INTERNATIONAL FINANCE CORPORATION

IFC FY22 BUDGET

Leveraging Resources for a Resilient Recovery

Approved by IFC's Board of Directors on June 25, 2021

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Acronyms

AIMM - Anticipated Impact Measurement and Monitoring
AIP - Annual Investment Plan
AS - Advisory Services
BB - Administrative Budget
BBAS - Bank Administrative Funds for Advisory
BBUPS - Bank Administrative Funds for Upstream
BCR - Budget Coverage Ratio
CAGR - Compound Annual Growth Rate
CASA - Conflict Affected States in Africa
CCAP - Climate Change Action Plan
CLED - Legal Department
CMA - Centrally Managed Accounts
CMAW - Creating Markets Advisory Window
CO - Country Office
CODB - Cost of Doing Business
COVID-19 Corona Virus Disease 2019
CRC - Corporate Risk Committee
CSC - Corporate Scorecard
CSO - Department of Special Operations
CY - Calendar Year
EFI - Equitable Growth, Finance & Institutions
EM - Emerging Markets
EMDE - Emerging Markets and Developing Economies
ERP - Enterprise Resource Planning
ESG - Environment, Social and Corporate Governance
E&S - Environmental and Social
FCS - Fragile and Conflict-Affected Situations
FI - Financial Institution
FIG - Financial Institutions Group
FMTAAS- Funding Mechanism for Technical Assistance and Advisory Services
FNA - Funding Needs Assessment
FY - Fiscal Year
GAAP - U.S. Generally Accepted Accounting Practices
GHP - Global Health Program
GRID - Green, Resilient, and Inclusive Development
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
INR - Infrastructure and Natural Resources
IS - Investment Services
IT - Information Technology
LIBOR - London Interbank Offered Rate
LIC - Low-Income Country
LTF - Long-Term Finance
MAS - Manufacturing, Agribusiness and Services
MDB - Multilateral Development Bank
MENA - Middle East and North Africa
MIGA - Multilateral Investment Guarantee Agency
MSME - Micro, Small and Medium Enterprise
NBFI - Non-Bank Financial Institution
NIA - Net Income Allocation Paper
O/A - Own-account
OFC - Offshore Financial Center
PBGI - Performance-Based Grant Initiative
POC - Proof of Concept
PPE - Personal Protective Equipment
QBHR - Quarterly Budget and Human Resources Report
SAP ECC- SAP Enterprise Central Component
SBO - Strategy and Business Outlook
SME - Small and Medium Enterprise
SOF - Source of Funds
SOFR - Secured Overnight Financing Rate
SSA - Shared Service Agreements
STF - Short-Term Finance
TRP - Tourism, Retail & Property
VPU - Vice Presidential Unit
WBG - World Bank Group
WFP - Workforce Planning
YoY - Year on Year

EXECUTIVE SUMMARY

1. This document presents International Finance Corporation's (IFC's) Fiscal Year (FY) 22 budget proposal for Board approval. The proposed budget builds on the framework set out in the "IFC FY22-FY24 Strategy and Business Outlook Update: Leaning In" paper discussed by the Board in April 2021.

2. The impact of the COVID-19 pandemic on private enterprises across emerging markets (EM) has been severe. IFC has implemented a rapid and robust response to the COVID-19 pandemic through various initiatives intended to support private sector clients.

3. The private sector is vital to a resilient economic recovery from the pandemic, particularly in light of prevailing government fiscal constraints. IFC's experience from previous crises, combined with the internal reforms implemented over the last four years under IFC 3.0, enables IFC to play a strong role in the post COVID-19 pandemic recovery. Anchored in the framework of *Relief*, *Restructuring*, and *Resilient Recovery*, IFC's response to the COVID-19 pandemic focuses on helping clients, both existing and new, weather the impact of the pandemic–rebuilding markets, preserving jobs, and enabling long-term private sector interventions once the effects of the pandemic subside.

4. IFC is using its traditional financing (IFC 1.0 and 2.0) and accelerating implementation of IFC 3.0 to leverage an all-encompassing suite of products and services for new and existing clients in support of private sector opportunities across IFC's client countries. This support includes focused Upstream efforts, particularly in International Development Association (IDA) and Fragile and Conflicted-Affected Situations (FCS) markets, prioritizing mobilization from new sources, and enhancing collaboration across the World Bank Group (WBG) through the Cascade approach to help countries build a pipeline of impactful private sector solutions. IFC will continue to leverage the portfolio approach to optimize development impact and financial sustainability for long-term impact.

5. IFC's priorities over the FY22 through FY24 period are to (i) continue relief and restructuring support for clients; (ii) help build resilient health systems including expanding manufacturing and supply chains for vaccines; (iii) scale up efforts for a green, resilient, and inclusive recovery, especially in IDA-FCS markets; and (iv) maximize Upstream efforts (working across the WBG) to strengthen and create markets through reforms that may not have been previously possible, along with replicable and scalable platforms and projects, to pave the way for private sector recovery.

6. IFC remains committed to its 2030 Capital Package ambitions. However, continuing volatility in program delivery is expected, with program composition mirroring market developments at the country and sector level. The heterogenous nature of the pandemic, with some regions recovering faster than others, is resulting in a shift in investment demand across regions. Demand remains for working capital and liquidity purposes, with increasing need for refinancing and restructuring.

7. To maintain the pace of IFC 3.0 implementation within the context of sustained fiscal discipline in a pandemic-constrained environment, IFC requires the appropriate financial, administrative, and IT capacity. IFC is proposing a 1 percent real budget increase for FY22.

8. Incremental budget resources will be used to support continuation of hiring in priority areas such as Upstream, IDA-FCS markets, and specialized skill sets. Staff costs and other cost pressures–including funding for an expanded Environmental and Social work program, implementation

of the Climate Change Action Plan FY21-25 commitments and enhanced Offshore Financial Centers tax-related due diligence will result in gross spending needs of $125 million. These will be offset by sustained efficiencies and one-time savings, mainly related to travel and contractual services. This results in a net incremental Administrative Budget need of $38 million and a proposed Administrative Budget of $1,177 million.

9. In FY22, IFC is integrating the country-driven budgeting already in place for Upstream with the Funding Needs Assessment (FNA) into a single exercise covering both Upstream and Advisory, enhancing the link between strategy, resources, and operational delivery.

10. Management is committed to cost discipline. Efficiencies per the Capital Package targets are on track. Primarily through a strategic workforce planning exercise to rebalance its organizational pyramid, IFC has generated cumulative efficiencies of over $180 million since FY19and expects further efficiencies through FY24.

11. IFC's FY22 Capital Budget (IT and Real Estate) proposal is $45.9 million.

12. As part of the budget approval process going forward, Management proposes that the Budget Paper include expected income designation needs for Creating Markets Advisory Window (CMAW) and Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS). The transfer of net income (loss) to retained earnings and any designations of retained earnings will be submitted to the Board as resolutions immediately following approval of the year-end financial statements.

