IFC's FY13 Business Plan & Budget

Approved by IFC's Board of Directors on June 19, 2012
Released in accordance with IFC's Access to Information Policy

IFC **International Finance Corporation**

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Executive Summary

i. *IFC's FY13 Business Plan and Budget* sets forth IFC's annual business targets and seeks Board authorization for the budget required to achieve these targets while maintaining the client-focused and field-centric trajectory of the Corporation's globalized business model. The proposed budget will support growth in all three of IFC's business lines - Investment Services, Advisory Services & the Asset Management Company (AMC) - while further enhancing IFC's leadership in development metrics such as DOTS and the IDGs, which are currently in their second year of refinement and will be gradually rolled out starting in FY13.

ii. This report prefaces the budget proposal by an updated forecast of the Corporation's FY12 results in Section I. This forecast provides a status check late in the fiscal year so as to better understand the proposed FY13 business plan presented in Section II. Section I also provides a status check on IFC's most critical asset – a highly skilled and diverse staff with the global development knowledge to deliver IFC's mandate. Section III of the report provides an update on IFC's evolving organizational capacity and the change process which has helped bring IFC staff closer to clients while delivering significant program growth and development impact. Section IV presents the status and outlook for the Asset Management Company. Section V sets forth the proposed FY13 budget and provides a full contextual understanding of IFC's planning process and budget usage. Finally, Section VI sets forth the recommendations for the administrative and capital budgets, extension of Advisory Services and related facilities, and delegated authorities.

iii. The IFC Management Team's budget proposal results from a rigorous process through which the Corporation's goals for the upcoming year are considered along with the optimal means of funding them. This process resulted in the proposal set forth herein for a regular administrative budget of $696 million, a real increase of 1% with respect to FY12; application of the World Bank Group's price adjustment mechanism makes it 3.3% in nominal terms. Management carefully considered how to absorb projected cost increases and the costs of new programs for FY13 in an effort to limit the administrative budget increase. The proposed real increase of $6.7 million reflects the absorption of around $15 million of cost increases across the Corporation achieved through efficiency gains and reallocations across departments; these absorbed costs range from less than $200 thousand to support IDGs on gender and job creation to incremental depreciation charges of nearly $4 million which are the result of prior year's investments in capital assets. The staff cost component of the FY13 administrative budget is expected to increase by 2.4% in real terms. The overall increase in staff costs reflects the growing cost to support a workforce spread across 106 offices in 97 countries. IFC's staff is expected to grow by 9% from FY11-end to reach 3,761 by the end of FY12, with 55% of staff in country offices. Through focused recruitment, IFC has made progress against its Diversity & Inclusion Targets since FY11 and has already surpassed the Part II GH+ Women target as of FY12 Q3-end.

iv. **Investment Services.** IFC's Investment Services are the oldest of IFC's three business lines. They aim to deliver the Corporation's development mandate through financially sustainable investments in private enterprises in the developing world. The FY12 investment program is expected to deliver $18.5 to $21.0 billion in total commitments comprised of $14.0 to $15.5 billion for IFC's own account in 525 to 565 projects (of which about 235 to 260 are expected to be in IDA countries), and $4.5 to $5.5 billion of mobilization. The Long-Term Finance (LTF) component of IFC's own account commitments represents an estimated $9.2 to $10.3 billion in 330 to 355 projects. The Global Trade Finance Program (GTFP) is expected to account for $4.8 to $5.2 billion in 195 to 210 projects. For FY13, total commitments are expected to increase to $21.0 to $24.0 billion comprised of $16.0 to $18.0 billion for IFC's own account in 560 to 595 projects (of which about 255 to 275 will be in IDA countries), and $5.0 to $6.0 billion of mobilization. The LTF component of IFC's own account commitments represents an estimated $10.5 to $11.5 billion in 350 to 375 projects. GTFP is expected to comprise $5.5 to $6.5 billion for IFC's own account in 210 to 220 projects. LTF projects in IDA are projected to be 50-60% of all IDA projects in both FY12 and FY13.

v. As IFC has grown and reorganized its business processes to become more client-focused, it has also made efforts to sustain and increase the efficiency of investment processing. Comprehensive efforts have been made to re-engineer and simplify business processes, while strengthening risk management. At the same time, IFC's strategy has led to a shift in business towards IDA countries and frontier regions, and post-conflict situations; towards, smaller, locally owned companies; and towards a higher proportion of equity and greater mobilization. Also, over the past years new requirements have been introduced in the investment project cycle for Development Outcome Tracking System (DOTS), Integrity Due Diligence (IDD), Green House Gas (GHG), Corporate Governance (CG) standards, IFC Development Goals (IDG) and Environmental and Social standards (E&S). All these trends and requirements add complexity and cost to project processing. As a result, the impact of business simplification cannot be readily seen in either the processing time for a project or the number of transactions processed per staff year, which have remained substantially unchanged during the past few years.

vi. **Advisory Services.** Advisory Services (AS) is the second pillar of IFC's value proposition to clients. AS complements the investment program by sharing IFC's global knowledge and expertise with private and public sector clients, improving the business environment in emerging markets, and helping to develop individual firms and entrepreneurs. A series of reforms to strengthen the impact and effectiveness of AS was launched in 2006, and contributed to 69% of AS projects achieving high development outcomes in FY11 – an all-time record. The total FY13 spending envelope for Advisory Services is $381 million, comprising IFC contributions of $154 million and donor and client contributions of $227 million. This represents an 8% increase from FY12 estimated spending of $354 million. As Management seeks to further leverage IFC's contributions, the IFC share of total AS spending is expected to decline to 40% in FY13 (from 44% in FY12); this trend is expected to continue with the goal of IFC accounting for around one third of total AS spending in the medium- to longer-term. AS work will be increasingly concentrated in Africa and South Asia – together they are expected to account for nearly 50% of AS spending by FY15. At the same time IDA countries will remain the main focus of the AS program, and are expected to continue to account for over 60% of the program from FY13-15. During FY13, Management will continue to move ahead with reforms to strengthen the AS business. This will include measures to strengthen results measurement and financial management, as well as a continued focus on talent management and client contributions. The development and refinement of efficiency and productivity metrics for AS will also be given special attention in FY13.

vii. **AMC.** The Asset Management Company is the third pillar of IFC's business, enhancing the delivery of development impact to clients in developing countries. AMC accomplishes this by mobilizing additional funding from third-party investors who are interested in investing alongside IFC in developing countries. Furthermore, AMC improves IFC's financial sustainability by preserving the Corporation's scarce capital and increasing its net income, thereby expanding IFC's capital base. In FY13, the AMC will continue to manage existing investments and expand the portfolios of the CapFund, ALAC Fund and AfCapFund. AMC is also actively fundraising for four new potential funds: Russia Bank Opportunity Fund (RBOF), Global Infrastructure Fund (GIF), Climate Catalyst Fund (CCF) and Middle East North Africa Fund (MENA Fund). Each of these funds may have its first closing in FY13 and may start making investments in FY13.

viii. IFC's management and staff strive to deliver the Corporation's development agenda as cooperative members of the World Bank Group (WBG). Cooperation among the WBG member institutions is stronger than ever. IFC is deeply involved in joint efforts through the World Bank -IFC Financial and Private Sector Development Vice Presidency which provides a strategic and operational link between World Bank and IFC activities in financial market and investment climate reforms, and serves as an important catalyst for IFC activities in these areas. WBG member institutions are also working together on critical development initiatives in the key sectors of agribusiness and infrastructure, such as on the FY13-15 World Bank Group Agriculture Action Plan.

ix. **Poverty Focus.** IFC's activities – in Investment Services (IS), Advisory Services (AS) and the IFC Asset Management Company (AMC) – address poverty reduction across IFC's strategic focus areas[1], by supporting private-sector led inclusive and sustainable growth, with care for the environment. IFC's activities contribute to poverty reduction by promoting both broad-based growth, which indirectly benefits the poor and underserved, and promoting inclusiveness, which more directly addresses the needs of the poor and underserved. While IFC's work has traditionally emphasized the indirect poverty reduction brought about by broad-based growth, IFC is also doing significant work emphasizing inclusiveness. To further promote inclusiveness and poverty reduction in general within its operations, IFC is currently in the process of refining and implementing a Poverty Action Plan, with the objective of better understanding, articulating, measuring and addressing poverty in the context of IFC operations, also working closely with World Bank colleagues where appropriate.

x. **IDGs.** IFC began testing the IFC Development Goals (IDGs) during FY11 to manage towards increasing the development impact of IFC's activities. Further testing and piloting of the six IDGs has been underway during FY12. For FY13, the Health & Education and Financial Services IDGs are being implemented with links to IFC's incentive systems. Details on the IDGs are presented in Section II.

xi. IFC looks forward to FY13 with the understanding that potential financial crises could negatively impact the global economy, creating hardship for IFC's clients and threatening the strength of IFC's portfolio. While the current outlook is for a gradual recovery starting in FY13, this is subject to considerable risks, and IFC is poised to respond to a significant deterioration in the external environment by redeploying resources and implementing a comprehensive countercyclical response, without losing sight of its long-term strategic focus areas and of the importance of ensuring its financial sustainability.

xii. The FY13 business plan and budget proposal presented herein for the Board's consideration maintains IFC's position as the leading global institution dedicated to private sector development. IFC will continue to advance in its leadership role in results measurements while serving the needs of its clients, sharing its global knowledge in an effort to improve the lives of people in developing countries and remaining financially sustainable for years to come.

[1] (i) Strengthening the focus on frontier markets (IDA countries, Fragile Situations, and frontier regions in non-IDA countries)
(ii) Addressing climate change, and ensuring environmental and social sustainability
(iii) Addressing constraints to private sector growth in infrastructure, including water; health, education and food supply chain
(iv) Developing local financial markets through institution-building, the use of innovative financial products and mobilization, focusing on micro, small and medium enterprises
(v) Building and maintaining long-term client relationships with firms in developing countries, using the full range of IFC's products and services, and assisting their cross-border growth

I. IFC Achievements to Date

A. Overview

1.1 There is significant economic and political uncertainty in the world today. The World Bank Group (WBG) foresees a further slowdown in real GDP growth in 2012, both globally and for most developing regions, with a gradual recovery starting in 2013. However, this outlook is subject to considerable risks that could create much less favorable conditions for developing countries.

1.2 The private sector is now recognized as a critical driver of and partner in economic development, a provider of income, jobs, goods and services to improve people's lives and provide them opportunity to overcome poverty. IFC is the largest global development finance institution focused exclusively on the private sector, and demand for its services continues to increase as the role of the private sector in developing countries grows.

1.3 In these uncertain times, IFC will retain its emphasis on its long-term strategic objectives, while providing a focused counter-cyclical response to client needs in the current difficult market environment. IFC's key corporate goals will remain greater development impact and financial sustainability, and will continue to drive IFC's strategic choices, along with selectivity based on IFC's additionality. Continuing its leadership in measuring and reporting on development results, IFC is now in the second year of refining the IFC Development Goals (IDGs), with the aim of a gradual roll-out beginning in FY13.

1.4 IFC's five long-term Strategic Focus Areas, which are in line with the five post-crisis directions of the WBG, remain unchanged from prior years, except for the explicit inclusion of water. IFC will also place a strong emphasis on gender as a cross-cutting theme. In the near term, IFC will put particular emphasis on infrastructure (especially in Africa), agribusiness and the food supply chain, and small and medium enterprises (SMEs), jobs and growth, with the aim of doing more.

1.5 As more fully described in the *IFC Road Map, FY13-15 Supplemental Paper*, IFC will continue to harness Investment Services (IS), Advisory Services (AS) and the IFC Asset Management Company (AMC) to support private sector-led inclusive and sustainable growth in developing countries, with care for the environment. By encouraging the growth of productive private enterprise pursuant to its Articles of Agreement, IFC complements the World Bank's efforts to reduce poverty through working with the public sector.

1.6 IFC's activities contribute to poverty reduction[2] across its Strategic Focus Areas. Significant poverty exists in frontier markets, and IFC will continue its priority focus on these areas, in particular in IDA countries, while also refining its thinking about a possible expansion of the frontier concept to focus on the needs of the poor regardless of location. Climate change is a tremendous development challenge which will disproportionately affect the poorest countries, and IFC's Performance Standards also include protection for poor and vulnerable groups. Growth in infrastructure is essential for sustained poverty reduction. Development of local financial markets and improved access to finance support growth as well as inclusiveness, including through support for local SMEs which are important for job creation.[3] IFC's focus on South-South investments and partnerships supports sustainable growth through the transfer of successful business models, knowledge and standards.

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[2] IFC intends to adopt a multidimensional view of poverty, including those who are poor based on income, as well as those who lack access to basic socio-economic services, or lack access to income-generating opportunities

3 According to Voices of the Poor, the poor consider a job the best pathway out of poverty.

1.7 IFC's activities promote both broad-based growth, which indirectly benefits the poor and underserved, and inclusiveness, which more directly addresses the needs of the poor and underserved. While IFC's work has traditionally emphasized the indirect poverty reduction brought about by broad-based growth, IFC is also doing significant work emphasizing inclusiveness. To further promote inclusiveness and poverty reduction in general within its operations, IFC is currently refining and implementing a Poverty Action Plan[4], with the objective of better understanding, articulating, measuring and addressing poverty in the context of IFC operations, also working closely with World Bank colleagues where appropriate.

1.8 Greater cooperation with other institutions within the WBG – across strategy, policy and systems, and individual projects - remains critical to meet common WBG goals, and will continue in important areas for development such as in climate change, infrastructure, food security and access to finance. IFC will also continue to strengthen its delivery model and increase impact through mobilization and partnerships.

1.9 Should there be a significant deterioration in the external environment, and building on prior crisis experience and lessons learned, IFC will implement a comprehensive investment and advisory counter-cyclical response. IFC stands ready to deploy and/or scale up an array of crisis-related mechanisms and approaches in response to increased and evolving client demand, without losing sight of its long-term strategic focus areas and of the importance of ensuring its financial sustainability. Given that IFC's capital position could be significantly affected in such a downturn, IFC would have to optimize its responses, focusing on the highest impact and also taking into account that short-term interventions are less capital-intensive.

1.10 The following discussion of IFC's accomplishments to date and program expectations for Investment Services, Advisory Services, and AMC, along with an update on the IDGs, WBG cooperation, and human resources, provide the context for understanding the budget resources proposed for FY13.

B. INVESTMENT PROGRAM TRENDS AND STATUS UPDATE

1.11 IFC's investment program delivers development impact through total commitments to clients, which comprises commitments for IFC's own account as well as mobilization from third parties. As underscored by IFC's investment client survey, one of the top reasons that IFC has become a partner of choice for its clients is its ability to access additional sources of finance for them. On the investment side, IFC tracks and reports on Core Mobilization, that is financing from non-WBG entities that becomes available to IFC clients due to IFC's direct involvement in raising additional financial resources, measured at the time of its deployment at project level. Core mobilization includes IFC's Syndicated Lending Program (B-Loans, Parallel Loans, and A-Loan Participation Sales), Asset Management Company (AMC), various IFC Initiatives created to address the effects of the 2008-2009 crisis. [5]

1.12 Given the difficult market environment, current expectations are that FY12 overall mobilization levels could be around 15-30% lower than the record level achieved in FY11, increasing again starting in FY13. IFC's Syndicated Lending Program, in particular its B-loan program, makes an important

[4] Consistent with the Management Response to the 2011 IEG evaluation "Assessing IFC's Poverty Focus and Results", IFC Management agreed a Poverty Action Plan with the objective of better understanding, articulating, measuring and addressing poverty in the context of IFC operations.

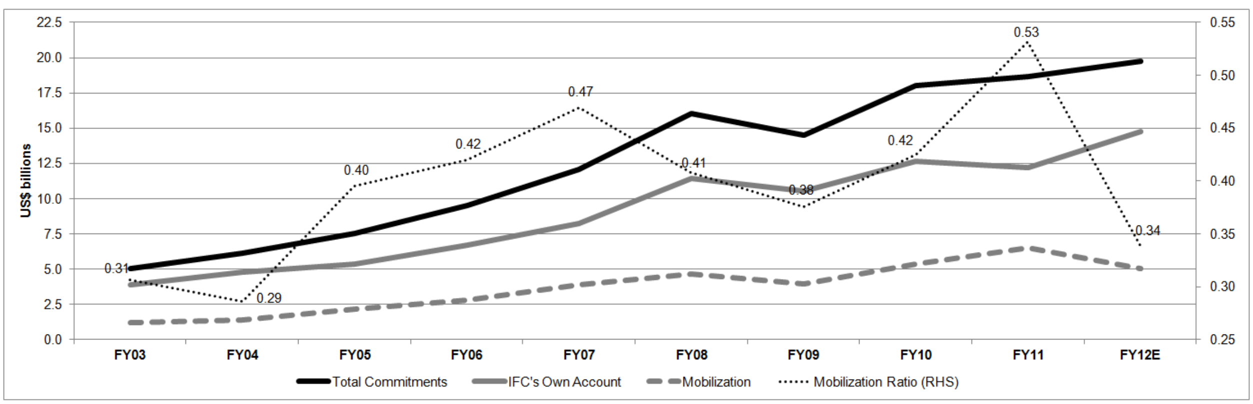
[5] IFC-MIGA mobilization, defined as "MIGA guarantee issued to Client resulting from documented IFC referral reported when IFC receives compensation payment from MIGA", continues to be included in IFC's internal scorecards and performance metrics.

contribution to overall Core Mobilization volumes. In FY11, for example, syndications contributed $4.7 billion, or 72%, of IFC's record $6.5 billion in Core Mobilization. Syndication levels for FY12 as a whole are expected to be around $3 billion – while lower than FY11, this is higher than FY09 ($2.2 billion) and FY10 ($2.0 billion). Emerging market banks are expected to become even more prominent mobilization partners as both B-lenders and parallel lenders, in line with the increasing South-South investment trend. IFC is also adapting its products to increase cooperation with insurance companies and other institutional investors, as well as increasing the universe of other development institutions from whom to mobilize.

1.13 Some of this decline is expected to be compensated for by AMC mobilization, which nearly doubled in FY11 compared to FY10, and is expected to continue its upward trajectory based on both its current and new fund activity. Both the expanded Global Trade Liquidity Program (GTLP) and the new Critical Commodities Finance Program (CCFP) are expected to produce FY12 mobilization volumes.

1.14 Graph 1.1 shows the trends in total commitments between FY03 and FY12. Total commitments, including mobilization, have steadily grown from $5.0 billion in FY03 to an estimated $18.5-21.0 billion in FY12 at an FY03-12 compound annual growth rate (CAGR) of 16%. The expected CAGR for Core Mobilization over the same period is 17%, and for IFC's own account 16%. The Mobilization ratio[6] reached a high of 0.53 in FY11 ($0.53 mobilized for every $1.00 invested by IFC). Without including GTFP, which has had no mobilization component, the FY12 ratio would be 0.51, around the nine-year average of 0.49.

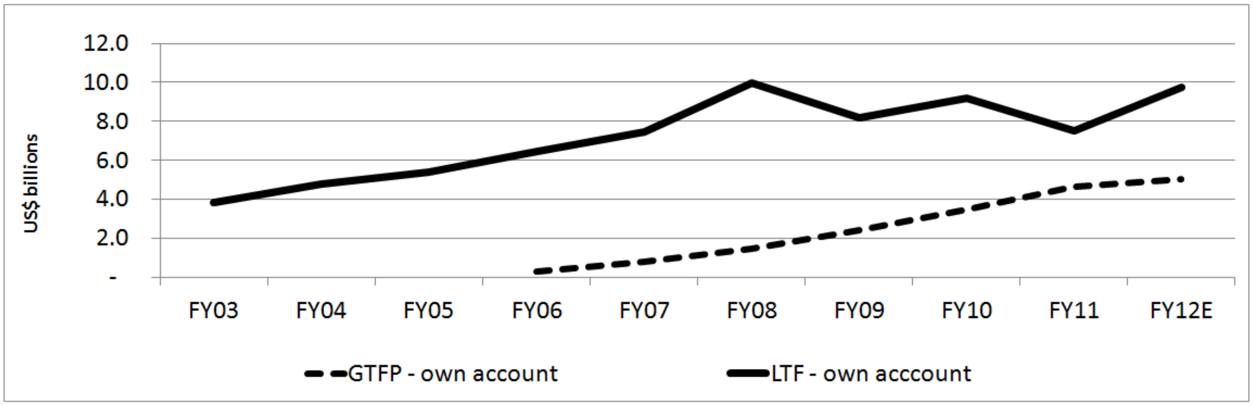
Graph 1.1: IFC's Total Commitments and Mobilization Ratio



1.15 Graph 1.2 presents a further breakdown of IFC's own-account commitments into long-term finance (LTF) and the Global Trade Finance Program (GTFP). For the purposes of this Paper, LTF comprises the traditional long-tenor products of equity and long-term debt, as well as non-GTFP Trade and Supply Chain products such as the Global Warehouse Finance Program (GWFP), the Global Trade Liquidity Program (GTLP) and Critical Commodities Finance Program (CCFP).

[6] Defined as Core Mobilization amount divided by the total volume for IFC's investments for its own account plus the IFC portion of AMC fund investments, plus the IFC portion of investments in IFC Initiatives.

Graph 1.2: Global Trade Finance Program (GTFP) & LTF for IFC's Own Account



1.16 LTF – own account is projected to have a CAGR of 7% over FY06-12, leveraged by mobilization. GTFP is expected to increase to $4.8 - 5.2 billion in FY12, reflecting continuous growth in underlying demand. IFC expects to reach the GTFP product ceiling in late FY13 or in FY14, and plans to revert to the Board in FY13 with a proposal to increase the product ceiling after discussion of development results. IFC's response to increased GTFP demand will leverage existing platforms, with structures and banking relationships already in place.

1.17 As described in more detail in the *IFC Road Map, FY13-15*, both LTF and the GTFP make important contributions to IFC's key corporate goals of greater development impact and financial sustainability. As to GTFP development impact, IFC will continue its Measurement and Evaluation (M&E) leadership among multilateral development banks, being the first institution to measure the development impact of trade finance with the roll-out of a Development Outcome Tracking System (DOTS) framework for the GTFP. IFC will present its first preliminary GTFP DOTS analysis at the time that it requests an increase in GTFP ceiling.

1.18 GTFP supports IFC's financial sustainability through the consumption of relatively little economic capital while at the same time bringing important development impact. IFC carefully monitors GTFP separately from its overall commitments for several reasons, including to proactively and effectively understand and manage key drivers of its portfolio, as well as profitability and economic capital across its different financial instruments. Table 1.1 compares the commitment volume for LTF (including non-GTFP Trade and Supply Chain (TSC) products) and GTFP.

Table 1.1: IFC's Own Account Commitment Volume

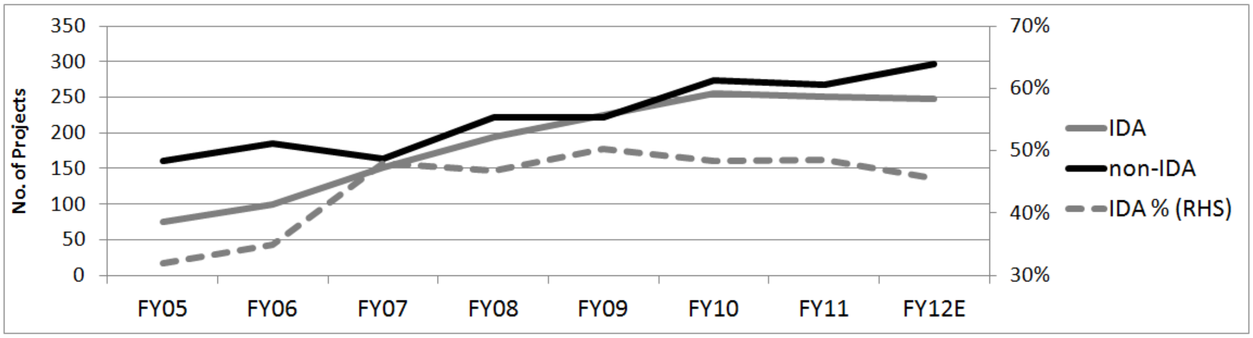
US$ millions

	FY06	FY07	FY08	FY09	FY10	FY11	FY12E
LTF	6,434	7,447	9,969	8,167	9,200	7,533	9,750
GTFP	269	772	1,429	2,380	3,464	4,653	5,000
Total	**6,703**	**8,219**	**11,398**	**10,547**	**12,664**	**12,186**	**14,750**

Note: FY12E numbers are mid-points of projected ranges.

1.19 IFC will maintain the target of 45-50% of investment projects in IDA countries. These countries cover a range of challenging conditions for investments, including most of the Fragile Situations. In general, average investment sizes in IDA countries tend to be smaller, which is why IFC emphasizes the number of projects for target purposes. As depicted in Graph 1.3, the number of IFC projects in IDA has grown significantly over the last decade, from 67 in FY03 to an estimated 235-260 in FY12 at an FY03-12 CAGR of 16%, compared to a CAGR for non-IDA projects over the same period of 9%. IFC has also significantly increased the number of IDA countries in which it invests, from 29 in FY05 to 56 in FY11.

Graph 1.3: IFC's Number of Commitments – IDA v Non-IDA



C. Advisory Services

1.20 Advisory Services (AS) are an increasingly important tool for IFC to deliver its development mandate. Management has introduced wide-ranging reforms since 2006 to strengthen the impact and effectiveness of the AS business. IFC's strategy for AS forms an integral part of IFC's overall strategic directions as laid out in the *IFC Road Map, FY13-15,* and an annual update on AS-specific issues is provided separately to the Board.[7]

Program Directions

1.21 Following a consolidation period to help embed recent reforms, AS resumed measured growth in FY12, with expected total spend of $354 million. FY12 spending remains in line with this projection. In calendar year 2011, Development Effectiveness ratings reached 69%, up from 67% in 2010 and 63% in 2009, while client satisfaction remained strong in FY11 at 87%.

