INTERNATIONAL FINANCE CORPORATION

IFC FY21 BUDGET

ALIGNING STRATEGY AND RESOURCES

Approved by IFC's Board of Directors on June 25, 2020

Released in accordance with IFC's Access to Information Policy

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FIGURES

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Acronyms

ADM	-	Accountability and Decision-Making Framework
AIMM	-	Anticipated Impact Measurement and Monitoring
AIP	-	Annual Investment Plan
AMC	-	Asset Management Company
AS	-	Advisory Services
CAGR	-	Compound Annual Growth Rate
CBR	-	Central Benefit Reserves
CMAW	-	Creating Markets Advisory Window
CLED	-	IFC Legal Department
CO	-	Country Office
CODB	-	Cost of Doing Business
COVID-19	-	Corona Virus Disease 2019
CSC	-	Corporate Scorecard
CSO	-	Department of Special Operations
CPI	-	Consumer Price Index
EM	-	Emerging Markets
EMDE	-	Emerging Markets and Developing Economies
ERP	-	Enterprise Resource Planning
FCS	-	Fragile and Conflict Situations
FIG	-	Financial Institutions Group
FIGE	-	Financial Institutions Response Envelope
FMTAAS	-	Funding Mechanism for Technical Assistance and Advisory Services
FNA	-	Funding Needs Assessment
FY	-	Fiscal Year
GDP	-	Gross Domestic Product
GTFP	-	Global Trade Finance Program
GTLP	-	Global Trade Liquidity Program
HR	-	Human Resources
HQ	-	Headquarters
IBRD	-	International Bank for Reconstruction and Development (also referred to as the Bank and the World Bank)
IDA	-	International Development Association; also used to denote IDA borrowing countries
IFC	-	International Finance Corporation
IMF		International Monetary Fund
IS	-	Investment Services

IT	-	Information Technology
LIBOR	-	London Inter-bank Offered Rate
LIC	-	Low-Income Country
LLC	-	Limited Liability Company
LTF	-	Long-Term Finance
MAS	-	Manufacturing, Agribusiness and Services
MCPP	-	Managed Co-Lending Portfolio Program
MENA	-	Middle East and North Africa
MOU	-	Memorandum of Understanding
o/a	-	Own-account
PBGI	-	Performance-Based Grant Initiative
QBHR	-	Quarterly Budget and Human Resources Report
REI		Request for Expression of Interest
RFI	-	Request for Interest
RFP	-	Request for Proposal
RSE	-	Real Sector Crisis Response Envelope
SBO	-	Strategy and Business Outlook
SOF	-	Source of Funds
SSA	-	Shared Services Agreement
SSA	-	Sub-Saharan Africa
STF	-	Short Term Finance
VPU	-	Vice Presidential Unit
WBG	-	World Bank Group
WFP	-	Workforce Planning

EXECUTIVE SUMMARY

1. This document presents the FY21 IFC budget proposal for Board approval. The proposed budget builds on the framework set in the "IFC FY21-23 Strategy and Business Outlook: A Focus on Execution" paper discussed by the Board in April 2020, reflecting adjustments for the COVID-19 pandemic to the extent possible as the full impact is yet to materialize.

2. The COVID-19 pandemic presents unprecedented challenges on the health and economic fronts. Not only is the pandemic exacting a heavy human toll, it is also disrupting economies around the globe on both the supply and demand sides with significantly heightened volatility in financial markets. These extraordinary times call for extraordinary measures and further strengthen IFC's resolve to support its clients who are facing massive challenges.

3. Over the FY21-23 period, IFC will prioritize the COVID-19 crisis response, as protecting the private sector will be critical not only to soften the immediate impact of the pandemic, but also to set the stage for sustainable recovery. IFC's COVID-19 response covers three phases of the crisis:

   (i) Relief: *maintain the foundations of the private sector*, including via the *IFC Fast Track COVID-19 Facility* to scale up short term financing and liquidity support to existing clients.

   (ii) Restructuring: providing solutions to help *restore private sector viability and rebuild markets as the immediate impacts of the crisis subside*, supporting businesses to sustain jobs, repair balance sheets and pave the way for a return to growth.

   (iii) Recovery: *creating new markets* for sustainable, resilient private sector activity.

4. In conjunction with the COVID-19 response efforts, IFC remains committed to maintaining momentum on delivery of its long-term commitments under the Capital Increase Package. The Capital Package calls on IFC to reach $48 billion in total long-term finance (LTF) commitments by 2030, with 40 percent of annual own-account commitments in IDA[1] and FCS countries. This requires a quadrupling of annual program delivery in IDA and FCS countries and a doubling of annual commitments in non-IDA countries along with a sharpened focus on development impact and additionality. As outlined in the SBO, achieving these targets requires both growing IFC's mainstream business in a strategic fashion while also working Upstream to build a pipeline of bankable projects and enable policy and regulatory change to attract private sector resources to development priorities, especially in IDA/FCS markets.

5. IFC is continuing to evaluate the impact of the COVID-19 pandemic on the portfolio & program trajectory over the next three years. The most likely near-term effects on the program include an increasing share of short-term finance and liquidity instruments and greater

[1] For purposes of the Capital Increase Package, IDA countries are those eligible for IDA financing as of July 1, 2016, including Blend and Gap countries (IDA17); the FCS list may vary over time as agreed in the WBG Capital Package proposal, delivered to the DC on April 21, 2018 (DC2018-0002).

opportunities for mezzanine and equity financing. The proportion of long-term lending is expected to gradually grow back as countries recover from the COVID-19 pandemic.

6. In terms of overall program volume, IFC's expectation is that it will align closely with the targets outlined in the Capital Increase Package. Existing transactions in the pipeline that may no longer be viable due to COVID-19 will be likely substituted by projects first from the Fast Track COVID-19 Facility and later by new projects designed around private sector recovery, supporting the overall growth trajectory. IFC will revert to the Board if targets need to be revisited as the COVID-19 crisis plays out.

7. As IFC responds to the COVID-19 pandemic and continues to accelerate execution of its 3.0 strategy, IFC needs to back its ambitious goals with the appropriate financial capacity. In the SBO, IFC proposed an FY21 Administrative Budget increase of 4.4 percent nominal (2.1 percent real). As a result of (i) a decrease in the US CPI factor and (ii) management's recognition that onboarding of new hires as well as resumption of business travel in FY21 may take longer than previously expected due to the COVID-19 crisis, IFC now proposes a nominal budget increase of 2.5 percent (1.1. percent real).

8. The incremental FY21 budget ask is based on an assessment of gross spending needs primarily driven by planned additional hiring as per the FY20-22 workforce planning (WFP). These are expected to be offset by efficiency savings resulting in a net incremental administrative budget need of $28 million and a proposed Administrative Budget of $1,139 million.

9. The FY19 WFP exercise created the space for IFC to both bring in new skills and rebalance its staffing pyramid.

10. As a final building block of its internal reforms, starting in FY21, IFC is introducing a targeted country driven budget allocation to hardwire the links between country strategies, Upstream pipeline, and resource allocation.

11. Management is committed to cost discipline throughout the year. IFC has a solid track record in achieving efficiencies and remains committed to generating efficiency savings and economies of scale. The combination of efficiency savings and economies of scale has contained the trajectory of the Administrative Budget through IFC- specific and World Bank Group (WBG)-wide expenditure control and redeployment measures. Having realized efficiencies of $61 million in FY19, IFC is on track to meet its efficiency target of $60 million in FY20, mainly arising from workforce structure/grade mix changes.

12. IFC's capital budget (IT and Real Estate) will stabilize at $58 to 60 million per year over FY21-23.

CHAPTER 1: EXTERNAL CONTEXT AND COVID-19 RESPONSE

1.1 The FY21-23 'IFC Strategy and Business Outlook: A Focus on Execution' (SBO) outlines IFC's growth trajectory to meet the Capital Increase Package commitments. The SBO defines key priorities for IFC to achieve its 2030 targets: (i) comprehensive program growth across all client countries, with a focus on IDA and FCS engagement (ii) creating markets, with an emphasis on accelerating Upstream and, (iii) strengthening the business model.

1.2 The SBO was prepared in the midst of the COVID-19 pandemic, as the health crisis was deepening, with considerable uncertainty about the extent of its impact on the global economy and on IFC client countries and private sector partners. Early effects have been supply chain disruptions and tightened liquidity.

1.3 IFC's long-term strategic direction and priorities remain unaltered even though its near- term focus has shifted to helping alleviate the health, financial and economic impacts of the COVID-19 crisis. The implementation of internal reforms over the last three years with core emphasis on country-level engagement, putting in place Upstream operating model, and stronger WBG collaboration, in addition to IFC's broad client network and traditional strength in product innovation, has prepared IFC to rapidly rise to the challenge of supporting client countries as they navigate the COVID-19 crisis. Notwithstanding the unprecedented nature of the pandemic and considerable uncertainty about its duration and impacts, IFC's past experience and lessons learned in previous crises are informing its approach to helping the private sector weather the ripple effects of the pandemic.

