INTERNATIONAL FINANCE CORPORATION

STRATEGY AND BUSINESS OUTLOOK FY21-FY23:

A FOCUS ON EXECUTION

Version redacted and disclosed in accordance with IFC's 2012 Access to Information Policy, following discussion with IFC's Board on April 9, 2020.

Strategy and Business Outlook FY21-FY23:

A Focus on Execution

April 9, 2020

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INTERNATIONAL FINANCE CORPORATION

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GLOSSARY

AIMM	- Anticipated Impact Measurement and Monitoring framework
ADM	- Accountability and Decision-Making framework
AMC	- IFC Asset Management Company
AS	- Advisory Services
BF	- Blended Finance
CDF	- Disruptive Technologies and Funds
CMAW	- Creating Markets Advisory Window
CODB	- Cost of Doing Business
COVID-19	- Coronavirus Disease 2019
CPF	- Country Partnership Framework
CPSD	- Country Private Sector Diagnostic
DE	- Development Effectiveness
DFI	- Development Finance Institution
DO	- Development Outcome
DSC	- Deployable Strategic Capital
EAP	- East Asia and the Pacific
ECA	- Europe and Central Asia
EMDE	- Emerging Market and Developing Economy
ERP	- Enterprise Resource Planning
E&S	- Environmental and Social
ESG	- Environment, Social and Corporate Governance
FCS	- Fragile and Conflict Situations
FCV	- Fragility, Conflict and Violence
FIG	- Financial Institutions Group
FMTAAS	- Funding Mechanism for Technical Assistance and Advisory Services
GP	- Global Practice
GUU	- Global Upstream Unit
HCP	- Human Capital Project
IBRD	- International Bank for Reconstruction and Development
IDA	- International Development Association
IEG	- Independent Evaluation Group
IFC	- International Finance Corporation
IS	- Investment Services
J-CAP	- Joint IFC-WB Capital Markets Initiative
JET	- Jobs and Economic Transformation
KPI	- Key Performance Indicator
LAC	- Latin America and the Caribbean
LIBOR	- London Inter-Bank Offered Rate
LIC	- Low-Income Country
LTF	- Long-Term Finance
MAS	- Manufacturing, Agribusiness and Services
MCPP	- Managed Co-Lending Portfolio Program
MDB	- Multilateral Development Bank
M&E	- Measurement and Evaluation
MENA	- Middle East and North Africa
MfD	- Maximizing Finance for Development
MIC	- Middle-Income Country
MIGA	- Multilateral Investment Guarantee Agency
MOU	- Memorandum of Understanding
MSME	- Micro, Small and Medium Enterprise
PPP	- Public-Private Partnership
PSW	- IDA 18 Private Sector Window
RAROC	- Risk-Adjusted Return on Capital
RMS	- Results Management System
RSW	- Refugee Sub-Window
SBO	- Strategy and Business Outlook
SDG	- Sustainable Development Goal
SME	- Small and Medium Enterprise
SOFR	- Secured Overnight Financing Rate
SSA	- Sub-Saharan Africa
STF	- Short-Term Finance
VC	- Venture Capital
VPU	- Vice Presidential Unit
WBG	- World Bank Group
WFP	- Workforce Planning

WORLD BANK GROUP STRATEGIC DIRECTIONS

This section 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 was prepared jointly by the World Bank (WB), International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) and forms a common part of each institution's Strategy and Business Outlook papers.

I. STRATEGIC CONTEXT AND DIRECTIONS

1. ***The vision for the WBG to deliver on the Twin Goals of eradicating extreme poverty and promoting shared prosperity is under implementation.***

The WBG strategic framework is informed by the vision to deliver on the Twin Goals of eradicating extreme poverty and promoting shared prosperity,[1] and the commitments under the IBRD/IFC capital package, the IDA19 replenishment, the IFC 3.0 strategy and the next three-year MIGA strategy, as well as support critical themes including creating broad-based growth and raising median incomes via broadening access to critical infrastructure such as electricity and clean water, widening the reach of digital financial services, enhancing good governance and the rule of law, promoting growth and development of the private sector, and promoting debt and investment transparency and sustainability, among others.

Complementing the 2018 transformative capital package for IBRD and IFC, shareholders showed strong support for IDA19 which resulted in a historically high replenishment of US$82 billion in December 2019. The WBG is dedicated to fulfilling related policy commitments and to strengthening the business model. Ten years away from the target for delivery of the ambitious 2030 goals and in the context of a challenging external environment characterized by the COVID-19 outbreak and its unfolding impact on development objectives, financial markets and the global economy, the WBG needs to move quickly to implement its agenda. The implementation of the WBG strategic priorities and commitments is therefore the focus of the FY21-23 planning and budgeting cycle. The emphasis is on supporting country programs to achieve good outcomes and strengthening expertise and development impact on global issues, while using resources efficiently and effectively.