1.22 Over FY13-15, Management will maintain the momentum of recent reforms which have strengthened the focus and impact of the AS business. Further strengthening of results measurement, talent planning and financial management will be a major focus in FY13, alongside a special emphasis on defining and refining efficiency and productivity metrics for AS. Total AS spending is projected to increase at an average of around 7% annually over this period, reaching around $381 million in FY13 and $431 million in FY15.

1.23 IDA countries remain the primary AS focus, continuing to account for over 60% of the AS program through FY15. Fragile Situations will also continue to be a major focus area, accounting for around 16% of the program.[8] Climate change will continue to be given greater emphasis, increasing from less than 10% of the program in FY10 to 16% in FY12 and around 25% by FY15. The AS strategy will also result in Sub-Saharan Africa and South Asia accounting for nearly half of the total AS program by FY15. The Access to Finance and Investment Climate business lines will continue to dominate.

[7] IFC Management provided its last Annual Update on Advisory Services to an Informal Meeting of the Board in July 2011, and plans to provide a similar update on progress in FY12 in early FY13.

[8] Based on World Bank list of Fragile Situations as of July 2011.

Progress in Strengthening the Funding Model for Advisory Services

1.24 The funding model for Advisory Services draws on contributions from donors, clients and IFC. As part of IFC's *FY11 Business Plan & Budget,* the Board endorsed Management's four-prong strategy for strengthening the AS funding model: (a) Strengthening donor contributions; (b) Strengthening client contributions; (c) Better leveraging, and partially mainstreaming, IFC's contributions; and (d) Implementing further improvements to financial management systems and processes. Progress in implementing the strategy during FY12 is outlined below.

1.25 ***Strengthening donor contributions.*** Ongoing efforts to enhance the role of donor contributions focus on strengthening the strategic management of key donor relationships while actively developing new partnerships with corporate, philanthropic and other non-traditional partners. While the external funding environment remains challenging in the wake of the global financial crisis, progress in FY12 has been encouraging. Donor/partner commitments reached $252 million at the end of FY12 Q3, which exceeds initial projections for FY12 by 15% and is nearly 50% more than the same period in FY11. Given the close fit between the AS component of IFC's strategy and donor priorities, and the deepening of key relationships, Management is confident that donor partners will continue to be a substantial AS funding source for the foreseeable future.

1.26 ***Strengthening client contributions*****.** While IFC has sought client contributions for some advisory products for many years, in 2007 the Corporation adopted a pricing policy intended to apply consistent principles across all AS. The main goals of the policy are to ensure any subsidy embedded in AS pricing is justified by the public benefits involved and to use client contributions as a tool for strengthening client commitment to implementation. Reflecting these goals, the policy recognizes contributions made directly to project implementation in addition to fees paid to IFC. IFC remains the pioneer among IFIs in adopting a comprehensive approach to pricing advisory services; most IFIs continue to provide such services solely on a grant basis although some are considering adopting pricing models similar to IFC's.

1.27 The benefits of the new pricing policy are becoming increasingly clear. The Independent Evaluation Group (IEG) has reported that projects involving client contributions tend to be more successful, and client surveys also show that clients who contribute to projects report higher levels of satisfaction. FY12 saw further progress in implementing the policy. In the first half of FY12, 95% of newly approved projects included client contributions in some form, up from 87% in FY10. Clients were projected to contribute 40% of total costs of these projects, including 33% in cash fees to IFC (up from 26% in FY10). Client contributions realized by the time of project completion now exceed the projection, amounting to 46% of total project costs for projects closed in the first half of FY12.

1.28 Given IFC's focus is to address market failures and achieve strong development impact Advisory Services cannot be funded from client contributions alone. A subsidy element is, therefore, inherent in almost every AS project. The level of subsidy is determined case-by-case based on an assessment of the balance of private and public benefits involved. IFC is mindful that an undue emphasis on maximizing client contributions could be problematic. In particular, such a strategy could skew project selection in favor of those that generate a larger share of private benefits and a lower share of public benefits, reducing IFC's development impact. It could also raise questions over IFC's role and additionality vis-à-vis private sector service providers.

1.29 ***Better leveraging and partially mainstreaming IFC's contributions****.* IFC's contributions to AS are important to mobilize donor contributions and to pursue strategic initiatives in areas where donor support has not yet crystallized. IFC currently contributes around 44% of total AS costs, or an estimated

$154 million in FY12. By actively pursuing new donor partnerships and consistently applying its pricing policy, IFC expects donor and client contributions to its AS programs to increase, thereby reducing IFC's contribution to around one third of the costs of the AS business in the medium- to longer-term; this is discussed more fully in para 5.78.

1.30 In FY12 IFC began rolling out the first phase of its plan to partially mainstream IFC's financial contribution to AS following Board approval of the plan as part of *IFC's FY12 Business Plan & Budget.*[9] The plan involves shifting funding for designated "backbone" staff positions from FMTAAS and Trust Fund Administrative Fees to IFC's administrative budget. Phase one was implemented in FY12 covering 49 staff positions with funding of $22 million. A second phase drawing on lessons learned from implementing phase one will be prepared during FY13 for proposal to and discussion with the Board as part of the FY14 budget process.

1.31 ***Strengthening AS financial management systems.*** To complement and reinforce the above measures, IFC is continuing to strengthen financial management systems and procedures for the AS business. During FY12, priority was given to two main measures:

- *Streamlining and re-engineering AS financial management processes and systems*: The goal is to improve AS budgeting, internal and external funds management (including AS client contributions), and AS management reporting. A major study covering these areas was launched in FY11 to map existing processes and systems, blue-print future processes, and match them to system solutions available in the market. Based on this study, IFC proposes to upgrade its financial management systems and processes for AS, beginning with budget control, funds management, and budget forecasting. This upgrade is included in IFC's proposed capital budget for FY13 (see para 5.89).
- *Cost allocation methodology*: A major initiative to achieve consistent approaches to the allocation of costs across projects, regions and business units was launched in FY11. The first phase, rolled out in FY12, focused on allocation of staff time and direct costs. The second phase, to be rolled-out in FY13, will focus on consistent allocation of overhead expenses.

D. AMC

1.32 AMC is the third pillar of IFC's value proposition to clients. It augments IFC's traditional mobilization for clients by providing a vehicle for third-party investors to invest in IFC projects while benefitting from the rigorous financial, social and environmental standards through which IFC filters its investments. AMC is discussed in detail in Section IV. The following provides an update on the status of AMC Funds in FY12.

1.33 As of March 31, 2012, AMC manages approximately $4.2 billion across three funds: (i) the $3 billion IFC Capitalization Fund LP (CapFund), consisting of an Equity Fund (EF) and a Subordinated Debt Fund (SDF); (ii) the $1 billion IFC African, Latin American and Caribbean Fund, LP (ALAC Fund); and (iii) the $182 million, Africa Capitalization Fund, Ltd. (AfCapFund). To date, AMC has made investment commitments on behalf of the funds it manages of approximately $1.55 billion in 22 transactions, some involving investments by more than one fund.

[9] *IFC's FY12 Business Plan & Budget, paras 4.79-4.87.*

1.34 Since inception, the CapFund has made commitments to 11 banks for a total of $1,189 million; the ALAC Fund has made 12 investments for a total of $349 million; and the AfCapFund has made two investments for a total of $12 million. During the first three quarters of FY12, the CapFund committed a total of $218 million to two banks; the ALAC Fund committed a total of $177 million to five projects; and the AfCapFund committed $7.5 million to one bank.

Table 1.2: Cumulative AMC Fund Investments as of March 31, 2012

US$ millions

	AMC Fund Investment					**IFC Investment**		**IFC + AMC**	**Country/Region**
	EF	**SDF**	**ALAC**	**AfCap**	**Total**	**Parallel**	**Other†**		
Banco Continental	20.0				20.0			20.0	Paraguay
Komercijalna Banka	60.9				60.9			60.9	Serbia
Banco de Oro	127.5				127.5	22.5		150.0	Philippines
Bank South Pacific	53.3				53.3	53.3	30.0	136.6	Papua New Guinea
Heidelberg Cement			35.0		35.0	110.0	70.0	215.0	Africa Region
Ecobank	56.4	75.0	18.8		150.2		15.5	165.7	Africa Region
First Bank of Nigeria			12.5		12.5	37.5	50.0	100.0	Nigeria
Guaranty Trust Bank			7.5		7.5	22.5	170.0	200.0	Nigeria
Guardian Holdings Ltd.‡			18.8		18.8	56.3		75.0	Trinidad & Tobago
City Express			30.0		30.0	20.0		50.0	Mexico
Vietinbank	124.0	125.0			249.0	55.6		304.6	Vietnam
Vietinbank (rights issue)	10.8				10.8	5.3		16.1	Vietnam
Ahli United Bank	125.0	165.0			290.0			290.0	Bahrain/MENA
Banco Fibra			49.9		49.9	49.9	30.0	129.8	Brazil
Fichosa	32.0	38.0			70.0			70.0	Honduras
NBS	6.0			4.0	10.0			10.0	Malawi
Medanito			24.0		24.0	24.0		48.0	Argentina
African Railways Limited			20.2		20.2	10.1	32.0	62.3	Kenya/Uganda
Bank Muscat		170.0			170.0			170.0	Oman
Sura Holdings			75.0		75.0	125.0		200.0	Colombia
Saham Finance			47.5		47.5	71.1		118.6	Africa Region
Rialto Energy			10.0		10.0	10.0		20.0	Cote d'Ivoire
UT Bank				7.5	7.5	7.5		15.0	Ghana
Total	**615.9**	**573.0**	**349.2**	**11.5**	**1,549.6**	**680.6**	**397.5**	**2,627.7**	

† *"Other" signifies IFC investments that are in different investment products than AMC's investments (i.e. not a parallel investment in the same security).*

‡ *IFC converted a $50 million loan into equity and invested $6.25 million of new equity. The ALAC Fund provided $18.75 million of new equity.*

E. World Bank Group Cooperation

1.35 Cooperation with other WBG institutions is an integral part of IFC's business model. Cooperation has strengthened in recent years, and is an important part of achieving IFC's current strategic and corporate goals. As the recognition of the private sector as an engine of development had grown, so too have the opportunities for all the members of the WBG to work together to maximize development impact. This topic was more fully discussed at the Spring Meetings with the Development Committee paper *World Bank Group Innovations in Leveraging the Private Sector for Development: A Discussion Note*.

1.36 IFC continues to build on the past close cooperation in the areas of strategy, policies and systems, as well as on individual country programs and projects. In the first three quarters of FY12, IFC committed 14 joint investment projects for a total of $284 million, of which 8 projects for $111 million were in IDA countries. Of these, twelve joint projects for $201 million were committed under the IFC-

MIGA Business Development Partnership Agreement, which has proven to be a successful example of WBG cooperation. Furthermore, IFC had a portfolio of 98 active joint advisory projects. The design and implementation of joint Country Assistance Strategies (CASs) and the related programmatic approaches remain key areas of cooperation, and around 50% of CASs are joint. During the first three quarters of FY12, IFC was actively engaged in 13 joint CASs and in seven other CAS-related activities, such as Interim Strategy Notes and CAS Progress Reports.

1.37 IFC and other WBG members will continue to work together on strategies and programs in key sectors, such as:

- The **financial sector,** where, for example, the joint WB-IFC Financial and Private Sector Development vice presidency provides a strategic and operational link between WB and IFC activities in financial market and investment climate reforms, and serves as an important catalyst for IFC activities in these areas;
- **Agribusiness**, including around the Agribusiness Strategic Action Plan, the FY13-15 World Bank Group Agriculture Action Plan, development of a platform for food safety, the G-20/WBG Global Agribusiness and Food Security Program (GAFSP), and the Responsible Agro-Investment initiative;
- **Infrastructure**, where a new WBG infrastructure strategy was completed in late 2011.

1.38 In addition, WBG members will continue to work together on cross-cutting themes, such as private sector development, investment climate reform, public-private partnerships, and climate change, as well as in regional and country strategies.

F. Human Resources

1.39 Since FY05, IFC's headcount has increased by 51%, growing from 2,433 to 3,670 at the end of the third quarter of FY12. IFC experienced its strongest growth in staffing levels from FY05 to FY08, when the number of employees increased by approximately 11% per annum (from 2,433 to 3,325). From FY09 to FY11, IFC's Management Team shifted the staffing strategy from managing growth to responding to new market realities and business needs, with a focus on increasing productivity and shifting resources closer to clients. Headcount remained virtually unchanged during this period reaching a total of 3,438 staff at FY11-end. The increase in headcount to 3,670 at FY12 Q3-end (7% growth) is largely the result of delayed recruitment in FY11 related to the 2013 reorganization. In FY13, IFC's workforce is expected to grow in strategic job streams and functions. Building on the experience of FY11 and FY12, Vice Presidents will manage their own headcount levels with quarterly reporting to the IFC Management Team.

Table 1.3: IFC Staff Counts

	Headquarters	Country Offices	Total	CO as % of Total
Investment & Corporate Support				
FY10-end	1,310	975	**2,285**	43%
FY11-end	1,301	1,048	**2,349**	45%
FY12-Q3	1,390	1,163	**2,553**	46%
Advisory Services				
FY10-end	234	835	**1,069**	78%
FY11-end	235	854	**1,089**	78%
FY12-Q3	258	859	**1,117**	77%
Total Staff				
FY10-end	1,544	1,810	**3,354**	54%
FY11-end	1,536	1,902	**3,438**	55%
FY12-Q3	1,648	2,022	**3,670**	55%
FY12-end (forecast)	**1,679**	**2,082**	**3,761**	55%

1.40 IFC maintains its strategic objective of operating closer to its clients in an effort to better serve them and increase development impact. As a result of IFC's deliberate efforts, 55% of staff are currently located outside Washington DC, compared to only 44% in FY05. Reflecting IFC's commitment to increasing its role in IDA countries, staff presence in IDA countries has increased from 384 to 732 since FY05, and the number of IFC offices in IDA countries grew from 41 to 53 during the same period. One of IFC's priorities for growth in the field, particularly in IDA and Fragile Situation countries is ensuring adequate representation of senior staff with sufficient tenure with the organization ("culture carriers") to on-board and mentor new staff, ensure transfer of skills and know-how, and maintain a strong corporate culture. As of March 31, 2012, 24% of staff members in the field are GG+ with more than four years tenure at IFC, compared to only 13% as of FY08-end.

1.41 Diversity and Inclusion (D&I) remain key areas of strategic importance for IFC. IFC’s growth and decentralization strategy fueled improvements against most D&I Compact and Board diversity targets, as recruitment efforts emphasized diversity among new recruits. While IFC has shown overall positive trends, challenges in achieving some targets remain, with the most pronounced gaps in Nationalities of Focus (NOF), due to the change in the NOF list,[10] and women managers where the gap to goal is 40 staff member to move from 30% to the 50% goal.[11] This gap can be partly attributed to the recent increase in the target for women managers from 28% to 50% in FY09 to further promote gender parity in the World Bank Group. To track development of the leadership pipeline for managerial positions, IFC’s indicator for professional women now focuses on GG-GH women, versus GF-GG in the previous compact.

[10] The following nationalities are no longer NOF: Germany (54 GF+ staff as of FY12 Q3), Turkey (50), Egypt (42), Italy(30), Argentina (28), Indonesia (18), Morocco (9), Thailand (3) and Romania (5)

[11] Assumes constant population size

Table 1.4: Diversity & Inclusion at IFC

		Target	FY10	FY11	FY12 Q3	**Gap to Goal*** (# of Staff)
Sub-Saharan Africa and Caribbean GF+ Staff	HQ & CO Appt	12.5%	10.4%	10.7%	10.8%	41
	HQ Appt (net)	10%	8.9%	9.0%	8.6%	20
Women Professionals (GG-GH)†		40%	34.4%	35.6%	37.5%	39
Part II GH+ Women		10%	8.7%	9.2%	10.5%	
Women Managers‡		50%	28.3%	26.9%	30.0%	40
Part II Managers		40%	33.7%	34.6%	36.25%	7
NOF GF+		25%	24.9%	24.5%	15.5%	225

Net Staff = all non-coterminous regular staff.
*Assuming constant population size. Source: HR Query, data only includes Coterm and Net staff.
†New indicator to enhance pipeline for managerial positions.
‡Stretch target in the President's gender parity initiative.

Strategic HR Objectives

1.42 To support IFC's operations and ensure that the organization works together for the benefit of its ultimate stakeholders, IFC is investing in its talent and supporting staff development in specific ways:

1.43 ***Strengthening Leadership Development and Talent Management.*** IFC is now in the fourth year of an annual talent review process where staff are evaluated vis-à-vis their potential contributions to the corporation. In FY12, this process has been further strengthened to include steps to identify mobility opportunities for staff, thereby better enabling organizational succession planning. This process is also instrumental to identifying Leadership Development program needs for the organization. These programs have been scaled up by 66% in FY12 to reach a total of 53 sessions (761 planned participants).

1.44 ***Strengthening Performance Management and supervisory skills.*** IFC enhances staff management by building the capacity of supervisors in its Performance Evaluation Process (PEP). IFC is now scaling up its Team Leaders Training, designed to enhance the management skills of these supervisors. This also mitigates the institutional risk for staff working in small country offices. In FY13, IFC will continue to strengthen Performance Management with a focus on enhancing the objective setting and mid-year review process.

1.45 ***Improving global relocation support***. IFC has taken steps in FY12 to improve global relocation support by recruiting fully dedicated mobility coordinators in each regional office and undertaking a comprehensive review of current third-party services and providers. The number of relocation support beneficiaries is planned to increase by 17% in FY12 (283 up from 241 in FY11).

1.46 ***Supporting the Compensation & Benefits Review Steering Committee.*** IFC works closely with the Bank in the Compensation and Benefit Framework review for the WBG. This includes the review of mobility benefits, which is being undertaken in two phases. Phase I, targeted for FY13 implementation, focuses on providing enhanced mobility benefits to staff recruited into local positions outside their home country. Phase II will consist of a more comprehensive review, including mobility strategy and the review of other elements of the mobility framework such as extended assignment benefits, short/term development assignment benefits and mobility premium for staff hired into internationally recruited positions at HQ.

1.47 ***Broadening the focus and scope on diversity and inclusion***. IFC's strong presence in country offices broadens the scope and importance of diversity and inclusion. In FY12, IFC has emphasized the importance of micro-diversity by deliberately tracking non-nationals in its country offices.

1.48 ***Further developing HR capacity to support the business***. In FY12, IFC has developed an on-boarding and learning program designed to strengthen core HR skills. IFC is currently taking additional steps to further develop its HR capacity with a focus on improving client service and enhancing, in partnership with line management, (i) accountability for people development, (ii) mobility support, and (iii) incentives framework.

PERFORMANCE-BASED VARIABLE PAY PROGRAMS

1.49 IFC's performance-based variable pay programs, anchored in external best practice and adapted to suit the needs of a public sector organization, have been a fundamental building block of IFC's HR and total remuneration strategy. IFC has developed these award programs over time to reward top performers and behaviors that model corporate values such as excellence, commitment, integrity, teamwork, and diversity. By aligning its awards programs with strategic priorities, IFC ensures that corporate priorities are linked to staff performance throughout the organization.

1.50 The variable pay programs not only offer the opportunity to recognize and differentiate top performers, but also help to address competitive market pressures. These pressures are amplified by the fact that WBG salaries are aligned against a single payline, anchored at the 75th percentile of both public and private sector organizations, to broadly reflect occupational functions for the group as a whole. The single payline approach fails to acknowledge significant market differentials for critical workforce segments such as investment and core finance functions. While IFC's variable pay programs cannot and are not intended to compete with private sector bonus schemes in terms of payout potential, they at least partially address this gap and reflect the IFC's private sector oriented culture. For FY13, IFC is requesting $12.36 million to fund its variable-pay programs ($4.79 million for its Performance Awards Budget and $7.57 million for its Long-Term Performance Awards budget).

II. FY13 Business Plan

A. DEVELOPMENT IMPACT

2.1 **Development Impact and Poverty Focus.** IFC's clients will continue to deliver development impact through activities that support inclusive and sustainable growth as a means to reduce poverty. As more fully described in the Supplement to IFC's Road Map, IFC is working to sharpen its poverty focus in a number of ways. As a first step, IFC Management agreed a Poverty Action Plan, which is now being refined and implemented; it includes outlining a multi-dimensional operational poverty focus, better understanding the transmission links to poverty reduction (whether direct or indirect), and continuing to refine the thinking about a possible expansion of the frontier concept to focus on the needs of the poor regardless of location. IFC's current indicator framework measures the opportunities available by way of access to goods, services and employment opportunities. However, it has been challenging to capture what part of this access is available to the poor. The Poverty Action Plan therefore also contemplates that DOTS be strengthened to ensure that the emerging poverty links are better captured through relevant poverty-related indicators whenever it is appropriate to use targeted tracking indicators. Existing indicators will be reviewed during the course of FY13.

2.2 IFC will continue to measure and report on its clients' development results through DOTS, for IS, AS and the AMC. IFC is concluding the second year of refining the IFC Development Goals (IDGs), and in FY13 is expecting to start full implementation of two IDGs: IDG2 on access to health and education services, and IDG3 on access to financial services for micro/individual and SME clients. Box 2.1 summarizes the current status and the aspirations for FY13-15.

Box 2.1: IFC's Development Goals – Illustration of Work In Progress

IFC is currently testing the following six Development Goals (IDGs) with provisional targets for FY13-15. IFC will support projects that:

IDG		Unit	FY11 IDG Targets	FY11 IDG Contributions	Target (FY13-15)
1.	Increase or improve sustainable farming opportunities for:	Million people	0.1	1.1	2.6
2.	Improve health and education services for:	Million people	1.7	2	6.4
3.	(a) Increase access to financial services for micro/individual clients for:	Million clients	16.9	22.9	45.3
3.	(b) Increase access to financial services for SME clients for:	Million clients	0.6	0.4	3.1
4.	Increase or improve infrastructure services for:	Million people	18.0	40.3	46.5
5.	Gross Value Added	$ million	N/A	N/A	N/A
6	(a) Greenhouse Gas Emissions Reduced*	(tCO2 eq/yr)	N/A	N/A	16.2

Note " FY11 Contributions" refers to IFC's progress in signing or committing projects that during implementation are expected to achieve the anticipated development results.

Based on experience during FY11, targets for IDGs 3 and 4 were subject to methodological revisions, IDGs 5 and 6 were replaced by new metrics, with the IDG 5 still at the initial pilot stage with no targets. Herewith more detail:

IDG 1 – IFC is exploring complementing the indicator of farmers reached, with additional indicators that might better capture the objectives of the Agribusiness Strategic Action Plan.
IDG 2 – No changes
IDG 3 – The revised IDG being tested in FY12 includes additional services, such as deposits, housing finance and insurance
IDG 4 – The methodology was amended to take better account of electricity from power projects that goes to commercial use
IDG 5 – The revised IDG being piloted by in two regions in the Manufacturing, Agribusiness and Services Industry Group measures the gross value added by IFC's clients to their economies. GVA is the difference between revenues and costs, disaggregated into payments to different stakeholders - payments to employees, capital providers, governments (including taxes), local communities and the economic value retained in the companies. This goal replaces the previous IDG 5 on MSME Revenues.
*IDG 6 – The interim FY11 volume goal was replaced with a goal on emissions reductions, being tested in all regions in FY12. An additional sub-goal, IDG 6(b) on GHG intensity, is being piloted in three regions in FY12.

The expected timeline for IDG implementation, revised since last year's Road Map to allow more time for learning :

- FY12: Continued testing/piloting of goals
- FY13: First IDGs (Health & Education; Financial Services) to be implemented
- FY14: Tentative: move to full implementation of the remaining four IDGs

B. Crisis Response Approaches

2.3 There is continued economic and political uncertainty in the world, and the impact of this difficult market environment has not yet been fully felt in many sectors and regions. IFC is already seeing an increase in demand, and it is likely that the number of client requests will increase into FY13. Incorporating lessons learned from the 2008-09 crisis, and as more fully described in the Supplement to *IFC's Road Map, FY13-15*, IFC has already stepped up its solutions for clients, primarily in the areas of trade and commodity and SME finance and through targeted AS, and these responses are likely to continue into FY13. IFC is also continuing with pro-active portfolio management. In addition, it is closely monitoring capital usage to ensure that it has rapid response capacity and can maximize development impact in the event of a significant deterioration in the external environment.

2.4 Should there be a significant deterioration in the external environment, and as described in more detail in the Supplement to the IFC Road Map, IFC will implement a comprehensive investment and advisory counter-cyclical response, in conjunction with other members of the WBG, IFIs and other partners, taking account of any deterioration in its own capital position as a result of such a downturn. IFC stands ready to deploy and/or scale up an array of crisis-related mechanisms and approaches in response to increased and evolving client demand, without losing sight of its long-term strategic focus areas and the importance of ensuring its financial sustainability.

2.5 Broad IFC crisis response categories in a significant downturn include:

- Ramping up IFC's trade and commodity finance crisis response programs;
- Substantially stepping up long-term debt and risk mitigation to banks to sustain and increase SME lending;
- Responding to corporates' shift to medium-term finance;
- A significantly enhanced equity focus; and
- Stepping up IFC's AS response.

2.6 There could also be specific regional responses, such as in the ECA region where IFC is ready to increase investment volume by up to $2 billion by the end of FY13 as part of the WBG initiative announced recently.

C. INVESTMENT SERVICES

2.7 IFC will continue to pursue its own-account investment program growth within its projected capital and budget resources, directing these resources to where development impact is greatest, while also ensuring its financial sustainability. It will use effective capital utilization as a guide to help develop the level and mix of its business, while also considering impacts on its portfolio and profitability. Table 2.1 below presents the key areas of total commitments, number of projects and portfolio for FY09 through projected figures for FY13.

Table 2.1: Key Investment Program Metrics FY09-FY13P
US$ millions

	FY09	FY10	FY11	FY12E		FY13P	
				low	hi	low	hi
Total Commitments (incl. mobilization)							
LTF (incl. mobilization)	12,129	14,577	14,007	13,700	15,800	15,500	17,500
GTFP	2,380	3,464	4,653	4,800	5,200	5,500	6,500
Total	**14,509**	**18,041**	**18,660**	**18,500**	**21,000**	**21,000**	**24,000**
Number of Projects							
LTF	309	363	326	330	355	350	375
GTFP	138	165	192	195	210	210	220
Total	**447**	**528**	**518**	**525**	**565**	**560**	**595**
o/w IDA	225	255	251	235	260	255	275

2.8 The FY13 business plan calls for total commitments of $21.0 to $24.0 billion in 560 to 595 projects; this represents an increase of around 14% in total volume and 6% in project count above expected FY12 levels based on the midpoints of the ranges (midpoints are the basis for growth rates described in this paper).

