INTERNATIONAL FINANCE CORPORATION

IFC FY24 BUDGET

Positioning for greater ambition

Approved by IFC's Board of Directors on June 27, 2023

Released in accordance with IFC's Access to Information Policy

CONTENTS

FIGURES

TABLES

GLOSSARY

ACBS	- Advanced Commercial Banking System
ALM	- Asset Liability Management
BCR	- Budget Coverage Ratio
CAO	- Compliance Advisor Ombudsman
CDB	- Country-Driven Budgeting
CIP	- Capital Increase Package
CLED	- Legal Department
CMAW	- Creating Markets Advisory Window
CO	- Country Office
CODB	- Cost of Doing Business
CPSD	- Country Private Sector Diagnostic
CSO	- Department of Special Operations
EMDE	- Emerging Market and Developing Economy
ERP	- Enterprise Resource Planning
FCS	- Fragile and Conflict-Affected Situations
FMTAAS	- Funding Mechanism for Technical Assistance and Advisory Services
GEMS	- Global Emerging Markets Risk Database
HQ	- Headquarters
IDA	- International Development Association
IFC	- International Finance Corporation
ISDA	- International Swaps and Derivatives Association
IT	- Information Technology
LIBOR	- London Interbank Offered Rate
MIC	- Middle Income Country
PCM	- Private Capital Mobilization
PPP	- Public-Private Partnership
RFP	- Request for Proposal
SBO	- Strategy and Business Outlook
SOF	- Source of Funds
SOFR	- Secured Overnight Financing Rate
WBG	- World Bank Group

EXECUTIVE SUMMARY

1. International Finance Corporation (IFC)'s FY24 budget proposal builds on the "IFC FY24-26 Strategy and Business Outlook (SBO): Extending Our Ambition" endorsed by the Board on May 2, 2023.

2. To address the mounting development challenges and encouraged by the record results achieved in FY23, IFC is leaning into its strategic priorities that are anchored in the 2030 Capital Increase Package (CIP) commitments and align fully with the World Bank Group (WBG) Evolution Roadmap aspirations. Thematically, IFC's focus throughout FY24 will continue to be on scaling up efforts to address climate change and accelerate energy transition, advance gender and economic inclusion, build resilience through food security and health systems, develop innovative private sector solutions for fragile and conflict affected situations, and accelerate digitalization across all industries and regions. Operationally, IFC will sharpen its ability to engage in policy dialogue around the constraints to private sector growth, step up business development and product innovation, and develop new private capital mobilization (PCM) tools.

3. IFC will require additional resources to support operational delivery in its strategic priorities. The additional resources will be primarily used to strengthen staff capacity in priority areas by bringing in additional/new skills and increasing seniority in Country Offices (COs), finalize the implementation of the London Interbank Offered Rate (LIBOR) transition to the Secured Overnight Financing Rate (SOFR), ramp up business development activities across all client countries, and ensure adequate funding for proactive management of the portfolio, which is growing in size and complexity. IFC's FY24 proposed nominal Administrative Budget is US$1,307 million.

4. As the discussions on the WBG Evolution Roadmap are ongoing, with cost implications yet to be fully determined, IFC management considers FY24 to be a transition year, and therefore is not providing indicative budget trajectories for FY25-26. These will be defined as part of the FY25-27 business planning cycle.

5. IFC's FY24 Capital Budget (IT and Facilities) proposal is US$64 million.

6. Given the level of PCM ambition envisioned in the WBG Evolution Roadmap, there is a pressing need to significantly grow the investment pipeline and accelerate its conversion through sector development, project preparation and client capacity building. It is therefore critical to sustain appropriate funding for Upstream and Advisory work, including via designations from IFC's income. The final designations will be submitted to the Board as resolutions following approval of the FY23 year-end financial statements.

CHAPTER 1: STRATEGIC CONTEXT AND BUSINESS OUTLOOK

1.1. As detailed in the FY24-26 IFC SBO, sustainable, resilient, and inclusive development amidst intensifying global challenges and stretched public finances is not possible without the private sector, which brings capital, innovation, knowledge, and jobs. The WBG estimates annual spending needs at US$2.4 trillion to address global challenges in Emerging Market and Developing Economies (EMDEs) between 2023 and 2030. This can only be achieved by enabling a more conducive environment for private sector investment, and through increased PCM and capital markets development, as articulated by the WBG Evolution Roadmap.