CHAPTER 1: EXTERNAL CONTEXT, COVID-19 UPDATE AND RESPONSE

1.1 The FY22-24 "IFC Strategy and Business Outlook Update: Leaning In" (SBO Update) notes that IFC's main objective in the FY22 through FY24 planning horizon is to help clients weather the impacts of the pandemic, preserve jobs, and rebuild resiliently. IFC's strategic direction forms the basis for the budget trajectory. IFC's long-term strategic direction and 2030 Capital Package ambitions remain unaltered even though tactical adjustments have been made to address the impact of the COVID-19 pandemic on IFC's program.

PRIVATE SECTOR IMPACT

1.2 Compounding the devastating health and human toll of the pandemic, the economic shock resulting from the COVID-19 pandemic has been profound. It has pushed the global economy into one of the deepest recessions in modern history and dramatically changed the global development outlook. While global output is expected to expand by 3.9 percent in CY2021 through 2022, this is predicated on proper pandemic management and effective vaccination to limit the spread of COVID-19.

1.3 As part of the recovery from the structural market damage of the COVID-19 pandemic, there has also been widespread support for green, resilient, and inclusive development, fueled by sustainable job creation and economic transformation through low-carbon investments and associated policy reforms with an emphasis on attracting private sector investment in real sectors. The pandemic has highlighted the urgent need to strengthen the resilience of supply chains and support local/regional manufacturing in emerging markets and developing economies (EMDE) healthcare sectors, both to address the immediate impacts of the pandemic and long-term health outcomes. The demand for health services and related manufacturing (such as personal protective equipment (PPE), medical equipment, and vaccines) has risen, alongside a spike in trade finance demand at the onset of the pandemic. Furthermore, the pandemic has also underscored the need for financial services support to micro, small, and medium enterprises (MSMEs).

IFC'S COVID-19 RESPONSE AND BUSINESS IMPACT

1.4 *IFC's COVID-19 Response*. Aligned with the overall World Bank Group (WBG) response, IFC's response is anchored in the framework of *Relief, Restructuring,* and *Resilient Recovery* to correspond with the stages of the pandemic's evolution. IFC has mounted a strong and rapid response to the pandemic, quickly adjusting its operating model and introducing innovations and expedited procedures for new business, portfolio, and analytics. As a result, IFC has deployed $31 billion in total financing for COVID-19 response from FY20Q4 to April 30, 2021.

1.5 *Impact on the Program*. Even as demand for IFC's COVID-19 response and short-term financing has been strong, the impact of the pandemic has adversely affected IFC's traditional business. Broadly, IFC's project and corporate finance business, particularly in core Infrastructure and Natural Resources (INR), has seen a slowdown since the onset of the pandemic-driven by weakened demand, smaller project sizes, and the steep contraction in capital investment activity-with few exceptions. Investment commitments in Telecom and Digital Infrastructure as well as in Manufacturing, Agribusiness, and Services (MAS) have accelerated, with the strongest increases in Health Services & Life Sciences and Manufacturing–both of which roughly doubled in volume from FY20Q1 through FY20Q3 compared to FY21Q1 through FY21Q3–and Tourism, Retail & Property (TRP), which tripled during the same period, reflecting high demand for liquidity and maintenance financing. Syndications, historically the largest contributor to core mobilization, has been negatively impacted by the global contraction in new investment – in particular, project finance – smaller project sizes, and the prioritization of own-account commitments. Despite this sharp contraction in mobilization volumes in CY20, the syndications pipeline has recently begun to gain some momentum.

1.6 *Business Outlook*. As noted in IFC's SBO, IFC's program in the FY22 through FY24 planning period will be delivered under deep uncertainty within the global and EM outlook. Considerable volatility is expected in program delivery over the near term, with program composition mirroring market developments at the country and sector levels. Investment demand, at least in the near term, is expected to remain oriented toward more liquidity support, working capital (with tenors of three years or less), and short-term finance, essential until the economic restart is fully fledged. As a result, immediate and next-year deployments are expected to address this demand while the proportion of long-term investments (beyond three years) is expected to gradually increase as economies restart. Refinancing and restructurings are also expected to increase to keep viable firms afloat. A higher demand for risk-sharing facilities and capital relief for banks and financial institutions (FIs) to deploy liquidity in sectors where risk aversion has weakened the credit supply is expected, as well as for equity and mezzanine products, which are particularly important products to strengthen banks' and companies' balance sheets so that they, in turn, can support the economic recovery through increased risk appetite for growth and long-term investments.

1.7 As pandemic impacts are disparate across countries, IFC is witnessing a higher investment demand from non-IDA markets and weaker volumes from IDA/FCS markets. IFC expects this trend to continue in the near-term as non-IDA markets are likely to emerge faster from the throes of the economic crisis. IDA-FCS countries are expected to continue to drive a growing share of short-term finance demand. IFC's program in non-IDA countries will be critical to the *Resilient Recovery* stage given the vital role of these countries in global supply chains, tourism, travel, and remittances. In addition to traditional support (IFC 1.0 and 2.0) to step up support to new and existing clients, IFC's efforts in IDA and FCS countries will be focused on Upstream engagement, laying the groundwork for resilient private solutions once the immediate pandemic impacts subside, along with the use of blended finance to support investments. IFC's collaboration with the World Bank and Multilateral Investment Guarantee Agency (MIGA) will be key in delivering on its strategic priorities.

IFC'S STRATEGIC PRIORITIES FOR FY22-24: LEANING IN (RELIEF, RESTRUCTURING, RESILIENT RECOVERY)

1.8 IFC's FY22 through FY24 priorities are to (i) extend relief and restructuring support for existing and new clients; (ii) help build resilient health systems, including expanding manufacturing and supply chains for vaccines; (iii) scale up efforts for a green, resilient, and inclusive recovery, especially in IDA-FCS markets; and (iv) maximize Upstream efforts (working across the WBG) to strengthen and create markets through reforms that may not have been previously possible–along with replicable and scalable platforms and projects–to pave the way for private sector recovery.

1.9 ***Relief.*** IFC will continue to extend Relief efforts to support both new and existing clients, selectively focusing on viable real sector companies, FIs and Non-Bank Financial Institutions (NBFIs) to help keep them afloat and preserve jobs. Support in the Relief stage will be deployed through existing COVID-19 facilities and programs to provide liquidity lines, working capital, and trade finance for the most hard-hit sectors. Supporting WBG COVID-19 vaccine response and resilience in healthcare will also be a key component of Relief efforts. Through continued rollout of the Global Health Program (GHP) and new Upstream projects and partnerships, IFC plans to augment private sector efforts in vaccine deployment and to improve resilience in EMDE healthcare sectors with financing solutions to manufacturers, suppliers, and service providers to expand and increase manufacturing capacity to the extent possible, particularly in IDA and FCS markets, and working capital to increase the supply of healthcare products and services including testing kits, treatment medicines, and vaccines.

1.10 *Restructuring*. The focus of IFC's support under the Restructuring phase is on preserving markets and minimizing the scars from the pandemic. IFC will use its full suite of products selectively – including scarcely used instruments such as extending loans to refinance existing debt and investing equity by purchasing existing shares, – and as appropriate, with aiding the pandemic recovery being the key driver for these engagements.