2.9 Following the decline in mobilization in FY12, mobilization is projected to reach $5 to $6 billion in FY13, a 10% increase above expected FY12 levels, although this is below the level expected at the time of the IFC Road Map due to the changing market conditions. Syndications, the main component of Core Mobilization, are expected to gradually increase in FY13 in line with the macro-economic outlook. FY13 AMC mobilization is expected to range between $700 million and $1.1 billion, a nearly 60% increase above expected FY12 levels. Additional FY13 mobilization volumes are expected to come from the CCFP, GTLP and PPPs.[12]

2.10 IFC is also considering adding blended finance programs to its definition of Core Mobilization. In the context of IFC, "blended finance" refers to financing provided to a project at below market terms, due to the complementary use of concessional funds with IFC's own resources (also known as 'blending')[13]. Donor funds for investing alongside IFC's own have grown over the last few years, and now include funds for catalyzing projects in the areas of climate change, SME finance and agribusiness[14]. On March 15, 2012, IFC presented to the Board a paper entitled, "*Blended Finance at IFC: IFC's Approach to Blending Concessional Funds*" which formalized IFC's approach to managing and deploying concessional funds alongside its own. As described in detail in that Board Paper, IFC's approach to deploying and structuring these types of funds is within strictly defined principles which ensure additionality and adherence to IFC's comparative advantages, and within a strong governance and monitoring and evaluation framework.

2.11 The Business Plan calls for 255 to 275 projects in IDA countries in FY13, which would represent 45-50% of overall IFC investment projects, compared to 235 to 260 projects in IDA countries in FY12, also 45-50% of overall projects. LTF projects in IDA countries are projected to be 50-60% of all IDA projects.

2.12 IFC is projecting GTFP commitments of $5.5 to $6.5 billion in 210 to 220 projects in FY13; this represents an increase of 20% in volume above expected FY12 levels. FY13 LTF own-account volumes are expected to range between $10.5 and $11.5 billion, an increase of 13% with respect to expected

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[12] Beginning in January, 2012, IFC also recognizes PPP Mobilization as Core Mobilization, defined as non-IFC, non-government portion of financing made available for PPP project due to IFC's mandated lead advisor role to national/local government or other government entity/parastatal. Recognition of such amount only upon: (i) in case of asset sales, signed documents requiring payment to government of acquisition price; or (ii) successful financial closure when all necessary financing documents are signed by private sector winning bidder, its financiers and government, as applicable. In this category, there is potential for non-linear volatility in high and low amounts depending on the size and scale of the relevant PPP project activity.

[13] The term "concessional" has a particular definition in the context of Overseas Development Assistance (ODA), and implies a minimum grant element of 25%. Many funds IFC blends with its own are sourced through donor's ODA budgets and are considered "concessional" by the donors. However, it is not always appropriate or necessary to provide a 25% implied subsidy to private sector projects, and IFC's approach to blending aims to minimize the subsidy element to only what is needed to catalyze the investment. IFC has chosen to use the term "blended finance" to describe use of these concessional funds to avoid confusion with the term "concessional finance" in the context of ODA.

[14] IFC will pilot the approach for blending concessional funds in the areas of SME Finance, Agribusiness and Food Security and Climate Change. In the area of SME Finance and Agribusiness, projects benefiting from concessional funds will be in IDA, fragile or frontier regions.

FY12 levels[15]. FY13 equity volumes are expected to be around 25% of own-account LTF, the same share as projected for FY12, with the goal of an increase in future years.

2.13 An indicative breakdown by Region of the FY12 Estimate and the FY13 Plan is shown in Table 2.2.

Table 2.2: Total Commitments by Region

US$ billions

	FY11 Actual			FY12 Estimate			FY13 Projection		
	IFC	Mob	Total	IFC	Mob	Total	IFC	Mob	Total
East Asia & Pacific	1.9	0.9	2.8	2.2 – 2.5	0.6 – 0.8	2.8 – 3.3	2.3 – 2.7	0.9 – 1.0	3.2 – 3.7
Europe & Central Asia	2.7	1.6	4.3	3.0 – 3.3	0.8 – 1.0	3.8 – 4.3	3.1 – 3.5	0.7 – 0.9	3.8 – 4.4
Latin America & Caribbean	3.0	2.2	5.3	3.2 – 3.4	1.4 – 1.6	4.6 – 5.0	3.5 – 3.7	1.7 – 2.0	5.2 – 5.7
Middle East & North Africa	1.6	0.8	2.4	2.0 – 2.2	0.6 – 0.7	2.6 – 2.9	1.9 – 2.2	0.5 – 0.6	2.4 – 2.8
South Asia	0.7	0.3	1.1	1.2 – 1.4	0.4 – 0.5	1.6 – 1.9	1.5 – 1.9	0.4 – 0.6	1.9 – 2.5
Sub-Saharan Africa	2.2	0.6	2.7	2.4 – 2.7	0.7 – 0.9	3.1 – 3.6	3.3 – 3.6	0.9 – 1.0	4.2 – 4.6
World	0.1	-	0.1	- – -	- – -	- – -	0.4 – 0.4	–	0.4 – 0.4
IFC	**12.2**	**6.5**	**18.7**	**14.0 – 15.5**	**4.5 – 5.5**	**18.5 – 21.0**	**16.0 – 18.0**	**5.0 6.0**	**21.0 - 24.0**
o/w IDA	**4.9**			**4.9 – 6.0**			**5.6 – 7.0**		

2.14 **Sub-Saharan Africa** has been the fastest-growing region in the last few years, with a compounded annual growth rate (CAGR) of 25% over FY08-FY12E in total commitments (including mobilization) and a CAGR of 17% over FY08-FY12E in own account commitments. The region is projected to account for around 20% of own account commitments in FY13 (18% in FY11) and around 19% of total commitments in FY13 (15% in FY11). IFC will aim to maintain momentum in infrastructure investment levels, building on the growth in FY12. IFC will continue to leverage financial markets activity with trade finance to support the pull back of other financiers in some markets due to greater risk aversion by major banks, and to provide entry into more challenging markets. IFC aims to expand agribusiness, with a focus on major intermediaries, support for food and cash crop finance through banks, and project finance. Continued large mobilization amounts in natural resources are unlikely in FY13.

2.15 The projected **MENA** program is a reflection of the current uncertainties in the region which are likely to impact the FY13 program. FY12 is a successful year for IFC in a very challenging environment, and IFC expects the FY13 program to be relatively flat. The macroeconomic and policy environment is still volatile and is affecting business development. Furthermore, should macroeconomic vulnerabilities increase and political transition be prolonged, IFC's program could be lower than the historical trend.

2.16 In **Europe and Central Asia**, IFC expects to maintain a significant program of around $3 billion for its own account in FY13. In the event that market demand for IFC investments increases in financial crisis-affected markets, IFC's commitments for its own account would likely increase. Expected mobilization in FY13 is lower than previous estimates, as a result of ongoing turmoil in financial markets, particularly in the home markets of traditional syndication partners. In several of the region's small IDA countries, IFC has maximized its financial markets exposure, while opportunities in the real sector often have longer lead times. IFC plans to promote public-private partnerships in infrastructure in the face of scaled-down government investment plans across the region, facilitate the flow of goods through trade finance, and support MSME access to finance and financial sector stability in light of deleveraging and higher risk aversion in some markets. IFC will also promote competitive and export-oriented industries

[15] For the purposes of this Paper, LTF includes the traditional long-tenor products of equity and long-term debt, as well as Trade and Supply Chain products such as the Global Warehouse Finance Program (GWFP), the Global Trade Liquidity Program (GTLP) and Critical Commodities Finance Program (CCFP).

and South-South investment, build competitiveness in the agribusiness sector, including through supply chain and commodity finance, and maintain focus on improving resource efficiency and increased use of renewable energy.

2.17 **Latin America and the Caribbean** continues to be the largest region in terms of volumes, with its share of own account commitments relatively flat at around 21%. The expected increase in mobilization is mostly due to new trade and supply chain products and an increased leverage use of the AMC as part of its equity strategy. Foreseeable challenges to the program include increasingly challenging investment environments due to a series of internal and external factors, indirect impact of policies adopted to prevent further appreciation of currencies and maintain competitiveness thus hampering short and medium-term capital flows, and remaining overall effects of the global crisis with effects on the financial sector as well as FDI in the real sector.

2.18 **East Asia and Pacific** is projecting to have a relatively stable program in FY13, focusing on the strategic priorities of climate change, inclusive growth and global/regional integration, including South-South investment. IFC will continue to place a strong focus on building its programs in the IDA countries of the region, and on strengthening South-South from the region, in particular into Africa as a result of the Emerging Markets to Africa South-South initiative approved last year.

2.19 Activity in **South Asia** is projected to further increase in FY13, and IFC will continue building on achievements in the three strategic pillars of inclusive growth, climate change and global/regional integration. Support for financial inclusion in India is an important part of IFC's strategy, which it will continue to support in a variety of activities. In the other countries of the region, IFC will promote economic inclusion by reducing barriers to investments and improving access to finance and supporting infrastructure.

D. ADVISORY SERVICES

2.20 Over FY13-15, total AS spending is projected to increase by an average of around 7% annually, reaching around $381 million in FY13 and $431 million in FY15 with IFC's contributions remaining stable at $154 million. As a result of increased efficiency, spending on projects is expected to increase at a faster rate, with spending on client-facing projects expected to increase from $198 million in FY13 to $260 million in FY15.

2.21 As in the past, IDA countries will remain the primary focus and are expected to continue to account for over 60% of the program through FY15. Fragile Situations will also be a major focus accounting for around 16% of the program.[16] Climate change will be given greater emphasis, increasing from less than 10% of the program in FY10 to 16% in FY12 and around 25% by FY15.

2.22 Within this overall plan, projected spending by region is summarized in Table 2.3. It shows that share of total project spending in Sub-Saharan Africa and South Asia is expected to continue to grow strongly, approaching half of the total AS program by FY15. The regional shares indicated in the table may be subject to adjustment based on regular reviews of business plans. In particular, the level of activity in MENA may increase as a result of efforts to respond to the unfolding situation in the region.

[16] Based on the World Bank list of Fragile Situations as of July 2011.

Table 2.3: Advisory Services Program by Region – Project Spending

	FY11		FY12E		FY13E		FY14E		FY15E	
	$m	%	$m	%	$m	%	$m	%	$m	%
East Asia & Pacific	27	13%	33	14%	34	14%	37	14%	40	14%
Europe and Central Asia	35	17%	35	16%	35	14%	34	12%	36	12%
Latin America & Caribbean	19	9%	21	10%	23	9%	25	9%	27	9%
Middle East & North Africa	16	8%	17	7%	21	9%	26	10%	28	10%
South Asia	23	11%	27	12%	33	13%	38	14%	42	14%
Sub-Saharan Africa	51	25%	59	26%	67	27%	75	28%	82	28%
World	36	17%	34	15%	34	14%	36	13%	36	12%
Total	**207**	**100%**	**225**	**100%**	**248**	**100%**	**271**	**100%**	**292**	**100%**

Note: Includes non-Client- facing project spend and AS funded through Performance Based Grants Initiative

2.23 Planned total project spend by business line is summarized in Table 2.4. The Access to Finance and Investment Climate business lines will continue to dominate.

Table 2.4: Advisory Services Program by Business Line – Project Spending

	FY11		FY12E		FY13E		FY14E		FY15E	
	$m	%	$m	%	$m	%	$m	%	$m	%
Access to Finance	63	31%	73	32%	80	32%	88	33%	95	32%
Investment Climate	56	27%	63	28%	69	28%	75	28%	82	28%
Public-Private Partnerships	28	18%	30	13%	35	14%	37	14%	41	14%
Sustainable Business Advisory	60	29%	60	27%	64	26%	70	26%	76	26%
Total	**207**	**100%**	**225**	**100%**	**248**	**100%**	**271**	**100%**	**292**	**100%**

Note: Includes non-Client- facing project spend and AS funded through Performance Based Grants Initiative.

E. AMC

2.24 In FY13, AMC will continue to manage existing investments and expand the portfolios of the CapFund, ALAC Fund and AfCapFund. AMC is actively fundraising for four new potential funds: the Russia Bank Opportunity Fund (RBOF), Global Infrastructure Fund (GIF), Climate Catalyst Fund (CCF) and Middle East North Africa Fund (MENA Fund). Each of these funds may have its first closing in FY13 and may start making investments in FY13. AMC mobilization in FY13 is expected to be between $700 million and $1.1 billion. Further details are presented in Section IV paras 4.7 to 4.11.

III. IFC's Evolving Organizational Capacity

3.1 IFC has undertaken a conscious effort over the last decade to expand its field presence largely by focusing staff growth in the country offices. The growth of commitment volume, especially in IDA countries, could not have happened without a local presence. Experience has shown that once an investment officer is located in a country commitment volumes immediately rise proving the efficacy of IFC's globalized business model. The Corporation's local presence around the world – 106 offices in 97 countries – leverages IFC's global knowledge while further developing local market expertise and building closer relationships with the Corporation's clients. Client interfaces are better coordinated today than they have ever been. Incidents of multiple uncoordinated outreach by IFC staff to the same client have diminished significantly. This improves the Corporation's reputation and encourages repeat business as clients know that IFC will treat them with consideration and professionalism throughout the Investment or Advisory Services project life cycle. Client relationships are greatly deepened as more frequent face-to-face interaction on an as needed basis replaces more formal periodic visits from headquarters staff that are driven by IFC's internal processes rather than the clients' needs. IFC's local presence proved critical to helping clients through the recent financial crisis which in turn served to maintain the strength of the Corporation's portfolio despite the economic downturn. As new crises loom, IFC will be ready to assist clients and markets through its counter-cyclical role. This role is greatly augmented by having staff in local markets close to clients. IFC's model of expanding staff presence in the field close to clients happened at a cost lower than having grown out of Headquarters. Further expansion of IFC's field presence will be less cost effective but the operational and developmental benefits far outweigh the diminishing cost efficiency of country offices compared to Headquarters.

3.2 As IFC continues to grow its presence around the world, it is important to understand the varied categories of IFC offices which are differentiated based on their role and location-specific attributes. IFC's Headquarters in Washington, DC continues to be the global knowledge center for both Investment Services in the form of senior Industry specific experts and Advisory Services in terms of AS Business Line leaders. World Bank Group cooperation is led from HQ along with Board and Executive Management interactions. The Operations Center in Istanbul promotes both IS and AS business throughout ECA and MENA. All core investment functions take place there with a critical mass of new business and portfolio investment officers as well as critical investment support functions such as credit, Environmental & Social as well as legal. The Operations Center is also the focus of delegated decision making authority outside of Corporate Committees and Board deliberations which must remain at HQ. Smaller Regional Offices drive the regional strategy & business development, represent IFC throughout the Region, and are responsible for integrity due diligence in the region. Staff at a regional office reflects a diverse range of Investment Officers including business development, processing and portfolio specialized by sector. There is some presence of all core investment and support functions, except investment review, to support Investment and Advisory Services staff. These offices also have a concentration of Regional AS management.

IFC's Change Process

3.3 IFC's Change Process has been a key step in an ongoing evolution to ensure that IFC's organizational structure, processes, and incentives are aligned with its strategic priorities. It aims to bring decision making, execution capacity and support functions closer to IFC's clients; as well as increase accountability, strengthen knowledge management and address strains on work-life balance. IFC's Change Process is a means to achieve the globalized operational model which combines strong local capacity with global industry knowledge and careful oversight from the center. This model has helped deliver a steep rise in new investments and allowed the Corporation to more than quadruple the number of investment projects in IDA countries. Overall, the results from the Change Process are positive and cover a number of dimensions. Some of the key highlights achieved since IFC began to actively grow its local presence:

- Increase in total commitment volume with a compounded annual growth rate (CAGR) of 18% since FY03; the CAGR for mobilization was even stronger at 24% for the same period.
- Increase in the number of projects in IDA countries from 67 in FY03 to 251 in FY11. Commitment volumes in IDA countries grew from $783 million to $4.9 billion during the same period.
- Ratio of regular administrative budget to the committed portfolio (dollar cost per $100 of committed portfolio) has decreased from $1.79 in FY03 to $1.42 in FY11.
- While numerous new requirements have been introduced in the investment project cycle (including: Development Outcome Tracking System (DOTS), Integrity Due Diligence (IDD), Green House Gas measurements (GHG), Corporate Governance (CG) standards, IFC Development Goals (IDG) and Environmental and Social standards (E&S)), the total number of days for processing time has fundamentally remained unchanged.
- Improvement in the Quality of IFC's portfolio, as shown by the decreasing ratio of Non Performing Loans, which went from 16.7% at the end of FY03 to 4.4% at the end of FY11. In qualitative terms, this is confirmed by the fact that even when the global financial crisis was at its worst, IFC maintained its financial sustainability.
- Increase in the number of countries where IFC has investments from 64 in FY03 to 102 in FY11.

3.4 Over the past year, IFC's Management Team has openly engaged with staff in an effort to build a more collaborative culture across IFC. Through a consultation process led by three HR related working groups, discussions with more than a third of staff have taken place. This process has been essential in reestablishing a climate of trust and open dialogue across the Corporation. As part of this process, the Corporation recently conducted a Pulse Survey which shows that a large majority of staff feel more positive about how IFC's local presence can improve the quality of services provided to IFC's clients and how further integration between investment and Advisory Services will also contribute to operational efficiencies. The Pulse Survey also indicates that IFC must continue to strengthen staff understanding of IFC's strategy, and engage with staff across the corporation to further identify operational efficiencies in a globalized environment while addressing work-life balance issues.

3.5 There are currently a number of critical areas in which the Management Team remains engaged with staff in terms of the ongoing Change Process: (i) Improving Efficiency in Operations; (ii) Maintaining & Fostering Global Knowledge; (iii) Improving the Effectiveness of the Institution; and (iv) Leveraging People and Talent.[17]

3.6 **Improving Efficiency in Operations.** There are several focused efforts underway to improve the efficiency of investment operations:

a) **Istanbul Operations Center (IOC):** The Istanbul Operations Center has helped address some of the challenges that staff were facing regarding proximity of key staff competencies by bringing management and support staff (such as credit, legal, and environment and social staff) closer to IFC's clients. An initial survey in the EMENA region indicates that staff appreciate the local presence of a strong management team. Additionally, productivity metrics have begun to be

[17] Leveraging People and Talent is addressed in the context of the Human Resources strategy paras 1.41 to 1.52

monitored at the IOC. It is too early, however, to make any conclusive assessment on business results as the effects, and benefits of this phase will take time to fully materialize. IFC expects the first concrete results in FY13 and FY14.

b) **EMENA Portfolio Middle Office:** The Portfolio Middle Office piloted in EMENA has provided portfolio managers and investment staff with a forward looking way of managing operational risks in investment projects. It has provided staff across the region with an opportunity to share best practices, gain practical knowledge of systems and processes, and share lessons on how to mobilize resources more effectively. Both the Istanbul Operations Center and the Portfolio Middle Office in EMENA will continue to focus their efforts on identifying potential areas of improvements that will better leverage investment staff and enable IFC to provide better service to our clients. IFC will continue to strengthen regional capabilities as business needs arise.

c) **Regional Operations Committees (ROCs):** Another model that has been set up across IFC is the establishment of Regional Operations Committees (ROCs) which function like the Corporate Operations Committee (COC) to review and approve non-delegated investment projects. The ROCs perform this role in the regions for projects which meet established criteria such as maximum risk-based investment size. ROCs are currently operational in all Regions. This model transforms decision making into a more strategic process which responds faster to clients' needs and improves the work-life balance for staff. In the past, the COC at HQ reviewed all non-delegated investment projects.

d) **Client Relationship Management:** In May 2011, IFC rolled-out a Client Relationship Management database, which assigns one relationship manager for each of IFC's 3,000 clients and partners, across Advisory and Investment Services in 170 countries of operation. This has allowed the Corporation to be more strategic in its outreach, respond better to client needs, and provide increased coordination, efficiency and professionalism.

e) **Policies and Procedures:** Staff indicate that policies and procedures remain cumbersome at a transactional level. This remains a critical focus area for IFC's Management Team which will continue to engage with staff across the Corporation to further identify operational efficiencies in a globalized environment.

3.7 **Maintaining & Fostering Global Knowledge.** Global knowledge is one of IFC's key offerings to clients. The Management Team has taken successive steps to strengthen knowledge management (KM) over the last three years. In order to maintain its global knowledge and expertise, IFC's Global Knowledge Office (GKO) has built a foundation for professionalizing a knowledge management career stream through a new competency model and has worked to embed knowledge management in operations.

3.8 The GKO continues to support departments and their knowledge management activities, including the establishment of programs to promote vibrant and cross-departmental practice groups, the development of strategies for cross-regional knowledge exchange, and the further assessment and analysis of possible models for the development and leverage of technical expertise across IFC. Additionally, IFC and the World Bank continue to learn from each other and explore common approaches to knowledge retention and expertise through membership on several of each others' committees and practice groups.

3.9 **Improving the Effectiveness of the Institution.** Building and promoting a culture of trust, respect and collaboration among the Management Team, Directors, Managers, and staff remains a key priority across the Corporation. The annual FY11 Leadership Meeting strongly allied IFC's leadership around the concept of working together across functions, geographies and departments to continue to deliver strong developmental and financial results, ensure consistency in quality and impact achieved, and prevent fragmentation of decision making. In January 2012, staff across the corporation gathered to expand their understanding of each team's contribution to IFC's strategy and the World Bank Group's development agenda and how they could work together to achieve their strategic goals.

3.10 IFC's management is focusing its efforts to clearly and consistently communicate IFC's strategy, build consensus, and align staff around a common and compelling vision. In its internal communications, IFC's top priorities include building a strong corporate culture and a unified corporate identity through staff engagement on issues identified in staff surveys. Priorities also include facilitating the dissemination of high-level knowledge that staff need to help the Corporation achieve its strategic objectives.

3.11 The Corporation also conducts a periodic *Investment Client Survey* in order to help IFC better understand investment clients' needs and their satisfaction with IFC's services. It is a comprehensive and cost effective way of learning the needs of clients, and an important input to corporate strategy. This survey differentiates between clients with new projects, and a group of portfolio clients. The FY11 Survey covered clients with a first disbursement on a project during FY11, and clients with a first disbursement on a project during FY08 (the portfolio group). A total of 265 clients responded to the survey (63% response rate). Investment Client Survey results are an important input to the Change Process which IFC's Management Team follows closely. Interim results based on a sample of 107 investment clients surveyed during the first half of FY12, indicates an upward trend in overall satisfaction ratings after several years of gradual decline. The complete FY12 survey is expected to include about 225 clients.

CHALLENGES REMAIN

3.12 The Corporation will continue to face challenges as its globalized model of operations matures. The **time difference** between Washington and some offices will always present a challenge to working relations and will continue to impact staff work-life balance as collaborative meetings will necessarily inconvenience staff at one or the other location. The **costs of country and field offices** will also continue to grow as IFC's field presence expands and the cost of doing business in some cities such as Istanbul, Moscow, Delhi, and Dubai has reached or exceeded costs in Washington. The existing cost advantage of IFC's current field presence can absorb these increases for the foreseeable future. Smaller offices at the sub-regional or country level often **lack a critical mass of senior staff** well versed in IFC's culture and business model. This can create reputational as well as operational risk and is being closely monitored as IFC continues its expansion into IDA countries where it does not make sense to start off with a large staff complement. **Mobility costs** to move staff between offices have also increased as more and more staff move between field offices in addition to the select relocation of senior staff from Headquarters to the field. IFC's Management Team is ready to meet these challenges and remains committed to further expansion in country offices as the benefits to clients and ultimately to IFC's delivery of development impact greatly outweigh the financial costs and functional challenges. The benefits of the expanded local presence can already be credited with helping the Corporation achieve record commitment volumes in the infrastructure sector in Africa as fully described in Box 5.4.

IV. IFC Asset Management Company

A. Overview

4.1 AMC, a wholly-owned subsidiary of IFC, was created in January 2009 to further IFC's mission and enhance IFC's developmental impact by mobilizing and managing third-party funds for investment in developing countries. Today, AMC is an integral part of IFC's value proposition to clients, alongside its traditional Investment Operations and Advisory Services, and is fully integrated into IFC's Strategic Business Planning and Budget Processes. AMC is addressed in this paper to give a full picture of IFC's planned development efforts in FY13. AMC activities are presented for information only as there is no budget approval required from the IFC Board for AMC.[18]

4.2 AMC serves as the manager of funds targeted at institutional investors who are looking to initiate or expand their presence in developing countries, and overcome initial barriers to entry in these markets, and who are also interested in accessing IFC's investment approach, global reach, policy framework and standards, and its resulting superior track-record. Investors in AMC's existing funds represent a balanced mix of institutions by region and investor type. Typically, they are looking to increase their exposure to developing countries and are particularly attracted by IFC's unique footprint, its investment style and approach, its standards, and its track-record of achieving superior financial returns as well as strong development impact. The AMC value proposition is based on two fundamental premises: (i) that there is more demand for IFC's financing services than IFC has capacity to meet from its own balance sheet; and (ii) that there is long-term capital which is interested in investing in developing economies but is not currently finding its way there. By mobilizing this incremental capital to co-invest with IFC on a sustained basis, AMC can simultaneously help investors achieve their investment objectives while assisting IFC in furtherance of its development mandate.

