home markets, helping meet governance and E&S standards, and enable financing.
- Integrate AS and IS and enable engagement in high impact areas/projects which may involve elevated social and environmental risks.
- Expand value chain approach in Agribusiness to engage across the sector from input provision, production, processing, logistics, and retail.
- Scale-up the development/implementation of WBG approaches to leverage public and private sector engagements.
- Continue focus on large-scale projects in manufacturing which can lead to structural change in LICs and lower-MICs, as IFC is beginning to see now in Africa.

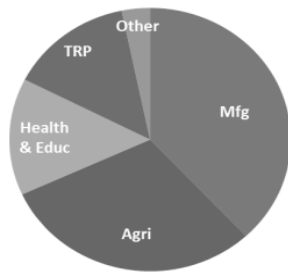
### New Opportunities and Challenges for Growth

- Potentially innovation and new technology rapidly driving down costs in sectors such as health service delivery, education, and manufacturing.
- Downward price cycle in commodities driving consolidation in key sectors, presenting new opportunities for emerging markets multinationals to establish regional and global platforms.
- PPPs in health, and emergence of new public health financing systems - expanding private sector role, bringing new efficiencies in delivery.
- Rapid decline in solar PV costs opens new opportunities, especially in distributed solar; potential equity role as champions emerge and expand into new countries and regions.

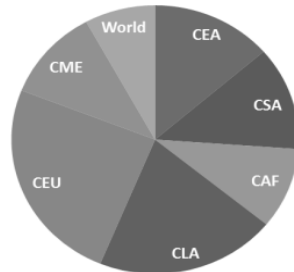
### Portfolio Performance (as of Dec. 31, 2014)

- Total Committed \$14.4bn, Outstanding \$11.3bn, 900 projects

Outstanding by Sector



Outstanding by Region



#### Equity Portfolio

- \$2.35bn outstanding at book
- Equity portfolio (at book) stands at 21% of MAS portfolio
- Increase of 8% over FY14 year-end

#### Loan Portfolio

- \$8.85b outstanding (78% of MAS portfolio)
- \$1.94bn B-Loans outstanding

### MAS Advisory (as of Dec. 31, 2014)

- \$60mn portfolio, with largest exposure in EAP (\$18mn, or 30%) and ECA (\$12.5mn, or 21%)
- 78 active client engagements

Program	FY13 (Actual)	FY14 (Actual)	FY15 Estimate
Total Commitments (\$M)	4,598	3,615	4,000 - 4,200
<i>o/w Health &amp; Education (\$M)</i>	501	349	650 - 750
<i>o/w Agribusiness and Food Supply Chain (\$M)</i>	4,456	3,979	3,500 - 4,000
IDA - % of LTF project count	40%	45%	30% - 35%
FCS - # of LTF projects	8	5	10 - 12
Climate Change - % of LTF own account	15%	11%	12% - 15%

Note: For all tables, data from previous years may have been revised/reiterated.

### Sector Focus and Priorities

#### • Agribusiness:

- Improve food security; enhance productivity/sustainability; build efficiency and inclusiveness of agri value chains.
- Main focus areas: animal protein, smallholder supply chains, water use in agriculture, food processing and production.

#### • Manufacturing:

- Accelerate structural change and economic growth through rapid productivity gains, skilled job creation, and industry linkages.
- Develop competitive industrial clusters/value chains, and expand markets through lower-cost production. Promote energy and resource efficiency.

#### • Health and Education:

- Expanding access and quality service provision. Support innovative business models which can significantly lower costs and expand access to lower income levels.
- Improve standards of health care delivery; increase quality of education and employability of graduates; addressing skills deficits to foster inclusive economic growth.

#### • Tourism, Retail, Property:

- Provide modern business infrastructure and anchor service sector job creation through strong anchor projects in hotels and commercial property development.
- Support strategic WBG approach to tourism development in key countries.
- Expand consumer choice and standards through modernization of retail sector, with a focus on food retail and formalization of local supply chains.