EXTERNAL CONTEXT

1.4 The global economic outlook is as challenging as it has ever been outside of wartime. The IMF projects the global economy to contract – 3 percent – for the first time since the 2008 global financial crisis. Uncertainty and risks will remain high, and downside scenarios forecast emerging markets and development economies (EMDE) GDP to drop 4-8 percent below the IMF trend of January.

1.5 EMDEs face the crisis with limited fiscal space and significant financing needs for COVID-19 response measures. The IMF expects public debt to increase from 53.2 percent of GDP in 2019 to 62 percent in 2020. Public debt accounted for less than 34 percent of GDP back in 2008.

IFC COVID-19 RESPONSE PILLARS

1.6 IFC's COVID-19 response is designed to be *proactive*, taking note of the IEG evaluation of IFC's response to the 2008 global financial crisis. IFC's COVID-19 support to countries and private sector clients covers three phases of the crisis response:

(i) Relief - maintaining the foundations of the private sector, businesses and markets;

(ii) Restructuring - restoring private sector viability and rebuilding markets;

(iii) Resilient recovery - creating new markets and opportunities.

1.7 ***Relief: maintaining the foundation of the private sector – IFC Fast Track COVID-19 Facility***: In addition to the heavy human toll, EMDEs are being hit by a deteriorating trade and financial environment reflecting sharp contractions in private sector activities. On March 17, 2020, Executive Directors approved a $14 billion World Bank Group Fast Track COVID-19 Facility ("Facility") to assist companies and countries to prevent, detect and respond to the rapid spread of COVID-19. As part of this program, IFC made available up to $8 billion to support existing clients affected by the economic downturn caused by the pandemic. The IFC Fast Track COVID-19 Facility comprises:

- *$2 billion Real Sector Crisis Response Envelope (RSE)* for existing IFC Infrastructure and Manufacturing, Agribusiness and Services (MAS) clients experiencing or vulnerable to the economic impacts of COVID-19, and
- *$6 billion Financial Institutions Response Envelope (FIGE*) to support trade finance to sustain current flows and move goods across borders and to address the liquidity and risk mitigation needs of companies facing demand and supply shocks.

1.8 IFC has earmarked 40 percent of its COVID-19 Facility to IDA and FCS countries in order to align IFC's crisis response efforts and its long-term strategic commitments and to ensure that poorer countries are able to benefit from the Facility.

1.9 IFC has taken quick steps to operationalize the Facility – developing guidelines for staff to conduct virtual appraisals, streamlining the investment process to fast track decision-making to ensure rapid deployment while also actively managing risks, and further enhancing reporting mechanisms with respect to the delegated authority envelopes under the Facility.

1.10 IFC had a strong pipeline under the FIGE. A significant proportion of the pipeline is expected to convert to committed projects by the end of FY20.

1.11 *Portfolio*: IFC is committed to proactively managing its portfolio and providing support to clients under stress from the impacts of the crisis.

1.12 ***Restructuring – restoring private sector and rebuilding markets:*** The pandemic is unleashing a huge expansion of the public sector in developed and developing countries as governments step up to handle both the health and economic impacts from lockdowns. IFC has an opportunity to help governments design programs that prevent liquidity issues from translating into solvency problems and lost employment and invested capital. With this in mind, IFC has set up a corporate COVID-19 Crisis Response Task Force, to develop fit-for-purpose policy advice and financial, investment and advisory operations to support countries and clients. The workstreams under the Task Force include: (i) advice in shaping government interventions (IFC is working with the Bank on key Development Policy Operations (DPOs) and Development Policy Loans (DPLs)); (ii) real sector interventions, including advice on restructuring and solutions for large companies; (iii) financial sector interventions, with a focus on microfinance and small and medium enterprises; and (iv) IFC balance sheet and local currency financing, with a focus on prudentially expanding deployment of local currency solutions.

1.13 IFC's phase II operational response to COVID-19 crisis includes four pillars: (i) increased support for financing trade through the Global Trade Finance Program (GTFP) and Global Trade Liquidity Program (GTLP); (ii) support for IFC's indirect investments through private equity funds investees as many of these indirect investments are MSMEs; (iii) development of a Pandemic Impact Mitigation Facility to support the financial restructuring of companies with good business fundamentals that have been negatively impacted by the COVID-19 crisis; and (iv) targeted Upstream initiatives to continue developing a potential pipeline of private sector projects and new products.

1.14 ***Resilient recovery - Creating markets and opportunities:*** The COVID-19 pandemic has been accompanied by among the largest outflows of capital from EMDEs in recent memory. This places heightened emphasis on IFC's Upstream work. By building a pipeline of impactful investment projects that will accelerate recovery, Upstream will be key to IFC's relevance and ability to play an effective role in the wake of the COVID-19 crisis.

PROGRAM TARGETS

1.15 IFC is continuing to evaluate the impact of the COVID-19 pandemic on the SBO (FY21-23) program trajectory. Management's expectation is that IFC's program delivery will closely align with the volume targets as outlined in the Capital Increase commitments, although the composition of IFC's product mix is likely to shift in the near to medium term towards shorter-term trade, liquidity and working capital facilities. Factors that may impact IFC's trajectory include the duration of the crisis and the shape of the recovery. IFC will revert to the Board if targets need to be revisited as the COVID-19 pandemic plays out.

1.16 Likely effects of COVID-19 on IFC's program and portfolio over the next 18-24 months include:

- *A rising share of short-term finance and liquidity instruments, increasing demand for equity investments.*
- *Advisory Services*. It will be particularly important to assess the impact of delays on development effectiveness and on additional staff costs that might be incurred in making up delays, as well

  as to determine whether client requests for specific COVID-19 related support fall outside the boundaries of currently approved projects.

1.17 FY21-*23 Program Targets.* Based on the SBO projections as shown in Table 1, IFC aims for $28.6 billion in total LTF commitments and $16.4 billion in own-account commitments by FY23. Short-term finance commitments, including trade and supply chain finance, are planned to increase to $8.1 billion by FY23.

Table 1: IFC Long-term Finance and Short-term Finance Program Targets, FY20-23

US$, billions	FY17(A)	FY18(A)	FY19(A)	FY20(T)	FY21(E)	FY22(E)	FY23(E)*
Total LTF Commitments	19.3	23.3	19.1	23.5	24.3	26.2	28.6
O/A LTF Commitments	11.9	11.6	8.9	13.3	14.2	15.2	16.4
Implied Mobilization	7.4	11.7	10.2	10.2	10.1	11.0	12.2
STF Commitments (Trade & Supply Chain Finance) **	6.5	7.4	5.8	6.1	6.7	7.3	8.1

* FY23 targets are preliminary as the IFC CSC only covers FY20-22.
** Revised from FY19 to address volatility in the portfolio and to align it with other DFI reporting. The definition was changed from "Avg. Outstanding Portfolio" to reflect the sum of Trade & Supply Chain Finance annual commitments.

1.18 The projected breakdown of IFC's commitments by focus themes (Climate and Fragility) and focus regions (South Asia, Sub-Saharan Africa and Middle East and North Africa) over the FY21-23 period is provided in Table 2. Accelerating Upstream and implementing the FCV strategy are expected to boost IDA and FCS program growth.

Table 2: IFC Commitments by Focus Theme and Region

	Share of O/A LTF		
	FY17-19†	FY19(A)	FY23(E)*
Focus Themes			
Climate	29%	29%	35%
IDA17-FCS	23%	24%	32%
LIC-IDA17 & IDA17-FCS	6%	7%:	13%
Focus Regions			
South Asia	19%	21%	22%
Sub-Saharan Africa	17%	19%	23%
MENA	6%	6%	10%

† Simple average of actual shares for the period FY17-19.
* FY23 targets for CSC themes and projections for Regions are derived from preliminary FY23 IFC volume targets.

CHAPTER 2: STRATEGIC RESOURCE SHIFTS

2.1 The delivery of IFC's ambitious 2030 growth trajectory required a change in IFC's business model with greater focus on the regional and country level engagement, Upstream work, and proactive risk management as IFC expands its program in the most challenging environments. The formation of the three Regional Vice-Presidencies, the build-up of the field presence in Africa, the creation of the dedicated Upstream units and a global Upstream department, and the establishment of the Environment and Social (E&S) Policy and Risk department~~,~~ are all aligning the organizational structure and resources with the continued deliberate shift towards IFC's strategic priorities.

