INTERNATIONAL FINANCE CORPORATION

STRATEGY AND BUSINESS OUTLOOK UPDATE FY20 – FY22

GEARING UP TO DELIVER IFC 3.0 AT SCALE

Version redacted and disclosed in accordance with IFC's 2012 Access to Information Policy, following discussion by IFC's Board on April 2, 2019

Contents

Boxes, Figures and Tables

Glossary

AIMM	-	Anticipated Impact Measurement and Monitoring Framework
ADM	-	Accountability and Decision-Making Framework
AMC	-	IFC Asset Management Company
CMAW	-	Creating Markets Advisory Window
CODB	-	Cost of Doing Business
COMPASS	-	Creating Markets Priority Setting Session
COOP	-	Cost of Operations
CPF	-	Country Partnership Framework
CPSD	-	Country Private Sector Diagnostic
DE	-	Development Effectiveness
DO	-	Development Outcome
DSC	-	Deployable Strategic Capital
EAP	-	East Asia and the Pacific
ECA	-	Europe and Central Asia
ESG	-	Environment, Social and Corporate Governance
FCS	-	Fragile and Conflict Situations
FMTAAS	-	Funding Mechanism for Technical Assistance and Advisory Services
GP	-	Global Practice
GUU	-	Global Upstream Unit
IBRD	-	International Bank for Reconstruction and Development
IDA	-	International Development Association
IEG	-	Independent Evaluation Group
J-CAP	-	Joint IFC-WB Capital Markets Initiative
KPI	-	Key Performance Indicator
LAC	-	Latin America and the Caribbean
LTF	-	Long-Term Finance
LIC	-	Low-Income Country
MCPP	-	Managed Co-Lending Portfolio Program
MDB	-	Multilateral Development Bank
MENA	-	Middle East and North Africa
MFD	-	Maximizing Finance for Development
MIC	-	Middle-Income Country
MIGA	-	Multilateral Investment Guarantee Agency
MSME	-	Micro, Small and Medium Enterprise
PSW	-	IDA 18 Private Sector Window
PPP	-	Public-Private Partnership
RAROC	-	Risk-Adjusted Return on Capital
SBO	-	Strategy and Business Outlook
SCD	-	Systematic Country Diagnostic
SDG	-	Sustainable Development Goal
SME	-	Small and Medium Enterprise
SSA	-	Sub-Saharan Africa
STF	-	Short-Term Finance
TVET	-	Tertiary Education and Vocational Education and Training
WBG	-	World Bank Group
WFP	-	Workforce Planning Program

EXECUTIVE SUMMARY

1. FY19 is the second full year of implementing IFC 3.0, an ambitious strategy to develop new and stronger markets for private sector solutions, particularly in IDA countries and Fragile and Conflict-affected Situations (FCS). Implementing IFC 3.0 has required a fundamental re-shaping of core elements of IFC's business model – as we augment our traditional approach to financing projects, with a new focus on systematically developing markets especially through upstream engagement and deeper collaboration within the World Bank Group (WBG).

2. **Improvements delivered.** Significant progress has been made, not only in launching new tools and approaches but integrating them to change the way that we do business. The measures implemented to date include:

- ✓ A **corporate scorecard** revised to align delivery around IFC 3.0 and the Capital Package commitments;
- ✓ Strengthened **diagnostic tools** to inform sector analysis, underpin country engagement driven by IFC Country Strategies, and deliver integrated WBG development solutions;
- ✓ Improved **development impact** assessment to inform project selection through the Anticipated Impact Measurement and Monitoring Framework (AIMM) and the additionality framework;
- ✓ Scaled-up capacity to mobilize private investments through **blended finance** instruments, principles and governance and the rapid roll-out of **mobilization platforms**;
- ✓ Operationalizing the **upstream delivery** model through (i) creation of Global Upstream Units, (ii) full integration of Advisory Services (AS) into industry departments and (iii) development of incentives;
- ✓ A new **Accountability and Decision-Making Framework (ADM)** and process changes to improve operational delivery;
- ✓ **A new Operations Leadership team in place and workforce planning (WFP)** implemented to align staffing with strategy; and
- ✓ Sharpened **financial management** through the application of new AS financial principles, reforming Trust Fund governance and introduction of new IFC efficiency metrics.

3. **Results yielded.** FY18 was a banner year for IFC, with exceptional program delivery across several priority areas-IDA, FCS, climate, Sub-Saharan Africa (SSA), the Middle East and North Africa (MENA) and Infrastructure. Total long-term financing (LTF) exceeded targets reaching $23.3 billion. Although the full impact of the shift to project development (i.e. IFC 3.0) will be demonstrated over time, increased focus on IDA and FCS is already in place. In FY18, for example, SSA for the first time represented the largest share of IFC's LTF program. In addition, IFC is beginning to build a pipeline of creating markets initiatives that are intended to unlock private sector activity over the medium term.

4. **Looking ahead.** To effectively deliver IFC 3.0 at scale, priority needs to be given to amplifying the operational improvements made thus far and enhancing efforts in the following key areas:

- ✓ Embedding **collaboration on Maximizing Finance for Development (MFD)** across the WBG by developing a new MFD results measurement framework and establishing clear protocols for how operational teams across the WBG work together to implement the **Cascade approach**;
- ✓ Institutionalizing the **portfolio approach** by finalizing the necessary building blocks to support more active portfolio management;

- ✓ Continuing to improve **IFC's internal processes and decision-making** to achieve greater efficiency and productivity and holding ourselves accountable to one another for the behavioral shifts that are needed; and
- ✓ **Reorienting IFC's staffing and footprint** to ensure that it is fit for purpose by bringing in new resources at a more junior level to leverage experienced senior staff and putting more people in regional locations, closer to clients and with upstream market development skills, particularly in IDA and FCS markets.

5. IFC's investment program outlook is informed by IFC's expectation that the paid-in capital increase agreed by our shareholders in FY18 will begin to be made available during FY20-22. Total own account long-term finance (LTF) is targeted to reach between $14.4 billion and $16.0 billion by FY22, with total LTF commitments (i.e. including mobilization) targeted to reach between $24.9 billion and $27.5 billion. Over FY20-22 IFC intends to continue increasing commitment volumes in its strategic focus areas, and by doing so, support delivery of its Capital Package commitments.

6. The recent U.S. Supreme Court ruling[1] will not affect IFC's commitment to deliver for clients and partner countries. However, as IFC awaits further proceedings relating to the case in the U.S. District Court in Washington, IFC is assessing the implications of the ruling as it prepares to ramp up its work in more difficult/riskier markets.

7. **Budget preview.** To implement IFC 3.0 and deliver on its 2030 commitments, it is imperative for IFC to optimize the use of resources. IFC has committed to finding significant efficiency gains between FY19-FY30 under the Capital Package. IFC is doing so through a range of measures to strengthen its delivery model and manage resources efficiently, including WFP, new IFC efficiency measures on its corporate scorecard, collaborating on WBG efficiency programs and process improvements.

8. IFC is also continuing to shift resources to focus regions and sectors and to ramp up upstream work. A detailed FY20 budget proposal will be provided in IFC's FY20 Budget Paper.

9. As signaled in the FY19 Budget Paper, the one-off costs associated with voluntary WFP exits are not expected to be entirely covered within the approved FY19 budget envelope. As such, IFC intends to deploy the budget carry forward mechanism for WFP costs, to the extent that these cannot be covered through cost controls and offsetting measures.

[1] Budha Ismail Jam, et al. v. International Finance Corporation (U.S. Supreme Court Docket No. 17-1011)

CHAPTER 1: WORLD BANK GROUP'S STRATEGIC DIRECTIONS

This section, prepared jointly by the World Bank (WB), IFC and MIGA, provides an overview of implementation of the World Bank Group's (WBG) strategic directions and the alignment of work programs and resources with these directions. It forms a common part of the World Bank's and IFC's Strategy and Business Outlook papers.

1.1 IMPLEMENTATION OF THE WORLD BANK GROUP'S STRATEGIC DIRECTIONS

1. The Forward Look, endorsed by shareholders in 2016, defined a shared vision for how the World Bank Group can help its clients achieve the Twin Goals and the 2030 Development Agenda.

Two and a half years ago, the World Bank Group completed a year-long "Forward Look" exercise and committed itself to the vision of a "bigger and better" organization.[2] The Forward Look describes commitments agreed between shareholders and management on how the WBG will advance the 2030 development agenda as well as its Twin Goals (ending poverty and boosting shared prosperity) and three priorities of sustainable and inclusive growth, investment in human capital, and strengthening resilience, through four pillars: (i) serving all clients; (ii) leading on global issues; (iii) creating markets; and (iv) improving the business model. To finance the ambitions of the Forward Look, shareholders have supported an historic IDA-18 Replenishment finalized in December 2016 and endorsed a transformative capital package for IBRD and IFC during the 2018 Spring Meetings, including an ambitious business model and policy measures to be delivered during FY19-30.

2. The WBG has made significant progress under the Forward Look, and implementation of the policy commitments of the IDA-18 Replenishment and of the IBRD and IFC capital packages is on track.

Detailed updates on the implementation of the Forward Look and IDA-18 Replenishment commitments were recently discussed by the Board. Implementation of the capital package policy commitments is also on track, providing a solid foundation for reaching the long-term capital package targets over the FY19-30 period. Areas of progress include the following:

- <u>Serving all clients</u>. Significant policy reforms have been undertaken to support the objective of engaging with all clients across the income spectrum, while prioritizing additional financing towards countries below the Graduation Discussion Income (GDI), lower income countries, fragile states, blend countries and recent IDA graduates. The WBG has scaled up investment, knowledge and advisory services in fragile countries. IDA has established special windows and regimes benefitting fragile countries and IFC is making progress investing in and mobilizing private sector investments in IDA countries and fragile countries in line with its ambition to increase the IDA/FCS share of annual commitments to 40 percent by 2030. MIGA is also growing its portfolio in IDA/Fragile and Conflict-Affected Situations

[2] Forward Look – A Vision for the World Bank Group in 2030 – Main Messages, DC2016-0009, Sept. 20, 2016.

(FCS). As of July 1, 2018, IBRD's loan pricing and the Single Borrower Limit became differentiated based on borrower income. For clients in the upper range of the income spectrum, above the IBRD GDI, a new approach to Country Partnership Frameworks has also been implemented. IFC has fully implemented a revised additionality framework, enhancing its ability to selectively pursue impactful engagements with clients in the upper income range of countries. Progress has also been made in enhancing support to small states.

- Leading on global issues. Actions have been taken to enhance WBG leadership in promoting innovative responses where coordinated global action is critical, specifically in the key areas of crisis management, fragile countries and situations, climate change including both adaptation and mitigation, gender, knowledge and convening, regional integration, trade, debt sustainability and domestic resource mobilization. The WBG announced a major new set of climate targets for 2021-2025 in December 2018 and launched its Action Plan on Climate Change Adaptation and Resilience in January 2019. The new Human Capital Project (HCP) is being operationalized across the WBG with enhanced support for measurement and research, country engagement work and private solutions. IFC continues to provide private sector thought leadership, including on private sector mobilization, blended finance offerings and other new products, and through its Operating Principles for Impact Management, as well as Ethical Principles for investors in Health and Education which it is developing with the World Bank. MIGA has been recognized by the G20 Eminent Persons Group as a critical platform for growing political risk insurance globally.

- Creating markets. Scaling up private sector solutions is critical to achieving the Twin Goals and the Sustainable Development Goals (SDGs). To harness the power of the private sector and enhance market creation, the WBG introduced the Maximizing Finance for Development (MFD) agenda and the Cascade approach. These frameworks call on WBG institutions to help countries pursue private sector solutions where sustainable, while preserving scarce public resources for where they are needed the most. Implementation of MFD through the Cascade approach continues to gain momentum through investment-enabling WB upstream policy operations and IFC market creation projects, aided by a more strategic and systematic approach (including IFC Country Strategies), the deployment of innovative investment platforms and products, as well as new processes and tools (including private sector diagnostics, applying IFC's Anticipated Impact Measurement and Monitoring framework to assess development impact of IFC projects ex-ante, and risk mitigation, and mobilization platforms). Organizational re-alignment to implement this approach is ongoing and includes: (i) twelve joint WBG MFD Accelerator pods to address challenges and speed up program and project delivery at the country level; (ii) new WBG-wide Sector Groups to coordinate Cascade priorities at the global sectoral level; and (iii) IFC Global Upstream Units established inside industry departments to incubate upstream opportunities, focus resources, and coordinate initiatives. The development of a comprehensive MFD Results Measurement Framework will be a critical step to hardwiring the Cascade approach into WBG operations.

- <u>Improving the business model</u>. The WBG business model continues to evolve with a commitment to improving financial sustainability and enhancing productivity, performance and agility. Across the WBG, progress has been made and more work is under way in a continued effort to pursue balance sheet optimization. At the WB, the implementation approach for IBRD's new Financial Sustainability Framework (FSF) was approved by Executive Directors in December 2018, with work under way for it to take effect from FY20. The WBG has continued to pursue efficiency measures and fully implemented agreed changes to the compensation methodology for HQ-appointed staff as of July 2018, in line with commitments under the capital package. IFC is successfully implementing a major work force planning (WFP) exercise to rebalance its grade structure. This is expected to generate substantial financial efficiencies for the redeployment of resources to strategic priorities and regions.

3. ***The WBG and individual WB, IFC and MIGA Scorecards are tools for monitoring the Group's performance and impact in key WBG-wide and institutional priority areas.***

The WBG and individual WB, IFC and MIGA Scorecards are tools to monitor the Group's performance and impact in WBG-wide and institutional priority areas. The WB and WBG Corporate Scorecards and other corporate reports are being changed to capture progress on selected long-term ongoing measures, such as the share of climate-related and gender-tagged financing as well as other capital package commitments. IFC's Corporate Scorecard has been fundamentally revamped to specifically reflect its capital increase commitments and a three-year trajectory has been added to show progress against long-term targets. MIGA's Corporate Scorecard is being revised to reflect changes in the WBG Corporate Scorecard.

1.2 ALIGNMENT OF RESOURCES WITH STRATEGIC PRIORITIES

4. ***The WBG Strategic Planning and Budgeting Process ensures alignment of resources with strategic priorities.***

Alignment with the Forward Look continues to guide WBG client engagement and its planning and resource allocation process. The annual "W" strategy and planning process serves to align resource allocation with WBG goals and strategy. During this year's joint WBG discussions, Management identified key areas for enhanced focus for FY20-22 to support delivery on the commitments for a "bigger and better" Bank Group, which would inform the three institutions' resource allocation and budgetary trajectories. Such areas include leveraging the benefits of working as one WBG by hardwiring collaboration through the Cascade approach, implementing the HCP, serving IDA and fragile clients better, and pursuing efficiencies and economies of scale.

5. ***Delivering a "bigger" WBG will involve increased costs.***

Delivering larger volumes of annual WBG financing will result in an expansion of the portfolio, with a rising share in low income, below-GDI and fragile states. This expansion, and associated trajectory towards the 2030 policy commitments, will bring opportunities for greater development impact, but will result in increased costs of doing business and require additional resources and careful management of operational quality and associated risks across the WBG. Under IFC 3.0, program delivery costs in priority areas are higher than the IFC average and additional staff with diverse skill sets are needed.

6. ***Building the implementation of corporate commitments into operations, such as the Cascade approach to MFD, and maintaining thought leadership on global priorities are also key areas for enhanced focus.***

Building the implementation of corporate commitments into operations in the context of the country-driven model is also a key area for enhanced focus. This will require persistence and innovation, new approaches and tools as well as increasing resource requirements. Two areas of emphasis are the need to further embed collaboration on the Cascade approach to MFD into the WBG's collective DNA and implementing the HCP. The proposed MFD Results Measurement Framework will include selected pilots at the country-sector level to allow for better monitoring and evaluation of country-level shifts in support of MFD. Other organizational measures to enhance collaboration as mentioned above, as well as enhanced IFC incentives, will complement these efforts. Maintaining leadership on global priorities in the face of multiple demands for WBG support will require incremental funding as well as re-prioritization. A new area of focus will be the HCP. The WBG plans collectively to increase support to the HCP by: (i) supporting evidence-based policies, strategies, and approaches; (ii) expanding private sector financing and delivery solutions; (iii) linking financing to results; and (iv) innovation.

7. ***The WBG plans to enhance its global footprint to better serve***

The WBG needs to enhance its presence on the ground to better support its clients, especially in fragile and lower income countries. A working group is currently developing a

its clients, especially in IDA countries and fragile countries.	decentralization strategy for the World Bank, and IFC has begun the process of aligning its staffing strategy with its global footprint decisions. IFC and the WB are jointly developing a real estate strategy in collaboration with the decentralization working group. WBG co-location, including in hubs, will be sought where possible, supporting joint work, efficient use of space and improved security management. On fragile states, in particular, the WBG is developing a strategy to enhance operational effectiveness, which will include strengthening on-the-ground impact and improving the employment value proposition. This will also require reinforced security, especially in high threat locations.
8. The WBG continues to collaborate on an improved business model.	Beyond coordination on global real estate management, additional examples of WBG collaboration to enhance productivity, performance and agility include a joint WBG review of Country Office staff compensation and a new approach to Shared Service Agreements to ensure efficient and cost-effective management and appropriate sharing of costs across institutions. Implementation of joint agile and administrative simplification approaches and tools will continue to support enhanced productivity and impact across the WBG.
9. The Strategy and Business Outlook papers set out the WB and IFC Business Outlook for FY20-22 and planned work program.	The WB and IFC Strategy and Business Outlook (SBO) papers outline planned work programs to achieve strategic priorities. The IFC paper is also an update on IFC 3.0, the strategic direction that IFC launched two years ago in the FY18-20 SBO. This year's SBO Update details how IFC 3.0 tools and approaches are being integrated to underpin a more systematic approach to creating markets and support expanded investment activity. In addition, the papers also discuss pressures arising from rising costs of doing business and the organizational, efficiency and financial sustainability measures being pursued to ensure that both institutions have sufficient resources to successfully implement WBG-wide and institutional priorities. MIGA plans to prepare a full SBO for FY21-23 but will have discussions with the Board on its FY20 budget trajectory in March and April 2019.

CHAPTER 2: IFC SBO UPDATE CONTEXT

2.1 IFC provides the Board with an SBO every three years, outlining its strategic direction and SBO Updates in the intervening years which report on implementation and provide forward looking targets. This is the second Update on the FY18-20 SBO[3], which introduced the IFC 3.0 strategy. While the previous SBO Update[4] outlined the tools, approaches and frameworks launched to support 3.0 (see Annex 1 for the IFC 3.0 toolkit), this Update focuses on how these tools are being integrated and scaled to underpin a more systematic approach to creating markets and support expanded investment activity. In addition, this SBO Update includes three-year program targets (FY20-22) and a preview of the FY20 Budget Paper.