4.3 AMC's purpose is to mobilize and invest third-party capital in productive private enterprises in developing countries, enhancing IFC's development impact by increasing both the size and the number of investments IFC can transact. AMC also improves IFC's financial sustainability by preserving IFC's own capital and increasing IFC's net income (both absolutely and on a risk-adjusted basis), thereby adding to its equity base and its ability to invest more in the future. By giving other investors access to IFC's footprint, pipeline and a track-record of superior returns, AMC can "crowd-in" other capital directly through its investments and indirectly through the strong demonstration effect thereof. AMC also supports IFC's own-account equity business by enabling more transactions, with greater resulting risk diversification for IFC's equity portfolio, and an increased focus on equity business development, funded partly by fees from AMC. All co-investments involving IFC and AMC-managed funds investing in the same security are made pari-passu; and the development impact of investments made by AMC-managed funds is measured in the same way as IFC's own-account investments, using IFC's Development Outcome Tracking System ("DOTS"). IFC clients typically also appreciate having the relevant AMC Fund's investors as indirect investors in their enterprises. In addition, AMC-managed funds can help IFC complete transactions that may not have been possible with IFC own-account funds only. At the portfolio level, AMC helps IFC achieve greater reach and more development impact by enabling it to finance a larger number of transactions, including larger investments it might not

[18] IFC's Board approved $4 million for AMC in November 2008 *(IFC President's Report -Sovereign Funds Initiative-African, Latin American and Caribbean Fund)* and December 2008 *(IFC President's Report-World Region-Proposed Investment in Bank Recapitalization Fund)* for the establishment of AMC and its initial two funds. Of this $4 million, only $2 million has been drawn down and no further approvals are sought at this time since AMC is cash-flow positive.

otherwise have been able to complete, while making more efficient use of its scarce capital. This in turn allows for even stronger relationships with client countries in which it invests. Thus AMC and IFC, together, can have more impact. Furthermore, investors in AMC-managed Funds may also co-invest directly with clients in unrelated IFC projects, thus catalyzing additional mobilization.

B. AMC OPERATIONS

4.4 AMC relies upon IFC for investment sourcing, processing and portfolio supervision services. IFC's contribution is governed by support services agreements associated with each fund that AMC establishes. This process ensures both access to IFC's investment pipeline and implementation of IFC's investment approach, policies and performance standards. IFC's strong investment track record has attracted investors to AMC-managed funds, and it is in investors' interest that consistent implementation of this approach and these policies and standards by both IFC and AMC continue.

4.5 The AMC investment teams work closely with IFC investment teams to ensure that investments meet the parameters of the respective Funds and are structured properly in line with the Funds' requirements (e.g., with respect to tax). AMC staff review transactions and provide feedback to IFC investment teams in order to achieve better outcomes for both IFC and AMC funds. The extent of the AMC team involvement depends on the nature and complexity of the investment and the size of the potential exposure for the Fund in question.

4.6 AMC Fund teams are responsible for constructing a Fund portfolio in line with the respective Fund's investment objectives (e.g., with regard to sector, country, region, single asset, vintage, and listed/non-listed diversification criteria). The Fund teams are also responsible for presenting investment proposals to the respective Fund's investment committee and for performing any additional analysis the investment committee may require. At the end of the third quarter of FY12, AMC had a staff of 38 professionals.

C. NEW FUNDS

4.7 In addition to the existing Funds and their investments, AMC intends to raise additional funds that enhance IFC's impact.

4.8 **IFC Russian Bank Opportunity Fund (RBOF).** Approved by the IFC Board on May 13, 2010, RBOF is targeting investor commitments of up to $1 billion.[19] The Russian Federation has committed $50 million and the State Corporation "Bank for Development and Foreign Economic Affairs" (*Vnesheconombank*), which is affiliated with the Russian Federation, has committed $250 million, in each case through a trust arrangement with IFC. IFC's commitment is 33% of total fund size, up to $250 million. RBOF will make investments in licensed commercial banks, bank holding companies, and other bank-related investment vehicles in Russia, either privately-owned or government-owned on a clear path to privatization.

4.9 **IFC Global Infrastructure Fund (GIF).** GIF was approved by the IFC Board on May 19, 2011.[20] GIF is targeting commitments of $1 billion and will invest primarily in projects and companies that

[19] Russian Federation – Proposed Investment in Russia Bank Capitalization Fund (RBCF)
[20] World Region – Proposed Investment in IFC Global Infrastructure Fund ("GIF")

require capital expansion or new construction (greenfield) and in brownfield infrastructure assets that exhibit growth potential in developing countries. IFC is in discussion with a large Asian sovereign investor to be the anchor investor. IFC's commitment is 20% of total fund size, up to $200 million.

4.10 **IFC Climate Catalyst Fund (CCF).** CCF was approved by the Board on November 10, 2011.[21] CCF is targeting commitments of $500 million and will invest in emerging markets private equity funds focusing on companies and projects whose business activities contribute to addressing climate change challenges and building a low emission economy. IFC's commitment is 20% of the total fund size, up to $75 million. The United Kingdom's International Climate Fund is the anchor investor in CCF with a commitment of £50 million.

4.11 **IFC Middle East and North Africa Fund (MENA Fund).** The MENA Fund was approved by the Board on November 10, 2011.[22] The MENA Fund is targeting commitments of $300 million and will invest in the MENA region across all sectors, leveraging investment opportunities in the region to restore investor confidence, support capital markets, help scale up access to finance, and increase employment opportunities. IFC's commitment is 20% of the total fund size, up to $100 million (the dollar limit only being relevant if the fund size were enlarged).

D. AMC Fees to IFC

4.12 AMC's policy is to charge investors market rates for managing Funds. With these revenues, AMC covers its own direct expenses and pays IFC fully for the resources it provides, with the overall objective of making a net profit. AMC pays fees to IFC to compensate for the services it provides in developing Funds and in providing sourcing, execution and supervision services. AMC pays four types of fees to IFC:

- *Transaction Fees:* Fees paid when the transaction is completed and disbursed. For the CapFund this fee is calculated based on actual expenses (subject to a cap and floor), and for the ALAC Fund and the AfCapFund, this fee is based on the transaction size (subject to a cap and a floor).
- *Supervision Fees:* An annual fee is paid for each portfolio company supervised. In addition, if upon the agreement of the AMC and IFC, unusual supervision costs are incurred, these will also be reimbursed.
- *Fund Development Fees:* For each fund launched, a fee based on the total fund size paid in three equal installments starting from the year after the first close. (This does not apply to the CapFund.)
- *Business Development Fee:* For selected funds, a fee to help strengthen resources in regions and sectors to ensure sufficient deal pipeline is generated and portfolio monitoring is effective. This fee is based on the total fund size and is paid over five years in equal installments.

4.13 In addition, AMC Funds reimburse IFC for the Funds' share of out-of-pocket expenses related to transaction costs, broken deal costs and supervision costs. Where IFC receives mandate fees from the investee company as part of a transaction, the pro rata portion of those fees is netted against expenses reimbursed and/or fees payable by AMC. In addition, AMC makes a regular payment to IFC for services provided such as office space and to reimburse IFC for expenses it incurs on behalf of AMC or its Funds.

[21] World Region – Proposed Investment in IFC Climate Catalyst fund
[22] Middle East and North Africa Region – Proposed Investment in IFC Middle East and North Africa Fund

In a few situations, AMC may also reimburse IFC for a portion of the compensation of selected IFC staff who spend a majority of their time on AMC-related work. AMC's financial statements are fully consolidated into IFC's, so any net income that AMC makes flows through to IFC's Profit & Loss. A pro forma projected income statement for the AMC is summarized in Annex 4.

4.14 In FY11 AMC incurred expenses of $15.3 million in fees to IFC and reimbursement of expenses. This consisted of: $6.2 million of transaction fees; $3.1 million of fund and business development fees; $0.7 million of supervision fees; $0.6 million of out-of-pocket expense reimbursements; and $4.7 million of other cost reimbursements (including $2.4 million for compensation for staff on external service, $1.0 million of reimbursements for travel, insurance and professional fees paid by IFC on behalf of AMC and $0.3 million of occupancy charges).

4.15 In the first three quarters of FY12, AMC incurred expenses of $14.1 million in fees to IFC and reimbursement of expenses. This comprised: $5.5 million for transaction fees; $2.6 million for fund and business development fees; $0.8 million for supervision fees; $0.2 million of out-of-pocket expense reimbursements; and $5.0 million for other cost reimbursements.

4.16 For full year FY12, AMC forecasts to pay $21.1 million in fees and expense reimbursements comprising: $7.8 million for transaction fees; $3.5 million for fund and business development fees; $1.6 for supervision fees; $0.8 million for out-of-pocket expense reimbursements; and $7.4 million for other cost reimbursements.

4.17 For FY13, AMC projects to pay IFC a total of $24.8 million in fees, (excluding out-of-pocket expenses). Of this, IFC departments will be authorized to use up to $18.8 million to fund their AMC-related work, including investing in equity origination and processing, with any remainder flowing to IFC's bottom line. The above mentioned fees exclude out-of-pocket reimbursements projected at $3.7 million and service related reimbursements of $9.7 million.

V. FY13 Budget

A. Strategy & Budget Planning Process

5.1 IFC's strategy and budget planning process has been evolving over the last few years to better link strategic plans with the total budget resources needed to execute these plans while considering the effect that business plan and budget decisions have on financial sustainability in terms of economic capital usage and profitability as well as the potential development impacts. In addition to the annual strategy discussions held in December, IFC employs a dynamic process whereby annual business targets and budget allocations are intensely reviewed by IFC's Management Team on a quarterly basis. This feedback loop takes the form of a full day Management Team meeting in which all aspects of IFC's operations (Investment, Advisory and AMC), including support functions and overhead costs, are reviewed and considered as part of a holistic corporate picture. The reviews are presented by each Vice President and generally start with a review of quarterly and year-to-date operational results against annual targets. Capital usage and profitability in the investment operations matrix (region by industry cluster) is similarly viewed side-by-side with portfolio indicators and the status of new business.

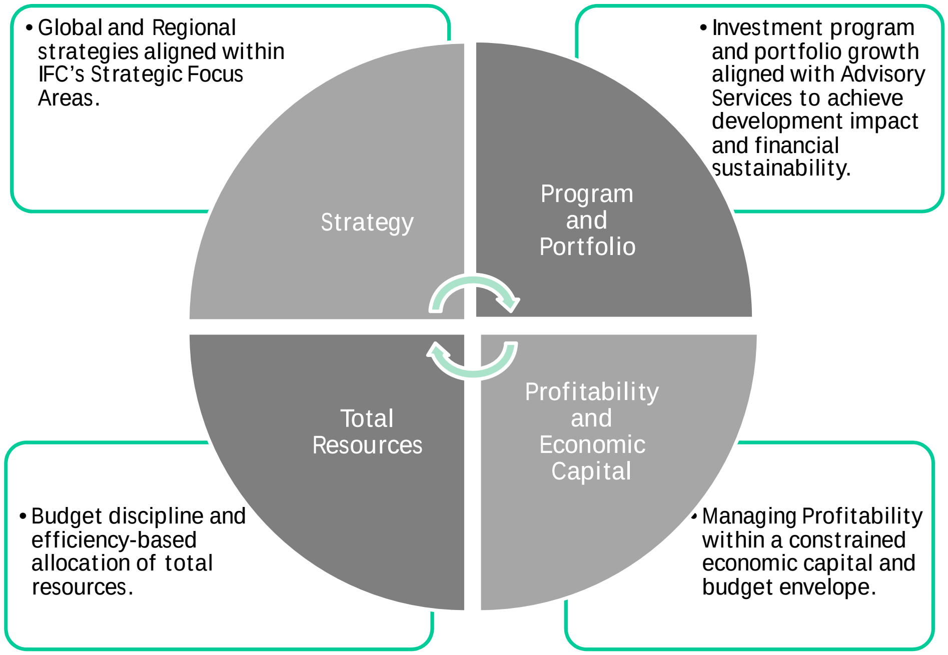
5.2 The spending to achieve these results is also reviewed to ensure that resource allocation meets the functional and operational needs of the Corporation. As staffing is the largest single cost category for IFC, the staffing situation is reviewed to confirm the use of resources and to ensure that IFC is meeting its strategic staffing targets for diversity and inclusion. The placement of staff at Headquarters versus field offices is also watched closely so that adjustments to hiring plans can be made on a timely basis to ensure that individual department decisions are properly aligned with corporate objectives when aggregated to a corporate picture.

5.3 FY12 was the first year in which the planning cycle was aligned with IFC's annual performance and talent review for staff and management. This has proven to be a valuable undertaking as corporate business targets for both Investment and Advisory Services are included as performance objectives at the Vice-Presidential level. These objectives are then cascaded down to Directors who are responsible for a particular region, industry or Advisory business line and ultimately to the staff who deliver these results. This has eliminated a previous disconnect between corporate goals and the incentives for individual staff performance.

5.4 For FY13, discussion of this alignment took place as part of the intense strategy sessions during the second quarter. Staff, managers, and Directors now undertake strategy planning for business targets with the clear understanding that the business results stemming from the strategy will have a direct impact on their individual performance. With the introduction of firm IDG targets in FY13, the aspect of development impact of IFC's front line activities will now be included in the performance objectives of VPs and Directors all the way down to individual staff members.

5.5 The continued evolution of this process has reinforced IFC's results-oriented culture. As Figure 5.1 below shows, the strategy and planning process has become a continuous cycle which is self-adjusting as each quadrant influences the others as strategy, business results, financial results, and resource usage are reviewed collectively with the ultimate goal of delivering development impact.

Figure 5.1: The Planning Cycle – Aligning Budget Resources, Results & Profitability with Strategy



5.6 This cycle mirrors IFC's engagement with the Board as the strategy is presented in the *Road Map*, which is discussed with the Budget Committee, CODE, and the entire Board as a starting point. Based on these discussions, IFC proposes firm business targets along with the resources necessary to deliver these results in the coming year. Throughout the year, IFC then engages the Board as it reports on results in the Quarterly Report to the Board, quarterly financial statements, and the combined World Bank Group Quarterly Business and Risk Review as well as the informal strategy dialogs which have been held in January and September. IFC therefore maintains an ongoing dialog with the Board so that areas of concern or new points of focus in the development agenda can be addressed or IFC can alter its course as market conditions dictate.

B. Productivity and Efficiency

5.7 IFC's Management Team monitors the Corporation's productivity and efficiency in terms of both internal metrics and external benchmarks. The internal metrics measure the input and output factors specific to IFC investment operations to understand the changes over time in how IFC delivers new business, monitors its portfolio, and utilizes its resources. The external benchmarks compare IFC against other International Financial Institutions and reflect the varying scope of operations and organizational capacities of each institution as discussed in paras 5.20-5.24 below.

5.8 IFC 's internal metrics include two sets of ratios. The first set (Ratios 1-3) uses staff time devoted specifically to either new business or portfolio supervision as the input measure and the second set (Ratios 4-6) uses cost as the input measure. Output is measured in terms of commitment count, commitment volume, and number of portfolio companies. Box 5.1 provides the formula for each ratio and describes the calculation methodology.

Box 5.1: IFC Productivity Ratios

Ratio 1: Number of Weighted Commitments per Staffyear $=W_c/S$
Ratio 2: \$m of Total Commitment Volume per Staffyear = C_v/S
Ratio 3: Number of Weighted Portfolio Companies per Staffyear = W_p/S
Ratio 4: Cost per Number of Weighted Commitments $=E/W_c$
Ratio 5: \$ Total Commitment Volume per \$ Cost = C_v/E
Ratio 6: Cost per Number of Weighted Portfolio Companies = E/W_p

Legend

C_c – Number of Commitments
W_c – Number of Weighted Commitments
P_p – Number of Portfolio Companies
W_p – Number of Weighted Portfolio Companies
C_v – Commitment Volume (including mobilization)
E – Expenses, including expenses off-set by fees and reimbursables
S – Staffyears (GF+)

Step 1 – Applying the Weighting Factors

Two data inputs are weighted before being applied in the respective formulas:
a) C_c – Number of Commitments is weighted resulting in W_c – Number of Weighted Commitments
b) P_p – Number of Portfolio Companies is weighted resulting in W_p – Number of Portfolio Companies

For example, C_c – Number of Commitments is weighted based on empirical evidence reflecting work intensity involved for investments given the geographic location (IDA or non-IDA) of the investment project along with its underlying financial instruments (Loan/Equity/GTFP/other Guarantees). These differentiations result in a total of six weighting factors ranging from 133% for an equity investment in an IDA country to 10% for a GTFP investment in a non-IDA country. After applying the weightings the number of new investment commitments in FY11 moved from 518 nominal (C_c) to a weighted number of investment commitments (W_c) of 401.

Weightings for portfolio clients apply additional factors beyond financial instruments including credit risk ratings, environmental categories as well as involvement of third party investors.

Staff years are computed based on actual staff time recorded for past periods and staff planning figures transposed into staff year equivalents for planned years.

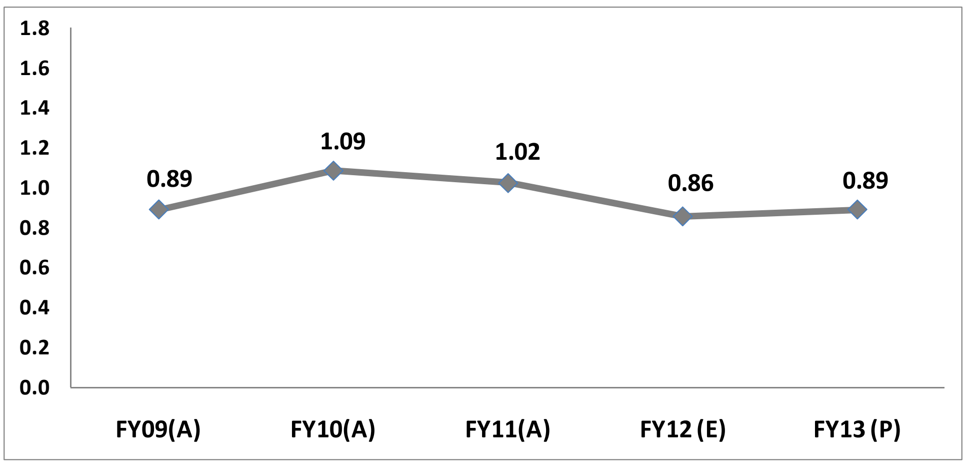
Step 2 – Calculating the Ratios

Example of Ratio 1 calculation:
For FY11, using 401 weighted (W_c) Commitments with a corresponding number of staff years spent on New Business of 392, number of commitments per staff year results in 1.02.

5.9 Until FY08 when the global financial crisis began, growth in numbers of new projects matched staff growth. The trend of Ratio 1 in Graph 5.1 shows the combined effect of increased staffing and GTFP projects which carry a lower weighting. However, new staff are expected to contribute further to additional transactions as well as support to senior staff after a time lag due to on-boarding and training to originate and process new deals. Ratio 1 is expected to reach the level of FY09 again by FY13, and should increase further in FY14 and FY15. The number of Concept Review Meetings for new projects in FY12 through Q3 is already 23% higher than the average of FY10-11, suggesting that the increase in investment staff is now starting to generate more business which will lead to an improvement in the numbers of commitments per staff year in the future. Further efforts are required to streamline investment processes to reduce elapsed time and improve client responsiveness. Work is underway by the Investment Operations Department to achieve this. In addition, more efforts are underway to capture growing complexities within IFC's business to allow for more meaningful interpretation of results. The Istanbul Operations Center has also been piloting new metrics to gauge productivity and efficiency at a more granular level. Box 5.3 provides further detail.

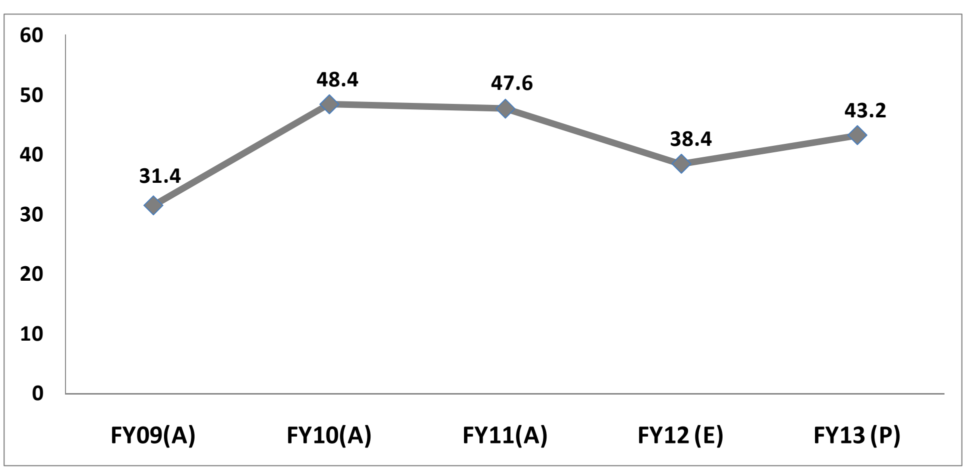
5.10 Graph 5.1 below shows the Number of Weighted Commitments per Staffyear. In FY09 each Staffyear spent on new business activities yielded less than one weighted commitment, i.e. 0.89. This ratio is expected to be reached again in FY13 and increase further in FY14 and FY15.

Graph 5.1: Productivity Ratio 1 – Number of Weighted Commitments per Staffyear



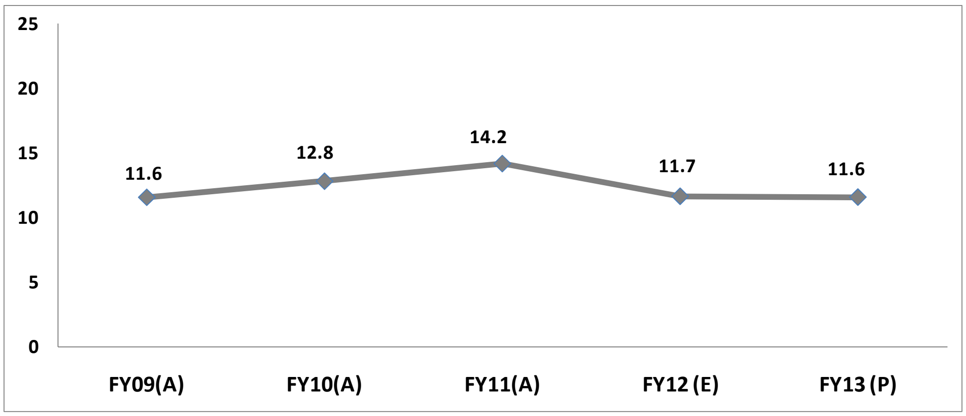
5.11 Graph 5.2 below shows the ratio of $1 million Commitment Volume per Staffyear. During FY10, overall commitment volume including mobilization increased sharply as an intended result of deliberately measuring overall commitment volume and leveraging third party financing. For that reason, Ratio 2 shows a strong increase in FY10 and through FY13 this ratio is expected to be well above FY09. The ratio should further improve in FY14 and FY15.

Graph 5.2: Productivity Ratio 2 - $1 million Total Commitment Volume per Staffyear



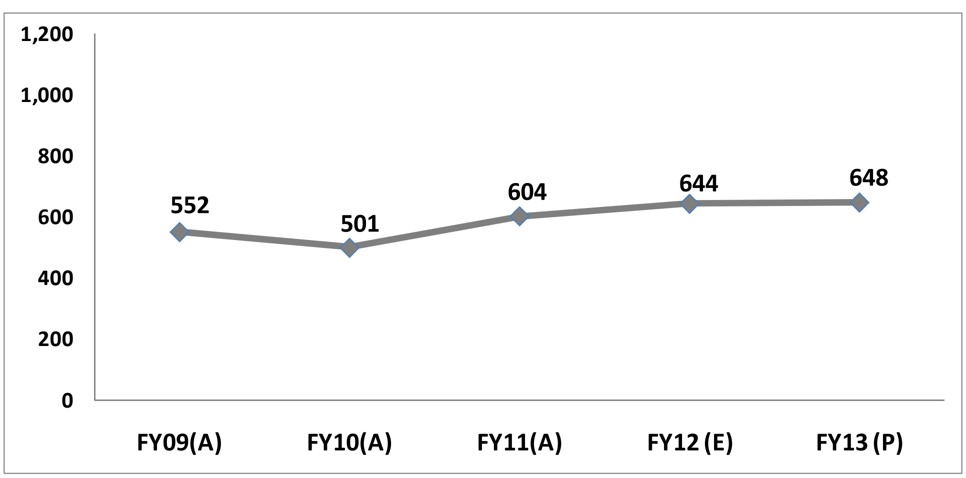
5.12 Graph 5.3 below shows the Number of Weighted of Portfolio Companies per Staffyear. In FY09, each Staffyear spent on portfolio supervision was devoted to an average of 11.6 weighted portfolio companies. This ratio is expected to remain at this level in FY12 and FY13. The decline in the portfolio ratio compared to FY10 and FY11 is largely explained by the relatively faster growth in staff numbers estimated for FY12 versus the growth in overall number of weighted portfolio companies. This results in more staff time being devoted to managing the portfolio, in line with IFC's risk management strategy. This is also reflective of the cultural change to a more client-centric rather than project-centric organization as each client in the portfolio is given greater attention.

Graph 5.3: Productivity Ratio 3 - Number of Weighted Portfolio Companies per Staffyear



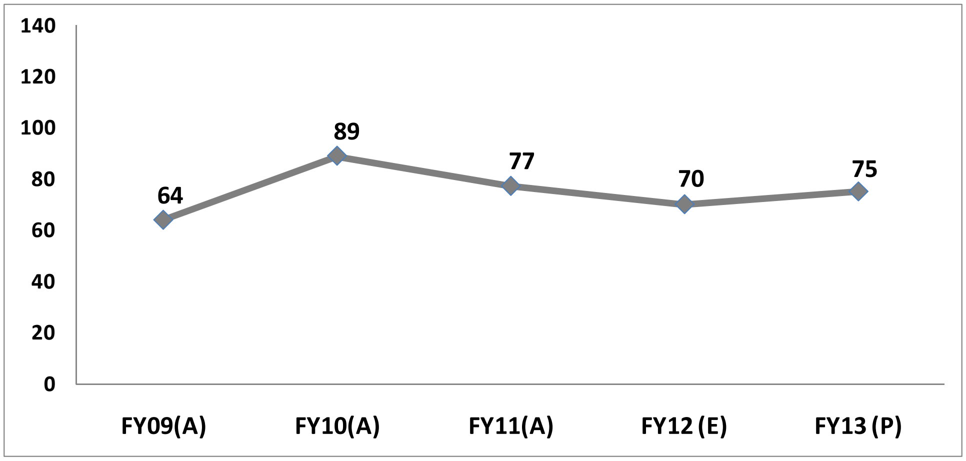
5.13 Ratios 4 to 6 reflect the increased costs driven by the growth in staff numbers and the increased cost associated with IFC's globalized business model which places staff in offices around the world. Ratio 4 shows that the cost per weighted commitment has increased during the FY10 (A) to FY12 (E) period and should be stable in FY13 (P). A decrease in the cost per commitment is expected for both FY14 and FY15.