1.2. The WBG Evolution demands a step change in how the WBG operates as one, embedding the principles of the Cascade framework, and is raising both urgency and ambition to do more and do it faster. IFC will lean in by (i) doing its part to operationalize the "One WBG" approach through enhancing Country Private Sector Diagnostics (CPSDs) and further strengthening policy dialogue around the constraints to private sector development; (ii) investing in business origination capabilities; (iii) expanding early-stage sector development, project preparation and client capacity building through Upstream and Advisory engagements; and (iv) amplifying its PCM efforts through innovative mobilization platforms, data and market knowledge sharing (e.g., Global Emerging Markets Risk Database (GEMs), and disciplined use of blended finance.

PROGRAM AND PORTFOLIO OUTLOOK

1.3. IFC's investment program outlook for FY24 follows record delivery in FY23, placing IFC back on its 2030 CIP trajectory. Scaling up the number of projects and investment volume in International Development Association (IDA) countries and Fragile and Conflict-Affected Situations (FCS), with a focus on energy transition, food security, health systems resilience, job creation, and economic transformation, will continue to be a priority while also responding to the strong demand in Middle-Income Countries (MICs) to address climate change issues and widening socio-economic gaps.

1.4. In terms of products, IFC expects to see continuing strong demand for working capital, trade, and supply chain finance products, especially in IDA countries and FCS. In addition, there is likely to be a further shift from project to corporate finance and capital markets support, as well as growth in Public-Private Partnerships (PPPs) as countries address pressing social and physical infrastructure needs.

1.5. Given the level of PCM ambition and the need for IFC to have skin in the game as a litmus test for private investors, IFC will need to further grow its Upstream and Advisory engagements, including early-stage sector development, project preparation, as well as capacity building of prospective and portfolio clients to increase competitiveness and enhance investment outcomes.

COST OF DOING BUSINESS

1.6. Delivering on IFC's growth ambitions will have implications for the Cost Of Doing Business (CODB). Specifically, implementing certain thematic, sector and regional priorities, while opening opportunities for greater development impact, will also result in associated increased risks, complexity, and cost pressures.

CHAPTER 2: GROSS RESOURCE NEEDS

STAFFING

2.1 IFC's cost base is primarily driven by staff-related expenses. The annual workforce planning exercise aims to align the size and composition of the workforce with business requirements, including skills mix needed to deliver on IFC's strategic priorities and business objectives, staff numbers, levels of seniority, and locations.

2.2 Given IFC management's commitment to enhancing productivity, the focus of the FY24 workforce plan (WFP) is to strengthen capacity in the areas of need primarily by reallocating positions and identifying opportunities for upskilling/reskilling and redeploying existing staff. Incremental allocations have been prioritized based on the FY24 program and portfolio outlook, operational gaps emerging in the longer-term, and PCM ambition. IFC also intends to create a fungible pool of analysts to provide flexible support across VPUs and departments as program delivery requirements shift throughout the year.

LIBOR TRANSITION

2.3 In FY24, IFC will complete its transition from LIBOR to SOFR. Several important milestones have been met since the LIBOR Transition project was launched in FY20 including: (i) development of the SOFR loan products; (ii) upgrades of Summit Investment Accounting System and the Advanced Commercial Banking System (ACBS); (iii) development and launch of the remediation plan to convert all IFC LIBOR referencing loans into new SOFR; (iv) adherence to the International Swaps and Derivatives Association (ISDA) protocol; and (v) development of an Asset Liability Management (ALM) framework for SOFR loans.

MODERNIZATION OF THE ENTERPRISE RESOURCE PLANNING (ERP) SYSTEM

2.4 In FY21, preparatory work was undertaken to examine options for a transition from SAP to a new WBG ERP system (Project Aria). WBG management determined that a two-phase implementation approach over the period from FY22 through FY30 would allow time to build the required staff capacity, allow for better monitoring, and enable course corrections, as needed.

2.5 The first phase of Project Aria is on schedule and is expected to be completed by FY24Q3-end. This will ensure that SAP will continue to provide maintenance and support for the product through FY27. Phase two activities for implementation of the new ERP system will be based on the outcome of the Request for Proposals (RFP) evaluation process to acquire a new ERP product.

COMPLIANCE ADVISOR OMBUDSMAN (CAO) AND RELATED IFC COSTS

2.6 The CAO Director General has submitted its FY24 budget proposal to the Board for approval. The proposal reflects IFC's share of the CAO's budget, equivalent to US$10.36 million, representing 16.5 percent increase in real terms over the FY23 budget, measured plan to plan.