2.2 Since the last SBO update, the WBG shareholders endorsed a transformative Capital Package for the IBRD and IFC during the April 2018 Spring Meetings, including a $13 billion paid-in capital increase–of which $5.5 billion is provided for IFC-and an ambitious set of internal reforms and policy measures. The program targets in this Update are informed by the expectation that the paid-in capital increase agreed by our shareholders will begin to be made available during FY20-22. These additional resources will enable IFC to pursue greater development impact, including through a significant increase in investments in riskier markets. The policy commitments by IFC include that it delivers 40 percent of its program in IDA countries and FCS, and 15-20 percent of its program in Low-Income IDA (LIC-IDA) and IDA-FCS countries, by 2030.[5]

2.3 IFC 3.0 does not replace IFC's traditional business, IFC 1.0 and 2.0 (see Figure 1 below), which still account for the bulk of its program. While the focus of this Update, by design, is on the implementation of IFC 3.0, IFC also continues to grow its traditional business in a strategic fashion, working with international, regional and domestic private sector companies as it delivers financing and advice to support impactful development projects across industries and regions.

FIGURE 1: IFC 3.0 STRATEGY - AN EVOLUTION, NOT A REVOLUTION

IFC 1.0 (1956 to Present)

Attract foreign private investments to emerging markets

- Advanced role of private sector as an economic agent.
- Developed IFC expertise in emerging markets by investing with foreign private sector investors and nascent local clients.
- Attracted Foreign Direct Investment in emerging markets.
- Created a syndication program to bring commercial banks to our countries of operations.
- Introduced equity as an engine for financial sustainability and higher impact.

IFC 2.0 (c. 2000 to Present)

Invest in local companies and banks with local private investors

- Expanded IFC global footprint.
- Deepened IFC's private sector expertise by investing in local companies and banks and with local private investors.
- Used local presence as landing platform for North-North and South-South investments.
- Created financial vehicles to mobilize institutional investors.
- Provided Advisory Services to private clients and governments, moved from donor-driven model to business lines.
- Expanded operations in FCS and IDA.
- Introduced parallel loans through a Master Cooperation Agreement
- Launched AMC to complement own account.
- Used blended finance in a selective way to de-risk several sectors (e.g. climate, SMEs, agribusiness).

IFC 3.0 (Today)

Create Markets
Mobilize Private Capital

New Approaches to Create Markets
- Analysis & advocacy for reforms to strengthen private sector role
- Cascade approach to work systematically across WBG
- Risk-sharing projects through blended finance
- Upstream support for project development
- Innovation to create markets

New Tools
- Country Private Sector Diagnostics
- IFC Country Strategies
- Sector Deep Dives
- New Additionality Framework
- Anticipated Impact Measurement and Monitoring Framework

New Instruments and Platforms
- Creating Markets Advisory Window
- IDA Private Sector Window
- MCPP Infra, Financial Markets, URP, HKMA

New Organization
- Economics and PSD
- COO and Regional VPs
- Strategy & Resources
- Partnerships, Communication and Outreach
- Global Upstream Units
- Re-aligned AS Structure

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3 IFC/SecM2017-0046

4 IFC/SecM2018-0041

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

2.4 The strategic focus areas defined in the FY18-20 SBO (see Chapter 4) remain highly relevant for IFC's traditional business as well as for IFC 3.0. IFC continues to focus on more challenging markets such as regions with the highest incidence of poverty, fragility and need for job creation and which have least benefited from private investment and solutions – Sub-Saharan Africa (SSA), South Asia and the Middle East and North Africa (MENA); industries linked to productivity growth – Infrastructure, Agribusiness and Financial and Social Inclusion[6]; and the cross-cutting themes of climate change, fragility and the digital economy. A strong focus on mobilization and capital markets development remains a key implementation pillar.

2.5 In each of these focus areas, IFC continues the strategic direction set in the FY18-20 SBO, refining its approach including through Sector Deep Dives (see Annex 3) and IFC Country Strategies. Each of these looks at IFC 1.0, 2.0 and 3.0 prospects. In the case of the Sector Deep Dives, IFC conducts a global overview of sector opportunities with associated regional and country assessments. In the case of the IFC Country Strategies, IFC assesses existing and expected 1.0 and 2.0 opportunities while also considering any reforms or WBG engagement opportunities to develop its 3.0 business. Each IFC Country Strategy then informs the Country Partnership Framework (CPF) and IFC's in-country work program over the short to medium term.

2.6 IFC's strategic approach and sustained effort are yielding results. In FY18 IFC had exceptional program delivery compared to FY17:

- ✓ $23.3 billion in total long-term finance (LTF) (21 percent increase), with mobilization reaching $11.7 billion (56 percent increase);
- ✓ IDA (49 percent increase to $6.8 billion) and Climate (36 percent of total compared to 22 percent target);
- ✓ Focus regions: SSA (77 percent increase to $6.2 billion and, for the first time, the largest share of IFC's total LTF program); MENA (126 percent increase to $2 billion); and
- ✓ Focus sectors: Core Infrastructure (131 percent increase to $7.4 billion); Agribusiness (29 percent increase to $2.6 billion).

2.7 IFC has also increased the shares of its focus areas in its total program, that is own account (OA) plus mobilization (see Table 1 below). While total program shares in the areas of financial and social inclusion may have decreased between FY17 and FY18, volumes continued to grow and IFC made several pioneering investments and implemented initiatives targeting new opportunities and markets.

2.8 While IFC is increasingly focused on more challenging markets, it continues to work in middle-income countries (MICs) and other less risky markets. This is important to address development challenges such as climate change, support South-South investment, share innovations across country types and support its financial sustainability through the portfolio approach. While doing so, IFC continues to sharpen its focus on additionality.

2.9 The rest of the Update will explain in more detail how IFC is leveraging its array of IFC 3.0 tools, organizational re-alignment and WBG collaboration to create new markets in its focus areas.

[6] Financial inclusion is tracked at the industry level by IFC's program in financial markets. Social inclusion is tracked through IFC's program in health, education and life sciences. Agribusiness is tracked through agribusiness, forestry and fertilizers.

TABLE 1: LTF COMMITMENTS BY STRATEGIC FOCUS AREA FY16-18 – SHARE OF TOTAL PROGRAM (OWN ACCOUNT AND MOBILIZATION)

% of IFC Total LTF Commitments			
	FY18	**FY17**	**FY16**
IDA*	32%	24%	29%
FCS	16%	5%	5%
Climate	36%	25%	17%
Core Infrastructure	32%	17%	20%
Agribusiness	12%	11%	7%
Financial Inclusion	37%	44%	33%
Social Inclusion	3%	5%	3%
Sub-Saharan Africa	27%	18%	13%
South Asia**	15%	17%	11%
Middle East & North Africa	9%	5%	6%
IFC Total LTF Commitments	**23,301**	**19,316**	**18,856**

* IDA percentages reflect IDA 17. ** South Asia includes Pakistan and Afghanistan.

Note: Commitment shares do not add to 100, as table excludes non-focus areas and focus areas are not mutually exclusive. Industries contribute to thematic goals and are delivered in focus regions.

CHAPTER 3: CONTINUED TRANSFORMATION THROUGH IFC 3.0

3.1 IFC launched IFC 3.0 in December 2016. This strategy rests on two pillars: (i) a more deliberate approach to market creation, especially in IDA and FCS and through upstream engagement; and (ii) mobilizing new sources of funds to support private sector solutions. Fully aligned with the Forward Look, 3.0 positions IFC to partner fully with the WB and MIGA to implement the Cascade approach to MFD – pursuing sustainable private sector solutions where they can help achieve development goals, while preserving scarce public resources for where they are needed most.

TABLE 2: MAXIMIZING FINANCE FOR DEVELOPMENT, THE CASCADE AND CREATING MARKETS

Maximizing Finance for Development	***"The Objective"***	Maximize sources of finance available to meet development challenges without pushing the public sector into unsustainable levels of debt and contingent liabilities
Cascade	***"The Approach"***	Leverage private sector solutions first in order to optimize the use of scarce public resources by following the "Cascade algorithm": - Is there a private sector solution that is sustainable and limits public debt and contingent liabilities? → If yes, then promote such solutions - If no, ask whether it is because of policy or regulatory gaps, or risks; → in which case apply WBG support for policy and regulatory reform or risk mitigation instrument. - If you conclude the project requires public funding, pursue that option.
Creating Markets	***"The Enabler"***	Upstream IFC engagement, in collaboration with the Bank and other partners, as a key mechanism to support the development of new markets or systemic improvements in how markets function, paving the way for private sector solutions.

3.2 IFC has made significant progress in implementing its comprehensive 3.0 Toolkit, with its frameworks, platforms and instruments that support market creation and increased private sector delivery. An index and progress update on Toolkit elements are provided in Annex 1.

3.3 This chapter demonstrates how IFC is integrating its 3.0 tools and approaches into strategy formulation and operations and harnessing its re-aligned organizational structure. The focus will be on three selected areas:

- Driving country engagement through strengthened diagnostics;
- Operationalizing upstream delivery; and
- Enhancing collaboration on the Cascade.

3.4 This integration is already delivering results. However, IFC recognizes that it needs to amplify the progress made so far to enable it to deliver 3.0 at scale. Key areas for additional attention include hardwiring collaboration on the Cascade approach across the WBG, as described in this chapter, institutionalizing the portfolio approach, as described in chapter 4 and further work on efficiencies, fit-for-purpose staffing and its footprint, as described in chapter 5.

Driving Country Engagement through Strengthened Diagnostics

3.5 Creating markets at scale requires a detailed understanding of the constraints to private sector solutions and a deliberate, strategic targeting of interventions across the WBG. Over the past two years, IFC has invested heavily in strengthening its analytical capacity, deploying several new diagnostic and strategy tools, including Country Private Sector Diagnostics (CPSDs) and Sector Deep Dives. IFC is continuing to refine these tools, both in terms of content and sequencing. This evolution is strengthening both IFC's contribution to the WBG country engagement process and operational outcomes. See Table 2 for a selection of IFC and Joint Bank Group private sector diagnostics.

3.6 In Fall 2018, IFC added IFC Country Strategies to its 3.0 toolkit. Integrating IFC and WBG analytical tools and expertise from IFC teams, IBRD country management units and practice groups, the IFC Country Strategies outline scenarios for IFC's potential work program in a country – both the near-term financing pipeline (IFC 1.0 and 2.0) and market creation opportunities (IFC 3.0). These scenarios vary based on IFC and WB assessments of the government's willingness to introduce specific policy reforms that were highlighted by the upstream diagnostics; for example, "if X market enabling policy reforms are adopted, then potential IFC-led private investment could be Y."

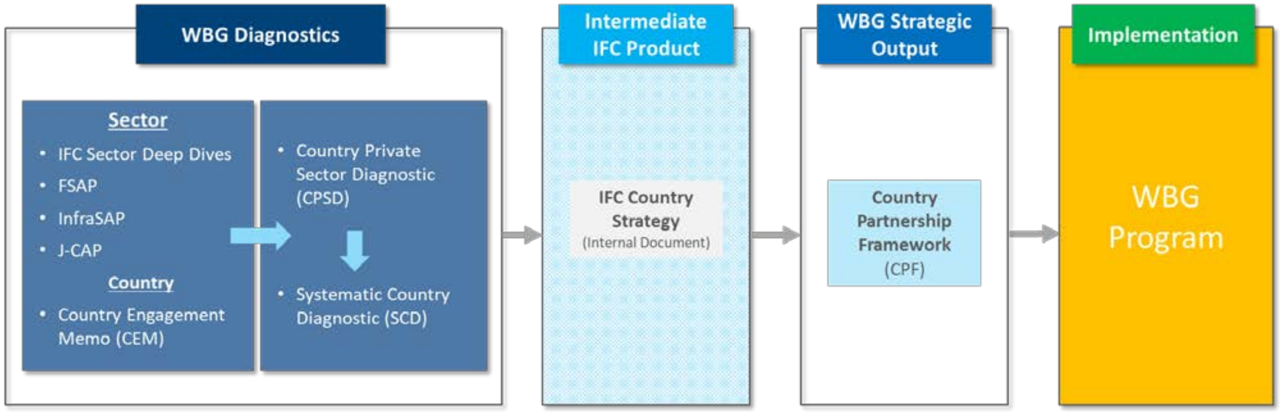
TABLE 3: SELECTED IFC AND JOINT WBG DIAGNOSTICS AND STRATEGY PRODUCTS

Diagnostics & Strategy Products	**Country Private Sector Diagnostics (CPSD)** (Joint WBG)	**IFC Country Strategies** (IFC with Bank input)	**Sector Deep Dives** (IFC with Bank input)
Objective	Identifies opportunities for creating/expanding markets and private sector investment and barriers to be removed	Outlines IFC's strategic approach and work program in a given country and informs the CPF	Analyzes industries to identify key areas for sector transformation and for focused IFC business development
Coverage	Focuses on key enabling sectors and sectoral deep dives as warranted. Includes high-level action plan.	Focuses on IFC 1.0 and 2.0 investment prospects and IFC 3.0 market creation activities within key sectors. Integrates diagnostics. Uses "if/then" analysis.	Prioritizes potential market creation interventions according to country context (FCS, IDA, MIC)
Status	12 post decision review, 17 under development	14 complete, 24 under development/planned for FY19/FY20	9 complete, 4 under development

3.7 The IFC Country Strategies have become a critical tool in moving IFC towards more strategic country engagement. They also support better articulation to country clients of the potential payoffs from implementing Cascade reforms. All IFC Country Strategies are presented at IFC management meetings chaired by IFC's CEO and each are followed by business plans that identify three to five priorities and outline actionable steps to tackle those priorities in the coming six months to four or five years.

3.8 Going forward, IFC will aim for an even more impactful sequencing of its tools within the WBG country engagement cycle. The CPF remains the WBG's principal country strategy document and the CPF schedule will determine the roster of CPSD development. The CPSD, as well as the Sector Deep Dives and other analytical tools, will inform the IFC Country Strategy, which in turn will feed into the CPF. The aspiration is to include the "if/then" analysis from the IFC Country Strategies into all CPFs to be developed.

FIGURE 2: IDEALIZED SEQUENCING OF WBG DIAGNOSTICS AND STRATEGY PRODUCTS



In-depth Profile: How Diagnostics Underpin Strategies and Operations in Morocco

3.9 Recent experience in Morocco demonstrates how the different diagnostics and strategy products are utilized and relate to one another to promote increased private sector solutions. One of only two investment grade countries in Africa, Morocco has become a regional manufacturing hub and investment gateway. However, the current development model relying on internal demand and government spending is not sustainable.

3.10 In 2018, WBG teams began collaborating on a series of diagnostics that would ultimately inform the Morocco CPF (2019-2024). The Morocco CPSD conducted a rigorous analysis of the country's competition environment, providing the framework for business reform and analyzed the importance of tertiary education and vocational education and training (TVET) for Morocco's development. This work was key to providing the knowledge base for the first pillar of the CPF "Promoting Job Creation Through Private Sector Growth" and also encouraged expansion of the second pillar "Transforming Human Capital" from an exclusive focus on basic education. In addition, the IFC Sector Deep Dives on the Digital Economy and Education contributed to building the CPSD cross-cutting and deep dive analyses.

3.11 In addition to the CPSD, the CPF was informed by the IFC Country Strategy which brought the "if/then" scenario analysis into the CPF deliberations. As a follow-up to the CPF, further deep dive analysis on TVET and the water sector will be conducted to identify key areas for reforms. Joint IFC-WB work on the Maghreb Infrastructure Diagnostic helped to identify upstream sectoral reforms and flagship Public-Private Partnerships (PPPs) to open the door to greater private sector participation in infrastructure. The Joint IFC-WB Capital Markets Initiative (J-CAP) engagement is expected to spur regulatory reforms to deepen the local capital market.

3.12 The value of diagnostics and analytical work also lies in the extent to which they influence operational outcomes. The new 3.0 tools are informing work programs both for IFC and the WB. The nine IFC Sector Deep Dives that have been delivered to date (i) served as critical vehicles for new business development to achieve sector transformation, (ii) are significantly helping IFC to achieve greater alignment between investment and advisory engagements and (iii) have substantially strengthened collaboration across IFC and the WBG. The Digital Economy for Africa Initiative (now called the Digital Moonshot) was a direct outgrowth of the Digital Economy Deep Dive. The Cascade framework in the Health Sector Deep Dive has been extensively used by teams currently developing MFD plans in ten countries. The Health, Agribusiness and Manufacturing Deep Dives have provided clear guidance on focus areas for IFC equity investments. The Sector Deep Dive for Microfinance is helping IFC teams to develop platform facilities, which can be used to serve underserved or unbanked populations, particularly in agricultural and rural areas. In the Power Sector, IFC teams are using the Deep Dive to improve market mappings and pursue a broad range of upstream interventions.

3.13 Examples of CPSD follow-up include, in Nepal, wide-ranging activity including a Bank MFD Development Policy Operation (DPO), Bank Investment Project Financing (IPF) and WBG and IFC Advisory in a range of sectors and IFC business leads in the financial and hydropower sectors; in Ghana, Bank Finance and Competitiveness and Energy DPO, Economic Transformation IPF and IFC Agribusiness and ICT Advisory projects; and in Uzbekistan, underpinning reform recommendations in selected sectors of the Reform Roadmap, with Bank DPO and other lending products advancing implementation.

Operationalizing Upstream Delivery

3.14 *New Operations Leadership:* The implementation of IFC 3.0 and the delivery of IFC's ambitious growth trajectory into 2030 requires a greater focus at the regional and country levels. To this end, IFC created Regional Vice President positions in FY18 to rebalance its focus, presence and delivery toward the regions. In FY19, IFC completed the restructuring of its Operations leadership team, upgrading the Regional Industry Head positions in SSA, MENA, South Asia and East Asia and the Pacific regions and adding an additional Regional Director position to cover the SSA region. The Regional Industry Directors and Regional Directors are responsible for designing and implementing IFC Country Strategies based on country diagnostics and proactively developing projects that will create markets in their regions, countries and sectors. In total, 15 new Directors have been appointed so far in FY19, representing a diverse leadership cohort with vast experience.

3.15 In addition, IFC created three Global Heads of Equity positions to support IFC's new approach to equity, by assisting in selecting and structuring new transactions and actively managing the equity portfolio.

3.16 *Aligning investments and Advisory Services.* Advisory Services (AS) are at the heart of Creating Markets, enabling IFC to deploy market development and upstream expertise in challenging markets. Over the last year, IFC has implemented changes to the AS business model that were announced in the last SBO Update and the AS Implementation Update to the Board, July 17, 2018. Effective FY19, most cross-cutting Advisory teams were fully integrated into industry departments, completing the process of AS integration which began in July 2018. These teams are significantly focused on sector development and creating markets and embedding such teams and expertise in industry departments will better align IFC's tools and strengthen industries' ability to design and deliver more impactful country/sector programs. Decisions on sequencing of engagements are taken jointly and regional and global industry leadership is accountable for the delivery of Advisory programs. Examples on how teams are working together in new ways are described in box 1 below.