Graph 5.4: Ratio 4 - Cost per Number of Weighted Commitments
US$ '000s



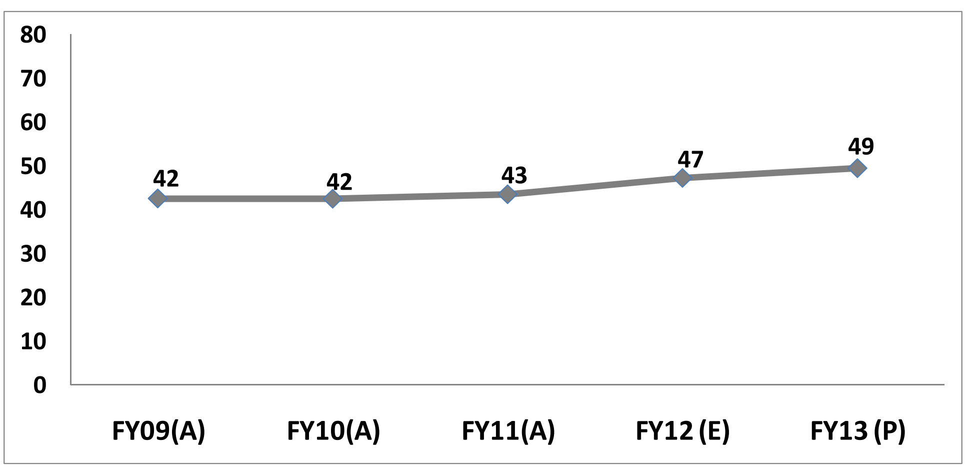
5.14 Ratio 5 similarly shows an increase in the commitment volume delivered for each dollar of spending for new business. For reasons similar to Ratio 2 we see a sharp improvement of the ratio in FY10 and subsequent results for each of the following periods that are above the FY09 level. This ratio is expected to improve in FY13 following the expected growth of total commitment volume.

Graph 5.5: Productivity Ratio 5 - $ Total Commitment Volume per $ Cost



5.15 Ratio 6 shows the current positive trend of spending per portfolio company. This trend mirrors the trend of additional staff time devoted to portfolio supervision shown in Ratio 3 for this year and FY13. This also reflects IFC's reinforcement of its portfolio supervision function with additional staff time and budget resources located in the field. The ratio is expected to be stable through FY14 and FY15.

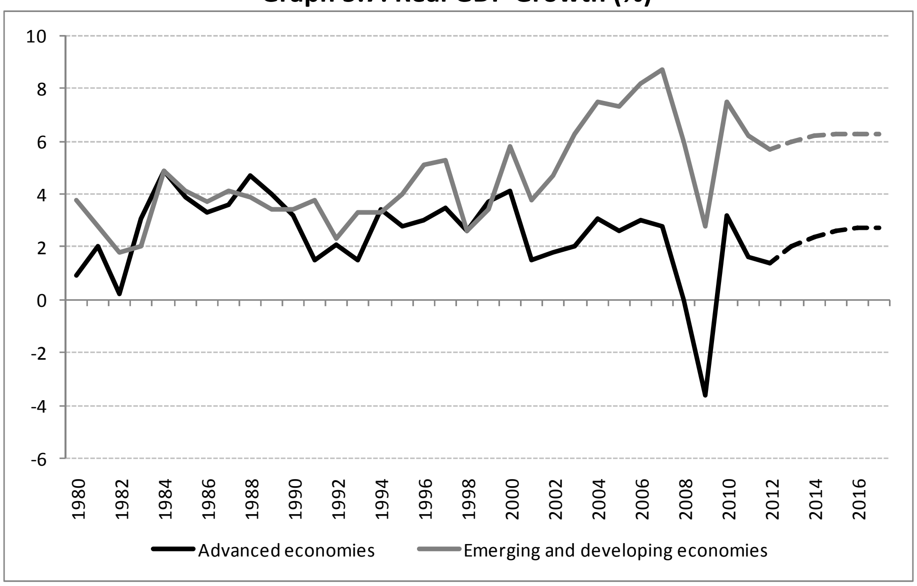
Graph 5.6: Productivity Ratio 6 – Cost per Number of Weighted Portfolio Companies
US$ '000s



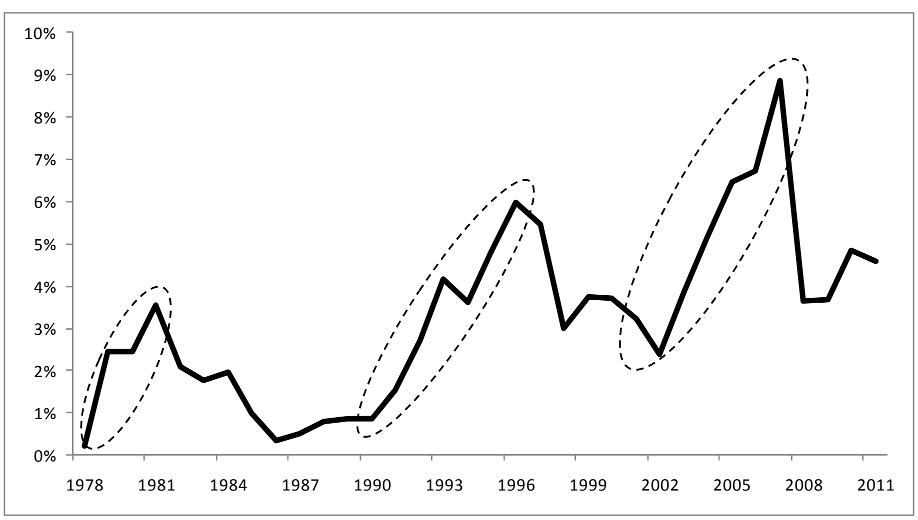
5.16 **Productivity Challenges.** When IFC initiated its Change Process in FY10, 20% productivity increase in investment operations was projected to be achieved by FY13 as measured by Ratio 1. Productivity gains were expected to result from consolidating decision making and execution capacity closer to clients, further streamlining processes, and increasing the functional specialization of staff in field offices. IFC's Management Team has carefully reviewed these outcomes to determine the reasons for the lower than projected results so as to learn from this experience and further improve the Corporation's productivity going forward. There are many challenges which have negatively impacted the productivity results. It is now clear that the projected productivity gains needed more time than initially thought given the complexities of IFC's operations and changes to the external and internal environment that were not envisioned when the productivity gains were estimated.

5.17 Growth in emerging markets has been strong with periodic slowdowns (Graph 5.7). Private capital flows tend to come in waves which reflect and reinforce the changes in growth prospects (Graph 5.8). These factors, combined with increased competition from other IFIs, has led IFC to grow its investment volumes in spurts, with strongest growth in early phases of economic upturn; this is consistent with IFC role of leading private investment in emerging markets (Graph 5.9). Periods of slow growth along with IFC's reorganization have reduced efficiency, as staffing levels tend to be more stable than program growth. There are, however, good prospects for renewed program growth in FY12 and beyond will enhance efficiency.

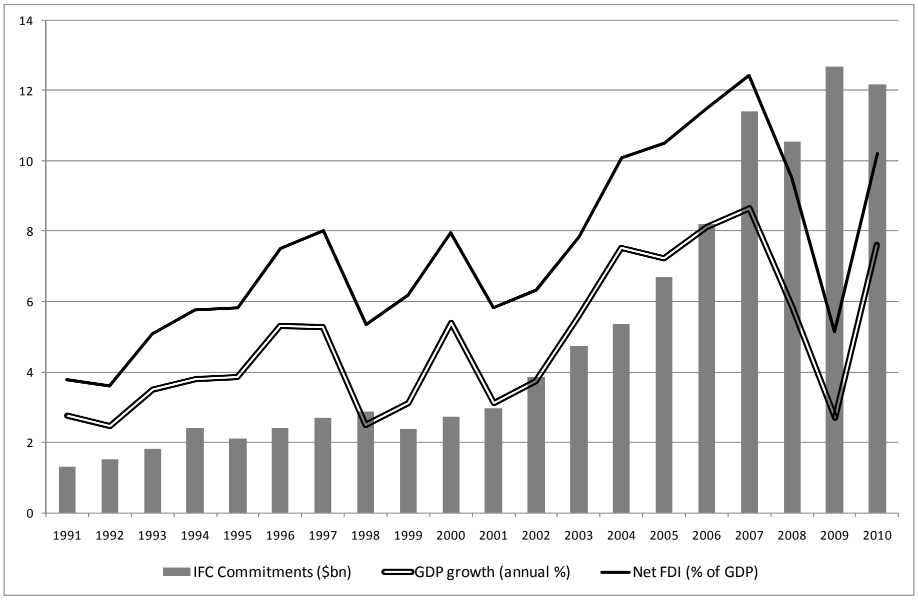
Graph 5.7: Real GDP Growth (%)



Graph 5.8: Net Private Capital Flows as a Percent of GDP



Graph 5.9: Comparison of IFC Commitments, Net FDI and GDP Growth



5.18 New programs and initiatives have also been added to IFC's workload that are not directly captured in relatively simple measures of new commitment volumes and counts. Staffing challenges in a globalized corporate model have also had an unforeseen dampening effect on productivity. A summary of the primary challenges affecting the productivity of investment operations is as follows:

a) **Operations Centers.** The role of Operations Centers in all regions was central to realizing productivity improvements. The Management Team has since decided it is prudent to let the Istanbul Operations Center fully develop before extending the concept to other regions. IFC has also undertaken a more proactive portfolio and risk management approach to help ensure the financial sustainability of projects; a factor which IEG has repeatedly cited as critical for long term development impact.

b) **Commitment Volumes.** There have been a number of large deals in volume terms undertaken for their demonstration effect. These deals contribute to IFC meeting its annual commitment volume targets but do not increase the count of projects – the output component of one of IFC's traditional productivity metrics.

c) **New Performance Standards**. Implementation of the new performance standards framework requires additional time for due diligence and added staff to do the reviews. IFC is, however, confident that the development impact of more rigorous performance standards far outweighs the burden on the Corporation's commitment output.

d) **Integrity Due Diligence (IDD).** The initial due diligence to ensure the integrity of potential IFC partners and the absence of fraud or corruption. This requires additional staff resources but is critical to mitigate both reputational and financial risks.

e) **IFC Development Goals (IDGs).** The introduction of IDGs has had an impact as these efforts to measure development impact increase costs, staffing, and complexity for IFC without directly contributing to increased or more efficient investment outputs.

f) **G-20 Work Program.** IFC has also undertaken a number of strategic programs on behalf of the G20. These programs – discussed in more detail in Box 5.2 – contribute significantly to the development agenda but require the time and effort of experienced investment staff who could otherwise be focused on expanding IFC's traditional business which would improve the productivity metrics.

g) **Geographical Expansion.** IFC 's continued expansion into IDA countries and frontier regions of MICs, as well as its work in Fragile Situations are generally more resource intensive relative to the immediate output in terms of project count. These geographical foci are, however, of critical importance for economic development even if they are a less efficient use of corporate resources.

h) **Salary Structure.** The salary structure in many markets makes it hard for IFC to compete for specialized talent. When new staff are hired, it takes time to properly on-board new recruits since IFC's culture focuses on more than financial returns. This process takes even longer in locations where there is not a critical mass of managers or at least senior staff who can mentor new hires.

i) **Market for Skilled Staff.** Competitive market conditions have also meant that staff turnover is much higher in field offices than at headquarters (FY12 annualized turnover is 5.1% in HQ vs. 9.2% in the field). Junior staff with several years of IFC experience have proven to be very valuable in the marketplace where private sector firms can offer significantly better remuneration than IFC's salary and benefit structure allows.

j) **Information Technology.** Aging legacy systems tend to function poorly from remote locations and slow down processing, reporting, and work flows at Headquarters as well. Replacement of legacy systems is getting underway and will require significant investment which is discussed in paras 5.87 to 5.89. During FY13, IFC will undertake the assessment and planning for replacement systems development.

5.19 IFC will continue to focus on productivity as a necessary internal measure of a healthy organization which carefully manages its resources. IFC's Management Team is currently refocusing its expectations for productivity gains given these complex realities and plans to expand efficiency metrics to advisory services and support functions. The Istanbul Operations Center (IOC) has also been piloting new metrics to gauge productivity and efficiency at a more granular level as explained in Box 5.3.

Box 5.2: IFC's G20 Initiatives

Since 2010, IFC has engaged in a number of strategic initiatives on behalf of the G-20. These initiatives further the development agenda but are not reflected in IFC's direct investment or advisory outputs. IFC contribution may, therefore, negatively impact its efficiency ratios. The initiatives include:

- Global Partnership of Financial Inclusion (GPFI)
- Global Agriculture and Food Security Program (GAFSP)
- Inclusive Business Innovation Challenge
- Agricultural Price Risk Management Product (APRM)
- Joint Infrastructure Action Plan
- Fostering Tax Transparency

GPFI, GAFSP and Inclusive Business Innovation are the most operationally intensive of these initiatives. IFC Treasury's efforts in issuing local currency bonds and structuring local currency financing solutions also require significant legal and operational resources.

GPFI is the central forum to implement the G-20 Financial Action Plan. IFC is an implementing partner along with CGAP, the Alliance for Financial Inclusion and IBRD. IFC's deliverables include technical reports such as the G-20 SME Stocktaking Report, as well as reports on SME Finance, Women-Owned SMEs, and Agrifinance. IFC has contributed to the G-20 SME Finance Agenda through the selection and financing of the 2010 SME Finance Challenge winners. IFC also led the IFC-CGAP-IMF Collaboration on Data and selected the G-20 Financial Inclusion Indicators. All of the reports are available on the GPFI website: www.gpfi.org. The costs of this initiative have been funded by donors.

GAFSP is a multilateral funding platform to address food security in IDA countries. IFC dedicated an investment team of experienced staff to implement this program. GAFSP projects are further supported by IFC investment staff around the globe, administrative staff from the trust fund operations unit, and legal staff. IFC's GAFSP work encompasses overall program management, donor coordination and reporting, identification of investment projects, processing and structuring investments, trust fund management and reporting, oversight of legal issues, and the supervision and monitoring of investment and advisory projects. IFC receives annual fund management fees to cover the direct and indirect costs associated with the deployment of donor contributions.

Inclusive Business Innovation Challenge was conceived by Germany to accelerate the South-South spread of inclusive business models that expand opportunity for people at the base of the pyramid. IFC manages this initiative in conjunction with a G-20- working group co-facilitated by Germany and Saudi Arabia. IFC's role includes contest design, judging panel selection, website creation (www.G-20challenge.com), marketing and outreach, guidelines and procedural development, and the marketing of contest winners. Thirty finalists were reviewed in April, 2012 with the winners to be announced at the G-20 Summit in Los Cabos (June, 2012). Germany covered nearly two-thirds of direct costs, with IFC responsible for covering the remaining costs for staff salaries, travel and consultant fees.

Resources Required for IFC's Overall G-20 Work. It is difficult to precisely quantify IFC's staff time and budget resources required to deliver its G-20 work. To maximize its contribution, IFC adopts an interdisciplinary teamwork approach which generally comprises part-time and ad hoc contributions from numerous staff. Some of these initiatives' direct costs (e.g., staff, consultants, travel) are funded and/or compensated by donor funding (e.g., GAFSP, GPFI) but this is not the case for all of the G-20-related projects, and does not extend to IFC corporate functions which support these initiatives. IFC's senior management also spends a notable amount of time and travel on G-20 matters.

In October 2011, G20 advised an Action Plan to support the Development of Local Currency Bond Markets. It called on the World Bank Group as well as the Regional Development Banks to focus resources on measures that will broaden and deepen domestic capital markets. In responding to this request from the G20 for a long-term effort, IFC has recently enhanced its local currency financing efforts by establishing a dedicated group within Treasury to scale up bond issuances in local currencies and also provide a wider spectrum of local currency funding tools for IFC investments. As a result of this increased focus, IFC has been successful in establishing bond programs in Africa that give IFC the flexibility to issue long term local currency bonds for the next 10 years. In addition, IFC has already engaged with other regional suprannationals (such as AfDB) to take a coordinated approach wherever possible to help provide local currency solutions to clients.

Box 5.3: IOC Metrics

The Istanbul Operations Center (IOC) monitors three categories of metrics on a quarterly basis – Productivity, Stakeholders and Impact. These metrics are presented for the entire EMENA super-region, each industry group In the region, along with granular views of the Central Asia & Eastern Europe and Middle East & North Africa regions. The metrics are a work-in-progress, but the following provides a summary description as they stand at present.

Productivity Metrics

- *Cycle Time:* average calendar days taken to complete the project life cycle from PDS-Concept to Commitment. Includes projects committed during the reporting period and recorded in IFC internal systems.
- *Processing Time:* For new business this metric captures the amount of time (in days) to process a new project (from PDS-Concept approval to Disbursement) and includes projects disbursed during the reporting period. For portfolio clients, processing time is the total staff days recorded on portfolio projects per portfolio clients at the end of the reporting period.
- *Processing Costs:* this metric captures new business projects and portfolio clients processing costs. For new business, processing costs are direct project related costs (i.e. staff, travel, consultants and other) per project from inception to first disbursement during the reporting period. For portfolio clients, this metric measures the average total cost per portfolio client.
- *Efficiency:* Efficiency indicator for new business is measured as the number of weighted commitments per staff year. Staff years are the sum of time recorded for promotion and processing activities in IFC's Time Recording System (TRS) for GF+ staff. For portfolio clients, this metric measures the number of portfolio clients per staff year. Staff hours reported in TRS with portfolio activity codes for grades GE-GH are included.

Stakeholders Metrics

- *Staff Satisfaction:* this metric tracks several key staff satisfaction related questions from IFC staff/pulse surveys. The staff survey, which occurs every two years, is used as a diagnostic tool to see how well the institution is doing in the eyes of its most valued asset, its people. Includes both Investment and Advisory staff data.
- *Client Satisfaction:* based on monthly client surveys conducted by the strategy department. This metric has three components:
  - New business clients: measures new clients' satisfaction with various project processing stages (mandate, appraisal, legal, disbursement), for all clients with recent first disbursement.
  - Portfolio clients: for all clients that had a first disbursement three years previously. Questions are asked about satisfaction since disbursement (with reporting requirements, requests for waivers/amendments).
  - Advisory Services: measures client satisfaction for all business lines.
- *Cycle Time:* this is an overall assessment of number of days that have passed from signing of the Mandate letter to the first disbursement of projects. Includes projects which have been disbursed during the reporting period.

Impact Metrics

- *Program Results:* measured by EMENA's total Investment (including mobilization) Commitment volume and number of projects against targets.
- *Advisory Services:* measured by AS project spending as compared to Budgets.
- *Profitability*: reported in two ways:
  - Cash Income from investment operations: includes interest income, fees, dividends & direct expenses that are easily predictable and manageable by Investment departments and also includes realized capital gains, and corporate overhead.
  - Economic Income: includes cash income from investment operations adjusted for specific provision for loan losses, equity write-downs, write-off recoveries and unrealized gains/losses (UCGs) on debt and equity investments (UCGs as reported in net income, other comprehensive income as well as outside balance sheet).
- *DOTs:* development impact success rating for IOC as compared with other super regions and IFC is reported.

5.20 **IFI Benchmarking.** In addition to monitoring IFC's internal productivity metrics, it is also important to compare the Corporation to institutions which perform similar development work. Graphs 5.7 – 5.12 below show ratios comparing IFIs that work with the private sector. The underlying data is based on Annual Report figures, and includes all products (loan, equity, guarantees). The institutions included are:

I. IFC – International Finance Corporation
II. DEG – Deutsche Investitions- und Entwicklungsgesellschaft
III. EBRD – European Bank for Reconstruction and Development
IV. FMO - Financieringsmaatschappij Voor Ontwikkelingslanden
V. IIC – Inter-American Investment Corporation

5.21 In considering these results, differences in each IFI's mission, scope of operation, geographical coverage, product mix and other characteristics need to be taken into account. A brief summary of some key characteristics for each institution are in Table 5.2.

Table 5.2. Business Models of Comparator IFIs

Organization	Staff Size	Business Model – Key Points
IFC	3,438 (includes advisory staff)	Global Decentralized Focus on the frontier Advisory services Mobilization
DEG	431*	Global – mostly centralized Broad range of sectors and country income levels
EBRD	1,526*	Europe Mostly MICs Some public sector
FMO	283	Global - centralized Focus on financial institutions, energy, housing Broad range of country income levels Some government programs
IIC	107	Latin America SME focus

*2010

5.22 Some of the key features of IFC compared to other institutions that may increase staff, costs or affect the ratios include:

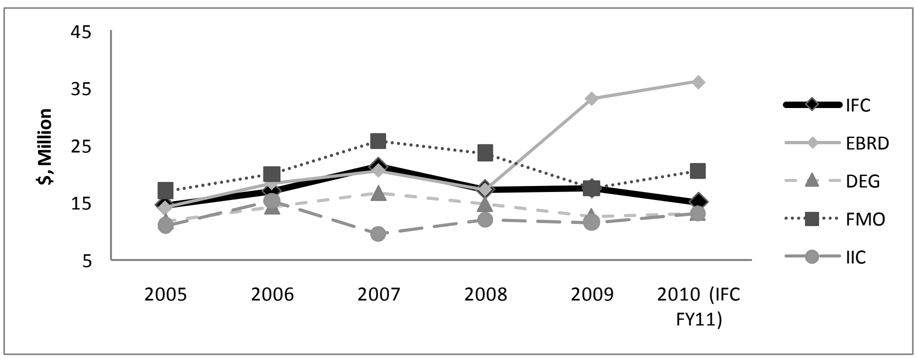
- More global coverage than many of these institutions (e.g. EBRD, IIC)
- Established and growing presence in IDA countries and the frontier
- Pioneer in innovative approaches and products, establishing global standards, and developing measurement systems
- Significantly smaller project size than EBRD
- Different portfolio valuation methods under US GAAP versus IFRS. Whereas IFC values its equity investments mostly at cost in the portfolio, EBRD uses the fair value method which means its portfolio reflects higher market valuations than IFC. This affects the ratios in Graphs 5.11 and 5.15.

- Total commitment volume, including mobilization, cannot be used for lack of a uniform, robust and comparable definition between IFIs. If mobilization were included, IFC would look more favorable in Graphs 5.10 and 5.13.

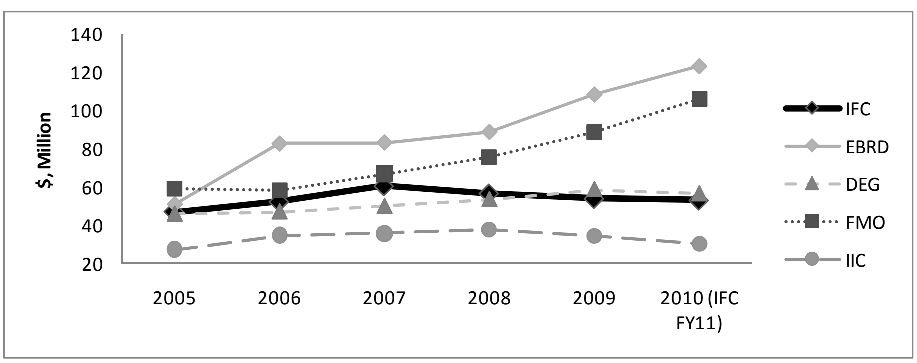
5.23 Many of these characteristics require additional staff but also create significant value for IFC's clients and the development community. These efforts are the core of IFC's unique additionality which makes apples-to-apples comparisons with other IFIs difficult. The comparisons do provide a useful perspective regarding the broad positioning of IFC productivity within the development community and how its position evolves over time, but should not be used too strictly to grade IFC's productivity against other institutions.

5.24 Looking at trends over time, the ratios were clearly affected by the 2009 financial crisis, as volumes of various IFIs fluctuated widely, with several declining, and EBRD increasing significantly, albeit driven mainly by increased project size. In contrast, the 2010 results show greater stability compared to 2009. Overall, IFC's performance is within the broad ranges of most comparators, especially if mobilization were to be included in commitment volumes.