CHAPTER 3: EFFICIENCIES

3.1 From FY19 to FY23, IFC generated efficiency savings towards its CIP commitments and estimates further efficiency savings in FY24.

BUDGET COVERAGE RATIO (BCR)

3.2 As part of the CIP, IFC committed to a target ratio of Debt Income to Administrative Budget of at least 1.1, which translates into a Budget Coverage Ratio (BCR) of no higher than 91.0 percent. The BCR is intended to measure IFC's ability to remain financially sustainable without relying on volatile revenues such as equity income. While it is difficult to predict the BCR with certainty, given the volatility of key drivers, IFC expects the BCR to be within its target level by FY25.

CHAPTER 4: FY24 BUDGET PROPOSAL

ADMINISTRATIVE BUDGET

4.1 The FY24 Administrative Budget ask has been reduced to 0.75 percent real increase (4.15 percent in nominal terms) from the indicative trajectory of 1.0 percent real increase included in the FY23 Budget Paper. Despite multiple cost pressures, this is the smallest increase over the past five years, attesting to management's commitment to strict budget discipline.

TOTAL RESOURCES

4.2 The Total Resources, or "All Funds", trajectory shows a nominal growth of 2.0 percent in FY24 compared with FY23 (See Table 1). It reflects a comprehensive Upstream and Advisory funding needs assessment conducted at the regional and global levels as part of the integrated country driven budgeting exercise.

Table 1: FY20-24 Total Resources Trajectory

US$, millions	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**
Administrative Budget	1,112	1,139	1,177	1,255	1,307
Trust Funds[1]	421	460	430	430	430
Earmarked Service Fees and Others	241	224	196	196	182
IFC Total Resources	**1,773**	**1,823**	**1,803**	**1,880**	**1,918**
% Growth Total Resources		2.8%	(1.1%)	4.3%	2.0%

[1]Includes CMAW, FMTAAS and Donor Funds.

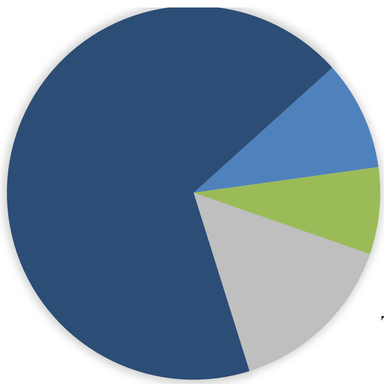
CHAPTER 5: FY24 BUDGET PROPOSAL DETAILS

FY24 TOTAL RESOURCES BY SOURCE OF FUNDS (SOF)

5.1 IFC's projected Total Resources budget for FY24 is US$1,918 million, as shown in Figure 1. It reflects the gross incremental needs as described earlier in this document net of efficiencies.

Figure 1: FY24 Total Resources

US$, millions



ADMINISTRATIVE BUDGET

5.2 The incremental FY24 Administrative Budget ask is US$52 million, representing a 0.75 percent real increase (4.15 percent in nominal terms) over FY23.

COST CATEGORY VIEW OF ADMINISTRATIVE BUDGET

5.3 FY24 Administrative Budget broken down by cost category is shown in Table 2 against FY23 projected spend.

Table 2: FY24 Administrative Budget by Cost Category

US$, millions	**FY24E**	**FY23E**
Fixed Expenses	**1,033.4**	**980.7**
Salaries and Benefits	886.9	839.7
Communications & IT	27.2	27.1
Depreciation	61.8	56.8
Equipment & Building	57.5	57.1
Variable Expenses	**298.5**	**290.7**
ST Consultants & Temporaries	15.4	17.8
ET Consultants & Temporaries	16.2	14.8
Travel, Representation and Hospitality	30.90	30.3
Contractual Services	51.5	50.5
Services and Support Fees	172.4	165.6
Other Expenses	12.1	11.7
Total Expenses	**1,331.9**	**1,271.4**
Total Non-Operational Revenue	(25.3)	(25.2)
Net Expenses	**1,306.6**	**1,246.2**

UPSTREAM AND ADVISORY SERVICES BUDGETS

5.4 Program funding for all IFC Upstream and Advisory portfolio and pipeline engagements, as well as new ideas expected to be approved throughout the year, is determined through the annual country driven budgeting (CDB) exercise. It involves the development of bottom-up, rolling three-year estimates, which are then translated into indicative budget envelopes, approved by the IFC MD, and reconfirmed annually. The main objective of the CDB exercise is to ensure that all Upstream and Advisory project budgets are fully aligned with relevant country strategies and thematic priorities.