BOX 1: IS/AS ALIGNMENT IN ACTION

The integration of AS and IS teams is essentially complete in the Financial Institutions Group (FIG). AS and IS teams are co-located and jointly work on business and pipeline development. FIG is also building a cadre of industry specialists, for instance in Access to Finance and Digital Finance, who can work on both AS and investment projects for a more holistic client offering. In addition, the Cross-Industry Solutions AS team has fully integrated with FIG and their technical work has been refocused to align with FIG strategic priorities. For example, the "Local Advisory Services Providers (LASP)" work was adapted to focus on financial institution-provided non-financial services. It will also lead to a tighter integration with the Banking on Women practice.

Within the Infrastructure group (INR), integration of the AS Energy and Water (CASEW) staff and programs into the department is an important component of its effort to put in place a new department Upstream structure and business model. Both processes are close to completion, and the expanded Upstream focused staff are already beginning to function as an integrated unit, combing advisory and investment skills into one Upstream solution offering. It is seeing this across all elements of its Upstream model – from sectoral engagements, to program engagements to project engagements. For example, new sector-level upstream initiatives are currently being defined in Afghanistan (power), Pakistan (power/water) and the Pacific (multi-sector), drawing on a mix of staff with AS and IS skills, aligned to a single Upstream strategy. In Indonesia, an Upstream team, bringing together regional leadership, investment staff and technical staff, is scoping the opportunity for mini-LNG facilities. On a programmatic level, in SSA, a team comprising of former CASEW (now INR-mapped) staff and existing IS staff are looking at opportunities to bring power to under-served areas through mini-grids, drawing on expertise and learning developed under old CASEW programs. And on a project level, staff with IS and AS skills, drawing additionally on our C3P group, are developing a large single hydro asset through an InfraVentures mandate, together with the government of Malawi. While all these engagements are at an early stage, and Upstream work is inherently risky, they provide valuable testing grounds for different approaches to integrate Advisory and Investment skills into one unified Upstream approach.

In-depth Profile: IFC Global Upstream Units

3.17 Another important IFC 3.0 milestone, the creation of three IFC Global Upstream Units (GUUs), was announced in January 2019. Staffed with some of IFC's most experienced personnel, the GUUs will draw on diagnostic tools to help IFC identify, assess and prioritize new market creation opportunities. They will also help IFC to link the various parts of the market creation process—policy reform, advisory, investment and mobilization—and to better collaborate across the WBG to implement the Cascade and pursue sustainable private sector solutions, GUUs will play the role of incubator and integrator. By connecting expertise from investment and advisory staff, the Bank Global Practices (GPs) and external partners to projects and initiatives, the units are designed to spot game-changing trends, technologies and business models that can accelerate development impact. They will then disseminate knowledge and experience across the industry group to support adoption of new approaches and best practices.

3.18 Based in each of IFC's global industry departments, the three GUUs will be headed by a Manager with dedicated staff. These dedicated upstream resources will be complemented by additional staff from global, regional and cross- cutting departments.

3.19 *Strengthening Operational Guidance for Creating Markets:* Launched during the prior SBO Update cycle, COMPASS (Creating Markets Priority Setting Sessions) brought together staff from across IFC (regions, global industries and sectors and advisory) as well as the GPs to agree on a prioritized list of upstream, market-creation opportunities in FCS and IDA countries. COMPASS will be enhanced during the current cycle to validate cross-matrix regional Creating Markets priorities across all country classifications and more closely align strategic priorities with upstream resource allocation decisions and fund-raising plans.

3.20 IFC is also in the process of developing a clear operational definition, typology and governance mechanism for Creating Markets initiatives, which will be an important input for COMPASS and support the systematic identification, tracking and management of market creation efforts. Three typologies, or creating markets intervention modalities, have been defined: Global Delivery Platforms; Markets and Enabling Environment; and, Early-stage Ventures and Project Development. These categories will enable broad alignment in activities across industries and aim to simplify screening of Creating Markets projects to be added to the pipeline.

FIGURE 3: THREE TYPOLOGIES FOR CREATING MARKETS INITIATIVES

Global Delivery Platforms *Scalable product/solution design and development*	**Markets and Enabling Environment** *Country-specific initiatives*	**Early Stage Ventures & Project Development** *Project-specific engagements with upstream components*
• Industry/sector assessments • Aggregation and scalable solutions for replicational across countries • Standardization of RFP/tender documentation • Provision of stapled financing / insurance / guarantee / other credit enhancement ***Examples:*** • ***INR:*** *Scaling Solar* • ***FIG:*** *Small Loan Guarantee Program (Phase 2)* • ***CTT:*** *Digital Infrastructure Initiative (DII)* • ***CTT:*** *Digital Moonshot*	• Guide the Bank in developing the regulatory and policy framework for unlocking markets in a sector • Assess financial viability of a market with sector modelling ***Examples:*** • ***INR:*** *Mashreq Energy, Côte d'Ivoire Infrastructure*	• Partner with prospective sponsors to develop and finance market creation projects • Conduct market studies, work with WB to unblock industry investment barriers, provide technical assistance and advisory services to sponsors, identify potential co-investors • Support co-investors to enter new markets ***Examples:*** • ***INR:*** *Bangladesh LNG, Nachtigal Cameroon* • ***FIG:*** *Climate Change Response Facility* • ***MAS:*** *BoViMa, Rikweda*

3.21 *Incentivizing Creating Markets:* IFC has implemented several measures to steer its incentives towards the 3.0 strategy. In FY19, IFC revamped its Corporate Scorecard to better align with IFC 3.0 and Capital Package commitments (see discussion in Chapter 3). IFC's Awards programs have also been redesigned to support the alignment of performance with organizational priorities. Beginning in FY18, the Corporate Awards programs were refocused to recognize strategic achievements, including the introduction of a Top 30 individuals award category to acknowledge and reward staff across the WBG for exceptional work demonstrated in FCS and LIC-IDA countries and for contributions toward creating markets and implementing the Cascade. The Departmental Awards program, which is linked to departmental key performance indicators (KPI) delivery, was also leveraged to reward staff for IFC 3.0 accomplishments. Both awards programs recognized the value of WBG collaboration in implementing IFC's strategy, which resulted in a doubling of the number of awards allocated to IBRD and MIGA staff.

3.22 IFC will continue to roll out new measures to incentivize and support staff across all levels of the organization to deliver on IFC 3.0, including:

- Incorporating Creating Markets and Upstream objectives for Vice Presidents and Directors, which have been cascaded to all operational staff.
- Introducing a dedicated Creating Markets awards pool within the Departmental Awards program for operations to reward upstream projects and activities.
- Redefining career opportunities by launching a new career progression pathway for investment and advisory staff to support upstream work. The new framework supports staff to work across boundaries on market creation efforts and to deliver transactions in challenging geographies.
- Establishing a framework to facilitate internal mobility and providing a centralized, structured approach to internal rotations, thus encouraging staff to gain well-rounded and diverse

experiences to enable the innovative thinking and cross-boundary collaboration required to respond to critical development challenges.

Enhancing Collaboration on the Cascade

3.23 There is continued momentum behind implementation of the Cascade approach to MFD — both at country level through MFD pilots, accelerators, joint diagnostics and an increasing number of joint projects and programs (see Box 2) and through corporate enablers to strengthen collaboration, such as the Presidential Exchange Program, guidance at a strategic, project and technical level, training for more than 1,200 staff, incentives and metrics and monitoring systems.

3.24 The WBG delivered a full suite of products that support the Cascade approach in the nine pilot countries and beyond. This included InfraSAPs and CPSDs identifying constraints to private sector solutions and potential project pipelines, DPOs crowding in private investment, MFD-enabling IPFs in sectors such as Agriculture, Energy, Transport and Water, IFC mobilization and MIGA and Bank guarantees supporting select investments.

3.25 The WBG has also created dedicated teams through the MFD Accelerator program, providing about 60 WBG staff in twelve "Accelerator Pods" with defined mandates to accelerate achievement of MFD initiatives. The joint teams are empowered to address challenges and have joint milestones and metrics with shared accountability for monitoring results. The Pods are piloting new approaches to challenges in the delivery of power, transport and port infrastructure, water and education and health services in 11 countries across SSA, Asia and MENA. Emerging approaches include the development of joint implementation plans, joint engagement with government and reduced duplication of efforts.

3.26 Building on this experience, IFC, MIGA and the Bank have jointly developed a pipeline of FY19 Cascade priorities in 31 countries across six regions, with joint accountability in infrastructure, but also in sectors such as agribusiness, finance, energy, digital economy, water and Small and Medium Enterprises (SME) development. This approach will be the "new normal" for joint Cascade work. To arrive at this selection, regional/country and sector teams have identified at least three to four countries per region with the potential for quick-win Cascade activities that will be staffed with joint teams. Criteria included government interest, openness to and readiness for the Cascade approach, a favorable macro-economic situation, availability of WBG diagnostics, potential for large mobilization, and IDA/FCS classification to help advance the IDA 18 Private Sector Window (PSW) agenda. The intent is to leverage best practices from the MFD Accelerator program.

3.27 While good progress is being made, the focus now needs to be on hardwiring the Cascade into the collective DNA of the WBG and continued shifting from opportunistic to systematic approaches. Without it, it will be difficult to meet both IFC and Bank policy commitments, and with mounting public-sector debt it becomes even more critical that the WBG and its clients first consider private sector solutions, reserving scarce public resources for where they are most needed.

3.28 To help support scaled-up collaboration, new WBG Sector Groups will serve as the connective tissue between World Bank, IFC and MIGA operations. These Sector Groups are not just industry verticals. They will lead the design of a strategic framework that holistically frames a joint approach to promoting private solutions, based on cross-cutting themes. The framework will inform sector-specific recommendations made in CPSDs, SCDs and CPFs, as well as Cascade and Creating Markets activities implemented in that sector across the WBG. The Sector Groups will also provide input to IFC regional industry teams and WB country teams on which medium/long-term Cascade and Creating Markets priorities to pursue and ensure consistency and alignment of work programs. Leveraging existing WBG work, a Sector Group has been launched for Agribusiness as a pilot, with Cities and Housing following closely and possible expansion to other areas, including Human Development.

BOX 2: THE CASCADE IN ACTION

Bonne Viande de Madagascar (BoViMa)

BoViMa is a prime example of MFD in action—identification of what is needed to create a market; drawing upon WBG resources; working with government to address gaps; then working with an IFC sponsor for a private sector solution.

Agriculture is a mainstay of Madagascar's economy, accounting for more than a quarter of its GDP. Both the SCD and CPF processes identified agribusiness as a key sector to boost the country's economic and growth agenda. IFC's advisory program was critical in making BoViMa into a bankable project. The work began with a feasibility study to confirm the commercial viability of the project and helped design the feedlot and slaughterhouse to meet global standards. The project helped to create a robust supply chain with a livestock management system and a program to assist herders and farmers. IDA funds were allocated to train veterinary staff, purchase equipment, rehabilitate laboratories, and build infrastructure for livestock. These improvements will allow Madagascar to begin issuing internationally-accredited animal health certificates, opening a path for exports.

BoViMa is expected to provide a much-needed economic boost for the country, where unemployment is high, and 60 percent of rural families rely on livestock for their income. IFC's investment is for up to $7 million. The project achieved an AIMM score of 100 for expected development impact and contribution to market creation along with a "very strong" potential for market creation.

Nachtigal Hydropower

Nearly 40 percent (10 million) of Cameroon's population lack access to electricity. The country urgently needs more power generation but is constrained by its fiscal realities. Using the Cascade approach to MFD, the WBG has worked together with the government and private sponsors to crowd in private capital to build and operate high-efficiency power plants while not burdening the country with more debt.

Nachtigal is a 420-megawatt hydroelectric plant jointly developed by IFC and Électricité de France. IFC dedicated substantial resources, in terms of both people and finance–contributing $13 million to the development budget, and investing €60 million in equity, up to €110 million in loans and mobilizing up to €806 million from DFIs and commercial banks. Senior-level staff worked for over five years with the client on project design, construction tendering, risk allocation and contract negotiation, sector reforms, and environmental and social performance standards. The WB and MIGA proved crucial in attracting international capital contributing $500 million in project-financing guarantees. In addition, electricity produced by Nachtigal will be transported by a transmission-network company recently created and supported by a $325 million WB project.

Nachtigal will increase the country's power-generation capacity by nearly a third and bring clean, affordable power to millions. Selling electricity at around $0.06 a kilowatt hour, the plant will provide very cheap power that will help sustain economic growth.

3.29 Finally, cross-WBG working groups are working to develop a comprehensive MFD Results Measurement Framework. The framework aims to: (i) define what success looks like for the MFD agenda by applying the Cascade approach; and, (ii) to create workable indicators for the Cascade and MFD that will align WBG activities in scaling up private sector solutions and may ultimately be used to galvanize the broader development community to support the Billions to Trillions agenda.

3.30 The proposed framework involves a two-pronged approach: (1) better measurement of private investment into emerging markets and developing economies; and, (2) better monitoring and evaluation of country-level shifts in support of MFD through the Cascade. There will be three work streams: (i) measure private fixed capital formation; (ii) estimate private investment catalyzed by the WBG; and, (iii) selected pilots at the country-sector level to estimate potential private sector responses to upstream policy interventions at country level, monitor country actions and evaluate private responses over time. The working groups will also propose how to fully incorporate the Cascade into the WBG country engagement cycle with corresponding accountabilities, supported by clear protocols for how operational teams across the WBG work together to implement the Cascade.

CHAPTER 4: TRANSLATING STRATEGY INTO RESULTS

4.1 IFC's new FY19 Corporate Scorecard, shared with the Board in October 2018, is a critical tool for aligning IFC's operations with its strategic goals[7]. The Scorecard was adjusted to directly reflect the capital increase policy commitments and implementation of IFC 3.0, with the target setting horizon broadened to three years (current year target and two subsequent years) in view of long-term 2030 goals. IFC's results are anchored and tracked along four key dimensions: Development Impact, Client Delivery (Investment and Advisory), Financial Sustainability and Efficiency and Diversity.

4.2 This chapter will use the first three Scorecard dimensions as an organizing principle, reflecting on development impact and program targets. It concludes with an update on work being done to operationalize IFC's portfolio approach.

Development Impact

Estimating and Measuring Development Impact

4.3 The Corporate Scorecard captures both *ex-ante* and *ex-post* measures of Development Impact. *Ex-ante* ratings are drawn from the Anticipated Impact Measurement and Monitoring (AIMM) system for new investment projects[8]. *Ex-post* results are currently captured through IEG ratings for investment development outcomes (DO) and advisory development effectiveness (DE).

TABLE 4: IFC DEVELOPMENT IMPACT METRICS IN IFC CORPORATE SCORECARD

	Indicators	FY19 Target	FY20(E)	FY21(E)	FY19-21 average	*FY18 Baseline*
Ex Ante	Average *ex-ante* AIMM score of [#] for commitments (Likelihood adjusted) (IS)	**56**	58	60	58	*55*
	[#] percentage of commitments with contribution to Market Creation potential rating of "Very Strong" (IS)	**15%**	18%	20%	18%	*10%*
Ex Post	*[Placeholder - Average ex-post AIMM score of [#] for active portfolio projects (IS)] [no values yet available; ex-post AIMM scoring of portfolio during FY19]*	**..**	..	..	..	..
	Satisfactory Development Outcomes of IFC Investment Operations (IEG Rating)	**45**	50	55	..	50
	IFC Advisory Services successful development effectiveness rating (IEG Rating)	**40**	42	55	..	49

4.4 Following a pilot period in FY18, the AIMM system is now fully operational for new investment projects. The total AIMM score is composed of a risk-adjusted project outcomes and market creation score. The project outcome score considers effects on stakeholders, the economy, environment and society; while the contribution to market creation score considers changes to a sector's competitiveness, resilience, integration, inclusiveness and sustainability. A project receives an AIMM score on a scale of 0 to 100 with commensurate development impact ratings of "excellent", "good", "satisfactory", or "low."

4.5 IFC is also making progress on backfilling AIMM scores for investment projects in its portfolio. This will serve to establish an AIMM portfolio metric for projects in supervision for the Corporate Scorecard. It will also be a critical building block to making progress on the portfolio approach. Finally,

[7] OM2018-0067/1

[8] The IFC Development Goals (IDGs) have focused narrowly on reach metrics, whereas AIMM incorporates reach metrics as well as other elements to assess development impact. While IFC will cease to report separately on IDG reach metrics beginning FY 20, such reach metrics will continue to form an important component of the AIMM assessment of project outcomes and will be tracked as part of the AIMM monitoring system.

IFC is developing a framework for applying AIMM to its AS business, envisioning a pilot to be rolled out within the calendar year.

Responding to IEG's Assessment of Development Effectiveness

4.6 Improving IFC's development performance is a top priority for IFC Management. The last SBO Update outlined several actions that IFC has implemented to reverse the decline in DO and DE ratings for Investment and AS projects, respectively. These include: changes in the investment and AS Accountability and Decision-Making Framework (ADM), which are intended to clarify lines of responsibility for project quality; strengthened AS governance around the role of monitoring and evaluation in all aspects of project development and supervision; and full implementation of the AIMM system for investment projects, which is helping to influence project selection and design, with the effect of improving overall development impact in the long run. In addition, IFC has instituted regular regional portfolio reviews for AS. These are intended to identify projects with emerging issues and ensure measures are taken to address areas of concern. Project-level corrective actions are monitored closely to ensure timely resolution and are complemented by a portfolio-level action plan to address common issues and improve overall portfolio quality. Complementing these efforts, IFC has launched an initiative to help improve the quality of its self-evaluations, which in turn should generate a better feedback loop to Operations.

Ensuring Additionality

4.7 In FY18, IFC developed an enhanced framework for how it assesses additionality, conducting an implementation pilot in Q4. Beginning FY19, the new framework has been implemented for all investment projects. The framework follows the harmonized typology and definitions of additionality as presented by the Multilateral Development Banks (MDBs) to the G20 in September 2018.

4.8 Teams now assess financial additionality for debt financing by providing evidence of financial terms currently available for syndicated lending and bond markets in the relevant market(s), including in a standard annex in IFC Board papers. IFC is working on providing comparable financial additionality indicators for equity. Teams are also providing additional detail on non-financial additionality claims, again following a standard typology, including how non-financial additionality strengthens development impact. Based on ongoing implementation exchanges with other MDBs, IFC has gone the farthest in terms of adoption to-date, that is, using the agreed typology and harmonized definitions as the backbone of its framework.