1.11 *Resilient Recovery*. IFC will play a critical role in the implementation of the WBG's framework for supporting green, resilient, and inclusive development (GRID), with IFC's FY22 through FY24 program maximizing GRID approaches in both the mainstream investment program as well as through Upstream engagement. While IFC pursues Upstream across all markets, the COVID-19 pandemic has magnified the importance of Upstream project development in low-income IDA and FCS markets, which entered the pandemic with weaker regulatory/investment climates and smaller, less capable private sectors. IFC is focused on a green rebuild approach, which prioritizes investments that create or sustain jobs in sectors that have the potential to play a key role in post COVID-19 green recovery efforts including energy, building climate smart cities, and speeding up the transition of key industries to green production practices. As part of the FY21-25 WBG Climate Change Action Plan, IFC will align its financial flows with the objectives of the Paris Agreement – 85 percent of new direct investments starting July 1, 2023, and 100 percent by 2025. IFC is jointly developing a methodology with other multilateral development banks (MDBs) to assess investments in FIs and funds, and a timeline for alignment will be announced by October 2021. Gender will continue to remain a priority in the inclusive recovery, especially since the pandemic has had a disproportionate impact on women and girls. IFC continues to actively implement the WBG Gender Strategy (2016-2023) and has made significant strides in integrating gender across its operations and within country focused strategies. The pandemic has also sharply highlighted the utility of digital technologies and adoption. Accelerating the digital transition as a means of fostering resilience will be a strong priority.

IFC 3.0 – HARDWIRING STRATEGY AND RESOURCES

1.12 While pursuing urgent development priorities in terms of the health and economic crisis caused by the pandemic, IFC remains committed to the long-term development goals under the 2030 Capital Package commitments.

1.13 In 2017, IFC 3.0 embraced the challenge of increasing the pipeline of bankable projects by complementing IFC's traditional project finance approach with a twin approach: a proactive emphasis on creating markets and private sector opportunities through Upstream project development and, by mobilizing private capital, especially in IDA and FCS markets. Today, as the pandemic has led to an even deeper contraction in private sector economic activity across EMDEs, IFC 3.0 and its ability to help recreate existing markets and create new markets has positioned IFC to respond comprehensively to the pandemic while pursuing the ambitious commitments of the 2030 Capital Package.

1.14 The pandemic has added urgency to accelerate IFC's Upstream engagement. Significant work has already been done over the past year: dedicated Upstream staff have increased; country-driven resource allocation has been implemented to hardwire links among country strategy, budget, and delivery; the Upstream operating model is in place with robust metrics to track delivery and resource efficiency; IFC's Equitable Growth, Finance and Institutions (EFI) staff have been reintegrated into IFC operations to support Upstream efforts that require regulatory interventions; and the Anticipated Impact of Measurement and Monitoring (AIMM) is being applied to Advisory and Upstream activities to provide insights on how to maximize impact and how to select the most promising market creation opportunities.

CHAPTER 2: STRATEGIC RESOURCE SHIFTS

2.1 The delivery of IFC's ambitious growth trajectory into 2030 required a change in IFC's business model with greater focus on regional and country level engagements, Upstream work, adjusting the global footprint and grade mix, and proactive risk management. IFC continues to expand its program in the most challenging environments with the continued deliberate shift of its resources toward priority areas.

2.2 *Increasing Resources in IDA-FCS Countries*. Increasing dedicated resources, especially to FCS, innovating to provide a comprehensive range of financing tools, accelerating Upstream, and strengthening and creating markets through reforms to lay the groundwork for private sector solutions continue to anchor IFC's approach to boosting program growth in IDA and FCS. IFC increased staffing dedicated to FCS. To support development of opportunities in these markets, IFC expects to leverage its de-risking toolkit, including the IDA PSW, which continues to be the main blended finance facility aiming to mobilize private investment in Low-Income Country (LIC)-IDA and IDA-FCS countries. IFC is also scaling up special Advisory funding and implementation facilities for FCS, such as the Conflict Affected States in Africa (CASA) initiative and the Environment, Social and Corporate Governance (ESG) Advisory program.

2.3 *Scaling up Climate and Gender*. Scaling up climate finance is at the heart of IFC's efforts to support a resilient recovery and meet the 2030 Capital Package commitments. In line with the WBG's climate targets noted for the new Climate Change Action Plan (CCAP), IFC continues to pursue an average of at least 35 percent of climate-related investments in total long-term finance (LTF) commitments over the FY21 to FY25 period.

2.4 In FY21, the new indicator "Annual Financing Dedicated to Women and Women-led SMEs" was introduced in the Corporate Scorecard (CSC) to incorporate the capital increase commitment to reach $1.4 billion of annual financing dedicated to women and women-led SMEs by FY30.

2.5 While our Gender business is adequately resourced, incremental budget resources will be needed for our Climate business to support the implementation of the Climate Change Action Plan FY21-25 commitments.

2.6 *Aligning Advisory and Upstream*. Progress has been made on the shift that began in FY20 to align more of Advisory to support Upstream business. There has been progress on the Advisory-Upstream continuum, with Advisory activities targeting identified opportunities through country strategies and aligned with IFC 3.0 ranging from enabling environment work to firm-level Advisory for portfolio clients.

INTEGRATING COUNTRY-DRIVEN BUDGETING AND THE FUNDING NEEDS ASSESSMENT (FNA)

2.7 In FY21Q4, IFC will carry out a comprehensive, bottom-up, country-driven budgeting exercise for both Upstream and Advisory, informed by the recently approved FNA, which established high level budget envelopes at the regional and global levels for Upstream and Advisory project spend.

2.8 The FNA process has engaged the institution in a strategic planning process necessary for management to determine high-level budget envelopes at the regional and global levels, ensuring that IFC aligns its fundraising targets with strategic priorities and 2030 commitments.

2.9 New governance principles are being deployed to ensure that IFC is more strategic in its fundraising. In FY22, Country Managers will play a central role in defining the strategic initiatives by country and will be instrumental in ensuring that the project choices made are in alignment with country strategies and business plans.

2.10 The budget envelopes determined through the FNA serve as the starting point for IFC's country-driven budgeting approach for FY22, integrating the country-driven budgeting already in place for Upstream and the FNA into a single exercise covering both Upstream and Advisory. This broader budgeting exercise enhances the link between strategy, resources, and operational delivery. The spending against these budgets will be monitored closely to ensure delivery and enable responsive and proactive budget reallocation during the year as country and global economic conditions shift.

INVESTMENT SERVICES (IS) COST OF DOING BUSINESS

2.11 The Cost of Doing Business (CODB) model provides a useful directional indication of the resources needed to deliver an increasingly complex program based on projected commitment and portfolio volumes. Analysis of the CODB demonstrates that additional resources will be required to enable IFC's planned growth in strategic focus areas (FCS, IDA, and Sub-Saharan Africa). 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 the product mix is expected to temporarily shift toward trade finance and working capital facilities in response to the COVID-19 pandemic, the CODB methodology remains relevant in directionally indicating resource needs.

2.12 IFC is gradually and demonstrably shifting its resources to its priority areas. For IFC's portfolio to remain financially sustainable, IFC will continue to operate in markets that allow for higher profitability and better risk diversification while concurrently growing its development impact.