2.2 *Strengthening regional and country capacity and realigning staff resources towards priority areas.* IFC's workforce plan envisions continuing realignment of staff resources towards priority areas whilst acquiring or developing specific skillsets, including conducting feasibility studies and program/project management essential for Upstream, industry expertise, environmental and social assessments and monitoring, and equity.

2.3 *Shifting resources to Upstream.* In view of the critical need to address the shortage of bankable projects in both low-income countries and non-IDA/FCS, as well as the need for policy and regulatory change to attract private sector resources to development priorities, IFC has put Upstream engagement at the center of IFC 3.0 implementation. In addition to the ongoing process of shifting IFC corporate resources to priority regions, IFC is redeploying a significant share of these resources to Upstream.

2.4 *Country-level Upstream budget allocations.* Starting in FY21, IFC will use a targeted country-driven budget allocation to directly link IFC Country Strategies with the Upstream pipeline and resource allocation, representing a fundamental shift in how IFC does its budgeting. For the first time this year, some of IFC's operational program budget will be allocated at a country level, giving Country Managers control over a sizeable portion of IFC resources. In the first year of implementation, the Upstream country budget allocation will be limited to non-staff program funding.

2.5 Country-level funding will be released to individual Upstream projects and initiatives throughout the year following the existing Upstream Accountability Decision-Making Framework (ADM) process, with Country Managers as budget holders and approvers for their projects.

2.6 A structured process for Upstream funding review and reallocation, as needed, will kick off in Q2 FY21 and will continue at regular intervals throughout the year.

2.7 *Restructuring of the Equitable Growth, Finance and Institutions Global Practice (EFI).* In January 2020, IBRD and IFC management agreed to change EFI's existing business model and bring private sector focused activities back to IFC Operations. This change will align resources and expertise in support of IFC 3.0 and more specifically, will support the expansion of the IFC Upstream program. An ongoing restructuring will uncouple the World Bank and IFC products, projects, and staff within EFI, while keeping collaboration and coordination in specific areas, including Country Private Sector Diagnostics. The goal is to complete the realignment and integration process by July 1, 2020.

2.8 *Continuing to rebalance the pyramid and better leverage senior staff.* Finding efficiencies are core to IFC's approach to workforce planning. It will continue to recruit more staff at grades GE/GF to strategically leverage senior staff which will, in turn, increase productivity and streamline IFC's grade pyramid. Furthermore, IFC will focus on the continuing recruitment of skilled regional staff. This two-pronged approach is designed to enable IFC to serve clients more effectively, especially in challenging environments, by providing global sector and product expertise complemented by solid local knowledge and processing capacity.

INVESTMENT COST OF DOING BUSINESS (CODB)

2.9 IFC's CODB methodology provides a useful directional indication of the resources needed to deliver an increasingly complex program. This model has been mainstreamed into IFC's budget preparation since FY18 and is also included in the year-end Quarterly Budget and Human Resources Report (QBHR).

2.10 The CODB methodology for Investment Services excludes Short Term Finance (STF) own-account commitments from the calculation of CODB factors, as these costs have been immaterial in past years. Even though IFC expects its product mix to shift towards trade finance and working capital facilities in response to COVID-19, the CODB methodology remains relevant in directionally estimating resource needs. IFC expects increased portfolio management activities due to higher restructuring efforts and greater need for closer supervision work, as clients experience liquidity and working capital constraints.

2.11 IFC has projected an average $26 billion commitment volume per year ($14.8 billion in LTF OA, and $10.9 billion in mobilization) from FY21 to FY23, yielding an average annual program growth of 11 percent over the period. IFC will also continue to shift its program towards priority regions and strategic themes.

2.12 Analysis of IFC's CODB demonstrates that additional resources will be required for the planned growth in focus areas. For example, the CODB analysis in Table 3 and Table 4 illustrates the following:

- IFC generates less volume for the same amount spent in IDA17 compared to the IFC average. A dollar spent originating an IDA17 project generates $19.1 of own-account LTF commitment volume compared to the IFC average of $30.8.
- The relative cost of originating a project in an IDA17 market is 1.04x the IFC average.
- New investments in Core Infrastructure cost more than twice the IFC average; for Sub-Saharan Africa and Middle East and North Africa (MENA) regions, they cost nearly 1.2x the IFC average.

2.13 As presented in Table 3, the portfolio factor does not generally exhibit as large a variability as new business does, given the greater predictability and stability of the portfolio.

Table 3: IFC Cost of Doing Business Factors Influencing Resources Projection

		New Business Factors		Portfolio Factors	
		FY17-19 Average	FY17-19 Average Adjusted[1]	FY17-19 Average	FY17-19 Average Adjusted[1]
Themes	**IDA17**	1.04x	1.04x	1.02x	1.02x
	IDA17 + FCS	1.07x	1.07x	1.02x	1.03x
	Climate	0.42x	0.43x	0.99x	0.99x
Regions	**Sub-Saharan Africa**	1.16x	1.16x	0.97x	0.97x
	South Asia	0.74x	0.74x	0.78x	0.78x
	MENA	1.16x	1.16x	1.02x	1.02x
	LAC	0.82x	0.82x	1.06x	1.06x
	ECA	1.00x	1.00x	1.18x	1.18x
	EAP	1.03x	1.03x	0.95x	0.96x
IFC Average (US$000')		**1,102**	**1,085**	**286**	**282**

1. FY19 CODB result was impacted by one-time WFP exist of $51.5 million and lower program. The FY17-19 adjusted column has been adjusted to remove the WFP payment impact.

Table 4: LTF Commitment Volume per US$1 Spent

	US$	FY17-19 Average	FY17-19 Average Adjusted
Themes	**IDA17**	19.1	19.3
	IDA17 + FCS	19.0	19.1
	Climate	64.7	65.2
Regions	**Sub-Saharan Africa**	18.6	18.9
	South Asia	44.4	44.7
	MENA	21.6	21.7
	LAC	37.4	37.9
	ECA	41.9	42.0
	EAP	26.9	27.1
IFC Average (US$)		**30.8**	**31.2**

ADVISORY SERVICES (AS) COST OF DOING BUSINESS

2.14 The AS CODB methodology is being introduced in the FY21 Budget Paper and indicates the cost dynamics and resource requirements of Advisory engagements associated with Upstream projects.

2.15 The AS CODB methodology shows that IFC contributes, on average, 40 percent of the Total Resources required to deliver Advisory services from internal funding sources. In other words, for every $1 of IFC internal sources of funds committed, IFC delivers $2.5 worth of Advisory Services. On average, each Advisory project requires $516 thousand in Total Resources per annum.

2.16 Early analysis of the Upstream projects show that each Upstream project requires 1.8x the traditional advisory project, or $905 thousand total resources per annum. This indicates that, as IFC increasingly grows its Upstream portfolio and shifts resources to this priority, more resources will be required to achieve expected results.

2.17 In addition, the AS CODB analysis shows that sector development / market creation projects, where IFC engages in early Upstream work, require 1.3x more resources than the average project. In IDA, FCS and Sub-Saharan Africa each sector development/market creation project costs on average 1.1x, 1.2x and 1.1x respectively more than the average. Infrastructure and Financial Institutions Group sector development / market creation projects require 1.9x more than the average to deliver.

CHAPTER 3: GROSS RESOURCE NEEDS

3.1 IFC intends to accelerate execution of IFC 3.0 by building a pipeline of impactful projects, growing the program, leveraging staff, and expanding the footprint. IFC will require more resources for its growth of Long-term Finance Commitments by 50 percent from FY19 to FY23 with an increased focus on FCS and IDA and further investment in Upstream to create markets and develop bankable projects. This chapter details the key cost pressures impacting IFC's budget trajectory.

BOTTOM-UP APPROACH

3.2 IFC's 3.0 strategy is resource-intensive and it will cost more than the historical IFC average to deliver its program in the strategic priority areas and regions. Additional cost pressures will result from the LIBOR transition, COVID-19 related restructurings and portfolio risk mitigation measures, Enterprise Resource Planning (ERP) implementation, and expansion of the global footprint.

3.3 In W1, IFC presented a budget trajectory based on a top down approach supported by the historical CODB analysis to determine initial estimates of administrative resource requirements based on: (i) organizational staffing needs derived from workforce planning exercise, (ii) incremental administrative budget needs to support Upstream activities, and (iii) Shared Services Agreements (SSA) costs and needs of centrally managed programs.