Client Delivery: Investment Program FY20-22

4.9 IFC's FY19 Corporate Scorecard laid out program targets for the coming three years, along a trajectory that is designed to meet its 2030 policy commitments.

TABLE 5: CLIENT DELIVERY METRICS IN IFC CORPORATE SCORECARD

	Indicators	FY19 Target	FY20(E)	FY21(E)	FY19-21 average	*FY18 Baseline*
Program	Total LTF Commitments (excl. MIGA): O/A + Core Mobilization ($B)	**20.8-21.3**	22.3	24.3	22.5	*23.3*
	LTF OA Commitments ($B)	**12.3-13.0**	13.2	14.2	13.3	*11.6*
	IDA-17 + FCS as a % of LTF OA Commitments	**24-26%**	27%	29%	27%	*21%*
	IDA17-FCS & LIC-IDA17 as a % of LTF OA Commitments	**7-8%**	9%	10.5%	9%	*6%*
	IDA-17 as a % of LTF OA Commitments	**23-25%**	25-27%	28%	26%	*20%*
	Climate as a % of LTF OA Commitments	**28%**	28%	30%	30%	*34%*
	IDA-17 LTF Project Count as % of LTF Projects	**33%**	33%	35%	34%	*35%*
	STF Average Outstanding Portfolio ($B)	**2.8-3.2**	2.8-3.2	2.8-3.2	2.8-3.2	*3.4*
	IDA PSW Funds Committed ($) *FY21 estimate contingent on PSW renewal*	**825M**	1107M	..	966M	*68M*
	Gender as % of AS project count	**40%**	..	..	40%	*45%*
	% share of Women directors nominated on IFC Board Seats	**30%**	32%	35%	32%	*26%*
	New LTF commitments (O/A + Mob.) ($B) to FIs specifically targeting women	**1.0B**	1.15B	1.32B	1.16B	*686M*

4.10 The program outlook for the SBO mirrors the targets in the IFC Corporate Scorecard for FY19-21 and includes preliminary targets for FY22. Such targets assume that the paid-in capital increase will begin to be made available during FY20-22.

FIGURE 4: IFC LONG-TERM FINANCE PROGRAM AND MOBILIZATION TRAJECTORY FY19-22

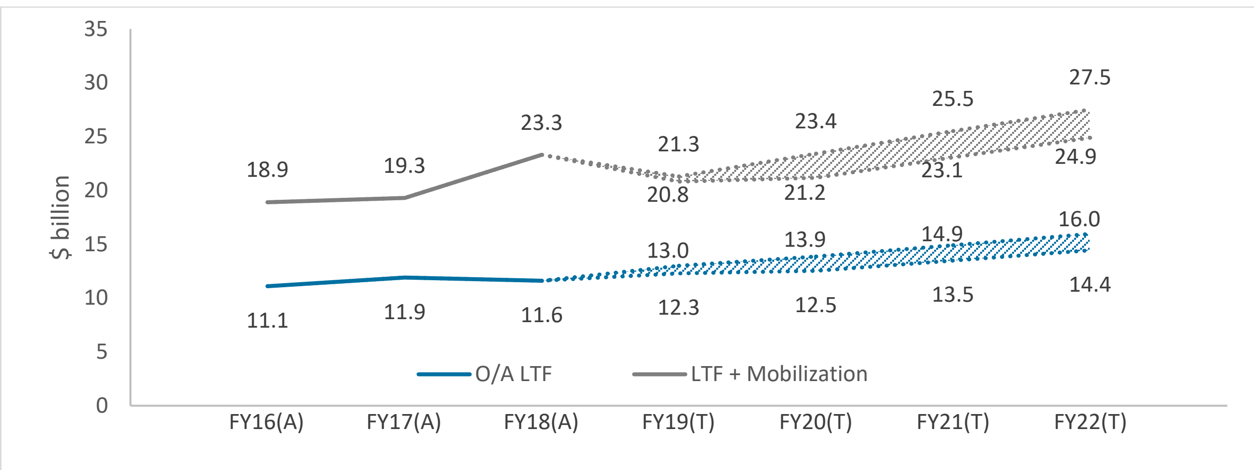


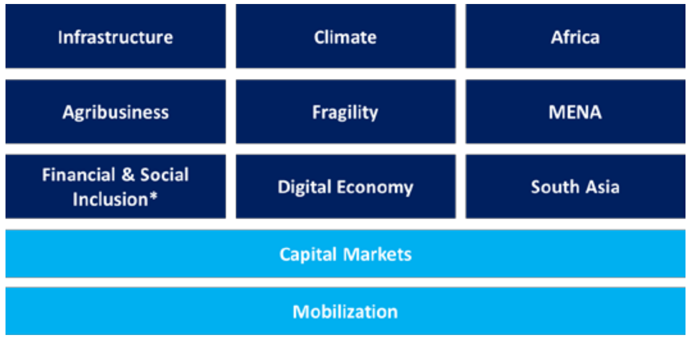
TABLE 6: IFC LONG-TERM FINANCE AND SHORT-TERM FINANCE PROGRAM TARGETS FY19-22

$ BILLION	FY16(A)	FY17(A)	FY18(A)	FY19(T)	FY20(T)	FY21(T)	FY22(T)*
Total LTF Commitments	18.9	19.3	23.3	20.8 - 21.3	21.2 - 23.4	23.1 - 25.5	24.9 - 27.5
OA LTF Commitments	11.1	11.9	11.6	12.3 - 13.0	12.5 - 13.9	13.5 - 14.9	14.4 - 16.0
Mobilization Commitments	7.7	7.5	11.7	8.0 - 8.8	8.7 - 9.5	9.6 - 10.6	10.5 - 11.5
STF Average Outstanding Portfolio	2.8	3.2	3.4	2.8 - 3.2	2.8 - 3.2	2.8 - 3.2	2.8 - 3.2

* FY22 targets are preliminary as the IFC CSC only covers FY19-21. Mobilization commitment targets implied.

4.11 As discussed in Chapter 2, IFC's strategic focus areas remain in place and continue to be highly relevant for market creation.

FIGURE 5: IFC'S STRATEGIC FOCUS AREAS



* Financial inclusion is tracked at the industry level by IFC's program in financial markets. Social inclusion is tracked through IFC's program in Health, Education and Life Sciences.

4.12 Over FY20-22 IFC intends to continue increasing commitment volumes in its strategic focus areas, and by doing so, support delivery of its Capital Package commitments. The paragraphs below reflect on developments related to social inclusion (gender, health and education), climate and fragility (FCS and IDA). A summary of future directions in focus industries and regions is provided in Annex 2 (Regions) and Annex 3 (IFC Sector Deep Dives).

TABLE 7: LTF COMMITMENTS BY STRATEGIC FOCUS AREA – SHARE OF OWN ACCOUNT PROGRAM

Strategic Priority		Share of OA LTF	
		FY18 (A)	**FY22 (T)***
Focus Industries (%)**			
Core Infrastructure		19%	20-22%
Agribusiness, Forestry & Fertilizers		9%	11-13%
Financial and Social Inclusion	Health, Education & Life Sciences	6%	6-8%
	Financial Markets	50%	41-43%[9]
Focus Themes (%)**			
Climate		34%	33-35%
IDA17+FCS[10]		21%	29-31%
LIC-IDA17 + IDA17-FCS		6%	11-12%
Focus Regions* (%)			
South Asia		18%	21-23%
Sub-Saharan Africa		13%	22-25%
MENA		9%	8-10%

* FY22 targets for CSC themes and projections for regions and industries are derived from preliminary FY22 IFC volume targets

**Commitment shares do not add to 100, as table excludes non-focus areas and focus areas are not mutually exclusive. Industries contribute to thematic goals and are delivered in focus regions

4.13 *IDA and FCS:* The IDA and FCS program ranges reflect the initial stages of a trajectory to reach IFC's policy 2030 commitments, namely to deliver 40 percent of its commitments in IDA17 countries and FCS, and 15-20 percent of commitments in LIC-IDA countries and IDA17-FCS, by 2030. This translates into an expected significant increase in the shares of IFC OA volumes by FY22, to 29-31 percent and 11-12 percent, respectively. In line with these commitments and the sharpened focus of IFC 3.0 on regions that have benefited least from private investment and solutions, IFC will continue its efforts to increase the share of its investments in SSA, South Asia and MENA.

[9] Reduction in FIG share a result of other focus area increases
[10] Country listing for IDA17, IDA17 and FCS are aligned with the classification agreed in the Capital Package and is a consistent set during FY17-19. The list of countries included can be found in Annex 4.

4.14 The PSW is a key mechanism for IFC to achieve its IDA commitments. Through end-February 2019, IFC has utilized $107 million of PSW funding to support $223 million in IFC OA commitments in seven commitments, with three Board-approved projects pending commitment. IFC has a solid pipeline of approximately $1.9 billion. Building the pipeline and converting the pipeline into projects is a key focus for operations teams and implementation is expected to accelerate in the second half of the IDA18 replenishment period.

BOX 3: IDA PSW IN ACTION

Small Loan Guarantee Program (SLGP)

Small businesses face a mountain of challenges in developing markets and fragile states. Their biggest barrier to growth and success is often a lack of access to finance. In many challenging environments, loans simply aren't available, with lenders dismissing small and medium-sized enterprises as "too risky" due to their size, limited experience, and undocumented performance.

The SLGP facilitates local financial institutions to take greater risk in SMEs in IDA-PSW countries, through a pooled first loss structure provided by the IDA-PSW Blended Finance Facility. Under SLGP, IFC shares 50 percent of SME portfolio risk with local financial institutions for an IFC risk amount of up to a specified level and provides comprehensive advisory services to enhance and strengthen the financial institutions' capacity and risk appetite to finance SMEs.

4.15 *Climate:* FY18 was a landmark year for IFC in climate, representing 34 percent of its OA LTF commitments and meaningfully exceeding its FY20 climate target of 28 percent of OA LTF commitments. Under the Capital Package, IFC committed to reach 35 percent of OA commitments by FY30, including mitigation and adaptation projects. The WBG has since announced a new set of climate targets–35 percent of total commitments by 2025 plus contributing to $67 billion in WBG mobilization–at the annual UN Climate Change Conference of Parties in December 2018 and launched its Action Plan on Climate Change Adaptation and Resilience in January 2019. IFC will continue to build its climate business in its five focus areas of clean energy, green buildings, climate-smart agribusiness, climate-smart cities and green finance.

4.16 As part of the Capital Package, IFC also committed to systematic screening of projects for climate risk in relevant sectors, which it is piloting in seven industry sectors in FY19. Pending a review and stock-take of lessons learnt, IFC will decide on next steps on extending the climate risk assessments to other vulnerable sectors. Additionally, investment operations in key emission producing sectors are to incorporate the shadow price of carbon and apply Green House Gas (GHG) accounting, with annual disclosure of GHG emissions. IFC has implemented carbon pricing in project finance in key emitting sectors as of May 2018 and its initial disclosure of GHG emissions remains on track for FY19. IFC will also continue to incorporate adaptation and climate risk in its AIMM system.

4.17 *Gender:* Gender is not only an integral part of financial and social inclusion, but an important cross-cutting theme as closing gaps between men and women should be considered in all industries, regions and other thematic focus areas. IFC's four gender-related Capital Package commitments aim to (i) flag all IFC projects with a gender component by 2020; (ii) expand investment and AS programs with financial institutions specifically targeting women; (iii) double the share of women directors that IFC nominates to boards of companies where it has an equity investment, to 50 percent by 2030; and (iv) quadruple the amount of annual financing dedicated to women and women-led SMEs by 2030.

4.18 IFC continues to implement the WBG Gender Strategy (FY16-23) and has taken ambitious steps to integrate gender across its business operations and to engage with clients on incorporating women and men more equally as employees, entrepreneurs, customers and community stakeholders. Its priorities include improving women's access to more and better jobs and assets. This means expanding access to capital and insurance, technology and markets where gender disparities are vast; and tackling barriers that prevent more women from entering and staying in the labor force such as childcare and gender-based violence (GBV). Highlights include implementing innovative projects under its $50 million allocation from the first round of Women Entrepreneurs Finance Initiative (We-Fi) funding, committing to screen all new investments for GBV risk, and building on its "Driving toward Equality" report on women and ride-hailing to expand women's opportunities across online platforms including through the Digital2Equal initiative.

4.19 IFC's *Health and Education* program will play a critical role as the WBG operationalizes the HCP, launched at the 2018 Annual Meetings. IFC will support increased private solutions, PPPs and AS for improved effectiveness. Its proposed Human Capital Impact Platform, incorporating blended finance and AS, aims to help create scaled and replicable businesses that provide affordable quality services to low-income populations. IFC and the Bank have joined forces to create a WBG sector group to advance human capital development through the Cascade approach. Finally, IFC is also working with the Bank to develop a set of Ethical Principles in Healthcare to be launched at IFC's Health Conference in March, with Ethical Principles in Education to be co-developed for launch at the 2019 Annual Meetings.

Client Delivery: Advisory Program FY20-22

4.20 With Advisory now fully embedded in Industry departments, IFC is moving from separate investment and advisory engagements to an approach that jointly coordinates investments, advisory and policy reform to drive market creation. Advisory-specific progress will be monitored through Creating Markets metrics which will be developed in FY19 for inclusion in the FY20 Corporate Scorecard.

4.21 The Creating Markets Advisory Window (CMAW) has been a critical tool to deploy AS in eligible IDA and FCS markets. Through January 2019, more than $70 million in CMAW funding has been approved, supporting more than 320 projects in over 60 countries. An example of a CMAW-funded project includes the Skills in Ghana program, which aims to improve the processes and operations in tertiary-level educational institutions and thus provide improved employability services to at least 18,000 students.

4.22 By FY22, IFC expects the share of the Advisory Program in IDA countries to increase to 65 to 70 percent, with FCS accounting for 22 to 25 percent of the total program.[11]

4.23 Advisory work related to climate change ranges from sustainable energy finance to supporting clients to optimize their energy use and resource efficiency in new and emerging sectors such as batteries, energy storage and distributed generation, to implementing climate-related PPP projects. By FY22, IFC expects the share of the Advisory Program for Climate-related activities to increase to 30 to 33 percent of the total program.

Financial Sustainability and Capital Adequacy

4.24 *Financial Sustainability* IFC's financial sustainability is critical to continue delivering on its program and development impact in the long run. To align operations around financial sustainability, two metrics are included in the Corporate Scorecard: risk-adjusted return on capital (RAROC) for IFC's debt portfolio, and total return on its equity portfolio compared to the MSCI Emerging Markets Index.

[11] The projections for IDA and FCS were developed in FY17 as part of the new Advisory strategy, before shifting Advisory to support IFC 3.0, and will be reviewed for next year's SBO.

TABLE 8: FINANCIAL SUSTAINABILITY METRICS IN IFC CORPORATE SCORECARD

	Indicators	FY19 Target	FY20(E)	FY21(E)	FY19-21 average	*FY18 Baseline*
Financial Sustainability	IFC Debt Portfolio RAROC (%)	**8%**	8%	8%	8.0%	*7.5%*
	Equity Portfolio Total Return ~ MSCI	**>0**	>0	>0	>0	*0.1%*

In-depth Profile: IFC's Equity Approach

4.25 Equity investments play a critical role in ensuring IFC's long-run financial sustainability and ability to deliver development impact through its clients. Through its impact on IFC's capital position, the performance of IFC's equity portfolio contributes to IFC's program size and ability to bear risk and therefore impacts both the degree to which key strategic priorities can be scaled up and IFC's delivery of its Capital Package commitments.

4.26 IFC updated its approach to equity investments in November 2018. This updated approach identified three drivers to improve performance: (i) informed consideration of macro and sector dynamics; (ii) ability to meaningfully influence investee delivery; and (iii) active management of key investments. To operationalize these, IFC will pursue four key approaches that will support the delivery of its capital increase ambition.

4.27 Starting in FY19, IFC transitioned to a new equity accounting standard, with all investments classified as equity in IFC's financial statements reported at fair value, with changes in fair value reflected in net income. Going forward, this will cause greater volatility in earnings given the size of IFC's equity portfolio and the volatility inherent in security prices and investment valuations.

4.28 *Capital Adequacy*. Deployable Strategic Capital (DSC) is the key capital adequacy metric for IFC, measuring the amount of IFC's capital that is available to support new investments. Given the uncertainty in forecasting IFC's income and portfolio growth, DSC projections are typically presented as a range based on different scenarios. These scenarios allow IFC to measure the sensitivity of its capital adequacy position to different factors. IFC has projected its DSC until the end of FY22 based on its FY19-22 LTF commitment targets and estimates for its income over the same period.

Portfolio Approach

4.29 The portfolio approach aims to optimize the balance between IFC's development impact and financial sustainability and help align IFC's business decisions with its strategic directions. IFC 3.0 calls for active portfolio management across sectoral, geographic and investment vehicles against development impact, financial and risk metrics.

4.30 IFC has worked on multiple fronts to put in place the basic building blocks required to implement the portfolio approach. To capture financial sustainability, it has been agreed that RAROC and internal rate of return metrics will be used, while *ex-post* AIMM scores will be utilized for development impact performance. Teams are currently working to assemble the metrics on both dimensions for a representative sample of the portfolio. All projects with an AIMM score will be paired with a respective financial return and, as the number of AIMM scored projects increases, so will the number of projects with both development and financial metrics.

4.31 Once a robust representative sample has been created, a pilot phase will commence to test the portfolio dynamics with new entries and exits. This will provide IFC with a real-time analysis of its portfolio along the financial and developmental dimensions.

CHAPTER 5: STAFFING AND BUDGET PREVIEW

5.1 To implement the IFC 3.0 strategy and deliver on the 2030 commitments under the policy package, it is imperative for IFC to optimize use of its resources. As discussed in IFC's FY19 Budget Paper, IFC 3.0 is resource-intensive. Program delivery costs in strategic priority areas are higher than the IFC average. Additional staff with diverse skill sets are needed to support operations, especially in IDA and FCS markets. It is therefore essential for IFC to maximize internal efficiencies in order to limit the impact of higher costs on the administrative budget. Our commitment to resource management is reflected in the addition of two new efficiency metrics in the Corporate Scorecard—a Budget Coverage Ratio as well as Efficiency Gains. IFC also included four diversity indicators.

TABLE 9: EFFICIENCY AND DIVERSITY METRICS IN IFC CORPORATE SCORECARD

	Indicators	FY19 Target	FY20(E)	FY21(E)	FY19-21 average	*FY18 Baseline*
Efficiency	Budget Coverage Ratio (%)	**<85%**	<83%	<82%	<83%	*83%*
	Efficiency Gains	**$60M**	$60M	$60M	$60M	..
	Mandate to Disbursement (M2D), median days	**269**	259	249	259	*279*
Diversity	GF+SSA/CR	**12.5%**	12.5%	12.5%	12.5%	*11.2%*
	GF+ Technical Women	**47%**	48%	50%	48%	*46.7%*
	Women Managers	**41%**	45%	50%	45%	*40.5%*
	Part II Managers	**41%**	46%	50%	46%	*39.5%*

5.2 This chapter presents a preview of the upcoming FY20 Budget Paper, providing an overview of IFC's (i) staffing strategy and compensation; (ii) resource management approach; (iii) agile process improvements; and (iv) resource trajectory considerations.