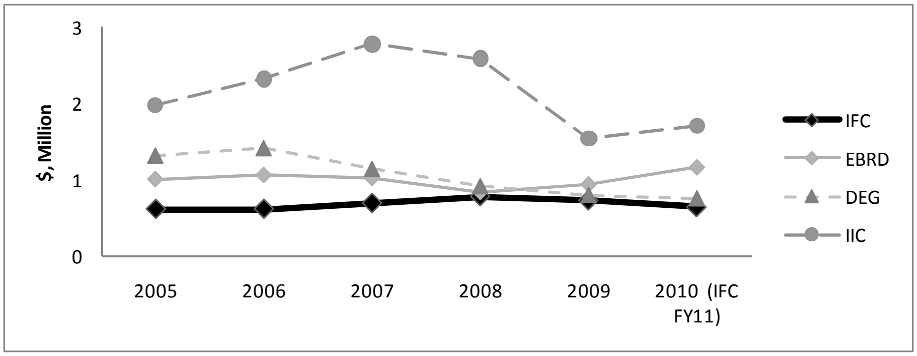
Graph 5.10: IFI Benchmarking - $ Commitment *per* $ Admin. Expenses



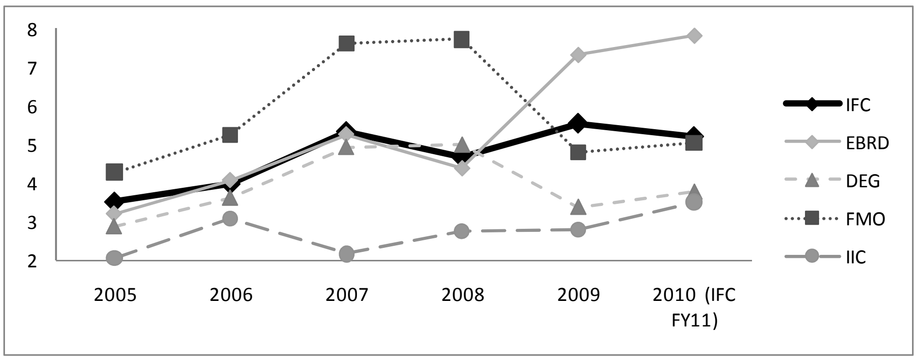
Graph 5.11: IFI Benchmarking - $ Committed portfolio *per* $ Admin. Expenses



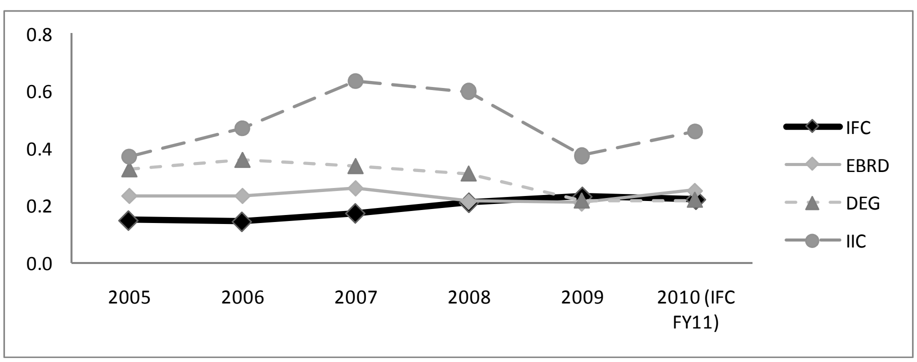
Graph 5.12: IFI Benchmarking – Number of Projects *per* $million Admin. Expenses



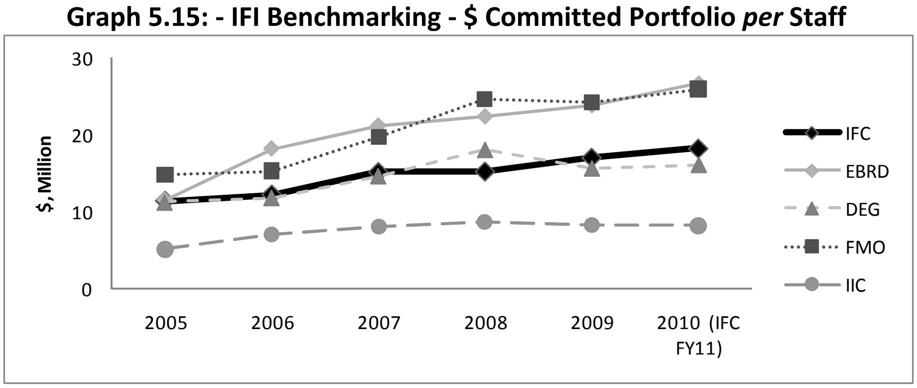
Graph 5.13: IFI Benchmarking - $ million Commitment *per* Staff



Graph 5.14: IFI Benchmarking – Number of Projects *per* Staff



Graph 5.15: - IFI Benchmarking - $ Committed Portfolio *per* Staff



C. FY13 BUDGET

5.25 IFC's Management Team proposes a Total Administrative Budget (TAB) of $850.2 million which represents a $40.0 million, or 4.9% nominal increase over FY12 TAB ($23.9 million, or 2.9% in real terms). The Total Administrative Budget combines the Regular Administrative Budget (RAB) proposal – which is fully under IFC's Management Team control – of $695.9 million with $154.3 million of 'Below the Line' items (IFC's share of the Corporate Secretariat & Board and IEG costs, plus contributions to staff retirement plans). Management recommends the Total Administrative Budget of $850.2 million shown in Table 5.3 for approval in Section VI of this paper.

Table 5.3: Proposed FY13 Total Administrative Budget

US$ millions

	FY11 Actual	FY12 Restated† Budget	FY13 Real Budget	FY13 Nominal Budget	Real $ Δ Over FY12	Real % Δ Over FY12	Nominal $ Δ Over FY12	Nominal % Δ Over FY12
Regular Administrative Budget	**604.4**	**673.8**	**680.5**	**695.9**	**6.7**	**1.0%**	**22.1**	**3.3%**
Corporate Secretariat & Board	14.0	19.9	20.0	20.5	0.1	0.5%	0.6	3.2%
Independent Evaluations Group (IEG)	5.6	5.9	6.4	6.5	0.5	8.1%	0.6	10.1%
Contributions to Staff Retirement Plans	89.1	110.7	127.2	127.2	16.6	15.0%	16.6	15.0%
Subtotal 'Below the Line'	**108.7**	**136.5**	**153.6**	**154.3**	**17.2**	**12.6%**	**17.8**	**13.1%**
Total Administrative Budget	**713.1**	**810.2**	**834.1**	**850.2**	**23.9**	**2.9%**	**40.0**	**4.9%**

†Includes FMTAAS partial mainstreaming of $22.3 million.

5.26 The Regular Administrative Budget (RAB) is, however, the benchmark used to measure discretionary budget growth since it excludes 'Below the Line' items which are not under the direct control of the Management Team. IFC's Management Team proposes a real increase of 1%, or $6.7 million (3.3%, or $22.1 million including the budget price adjustment) over FY12 RAB of $673.8 million ($651.5 million plus $22.3 million for FMTAAS partial mainstreaming).

Budget Growth in Context

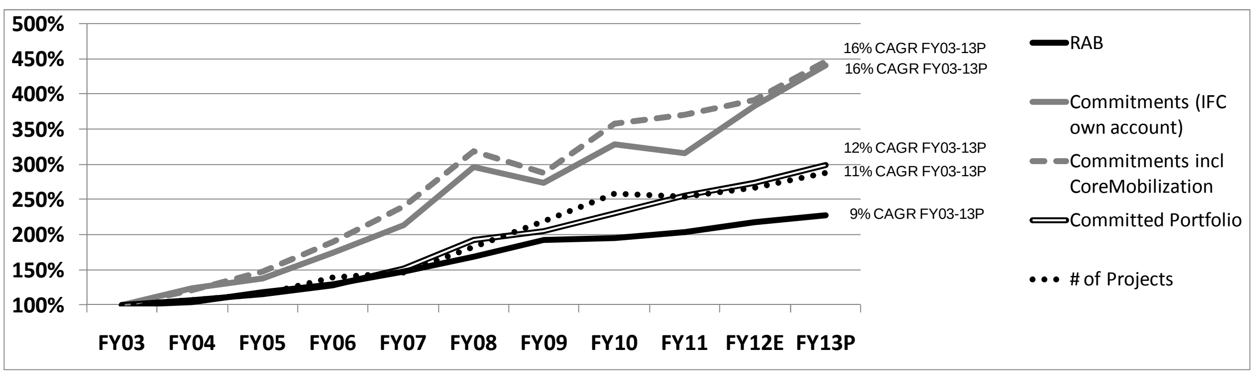
5.27 IFC continues to make strides to innovate and grow its business. At the same time, IFC's Management Team pays close attention to the prudent use of resources as it pursues the dual goals of delivering development impact and maintaining financial sustainability. A holistic approach to managing IFC's business means matching IFC's budget and associated expenses with the scale, breadth and depth of its operations.

5.28 As IFC's investment program has grown in volume (both for its own account and mobilization) and project count over the years, its strategic imperatives and the complexity of its operations have also grown, resulting in the need for greater growth in corporate support services. For example, IFC leads the way among IFIs with its rigorous monitoring and evaluation activities. These have grown from the ground up and expanded over time to include DOTS and now IDGs. IFC's Monitoring & Evaluation capabilities have moved from simply measuring investment outputs to capturing outcomes and impacts, from macro-level delivery to more micro-level poverty reduction. The Development Impact Department's work is essential both to accurate reporting *ex post* and optimal decision-making *ex ante*. Similarly, the integrity due diligence aspect of processing investment projects has become increasingly important over the last few years. All engagements with clients must now include the evaluation of information from multiple sources about the reputation of the client in the market place. There is an established set of integrity due diligence procedures to ensure staff accurately complete this important step in the project life cycle.

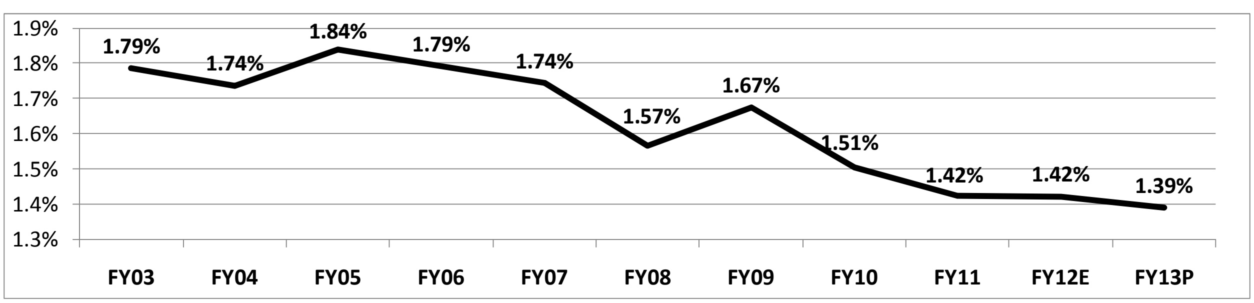
5.29 Additionally, as investment staff create and incorporate innovative products and structures into IFC's projects, and as they expand IFC's geographic reach to more countries (including IDA/Fragile Situations), more regions within countries, and more local and smaller clients, an escalating amount of credit evaluation, portfolio supervision and integrated risk management (in concert with the rest of the WBG) are required to prudently sustain the business. IFC is also integrating further portfolio, profitability and economic forecasting in its strategic discussions, all the while continuing to consider its sanctioned strategic priorities, additionality, environmental and social performance standards, etc. Finally, cooperation across the World Bank Group and with IFIs, donors and groups like the G-20 (see Box 5.2) are growing and resulting in value-added products and services for clients.

5.30 IFC undertakes all of these activities in response to mandates from its stakeholders, including member countries, civil society, partners, and clients. However, these activities require resources beyond what might be indicated by a straight-forward view of the underlying investment volume and project count growth. Given this context, the request for a 1% real increase in regular administrative budget is modest when compared with 9% compounded annual growth rate (CAGR) in RAB since FY03 and estimated 16% CAGR in total volume over the same period. IFC's budget as compared to its output in terms of commitments (Graph 5.16) or as a percentage of its portfolio (Graph 5.17) reflects favorably upon the Corporation's ability to achieve strong growth in its business while limiting its budget growth in relative terms.

Graph 5.16: Relative Growth since FY03 for Selected Financial Measures



Graph 5.17: RAB as % of Committed Portfolio



UPDATE ON FY12 INITIATIVES

5.31 There were several new development initiatives highlighted in last year which received funding as part of the 4% real FY12 budget increase. Table 5.4 shows the cost projections for these initiatives through FY14 presented in *IFC's FY12 Business Plan & Budget*.

Table 5.4: FY12 New Development Initiative Budgets – June 2011

US$ millions

	FY12	FY13	FY14
Infrastructure in Africa†	1.6	3.5	3.6
South-South Emerging Markets to Africa	1.0	1.0	1.0
Education for Employment for Youth in the Arab World	1.0	2.3	2.7
Engagement in Fragile Situations	2.0	2.0	2.0
Water Resources Group	1.0	1.0	1.0
Support for MSMEs	1.0	1.0	1.0
Total	**7.6**	**10.8**	**11.3**

†This initiative will last through FY17.

5.32 Table 5.5 provides a spending estimate for FY12 along with a revised FY13 budget which reflects the decrease from $2.3 million to $1.0 million for Education for Employment in the Arab World (E4E) reflecting current expectations for the initiative. The current projection for FY14 budget requirements is unchanged from last year's projection.

Table 5.5: FY12 Spending Estimate and Revised FY13 Budget New Development Initiatives

US$ millions

	FY12 Budget	FY12 Estimate	FY13 Budget	FY14 Projection
Infrastructure in Africa†	1.6	1.2	3.5	3.6
South-South Emerging Markets to Africa	1.0	0.9	1.0	1.0
Education for Employment for Youth in the Arab World	1.0	1.0	1.0	1.0
Engagement in Fragile Situations	2.0	1.0	2.0	2.0
Water Resources Group	1.0	1.0	1.0	1.0
Support for MSMEs	1.0	0.5	1.0	1.0
Total	**7.6**	**5.6**	**9.5**	**9.6**

†This initiative will last through FY17.

5.33 Spending against many of these initiatives took longer to get underway than originally planned; this accounts for the lower than budget FY12 spending estimate. Most of the initiatives are now fully operational so FY13 spending is expected to reach the budget limit shown above for fiscal year 12, with a planned increase in line with last year's budget paper for the Infrastructure in Africa initiative, as explained in para 5.51. The budgetary needs for these initiatives will be reviewed again during FY13.

5.34 Box 5.4 on the next page highlights the accomplishments supported by the Infrastructure for Africa initiative. Updates on the other initiatives follow.

Box 5.4: Infrastructure in Africa

IFC's budget for Infrastructure in Africa has helped contribute to an expected record $1.4 – 1.5 billion in gross infrastructure investments (including mobilization) in FY12, which should improve basic services to approximately 3.4 million people. This is the first year in which IFC will commit over $1 billion in these sectors, representing an increase of 30% to 60% over previous annual commitment levels. Core infrastructure (power, transportation and utilities) is also expected to achieve a record $600 million in gross investments (10 projects for $310 million for IFC's account). Beyond the record FY12 numbers, there is a strong pipeline of mandated deals expected to be committed in FY13. These results are achieved against a backdrop of increasing efforts by various governments in the region to pilot public-private partnerships (PPPs) in infrastructure, especially in power generation.

The Special Initiative for Infrastructure in Africa (ASI) was formally launched in July 2011 and is ramping up its staff strength and capacity to undertake the business development on PPPs for the investment pipeline beyond FY13. Seamless integration of mainstream investment operations and InfraVentures with this Initiative is expected to build a sustainable pipeline of investments for the medium term. Through this Initiative, IFC is already active in the transport sector in Nigeria (2nd Niger Bridge and Lagos Mass Rail Transit), water PPP in Ghana, and road rehabilitation and maintenance PPP in Cote D'Ivoire.

Ramp-up of activities from IFC InfraVentures is also starting to contribute to the pipeline of infrastructure projects. Recent flexibility for InfraVentures to operate in larger African countries (e.g. Ghana, Kenya) and to engage with global sponsors has started to yield results. Two new Joint Development Agreements are expected to be signed in FY12, 15 actively pursued opportunities (large sector coverage from transport to water through power). IFC funding for core infrastructure in Africa has also supported the following activities:

- **Dedicated Regional Infrastructure Team**. A dedicated team has enabled location specific critical mass for increased specialization and business development. Forty staff are directly available to the regional infrastructure team, including IFC InfraVentures and Special Initiative staff, of which approximately 15 were recruited in the past 12 months. The regional infrastructure team has also leveraged staff from Global Industry Department and Regional Departments ensuring teams are staffed according to expertise and client needs.
- **Business Development.** Systematic mapping and identification of opportunities in the region, dedicated business development action plans for key countries, enhanced coverage - business development coordinators for all countries, and dedicated sector anchors have increased the number of opportunities for IFC.
  - ⇨ *Results: 5 projects already committed and 5 more likely to be committed in FY12 putting core infrastructure in reach of its $600 million gross investment target. In addition, 11 projects are past the mandate stage (potentially $550 million for IFC's own account + $800 million mobilization), and 27 other active projects discussed with Sponsors. Number of Concept Review Meetings (CRMs) 35% higher than FY11.*
- **Better Coordination within IFC, with IBRD/IDA and other DFIs.** Infrastructure staff currently serve as focal points to help coordinate efforts across IFC departments, with World Bank teams (e,g. including joint action plans on Côte d'Ivoire power, Kenya power and transport), and with other DFIs.
  - ⇨ *Results: 5 JV projects in the pipeline jointly processed with other departments (Financial Markets, Oil, Gas & Mining and Manufacturing and Services); and increased mobilization of funds from other DFIs (e.g. $500 million to be mobilized in FY12 mostly from DFIs).*

Project Highlight: The Kribi Gas Power project is Cameroon's first gas-to-power IPP, sponsored by AES Corporation (56%) and The Government of Cameroon (44%). The project consists of the construction and operation of a 216MW power plant, as well as the construction of a 100 km transmission line. The project will represent 17.5% of Cameroon's power generating capacity (currently 1,021MW) providing access to electricity to c. 163,000 households. In addition to IFC's commitment of up to €60 million in senior debt, IFC also played a critical role in the project by: (i) coordinator role by in mobilizing additional €92 million from international DFIs; (ii) supporting the local financing market by structuring a €60 million equivalent local currency financing from local banks syndicate backed by an IDA Partial Risk Guarantee; (iii) pioneering the commercial development of Cameroon's gas reserves; and (iv) engaging with key stakeholders in Cameroon in creating conditions for a replicate IPP model in Cameroon and the sub-region.

5.35 **South-South Emerging Markets to Africa.** The South-South (S-S) Initiative was conceived during the December 2010 strategy sessions at which time IFC's Management Team underscored the importance of focusing on business development in the originating regions. In the December 2010 strategy proposed by Asia, a specific initiative to fund several positions was proposed. This was endorsed by IFC's Management Team, and broadened in scope to include other originating regions, focusing on India and Latin America, specifically Brazil. The IFC South-South to Africa Initiative targets increased investment inflows from originating countries into Sub-Saharan Africa in particular. A total of $1 million in additional budget resources was provided to the Asia and Africa-Latin America regions to implement the program in FY12.

5.36 Senior S-S champions have been appointed in the principal originating countries - Brazil, China and India (BCI countries) - and in Sub-Saharan Africa. The new Singapore office also functions in this capacity as part of its original mandate, given the presence of an existing Singapore-based S-S champion and incipient institutional partnerships with regional infrastructure leaders. A broader team of Investment Officers is supporting each S-S champion on business development and follow-up. BCI country staff interviews and brainstorming amongst S-S champions is underway to address key considerations such as: incentives, assigning cross-border teams, and promotion of IFC to clients in BCI countries with respect to S-S.

5.37 The S-S champions are developing a systematic and proactive approach to S-S business development into Sub-Saharan Africa (SSA), particularly from BCI countries, supported by baseline research and analysis on current investments, and identification of emerging trends. To consolidate strategy and gain buy-in, the team is organizing a S-S into Africa strategy session before year-end. One strategic direction already showing promise is the development of institutional partnerships with select key clients in BCI countries that could result in a high number of S-S projects e.g. China Ex-Im Bank, the China-Africa Development Fund, China Development Bank, Tata Group, HDFC/IDFC group.

5.38 The pipeline of S-S projects into Africa is expanding rapidly. This is a result of prior efforts with established clients, global industry relations with key clients in specific sectors, and the increasing pace of investment in FY12 in general. The active pipeline (post CRM) now shows 8 projects with sponsors from outside Africa. The early pipeline of leads, largely a result of new promotion efforts begun under the initiative, shows a larger and more diverse pool of 25 potential projects/sponsors, and a much broader range of investment which IFC can help mobilize.

5.39 **Education for Employment in the Arab World (E4E).** E4E is a joint IFC/Islamic Development Bank initiative to develop a private sector agenda to address the need for more labor market relevant skills in the Arab world. Implementation has commenced with both Advisory and Investment Teams active in the region embarking on business development and engagement with key stakeholders through a series of seminars and individual meetings. From the investment side, IFC seeks donor support for developing a facility to build the potential for a concessional funding facility. Such a facility will be required to bring some not-for-profit activities which are providing quality E4E solutions up to scale, and/or to help shift the business model of some of these private providers toward a more self-sustainable model. IFC also seeks donor support for an investment fund focused on vocational and tertiary education providers and related services, as well as help to develop some education-focused entrepreneurial seed funding activities that are considered critical for the region and for which there is already much demand.

5.40 Jordan, Tunisia, Egypt, and Morocco are the initial target countries. Needs assessments have been completed for Jordan and Tunisia. Similar studies underway in Morocco and Egypt are expected to be completed by the end of FY12. Follow-up business development for Investment and Advisory Services are being conducted in all four priority countries – Jordan, Egypt, Tunisia, and Morocco. Stakeholder workshops are being conducted in Tunisia. A concept note was developed addressing the implementation of an entrepreneurship funding mechanism along with proposals for concessional financing. Both mechanisms were determined to be in high demand from initial business development assessments. The team is currently looking at investment projects in Jordan in the vocational training area.

5.41 The initiative will deploy E4E-focused Advisory Services efforts in three to four additional Arab countries in FY13. The current estimate is to reach an investment program of $50-75 million on E4E by FY14 for IFC own account. This suggests a projected investment program of $20-25 million in FY13. Given the focus on vocational education and work readiness programs, it is likely that most transactions would be in the $5-10 million range with a few larger deals from time to time, mainly in higher education. Such a program would enable IFC to increase the student IDGs numbers by some 30,000 to 50,000 students over time. This is a significant increase in the program since IFC is doing very little at present in the post secondary education space in MENA.

5.42 **Engagements in Fragile Situations.** Fragile Situations, as defined by the WBG42, is primarily a sub-set of IDA countries with a high proportion in SSA, and will remain a very important area for IFC Investment and Advisory Services. The WBG plan to operationalize the 2011 WDR on Conflict, Security and Development contained two broad action areas relevant to IFC – increasing attention to jobs and private sector development, and striving for WBG excellence in Fragile Situations work. Within this context, IFC will continue to focus on areas where the private sector can play an important role, such as through support for agricultural value chains and the enhancement of skills and employability.

5.43 Advisory activities are typically IFC's first engagement in Fragile Situations and provide IFC with a vanguard presence, in particular with investment climate work, but also through PPP and Access to Finance Advisory. IFC also foresees more firm-level AS to help build the Environmental & Social and other capacity of private sector companies to help unlock more investment activity. IFC expects to increase its Advisory project spend in Fragile Situations (those countries and territories on the FY12 WBG List) by nearly 80 percent between FY11 and FY15, and a soon-to-be appointed program coordinator will help guide the scale-up of IFC's efforts across IS and AS and to further strengthen WBG cooperation.

5.44 On the investment side, the Global Trade Finance Program (GTFP) has opened the door for IFC to engage in many Fragile Situations for the first time. IFC also continues to examine means of taking additional risk on investments in Fragile Situations, and the SME Facility and GAFSP are expected to play an important role in addressing special challenges in these markets, including through the use of blended finance. IFC will continue to strengthen its contribution to global thought leadership and knowledge management on private sector development in these countries, including through a position supported by the Government of Denmark.

5.45 Increased partnership with the World Bank and MIGA is very important in these markets, given the long-term engagement needed with continued focus on institution-building and public sector policy reforms. MIGA can also provide useful tools to mitigate political risks. IFC will also participate in a World Bank global community of practice. IFC will support the World Bank Global Center for Conflict, Security, and Development in Nairobi as appropriate with new postings of relevant IFC staff. During the first three quarters of FY12, IFC committed 27 investment projects in Fragile Situations, for a total of $197 million, compared to 28 projects and $287 million in the first three quarters of FY11. IFC has also hired an additional staff member for Afghanistan, established field presence in Baghdad for the first time with a Senior Operations Officer co-located with the World Bank, and posted full time staff in Juba, South Sudan. IFC staff recently returned to Sana'a from their temporary basis in Amman after their evacuation from Yemen last year.

5.46 **Support for MSMEs.** IFC has identified SMEs as one of its key focus areas for FY12 and beyond, having established an ambitious provisional goal of reaching 3.1 million SMEs through financial services in FY11-FY13, and for 25% of those SMEs to be women-owned businesses. To meet these goals, there has been a need to ramp up our core financial markets SME investment activities, especially our ability to reach women-owned businesses, improve coordination and measurement of our SME work, and strengthen client capacity and enabling environment for financing micro and SMEs in IFC's markets. The result has been (i) the creation of a Global SME Finance Facility and a dedicated MENA SME Finance Facility and the creation of additional short-term financing platforms (ii) expanded investment in the Banking on Women program (iii) the creation of an SME Finance Forum under the auspices of the G-20 and housed at IFC. IFC has also appointed a SME & Jobs Steering Committee to coordinate and deepen SME work across the Corporation.

i) **SME Financing Facilities.** The Global SME Finance Facility and the targeted MENA SME Finance Facility have been created as platforms for IFC to work with other IFIs, and donors to expand financing to SMEs through financial institutions. The innovative structure of these facilities, which include junior tranche donor funds and mezzanine funding from IFIs and other investors significantly expands the level of funding available to SMEs in emerging markets. Over time, the two facilities are expected to raise up to $1.8 billion in IFI funding and up to $400 million in donor funding to support over three quarters of a million SMEs. IFC has also expanded its short-term financing platform to address a number of challenges faced by SMEs in the value chains of larger firms.
ii) **Banking on Women.** With dedicated resources, the Banking on Women program has been able to refine its product offering and to ramp up its business development to generate a number of new projects that focus on expanding access to funding for women-owned businesses. The effort, which integrates Advisory and Investment services, has led to the development of a robust pipeline of $194.5 million in investments, of which $77 million has been committed to date.
iii) **SME Finance Forum / G20**. IFC has also taken an increasing leadership role on SME issues as the Implementing Partner to the G-20 SME Finance Working Group. IFC has launched the SME Finance Forum, a G-20 initiative which will serve as a knowledge platform for stakeholders to share experiences and cooperate to push the frontier of SME finance. IFC is a leader of the IFI and Donor Committee groups focused on SMEs, and the administrator of the G20 SME Finance Challenge which is providing grants to 14 competitively selected innovators in the SME finance space. This year, IFC has published a number of flagship publications, including reports on financing women, agribusiness finance and policy guidance on SME finance.