3.4 Through a more traditional bottom-up approach, IFC refines its initial resource estimates to determine the actual corporate gross resource needs. For FY21-23, the bottom-up approach identified the following main cost pressures:

- *Staffing*, arising from the implementation of the FY19 workforce planning exercise, which evolved into a structured annual workforce plan update.
- *Upstream costs*, which will be driven by (i) staffing and (ii) non-staff program delivery expenses. The Upstream funding model, which relies on the Administrative budget to fund staffing, yields asymmetrically higher (compared to traditional Advisory Services) pressure on the Administrative budget trajectory.
- *Shared Services Agreements,* which are underpinned by the workforce ratio of IFC relative to the rest of the WBG. As the ratio increases through additional hiring by IFC, so do the costs.
- *Global footprint*, arising from an increased presence in IDA and FCS countries.
- *LIBOR transition*, which will affect many IFC units, with the most impact being felt by Treasury and Syndications, Legal, Investment Operations, Controllers and Information Technology.
- *ERP implementation*, which will have some level of cost impact for IFC. Various options are still being reviewed by the WBG to determine the magnitude.
- *Other incremental non-staff needs* arising from COVID-19 and portfolio risk mitigation measures and restructurings.

STAFFING AND WORKFORCE PLANNING

3.5 Staffing expenses continue to be the primary driver of IFC's cost base, and delivery of IFC's Capital Increase commitments will require an increase in staffing. The comprehensive workforce review exercise undertaken by IFC in FY18 and FY19 freed up critical capacity and laid the foundation for IFC to invest in the skills and grade mix that will be necessary to execute its strategy. These actions, combined with delayed filling of positions left vacant due to natural attrition, resulted in a reduction in IFC's headcount.

3.6 *Skills enhancement and alignment.* The workforce planning exercise has allowed IFC to (i) strengthen Operational department regional and country capacity and realign staff toward priority regions and countries; (ii) ramp up recruitment of dedicated Upstream staff, Industry, Equity and Social specialists, and Economists supporting regions; and (iii) bring in new skillsets, such as conducting feasibility studies and working with governments, WB colleagues, and policymakers to create markets and proactively design new bankable investment projects.

3.7 *Streamlining the grade pyramid.* IFC will continue to recruit more staff at grades GE/GF to strategically leverage senior staff, which will, in turn, increase productivity and streamline IFC's grade pyramid. New staff resources will primarily focus on delivering in IDA and FCS locations, with increased presence in the strategic focus regions of Sub-Saharan Africa, the Middle East and North Africa, and South Asia.

3.8 *Recruitment and onboarding.* The current focus on recruitment from management and the introduction of a number of initiatives centered around streamlining the recruitment process, strongly supports the effort towards meeting recruitment targets. With an accelerated pace of recruitment and recognizing a unique opportunity in the midst of current economic challenges due to COVID-19 in a job market with growing unemployment rates, IFC expects to leverage its position in recruitment as an attractive employer. It also expects attrition to be much lower than previous years which saw a substantial number of managed exits in FY19 and FY20 related to the Voluntary and Non-Voluntary separation programs.

3.9 Where in-person onboarding is not possible due to lock-down or travel restrictions, IFC has utilized virtual tools to onboard candidates in their current locations. This process has included giving new hires access to IT equipment, systems access, visa, benefits, and other key elements that used to be provided in face-to-face sessions.

UPSTREAM RESOURCES

3.10 By generating a pipeline of bankable projects as well as facilitating policy and regulatory change to attract private sector resources to development priorities, Upstream activities are central to IFC's ability to reach its FY30 goals. Looking back, IFC's investment program grew at an average annual rate of 4 percent over the FY09-18 period. Achieving this historical growth rate in an external environment of macroeconomic and policy uncertainty, accompanied by IFC's strategic shift toward less-developed IDA markets with nascent private sector, will be difficult in its own right. But even achieving the 4 percent annual growth rate will be insufficient, as under this scenario IFC's annual own account investment program would reach only $17 billion by FY30, falling $8 billion short of the target. Therefore, developing bankable and impactful investment projects from scratch through Upstream activities is essential for bridging this "delta".

3.11 The sizing of IFC's Upstream resources needs was modelled based on the pipeline that will be necessary to generate sufficient investment to meet IFC's desired investment growth trajectory. In FY19, roughly 13 percent of IFC's own account commitments resulted from previous Upstream activities. To meet its FY30 goals, we estimate that more than 30 percent of IFC's investments will need to result from such activities. Growth along this trajectory will be met only if a sufficient pipeline of Upstream activities can be generated. Based on historical data from previous Upstream projects as well as informed assumptions regarding project management requirements, efficiencies and project size, by FY23, IFC is estimated to have over 440 Upstream activities in its pipeline and to have invested in over 75 projects that have resulted from prior Upstream activities. Generating this pipeline will be a time and resource intensive undertaking that, given the long-term nature of Upstream activities, requires a significant front-loading of fully dedicated Upstream staff, with skills which are meaningfully different from that of IFC's traditional Investment and Advisory staff.

3.12 The FY21 Upstream annual spending needs are based on a comprehensive Upstream prioritization exercise which identified a pipeline of Upstream activities expected to materialize in FY21-25. The total cost was derived from a combination of the estimates of the staffing required to deliver each activity as well the associated non-staff program delivery expenses such as travel and consultants.

3.13 *Upstream Funding model.* Given that developing Upstream capacity is central to IFC's long-term program delivery, Upstream staff costs will be funded primarily from administrative budget resources. IFC will also seek external funding from development partners, where available, for Upstream project delivery expenses. In addition, IFC will leverage income designations including Creating Markets Advisory Window (CMAW) and Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS) as well as Investment Services fees. The choice of funding source will depend on the type of engagement as well as development partner appetite.

3.14 IFC is introducing a targeted country driven budget allocation mechanism to hardwire the links between country strategies, Upstream pipeline, and resource allocation. At the beginning of FY21, Country Managers will receive an Upstream country budget allocation to cover the program costs (variable costs to deliver activities such as consultants and travel) for projects identified through the prioritization exercise. As projects are developed during the year, IFC budget will be released to individual Upstream projects via the existing approval process as per Advisory/Upstream Accountability and Decision Making (ADM) framework where the Country Manager will be the "Triggered Reviewer/Budget Holder".

SHARED SERVICES AGREEMENTS

3.15 Increased costs are expected from Shared Services Agreements with the World Bank, most of which are determined by reference to IFC's workforce ratio relative to the rest of the World Bank Group. As IFC's hiring ramps up, the workforce ratio is expected to grow.

GLOBAL FOOTPRINT

3.16 IFC's Global Footprint represents one of its core competitive advantages. To facilitate serving clients effectively, IFC has maintained decentralized operations, which allows global sector expertise to be complemented by solid local knowledge and processing / project implementation capacity on the ground. Of the 2,000 plus Operations staff, 70 percent are currently based outside of Washington. Overall, 54 percent of all IFC staff are in Country Offices.

3.17 IFC's Global Footprint is expanding to ensure the right people are in the right places to achieve the ambitious goals of IFC 3.0, especially in FCS countries. The cost of IFC's Global Footprint will increase, driven by the cost of expanding existing offices, establishing new locations, ensuring security associated with maintaining staff safety, primarily in FCS locations, and taking adequate measures for staff safety upon their return to office in the COVID-19 environment.

3.18 COVID-19 is causing delays in the implementation of the HQ and Country Offices Real Estate projects. These delays are expected to continue until the situation is fully resolved. The home-based work arrangements, combined with technology and connectivity, may yield potential savings for IFC from reduced office operating costs (utilities, deferred costs resulting from delays in real estate projects, etc.). However, these savings may be offset by higher costs related to one-off costs for setting up home offices and enhanced measures for safety of staff in the wake of the crisis.

3.19 IFC continuously assesses its Global Footprint to address evolving WFP decisions on projected staff placement. Offices are reviewed on a country-by-country basis to ensure each location can accommodate the planned staffing and begin planning for growth where locations do not provide adequate space. As a principle, IFC will concentrate operations and support functions in regional Hubs, which provide easy access to other countries in each region. Small complements of operational staff will then be placed in liaison offices (usually in IBRD locations) throughout the region to maintain a local presence at minimal cost. This real estate review is being closely coordinated with IBRD so that available space is optimally utilized before IFC incurs any cost for additional space.

LIBOR TRANSITION

3.20 As the publication of LIBOR (the London Inter-bank Offered Rate) is expected to cease by the end of 2021, an internal IFC LIBOR Transition Group has been established with representatives from all relevant units (Treasury, Operations, Finance, Legal, Risk, etc.) to lead and coordinate the transition efforts.

3.21 IFC has a broad product portfolio that is exposed to LIBOR – loans, syndications, derivatives, bonds, securities, and guarantees. Loans and syndications as well as derivatives with IFC client borrowers with LIBOR reference will require analysis and remediation. For many transactions, this could involve multiple individual legal agreements such as lending, intercreditor arrangements, and security.

3.22 IFC has a large number of diverse, private-sector borrowers and lenders to negotiate with, as compared to a smaller number of mostly sovereign and sub-sovereign borrowers like IBRD/IDA where an omnibus amendment process can be used. For syndications alone, IFC will have to include approximately 150 other lenders in negotiations of financing contracts that have maturities post-2021.