### Engagements with High Impact Potential in MAS

- Kayseri, Adana, and Etlik*: 3 Hospital PPP projects in Turkey, redefining health service delivery and leading private operators.
- VF Corp* supplier finance facility for factory safety upgrades in garments sector in Bangladesh.
- Ethiopia Coffee II* project, expanding successful AS/IS approach raising quality and yields for poor farmers, enabling them to sell for higher prices and increase incomes
- Lafarge Alternative Fuels* in Iraq: construction of modern landfill with waste processing to generate fuel for electricity generation for cement production.
- Nyumba ya Akiba and PPC Barnet* projects in DRC: first local cement production will lower cost, improve quality and availability.
- CITIC Africa Housing Ltd* joint venture with large Chinese construction firm will establish platform for multiple affordable housing projects across Africa.
- Portucel* will bring large scale agricultural development and sustainable forestry to central Mozambique.

## Telecom, Media, Technology (TMT), Venture Capital (VC) & Private Equity Funds (PE)

### Scaling-Up for Impact

- Technology is rapidly transforming industries and can be harnessed for growth and inclusion. IFC has a successful record in investing in TMT, VC and Funds but remains underweight in these sectors.
- Given resource constraints, IFC selectively is focusing on areas where impact at scale is strong.

#### Enhancing Impact

- Focus on few high impact verticals.
- Deliver strong impact on jobs by supporting mobile investments and reach the poorest and most remote consumers.
- Leverage funds program to create co-investment opportunities and to manage smaller transactions.
- Continue to provide extensive knowledge to the sector.

#### Strengthening Profitability

- TMT is historically one of the most profitable business areas for IFC.
- Use a full range of IFC instruments, including significant opportunities for equity and mezzanine investments.
- Strong focus on the portfolio, active asset management and mobilization.

#### Strategic Focus

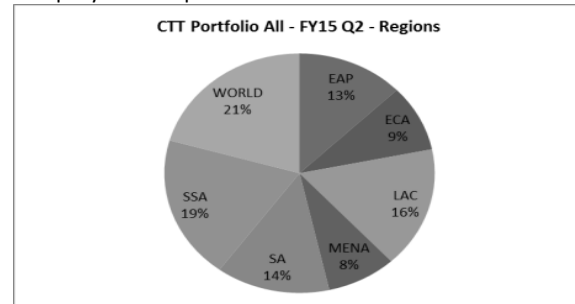
- Invest in broadband, shared telecom infrastructure and cloud/IT to expand the reach of the internet.
- Expand VC investment for innovation, job creation and service breakthroughs in e-commerce, fintech, health tech, edutech and resource efficiency.
- Play a key role in helping secure large-scale mobilization of debt from commercial banks and equity from IFC-managed funds and others.
- Ramp up the fintech business, working in joint venture with IFC's Financial Institutions Group, to deliver on the WBG financial inclusion goal.

#### New Opportunities and Challenges for Growth

- Open promising new areas for IFC's mainstream departments (e.g. e-commerce with MAS, fintech with FIG).
- Scale-up business in broadband as declining device costs will rapidly increase market demand and investment opportunities.
- Identify new opportunities for impact through recent developments in the IT sector (data revolution).
- Access to finance opportunities where technology is the driver.

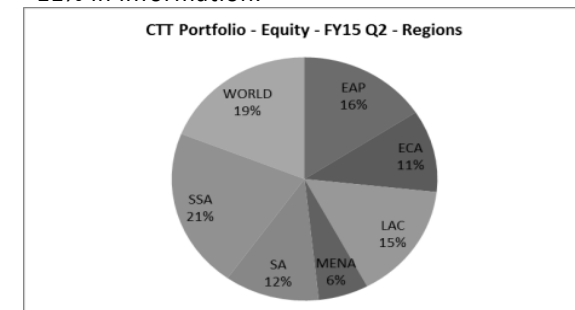
### Portfolio Performance (As of Dec 2014)

- Aggregated committed portfolio \$5.4bn;
- Equity 74% of portfolio.



### Equity Portfolio

- 84 % of equity in collective investment vehicles; 11% in information.