2. ***The WBG has made strong strides in implementing the vision of the Twin Goals, IDA18 and the capital package policy commitments, and the IFC 3.0 strategy.***

IDA18 implementation to date has been strong and transformational and IDA19 will build on these accomplishments. Implementation of the IBRD and IFC capital package policy commitments is on track, providing a solid foundation for reaching the capital package targets over FY19-30. Continuing to fundamentally reshape core elements of its business model, IFC is complementing its traditional approach to financing projects with a new focus on upstream project development and increasing the pipeline of bankable transactions across client countries. MIGA remains in a strong financial position and has developed a new three-year strategy.

[1] As set out in the Forward Look endorsed by the Development Committee at the 2016 Annual Meetings; Forward Look – A Vision for the World Bank Group in 2030 – Main Messages, DC2016-0009, Sept. 20, 2016.

Management has provided updates to the Board on the implementation status of commitments under the Forward Look, the IBRD and IFC capital package and IDA18 implementation. More recently, the WBG has developed the following:

- elaborated workforce plans to increase staff field presence and delegation of authority, complemented with changes in the mobility benefits package and adjustments to the career mobility framework to strengthen the link between business needs and staff interests and skills, as well as enhancements to the support systems for staff in field locations. In parallel, IFC also completed a staffing exercise in FY19 to rebalance its grade structure. This has freed up resources for IFC to bring on board needed skills sets, including upstream project development.
- launched a new strategy to support both low and middle-income countries that are dealing with diverse challenges in addressing the drivers and impacts of fragility, conflict and violence and to strengthen their resilience, especially for the most vulnerable and marginalized populations.
- maintained momentum on the Cascade approach, a vital organizational tool to support alignment and sequencing public and private sector actions. WBG sector groups in Agribusiness, Housing, Transport, Power, among others, have worked to develop joint approaches to promoting sustainable private sector solutions.
- strengthened the WB operating model through the realignment of its Practice Group management responsibilities to simplify matrix interactions, and the creation of Two Vice Presidencies for the Africa Region to enhance management attention for a growing work program. IFC has also implemented improvements to its operational model, with key leadership changes and organizational re-alignments, and on-going efforts to introduce differentiated processing to streamline the project cycle for low risk/complexity projects.
- implemented efficiencies and economies of scale, reflecting a strong start towards fulfilling the IBRD/IFC capital package budget commitments. The efficiency monitoring framework for IBRD and IFC was introduced to the Board in January 2020.
- the WBG has rapidly created a dedicated COVID-19 Fast Track facility to help developing countries address emergency response to, and impact of the coronavirus outbreak. The facility will be a globally coordinated, country-based response to support health systems and emergency response capacity in developing countries, focused largely on health system response, complemented by support for economic and social disruption.

3. ***The WBG Scorecards are tools for monitoring the Group's results, performance, and implementation of***

The WBG and individual WB, IFC and MIGA Scorecards provide a snapshot of results and performance in institutional priority areas. They represent the apex annual reporting tools on results and performance of the WBG institutions and are tightly linked to our global and corporate priorities. In FY19, the WB, IFC and WBG Corporate Scorecards

corporate priorities as well as capital package commitments.	indicators were revised, and new Scorecard indicators were introduced to reflect commitments from the IBRD/IFC capital package and alignment with the emerging IDA19 Results Management System (RMS).