2.13 Table 1below presents the historical deployment and growth in Total Investment Services (IS) Resources in strategic priority areas to deliver SBO commitment volumes from FY18 through FY21.

Table 1: Historical IS Resource Deployment to Deliver Program Volumes by Priority Area

		Total Commitment Volume (LTF Own Account + Core Mobilization)				Δ [1] FY21-18	Operations Allocation				Δ [1] FY21-18
		FY18	FY19	FY20	FY21E		FY18	FY19	FY20	FY21E	
Priority Areas	**IDA17 OA**	20%	23%	25%	28%	*8%*	30%	30%	31%	35%	*5%*
	IDA17 + FCS OA	21%	24%	25%	29%	*8%*	32%	32%	34%	37%	*5%*
	Climate OA	34%	29%	30%	30%	*-4%*	22%	24%	24%	22%	*0%*
Industries	**FIG**	37%	44%	44%	37%	*0%*	36%	35%	36%	33%	*-3%*
	MAS	22%	18%	21%	21%	*-1%*	29%	28%	30%	31%	*2%*
	INFRA	34%	28%	22%	31%	*-3%*	26%	28%	28%	30%	*4%*
	CDF	3%	4%	3%	4%	*1%*	9%	9%	6%	6%	*-3%*
Regions	**Sub-Saharan Africa**	27%	21%	21%	22%	*-5%*	28%	31%	30%	33%	*5%*
	South Asia	15%	16%	12%	16%	*1%*	11%	10%	11%	10%	*-1%*
	MENA	9%	5%	5%	7%	*-2%*	11%	12%	12%	12%	*1%*
	LAC	22%	33%	32%	25%	*3%*	17%	16%	14%	11%	*-6%*
	ECA	13%	7%	11%	14%	*1%*	14%	14%	14%	14%	*0%*
	EAP	15%	19%	18%	16%	*1%*	19%	18%	19%	19%	*1%*

[1]Variances may be imprecise due to rounding.
[2]Priority Areas' commitments proportions are LTF OA only. The resources allocation table shows the total resources deployed to investment projects with climate, IDA17, and FCS tags.

ADVISORY SERVICES (AS) COST OF DOING BUSINESS

2.14 The AS CODB analysis shows that the Total Resources required to deliver an Advisory project vary greatly based on the engagement. Demand driven Advisory work, which includes client/sponsor preparation and development and where IFC is responding to a specific client need, is typically shorter and less resource intensive. In contrast, the sector development/market creation projects require higher than average resources.

2.15 Analysis of Upstream project resources shows that, on average, an Upstream project requires 1.6x the resources allocated to the average Advisory project. Given the mid- to long-term nature of Upstream activities, it will take several years to see the full impact on investment commitment volumes from the increased resources allocated to Upstream, and several years more for the investment income benefits to be fully realized. IFC is currently exploring options for depicting a specific Upstream CODB figure that shows the incremental Investment commitments resulting from an upfront Upstream investment. This will continue to evolve as more data is incorporated into this analysis when the Upstream agenda gains momentum and existing Upstream opportunities materialize into investments.

CHAPTER 3: GROSS RESOURCE NEEDS

3.1 IFC 3.0 is resource-intensive strategy and incurs higher costs over traditional business delivery. Resource investments made today are critical, not for current year delivery, but to enable IFC's ability to deliver over the SBO planning period and the longer-term 2030 goals. Incremental budget resources will be used to support continuation of planned hiring in priority areas such as Upstream, IDA-FCS markets, and specialist skill sets, with some recalibration of the hiring pace given the prolonged COVID-19 environment. In addition to staffing costs, the budget resources will fund other cost pressures related to Shared Service costs, London Interbank Offered Rate (LIBOR) transition, and Enterprise Resource Planning (ERP) modernization. Further, new funding requirements have also emerged related to IFC's expanded Environmental and Social work program, Climate commitments, and Offshore Financial Centers tax-related work, among others.

3.2 IFC will continue to prudently manage its expenses to remain within its authorized budget. In order to maintain an affordable trajectory, a combination of prioritization and trade-off decisions such as a moderated pace of hiring, and postponement, cancellation or changed format (to virtual delivery) of discretionary expenditure such as knowledge events and meetings will be key to FY22 through FY24 planning, with precedence given to operational needs.

3.3 IFC's proposed Administrative Budget trajectory is estimated by deriving gross resource needs from a bottom-up approach, grounded in the workforce plans developed by Vice Presidential Units (VPUs) and emerging cost pressures, and offset by estimated efficiencies and one-time savings related to prolonged COVID-19 restrictions, which are expected to continue into early FY22. As IFC adjusts to a new normal, some of the COVID-19-related savings identified in FY21 may become permanent efficiency savings. For FY22 through FY24, the main cost pressures are described in the subsequent sections.

STAFFING AND WORKFORCE PLANNING

3.4 Staffing expenses continue to be the primary driver of IFC's cost base. Hiring with a focus on IFC 3.0 and enhanced capacity around Upstream is not intended to generate program commitments immediately; rather, it is an upfront investment in IFC's future delivery capability. It takes time for new staff to become fully productive and for Upstream projects to realize investment outcomes.

3.5 The annual workforce planning (WFP) exercise helps articulate IFC's strategic commitment to the resource intensive IFC 3.0 strategy and its implementation, ensuring alignment between business needs and the strategy. It has allowed IFC to not only streamline the grade pyramid but also to free up critical capacity and to lay the foundation for IFC to invest in the skills and grade mix necessary to execute its strategy by (i) strengthening its operational, regional, and country capacity, and realigning staff toward priority regions and countries; (ii) ramping up recruitment of dedicated Upstream staff; and (iii) bringing in new skillsets.

3.6 *Recalibration of hiring.* Going forward and given the prolonged nature of the COVID-19 pandemic, IFC has recalibrated its workforce plans to ensure fiscal prudence and effective onboarding of new staff into the organization. Notwithstanding the recalibrated pace of recruitment, there will be room for continued external recruitment, considering standard attrition levels and specific strategic skill needs.

3.7 *Decentralization.* IFC continues to maintain its focus on the decentralization model to increase its field presence, particularly in priority regions. As of April 30, 2021, 57 percent of all IFC staff and 71 percent of Operations staff were based in Country Offices (CO). In line with IFC's 3.0 and with a high level of management attention, IFC's staffing footprint in FCS locations has increased significantly since FY19; this trend will continue as IFC's engagement in FCS markets keeps growing.

3.8 *Diversity*. Having aligned with the WBG diversity indicators since the beginning of FY20, IFC is reviewing diversity based on nationality across 20 sub-regions according to a benchmark model set by a formula that is agency specific and aligned to IFC's business.

UPSTREAM RESOURCES

3.9 IFC's Upstream approach is resource-intensive, requiring Upstream resources to generate opportunities and downstream resources to process resultant investments. Shifting resources from traditional Advisory to Upstream activities has the potential to improve IFC's financial sustainability by shifting resources spent on activities with limited ability to generate investment opportunities to activities with enhanced ability to generate investment opportunities and produce financial return.

3.10 Given the long-time horizon and higher-risk profile of Upstream activities, IFC anticipates that a full return on the institutional investment made in Upstream will take up to five years to materialize.