3.23 While we anticipate certain synergy between the Bank and IFC during the implementation phase of the project, there are some fundamental differences that will make a common approach challenging:

- IFC will need to engage in bilateral negotiations with a significant number of private borrowers.
- In addition, mobilization from third parties means that IFC may need to get consent from B lenders and other co-lenders involving multi party negotiations.
- Development of operational and technology readiness plans will require duplicate effort on both sides as most of the IT systems, valuation models, reporting systems, and so on are different between the World Bank and IFC.

3.24 A budget governance process has been established for the Administrative budget funding earmarked for LIBOR transition. Funding will be administered centrally in a separate funding pool under IFC's Central Accounts. Departments will be given budget authority to charge expenses up to an authorized ceiling, which will be established based on spend estimates for FY21-22 produced by the LIBOR Working Group and approved by management.

3.25 Reporting on LIBOR transition costs funded from Administrative Budget and Capital Budget will be done retrospectively on a quarterly basis to the IFC Corporate Risk Committee (CRC) and included in the Quarterly Budget and Human Resources (QBHR) report to the Budget Committee.

ERP IMPLEMENTATION

3.26 SAP announced it will stop supporting the SAP version that the World Bank Group uses by the end of 2025. All entities in the WBG use SAP as the engine for all core financial processes and many administrative / operational functions. SAP's new ERP is SAP S4 HANA. Adopting S4 HANA will not be a technical upgrade but a business-driven modernization providing an opportunity to redesign WBG business processes. To that end, the WBG ERP program approach endorsed by the WBG senior management, is to assess solutions in the market and go through a formal Request for

Proposal (RFP) process to select an ERP that best fits WBG needs. The ERP modernization will be a complex and multi-year endeavor demanding significant human and financial resources, and it will provide an opportunity to modernize and transform the ERP, its applications and processes.

3.27 In FY21, IFC expects to actively participate in the WBG decision on the ERP product selection and initial assessment of migration, transition and conversion paths to the future state ERP. The detailed implementation plan will be confirmed in FY21 after the ERP product is selected.

VPU NON-STAFF INCREMENTAL NEEDS

3.28 As part of the FY21 Budget Process, VPUs identified indirect non-staff costs related to the identification, monitoring, and early mitigation of the inherently higher risks of expanding into more challenging environments and COVID-related portfolio measures. The costs of COVID-related restructurings are yet to become fully apparent and therefore have neither been quantified nor included in the numbers impacting the trajectory below. These incremental costs include, among others, support for expanded AIMM portfolio work, additional credit trainings, and enhancement of IFC's litigation preparedness.

CHAPTER 4: EFFICIENCIES

4.1 For IFC to grow its program within its limited resources, IFC needs to keep its focus on generating efficiencies. This chapter describes, and where possible, quantifies anticipated efficiency savings and economies of scale that will offset increased costs resulting from the execution of IFC 3.0 and IFC's commitments under the Capital Increase Package. Further details have been provided in a separate paper, *Monitoring Efficiencies Framework*, previously circulated to the Budget Committee.

THE EFFICIENCY AGENDA

4.2 IFC has consistently contained growth in its Administrative budget through WBG and IFC-specific expenditure control and efficiency measures. The efficiency agenda's primary focus is on increases in productivity, workforce structure/grade mix changes, and effectiveness of operational delivery.

4.3 IFC's Management remains committed to cost discipline. Having realized efficiencies of $61 million in FY19, IFC is on track to realize $60 million in FY20.

EFFICIENCY SAVINGS AND ECONOMIES OF SCALE

4.4 Efficiency Savings are derived from concrete, measurable, and sustainable cost-efficiency measures and include hard savings that arise from not having to incur the prior costs in coming years. Hard savings are internally redeployed in the organization to address the emerging costs of doing business.

4.5 Economies of Scale are realized from containing the direct and overhead costs related to increased program growth, such that costs do not increase in a linear fashion with the increase in the program. FY23 is the earliest year that economies of scale are expected to be realized, commensurate with portfolio growth. Currently, IFC is in a period of changing its delivery model and undergoing a ramp-up of staffing consistent with its workforce plans, which will result in a short-term increase in the Cost of Doing Business (CODB). This trend will start to reverse when investment portfolio growth starts to outpace the initial investment in resources (anticipated from FY23 onward).

4.6 *Other Savings and Revenues:* In order to remain within the proposed trajectory, IFC will need to realize one-time additional savings/income in FY21. Additional income is expected to be realized from review of the Overhead Allocation methodology and rebates from the Travel Card and PCard. New contracts of the Global Preferred Airlines and staff hiring delays and attrition may yield additional cost avoidance and savings respectively. Further savings may be realized from reduced travel at the beginning of the year due to slow ramp-up following COVID related restrictions and other tradeoffs by departments.

EFFICIENCY METRICS AND REPORTING

4.7 Strategy and Business Outlook papers and Budget Documents that are presented to the Board every year detail new efficiency and other budget discipline initiatives that are embedded in budget trajectories for future years (as part of the overall presentation of the IFC's work program, deliverables and budget trajectories). Once embedded in the budget trajectory, targeted efficiency measures/economies of scale and expected savings are closely tracked from estimation, through centrally managed redeployment, and final validation to confirm that they have indeed fully materialized. Cost avoidance measures are also tracked to the extent possible. IFC also reports its progress on its Efficiency target in its Scorecard.

BUDGET COVERAGE RATIO

4.8 The Budget Coverage Ratio, as a measure of ensuring sustainability of resource growth, was first introduced in the FY19 IFC Corporate Scorecard, and it was first used in the FY20 budget paper as an official measure of budget efficiency. IFC captures a budget coverage ratio indicating IFC's ability to manage its budget resources efficiently, without relying on volatile revenues such as equity income.

4.9 Management will report to the Board progress on efficiencies and economies of scale that have materialized throughout the year after each fiscal year-end, on a retrospective basis and using the approach detailed in this paper. In addition, the World Bank Group is exploring a mechanism to report efficiencies and economies of scale as part of the annual Capital Package progress report.

CHAPTER 5: FY21-23 BUDGET FRAMEWORK

5.1 This section sets out the aggregate three-year funding trajectories for the Administrative Budget and Advisory Services, demonstrating the consistency of the medium-term budget framework with the principles of financial sustainability, affordability, and efficiency.

AGGREGATE ADMINISTRATIVE BUDGET TRAJECTORY

5.2 Considering strategic priorities and reflecting the significant ramp-up in program growth as envisioned in the IFC's Capital Increase commitments, IFC Management proposed in the SBO paper, a FY21 Administrative budget increase of 4.4 percent nominal (2.1 percent real). As a result of (i) a decrease in the US CPI factor from 2.3 percent to 1.4 percent and (ii) management's recognition that onboarding of new hires as well as resumption of business travel in FY21 may take longer than previously expected due to the COVID-19 crisis, IFC now proposes a budget increase of 2.5 percent nominal (1.1 percent real) – an overall reduction of $21 million from the SBO proposal.

5.3 The lower budget ask for FY21 poses enhanced cost pressures in the later years of the SBO period, in order for IFC to remain in a position to fully execute IFC 3.0 and deliver on its commitments under the Capital Increase Package. The precise year on year growth rates for FY22-23 will vary based on the pace of hiring and adjustments to the workforce plans (See Table 5, Figure 1).

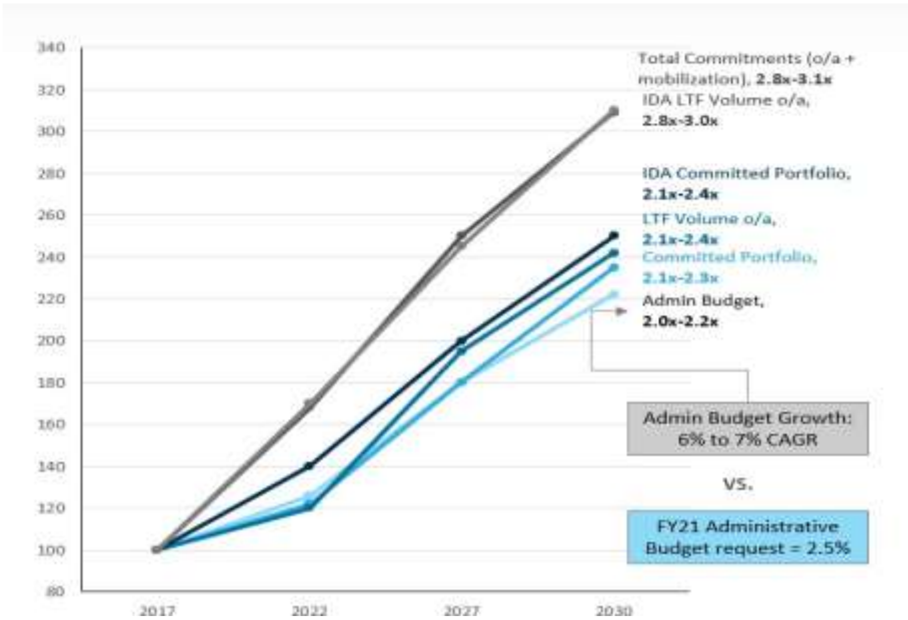
Table 5: Administrative Budget Needs for FY21-23 (US$, million)