Strengthening our Organizational Delivery Model

Aligning Human Resources with Strategy through Workforce Planning

5.3 IFC launched an extensive WFP exercise in FY19 to ensure that the right people with the right skills at the right seniority levels are in the right places to support implementation of IFC 3.0 and boost WBG collaboration. The objectives of this exercise were to: (i) strengthen regional and country capacity and realign staff towards priority regions, primarily IDA countries and FCS; and (ii) shift skillsets to priority areas, including working with governments, WB colleagues and policymakers to create markets and proactively design new investment projects. This effort was also aimed at rebalancing IFC's staffing pyramid by exiting senior staff whose skills are no longer applicable going forward and recruiting more junior staff to increase productivity and improve the skills mix.

5.4 IFC conducted a voluntary separation program from September through December 2018. The process was carefully monitored to ensure that the organization did not lose high performers in strategic positions. A department-level "bottom-up" WFP process is currently underway, which includes the remapping of staff to ensure proper placement of resources.

5.5 As signaled in the FY19 Budget Paper, staff exits under the voluntary program are expected to result in costs above and beyond the approved FY19 budget. As such, IFC indicated therein that it intends to deploy the budget carry-forward mechanism for WFP costs, to the extent that those cannot be covered through existing administrative budget resources. IFC intends to explore all available budget flexibility, cost-control and cost-offsetting measures to absorb some of the cost of the exits within IFC's allocated FY19 budget envelope and to minimize the use of the carry-forward mechanism. IFC anticipates that this upfront cost will yield significant cost savings in future years, that will be redeployed towards a required ramp up in junior level hiring with the required skills and diversity, well-aligned with IFC's strategic priorities.

5.6 Going forward, IFC is on a growth trajectory, with a significant number of additional staff to be hired over the next three years to support delivery of IFC 3.0. This recruitment is expected to relieve workload pressures while improving efficiency by better leveraging senior staff.

5.7 To identify and attract the specific skillsets needed from the external market, as well as maintain its focus on diversity, IFC is developing a comprehensive recruitment strategy, including in-house sourcing expertise, outreach plans and a career-branding campaign. Following the launch of the recruitment effort, IFC will implement an enhanced onboarding program that will support the effectiveness of new hires and improve retention.

Country Office Compensation Review

5.8 As part of its commitments to manage costs under the capital increase, the WBG has undertaken a review of staff compensation. Phase I of the compensation methodology review addressed HQ-Appointed staff and was approved by the Board in June 2017. Phase II addresses Country Office -Appointed staff; the detailed proposal for country office compensation will be presented to the Board in March 2019.

Diversity and Inclusion

5.9 With the aim of boosting diversity and obtaining optimal skills, IFC undertook targeted recruitment drives in SSA and the Caribbean (SSA/CR). As a result of these efforts, IFC met and exceeded its 12.5 percent target for GF+ SSA/CR.

5.10 IFC also increased the representation of GF+ technical women as a result of targeted external recruitment and a higher number of GF+ male exits. As a result of the progress in IFC's recruitment of diverse staff in FY18, IFC is currently reviewing its external recruitment targets for Women and SSA/CR staff at GF+ to build on the organization's recent achievements.

5.11 Complementing its efforts to build a diverse talent pool, IFC is focused on fostering an inclusive work environment. IFC is reinstituting a corporate onboarding and off-boarding program—with complementary departmental programs—shaped from an inclusion lens to integrate new hires into IFC and to capture areas for improving our inclusive environment at the end of a staff member's career. Another priority area is building a consistent respectful workplace culture. IFC is leveraging resources from the WBG Ethics and Business Council, focused on actions within the WBG Sexual Harassment Strategy, which include the interactive workshop "Creating a Respectful and Harassment-free Workplace" to start frank conversations with intact teams and the Respectful Workplace Advisors program.

Human Resources Federal Model

5.12 The WBG HR federal model was introduced in FY19 to re-allocate HR staff resources and decision-making in a way that recognizes the unity of the WBG for areas such as staff rules and systems, while also allowing its separate institutions to focus on priority areas linked to business strategy. The HR Federal Model has functioned well in its first year of operation with IFC's enhanced ability to design and deliver on a number of its business-aligned HR priorities including diversity, WFP and position management, while further strengthening coordination and collaboration with WBG HR.

Efficient Resource Management in Support of IFC 3.0

5.13 To help maintain its financial sustainability, IFC must make the most of its budgetary resources. To this end, it is continuing its concerted efforts in fiscal discipline, seeking efficiency gains and economies of scale, wherever possible.

5.14 As mentioned above in para 5.1, IFC has already introduced two new IFC efficiency metrics in its Corporate Scorecard—a Budget Coverage Ratio and Efficiency Gains. It is also implementing a new Fundraising ADM framework and AS financial principles to improve management of AS resources.

Budget Coverage Ratio

5.15 Over the years, deliberate effort towards managing expenses has ensured that IFC can cover its administrative expenses from its net loan and fee income, without the need to depend on more volatile revenue sources. For example, the administrative budget amounted to 97 percent of loan and fee income in FY12 and this same coverage ratio has since improved to 83 percent in FY18. In FY19, IFC added the budget coverage ratio to its Corporate Scorecard as a measure of Efficiency.

Efficiency Gains

5.16 IFC has a solid track record of achieving cost savings through efficiencies and has committed to finding significant efficiency gains between FY19-FY30 under the Capital Package. Such gains are expected to come from resource redeployments and trade-offs across functions, cost avoidance due to implementation of new policies, procedures, real estate strategies and/or financial practices at WBG level, where possible and productivity and economies of scale gained through process simplification and optimization initiatives, reskilling, and continued WFP.

5.17 IFC is working closely with the WB and the Internal Audit Department (IAD) to develop and align efficiency measures, governance principles, savings initiatives and monitoring mechanisms to accurately track annual efficiency gains.

5.18 A substantial part of the committed efficiency gains over FY19-30, are expected to come from the successful completion of the voluntary separation program in FY19. These savings are expected to be redeployed to fund the recruitment of junior resources with the required mix of skills, diversity and locations, aligned with IFC's strategic priorities in delivering its Capital Package commitments.

Maintaining WBG Efficiency through Shared Service Agreements

5.19 As a follow-up to the IAD advisory review of WBG Shared Service Agreements, WB, IFC, and MIGA teams have developed a new approach to ensure efficient and cost-effective management of such services. The new approach incorporates a new costing methodology and a joint directive on governance arrangements for shared services..

Achieving further Efficiencies in Global Real Estate Management

5.20 IFC is currently reviewing its global footprint and real estate requirements aligned with Operational strategy and recruitment plans.

Process Improvements

5.21 At the heart of IFC's efficiency, or Agile, program is an effort to change behaviors and processes to enable IFC to make better, more timely decisions. In September 2018, a new ADM framework was launched to reduce pain points and improve decision-making effectiveness across Investment (new business and portfolio) and Advisory project life cycles, as well as operational support units. The new ADM creates clear roles and accountability for key decisions and establishes a more disciplined decision process and ways of working. It identifies one decision-maker for projects; sets clear roles and responsibilities for reviewers; and ensures greater quality control by separating the roles of recommender and decider.

5.22 Initial results from implementation of the ADM are promising. The next phase of ADM implementation is focused on behavioral change.

5.23 In addition to the ADM, IFC is undertaking the following additional steps to improve its business model and streamline processes:

- *Streamlining repeat business*: The FIG Client Envelope will be launched in Spring 2019. The Client Envelope defines the maximum amount of credit IFC can extend to eligible repeat banking sector clients for their eligible products during a limited period. Concept review and investment review meetings will not be required for projects processed under the client envelope, thus reducing time and increasing efficiency.
- *Revised approach to project tiering*. IFC has initiated the review of the investment and advisory process to establish differentiated processing streams for different risk profiles, with lower risk projects to have fewer approval touchpoints. This review is expected to yield proposals for changes to processing repeat deals with real sector clients.
- *Simplified processing for IDA and FCS transactions*: IFC has launched a working group to re-vamp the FCS Risk Envelope – a specific allocation of IFC's balance sheet for investments outside our standard risk/return profile in IDA and FCS markets. The objective of the revamp is to expand usage through clearer, standardized, eligibility criteria and streamlined procedures.

Aligning Donor/Partner Strategies within an Improved Trust Fund Management Framework

5.24 IFC's AS are a key element of its efforts to create markets as outlined in paragraphs 3.16 and 4.20 to 4.23 above. The AS Deep Dives completed in FY18 revealed increasing complexity in the management of trust funds (TF), an important source of development finance and partnerships for WBG. The studies demonstrated the need to review IFC's existing fundraising efforts and TF management practices to increase efficiencies and better align fundraising with strategic priorities. IFC has developed a new ADM to strengthen alignment between fundraising and IFC strategy, better integrate fundraising into the overall annual planning process and increase efficiency in fundraising and TF management and reporting.

AS Financial Principles Implementation

5.25 The AS Deep Dives also identified new efficiencies, cost savings and opportunities to reduce discretionary spending. The studies revealed potential for streamlining non-client related activities in Advisory support functions, strengthening financial management practices and increasing efficiency in the FMTAAS budget. This led to the development of the new AS Financial Principles which were communicated to the Board in the FY19 Budget Paper.

Incentivizing WBG Partnerships

5.26 IFC 3.0 requires IFC to partner with the WB to take advantage of their deep regional, sectoral and public sector expertise and ongoing country dialogue with government and development partners. IFC is also exploring ways to actively incentivize WB and MIGA staff to deliver on the Cascade.

Resource Trajectory Considerations

5.27 This year, in addition to the Cost of Doing Business (CODB) model, which provides directional resource needs for IFC investment operations, IFC will re-examine its current budget base, with an objective of identifying budget headroom within the existing IFC cost structure, eliminating one-time and extraordinary expenses and inefficiencies. New resource requirements associated with IFC 3.0 operational ambitions and growth will be applied to the redefined base, informing IFC's resource trajectory during the critical three-year growth period. Later in the year, this directional resource trajectory will be complemented by the bottom-up budget to confirm the three-year resource trajectory and formulate a detailed FY20 administrative budget proposal, which will be presented to the Board for approval in June 2019.

5.28 IFC will continue to shift resources to address critical priorities such as FCS and IDA and 3.0 upstream support. IFC will also continue to refine its funding model to further shift resources towards regions and explore giving country management a greater say on budget allocation decisions, with best global and industry expertise being deployed where it is needed most.

5.29 The capital increase will enable IFC's growth in strategic IFC 3.0 areas. IFC must now think ahead to the expected ramp-up in the program and ensure that it hires, onboards and trains--including on the job—the new staff needed to drive and implement this growth, especially new junior hires. While the new WFP hiring will drive IFC's resource needs in FY20-21, the FY19 WFP savings and internal efficiency measures will be fully reflected in the revised FY20 budget base and the overall FY20-FY22 resource trajectory to ensure that IFC's Total Resource growth is optimized through continuous savings and efficiency gains.

ANNEX 1: THE IFC 3.0 TOOLKIT

- IFC's **Additionality Framework** reflects the unique value addition IFC's brings to a client that is not available in the market at reasonable terms or cost.
- **Anticipated Impact Measurement and Monitoring** (AIMM) is a system that identifies project and market-creation impacts *ex-ante* and *ex-post*, offering an end-to-end result monitoring system that supports the execution of IFC 3.0.
- The **Cascade Approach** is the WBG algorithm to implement Maximize Financing for Development and seeks to leverage private sector solutions first in order to optimize the use of scarce public resources.
- **Country Private Sector Diagnostics** (CPSD) are a joint product produced by IFC and the WB to ensure alignment on private sector perspectives and leverage of Bank policy dialog and lending for increased private sector role in the economy. These aim to identify private sector opportunities as well as cross-cutting constraints where interventions allowing for increased private investment could have the biggest development impact in the near and medium term.
- The **Creating Markets Advisory Window** (CMAW) is a funding facility created to enhance upstream project preparation and address complex challenges to creating markets in eligible FCS and IDA countries.
- The **IDA18 Private Sector Window** is a $2.5 billion risk-mitigation platform that supports scale-up of IFC-MIGA engagements in IDA-only and FCS markets and offsets risks and other impediments to investments.
- **IFC Country Strategies** outline IFC's approach and work program within a country. It provides teams insight into the opportunities and risks within the context of the political and economic realities on the ground. The IFC Country Strategy guides deployment of IFC resources, focuses on the areas where markets can be created and helps to build a stronger pipeline in each client country.
- **IFC Sector Deep Dives** are a key tool that: (a) assesses the current state, growth potential and economic and development impact of each sector; (b) identifies gaps and barriers to entry and key drivers that enable a successful sector transformation; and (c) develops pathways to implement IFC 3.0 with a focus on sector reform, partnering with the WBG and deploying investment and advisory capabilities. In addition, the Sector Deep Dives allow IFC to further identify areas for future long-term business growth.
- The **Joint Capital Markets Program** (J-CAP), launched in 2016, is a joint WB/IFC initiative to support the coordinated and systematic development of local capital markets in place of piecemeal interventions.
- The **Managed Co-Lending Portfolio Program** (MCPP) has several platforms that allow institutional investors to engage in emerging-markets projects that they otherwise would have deemed too risky.
- The **Portfolio Approach** aims to achieve high development impact and financial sustainability over the portfolio as a whole, allowing IFC to take greater risks on individual investments.

ANNEX 1(A): PROGRESS ON THE IFC 3.0 TOOLKIT[12]

Diagnostic Tools and Strategy Products		
CPSDs	**12 complete (Post-Decision Review Meeting)**	**17 under development**
	Angola, Burkina Faso, Ethiopia, Ghana, Kazakhstan, Kenya, Morocco, Nepal, the Philippines, Rwanda, South Africa, Uzbekistan	Côte d'Ivoire, Ecuador, Egypt, Guinea, Haiti, Indonesia, Jordan, the Kyrgyz Republic, Lebanon, Mozambique, Myanmar, Nigeria, Senegal, Sri Lanka, Tunisia, Ukraine, Zimbabwe
IFC Sector Deep Dives	**9 complete**	**4 under development**
	Agribusiness, Digital Economy, Education, Health, Manufacturing, Microfinance, Power, SME Finance, Water & Sanitation	Capital Markets, FinTech, Textiles, Housing Finance
IFC Country Strategies	**14 complete**	**24 under development/planned for FY19/FY20**
	Angola, Argentina, Dominican Republic, Ghana, Indonesia, Jamaica, North Macedonia, Mexico, Mongolia, Morocco, Myanmar, Paraguay, the Philippines, Timor-Leste	Albania, Armenia, Bhutan, Brazil, China, Colombia, Democratic Republic of Congo, Côte d'Ivoire, Egypt, El Salvador, Ethiopia, Fiji, Haiti, Honduras, Nigeria, Papua New Guinea, Senegal, Serbia, Sierra Leone, South Africa, Sri Lanka, Turkey, Ukraine, Uzbekistan
Frameworks		
AIMM	• Fully operational AIMM system for new investments, following pilot in FY18 • AIMM ratings are now reflected in the IFC Corporate Scorecard • Pilot application of AIMM in Advisory under preparation	
Platforms		
IDA-PSW	Utilized **$107 million** across 7 commitments Leveraged to enable **$223 million** in IFC OA investment	Pipeline of approximately **$1.9 billion** Implementation is expected to accelerate in 2nd half of IDA18
MCPP	Raised **$7.1 billion**, through 8 operating partnerships	**$5.7 billion** committed to **145** projects in 45 countries
AMC	Raised **$10.1 billion**	Committed **$6.5 billion** to **117 companies and funds**
Emerging Green One	Subscription to Fund closed and in implementation, IFC committed $268 million; IFC also looking to invest in a similar fund focused on the real sector.	
Instruments		
CMAW[13]	Since FY18, **$70 million+** approved for **320+ projects** in **60+ countries**; 47% in SSA, across Power, Agriculture and E&S	
Thought Leadership		
Includes Impact Investing Principles; Ethical Principles for Health & Education; Climate Investment Opportunities Reports		
New Organizational Initiatives Enhancing Operations and Service Delivery		
Launched Global Upstream Units in FIG, INR and MAS		
Appointed RVPs, RIDs, RDs and RIHs[14]		
Fully integrated Advisory Services into Industry teams		
Implemented a revised Corporate Scorecard and VPU KPIs		
IFC Agile: ADM implemented across Operations (IS, AS); Client Envelopes being developed for streamlined processing		
Phase I (voluntary) of WFP Program complete		

[12] As of February-end 2019
[13] As of January-end 2019
[14] RVP: Regional Vice President | RID: Regional Industry Director | RD: Regional Director | RIH: Regional Industry Head

Annex 2: Regional Annexes

East Asia and the Pacific

Strategic Context

East Asia and the Pacific (EAP) remains one of the world's fastest-growing developing regions. However, amid deteriorating external conditions and driven in part by China's structural slowdown, economic growth in EAP is expected to continue moderating from an estimated 6.3 percent in 2018 to a still robust 6.0 and 5.8 percent in 2020 and 2021, respectively. Growth in EAP excluding China is projected to remain broadly unchanged at around 5.2 percent on average in 2019-21 driven by resilient domestic demand, which is expected to offset slowing exports. Risks to growth remain tilted to the downside and have intensified. Heightened trade tensions continue adding uncertainty about the future of established trade relationships, especially among the more open economies of EAP that rely significantly on foreign income from exports and returns on foreign assets and direct investment. Further tightening of global financial conditions could place further pressure on regional exchange rates and asset prices, while high debt levels and external vulnerabilities among some EAP countries could amplify the impact of external shocks such as a sudden stop in capital flows or a rise in borrowing costs.

Solid rates of growth continued driving poverty down: the extreme poverty rate is now less than two percent of the region's population (4.4 percent excluding China), with the highest rates in Lao PDR, Papua New Guinea (PNG) and Timor-Leste. EAP's positive economic outlook is expected to reduce the poverty rate relative to the lower-middle-income class poverty line from 9.4 percent in 2017 to 6.4 percent in 2020 raising 60 million people above this line. Inequality remains a pressing problem in countries like China, the Philippines, Vietnam and PNG.

IFC's engagements in EAP are guided by the goals of: (i) **greater inclusion**; (ii) **green growth**; and (iii) **cross-border engagements.** Across these areas IFC will be looking to bring to scale tech-enhanced innovation and new business models that will help grow economic opportunities, promote inclusion, improve productivity and, spur entrepreneurship and job creation. In line with corporate strategic areas, IFC will continue supporting local capital markets across EAP, including through climate finance and green bonds. Supported by the AIMM system our program will continue to be shaped by greater selectivity, allowing us to sharpen focus on emerging opportunities with the highest potential for market creation.