3.11 The progress made in building a robust Upstream pipeline of potential investment opportunities reflects IFC's decisions to significantly front-load the hiring of Upstream staff in FY20 and FY21.

3.12 As explained in Chapter 2, the annual Country-driven budgeting exercise will leverage the FNA to align resources with IFC's strategic priorities.

3.13 Upstream funding model. Upstream staff costs are funded primarily from Administrative Budget resources. For Upstream program funding, IFC will continue to leverage other internal funding sources including CMAW and FMTAAS and seek external funding from development partners, when needed.

3.14 In August 2020, the Board approved a resolution in the FY20 Net Income Allocation (NIA) Paper that IFC be authorized to allocate funds to and carry out the operation of Upstream initiatives to implement early-stage project preparation and development. Further, the Board delegated authority to IFC's Management to approve commitments of a portion of the funds allocated to Upstream initiatives annually using relevant instruments and investments similar to those in InfraVentures.

3.15 These approvals enabled IFC to further the Upstream agenda across all sectors through collaboration and co-development activities whereby IFC co-sponsors a specific project or pilot and/or cost-shares specific exploratory studies/activities to assess potential projects. As has been the case for InfraVentures since 2009, the program costs of these activities will be funded through IFC's capital. Staff costs and administrative expenses incurred separately from program funds of such activities will be funded from a portion of IFC's Administrative Budget. Going forward, IFC will not request special budget allocations to cover InfraVentures administrative expenses, which will be funded from the Upstream budget envelope.

GLOBAL FOOTPRINT

3.16 IFC's Global Footprint is a core competitive advantage, and its projected growth reflects IFC's commitment to expand in priority regions.

3.17 FCS countries are locations where security risk is higher, and WBG Corporate Security manages it by i) increasing field-based security headcount, and ii) investing in equipment such as armored vehicles. Country Office increased operating costs may be offset by office optimization initiatives. In addition, IFC is seeking opportunities in markets where commercial real estate pricing is depressed, to unlock value across the footprint by renegotiating leases and optimizing capacity.

LIBOR TRANSITION

3.18 As the publication of the London Interbank Offered Rate (LIBOR) will cease after June 30, 2023 (extended from the original deadline of December 31, 2021), an internal IFC LIBOR Transition Group has been established with representatives from all relevant units (Treasury, Operations, Finance, Legal, and Risk, among others) to lead and coordinate the transition efforts.

3.19 IFC's balance sheet is entirely referenced to USD LIBOR. Thus, IFC has a broad product portfolio that is exposed to LIBOR – loans, syndications, derivatives, bonds, securities, and guarantees. The move to the Secured Overnight Financing Rate (SOFR) is a monumental undertaking impacting contracts, models, systems, and reporting.

3.20 A governance process was established for the Administrative Budget earmarked for the LIBOR transition. Funding is administered centrally in a separate funding pool under IFC's Centrally Managed Accounts (CMA). Departments are given annual budget authority to charge expenses up to an authorized ceiling, which is established based on spend estimates for FY22 through FY23 produced by the implementing departments and approved by management. Reporting on LIBOR transition costs is done monthly to the Corporate Risk Committee (CRC) and included in the Quarterly Budget and Human Resources (QBHR) report.

ERP MODERNIZATION

3.21 Project Aria is a multi-year project to replace the World Bank Group's SAP finance ERP platform. The ERP platform SAP Enterprise Central Component (SAP ECC) in use by the WBG was adopted in 1999, and it currently supports multiple lines of business including accounting and financial reporting. The increased complexity in processes, legacy technology, and an aging platform represent significant challenges to meet evolving needs, and they impede the WBG's ability to scale up to emerging business demands. The main objectives of Project Aria include modernization of the WBG's financial management capabilities, improvement in process effectiveness, increased agility, and reduced operational risk.

3.22 The replacement of the SAP platform is a complex effort involving many key business and IT experts from over 50 units across the WBG. In FY21, preparatory work was undertaken to examine options for a transition to a new ERP system. Management has determined that a two-phase implementation approach will allow time to build the required staff capacity, allow for better monitoring, and enable course corrections as needed.

3.23 In the first phase, which is planned for FY22 through FY24, the platform will be updated to avail two additional years of standard maintenance from SAP until the end of 2027, address high priority process improvements, and, in FY23, select a new ERP product on a competitive basis.

CORPORATE OVERHEADS

3.24 Increased costs are expected primarily from Shared Service Agreements (SSAs) with IBRD and projected depreciation, arising from completion of ongoing or planned IT and Facilities projects.

VPU NON-STAFF INCREMENTAL COSTS

3.25 As part of the FY22 Budget planning process, VPUs have identified incremental non-staff costs related to the identification, monitoring, and early mitigation of inherently higher risks of operating in challenging markets and implementation of corporate-level priorities. The main components include an expanded Environmental and Social (E&S) work program, new commitments under the ambitious CCAP FY21-25, implementation of the Offshore Financial Center (OFC) tax policy and enhancement of IFC's litigation preparedness.

CHAPTER 4: EFFICIENCIES

4.1 IFC Management is committed to fiscal discipline and is pursuing further efficiency gains, including organizational and process efficiencies. COVID-19 savings are also likely in the early part of FY22. However, for the medium to long-term, funding new priorities and cost pressures will require new efficiencies and related shifts and redeployment of resources.

EFFICIENCY SAVINGS & ECONOMIES OF SCALE

4.2 IFC has consistently contained growth in its Administrative Budget despite the increasing cost of doing business resulting from the implementation of IFC 3.0 through WBG and IFC-specific delivery model optimization, expenditure control, and redeployment measures. Efficiencies as per Capital Package targets remain on track. IFC's efficiency savings do not consider one-time savings, which by definition are not expected to recur in future years. IFC's efficiency savings arise primarily from not having to incur prior costs in the same magnitude in coming years (cost avoidance).

4.3 To remain on track with the Capital Package efficiencies commitments, finding additional savings will become necessary but increasingly harder. Management anticipates that post-pandemic changes in operating practices, which could impact approaches to travel and real estate, and a renewed focus on reducing the carbon footprint may generate permanent savings over time once restrictions are lifted and offices are reopened, though it is still too early to quantify these with certainty.

4.4 IFC expects to realize Economies of Scale from FY23 onwards, when the investment portfolio growth is expected to start to outpace the growth in direct costs and overheads.

4.5 For FY22, management expects that there will be additional one-time savings primarily from travel, contractual services, knowledge events and meetings, and so on, resulting from continuing COVID-19 related restrictions into the early months of the fiscal year. Notwithstanding the uncertainty of these estimates, which greatly depend on the COVID-19 evolution, management has taken these temporary savings into account in order to maintain an affordable trajectory.

EFFICIENCY METRICS AND REPORTING

4.6 Strategy and Business Outlook and Budget papers that are presented to the Board every year detail efficiency and other budget discipline initiatives 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 efficiencies are closely tracked from estimation through final validation to confirm that they have indeed materialized. IFC also reports its progress on its Efficiency targets in the CSC.