	FY20A	FY21E	FY22E	FY23E
Trajectory per FY20 SBO (higher end of range)	1,111.5	1,149.3	1,198.7	NA
Revision to Trajectory		(10.0)	1.0	NA
Revised Trajectory (Nominal)	**1,111.5**	**1,139.3**	**1,199.7**	**1,253.7**
% Change YoY (Nominal)		**2.5%**	**5.3%**	**4.5%**
Proposed FY21-23 Trajectory (in FY20$)	1,111.5	1,123.7	1,157.4	1,182.9
% Change YoY (Real in FY20$)		1.1%	3.0%	2.2%

Figure 1: Administrative Budget Trajectory, FY20-23

5.4 The Administrative Budget trajectory of 2.5 percent is significantly lower than the Administrative Budget increase of 6-7 percent Compound Annual Growth Rate (CAGR) to support IFC's Program and Portfolio growth over FY19-30 discussed as part of the Capital Increase Package.

Figure 2: Program and Pipeline Growth vs. Resource Needs, FY17-30



5.5 The proposed FY21-23 budget trajectory will maintain budget sustainability and contribute to the financial strengthening of the institution. The Budget Coverage Ratio under the proposed budget trajectory is projected to be 87 percent in FY20 (the three-year rolling average is under 85 percent) and for FY21-23 will be within 83 percent.

ADVISORY SERVICE BUDGET TRAJECTORY

DETERMINING THE ADVISORY BUDGET TRAJECTORY

5.6 IFC has reassessed the levels of Advisory Services funding needed to support its traditional Advisory business as well as the ramp-up of its Upstream program in FY21-23.

5.7 The construction of the trajectory is grounded on (i) Funding Needs Assessment (FNA) combined with (ii) historical Advisory Services Cost of Doing Business to determine program implementation needs, (iii) workforce plans developed by VPUs to estimate the staffing costs and (iv) the Upstream budget envelope resulting from the Country-driven bottom-up exercise to define the percentage of the Advisory budgets that will be channeled toward Upstream engagements.

- *Funding Needs Assessment*. Introduced in FY20 and aimed primarily at increasing internal alignment of fundraising priorities and more efficient and strategic fundraising from development partners, this annual exercise provides a more structured approach to assessing multi-year departmental funding needs to deliver on the Advisory program. The FNA will guide fundraising for all areas across IFC: Advisory, Upstream, Blended Finance, COVID-19 Response, and so on.

- *AS CODB***.** The CODB metric captures the cost of delivering Advisory engagements. These cost factors are subsequently applied to the inputs from the Funding Needs Assessment to determine program resource needs for the next three years.
- *Workforce Plans***.** Implemented in FY19, the workforce planning exercise evolved into a structured workforce plan for FY20-22 developed by VPUs, and which informs the budget needs to fund Advisory and Upstream staffing costs.
- *Upstream Budget Envelope*. The program resource needs established by the CODB are split between traditional Advisory and Upstream and are based on the inputs from the country-driven budget exercise as described in Chapter 3.

5.8 FY20 is the first year IFC is conducting the FNA exercise. Given the outbreak of COVID-19 in the beginning of 2020, the final stages of the exercise were postponed for a later time in the calendar year , as priority has been given to the implementation of the IFC COVID-19 response facilities and subsequent discussions with development partners on support for IFC's crisis response work. In particular, there is a CRISIS FNA being developed to address the COVID-19 response. Despite the temporary interruption in implementation, going forward, the annual FNA exercise will become an integral part of the IFC strategy and budget process and will support the determination of the Advisory budget trajectory.

ALIGNING ADVISORY SOURCES AND USES OF FUNDS

5.9 After the program resource needs are assessed, IFC determines the appropriate budget level for each source of funds based on financial sustainability and operational and financial principles, aligning sources and uses of funds. These principles include funding availability, funding eligibility, strategic priorities, leverage acceptance and appetite from development partners.

5.10 The main sources of funds used for delivering the Advisory program are development partners, Client Contributions, FMTAAS, and CMAW. Other core Advisory expenditures not directly attributable to program are covered by administrative sources of funds. A description of the Advisory sources of funds is provided in Chapter 6.

AGGREGATE ADMINISTRATIVE AND ADVISORY SERVICES BUDGET TRAJECTORIES

5.11 The "All Funds" trajectory shows a nominal growth of 2.8 percent in FY21, followed by a growth of 4.4 percent and 3.6 percent for FY22 and FY23 respectively.

Table 6: FY20-23 Total Resources Trajectory (US$, million)

	FY20	FY21E	FY22E	FY23E
Administrative Budget	1,111.5	1,139,3	1,199.7	1,253.7
Advisory Services Non-Administrative Budget	421.5	459.5	469.5	479.5
Aggregate Administrative and Advisory Services Budget	**1,533.0**	**1,598.8**	**1,669.2**	**1,733.2**
Earmarked Service Fees and Others	240.4	224.4	233.5	238.0
IFC Total Resources	**1,773.4**	**1,823.2**	**1,902.7**	**1,971.2**
% Growth Aggregate Administrative and AS Budget		4.3%	4.4%	3.8%
% Growth Total Resources		2.8%	4.4%	3.6%

CHAPTER 6: FY21 BUDGET PROPOSAL

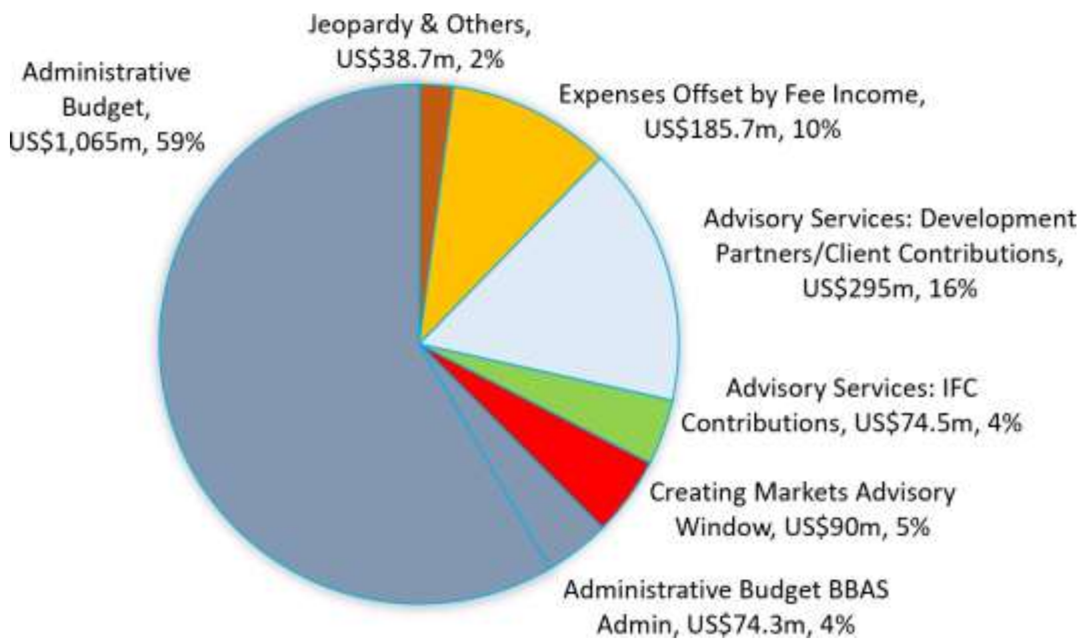
6.1 This section presents the specific details of the FY21 budget proposal, the allocation to the main budget categories, and details on allocations.

FY21 TOTAL RESOURCES VIEW BY SOURCES OF FUNDS

6.2 IFC's projected Total Resources budget for FY21 is $1,823.2 million, as shown in Figure 3. This view reflects the gross needs as described earlier in this document partially offset by efficiencies.

6.3 F 3 presents the FY21 Total Resources envelope, including the relative portion of each Source of Funds (SOFs) within Total Resources.

Figure 3: FY21 Total Resources (US$, million)



6.4 IFC's Total Resources are projected to increase from $1,773.4 million in FY20 to $1,823.2 million in FY21, a 2.8 percent increase. The main shifts in individual sources of funds are addressed later in this chapter.