5.47 Management has also created a SME & Jobs Steering Committee which has as its objective to deepen IFC's SME reach and impact on jobs. The Committee, comprising key IFC VPs and Directors is tasked with providing thought leadership on the subject of SMEs and jobs, and coordination across organizational efforts related to SMEs and jobs.

5.48 **Water Resources Group.** The Water Resources Group (WRG) was formally launched on January 26, 2012 at the Annual Davos meetings of the World Economic Forum. The new Executive Director, WRG, took up his position on March 1 with one senior IFC staff member joining the WRG via developmental assignment in April. Recruitment is ongoing for positions within the WRG Secretariat. Constitution documents for the WRG entity, such as the Charter, Standard Donor Agreement, Operating Principles, and IFC Internal Governance procedures were being finalized during the fourth quarter. Country level work is already proceeding with an analytic report produced for Mexico on water tariffs and a second round of work is planned for the Indian state of Karnataka. A catalog of good practices on water resource management has also been prepared. Fund-raising activities are on-going. The Swiss Agency for Development Cooperation (SDC) has committed to provide $2 million for the first two years of WRG. The Coca Cola Company has committed $1 million, and a Memorandum of Understanding was signed with the IADB under which it indicated a contribution of $0.75 million. About $4 million worth of additional commitments are expected by the end of May 2012.

THE REGULAR ADMINISTRATIVE BUDGET PROPOSAL

5.49 The proposed increase of 1% or $6.7 million (3.3% or $22.1 million including the budget price adjustment) to the Regular Administrative Budget (RAB) is shown on an organizational grouping basis in Table 5.6.

Table 5.6: FY13 Regular Administrative Budget Proposal

US$ millions

	FY11 Actual	FY12 Restated† Budget	FY13 Proposed Real Budget	$ Real Change Over FY12	% Real Change Over FY12
Investment Operations	296.1	324.3	327.8	3.5	1.1%
Advisory Services‡	20.3	42.7	42.7	-	0.0%
Environment & Social Development	19.5	22.9	22.9	-	0.0%
Private Sector Development	6.8	7.5	7.5	-	0.0%
Risk, Finance, & Strategy	55.1	62.7	63.9	1.2	1.9%
Treasury	15.7	16.3	17.8	1.5	9.2%
Information Technology	18.5	18.5	18.5	-	0.0%
Human Resources	17.1	18.7	18.7	-	0.0%
Legal	24.5	25.2	25.2	-	0.0%
Executive Vice President	2.0	2.4	2.4	-	0.0%
Subtotal Operations & Corporate Support	**475.7**	**541.4**	**547.6**	**6.2**	**1.1%**
Corporate Overheads	119.7	121.4	121.9	0.5	0.4%
Operating Budget	**595.4**	**662.8**	**669.5**	**6.7**	**1.0%**
Corporate Governance	9.0	11.0	11.0	0.0	0.3%
Regular Administrative Budget	**604.4**	**673.8**	**680.5**	**6.7**	**1.0%**

†Includes FMTAAS partial mainstreaming of $22.3 million.
‡Includes $2.7 million for Knowledge Management which is managed within the Advisory Services VPU but is separate from Advisory Services administrative budget spending per para 5.77.

Composition of the Budget Increase

5.50 Of the proposed 1% increase, $3.5 million is allocated to Investment Operations for the incremental cost of the Infrastructure in Africa initiative ($1.9 million), additional funding for MENA, and augmented portfolio support; $1.5 million to Treasury to support local currency financing; $1.2 million to Risk, Finance & Strategy to augment risk management functions (credit and integrity due diligence) in the field; and $0.5 million for the Compliance Officer/Ombudsman (CAO) to keep up with the growing number of investment projects that must be reviewed.

5.51 **Infrastructure in Africa**. The status of the Infrastructure in Africa initiative is addressed in Box 5.4. The need for an increase of $1.9 million in FY13 (which brings total FY13 direct funding for the initiative to $3.5 million) was disclosed to the Board as shown in Table 5.4. The incremental budget will be used to continue ramping up the staff dedicated to this program which will further expand the pipeline for infrastructure projects in Africa from FY14 onward

5.52 **MENA.** IFC aspires to play a significant counter-cyclical role, attracting investment back into the region and helping restoring investor confidence. In some countries, however, the situation remains very much fluid and the security environment highly volatile. This has materially increased the cost of doing business, especially in Yemen (one of MENA's three IDA countries) and Libya. Incremental budget resources will be used to secure temporary office space, rent armored cars and engage security personnel necessary to allow staff to work in very volatile environments. Tunisia has become a strategic priority in the MENA region following the Arab Spring events. The recent political transition has given IFC a unique opportunity to engage in Tunisia. IFC already has a senior staff member dedicated to the country for the first time in order to actively pursue new business development. Efforts are also underway to develop an active AS program in investment climate and E4E. A portion of the incremental budget for MENA will help IFC establish a permanent presence in the country.

5.53 **Portfolio Support.** IFC's portfolio has grown at a compounded average growth rate of 14% between FY07-FY11, and, based on recent estimates would continue to grow at a compounded rate of 12% through FY12-end. As the portfolio volume increased, the composition of its investments and profile of Clients also became more diverse, requiring more Client interactions as well as internal activities increasing accountability and financial reporting. To-date, through decentralization IFC has successfully managed to maintain a robust portfolio by being closer to its Clients. While the current portfolio remains strong, IFC is taking measures to manage the anticipation of further impact on the portfolio as it lags leading credit ratings indicators and for future crisis preparedness. To this end, the Corporation is drawing further on its senior resources to effectively manage the continued growth and complexity requirements of its portfolio. Since these senior resources, however, are also leading efforts on new business, more support in the form of additional senior staff to manage diversification as well as junior analysts are needed to mitigate operational risks and help ensure efficiency and productivity for both new business and portfolio remain intact. The discussion of productivity showed that some incremental resources have been devoted to portfolio work in recent years. The allocation of $0.6 million from the +1% administrative budget increase reflects Management’s understanding that carefully supervising and managing the portfolio, especially in country offices, is critical to ensuring the financial sustainability and thereby the development impact of IFC’s projects. This will also help position the Corporation’s crisis response as helping existing Clients through economic downturns is particularly important and speaks to IFC’s additionality and value add.

5.54 **Local currency financing.** Developing local financial markets is a key strategic priority of IFC and to meet this objective, IFC cooperates with the World Bank to create supportive policy, legal and regulatory framework. To influence the development of local financial markets, IFC Treasury works very closely with investment operations of IFC. Time and again, this partnership has demonstrated that issuing local currency bonds, providing long term local currency financing to clients through bonds, local currency derivatives, and structured and securitized products prove as catalysts in influencing the development of local financial markets.

5.55 Recently, IFC Treasury undertook a comprehensive review of its strategy and operations by setting up an internal working group, taking inputs from clients and also external financial advisors (Oliver Wyman) to examine how IFC Treasury can take its efforts to the next level. In the process Treasury also benchmarked its processes to the best industry practices especially with a view to re-organize itself to maximize its contribution towards the objective of local financial markets development.

5.56 The outcome of this review led IFC Treasury to undertake a significant reorganization of not only the overall structure of Treasury but also some strategic re-positioning of critical units so that IFC Treasury can contribute more effectively to the developmental agenda of the World Bank Group. Key features of this re-organization are: i) Closer cooperation of IFC Treasury with Advisory Services through setting up a "Knowledge Management" cell within Treasury, ii) Enhanced focus on issuance of local currency bonds especially in frontier markets in Sub-Saharan Africa; iii) Significant improvement in delivery of local currency solutions to IFC's internal and external clients by creating a dedicated "Treasury Client Solutions" department. Several teams, previously product-focused and working in silos in Treasury, have come together to become client-focused and provide a "one-stop shop" experience to IFC clients; and (iv) Progressive decentralization of selected client facing functions by relocating some senior staff in key regional offices and ultimately increasing the local presence by hiring staff locally.

5.57 These re-organization efforts were endorsed by IFC's Management Team and have already resulted in some early successes. Increased focus on issuing local currency bonds in frontier markets has created opportunities for IFC in CFA region and Ghana where eight member countries of the West African Monetary Union and Ghana have given approvals to IFC to establish local currency bond programs to strengthen domestic capital markets and support private sector development in the region. In addition, IFC and AfDB have agreed to leverage the impact of local currency bond issuances by providing local currency swaps to each other enabling use of local currency proceeds to fund projects in local currencies. A formal agreement is expected to be signed this Fiscal Year. Similar outcomes are expected in other frontier regions.

5.58 IFC will use the proposed incremental budget to continue and escalate these efforts, to influence the development of local financial markets, complemented by better service and enhanced suite of local currency solutions to our clients, by staffing teams in Hong Kong, Moscow and Dakar. The teams will be composed of experienced HQ staff relocating to local offices along with locally hired talent. All client related meetings, relationship with regulators, market counterparts, and colleagues in Investment and Advisory Services will be delegated to these Treasury staff.

5.59 **Risk Management.** Continuous improvement of risk management is critical to the success of IFC's globalized business model. With delegated authorities in the field, it is necessary to provide sufficient credit oversight on the ground close to clients. This will improve credit review through enhanced local market knowledge and ensure that delegated processing is not delayed by having credit reviews done at headquarters when other processing activities are accomplished in the field. The integrity due diligence function is also being expanded in the field to facilitate the speed and accuracy of IDD reviews. Local market knowledge is critical to the IDD process which cannot be efficiently undertaken from a distance at Headquarters. Similarly, insurance experts are being sent to the field to undertake detailed reviews of the coverages carried by clients to ensure they satisfy IFC requirements. Lack of sufficient insurance coverage in IFC projects would present both reputational and financial risks to IFC.

5.60 This will also expand portfolio management functions in the field. Portfolio management faces new challenges as IFC's portfolio expands beyond IDA to frontiers which are more poverty-focused. The strategic growth and increasing complexity of IFC's equity portfolio similarly requires additional attention from portfolio specialists, particularly as potential financial crises loom. Close attention to clients and IFC's portfolio during the last crisis helped mitigate the negative impact the downturn had on IFC's portfolio. Additional staff are now required as the overall size and complexity of the portfolio has increased since the last crisis. Additional portfolio management staff will further leverage senior portfolio staff to assist in business promotion and processing.

TRADE OFFS

5.61 IFC's Management Team has made numerous trade-offs in formulating the proposed business plan and budget. These trade-offs represent a combination of: activities reduced to create capacity for more strategically important ones; absorption of the costs for important new programs within the existing budget; and absorption of structural cost increases through efficiency gains.

5.62 In line with IFC's strategy to ramp up investments in focus areas and priority sectors, IFC's Management Team has deliberately made a decision to de-emphasize certain sectors. Transactions in these sectors will be done only in exceptional cases with significant developmental impact stemming from specific circumstances.

a) **Manufacturing and Services** non-core sectors include metals, non-food retail, ceramics and consumer electronics. Textiles is an area that IFC will generally not support, except for cases like Bangladesh, where both the developmental impact and IFC additionality can be strong.
b) **Financial Markets** will not actively pursue leasing and housing finance secondary market institutions or Non-Banking Financial Institutions overly dependent on the secondary market for funding.
c) **Infrastructure** non-core sectors include mainstream mobile telephony (except Frontier and Fragile Situations), shipping and municipal finance. These will receive less attention than high priority sectors such as solar power, water and PPPs.
d) **Climate Change** efforts will de-emphasize urban transport, biofuel and sustainable value chains (other than agribusiness). IFC's strategic staffing and budget proposals reflect these sub-sector priorities.

5.63 Management of the respective departments has already re-focused their teams' efforts with these priorities in mind and a number of positions previously planned have been suspended. Additionally, while IFC is scaling up some regional efforts in certain sectors, notably infrastructure in Africa, other regions are getting less attention by industry teams – examples include infrastructure in CEU and non-IDA Asia.

5.64 There were also strategic programs in investment operations proposed for Africa, Asia, and LAC which IFC's Management Team decided should be undertaken or continued, but rather than providing incremental funding, departments have been directed to absorb the costs within their existing budgets. These programs include:

a) **The Health in Africa initiative** is a cooperative effort with the World Bank to improve access to health care in Africa through research and analysis, provision of Advisory Services to governments, and investments. The initiative will continue to scale up in FY13.
b) **The Amazon initiative** is another cooperative effort with the World Bank to set standards in the Amazon. IFC's work promotes sustainable land use and alternative livelihoods in the rainforest, as well as the business case for food security and biodiversity in the savannah.
c) **The Thailand/Myanmar initiative** focuses on extensive flooding which affects these countries. It has already provided emergency liquidity to Thailand's banking sector for on-lending to SMEs in flood-affected areas It also supports Thailand's manufacturing sector and infrastructure in the restoration and recovery process, including the development of industry in areas less prone to flooding. In January IFC participated in its first mission to Myanmar in order to begin preparations for an eventual engagement in the country as reforms proceed and sanctions are lifted.

5.65 The projected additional costs of $1.5 million to expand these programs in FY13 will be absorbed within base budgets through efficiency gains and reprioritization of existing activities. An additional $2.5 million of operations support cost has been identified which is being absorbed within the existing investment operations budgets along with the administrative costs for new country offices in the Amazon region of Brazil and in Harare, Zimbabwe.

5.66 Other cost increases of around $11 million across the Corporation will be absorbed within the existing administrative budget. This comprises programs and functions around the world which are necessary to support the Corporation's front line operations. Examples include an expanded portfolio middle office in Istanbul; further decentralization of risk management activities in Asia and Africa; support costs for IT systems development; as well as increased depreciation costs driven by prior year's investments in capital assets such as country offices and IT systems. The absorbed costs for these items range from $200 thousand to nearly $4 million for depreciation cost increases. The absorption of these costs within existing budgets will be accomplished through efficiency gains mandated to each Vice Presidency and utilization of what little budget headroom existed in support functions.

FUNDING FOR CRISIS RESPONSE

5.67 Beginning in FY98, the Board authorized IFC to carryforward up to 5% of unused spending authority from one fiscal year to the next. The carryforward mechanism was instituted to encourage prudent budget management and avoid the use-it-or-lose-it budget mentality. IFC Management has traditionally viewed the carryforward as a corporate contingency only to be used in extraordinary circumstances. Indeed, it has only been used on two occasions in the last ten years for less than a total of $2 mllion.

5.68 In the *Road Map, FY13-15*, IFC positioned its potential response to another financial crisis given the uncertain economic outlook worldwide. IFC Management has decided not to request additional administrative budget for possible crisis response activities as this would unnecessarily increase the Corporation's permanent cost base. Rather, in the event of a financial crisis, IFC intends to fund any crisis response activities that cannot be absorbed through redeployment of existing resources from the carryforward which is estimated to be nearly $41 million for FY13. If the Corporation reaches the point that it is necessary to use the carryforward for crisis response in FY13 or future years, IFC Management will inform the Board before doing so.

5.69 IFC's Special Operations Department (CSO) – which seeks to resolve problems and special issues in IFC's portfolios - established a crisis contingency plan during FY08 and has recently updated it to address the potential for deterioration of IFC's portfolio in the event of a crisis. Since CSO's services would be at a premium during a crisis, the plan calls for hiring additional staff for specific crisis related work. The CSO crisis plan would require up to $10 million p.a. under the worst case scenario for the duration of the crisis. If this plan were activated, IFC's Management Team intends to fund it from the carry-forward as part of an overall IFC crisis response.

USE OF FEES

5.70 IFC has a long established practice of using fees from clients to directly cover out-of-pocket expenses incurred for the client's project such as travel, consultants, and outside legal counsel. Similarly, clients pay service fees for work associated with its investment projects. The Corporation also receives privatization fees and mobilization fees to offset direct expenses associated with these activities. The general principle in the usage of fees is to match an expense with a fee source before the expense is incurred.

5.71 IFC's Management Team increased the availability of fees to cover project-related expenses in recent years as an incentive to project teams to collect more fees from clients. This has proved particularly effective in FY12 as fee collections have increased from $56 million in FY10-11 to $83 million in FY11-12, partially as a result of this incentive. IFC is, however, careful to ensure that fee budgets for the upcoming year do not exceed likely fee collections. Up to 30 % of service fees can be used for staff costs to provide flexibility to the investment departments. Since the remaining fees are also used to cover variable costs such as travel, consultants, and outside legal counsel, IFC can extend its activities using fees without adding to the permanent cost base of the Corporation.

5.72 Based on the existing methodology, service fee budgets could have grown by 50% to reach $66 million in FY13. However, the trend in the second half of FY12 has been for slightly lower collections. Additionally, it was not considered prudent to increase the fee budget so rapidly. The Management Team, therefore, decided to increase FY13 service fee budget from $44.5 million to $58.3 million which represents 70% usage of eligible fees, compared to 80% in the previous fiscal year; this is considered to be a sufficient cushion to cover a significant reduction in fee collections during FY13 should there be a financial crisis limiting new business and client ability to pay fees. AMC fees earned in IFC can be used for staff costs incurred in business origination and development activities as well as portfolio supervision. The use and collection of fees is closely monitored and reported on a quarterly basis.

BUDGET VERSUS SPENDING

5.73 Prudent financial management requires the Corporation to maintain a safety margin between the Board-authorized budget and IFC's actual level of spending. If the Corporation did not maintain this safety margin, unexpected swings in cost items could cause IFC to inadvertently overspend its annual budget. To ensure against this possibility, the Management Team aims to keep spending below IFC's total spending authority which comprises the administrative budget plus the carryforward from previous year's underspending. In FY12, spending continues to be closely monitored and is expected to be in a range of 97% to 99% of the administrative budget, and 91% to 94% of total spending authority (administrative budget plus 5% carryforward).

5.74 Management has also implemented a formal budget reallocation methodology within Investment Operations during FY12. This method sets a $0.3 million threshold for reallocations between departments within the Investment Operations matrix that can be approved directly by Directors. This process encourages the close collaboration between Directors and recognition of the Corporate perspective whereby if one sector or region cannot utilize budget during the current year to deliver on the business plan, this money can be reallocated to other departments which are constrained and could deliver additional program with a budget infusion during the year. Such reallocations can be temporary – just for the current fiscal year – if Departments feel they can productively employ budget resources in the coming year. Or the reallocation can be a permanent budget transfer which recognizes a strategic shift in the work program or market realities from one industry or region to another. The reallocation methodology was designed to provide Directors with the discretion to agree on reallocations within a VPU, while engagement of the respective VPs is necessary if the reallocations cross Vice Presidential boundaries.

Table 5.7: Spending against FY12 4% Real Budget Increase

US$ millions

	FY12 Budget	**Projected Spending for FY12**
Sustainability Framework (Across IFC)	**6.0**	**5.7**
New Development Initiatives	**7.6**	**5.6**
infrastructure in Africa (CN2DR)	1.6	1.2
South South Emerging Markets to Africa (CXAVP & CAPVP)	1.0	0.9
Education for Employment for Youth in Arab World (CM3DR)	1.0	1.0
Engagement in Fragile Situations (CGIVP)	2.0	1.0
Water Resources Group (FPDVP)	1.0	1.0
Support for MSME (CGIVP)	1.0	0.5
Growth in Investment Operations (across investment operations)	**10.7**	**7.2**
Augmented Corporate Support (CRFVP & CHAVP)	**2.7**	**1.9**
Total Spending Against Gross FY12 Budget Increase	**27.0**	**20.4**
Less: Non-recurring Initiatives from prior years	2.9	-
Total Spending Against Net FY12 Budget Increase	**24.1**	**20.4**

5.75 Table 5.8 below provides the breakdown of the administrative budget by cost category. It is important to note that budgets are fungible and subject to reallocation so the actual composition of spending by cost category may be different during the fiscal year. The FY13 budget is, therefore, an estimated breakdown which will be analyzed and amended as necessary early in FY13, when complete cost data for FY12 is available. The FY13 estimate is based on department budget proposals. Nonetheless, the estimate maintains the balance between fixed (77%) and variable costs (23%) within the regular administrative budget through focused cost management. Similarly, the relative share of each cost category is expected to remain unchanged in FY13, with staff costs accounting for 61% of the regular administrative budget.

Table 5.8: Administrative Budget by Cost Category
US$ millions

	FY11		FY12		FY13		FY13	
	Expenses	As % of RAB	Restated† Budget	As % of RAB	Real Budget	As % of RAB	Nominal Budget	As % of RAB
Fixed Expenses	**464.8**	**77%**	**515.6**	**77%**	**526.7**	**77%**	**538.0**	**77%**
of which:								
Staff Salaries and Benefits	364.3	60%	408.3	61%	417.9	61%	427.4	61%
Communications and IT	25.2	4%	27.7	4%	27.1	4%	27.8	4%
Depreciation	41.8	7%	43.1	6%	45.6	7%	45.6	7%
Equipment and Building	33.5	6%	36.5	5%	36.1	5%	37.1	5%
Variable Expenses	**139.6**	**23%**	**158.2**	**23%**	**153.8**	**23%**	**157.9**	**23%**
of which:								
ST. Consultants and Temps.	18.3	3%	20.0	3%	18.4	3%	18.9	3%
Operational Travel	33.5	6%	37.7	6%	38.1	6%	39.1	6%
Representation and Hospitality	1.1	0%	1.7	0%	1.7	0%	1.7	0%
Contractual & Other Expenses	86.7	14%	98.7	15%	95.6	14%	98.2	14%
Regular Administrative Expenses (RAB)	**604.4**	**100%**	**673.8**	**100%**	**680.5**	**100%**	**695.9**	**100%**
Other Expense Items:	**108.7**		**136.5**		**153.6**		**154.3**	
Independent Evaluation	5.6		5.9		6.4		6.5	
Corporate Secretariat & Board	14.0		19.9		20.0		20.5	
Contribution to SRP, SSRP, & RSBP	89.1		110.7		127.2		127.2	
Total Administrative Expenses	**713.1**		**810.2**		**834.1**		**850.2**	

†Includes FMTAAS partial mainstreaming of $22.3 million.

5.76 Table 5.9 below breakdowns the staff cost component of IFC's administrative budget. The relatively large increase in staff cost from FY11 Actual to FY12 restated budget is attributable to two factors: i) the $24 million FY12 approved 4% real budget increase; and ii) $22.3 million for FMTAAS mainstreaming which was added to FY12 budget but not included in FY11. The budget for total staff cost is expected to increase by 2.4% from FY12 to FY13 in real terms. In nominal terms the increase will be 4.7% from FY12 to FY13. The budget for Headquarters salary cost is expected to increase by 1.9% in real terms in FY13 while the Country Office component is expected to increase by 6.2% in real terms, reflecting the focus of selective new hiring in the field.

Table 5.9: Staff Costs
US$ millions

	FY11 Actual	FY12 Restated† Budget	FY13 Real Budget	FY13 Nominal Budget
Headquarters Salary Cost	193.0	211.1	215.1	219.1
Country Office Salary Cost	52.5	59.5	63.2	65.3
Benefits	118.9	137.7	139.6	143.0
Total Staff Cost	**364.4**	**408.3**	**417.9**	**427.4**

† Includes $17.7 million of staff costs from FMTAAS partial mainstreaming.

D. Advisory Services

5.77 Funding for IFC's Advisory Services comes from three sources: donors, clients, and IFC. In FY12, IFC is expected to contribute $154 million, or 44% of total AS spending. The bulk of that contribution ($93 million) is sourced from designations of IFC net income through the Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS). The remaining $61 million of IFC's contribution is sourced from: a) IFC's administrative budget ($40 million); b) Trust Funds Administrative Fees ($14 million); and c) part of the Performance Based Grants Initiative used to support AS projects ($7 million).

5.78 In FY13, IFC overall contribution will remain at $154 million of the projected total AS spending of $381 million. While total AS spending will increase by 8% over FY12, IFC's share would be reduced to 40% of the total. This reflects the strategy approved by the Board of achieving greater leverage of IFC contributions by expanding the role of donor and client contributions, as outlined in paras 1.25-1.29. Donor and client contributions are expected to increase over time until IFC's contribution accounts for around one third of total AS costs (see Table 5.10).

Table 5.10: Leverage of IFC Contributions to AS – Plan FY13-15

	FY11A		**FY12E**		**FY13P**		**FY14P**		**FY15P**	
	$m	%	$m	%	$m	%	$m	%	$m	%
IFC (all sources)	146	44	154	44	154	40	154	38	154	36
Donors and clients	188	56	200	56	227	60	255	62	277	64
Total	**334**	**100**	**354**	**100**	**381**	**100**	**409**	**100**	**431**	**100**

Partial Mainstreaming of IFC's Contribution

5.79 As part of *IFC's FY11 Business Plan & Budget*, the Board endorsed Management's proposal to shift a larger share of IFC's contribution to AS to the administrative budget beginning in FY12, with claims on FMTAAS and Trust Fund Administrative Fees to be reduced accordingly. Three benefits are expected:

i. Enhanced management transparency of IFC's investment in, and its commitment to, one of its key businesses;
ii. Stronger financial foundation of AS by reducing exposure to possible fluctuations in IFC's net income and other claims on that income; and
iii. Simpler financial and HR management, particularly for functions that serve both Advisory and Investment Services, making it easier to establish common platforms where efficient.

5.80 The agreed approach to partial mainstreaming has two main elements:

i. Funding for a defined "backbone" of AS positions shifts to the Administrative Budget. Positions to be included in the backbone are those that are essential to the effective functioning of the AS business in the long-term, regardless of shifts in operational strategy or donor priorities. Remaining AS staff are mainly engaged to execute specific projects, and will continue to be funded from current sources, which are dominated by donor or pooled donor-FMTAAS resources; and

ii. FMTAAS will be retained as a funding source for AS, but with a sharpened focus on providing support to particular partnerships and programs, rather than core business functions.

5.81 As discussed in *IFC's FY12 Business Plan & Budget*, partial mainstreaming will be implemented in two phases. The first phase covering 49 positions and a shift of $22 million in funding was rolled-out in FY12. A second phase comprising additional positions will be implemented from FY14 based on lessons learned from the first phase. Management will engage the Board on the emerging proposal as part of the FY14 budget process.