4.7 The Budget Coverage Ratio (BCR) was introduced in IFC's Corporate Scorecard in FY19 as one of the two budget efficiency metrics, the other being Savings through Efficiency Gains and Economies of Scale. The BCR is calculated as the Administrative Budget divided by Net Loan and Fee Income, and it is designed to indicate IFC's intent to efficiently manage its budgetary resources.

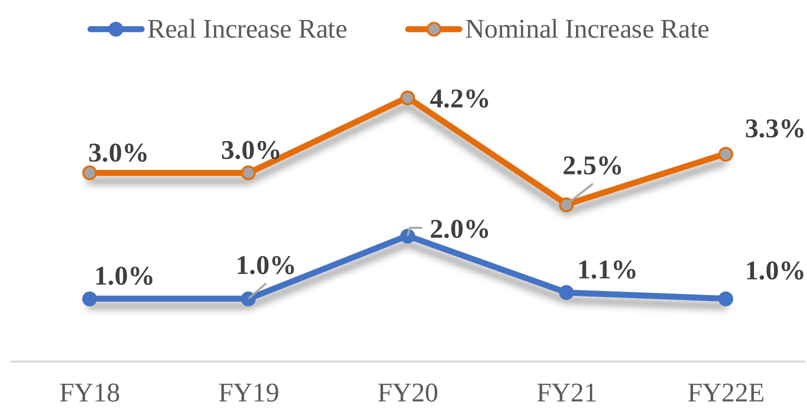
4.8 The current BCR metric does not include all sources of recurring revenues at IFC, such as dividends and fails to consider realized efficiency savings through efforts to manage spend. Aiming to take account of actual expenses rather than budgeted amounts, IFC Management is working toward development of an Expense to Income ratio that would track the extent to which units are earning sufficient income over their costs, thereby cascading and strengthening the accountability for cost efficiencies more broadly throughout the organization.

CHAPTER 5: FY22-24 BUDGET FRAMEWORK

AGGREGATE ADMINISTRATIVE BUDGET TRAJECTORY

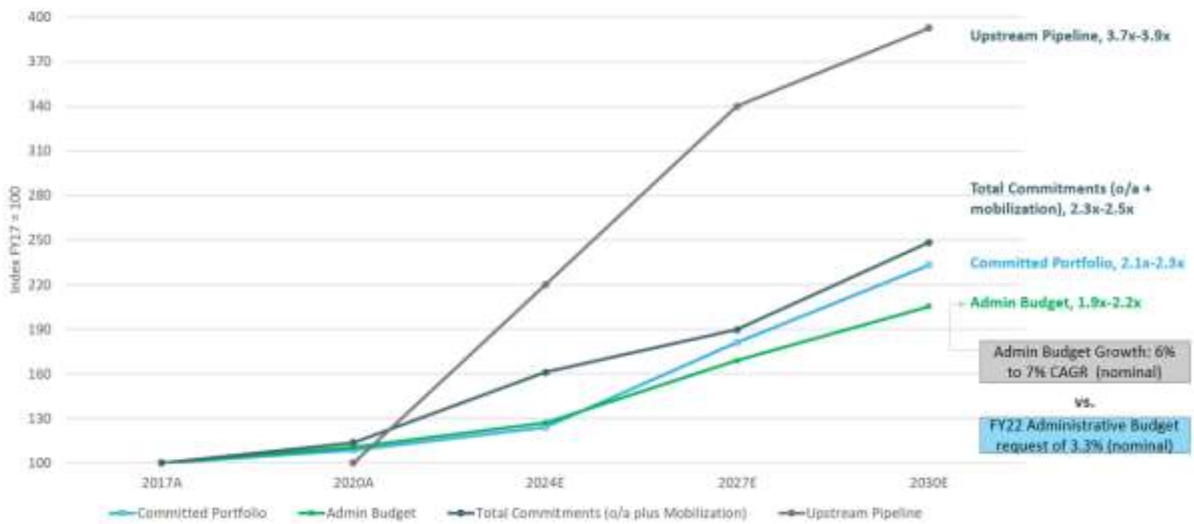
5.1 To maintain the pace of IFC 3.0 implementation with sustained fiscal discipline in a COVID-19 constrained environment, IFC is proposing a 1 percent real budget increase for FY22. The cost pressures and targeted efficiencies and savings inform this 1 percent real budget proposal over the FY21 Administrative Budget, measured plan-to-plan. Significant one-time savings, due to COVID-related restrictions, were realized in FY21 through adjustments to business units' budgets. The FY22 budget is sized to fund a resumption of more normal business. The proposed FY22 budget trajectory will maintain budget sustainability and contribute to the financial strengthening of the institution (Figure 1).

Figure 1: Real and Nominal Administrative Budget Trajectories, FY18-22



5.2 Despite considerable growth in program and staff, IFC has contained its budget increases. The FY22 Administrative Budget trajectory of 3.3 nominal percent increase is significantly lower than the Administrative Budget increase of 6 to 7 percent Compound Annual Growth Rate (CAGR) to support IFC's Program and Portfolio growth over FY19 through FY30, discussed as part of the Capital Increase Package (see Figure 2).

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



ADVISORY SERVICES BUDGET TRAJECTORY

5.3 IFC has reassessed the levels of Advisory Services funding needed to support its traditional Advisory business as well as the Upstream program in FY22 through FY24. The construction of the trajectory is grounded on (i) workforce plans developed by VPUs to estimate the staffing costs, and (ii) the Advisory and Upstream budget envelopes for project spend at the regional and global levels determined by senior management to anchor the integration of the FNA and the Country-driven budgeting exercise as detailed in Chapter 2.

5.4 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 are driven by IFC's strategic priorities and include funding availability and eligibility, leverage acceptance, and appetite from development partners. A description of the Advisory sources of funds is provided in Chapter 6.

AGGREGATE ADMINISTRATIVE AND ADVISORY SERVICES BUDGET TRAJECTORIES

5.5 The "All Funds" trajectory shows a nominal growth of -1.1 percent in FY22 (see Table 2).

Table 2: FY21-22 Total Resources Trajectory

$, millions	**FY21B**	**FY22E**
Administrative Budget	1,139,3	1,176.9
Advisory Services (AS) Non-Administrative Budget	459.5	429.5
Aggregate Administrative and Advisory Services Budget	**1,598.8**	**1,606.4**
Earmarked Service Fees and Others	224.4	196.1
IFC Total Resources	**1,823.2**	**1,802.5**
% Growth Aggregate Administrative and AS Budget		0.5%
% Growth Total Resources		-1.1%

CHAPTER 6: INCOME DESIGNATIONS

USE OF IFC'S FY21 NET INCOME: RETAINED EARNINGS AND DESIGNATION OF RETAINED EARNINGS

6.1 Amounts available to be designated are determined based on a Board of Directors-approved income-based formula and on a principles-based, Board of Directors-approved financial distribution policy and are approved by the Board of Directors.

METHODOLOGY FOR INCOME DESIGNATION

6.2 The current methodology for determining IFC's income designations, has worked well since its approval in 2016. The income measure used as the basis for the sliding scale formula, or income available for designations, had remained unchanged from FY04 through FY19. However, a change in U.S. Generally Accepted Accounting Practices (GAAP), which took effect during FY19, necessitated a revised income measure that did not incorporate equity write-offs. In FY20, IFC used income excluding unrealized gains and losses on investments as borrowings as income available for designations. This is a stable measure, philosophically consistent with the previous measure, which is already reported quarterly to the Audit Committee. IFC intends to continue using this income measure for FY21 and going forward.