### Loan Portfolio

- 75% of loan portfolio in Information

Program	FY13 (Actual)	FY14 (Actual)	FY15 Estimate
Total Commitments (\$M)	1,016	826	1,200 - 1,400
IDA - % of LTF project count	38%	29%	19% - 21%
FCS - # of LTF projects	8	5	2 - 4
Climate Change - % of LTF own account	n.a	n.a	3% - 5%

Note: For all tables, data from previous years may have been revised/ restated.

### Sector Focus and Priorities

#### Telecom, Media and Technology

##### • **Broadband**

- Focus on last mile connectivity and supporting infrastructure
- Pursue larger deals in more mature markets

##### • **Mobile at the Frontier**

- Partner with key regional/global clients moving frontier/FCS
- Focus on equity opportunities

##### • **Sharing Infrastructure – Towers, IT/Clouds and Data Centers**

- Focus on independent tower companies in growth markets serving multiple MNOs
- Pursue equity/high-yield opportunities and mobilization with requisite fees
- Green data centers in MICs
- Regional/scale-efficient IT Cos for systems integration/cloud-based solutions, outsourcing

**Venture Capital** – early growth companies offering new technologies or business models with high impact.

##### • **Consumer Internet:** Online marketplaces; B2B, B2C, C2C

##### • **Health VC:** Service Delivery; Digital Health/Telemedicine; Devices

##### • **Edu-Tech:** Adaptive Learning; Job/Edu Marketplaces; New Instruction Models

**Fintech** – Three focus areas have emerged with expectation of ramping up equally by 2020:

- Financial infrastructure (e.g. ATMs, POS)
- New distribution channels (e.g. eBay for financial services)
- New transaction accounts (e.g. Bkash, Empesa, PayPal) to bank 250mn currently unbanked through IFC projects by 2020

**Funds** – IFC takes portfolio approach to equity funds investments with strategic focus on:

- Growth Equity Funds – core focus to catalyze PE/VC industry and spur economic growth
- SME Funds – with focus on frontier markets to catalyze entrepreneurship
- Specialty Funds (climate, sector etc.) – selective engagement where IFC's direct investments can be complemented

#### **Engagements with High Impact Potential in TMT**

- **IHS Holding** – Pan-African Independent tower company
- **Offgrid Electric** – Venture debt for a company that provides solar home systems in Tanzania and bills through mobile money
- **Eye Q** – eye care chain in India
- **Planet Labs** – Earth observation imaging with significant development applications.

## ANNEX II. IFC CORPORATE SCORECARD

Tier	Proposed Indicators	Baseline (FY14)	Targets	Actual (FY15)	Actual as % of Target	Foot note
GOALS AND DEVELOPMENT CONTEXT – See WBG Corporate Scorecard						
RESULTS		FY14 actual	FY14-16 (cumulative)	FY14-15Q2 (cumulative)	FY14-15Q2 Actual as % of FY14-16 Target	Foot note
<b>Growth, inclusiveness, sustainability</b>	<u>IDGs:</u>					
	• Farmers reached, mn	1.21	4.64	1.57	34%	
	• People reached with H&E services, mn	8.19	14.8	10.71	72%	
	• A2F: Individuals and Microenterprises reached; SMEs reached, mn	36.35; 1.10	83.59; 4.61	41.04; 1.26	49%; 27%	
	• People reached with infrastructure services, mn	22.17	75.36	64.41	85%	
	• Reductions in GHG emissions, m tCO2 eq/yr	5.52	18.42	12.90	70%	
PERFORMANCE		FY14 actual	FY15 (annual)	FY15Q2	FY15 Actual as % of FY15 Target	Foot note
<b>Development impact</b>	<u>Strategic priorities:</u>					
	• IDA: % LTF project count; % active trade accounts	31%; 53%	30-35%; 50-55%	37%; 54%	Within target	
	• FCS: LTF project count; active trade accounts	19; 28	25-30; 20-25	13; 14	47%; 62%	1
	• Climate-related: % own account LTF commitments; % STF o/s portfolio	19%; 12%	20%; 10%	22%; 11%	Above target	
	<u>Development Outcomes:</u>					
	• Econ Performance & Private Sector Development ratings, % satisfactory	58%; 73%	60%; 70%	N.a.*	N.a.*	2
	• AS Development Effectiveness rating, % successful	76%	65%	74%	Above target	
<b>Financial sustainability</b>	• Return on net worth (Hurdle Rate), %	6.5%	10%	9%	Below target	
	• Controllable income, \$mn	863	749	339	45%	
<b>Delivery for clients</b>	• Client feedback IS; AS, % satisfied	83%; 91%	85%	80%; N.a.*	Below target; N.a.*	2
	• Time Mandate-to-Disbursement, % increase in LTF deals <250 days	N.a.	10%	-1%	Below target	
	• Commitments: total LTF; STF o/s portfolio, \$bn	15.1; 3.0	15.9-17.9; 2.6-2.8	9.0; 3.1	53%; Above target	1
	>o/w capital mobilized on commercial terms, \$bn	5.1	5.6-6.6	3.9	64%	
<b>Managing talent</b>	• Staff diversity and inclusion	N.a.	N.a.	N.a.	N.a.	