II. STRATEGIC ALIGNMENT OF RESOURCES AND WBG INDICATIVE PLANNING TRAJECTORIES

4. ***Through the "W" process, the WBG institutions coordinate their strategic planning, performance monitoring and budgeting processes.***	Alignment with the WBG strategic priorities 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 discussions, Management identified strategic priorities for FY21-23 to support the delivery of the commitments of the IBRD and IFC capital packages, IDA19 and MIGA's new three-year strategy. These priorities inform the three institutions' resource allocation and budget trajectories.
5. ***Across the World Bank, IFC and MIGA, common themes and shifts have emerged in the strategic planning process.***	Despite serving our clients in different ways, the three institutions follow common themes and are facing similar internal and external shifts. These common threads are (i) a substantial program growth in priority areas as envisaged in the capital package and IDA19, especially in poorer and smaller countries and those affected by fragility, conflict and violence; (ii) a strengthened operating model to simplify matrix interactions, lines of accountability and decision making; (iii) changes in workforce planning, with increased field presence, especially in priority regions, and a shift in grade mix; (iv) a more strategic use of analytical and advisory work at the global, regional and country level; (v) externally driven cost pressures (e.g., transition from LIBOR, ERP system replacement); and (vi) a continued focus on efficiency.
6. ***The WBG institutions are actively pursuing synergies and complementarities.***	The World Bank, IFC and MIGA are working closely together in several areas where synergies and complementarities are being actively pursued, leveraging each other's strengths. In operations, the institutions are complementing and integrating their work in creating markets, and overcoming obstacles that block private sector solutions, jointly managing their work program in six locations, and better coordinating analytical and advisory work, especially for upstream work. They are also coordinating human resource policy changes; maximizing use of available space to accommodate global footprint changes; leveraging economies of scope for services provided by the Bank's IG&A units to the other institutions through a recently agreed shared services framework; integrating work for the transition from LIBOR and ERP system replacement; and jointly working on the efficiency agenda. The recent realignment at the World Bank, IFC's increased focus on working upstream and country-driven budgeting, and MIGA's deepening partnership with the Bank and IFC are complementary and will promote stronger joint program delivery.

7. ***The Strategy and Business Outlook papers set out the WB, IFC and MIGA Business Outlook, planned work programs and budget trajectories for FY21-23.*** The WBG institutions' Strategy and Business Outlook (SBO) papers outline the strategic priorities, business outlook, and planned work programs and provide high-level budget trajectories required to achieve the respective strategic priorities. IFC's SBO paper marks the start of a new three-year strategy reporting cycle from FY21 to FY23 and provides a retrospective of the first three years of IFC 3.0 implementation and a forward look on the next three years. The MIGA SBO presents a new three-year strategy for the institution. In addition, the papers discuss pressure points arising from increasing costs of doing business and the organizational, efficiency and financial sustainability measures being pursued to ensure that the institutions have sufficient resources to successfully implement WBG-wide and institutional priorities.

Executive Summary

This SBO has been prepared in the midst of the COVID-19 pandemic. In addition to the heavy human toll and its aftermath, the COVID-19 crisis poses substantial challenges for the global economy and financial markets with severe impacts on an already fragile global economic outlook. There is considerable uncertainty about the extent of its impact on the global economy and on IFC client countries and private sector partners. Some effects are already materializing in the form of supply chain disruptions and tightened liquidity due to lower production orders. IFC is committed to playing a strong role in the global response to the COVID-19 crisis, beginning with the recent IFC Fast Track COVID-19 Facility[2] which aims to rapidly deploy financing to help sustain jobs and continued economic activity in member countries. Prolonged market turmoil will undoubtedly impact both IFC's operations and financial performance. All program targets and resourcing projections presented in this SBO reflect a pre-COVID-19 scenario.

1. The FY21-23 SBO marks around three years of implementing IFC's ambitious long-term strategy, *IFC 3.0: Creating Markets and Mobilizing Private Capital*. IFC 3.0 is re-orienting IFC to a more deliberate and systematic approach to market development, particularly in IDA countries and Fragile and Conflict-affected Situations (FCS), and to more proactively marshal new sources of institutional capital to support private sector solutions in pursuit of the Twin Goals. The SBO also launches the beginning of a new three-year cycle, FY21-23, on IFC's growth path toward its 2030 Capital Package[3] commitments. The Capital Package calls for IFC to reach $48 billion in total long-term finance (LTF) commitments by 2030, with 40 percent of annual own-account commitments in IDA[4] and FCS countries. Meeting these targets requires a quadrupling of annual program delivery in IDA and FCS countries and a doubling of annual commitments in non-IDA countries along with a sharpened focus on development impact and additionality.

2. IFC has made key enhancements *early* – strengthening operations with more diagnostics, strategic focus, and better risk management; renewing the emphasis on development impact with the introduction of the Anticipated Impact Measurement and Monitoring (AIMM) framework; conceptualizing the Upstream business as a vital tool of project and market creation; revamping IFC's approach to equity investing; re-aligning the organizational structure and processes for more efficient delivery; introducing IFC Country Strategies, and revising the monitoring and reporting of results as well as strengthening collaboration with the World Bank to deliver on the Cascade approach. IFC also implemented a substantial workforce planning exercise with voluntary and involuntary separation components. As the last building block of internal reforms, IFC is now putting in place country-driven budget allocation, which would give real "teeth" to the IFC Country Strategies.