Market Creation Approach in the Region

Guided by the IFC 3.0 strategy, Cascade principles and IFC commitments under the Capital Package, IFC will seek to further strengthen collaboration and alignment of activities with the WBG to create more space for the private sector, with strong emphasis on frontier and fragile markets, green growth and gender. Our operations will continue to be informed and guided by WBG joint diagnostic tools, such as InfraSAPs (completed in Indonesia and Vietnam, underway in Myanmar) and CPSDs (completed in the Philippines, underway for Indonesia and Myanmar). The regional team will also seek to bring more EAP-based partners to corporate syndications and financing platforms such as MCPP. IFC had also completed IFC Country Strategies in Indonesia, the Philippines, Mongolia, Timor-Leste and Myanmar; the IFC Country Strategy for China is under development. On the AS side, with IFC's rapidly maturing regional AS portfolio (over 70 percent portfolio closing by FY20), the teams are proactively building new programs geared towards creating the markets agenda.

Some high-impact IFC 3.0 engagement areas in EAP include sustainable infrastructure and urban development; access to finance, capital market development and green finance; human capital and gender; and agribusiness. Examples of specific programs and projects include:

Global Delivery Platforms

Scalable product/solution design and development

- **Affordable green housing** through **IFC EDGE** green building certification (Indonesia)
- Greater market integration and resilience through **Distressed Asset and Recovery Program (DARP)** regional platforms with focus on region's largest MICs
- **Developing small-holder supply chains** through ongoing engagement with a leading global agribusiness company International to support inclusive and sustainable agricultural value chains in Sub-Saharan Africa and EAP region
- **Deepening local capital markets** through **local currency and green bond issuance** across the region (Indonesia, Philippines, Cambodia, Fiji) supported by WB on regulatory and policy framework (e.g. IDA PSW-supported first local currency bond issuance in Cambodia for financing rural MSMEs, including women entrepreneurs)

Markets and Enabling Environment

Country-specific initiatives

- **Low carbon energy generation in Vietnam**, to scale up wind, solar and gas-to-power, build sustainable energy portfolios of selected banks, and promote EDGE Green Building program
- **Waste-to-energy solutions in Indonesia**
- **Sustainable energy financing in the Pacific** focusing on four FCS and three IDA countries (PSW)
- Enabling environment for **greater access to finance in PNG and Fiji, local currency corporate bond issuance in Myanmar** (CMAW); **value chain financing** for herders and farmers in **Mongolia**, and **MSME financing** in Myanmar
- Enabling environment for private investment in **sustainable tourism in Indonesia** building on WB work on institutional capacity in sustainable tourism development; developing **sustainable rice production and supply chains in Cambodia**
- **Digital infrastructure in Myanmar**, with WB developing telecom policy, IFC financing ICT infrastructure and MIGA PRI for construction of fiber optic network through PRI.
- **Financial Advisory Service Agreement in China** to improve access to drinking water for 320K and access to sanitation services for 150K people – IFC's first FASA in China and WBG's first project under MFD approach in the country

Early-stage Ventures & Project Development

Project-specific engagements with upstream components

- **Myanmar's first hydropower project** structured to international standards (via PSW)
- Supporting Ma'Anshan Rural Commercial Bank, **the first Green Commercial Bank in China** under IFC's new framework aiming to mainstream green finance and green practices in banking more broadly
- **PPP Transaction Advisory:** helping mobilize ~$200 million private funding to build **Mount Hagen Hospital in one of PNG's poorest Highlands region**; structuring and tendering a **PPP for a hospital in Fiji** to attract private expertise and ~$19 million private investment in public health sector, aiming to Improve access to quality affordable healthcare services for about 238K people

Challenges and Trade-offs for IFC in the Region

High debt levels and external vulnerabilities in some countries in the region could amplify the effect of external shocks such as a sudden fall in capital flows or a rise in borrowing costs. Such developments could potentially lead to an increase in demand for IFC services, including in MICs, where liquidity is tightening and longer-term loan maturities are increasingly unavailable.

Increasing fiscal pressures may prompt governments to more actively look for private sector solutions in financing large-scale infrastructure projects, leading to more Cascade opportunities, while corporates may look for (re)financing options and banks for additional capital. It is also likely that demand for distressed asset management products could increase.

IFC will continue de-emphasizing some traditional lower-value-add manufacturing in favor of higher-value-add sectors underpinned by innovation. Given the strong domestic demand across EAP markets, IFC will look to expand private sector presence in services, such as education and healthcare and related services, including elderly care, as well as promote fintech-enabled financial inclusion. Given the significance of climate vulnerability across EAP, IFC will continue emphasizing green finance.

Europe and Central Asia

Strategic Context

Growth in ECA has decelerated to about 3.1 percent in 2018, reversing the upward trend of 2017. Weakening global growth prospects and the sharp downturn in the Turkish economy are expected to further slow regional growth in 2019 to 2.3 percent, before recovery to 2.7 percent in 2020. Regional trade growth declined during 2018. Despite the slowdown, many ECA countries are now operating at close to capacity, unemployment is at pre-crisis lows, inflation has stabilized, and fiscal balances have improved for most countries. There has been progress on NPL resolution and banking systems are more resilient as a result. However, investment as a share of GDP has been falling, underpinning weak productivity growth. The current pace of growth in ECA is well below what is needed to resume convergence with advanced economies. ECA countries need a new growth model: transition from consumption and imports to savings, investments and exports.

The slowdown or reversal of ongoing structural reforms remains a risk in many countries. Additional risks include weaker-than-expected investment and a renewal of financial pressure in Turkey combined with possible contagion to the rest of the region. Sluggish growth in the Euro area could be further exacerbated by a hard Brexit.

While the number of poor people in ECA is relatively small, a significant portion of the population is vulnerable, living just above the poverty line. These people are exposed to high risk of slipping back to poverty if the economy slows down/stagnates. In many countries, a significant share of the population remains highly unproductive as they continue to be employed in subsistence agriculture lacking other economic opportunities.

Given the regional challenges, IFC supports the following priority areas in ECA: (i) increasing competitiveness and economic diversification; (ii) increasing financial access; (iii) mitigating demographic challenges; (iv) improving market and regional integration; and (v) addressing climate change.

Market Creation Approach in the Region

IFC's regional strategic focus areas remain in place and are highly relevant for market creation. As the pressures to re-balance economies and accelerate export as engine of growth increase, the needs to improve the business environment, move up value chains and upgrade connectivity infrastructure are becoming more urgent.

Countries with a large state "footprint", such as the Western Balkans, Ukraine, Kazakhstan and Uzbekistan, are becoming more open to market-based solutions. IFC works in these markets to improve investment climate to enable more domestic and foreign investment to support economic growth. Regionwide, IFC is also working to help open markets and invest in innovative solutions for energy efficiency, clean or cleaner energy and resource efficiency.

IFC will achieve greater impact and deliver on its priorities by utilizing the full 3.0 toolkit to: **(a) create new markets** (distressed asset resolution and energy efficiency/renewable energy in the Western Balkans, private equity funding in the Kyrgyz Republic, health PPPs in the Kyrgyz Republic and Uzbekistan, solar energy in Uzbekistan and Armenia and transport infrastructure in Kazakhstan, municipal waste management in Serbia); **(b) facilitate further development of markets** (capital markets development including local currency financing in Uzbekistan, Poland, Turkey, sustainable cities in the Western Balkans and Ukraine, regional integration in Central Asia); and **(c) foster systemic transformational changes in underperforming markets to unleash private sector potential** (agribusiness in Central Asia, regionwide energy efficiency, SOE restructuring in Central Asia and Ukraine). Delivery in IDA/FCS countries will be prioritized while maintaining strong results on climate and mainstreaming gender. In MICs the focus will be on selectivity, innovation and profitability/the Portfolio Approach.

The Cascade approach to MFD will be focused on sectors that have had limited private sector participation and can benefit from greater efficiency and enhanced service delivery, while reducing the fiscal burden. CPSDs serve as a powerful tool to understand countries' constraints and identify sectors of opportunity while assessing regulatory bottlenecks and impediments for private sector solutions. Kazakhstan and Uzbekistan CPSDs have been completed and the Kyrgyz Republic and Ukraine CPSDs are currently under way. IFC is also developing IFC Country Strategies for Serbia, Armenia, Ukraine and Turkey.

Global Delivery Platforms *Scalable product/solution design and development*	**Markets and Enabling Environment** *Country-specific initiatives*	**Early-stage Ventures & Project Development** *Project-specific engagements with upstream components*
• **INR:** ECA Cities Platform: programmatic cities engagement model entailing relationship management, advice, investment; leading to multiple successful engagements in Izmir, Belgrade, Mariupol, etc. • **INR**: Scaling Solar model is being implemented in Uzbekistan to diversify the energy mix and demonstrate bankability of PPP framework • **FIG:** DARP Platform is addressing NPL resolution (Eastern Europe subregion, Serbia, Bosnia, Romania, Greece)	• **FIG:** In Ukraine, WB is engaging in land reform policy dialogue, while IFC is developing a range of financial products for farmers to enable them to use land as a collateral.	• **CTT:** In Kyrgyz Republic, IFC supported the first ever Private Equity fund under SME Ventures initiatives, using PSW blended finance, to provide capital to innovative local firms. • **FIG:** Sustainable Energy Finance and Green Bonds (Poland, Turkey, Romania) • **INR:** Renewable energy generation (Dolovo, Alibunar Wind Power Plants in Serbia)

Challenges and Trade-offs for IFC in the Region

In **FCS, IDA and IDA blend countries** IFC remains committed to uncovering opportunities to support MSME growth through inclusion and develop export-oriented industries, using mainstream and concessional finance options (including PSW), while maintaining a strong advisory presence, including through CMAW support.

In **lower middle-income countries,** IFC brings clear additionality with a focus on supporting investments across sectors in a broad range of projects promoting increased private sector participation in the economy and regional competitiveness.

In **upper middle-income countries,** IFC's interventions are more targeted and selective with a focus on bridging regional disparity, improving private sector participation in infrastructure, capital markets development, inclusive business, climate change, cross-border trade and regional integration.

In **EU member countries,** IFC's role is innovative and catalytic in line with the principles of engagement defined in the Capital Package. We apply rigorous additionality filters and prioritize engagements involving innovative solutions, promoting inclusion and delivery in the frontier, delivering global public goods and strengthening capital markets.

Latin America and the Caribbean

Strategic Context

Growth prospects in Latin America and the Caribbean (LAC) are falling short of initial expectations due to challenges faced by some of the countries in the region, particularly in South America. The World Bank revised down its growth forecasts for LAC, projecting 1.7 percent GDP growth in 2019 (down from 2.3 percent in its June 2018 forecast) and 2.4 percent in 2020 (down from 2.5 percent), with weaker than expected performance in Argentina, Brazil and Mexico. Growth in the Caribbean states is expected to decline to 3.5 percent, down from 3.7 percent in 2018, and is projected to revert to 4 percent in the medium term. A major challenge for the sub-region is a lack of regional integration that would create larger markets and enable growth. Growth is projected to be slower than any other region, including advanced economies.

Following elections in Brazil and Mexico, political uncertainty has moderated, although governments in both countries are struggling to advance reform agendas. The situation in Nicaragua and Venezuela is unstable. Political volatility could intensify in Argentina ahead of primary elections in August 2019 and general elections in October.

Slow or declining growth over the last six years and political uncertainties have resulted in stalled social progress. The middle class stopped growing in 2014, inequality has largely stagnated since 2010 and LAC remains the most unequal region in the world (GINI coefficient of 48.3). Poverty rates in the region have declined significantly between 2000 and 2010 but have stagnated around 10 percent since. Some countries have seen poverty rates increase for the first time in decades.

In this context, the region is focused on supporting clients to ensure sustainable and inclusive growth to meet the twin goals. With 70 percent of the extreme poor in lower and upper-middle income countries today, eliminating extreme poverty will require action in middle income countries, thus a strategic framework for LAC has been built supported by three priority themes: (i) supporting the foundation for inclusive recovery; (ii) investing in human capital and protecting the poor; and (iii) managing risks to build resilience.

Market Creation Approach in the Region

IFC continues to build a strong track record for Creating Markets initiatives in LAC and increased WB-IFC collaboration. To support its strategic priorities, IFC has been focusing on scaling up business in areas like climate, digital finance and mobilizing non-traditional sources of funding, with a special focus on increasing mobilization in the infrastructure sector. The ongoing efforts have yielded several successful programs such as the IFC Cities initiative or the Ayiti Leasing Project outlined below. These also exemplify the reach and potential of successful Creating Markets engagements. IFC is also deploying new platforms to support work in IDA and small states. Haiti is the only LAC country that qualifies under the PSW. CMAW, available to the seven IDA countries in LAC, has already approved several projects in areas such as energy, finance, agribusiness, value chains, capital markets and financial services.

Work on CPSDs in Ecuador and Haiti are underway. IFC Country Strategies have been completed in the Dominican Republic, Argentina, Paraguay, Jamaica and Mexico, with work underway in El Salvador and Brazil. The region is using AS to address a wide variety of challenges. PPP transaction advisory activities are facilitating infrastructure investments ranging from an airport in Jamaica to street lighting in Brazil and renewable energy in Argentina. The IFC Honduras Sustainable Banking Initiative is using funds of the CMAW to improve environmental and social risk management capacities of financial institutions in the country.

Global Delivery Platforms *Scalable product/solution design and development*	Markets and Enabling Environment *Country-specific initiatives*	Early-stage Ventures & Project Development *Project-specific engagements with upstream components*
• ***IFC Cities Initiatives:* Argentina** - The WBG has been supporting the City of Buenos Aires with strategic projects aimed to contribute in closing its current urban infrastructure gap. In FY18, IFC financed the expansion of a new BRT line, bus interconnection terminals and bicycle lanes and stations in Buenos Aires, complementing IBRD's work in the urban transformation and integration of Villa 31, an iconic slum located in the city, introducing Green Building standards.	• **Municipal Street Lighting: Brazil** - As part of a larger WBG initiative with the Government of Brazil, IFC recently signed a mandate to structure up to 15 Street Lighting PPPs, which seeks to leverage private sector capital for energy efficiency investments in Brazilian cities. • **Ayiti Leasing: Haiti** - To address the SME financing gap in Haiti, FCI Global Practice helped lay the ground work to facilitate the launch of a leasing market in Haiti in 2012. Since 2014, IFC Advisory has worked with a local financial institution to create Ayiti Leasing, the first leasing company in Haiti, followed by an IFC investment in Ayiti Leasing in 2019.	• **Norman Manley International Airport: Jamaica** – IFC supported the government in the implementation of the airport concession, which is expected to generate ~$2 billion in revenue sharing for Jamaica and deliver strong development impact, including improved service and airport infrastructure to over 1.7 million passengers and mobilize more than $100 million in investment over the 25-year term of the concession. • **OECS Ferry Service: Eastern Caribbean** – WBG support to increase scale and connectivity through market integration. Ongoing consultations with partner organizations (CDB, ECCB and OECS Commission) based on completed pre-feasibility study on commercial RoPax ferry system.

Challenges and Trade-offs for IFC in the Region

Fiscal space in most countries in the region has been tightening at a time when capital inflows have been decreasing. This has strengthened IFC's role in crowding in private financing for development. IFC is increasingly selective how to allocate scarce resources, for example for structuring PPPs.

The availability of blended finance instruments in the region is limited, with the exception of Haiti. Increased access to de-risking tools such as the Global Agriculture and Food Security Program or the Global SME Facility would allow de-risking projects in the region's other IDA countries.

Middle East and North Africa

Strategic Context

Economic growth in the Middle East and North Africa (MENA) region increased to an average 2 percent in 2018 from an average 1.4 percent in 2017 but remains well below potential. The recovery has been led by better than expected economic growth in the GCC countries, coupled with a modest recovery in some oil importers that have undertaken reforms and stabilization policies. Gross public debt in MENA however remains elevated, with Lebanon at 150 percent of GDP and Jordan at 96 percent in 2018, while public-debt-to-GDP has steadily increased among oil exporters. Economic growth in MENA is forecast to improve modestly in 2019-20, reaching 2.3 percent in 2019 and 2.8 percent in 2020. The key downside risks stem from: (i) a slowdown in the pace of reforms and macroeconomic stabilization efforts; (ii) potential worsening of the security environment and rising geopolitical risks; (iii) escalation in global trade tensions and/or slower growth in key exporting markets; and (iv) rising international interest rates that could limit most MENA countries' access to international financing, especially those with high levels of debt.

On the development front, the challenges are exacerbated by the protracted crises in the region. According to the World Bank, MENA is the only region where the extreme poverty rate increased between 2011 and 2015, driven by the conflicts in Syria and Yemen. Private investment in infrastructure remains the lowest across all regions —$59 billion in MENA between 1990 and the first half of 2018 compared to $73 billion for SSA and $296 billion for South Asia. Additionally, MENA continues to be most affected by refugees ($6 million) and internally displaced persons ($14 million), which has sizable socioeconomic effects including on government spending related to humanitarian assistance, labor markets dynamics and meeting infrastructure needs.

The fundamentals of IFC's jobs strategy remains relevant as it seeks to help promote private sector-led growth for job creation in MENA. IFC's core engagements center around improving the investment climate, increasing access to finance (especially for MSMEs, SEF), minimizing infrastructure gaps (especially energy), supporting entrepreneurship and facilitating cross-border trade and investment flows. However, the WBG is making a concerted effort to meet the aspirations of the region's youth through an 'enlarged' approach that focuses on human capital development, MFD through the Cascade approach and digital transformation. Specifically, IFC aims to strengthen the nascent digital ecosystem through supporting legal infrastructure, providing finance and enabling fin-tech.

Market Creation Approach in the Region

MENA continues to lead the way in operationalizing the Cascade approach as exemplified by the WBG Mashreq MFD Strategy, a first-of-its-kind WBG regional framework. The framework comprises of four dimensions: (i) strategy, policy and legal gaps; (ii) governance gaps; (iii) financing gaps; and (iv) political economy.

Our Creating Markets agenda is giving special attention to FCS to increase private solutions, with renewable energy, transport/logistics and financial inclusion as priority areas. Examples include a solar PV financing pilot that targets low-income Yemenis and advising the Government of Lebanon on pilot Independent Power Producer programs.

At the regional level, several initiatives are also underway in cross-cutting areas including: (i) Refugees Response which received donor support to test and develop new private sector solutions/models to benefit host and refugee communities; (ii) digital economy, where IFC and WB teams are looking to pilot various approaches in the areas of entrepreneurship and fin-tech opportunities; and (iii) ESG advisory support to clients to help improve corporate governance practices and strengthen capacity. IFC Advisory is also supporting the governments of Egypt and

Tunisia to unlock the potential of entrepreneurship through various interventions, including green energy, FinTech and access to finance.