### Footnotes

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

2) N.a.\* = information not updated on a quarterly basis (annual only).

### ANNEX III. SUMMARY INCOME STATEMENT

Controllable income measures IFC's realized income across all of its business lines, excluding realized capital gains, which are volatile and difficult to predict. Controllable income totaled \$339 million in the first half of FY15, 45% of plan for the year. Controllable income was \$348 million in the first half of FY14. Higher loan and debt security interest and fee income was more than offset by lower income from liquid assets and higher charges on borrowings. Treasury-related net income was lower in FY15 Q2 largely due to credit spread widening in multiple sectors (e.g., structured products, government and emerging market corporates).

**TABLE: SUMMARY INCOME STATEMENT**

US (\$ million)	FY15 Q1-2	FY14 Q1-2		FY15 Q1-2	FY14 Q1-2
<b>Income from Loans and Debt Securities</b>	<b>663</b>	<b>575</b>	<b>Expenses</b>	<b>(788)</b>	<b>(619)</b>
Loan and Debt Securities interest income and fees (gross)	602	561	Administrative and Other Expenses	(564)	(531)
Realized gains on loans and debt securities	61	14	Advisory Services Expenses	(134)	(149)
			Foreign Currency Transactions Gains/(Losses)	44	23
<b>Income from Liquid Assets (gross)</b>	<b>204</b>	<b>244</b>	Unrealized Gains/(Losses) on non-trading instruments	(134)	38
<b>Charges on Borrowings</b>	<b>(118)</b>	<b>(88)</b>			
<b>Loan, Debt Securities &amp; Liquid Assets Revenue (Net of Funding)</b>	<b>749</b>	<b>731</b>			
			<b>Subtotal Income</b>	<b>1,023</b>	<b>1,237</b>
<b>Equity Income</b>	<b>274</b>	<b>506</b>	Advisory Services Income	112	107
Dividends, custody fees and other	129	130	Other Income	108	74
Realized gains on equity investments & associated derivatives	963	578	<b>Subtotal Expenses</b>	<b>(788)</b>	<b>(619)</b>
Write-downs, Unrealized Gains/Losses & Other	(818)	(202)	Provision for losses on Loans	(58)	(64)
<b>Subtotal Income</b>	<b>1,023</b>	<b>1,237</b>	<b>Income Before Grants to IDA</b>	<b>397</b>	<b>735</b>

US (\$ million)	FY15 Q1-2	FY14 Q1-2
Loan and Debt Securities interest income and fees (gross)	602	561
Liquid Assets gross revenue	204	244
Charges on Borrowings	(118)	(88)
Dividends, custody fees and other	129	130
Advisory Services Income	112	107
Other Income	108	74
Administrative and Other Expenses	(564)	(531)
Advisory Services Expenses	(134)	(149)
<b>Controllable Income</b>	<b>339</b>	<b>348</b>