ADMINISTRATIVE BUDGET

6.5 Considering strategic priorities and reflecting the significant ramp-up in program growth as envisioned in IFC's 2030 Capital Package commitments, IFC Management proposes an FY21 Administrative Budget of $1,139.3 million which represents an incremental increase of 2.5 percent in nominal terms over the FY20 Administrative Budget. This proposed increase is required to meet IFC's incremental resource needs described in detail in Chapter 3.

6.6 Staffing is the main driver of IFC's budget trajectory. While the exits combined with slow pace of recruitment in FY19 and early FY20 have led to limited incremental spending in FY20, these newly hired staff will have full year cost implications in FY21.

6.7 The contained incremental spending on staffing in FY20 together with other spending shortfalls, especially on travel, given the COVID-19 restrictions, is expected to lead to an underrun of around 4 percent compared with the FY20 Budget.

6.8 However, with the full year cost implications of staff hired during FY20, as noted above, as well as the expected bounce back in spending in areas like travel and STCs/ETCs (especially with the planned ramp-up in Upstream activity), the underrun in FY20 spending versus Budget is expected to close in FY21. Further, the incremental FY21 Budget Ask is based on an assessment of gross spending needs primarily driven by planned incremental hiring. The gross spending needs of $123 million are expected to be offset by Efficiency savings and other one-time savings of $95.1 million resulting in a net incremental Budget need of $27.8 million.

COST CATEGORY VIEW OF ADMINISTRATIVE BUDGET

6.9 IFC's Administrative Budget can also be viewed by Cost Category as in Table 7. The view provides the actual expenses for FY18 and FY19 with F20 projected spend and FY21 estimates. The salaries and benefits remain the main driver of the total expenses.

Table 7: IFC's Historical Administrative Expenses and Budget by Cost Category – Fixed vs. Variable (US$, million)

	FY18A	FY19A	FY20P	FY21E
Fixed Expenses	**790.0**	**867.0**	**831.7**	**882.8**
of which				
Salaries and Benefits*	672.4	742.1	697.6	741.2
Communications & IT	16.9	17.7	21.6	25.2
Depreciation	57.9	65.6	62.5	64.3
Equipment & Building	42.8	41.6	50.0	52.1
Variable Expenses	**211.3**	**234.8**	**249.0**	**275.9**
of which				
ST Consultants & Temporaries	13.0	12.3	15.3	22.3
ET Consultants & Temporaries	-	1.0	5.2	7.5
Travel, Representation and Hospitality	38.5	32.0	22.9	29.0
Contractual Services	36.5	45.8	50.3	55.2
Services and Support Fees	108.2	127.7	141.5	141.4
Other Expenses	15.1	16.0	13.8	20.5
Total Expenses	**1,001.3**	**1,101.8**	**1,080.7**	**1,158.7**
Total Non-Operational Revenue	(15.7)	(17.4)	(15.2)	(19.4)
Net Expenses	**985.6**	**1,084.4**	**1,065.5**	**1,139.3**

* FY19 Salaries and Benefits include one-time WFP Severance costs.

ADVISORY SERVICES SOURCES OF FUNDS (SOFS)

6.10 Advisory Services draws on IFC's internal funding sources, Development Partners and Clients. This combination of funding sources creates a robust and diversified funding model with enough flexibility for successful delivery of the AS development mandate.

Table 8: Advisory Services Budget by Sources of Funds (US$, million)

	FY20A		FY21E	
	$	**%**	**$**	**%**
Development Partners and Clients	**290.0**	**59%**	**295.0**	**56%**
Development Partners	260.0	53%	260.0	49%
Client Contributions	30.0	6%	35.0	7%
IFC All Sources	**204.7**	**41%**	**238.8**	**45%**
AS Admin Budget	73.3	15%	74.3	14%
CMAW	70.0	14%	90.0	17%
FMTAAS	45.0	9%	60.0	11%
Other IFC Sources	16.5	3%	14.5	3%
Total Advisory Services Budget	**494.7**	**100%**	**533.8**	**100%**

Totals may be imprecise due to rounding.

6.11 *External Funding.* Development Partner and Client Support to Advisory Services and Blended Finance remains robust and will be critical for implementing IFC 3.0 in key focus areas such as IDA, FCS, Climate, and Gender.

6.12 Efforts are ongoing to manage and enhance existing Development Partner relationships, with a transition to a more disciplined and strategic approach to partner outreach. To promote long-term financial sustainability, IFC is also continuing to diversify its sources of donor funding by attracting foundations, philanthropic, and other non-traditional partners such as Mastercard Foundation and Bill Gates Foundation.

6.13 Another external source of funding for AS projects is Client Contributions. IFC's Advisory Services pricing policy uses client contributions primarily as a tool to strengthen client ownership and commitment to implementation and to ensure that any subsidy embedded in AS pricing is justified by the public benefit involved. This approach has the additional benefit of further diversifying and strengthening the AS funding model. IFC's client contributions represent approximately 7 percent of total AS budget.

6.14 *IFC's Internal Funding.* IFC's Direct Contribution to the funding of Advisory Services ensures a sustainable backbone for AS Management, the funding of development initiatives beyond those provided by IFC clients and pays for seeding activities in strategic priority areas where development partner interest has not yet materialized. In FY21, IFC's Direct Contributions are expected to increase by $34 million, or 17 percent, as IFC leverages its internal funding, including CMAW and FMTAAS, to support the ramp up of Upstream. Direct contributions are composed of administrative budget and designations of IFC's retained earnings.

i. **AS Administrative Budget** has two components, historical regular AS Administrative Budget and the mainstreamed FMTAAS portion, totaling $74 million in FY21.

ii. **FMTAAS** is a designation of IFC's retained earnings that supports program-related advisory spending not specifically earmarked for IDA/FCS countries.

iii. **CMAW** is a designation of IFC's retained earnings that supports efforts to address the complex challenges of creating markets and building a pipeline of bankable private sector projects in IDA and FCS countries.

iv. **Other AS Sources** include Trust Fund Administrative Fees, Performance-Based Grant Initiative (PBGI) and SME Ventures. These sources combined represent 3 percent of the AS budgets.

FEE BUDGETS

6.15 IFC has a long-established practice of using fees to cover direct out-of-pocket expenses incurred for project-related expenses as travel, consultants and outside legal counsel. Similarly, clients pay IFC other types of fees, such as service, privatization, and mobilization fees, that are used to cover IFC's operational costs (including client-facing and project related work). IFC matches such expenses with fee generation to assess appropriate funding levels and guide spending decisions at the institutional level. Fee Budgets include fee income from investment operations, treasury program, Managed Co-Lending Portfolio Program (MCPP), fees and reimbursables from AMC, and other fees.

6.16 As part of the review and the ongoing budget reform, IFC is removing fees earmarking from the individual departments and creating a larger fee budget pool for flexible reallocation to corporate priorities to support work program implementation in Operations such as Upstream.

6.17 IFC ensures that fee budgets do not exceed the fee collections by placing control mechanisms to mitigate the risks of the fluctuating fee incomes and to ensure that spending against fee budgets remains well below the generated revenue. This includes limiting the percentage of service fees that are used for staff costs and recurring contractual obligations as well as narrowing down the number of departments eligible for fee budgets. By using fees to cover variable costs such as travel, consultants, and outside legal counsel, IFC can expand or contract its activities without changing its permanent cost base and have more flexibility in redirecting these resources toward corporate priorities and strategic objectives.

6.18 To address the volatility in the underlying incomes, IFC estimates client fee budget of $185.7 million, which represents a decrease of 5 percent over FY20.

6.19 *Legal Pooled Fees.* In FY21, IFC will create a centralized and dedicated fee pool to cover external legal fees. The Legal pool fees play a significant role in allowing IFC to meet its outsourcing needs, as the funds are used to cover the legal costs of external counsel work on debt and equity transactions when a client is not required/or is unable to pay. Such fees have historically been managed by IFC Legal Department (CLED), which is responsible for the engagement and management of external counsels to advise IFC on projects and for IFC corporate matters.

6.20 This earmarking and separation of legal pooled fees will bring more transparency and enhance controls on fee utilization. The budget will be allocated as part of the Centralized Overheads while administered by the Legal Department, similarly to HR Programs or IT Centralized Overheads budgets. The Budget Department will monitor the utilization of pooled fees and recalibrate budget allocations to reflect more realistic spending patterns as part of its annual budget process.

SPECIAL INITIATIVES BUDGET

6.21 The Board approved in FY08 the creation of the Global Infrastructure Project Development Fund, also known as IFC InfraVentures. InfraVentures was established as a five-year fund and was extended and recapitalized for an additional five years in FY19. In line with the IFC 3.0 strategy, the fund was created for the purpose of the early-stage engagements and to increase the pipeline of bankable projects in energy, transportation, water, telecoms and cities.