5.5 Upstream and Advisory activities will draw on IFC's internal and external funding sources for fixed costs and program delivery (see Table 3).

Table 3: Upstream and Advisory Services Budget

US$, millions	**FY24 Budget**	**FY23 Budget**
IFC Internal Funding	302	287
Administrative Budget	*160*	*145*
Investment Client Fees	*10*	*10*
CMAW, FMTAAS and Others	*132*	*132*
External Funding	285	285
Total	**587**	**572**

FEE BUDGETS

5.6 IFC has a long-established practice of using fees to cover direct out-of-pocket expenses incurred for investment related projects. Similarly, clients pay IFC other types of fees, such as service and mobilization fees, that are used to cover IFC's operational costs.

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

5.8 IFC maintains a dedicated fee pool to cover outside counsel fees and expenses arising in relation to IFC transactions and corporate matters when other internal and external funding sources are not available.

JEOPARDY BUDGETS

5.9 IFC considers projects to be jeopardy cases when: (i) the prospects for IFC recovering its investment are in serious doubt due to expected future loan defaults, country/industry considerations, or other material adverse changes to the project, sponsor, or macro-economic circumstances; or (ii) when IFC is threatened with litigation or sued, or where there are serious reputational risks for IFC. Jeopardy expenses have been traditionally tracked separately from the Administrative Budget due to the volatility and unpredictability of the jeopardy cases, which often generate significant out-of-pocket expenses and can span many years.

5.10 To manage the jeopardy related expenses, IFC has allocated funds for jeopardy cases that can be drawn by the Department of Special Operations (CSO) and the Legal Department (CLED).

CHAPTER 6: FY24 CAPITAL BUDGET

6.1 The Capital Budget request for FY24 reflects IFC management's prioritization of business demands for Facilities and Information Technology (IT) investments and the resulting impact on the Administrative Budget through depreciation.

6.2 IFC's Capital Budget funds IFC Headquarters and Country Office Facilities and IT required to support IFC's business model and strategic growth. The proposed FY24 Capital Budget is US$64 million (see Table 4).

Table 4: Capital Budget Proposal

US$, millions	**FY23B**	**FY24E**
Headquarters Facilities	**11**	**13**
Country Office Facilities	**7**	**20**
Information Technology	**45**	**30**
Total	**63**	**64**

FACILITIES

6.3 The capital budget for Headquarters (HQ) facilities will fund upgrades, refurbishment, and new construction to implement the HQ modernization initiative and end-of-life replacements of building infrastructure and equipment. The modernization of the IFC HQ building, which is underway, is a multi-year program.

6.4 The capital budget proposal for Country Offices supports: (i) portfolio expansion driven by IFC's workforce plans; (ii) routine maintenance requirements and replacements at end-of-life; (iii) enhanced environmental sustainability; and (iv) risk mitigation to avert disruptions to business operations.

INFORMATION TECHNOLOGY

6.5 The FY24 IT program reflects an ongoing modernization and replacement of obsolete technologies, with the main goal to set up scalable solutions and leverage data that will enable business growth.

CHAPTER 7: INCOME DESIGNATIONS

USE OF IFC'S NET INCOME

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

METHODOLOGY FOR INCOME DESIGNATIONS

7.2 As part of the Budget Paper approval, the Board approves a range of potential designations for Creating Markets Advisory Window (CMAW) and Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS), based on a sliding scale formula and a waterfall prioritization. After the close of the fiscal year, the formula is applied to income available for designations to determine the actual designations. The transfer of net income/(loss) to retained earnings and any designations of retained earnings will be submitted to the Board as resolutions following approval of the year-end financial statements.

7.3 Depending on final FY23 income amounts available for designation under the sliding-scale formula, IFC will propose to make designations to CMAW and FMTAAS.

CHAPTER 8: RECOMMENDATIONS

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

1. Administrative Budget Authority
   - An Administrative Budget for FY24 of US$1,306.6 million.
2. Capital Budget Authority
   - A Capital Budget for FY24 of US$64 million

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

1. From income, designate allocations to CMAW and FMTAAS.
2. The designation of income to be disclosed in the Management's Discussion and Analysis for FY23.