FMTAAS Annual Spending Authority & Designations

5.82 For FY13, Management proposes to keep the annual spending authority from FMTAAS flat at $93 million. Further details are provided in Annex 2. Since inception of FMTAAS in FY05, $934 million of IFC's retained earnings has been designated through FMTAAS for IFC's Advisory Services.[23] FMTAAS was designed to provide a cushion against annual fluctuations in net income, equivalent to around three years of prospective annual FMTAAS spending. As a result of the global financial crisis and other demands on IFC income, there was no designation to FMTAAS from IFC's FY09 retained earnings, and the designation from FY10 retained earnings was limited to $10 million. The designation from FY11 retained earnings was $69 million (Table 5.11).

Table 5.11: FMTAAS Designations from Retained Earnings vs. Spending Authority
US$ millions

	FY05	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12(E)**
FMTAAS Designation from Prior FY Earnings	225	125	230	170	100	-	10	69
Re-designation from PBGI to FMTAAS	-	-	-	-	-	5	-	-
FMTAAS Spending	(38)	(55)	(96)	(123)	(129)	(101)	(106)	(93)
Resulting FMTAAS Cushion (year-end)	187	257	391	438	409	313	217	193

Note. FY12 FMTAAS spending includes adjustment reflecting a change in accounting policy introduced effective FY12.

5.83 To support the FY13 AS spending plan and ensure sustainable funding of the AS Strategy for the following years, it is expected that a new designation from FY12 retained earnings will be required. As in the past, the Management Team will make a recommendation as to the amount of the designation in the FY12 Net Income Paper.

[23] Including a transfer of the remaining $5.2 million balance of designations for Performance Based Grant Initiative approved as part of *IFC's FY11 Business Plan & Budget.*

E. Capital Budget

5.84 The Corporation's capital budget funds Headquarters and Country Office facility needs, as well as IFC's investment in Information Technology necessary to support the Corporation's unique business model. For FY12, the total recommended capital budget is $89.4 million.

Table 5.12: FY13 Capital Budget Proposal
US$ millions

	FY10 Budget	FY11 Budget	FY12 Budget	FY13 Budget
Headquarters Facilities	3.7	5.8	5.3	4.9
Country Office Facilities	12.7	14.1	17.8	25.4
Information Technology	24.3	20.0	45.0	57.6
Contingency	1.0	1.0	1.0	1.5
Total	**41.7**	**40.9**	**69.0**	**89.4**

Headquarters Facilities

5.85 The Headquarters Facilities portion of the capital budget is used to fund required building improvements and other work at the F-building. The scope of work planned for FY13 will support organizational realignments while continuing annual capital improvements required to keep the building functioning well and properly maintained. Included are critical improvements such as upgrades to the IFC Security Center, exterior caulking of the IFC Building, and continued workplace compression. Capital investments in the F-building continue to include energy conservation measures which reduce energy and water consumption to maintain LEED PLATINUM[24] certification.

Country Office Facilities

5.86 The Country Office Facilities budget proposal reflects IFC's continued decentralization and growth in the field. IFC currently has 106 offices in 97 countries supporting over 2,500 staff and consultants in the field. IFC co-locates its country offices with IBRD wherever feasible – 69 of the 106 offices are co-located. As IFC's field presence has grown, new offices are added and others are closed to ensure that the location of staff in the field maximizes contact and support for IFC's clients. In FY12, seven new offices have opened (Baghdad, Iraq; Bujumbura, Burundi; Chisinau, Moldova; Juba, Sudan; Panama City, Panama; Singapore; and Tunis, Tunisia) and three have closed (Kherson, Ukraine; Vinnitsa, Ukraine; and Novgorod, Russian Federation). IFC plans to open two new offices in FY13 (Belem/Manaus, Brazil; and Harare, Zimbabwe). The proposed FY13 capital budget of $25.4 million will fund work on approximately 30 Country Offices, including $9.7 million for the construction of an IFC building in Dakar, Senegal.[25] By the end of FY13, IFC should have 108 offices in 98 countries – 70 of the offices would be co-located. There is currently a major construction project underway to build a new IFC/IBRD co-located office in Accra, Ghana led by IFC at a total WBG cost of $27.9 million (no incremental funding required in

[24] LEED (Leadership in Energy and Environmental Design) is an internationally recognized certification program that provides third-party verification that a building is designed and built using strategies aimed at reducing environmental impact and improving energy efficiency. LEED PLATINUM is recognized as the highest levels of LEED certification and is a substantial achievement for a building not originally designed with sustainable operations in mind.

[25] Total cost of Dakar office building is approximately $13.2 million, the balance of which is funded from prior year capital budgets.

FY13). It will accommodate 178 WBG staff and 15 visiting missions. Substantial completion of the building is scheduled for FY13 Q3.

Table 5.13: IFC Country Offices

	FY12E		FY13 Plan	
	Offices	Countries	Offices	Countries
Sub-Saharan Africa	24	23	25	24
East Asia & Pacific	18	15	18	15
Europe & Central Asia (excl Part I)	21	21	21	21
Latin America & Caribbean	16	15	17	15
Middle East & North Africa	14	13	14	13
South Asia	8	5	8	5
Part I	5	5	5	5
Total	**106**	**97**	**108**	**98**

Information Technology

5.87 The FY13 Information Technology capital budget proposal of $57.6 million invests in the mandatory renewal of IFC's Financial Management systems and Information Security while sustaining existing systems. The requested FY13 capital budget would fund two categories of investment:

5.88 ***Steady State ($28.7 million).*** This category focuses on the established IT needs of the Corporation. These programs ensure the reliability of existing systems by addressing technical obsolescence and facilitating IT capacity growth necessary to accommodate IFC's growth.

a) *Technologies, Platforms, Network, and Applications:* These investments fund the cyclical replenishment, replacement, and enhancements of hardware and systems software. The FY13 capital budget includes the upgrade of all of IFC's Country Office WiFi Infrastructure; the replacement of outdated Video Conferencing equipment for 20 Country Offices; expansion of the Tele-presence pilot to include the Johannesburg office; and replacement of PCs that have reached end of warranty.
b) *Information Security:* Investments will continue to strengthen security measures in the areas of network, internet, PCs, user access and role management, security tools, and two-factor authentication. This program is executed in alignment with WBG Information Management Technology (IMT) and the Office of Information Security (OIS) to ensure comprehensive programs and consistent processes for all IT security functions. A recent IAD audit of WBG network perimeter security was rated Unsatisfactory due to vulnerabilities in internet-facing devices that could allow external threats to access the internal network. The IMT Network team manages the network perimeter for IFC and the Bank Group Office of Information Security is accountable for its security. They will be implementing all action plans to address the risks noted in the audit. CBT will monitor the execution of these action plans to ensure risk to IFC is mitigated.
c) *Short-term point solutions:* This QuickStrike service provides rapid application development of small and medium size applications that complement or supplement the current year's IT development program. In FY13 Quickstrike will initiate transition from the current application development platform to newer, more robust technologies.

5.89 ***System Development ($28.9 million)***. These programs focus on the development of new or enhanced IT solutions in support of IFC's lines of business. They include automation of business process changes, as well as the introduction and transition of technology platforms. Some are new multi-year programs, while others are continuation or completion of programs begun in prior years. The programs include:

a) *Investment Operations:* Assess and start a phased implementation of new Investment Operations Platform. Implement tools for clean-up of existing data while developing new integrated technology solutions to capture and maintain partner data based on new business processes. In parallel, work with business process owners to establish corporate objectives, processes and data ownership for partner information.
b) *Advisory Services:* Two components of the overall Advisory Services Financial Management initiative will be implemented via the Bank's eTrust Funds framework: Budget Control and Funds Management.
c) *Finance and Treasury:* Continue the holistic renewal of IFC core Treasury and Loan platforms. Upgrade Summit, Treasury's core technology platform, and implement new system modules leveraging the business process recommendations developed during the FY12 Treasury review. Start the implementation of the renewed Loan platform, ACBS, to be completed by FY14.
d) *Risk Management:* Assess IFC's Credit Risk requirements, including spreading and risk rating solutions, and evaluate potential platforms.
e) *Information Management & Delivery*: Build a platform to support implementation of structured collaboration including document collaboration. Address immediate needs in information management capabilities such as Search, Document Management and Corporate Reporting.
f) *Information Security*: Improve security of IFC's critical information through additional network segmentation; reduce risk of theft of confidential data by eliminating live data from all development and test environments; and assess and implement initiatives, and capabilities required to deliver WBG's next generation cyber security strategy including stronger protection for the highest priority information assets, improved access controls, encryption, endpoint protection, and a cyber threat dashboard.

F. TOTAL RESOURCES

5.90 The total resources used by IFC to deliver its overall operational program and development strategy are larger than the Total Administrative Budget alone. They include special programs approved by the Board in addition to the Total Administrative Budget, as well as IFC's use of fees charged to clients to offset out-of-pocket expenses incurred in the course of project work, including from the AMC. In addition, IFC has made allocations from net income to fund its contributions to Advisory Services (AS). As discussed above, these allocations are significantly leveraged through donor and client funding which allows IFC to greatly extend its Advisory Services reach. Table 5.14 provides a comprehensive statement of the total resources that are needed and used to deliver IFC's full development impact.

Table 5.14: IFC's Total Resources

US$ millions

	FY11 Actuals	FY12 Restated† Budget	FY13 Nominal‡ Budget	Variance FY13 v FY12
Total Administrative Budget	**713.1**	**810.2**	**850.2**	**39.9**
Carryforward of Unspent Budget from Previous Fiscal Year		36.2	40.5	4.3
Total Spending Authority	**713.1**	**846.5**	**890.7**	**40.2**
IFC Contributions to Advisory Services (other than admin. budget)	**131.2**	**119.9**	**118.9**	**(1.0)**
FMTAAS	106.1	92.6	92.7	0.1
PBGI	9.3	6.4	11.5	5.1
IFC SME Ventures	3.4	7.0	2.3	(4.7)
Trust Fund Administrative Fees	12.3	13.9	12.4	(1.5)
Donor/Client Contribution to Advisory Services	**179.6**	**199.6**	**226.8**	**27.1**
Expenses associated with IFC's Treasury & Portfolio activities	**14.2**	**16.1**	**15.2**	**(0.9)**
Borrowing Expenses	1.7	2.5	2.5	-
Custody and Settlement Costs	10.9	11.0	9.5	(1.5)
Structured and Securitized Products	0.1	0.2	0.2	-
Equity Transaction Costs	1.5	2.4	3.0	0.6
Expenses offset by fee income	**73.9**	**120.1**	**123.8**	**3.6**
Client Fee	53.6	70.2	83.5	13.4
Privatization Fees	2.3	2.9	1.8	(1.1)
Syndicated Loan Management Unit (CSLLM)	2.9	4.1	4.2	0.1
The Climate Change Program		1.5	0.7	(0.8)
Global Agriculture and Food Security Program		1.1	2.1	1.0
GTLP	5.0	5.4	3.0	(2.4)
AMC Fees	5.9	22.5	18.8	(3.7)
AMC Reimbursable	4.1	12.4	9.7	(2.7)
Special Initiatives	**4.3**	**6.1**	**4.6**	**(1.5)**
Infra Ventures	2.1	2.9	3.8	0.9
Frontier Privatization Fund	1.1	-	-	-
IFC Post-2012 Carbon Facility		1.4	-	(1.4)
PBGI-Access to Infrastructure	0.3	1.0	-	(1.0)
Environmental/Social Mediation and Conflict Resolution	0.7	0.8	0.8	-
Jeopardy Expenses	**4.8**	**12.0**	**12.0**	**-**
IFC's Total Resources	**1,121.1**	**1,320.4**	**1,392.0**	**71.6**

†Includes FMTAAS partial mainstreaming of $22.3 million in the Total Administrative Budget.

‡Including Price Increase.

5.91 ***Expenses Associated with IFC's Treasury & Portfolio Activities.*** IFC incurs expenses directly associated with its market borrowings such as outside legal counsel fees, auditor fees, prospectus printing costs, as well as rating agency fees. There are also custody and settlement fees paid to the custodians of IFC's equity and liquid asset portfolio, State Street Bank, Citibank, and external managers. In addition, some minor out-of-pocket costs are incurred in relation to business development for IFC's structured and securitized products. Equity transaction costs are not reimbursed by clients due to market practices. These costs are similar to those which clients pay as reimbursables on loan transactions.

5.92 ***Expenses Offset by Fee Income.*** As explained in paras 5.70-5.72, IFC charges its clients fees to offset many of the out-of-pocket expenses associated with the appraisal and supervision of investment projects; these are commonly called reimbursables. IFC uses fees in a prudent manner to offset expenses that are directly related to its investment program and other client-focused activities. This is evident in Table 5.15 which shows that 100% of the fees are used by investment operations, advisory services, or corporate functions which directly support the investment program. The allocation of AMC fees and reimbursables by business unit will be finalized during FY13 once FY12 actual usage has been reviewed.

Table 5.15: Fee Usage by Function

US$ millions

	FY11 Actual	FY12 Restated Budget	FY13 Nominal Budget
VP Operations	44.8	59.4	68.4
VP-Business Advisory Services	10.5	12.6	10.4
Subtotal VP Operations & AS	**55.3**	**71.6**	**78.8**
VP- Treasury and Information Technology	4.1	7.0	8.5
VP-Risk, Finance & Strategy	0.7	1.6	2.6
Financial & Private Sector Development	0.0	0.0	0.4
General Counsel (Legal)	3.8	5.0	5.0
Subtotal Corporate Departments	**8.5**	**13.7**	**16.5**
Total Departments	**63.9**	**85.2**	**95.3**
AMC Fees & Reimbursable	**10.0**	**34.9**	**28.5**
Operations depts.	4.9	21.1	17.4
Operations support depts.	1.0	1.4	1.4
AMC Reimbursable	4.1	12.4	9.7
Total Expenses Offset by Fees	**73.9**	**120.1**	**123.8**

5.93 ***Special Initiatives.*** IFC InfraVentures was established in FY08 to help increase the number of private and PPP infrastructure projects in IDA countries and thereby increase the supply of scarce infrastructure resources to citizens and companies in these countries. The limited availability of project development resources remains a key bottleneck in the development of private and PPP infrastructure projects in IDA countries. InfraVentures helps address this issue by providing necessary early stage risk capital and active project development support by experienced IFC staff through a streamlined approval process. InfraVentures was established in accordance with the Board's authorization for a 5-year period ending in FY13. After a slow start, InfraVentures is now fully operational, and the Fund has committed several project development investments while building a solid pipeline of possible private infrastructure projects. Through the end of March 2012, InfraVentures has invested $32.2 million representing 13 project development investments in IDA countries. The IFC InfraVentures program is actively engaged in project development activities on a number of infrastructure projects and expects to commit another $11.6 million for six projects by fiscal year end. These include a road PPP project in Cote d'Ivoire, the development of solar projects in West Africa, a gas-to-power project in Rwanda, a wind project in Moldova and hydro projects in Nepal and Laos. InfraVentures budget for FY13 is proposed at $4.1 million, the same as in FY12. Given an estimated unused InfraVentures budget at the end FY12 of $0.3 million, a budget allocation of $3.8 million will be necessary to cover InfraVentures' administrative expenses for FY13.

5.94 ***Jeopardy Expenses.*** IFC designates a project as being a jeopardy case when the prospects for recovery of IFC's investment are in serious doubt due to expected future loan defaults, country/industry considerations, stock market factors or other factors as determined by the Management Team. The restructuring or recovery of such jeopardy cases often generates significant out-of-pocket expenses (e.g. for travel, consultants, auditors, and legal fees). To facilitate the tracking and reporting (and often the reimbursement) of these extraordinary jeopardy expenses, IFC sets up a separate expense account for each jeopardy case. The Board has traditionally recognized jeopardy expenses as being off-budget since, in the majority of jeopardy cases, IFC's ultimate recovery on its investments amounts to many times the expenses spent in the recovery process. The ceiling for FY13 is proposed at a stable amount of $12 million which will allow sufficient flexibility in the event of stress on IFC's portfolio given the current uncertainty in global financial markets.

VI. Recommendations

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

A. ADMINISTRATIVE BUDGET AUTHORITY

i) A total administrative budget for FY13 of $850.2 million.

B. CAPITAL BUDGET AUTHORITY

ii) A capital budget for FY13 of $89.4 million.

C. SPECIAL INITIATIVES

iii) Authority to spend an additional $3.8 million for IFC InfraVentures through FY13.

Annex 1: Adjustment for Price Increase

Each fiscal year, Management proposes a nominal US dollar budget which includes an adjustment for price changes based on external price movements. The budget price adjustment covers the effects of external price increases/decreases on IFC's total administrative expenses. Following extensive discussions between the Board and IBRD/IDA Management to maintain a more accurate value of the Bank's budget, both in USD and Non-USD currencies, revisions to the price factor methodology was approved by the Board for IBRD/IDA. Subsequently, in June 2009 Board approved the adoption of the same price factor for IFC. Thus, IFC uses the same methodology as the Bank; the resulting budget price adjustment is different for each institution reflecting differences in cost structure for IFC or IBRD.

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

- Apply the Washington appointed staff structural salary adjustment for Washington appointed staff salaries and salaries related costs
- Apply country office specific structural salary adjustments to their respective country office salaries costs
- Apply country-specific CPI to their respective country office non-salary costs
- Apply exchange rate adjustment to non-USD based costs
- Apply US-CPI to USD based non-salary costs

For FY13, the overall budget price adjustment for IFC is 2.45%. The budget price adjustment results in an increase of $16.1 million. The budget price adjustment is the weighted average of the adjustment for the factors mentioned above, excluding depreciation and contributions to staff retirement benefits. The weights represent the respective share of these costs in the revised total administrative budget. The calculation of these constituent factors is explained below:

- Washington appointed staff salaries and salaries-related costs : The price adjustment factor for Washington appointed staff salaries and salaries related costs (weight = 43%) is based on Management's recommendation of a 1.9% salary structure adjustment (2012 Review of Staff Compensation for the World Bank Group)

- Country office specific structural salary adjustments to country office salaries and salary-related costs: The price adjustment factor for country office specific structural salary adjustment to country office salaries (weight =10%) is based on the 2012 set of adjustments, which is 5.3% before applying exchange rate adjustment (2012 Review of Staff Compensation for the World Bank Group)

- Country-specific CPI to country office specific non-salary costs: The price adjustment factor for country-specific CPI to country office specific non-salary costs (weight =12%) is based on the 2011 annual increase reported in IMF publication World Economic Outlook, April 2012, which is 6.2% before applying exchange rate adjustment.

- Exchange rate adjustment to non-USD based costs: The price adjustment factor for exchange rate adjustment to non-USD based costs (weight = 22%) is based on USD equivalent of local currency expenditures using the most recent twelve month average rates (April 2011 - March 2012) and comparing it to the USD equivalent of local currency expenditures using the prior twelve month average rates (April 2010 - March 2011), which yields -1.5%.

- US-CPI to USD based non-salary costs: The price adjustment factor for US-CPI to USD based non-salary costs (weight = 35%) is based on the US-CPI average forecast of 2012 and 2013 annual increases reported in IMF publication World Economic Outlook, April 2012, which is 2.0%.

In terms of implementation, Management will make a detailed analysis by fiscal year end on how to fairly make the allocations to managing units for the price increase to maintain the purchasing power.

ANNEX 2: FMTAAS SPENDING

US$ millions

	FY10 Actual	FY11 Actual	FY12 Spending Limit	FY13 Spending Limit
Sub-Saharan Africa	12.3	9.0	10.5	13.0
Latin America and Caribbean	12.5	12.4	10.1	9.9
Europe and Central Asia	12.0	10.0	7.3	7.2
Middle East and North Africa	9.3	11.0	7.7	7.6
East Asia and Pacific	12.5	9.9	7.4	8.1
South Asia	5.1	6.7	6.0	7.9
Corporate Governance Platforms	-	-	-	2.3
Total for Regions	**63.8**	**59.0**	**49.0**	**56.0**
Access to Finance	8.4	8.6	7.7	8.2
Investment Climate	7.0	8.9	9.0	8.3
Sustainable Business Advisory	14.0	20.0	18.5	11.9
Public-Private Partnerships	3.7	3.4	1.7	2.5
Total for Global Business Lines	**33.0**	**40.9**	**36.9**	**31.0**
M&E and Contingency	4.0	6.2	6.8	5.7
Total	**100.8**	**106.1**	**92.7**	**92.7**

ANNEX 3: CORPORATE SCORECARD

IFC Corporate Goals	Indicators		FY10 Actual	FY11 Actual	FY12 Estimate	Note
Greater Development Impact	Investments : DOTS Score - % Mostly Successful or better		71%	67%	>=65%	1
	Advisory Services: DOTS Score - % Mostly Successful or better		64%	69%	>=65%	
	Strategic Focus Area 1	Commitment in Sub-Saharan Africa ($ mn)	2,428	2,150	2,400 - 2,700	
		Commitment in Middle East and North Africa ($ mn)	1,572	1,603	2,000 - 2,200	
		# of IS projects in IDA Countries	255	251	235 - 260	
		AS project expenditure in IDA Countries ($ mn)	94	106	118 - 122	
		% of AS project expenditure in IDA Countries	62%	64%	63% - 65%	2
		% of IS projects in frontier region	11%	11%	9% - 12%	
	Strategic Focus Area 2	Climate change: Investment in RE/EE ($ mn)	1,644	1,671	1,800 - 2,000	
	Strategic Focus Area 3	Commitment in infrastructure ($ mn)	2,205	1,958	1,500 - 2,000	3
		Commitment in health and education ($ mn)	432	184	550 - 600	
		Commitment in agribusiness value chain ($ mn)	1,923	1,933	2,500 - 3,000	4
	Strategic Focus Area 4	Commitment in financial markets ($ mn)	6,654	7,741	7,450 - 7,650	5
		Commitment in MSME ($ mn)	5,279	6,020	5,500 - 6,500	6
	Strategic Focus Area 5	Number of South-South projects	71	32	60 - 70	
		Investment in South-South projects ($ mn)	1,654	1,034	1,400 - 1,500	
Financial Sustainability	IFC Commitment ($ mn)		12,664	12,186	14,000 - 15,500	
	Mobilization Ratio		0.42	0.53	0.45 - 0.55	7
	Total Volume (IFC own account + Core Mobilization)		18,042	18,660	19,000 - 21,500	
	Productivity: # of projects committed		528	518	520 - 560	
	Productivity: # of committed projects / RAB		0.93	0.86	0.85 - 0.90	
	Portfoilo Management	Total Portfolio Score (Compliance and Relationship Management combined), %	75%	80%	75% - 85%	8
	Profitability	Net Income before IDA grant ($ mn)	1,946	2,179	1,600 - 1,900	
	Capital Adequacy:	Total resources available ($ bn)	16.8	18.0	20.1	
		Minimum resources required ($ bn)	12.8	14.0	16.1	
	Liquidity:	Externally funded liquidity level (min. 65%)	190%	266%	307%	
		Overall liquidity level (min 45%)	71%	83%	79%	9
	Leverage Ratio		2.2	2.6	2.6	10
	Return on Average Net Worth (annualized based on FYTD performance)		11.8%	5.9%	8%	
Greater Client Satisfaction	Investment: % Overall Client Satisfaction		82%	83%	80 - 85%	11
	Advisory Services: % Satisfied and above		87%	87%	80 - 85%	12
High Quality, Diverse and Engaged Employees	% of Women staff (GF-GG)		45%	45%	45%	
	% of Women Managers		28%	27%	30%	13
	% of Sub-Saharan/Caribbean Net staff (GF+ HQ Appt)		9%	9%	8.5%	
	% of managers from Part 2 countries		34%	35%	37.4%	

1 DOTS score based on: For FY10, Development Outcome ratings as of June 30, 2010 for projects approved between calendar years (CY) 2001-2006; For FY11, Development Outcome ratings as of June 30, 2011 for projects approved between calendar years (CY) 2002-2007; and For FY12 estimates, Development Outcome ratings for projects approved between calendar years (CY) 2003-2008.

2 Excludes IDA portion of AS World projects

3 Commitments in infrastructure (excluding oil, gas and mining), communications & information technologies and subnational finance.

4 Agribusiness value chain includes agri production and processing, agri-infrastructure, food retail, farm machinery, fertilizers, agri risk management products, short-term finance and trade finance.

5 Excludes private equity and investment funds.

6 Includes direct MSME borrowers, financial institutions with more than 50% of their business clients being MSMEs, and any other investments that specifically target MSMEs as primary beneficiaries.

7 Defined as the sum of loan participations, parallel loans, A-loan participation sales, non-IFC investment portion of structured finance, and mobilization through the AMC funds and IFC Initiatives, divided by IFC direct investments and the IFC portion of structured finance and AMC fund investments

8 After wide consultations throughout IFC, the portfolio scorecard was refined to focus on (i) Compliance (timeliness, quality, record-keeping) and (ii) Relationship Management (prompt reply on amendments and waivers, follow-up on services promised to the IFC Board or Client, exemplary work). Compliance counts for 55%, and Relationship Management counts for 45%, with the overall benchmark/threshold being 75% (out of 100%).

9 Liquid resources as a % of next three years' estimated cash requirements.

10 Leverage (Debt/equity) ratio is defined as the number of times outstanding borrowings plus outstanding guarantees cover paid-in capital and accumulated earnings (net of retained earnings designations and certain unrealized gains/losses)

11 Annual External Client Survey.

12 Annual External Client Survey

13 FY11 D&I estimates and associated calculations are based on IFC's FY 12-13 Diversity & Inclusion Compact

ANNEX 4: AMC PRO-FORMA P&L

IFC Asset Management Company
US$ '000s

	FY11 Actual	**FY12 Forecast**	**FY13 Projected**
Management Fees	13,911	16,809	28,937
Fund Expense Reimbursements	519	1,482	3,418
CapFund Cost Recovery	10,292	12,147	17,910
Total Revenue	24,722	30,438	50,265
Transaction & Supervision Fees	7,487	10,240	23,588
Business & Fund Dev Fees	3,082	3,464	4,913
IFC Chargeback	4,727	7,438	9,673
AMC Expenses	5,412	8,885	13,597
	20,708	30,027	51,770
Net Income / (Loss)	4,014	411	(1,505)

Notes
- FY13 projections include estimates for potential new funds
- Transaction & Supervision Fees include related expenses