6.22 **InfraVentures** is a key implementation platform under the new Upstream initiative to secure future financing options in projects and is being ramped up across all regions to facilitate strategic IFC engagement in infrastructure. InfraVentures budget allocation is authorized annually by the Board. In FY20, the InfraVentures budget was $5.25 million. IFC proposes to maintain this level of budget for FY21, which will enable the fund to continue to scale up Upstream and to meet its mainstream follow on investment targets.

6.23 **IFC SME Grants Program** was originally approved by the Board in September 2007 and was expanded in August 2015. The Program aims to develop the capacity of investment managers to invest risk capital successfully in SMEs in challenging frontier markets and encourage the development of a replicable risk capital model.

JEOPARDY BUDGETS

6.24 IFC considers projects to be jeopardy cases when: i) the prospects for IFC recovering its investment are in serious doubt due to expected future loan defaults, country/industry considerations, or other material adverse changes to the project, sponsor or macro-economic circumstances; or ii) when IFC is threatened with litigation or sued, or where there are serious reputational risks for IFC. The Board has traditionally recognized jeopardy expenses as being tracked separately from the administrative budget due to the volatility and unpredictability of the jeopardy cases. Also, in many of the jeopardy cases, IFC's ultimate recovery on its investment amounts outweighs the expenses spent on the recovery process.

6.25 To manage the jeopardy related expenses, IFC increased its total allocation to $30 million in FY20 that can be drawn by the Department of Special Operations (CSO) and Legal (CLED). The cases often generate significant out-of-pocket expenses (such as travel, consultants, auditors, and legal fees) and can span many years. In FY21, IFC will also increase the budget allocation to Legal, & Compliance Risk VPU for requests related to litigation preparedness.

6.26 CSO anticipates that $15 million for jeopardy related expenses should be sufficient to address increased distress in IFC's portfolio as a result of the COVID-19 pandemic. However, this situation will be subject to review if things continue to evolve more drastically.

6.27 The CLED jeopardy budget of $15 million related to litigation was established as IFC may be subject to litigation (including third party litigation claims), especially as its Operations expand into markets with greater complexity, less capacity, and therefore higher risks, including those related to Upstream activities and FCS countries.

AMC INTEGRATION

6.28 In June 2019, the Board approved the: (i) the transfer of AMC to IFC by merger; and (ii) the termination of AMC Limited Liability Company (LLC) as a separate legal entity. AMC became a VPU within IFC effective January 31, 2020. IFC, as the successor to AMC, has assumed all the assets, properties, rights, liabilities, and obligations of AMC.

6.29 The budget implication of this change is the integration of all AMC expenses and their funding into IFC's budget framework, increasing IFC's Total Resource view FY20 onwards.

CARRYOVER MECHANISM

6.30 IFC will continue the use of its Carryover mechanism in line with its originally intended purpose, namely, to allow forward planning across the June 30 fiscal year-end. The ability to use some of the budget underrun in one fiscal year toward the needs of the following fiscal year, within the currently defined parameters, has a positive effect by instilling budget discipline, preventing year-end cost escalations, and promoting a budget efficiency culture across the institution. This ability is limited to one-off costs that will not constitute a base budget increase in future years. While IFC is not required to request Board approval for future use of the Carryover, it will provide regular resource updates to the Board through the QBHR.

6.31 The carryover mechanism is based on the prior year spending against the administrative budget and allows IFC to carry forward the uncommitted funds as of June 30 of one fiscal year, up to a limit of 5 percent of the approved budget for that fiscal year, to be used in the subsequent fiscal year. IFC's carryover is recalculated each year based on prior-year spending against budget. The carryover does not accumulate year-on-year or add to the base administrative budget.

CHAPTER 7: FY21-23 CAPITAL BUDGET

7.1 The proposed capital budget request for FY21-23 reflects IFC's Management prioritization of business demands for facilities and IT investment, and the resulting impact on the administrative budget through depreciation.

7.2 IFC's capital budget funds IFC Headquarters (HQ) and Country Office (CO) needs as well as the Information Technology necessary to support IFC's business model. The proposed capital budget for FY21 remains at about the same level as in FY20. IFC's capital budget is expected to stabilize at $58-60 million per year over FY21-23. Table 9 summarizes the Capital Budget request for FY21 and the expected trajectory for FY22 and 23.

Table 9: Capital Budget Request (US$, million)

	FY20B	FY21E	FY22E*	FY23E*
Headquarters Facilities	6.4	5.0	8.0	8.0
Country Office Facilities	10.0	13.0	10.0	10.0
Information Technology	43.0	41.5	40.0	40.0
Total	**59.4**	**59.5**	**58.0**	**58.0**

***Note**: FY22 and FY23 budget amounts are as per the recommended trajectory. The identified demand will be further prioritized in future AIP cycles to align with the trajectory.*

7.3 *Headquarters Facilities.* The HQ facilities portion of the capital budget funds is required for building improvements and other work at IFC's HQ buildings located at 2121 Pennsylvania Avenue and 2100 K Street. The majority of the scope of work planned for FY21 is focused on the 2121 Pennsylvania Avenue building and consists of:

- Conference room expansion to support workplace strategy and realignment
- Building infrastructure cyclical replacement and upgrade projects based on the facilities condition assessment (fire alarm upgrade, energy audit, HVAC optimization, and so on.)

7.4 *Country Office Facilities.* The CO facilities budget proposal reflects plans for a decentralized global office footprint, with rational and cost-effective growth in the field.

7.5 COVID-19 is causing delays in the implementation of the HQ and CO capital projects. These delays are expected to continue until this situation is fully resolved. COVID-19 may also impact the office space design and usage patterns going forward, particularly if home-based work becomes more prevalent in the ordinary course of doing business. The impact on budgetary resources is uncertain but will be monitored closely.

7.6 IFC continues to seek savings by moving toward ownership of larger offices instead of leasing in cases where annual administrative expenses can be significantly reduced. Where purchasing real estate has been determined by IFC Management as the appropriate course, IFC's CO real estate purchasing strategy continues to identify individual floor ownership arrangements in quality building locations where practical, as opposed to acquiring land and constructing with inherently higher operating costs.

7.7 During the FY16 and FY17 budget approval process, IFC allocated $60 million in capital budget funding for such real estate purchases, designated as the Country Office Buy vs. Lease capital budget envelope. This Buy vs. Lease funding can be made available for any potential country office location that is eligible for building purchase and carries potential cost savings. IFC will undertake a rigorous assessment in FY21 to identify opportunities to purchase/build that will generate considerable savings for the organization.

7.8 In FY21, IFC will continue to support, in coordination with IBRD, the upgrade of security equipment for country offices in FCS and medium- and high-risk countries (as defined by WBG Corporate Security) through allocation of capital funds to replace outdated security equipment (such as vehicles, communication equipment, visitor scanners, personal protective devices for guards, and so on). In addition, to support IFC's Footprint strategy in these countries, all current and future country office fit-outs and/or purchase/construction projects will continue to benefit from direct security needs assessment reviews by WBG Corporate Security Specialists to ensure that all appropriate security measures are included in the overall project capital requirements and funding.

7.9 *Information Technology.* The FY21 Information Technology capital budget proposal of $41.5 million will fund two main categories of investment:

- *Steady State and Enhancements (41 percent).* These programs ensure the reliability of existing systems by addressing technical obsolescence and increasing the IT capacity required to accommodate IFC's growth.

  Systems Development (59 percent). These programs focus on the development of new or enhanced IT solutions to support IFC's lines of business. They include automation of business processes and introduction of new IT capabilities. A few programs are multi-year, others are continuation or completion of programs begun in prior years and some are new investments.

7.10 Capital budget need for LIBOR transition has been included in IFC's Capital proposal. LIBOR Capital Budget will follow IFC's IT budget governance and expenses and will be tracked through a separately created IT project. Status of funding and expenses will be reported as part of the IT program and will be included in the reports required specifically for LIBOR transition cost initiative.

7.11 The largest impact of the ERP WBG project to IFC will be in the years after FY24 as part of the cost share in the SSA with the World Bank through the Administrative Budget after the implementation of the solution.

7.12 IFC will also benefit from several new WBG-wide IT projects. IFC does not contribute capital budget to these initiatives but instead pays for services under Shared Services Agreements (SSA) with the World Bank through the Administrative Budget once the service or solution is in place.

CHAPTER 8: RECOMMENDATIONS

8.1 IFC Management recommends that the Board resolve to approve the following:

A. Administrative Budget Authority

i. An Administrative Budget for FY21 of $1,139.3 million.

B. Capital Budget Authority

ii. A Capital Budget for FY21 of $59.4 million.

C. Special Initiative

iii. Authority to spend an additional $5.25 million for IFC InfraVentures through FY21.