The new diagnostics such as the CPSDs are providing a strong analytical basis for IFC's country-level engagements. The Morocco CPSD was instrumental in helping to inform the IFC Country Strategy and proposed engagements of the new CPF. The customization of CPSDs to help address country-level needs have also been beneficial, for instance, in Jordan, where the Government requested more in-country Sector Deep Dives. The upcoming CPSDs in MENA include Tunisia, Lebanon, Jordan and Egypt. IFC is also planning to develop an IFC Country Strategy for Egypt later this year.

Global Delivery Platforms *Scalable product/solution design and development*	**Markets and Enabling Environment** *Country-specific initiatives*	**Early-stage Ventures & Project Development** *Project-specific engagements with upstream components*
• **Scaling Solar-** IFC has engaged in various solar investments in Egypt and Jordan using this platform	• **WBG Mashreq MFD Strategy** helps identify practical ways to apply the cascade approach • **PPP for King Hussein Bridge** (Jordan) • **PPP for BEY airport;** assisting Government to review, structure and implement pilot IPPs (Lebanon) • **PPPs** for public utilities, including water resources, solar (Tunisia, Egypt, Jordan)	• **PRICO** (**West Bank & Gaza**) provided an integrated financing package (IFC, WB, and MIGA) to help address the critical energy shortage issues • Private sector participation in education (Jordan and Morocco) • The first of its kind municipal finance project (Morocco) • Support for **Al Kuraimi Islamic Microfinance Bank** to design and pilot a solar PV financing product that targets low-income Yemenis (with PSW)

Challenges and Trade-offs for IFC In the Region

The MENA region continues to be in transition, although there has been progress on macroeconomic stabilization, addressing political uncertainties and overall security. However, significant challenges that remain include: persistently high levels of unemployment, especially among youth; continued fragility stemming from ongoing conflicts; and overall structural issues.

For IFC, this implies a difficult operating environment, especially as investors remain wary. Additionally, the pace of reform implementation by governments will also determine the success and timeline of the programmatic approaches that are initiated under IFC 3.0/upstream support.

There would be some balancing between the creating markets work which typically takes more staff time than the more traditional IFC investments. The scale up in FCS engagements while ensuring strong financial sustainability is another challenge.

South Asia

Strategic Context

South Asia remains the fastest growing region in the world, driven by strong growth in Bangladesh, India and the Maldives. South Asia's GDP grew at 6.5 percent in 2018 and is estimated to accelerate to 7.0 percent in 2019, buoyed by domestic consumption and an uptick in private investment.

South Asia's fast growth has resulted in impressive poverty reduction. Between 2005 and 2015, the region's poverty rate declined from 33.7 percent to 12.4 percent. Despite the sharp decline in poverty over the past decade, South Asia is still home to 216 million poor people, one third of the world's poorest. Three of the world's five most vulnerable countries to climate change are in South Asia. Eighty percent of major cities in South Asia are exposed to floods, increasing vulnerability of poorer populations.

To deliver on capital increase commitments, IFC's strategic objective is to promote inclusive, strong and sustainable private sector-led growth in the region, including through the Cascade approach to MFD. IFC will focus on providing access to critical infrastructure, expanding access and inclusion and providing sustainable solutions to development challenges.

Market Creation Approach in the Region

In the context of IFC 3.0, IFC's focus will be on addressing areas where there is market failure, a pioneering role for IFC, or the potential for significant impact by creating markets. IFC will also work across the WBG to leverage the Cascade approach to maximize mobilization of the private sector and generate private sector solutions wherever possible.

To support IFC 3.0, IFC has also deepened its engagement analytically to help facilitate the creation of markets through CPSDs, InfraSAPs and JCAP. For example, preparation of the first of its kind MFD DPO in Nepal is underway, linking findings from the Nepal CPSD to World Bank operations with the aim to crowd in private sector financing. Work on an IFC Country Strategy for Sri Lanka and Bhutan is underway. In addition, IFC continues to deploy innovative de-risking instruments such as the PSW. IFC continues to work closely with the WB and MIGA to identify opportunities to crowd in private sector solutions to address the region's biggest developmental gaps and challenges. An excellent example of this approach is addressing distressed assets in India, which combined upstream work by the World Bank and IFC investments.

Some areas of sectoral focus for creating markets in South Asia include:

- Bangladesh: Energy, Industrial Waste Water and Housing
- Nepal: Energy and Tourism
- Sri Lanka: Energy and Transport
- India: Affordable Housing, Energy and Distressed Assets
- Afghanistan: Energy, Agribusiness, Access to Finance
- Pakistan: Energy, Subnational Infrastructure (water), Housing Finance.

Global Delivery Platforms *Scalable product/solution design and development*	Markets and Enabling Environment *Country-specific initiatives*	Early-stage Ventures & Project Development *Project-specific engagements with upstream components*
• **Distressed Assets (India) –** Combined with upstream work and technical assistance by the WB, IFC invested in a series of DARP investments, the first dedicated platform to resolve distressed corporates in India. This WBG engagement aims to resolve over 10% of total NPLs in India and preserve more than 20,000 jobs. • **Large Scale Solar (India) –** Together with the WB, IFC supported transformation of the solar sector in India, designing an approach for implementation of large scale grid-tied solar (**Rewa Solar** – largest single site solar power in India). Capacity created at the state level encouraged 400 MW of repeat projects, leading to a multi-state programmatic engagement. India achieved grid parity for solar power – a record low tariff of US¢ 4.4/unit.	• **Affordable Housing (Bangladesh and Pakistan) –** *IFC is supporting the* creation of an affordable housing market in Bangladesh which is expected directly finance 1,500 new homes and create 55,000 jobs in construction and related industries (supported by PSW). IFC's Reform Program for Affordable Housing in Pakistan aims to enable builders to increase housing supply and encourage lenders to provide mortgage financing focusing on underserved segments including home ownership for women, which is nearly non-existent today. • **Agribusiness (Afghanistan)-** A joint IFC-MIGA project in the agribusiness sector, IFC's first in Afghanistan, supporting a greenfield raisin processing plant, utilizing IDA PSW and GAFSP to catalyze the private sector in a high-risk country. IFC's AS, utilizing CMAW resources, aims to facilitate the development of export-oriented agriculture supply chains and building capacity of approximately 3,000 smallholder farmers.	• **LNG (Bangladesh)** –IFC InfraVentures investment in Bangladesh's first LNG import terminal; expected to increase natural gas supply in the country by 20%, creating a new market of energy supply into the country, helping diversify fuel sources and secure much-needed additional natural gas to address power shortages in Bangladesh. • **Waste-to-Energy (Sri Lanka)**- IFC's investment in Sri Lanka's first waste-to-energy investment project aims to help address national waste crisis. The project marks IFC's return to infrastructure investing after a decade-long hiatus in Sri Lanka • **Green Financing (Bangladesh) –** IFC's first green finance transaction in country (ONE Bank Ltd.) to support renewable energy, water and energy efficiency, green buildings and GHG reduction projects.

Challenges and Trade-Offs for IFC in the Region

One of the key challenges within this Region is the slow-down of reform implementation and IFC business development as result of political volatility in Sri Lanka, Pakistan and Afghanistan.

Weak institutions pose a challenge to the delivery of IFC's program.

A focus on delivering impact and building partnerships requires sustained efforts; as such, results will be realized in the medium term.

Sub-Saharan Africa

Strategic Context

Despite a modest recovery from the 2014-15 plunge in commodity prices, regional growth remains associated with commodities and external finance. Sub-Saharan Africa's growth prospects are improving with projections for 2019 at 3.3 percent and 3.7 percent in 2020-21, amid a more challenging external environment.[15] Renewed strong growth comes on the back of strong long-term gains: Africans are healthier and better nourished, youth attend school in much greater numbers and the rate of poverty declined from 54 percent in 1990 to 41 percent in 2015 (Beegle et al. 2016; World Bank 2018b). However, deficit levels vary but overall public debt increased tremendously (from less than 30 percent of GDP in 2013 to over 45 percent in 2017), driven largely by an increase in external debt. More than a third of the countries are at high risk of debt distress.

The poverty and shared prosperity challenges are daunting. The region is especially vulnerable to geopolitical uncertainties, financial market volatility and domestic policy slippages, on top of security and climatic shocks. Trade tensions involving major economies and domestic risks and political uncertainty may negatively impact growth rates moving forward.

Governments alone cannot tackle the region's enormous development challenges. Half of the population lives in LICs and a third in FCS. Two in five Africans live in extreme poverty, while the absolute number of people in poverty is on the rise due to high population growth. Food insecurity, environmental vulnerability and debilitating conflict are rife.

IFC's regional strategy addresses key development challenges: bridging the infrastructure gap, developing a productive real sector and adopting inclusive business approaches. Underlying are four cross-cutting themes of climate change, investment climate, gender and partnership with stakeholders, to secure resilience and private-sector-led inclusive growth. These strategic priorities are deployed with the other WBG institutions to create new markets while prioritizing private sector solutions. This entails: (1) pursuing value chain approaches and cross-sectoral synergies; (2) using new products and solutions; and (3) leveraging internal and external stakeholders, including capital market solutions and disruptive technologies.

Market Creation Approach in the Region

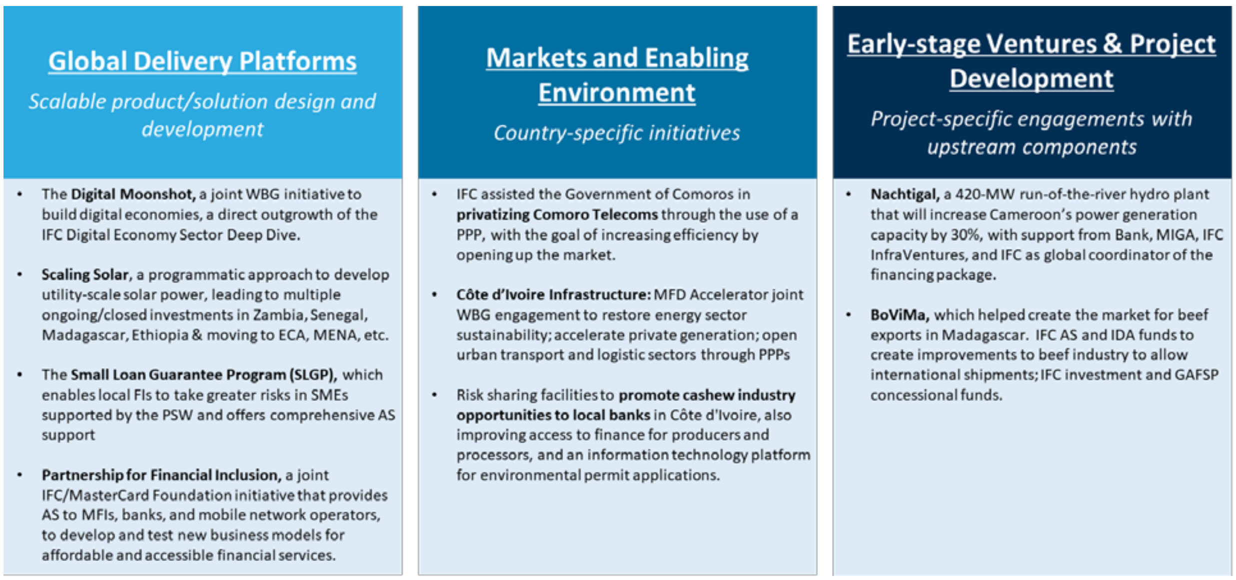
IFC's investment and Advisory operations will adopt a more strategic and systemic approach guided by IFC's 3.0 strategy. We have identified priorities for the next three years: smart agriculture (irrigation and livestock); inclusive financial solutions (agriculture, infrastructure, housing finance and capital market development); digital infrastructure/ecosystems; power (access, efficiency and renewable energy); transport; light manufacturing; affordable housing; health and education; water and sanitation; and gender.

Early, systematic interventions and advice are central to IFC's 3.0 strategy for catalyzing private sector solutions in new and expanded ways, particularly in IDA and FCS markets. To create and develop markets, IFC will leverage all available financial, Advisory and analytical tools including: CPSDs to provide analytical underpinnings for market creation; joint WBG teams to scope and prepare potential programs and projects to deliver on the Cascade and the PSW; and CMAW to fund AS projects aimed at building client and sector capacities. IFC Country Strategies will support the implementation of IFC 3.0 in selected strategic sectors. CPSDs have been completed for Ghana and are at the post-decision-review stage for Angola, Burkina Faso, Ethiopia, Kenya, Rwanda, Senegal, and South Africa. IFC Country Strategies have been developed for Ghana and Angola and are under development for Nigeria, Côte

[15] World Bank (2018) "Africa's Pulse, Volume 17". Washington, DC: The World Bank

d'Ivoire, Sierra Leone, Democratic Republic of Congo, Senegal and South Africa. Capitalizing on its strong AS platform, IFC will structure PPPs to address critical gaps in physical and social infrastructure; and work with governments to implement reforms that create the necessary conditions for private investment.

In collaboration with other WBG institutions, IFC will replicate and scale up best practices to promote private sector reforms and upstream engagements. Our aim is to forge stronger, but selective, partnerships for impact with development partners, recognizing that IFC cannot do it alone and must also expand its role as a catalyzer. Greater efforts will be made to engage the African private sector to innovate and provide services, create jobs, undertake projects and expand across borders. This will also include a platform for south-south cooperation between emerging markets and low-income countries, especially in fragile situations.



Challenges and Trade-offs for IFC in the Region

A key challenge for IFC in this region continues to be inherent in balancing profitability with the need to support smaller projects in more challenging markets such as LIC and FCS. However, the capital increase will strengthen IFC's capacity to deliver on this priority. IFC's developmental role in the region includes an urgent need to bolster diversification and the digital economy and increase private sector participation to deliver projects that support a more inclusive growth path for this region.

Such expansion requires an enabling environment for private solutions and strong commitment to reform. Investment is constrained by a lack of infrastructure, informality, low productivity and the absence of key institutional arrangements. It is therefore essential to pursue upstream engagements with the WBG, strategic clients, national authorities and development partners, with the recognition that developing both traditional projects and pursuing extensive upstream engagements will require more resources to make progress with respect to the conditions in local markets.

ANNEX 3: IFC SECTOR DEEP DIVES

Objectives

IFC's 3.0 strategy sets an aspiration to go beyond the financing of individual transactions to drive sector transformation in our countries of operation, or to create markets. As part of its IFC 3.0 strategy presentation to the Board, IFC committed to revert to the Board on a regular cadence with a set of Sector Deep Dives to demonstrate how creating markets might work in practice. It is our intent to ensure that these Sector Deep Dives have consistent frameworks, measurements and accountability and can be applied across regions and countries.

Given the importance of executing quickly on IFC 3.0, the **Sector Deep Dives** are a diagnostic and business development tool to help:

- **Assess global markets** through the use of frameworks that identify the current state, growth potential and economic and development impact of each sector;
- Identify gaps and barriers to entry and key drivers that enable a **successful sector transformation**; and
- Develop pathways to **implement IFC 3.0** with a focus on sector reform, partnering with the WBG and deploying investment and advisory capabilities.

By developing its sector deep dives with a consistent framework, IFC will have a means to aggregate its strategy in multiple ways, particularly across countries/regions and within its sector verticals.

IFC Sector Deep Dive - Agribusiness[16]

Agribusiness links farms to food, including agriculture production and its inputs all the way to consumer products. It is a priority for IFC given its broad impact on poverty reduction, food security, and climate change mitigation. Agriculture is core to eight of the 17 SDGs. IFC's unique value proposition and lessons from its extensive agribusiness experience can help deliver impact and transform this sector.

Challenges in Agribusiness

- Demand for food will grow by 50 percent by 2030 due to population growth and dietary shifts exacerbating food insecurity for some countries.
- The global population is expected to increase by 34 percent by 2030, most rapidly in Africa; these high population growth spots are also areas of high food security risk today. Investment needed to achieve food security and agriculture SDGs from 2015-2030 is $480 billion p.a.[1]
- As the global demand for Agribusiness products grows rapidly (+50 percent by 2030), the sector is facing major challenges: resource scarcity and climate change, complex value chains, and dependence on infrastructure, trade and access to finance and inputs.
- With food demand growing by 50 percent, and available arable land by only ~25 percent, productivity improvements must play a major role.
- Agribusiness presents tremendous opportunities to produce more food—more sustainably and inclusively.

IFC's Approach

The key to meeting the growing demand for food in the context of scarce resources is by unlocking investments in competitive production where underlying comparative advantages are in place or can be achieved.

IFC's vision is to promote sustainable, inclusive, and efficient food systems through the private sector via investments, AS and partnerships to create development impact.

Going forward, IFC will focus on:

- Enhancing food security;
- Driving economic development and inclusiveness; and
- Making sustainability a business driver.

IFC is uniquely positioned to lead in Agribusiness with its private and blended finance solutions, AS tailored to the needs of large and small players, thought leadership on global sustainability standards, and over 20 years of sector experience—amplified by drawing on the broader capabilities of the WBG.

Sources: 1. UNCTAD World Investment Report 2014 – Investing in the SDGs: An Action Plan

[16] IFC Agribusiness Deep Dive BOS Document Code: OM2017-0037

IFC Sector Deep Dive - Digital Economy[17]

By reducing costs, digital technologies are opening new investment opportunities and business models that can be targeted at the poorest individuals – giving them access to products and services that were not commercially or financially viable before. By serving the world's poorest, these new business models can drastically shift the current development paradigm from large scale, public-sector-led investment to nimble, entrepreneurial and organically driven technological innovation.

Challenges in the Digital Economy

- 2.5 billion[1] "connected" people are not participating in the digital economy and many countries are stuck in a cycle where digital infrastructure and use cases need to develop in parallel.
- Very few emerging markets are showing progress in their development of digital economies – this partially explains the large number of connected but not participating people.
- 1.2 billion people need access to power; 70 percent of SMEs in emerging markets lack access to markets/credit; approximately 4 percent of children under the age of 5 years die due to poor healthcare; 55 percent of the adults in emerging markets do not have a bank account.
- By lowering costs and scaling access to services essential to development such as health, education, finance, and infrastructure, digitization can accelerate the ability to achieve the SDGs by 2030.

IFC's Approach

To develop successful and inclusive digital economies, countries need to build key foundational elements, including:

- Digital infrastructure to build the hardware that carries information;
- Transaction/payment accounts to facilitate contracting and transacting;
- Digital entrepreneurship to build supply and demand for digital services; and
- An enabling e-government platform for digital identification.