6.3 While the designations methodology has remained the same, the process is being adjusted to improve efficiency. As part of the budget approval process going forward, it is proposed that the Board will now approve a range (including maximum) of potential designations for CMAW and FMTAAS, based on the formula and waterfall. After the close of the fiscal year, the sliding scale formula will be applied to income available for designations to determine the actual designations.

6.4 The transfer of net income (loss) to retained earnings and any designations of retained earnings will be submitted to the Board as resolutions following approval of the year-end financial statements

6.5 Depending on final FY21 income amounts available for designation under the sliding-scale formula, IFC will propose to designate allocations to CMAW and FMTAAS. The priority of designations will be based on the waterfall.

CHAPTER 7: FY22 BUDGET PROPOSAL

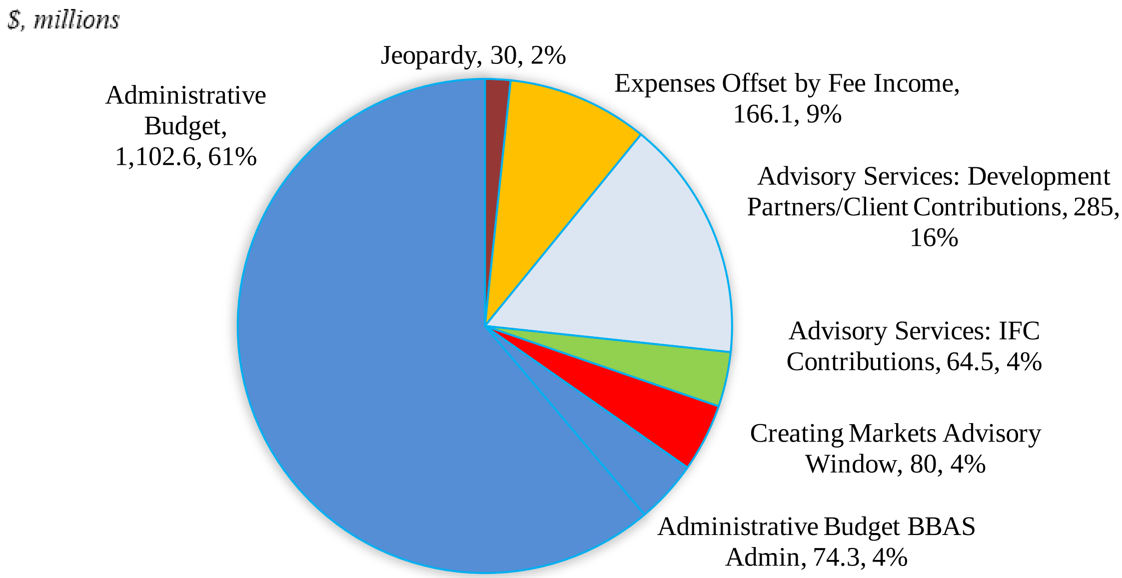
7.1 This section presents the specific details of the FY22 budget proposal, the allocation to the main budget categories, and details on allocations.

FY22 TOTAL RESOURCES VIEW BY SOURCES OF FUNDS

7.2 IFC's projected Total Resources budget for FY22 is $1,802.5 million, as shown in Figure 3. This view reflects the gross needs as described earlier in this document partially offset by efficiencies.

7.3 Figure 3 presents the FY22 Total Resources envelope, including the relative portion of each Source of Funds (SOFs) within Total Resources.

Figure 3: FY22 Total Resources



7.4 IFC's Total Resources are projected to decrease by 1.1 percent, from $1,823.2 million in FY21 to $1,802.5 million in FY22. The main shifts in individual sources of funds are addressed later in this chapter.

ADMINISTRATIVE BUDGET

7.5 IFC Management proposes an FY22 Administrative Budget of $1,176.9 million, which represents an incremental increase of 3.3 percent in nominal terms (1.0 percent in real terms for FY22) over the FY21 Administrative Budget.

7.6 With the full year cost implications of staff hired during FY21 as well as the expected catch-up in spending in areas like travel and STCs/ETCs (assuming return to normal operations later in FY22 and taking into account any efficiencies and temporary savings), the variance in spending versus budget is expected to narrow in FY22.

7.7 The incremental FY22 Budget ask is based on an assessment of gross spending needs primarily driven by planned hiring and other critical spending needs as detailed in Chapter 3. The $125 million total gross needs are expected to be offset by efficiency savings as well as temporary one-time savings, resulting in a net incremental budget need of $38 million.

COST CATEGORY VIEW OF ADMINISTRATIVE BUDGET

7.8 IFC's Administrative Budget can also be viewed by Cost Category as in Table 3. The view provides the actual expenses for FY19 and FY20 with FY21 projected spend and FY22 estimates. The salaries and benefits remain the main driver of the total expenses.

Table 3: IFC's Administrative Expenses and Budget by Cost Category

$, millions	**FY19A**	**FY20A**	**FY21E**	**FY22E**
Fixed Expenses	**867.0**	**841.1**	**883.4**	**951.1**
Salaries and Benefits[1]	742.1	710.0	752.9	811.5
Communications & IT	17.7	23.5	23.4	26.9
Depreciation	65.6	62.0	60.7	61.0
Equipment & Building	41.6	45.6	46.5	51.8
Variable Expenses	**234.8**	**244.0**	**220.9**	**245.5**
ST Consultants & Temporaries	12.3	15.1	12.7	13.4
ET Consultants & Temporaries	1.0	4.4	8.0	9.9
Travel, Representation and Hospitality	32.0	21.9	4.3	15.6
Contractual Services	45.8	46.8	35.4	46.1
Services and Support Fees	127.7	139.2	140.6	143.3
Other Expenses	16.0	16.6	19.8	17.2
Total Expenses	**1,101.8**	**1,085.1**	**1,104.4**	**1,196.7**
Total Non-Operational Revenue	(17.4)	(21.6)	(22.0)	(19.8)
Net Expenses	**1,084.4**	**1,063.5**	**1,082.4**	**1,176.9**

[1]FY19 Salaries and Benefits include one-time WFP Severance costs.
*Totals may be imprecise due to rounding.

ADVISORY SERVICES SOURCES OF FUNDS (SOFS)

7.9 Advisory Services SOFs are used to support both Advisory and Upstream activities. These activities draw on IFC's internal funding sources, Development Partners, and Clients to deliver on their mandates. The combination of funding sources creates a robust and diversified funding model with enough flexibility to enable the successful implementation of IFC 3.0. Table 4 presents a breakdown of the Advisory SOFs used by Advisory and Upstream.

Table 4: Advisory Services Sources of Funds

$, millions	**FY21B**		**FY22E**	
	$	**%**	**$**	**%**
External Funding	**295.0**	**56%**	**285.0**	**57%**
Development Partners	260.0	49%	240.0	48%
Client Contributions	35.0	7%	45.0	9%
IFC Internal Funding	**238.8**	**45%**	**218.8**	**43%**
AS Admin Budget	74.3	14%	74.3	15%
CMAW	90.0	17%	80.0	16%
FMTAAS	60.0	11%	50.0	10%
Other IFC Sources	14.5	3%	14.5	3%
Total Advisory Services Budget*	**533.8**	**100%**	**503.8**	**100%**

*Totals may be imprecise due to rounding.

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

7.11 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 partners, and other non-traditional partners as the philanthropic and impact investment ecosystems diversify.

7.12 Client contributions are primarily used as a tool to strengthen client ownership and commitment to implementation and to ensure that any subsidy embedded in pricing is justified by the public benefit involved. It is expected that Upstream will also draw on Client Contributions going forward, further diversifying and strengthening its funding model.

7.13 *IFC's Internal Funding.* IFC's direct contributions to Advisory Services and Upstream ensure a sustainable funding model for 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 FY22, IFC's direct contributions are expected to decrease by $20 million, or 8 percent, as IFC adjusts its overall Advisory and Upstream funding envelopes, aligned with the approved FNA and following concerted efforts to shift the Advisory Services portfolio toward Upstream and market creation projects. IFC's direct contributions from Advisory SOFs are composed of Administrative Budget and designations of IFC's retained earnings.

- **AS Administrative Budget,** is primarily used to fund staff and staff-related costs of staff working on or supporting the implementation of Advisory programs.
- **FMTAAS** is a designation of IFC's retained earnings that supports program-related Advisory and Upstream spending not specifically earmarked for IDA/FCS countries.
- **CMAW** is a designation of IFC's retained earnings that supports Advisory and Upstream efforts to address the complex challenges of creating markets and building a pipeline of bankable private sector projects in IDA and FCS countries.
- **Other AS Sources** include Trust Fund Administrative Fees, Performance-Based Grant Initiative (PBGI), and SME Ventures.

FEE BUDGETS

7.14 IFC has a long-established practice of using fees to cover direct out-of-pocket expenses incurred for project-related expenses such 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. IFC matches such expenses with fee generation to assess appropriate funding levels and guide spending decisions at the institutional level.

7.15 In the past years, IFC has reviewed the fees budget allocation and removed allocation earmarking from the individual departments creating a larger fee budget pool for flexible allocation to corporate priorities. These flexible pools support the implementation of work programs in Operations (for example, fees allocated to Upstream and to the Legal Fee Pool).

7.16 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. By using fees to cover variable costs, IFC can expand or contract its activities without changing its permanent cost base and more flexibly redirect these resources toward corporate priorities and strategic objectives.

7.17 *Budget Allocation to cover Outside Counsel Fees and Expenses (Legal Pooled Fees).* In FY21, IFC established a centralized and dedicated fee pool to cover certain outside counsel fees and expenses. The legal pooled fees budget plays a significant role in allowing IFC to meet its outsourcing needs to support IFC operations; these fees are used to pay outside legal counsel fees and related out of pocket expenses arising in relation to certain IFC transactions and corporate matters when other internal and external funding sources are not available.

JEOPARDY BUDGETS

7.18 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.

7.19 To manage the jeopardy related expenses, IFC increased its total allocation to in FY21 that can be drawn by the Department of Special Operations (CSO) and the Legal Department (CLED). The cases often generate significant out-of-pocket expenses and can span many years.

7.20 CSO continues to anticipate that 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 will be subject to review if the situation deteriorates.

CARRYOVER MECHANISM

7.21 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 Board approval is not required for future use of the Carryover, regular resource updates to the Board will be provided through the QBHR.

7.22 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. The carryover does not accumulate year-on-year or add to the base Administrative Budget.

CHAPTER 8: FY22 CAPITAL BUDGET

8.1 The proposed Capital Budget request for FY22 reflects IFC Management's prioritization of business demands for facilities and IT investment and the resulting impact on the Administrative Budget through depreciation.

8.2 IFC's Capital Budget funds IFC Headquarters (HQ) and CO needs and the IT necessary to support IFC's business model. The proposed FY22 Capital Budget is $45.9 million, reflecting a reduction from $59.4 million in FY21, mainly due to reassessment of the Facilities program implementation as a result of the COVID-19 pandemic and business needs reprioritization.

8.3 IFC's Capital Budget is expected to return to a more stable level at $58 million to $60 million per year starting in FY23, keeping projected depreciation costs relatively even, within manageable levels of close to $60 million to $70 million per year. Table 5 summarizes the FY22 Capital Budget request.

Table 5: Capital Budget Request

$, millions	**FY21B**	**FY22E**
Headquarters Facilities	5.0	2.7
Country Office Facilities	13.0	5.5
Information Technology	41.5	37.7
Total[1]	**59.4**	**45.9**

[1]Totals may be imprecise due to rounding.

8.4 *Headquarters Facilities*. The capital budget for HQ facilities will fund post pandemic adjustments to ensure the health and safety of staff in a post-pandemic context, Proof of Concept (POC) for Agile workplace implementation, building infrastructure upgrades, and sustainability initiatives at IFC's HQ buildings.

8.5 *Country Office Facilities*. The CO facilities Capital Budget proposal reflects plans to optimize the global office footprint, enhance sustainability, and implement office retrofit initiatives. The scope of work planned for FY22 will focus on upgrades and replacement of building infrastructure systems and equipment, security upgrades and sustainability initiatives at various CO locations; office expansion driven by strategic growth, office right-sizing and reconfiguration/retrofit; and vehicles and audio-visual and video conferencing (AV/VC) procurement projects.

8.6 The prolonged COVID-19 pandemic is causing delays in the implementation of the HQ and CO capital projects. These delays are expected to continue through at least early FY22. The impact on budgetary resources is being monitored.

8.7 In FY22, IFC will continue to support, in coordination with International Bank for Reconstruction and Development (IBRD), the upgrade of security equipment for Country Offices in FCS and medium- and high-risk countries (as defined by WBG Corporate Security) through the allocation of capital funds to replace outdated security equipment. 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.

8.8 *Information Technology (IT)*. The FY22 Information Technology Capital Budget proposal of $37.7 million will fund two main categories of investment:

- *Steady State and Enhancements (40 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 (60 percent).* These programs focus on developing new or enhanced IT solutions to support IFC's lines of business. They include automation of business processes and the introduction of new IT capabilities. A few are multi-year programs, others are continuation or completion of programs begun in prior years, and some are new investments.

8.9 The LIBOR transition Capital Budget request has been included in IFC's Capital Budget proposal.

8.10 The most considerable cost impact of the ERP WBG project to IFC will be in the years following FY24 as part of the cost share with IBRD through the Administrative Budget after the implementation of the solution.

8.11 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 a SSA with IBRD through the Administrative Budget once the service or solution is in place.

CHAPTER 9: RECOMMENDATIONS

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

A. Administrative Budget Authority

- An Administrative Budget for FY22 of $1,176.9 million.

B. Capital Budget Authority

- A Capital Budget for FY22 of $45.9 million.

9.2 IFC Management recommends the following with respect to net income available for designations:

C. From net income, IFC proposes to designate allocations to CMAW and FMTAAS.

D. The designation of net income to be disclosed in the Management's Discussion and Analysis for FY21.