Going forward, the WB/IFC will focus on the following investment and AS engagements:

- Creation of regulatory frameworks for broadband connectivity; development of digital infrastructure projects by IFC bringing in private sector investors;
- WB support for the enabling environment, including e-ID, to unlock e-payments;
- WB to work with government on enabling regulation; IFC to crowd in private investors;
- IFC investment in fintech startups aimed at establishing e-payment platforms; and
- E-payments that facilitate digitized social transfer payments from government.

Sources: Digital Economy Deep Dive, 2017

[17] IFC Digital Economy Deep Dive BOS Document Code: OM2017-0056

IFC Sector Deep Dive - Education[18]

Education is a critical component in building human capital and a key driver of economic growth, productivity, competitiveness, and inclusiveness. It is also an enabler of equality, social mobility, and income growth for individuals, including the poor and vulnerable. Quality education is critical to ensure that students are learning and to address the learning crisis across the developing world as outlined in the *World Development Report 2018*.

Challenges in the Education Sector

- While progress has been made in achieving SDG 4, more work needs to be done to meet all the targets by 2030.
- The Education sector is still facing significant challenges, specifically: (i) an ongoing learning crisis where ~620 million[1] learners do not meet minimum proficiency in math and reading, and 263 million[2] children are out of school, most of whom are in IDA/FCS countries, (ii) 76 million[3] youth remain unemployed with a large amount of young adults without fundamental skills, and 40 percent[4] of employers struggle to recruit skilled workers; and (iii) workforce displacement and job market disruption resulting from technological advancement where over 400 million workers are expected to change jobs by 2030 due to automation.
- Developing countries also face challenges across the education spectrum from provision of affordable pre-schooling, training teachers enabled by technology, as well as digital skilling of the workforce.

IFC's Approach

Going forward, IFC will focus on the following investment and AS engagements:

- Developing foundational skills, including those critical for the future of work (digital skills, STEM, English language, sustainability);
- Supporting innovative business models and new technologies across all levels of education; and
- Deeper engagement in tertiary education (TVET, higher education, and promoting best practices in employability) and expanding into lifelong learning, among others, via reskilling and/or upskilling workers. IFC will expand its work in IDA/FCS countries in line with IFC's capital increase policy package commitments.

As part of its approach, IFC will apply the principles of the Cascade approach:

- Prioritize solutions that crowd in private providers that: (i) enable access to quality private education models; (ii) in situations where governments are fiscally constrained; and (iii) where there is no conflict with children's rights to free public basic education.
- Private solutions to prioritize the levels of education that are: (i) closer to the labor market; (ii) propel productivity and economic growth (tertiary); (iii) with the largest access gaps (early and secondary childhood education); and (iv) that generate high returns to the individual/ society.

Sources: 1. Fact Sheet Issue No 46, UNESCO, 2. Fact Sheet Issue No 28, UNESCO, 3. World Employment outlook 2018, ILO, 4. The Learning Generation: Investing in Education for a changing world, The UN Education Commission, 5. Workforce transition in a time of automation report, McKinsey.

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[18] IFC Education Deep Dive BOS Document Code: OM2018-0083

IFC Sector Deep Dive - Health[19]

In developing countries, insufficient access to quality, affordable healthcare and changing disease profiles are causing more premature deaths than in developed countries. These challenges are preventing countries from achieving higher levels of productivity and living standards. IFC is uniquely positioned to grow private sector investment in health, given its track record, network, and relationship with the World Bank and other major partners in this area.

Challenges in the Health Sector

- There are very few dedicated financiers and few scaled, commercially viable private providers addressing the Base of the Pyramid population, which accounts for approximately 4.5 billion people across LICs and MICs.
- There is a financing gap of $140 billion p.a.[1] to achieve SDG 3. In an environment of fiscal and public management capacity constraints, the private sector will be essential to bridge this gap.
- Attracting appropriate private sector investment will require an improved regulatory environment, wider social insurance coverage, increased public sector engagement with the private sector, and market creation. The private sector is particularly needed to respond to the increasing burden of Non-Communicable Diseases (SDG 3.4) as the flow of public funding and development assistance goes into other priority areas.

IFC's Approach

The WBG's goal is to assist countries to accelerate progress towards Universal Healthcare Coverage. Going forward, IFC will contribute to this goal by supporting the private sector's role in increasing access to quality, affordable healthcare across three pillars by deploying both investment and AS products:

- Health services: fostering health systems integration by bringing together delivery, management, financing and organization of health services;
- Pharmaceuticals: supporting the development of regional pharmaceutical hubs in key developing markets; and, Pharmaceuticals: supporting the development of regional pharmaceutical hubs in key developing markets; and
- Medical services: promoting medical technologies that are appropriate for developing market conditions.

The WBG will use the Cascade approach to MFD as the conceptual basis to determine the role of the public and the private sectors on a country basis.

Sources: 1. UNCTAD World Investment Report 2014 – Investing in the SDGs: An Action Plan

[19] IFC Health Deep Dive BOS Document Code: OM2018-0021

IFC Sector Deep Dive - Manufacturing[20]

Manufacturing is critical to economic growth through the sector's contributions to job creation, trade, research and development, and productivity. It does this through the division of labor, adoption of modern management practices, automation and use of new technologies, and skills building. These factors combine to make manufacturing a principal driver of employment, social stability, and economic development.

Challenges in the Manufacturing Sector

- Historically, IFC approached manufacturing through its subsectors without a standardized framework. The Deep Dive's approach is for IFC to apply a more comprehensive development-based framework to its manufacturing investments. This deep dive allows a more holistic approach to manufacturing as a key sector for the achievement of SDG 9, thereby supporting the twin goals of the WBG. This deep dive allows a more holistic approach to manufacturing as a key sector for the achievement of SDG 9, thereby supporting the WBG Twin Goals.
- There is a strong positive relationship between the complexity of a country's manufacturing sector and its level of GDP growth. However, many IFC client countries have only achieved low levels of manufacturing development and economic complexity. Economies that can produce a diverse range of sophisticated products, using advanced production processes that are integrated into complex value chains, are considered to have high economic complexity.

IFC's Approach

Going forward, IFC will achieve its strategic priorities by unlocking the value of manufacturing for development to strengthen economic complexity. IFC will develop a portfolio approach that prioritizes the following engagements across investment and AS:

- Laying the foundation for industrial production;
- Supporting more advanced manufacturing; and
- Helping countries enhance and deepen manufacturing complexity.

Manufacturing is key to achieving IFC's climate objectives: This is achieved through:

- Reduced carbon emissions in the production of base materials, with main opportunities in steel, base chemicals, cement, building materials and aluminum through the development of alternative materials and circular economies;
- The use of manufactured products allowing for fewer carbon emissions along value chains (e.g. electric vehicles, waste heat recovery, cooling chains); and
- Realization of production efficiencies, resource, and energy efficiency.

[20] IFC Manufacturing Deep Dive BOS Document Code: OM2018-0082

IFC Sector Deep Dive - Microfinance[21]

An expanding body of evidence demonstrates that the poor benefit significantly from savings, insurance and basic payment services. Access to finance is associated with livelihood creation, growth, and innovation. Microfinance is a proven, workable and sustainable business model that reaches excluded populations at a wide scale and at relatively low cost.

Challenges in Microfinance

- Despite progress, 1.7 billion adults lack access to basic transaction accounts. Those without access are largely concentrated in Asia and Sub-Saharan Africa and are disproportionately poor and female. There are between 365 to 445 million micro, small and medium-sized enterprises (MSMEs) in emerging markets, the majority micro and informal, and 70 percent lack adequate financing to thrive and grow. The financing gap for formal MSMEs is an estimated $5.2 trillion with an additional financing gap of $2.9 trillion for informal MSMEs.[1.]
- Disruptive technologies and new entrants are radically changing the financial services industry, forcing traditional microfinance business models to adapt and changing the economics of delivery to benefit the un(der)served. This new reality presents tremendous opportunities and challenges for the sector, and IFC actively champions and supports responsible, innovative solutions for the un(der)served at scale.

IFC's Approach

Going forward, IFC will focus its Microfinance strategy on the following investment and AS engagements:

- Achieving scale by building sustainable financial service providers that serve the un(der)served;
- Scaling up support of innovative digital solutions that responsibly expand access and inclusion; and
- Reaching persistently un(der)served and vulnerable populations, particularly in FCS/IDA countries, while seeking to pioneer approaches that address real sector challenges.

Successful expansion and deepening of the Microfinance portfolio, which today represents $2.5 billion or 4.5 percent of IFC's investment portfolio benefiting some 54 million microenterprises, will require: expanded and improved product offerings that address risks to FSPs including local currency solutions, and a greater risk appetite for nascent and innovative business models that link IFC's financial sector work more directly with the real sector and prevent structural exclusion of certain sectors and groups of people.

Sources: 1 Global Findex 2017, 2 WBG Resource Center; http://www.worldbank.org/en/topic/smefinance,

[21] IFC Microfinance Deep Dive BOS Document Code: OM2018-0037

IFC Sector Deep Dive - Power[22]

The power sector is now poised for the next set of disruptions with continued declines in renewables prices, accelerated adoption of competitive procurement, commoditization of mainstream financing for renewables, cost declines in gas production and transportation, innovations in storage and new models of commercially-viable distributed generation. These disruptions present a unique set of opportunities for IFC.

Challenges in the Power Sector

- Over 1.2 billion people, most of them in IDA/FCS countries, lack access to electricity.
- The annual investment required to achieve SDG 7 is $790 billion[1] to 2030. If historical rates of investment continue, the investment gap is forecasted to be $280 billion per year[1].
- Many countries lack adequate capacity and regulatory frameworks and face a significant information gap in adapting to new technologies and business models that establish competitive power sectors.
- Many emerging markets also lack legal frameworks and procurement regimes adequate to secure private investment.
- The weak financial position of utilities and limited choice of an alternate buyer furthermore often deters private capital.

IFC's Approach

IFC's Power Strategy can support IFC 3.0 by responding to technological changes through investments, market creation and innovation.
IFC will focus on the following investment and AS engagements:

- Short- to medium-term investments and market enablement in key sub-sectors, including: Gas, Utility Scale Renewables and T&D investments;
- Longer-term market creation that opens the power sector for private investment and develops a longer-term pipeline; and
- Disruptive opportunities to help investee countries and corporate clients adjust to technological change including energy storage, distributed generation and innovation in utilities.

The objective of IFC's approach in the Power sector is to increase access to affordable, reliable and modern energy services by being the preferred provider of investments and expertise to clients and countries seeking to adapt to a changing power market.

Sources: 1. World Energy Outlook, UNCTAD, World Investment Report 2014: Investing in the SDGs: An Action Plan
Note: Total investment required for SDG7 ranges from $630bn/year (low estimate) to $950bn/year (high estimate). Midpoint was taken for this analysis ($790bn). Estimated annual investment in this sector was estimated to be $512bn total for the power sector based on WEO. Based on UNCTAD, 45% of investment in developing countries is expected to come from private sector.

[22] IFC Power Sector Deep Dive BOS Document Code: OM2017-0054

IFC Sector Deep Dive - SME Finance[23]

SMEs play a central role in the creation of dynamic, competitive and inclusive economies, and are important net job creators in emerging markets. Access to finance is a leading constraint to SME growth, with an estimated $4.5 trillion SME financing gap in emerging markets[1]. IFC has had significant impact, with 400 of IFC's SME Finance clients making an estimated 8+ million SME loans in 2016 and has played a thought leadership role in the SME finance area.

Challenges in SME Finance

- Access to finance is constrained by demand factors, which include: a lack of fixed collateral and weak property rights; a limited track record due to poor financial records and unpredictable cash flows; high costs of doing business due to lack of scale and high formalization costs; and poor financial and management skills.
- Access to finance is also constrained by supply factors, which include: higher cost of lending driven by costly customer acquisition and distribution networks, small size of transactions, and high capital/provisioning costs; limited risk appetite of financial institutions (FIs) due to poor credit information, complex risk modeling, solvency and enforcement regimes; undeveloped product offerings; and pricing constraints and distortions due to interest rate caps and subsidies.
- Increasing regulatory challenges: FIs are looking to de-risk their balance sheets due to higher capital charges required by regulators, increasing the difficulty of lending to SMEs. Capital required for an SME loan is 3.75 to 5x the capital required for a top-rated corporate loan under Basel III.

IFC's Approach:

A "one size fits all" strategy for FIs will not work, as SMEs have differentiated needs throughout their lifecycle, which includes the formation, survival, success, and scale stages. The reach of traditional FIs has typically been limited to established, larger SMEs in the "success" category. Firms at both the "formation" and "scale" stages of the lifecycle require different approaches. The SME Finance Deep Dive recognizes the need for a more holistic role across the SME lifecycle to better target SMEs at the formative and scale stages.
Going forward, IFC will focus on the following investment and AS engagements:

- Scaling up access to finance, technology, and markets;
- Financing and supporting high-growth and early-stage SMEs; and
- Providing targeted advisory and lending products to reach the historically underserved.

In addition, IFC's SME Finance approach will rely on leveraging technology and innovative models to deliver greater scale and impact.

Sources: 1. Source: MSME Finance Gap 2017, IFC, 2. The SME portfolio of IFC's ~400 clients as of 2016-end was $350 billion. Postal Savings Bank of China contributed 4.4 million loans

[23] IFC SME Finance Deep Dive BOS Document Code: OM2017-0081

IFC Sector Deep Dive - Water and Sanitation[24]

Water and sanitation services (WSS) are critical for development: inadequate water and sanitation services causes increased costs to society from sickness, mortality, and loss of productivity. By 2030, water demand will exceed water supply by 40 percent exacerbating competition for scarce resources. The existing sustainable supply will be about 4.2 trillion m^3 by 2030.

Challenges in the Water Sector

- Globally, 844 million[1] people lack basic drinking water service and 2.3 billion[1] lack even basic sanitation service, leading to poor health and environmental conditions.
- Forty countries will not meet MDG goals for water access by 2030; 50 countries will not meet the goals for sanitation.
- Energy, industrial, and agricultural sectors will compete for scarce resources; water insecurity can raise the risk of conflict.
- There is currently a large investment gap: increased water stress from urbanization, climate change, and agricultural/industrial use will continue to widen the gap between available supply and demand. To achieve the SDG 6 targets for water by 2030, annual investments need to increase by $150 billion[2] p.a. to $410 billion p.a.[2]
- Yet most WSS are operated by public entities where the major challenges lie in attracting sufficient funding and expertise to the sector. As such, there is a major need to mobilize increased private sector investment.

IFC's Approach

Going forward, IFC's WSS 3.0 long-term business plan will focus on the following Investment and AS engagements:

- Continued engagement with financially viable utilities to achieve scale and impact;
- Market creation to open the WSS sector for private investment, including in urban, rural, and in IDA / FCS; and
- Supporting innovative business models and introducing new technologies.

Market Creation is at the heart of IFC's WSS 3.0 long-term business plan: The WSS 3.0 long-term business plan is one of market expansion and creation rather than one of rapid scale-up.

The Cascade approach will be critical, as IBRD helps strengthen public institutions and build capacity for private participation and financial sustainability, while IFC brings private capital and global experience.

Sources: 1. Progress on Drinking Water, Sanitation, and Hygiene, 2017 – WHO, JMP, UNICEF, 2. As per UNCTAD, World Investment Report 2014

[24] IFC Water and Sanitation Deep Dive BOS Document Code: OM2018-0038

ANNEX 4: IDA17 AND FCS, LIC-IDA17 COUNTRY CLASSIFICATION

List 1: IDA 17 + FCS: the combination of countries that are on either list, as per definitions 1 and 2 below.

- IDA 17: countries eligible for IDA financing as of July 1, 2016, including Blend and Gap countries
- FCS: countries on the latest (FY19) Fragile and Conflict-affected Situations (FCS) list, which is based on the World Bank's Harmonized List of FCS and includes countries that have been on the Harmonized List within any of the past three years. This list is updated annually each July.

List 2: LIC-IDA17 and IDA17-eligible FCS: the combination of countries that are either LIC-IDA17 or IDA17-eligible FCS, as per definitions 3 and 4 below.

- LIC-IDA17: countries that are classified as low-income countries (LIC) as of July 1, 2016 (GNI per capita <=$1,025 in 2015).
- IDA17-eligible FCS: the subset of IDA17-eligible countries (as per definition 1 above) that are also on the latest (FY19) FCS list (as per definition 2 above).

Country/Region	List 1	List 2:	Country/Region	List 1	List 2:	Country/Region	List 1	List 2:
	IDA17 + FCS FY19	LIC-IDA17+ IDA17-elig. FCS		IDA17 + FCS FY19	LIC-IDA17+ IDA17-elig. FCS		IDA17 + FCS FY19	LIC-IDA17+ IDA17-elig. FCS
Afghanistan	Y	Y	Honduras	Y		Rwanda	Y	Y
Bangladesh	Y		Iraq	Y		Saint Lucia	Y	
Benin	Y	Y	Kenya	Y		St Vincent & Gren.	Y	
Bhutan	Y		Kiribati	Y	Y	Samoa	Y	
Bolivia	Y		Kosovo	Y	Y	S. Tome & Princ.	Y	
Bosnia & Herz.	Y		Kyrgyz Rep.	Y		Senegal	Y	Y
Burkina Faso	Y	Y	Lao PDR	Y		Sierra Leone	Y	Y
Burundi	Y	Y	Lebanon	Y		Solomon Islands	Y	Y
Cabo Verde	Y		Lesotho	Y		Somalia	Y	Y
Cambodia	Y		Liberia	Y	Y	South Sudan	Y	Y
Cameroon	Y		Libya	Y		Sri Lanka	Y	
Central Afr. Rep.	Y	Y	Madagascar	Y	Y	Sudan	Y	Y
Chad	Y	Y	Malawi	Y	Y	Syria	Y	Y
Comoros	Y	Y	Maldives	Y		Tajikistan	Y	
Congo, DR	Y	Y	Mali	Y	Y	Tanzania	Y	Y
Congo, Rep.	Y	Y	Marshall Is.	Y	Y	Timor-Leste	Y	Y
Cote d'Ivoire	Y	Y	Mauritania	Y		Togo	Y	Y
Djibouti	Y	Y	Micronesia	Y	Y	Tonga	Y	
Dominica	Y		Moldova	Y		Tuvalu	Y	Y
Eritrea	Y	Y	Mongolia	Y		Uganda	Y	Y
Ethiopia	Y	Y	Mozambique	Y	Y	Uzbekistan	Y	
Gambia, The	Y	Y	Myanmar	Y	Y	Vanuatu	Y	
Ghana	Y		Nepal	Y	Y	Vietnam	Y	
Grenada	Y		Nicaragua	Y		W. Bank & Gaza	Y	
Guinea	Y	Y	Niger	Y	Y	Yemen	Y	Y
Guinea-Bissau	Y	Y	Nigeria	Y		Zambia	Y	
Guyana	Y		Pakistan	Y		Zimbabwe	Y	Y
Haiti	Y	Y	Papua N. Guinea	Y	Y			