3. Although many of the fundamental improvements that have been implemented will manifest in results over time, positive effects can already be discerned. Between FY17 and FY19, IFC averaged $10.8 billion in own-account LTF. Core mobilization grew from $7.5 billion to $10.2 billion, reaffirming IFC's leadership and mobilizing strength. IFC demonstrated sustained results in Climate, averaging 29 percent of own-account LTF over FY17-19 as well as in IDA countries, which averaged 23 percent of own-account LTF. In FY19, 35 percent of projects were in IDA countries.

4. Externally, development finance is changing fundamentally, with the growing focus on the private sector, the concentration of persistent poverty in a small number of countries, and the emphasis shifting from insufficient finance to a lack of bankable projects. These trends underline the need for a greater emphasis on the development of markets and project pipelines, that is, working "upstream."

5. With IFC's long-term direction set firmly in place, IFC's paramount ***focus*** over the FY21-23 period will be ***on execution***, with a significant ramp-up in program growth while continuing to pursue efficiency.

[2] IFC/R2020-0052
[3] Capital Package refers to the wide-ranging set of development goals and policy and internal reform measures agreed with the Board and endorsed by the World Bank Group's Development Committee with a $5.5 billion capital increase for IFC, as part of a historic $13 billion paid-in capital increase package for the World Bank and IFC on April 21, 2018.
[4] For purposes of the Capital Package, IDA countries are those eligible for IDA financing as of July 1, 2016, including Blend and Gap countries (IDA17); the FCS list may vary over time as agreed in the WBG Capital Package proposal, delivered to the DC on April 21, 2018 (DC2018-0002).

Key priorities for IFC include (i) comprehensive program growth, (ii) creating markets and opportunities and, (iii) strengthening the business model.

6. In view of the critical need to address the shortage of bankable transactions, IFC has put Upstream engagement at the center of IFC 3.0. IFC's Upstream agenda will be a significant enabler of program delivery in the coming years in both low-income countries as well as non-IDA/FCS countries, where innovation is key to addressing persistent development gaps. By building a pipeline of investment projects that would accelerate recovery, Upstream work will be key to IFC's countercyclical role in the wake of the COVID-19 crisis. The Fragility, Conflict and Violence (FCV) Strategy highlights that the World Bank, IFC, MIGA, and their partners have an important role to play in supporting the private sector and creating the jobs, goods, and services that can pave the way for poverty reduction, shared prosperity, peace, and stability. In view of the centrality of trade to economic development and job creation, in addition to its deployability in rapid crisis response, IFC will continue to strengthen its trade finance platform. In addition, IFC will focus strongly on enhancing its risk management capabilities and adjusting its business mix to balance high-impact projects in riskier markets with less risky investments through the Portfolio Approach. Climate, Fragility, and Gender continue to remain key cross-cutting global priorities as embedded in the Capital Package, as do the regions less served by private investment and with the highest incidence of poverty – South Asia, Sub-Saharan Africa, and Middle East and North Africa.

7. To back IFC's ambitious plans with appropriate resources, IFC's administrative budget will be deployed toward additional resources to support IFC's program in FY21-23 while also enabling IFC to invest in the skills needed in the latter years of the 2030 trajectory. The budget projections are based on the Cost of Doing Business methodology incorporating the cost of staffing and global footprint augmented with the cost of increased Upstream engagement and offset by efficiencies and economies of scale. IFC will continue to prudently manage its expenses to remain within its authorized budget. The Efficiency agenda's primary focus is on increases in productivity, workforce structure/grade mix changes, and effectiveness of operational delivery. Having realized efficiencies in FY19, IFC expects to realize additional cumulative savings mainly arising from workforce structure/grade mix changes, productivity gains and other cost-efficiency measures during FY21-23. IFC's capital budget (IT and Real estate) is expected to stabilize over FY21-23, keeping projected depreciation costs within manageable levels.[5]

8. To align, deploy, and motivate IFC's most valuable resource – IFC's staff – IFC is focusing on strengthening regional and country capacity, ramping up specialist expertise, expanding the cadre working on FCS countries, and creating targeted incentives for staff working on Upstream. IFC will continue its efforts to promote a diverse workforce.

9. Implementing IFC 3.0 over the last three years has yielded rich lessons of experience that will inform IFC's future course. It is clear that ramping up operations in challenging markets requires sustained and persistent effort. Accelerating collaboration with the World Bank on the Cascade approach is key to achieving envisioned country outcomes. A focused approach to long-term pipeline development is critical.

10. IFC started 2020 on a firm financial footing. However, market turmoil and economic fallout from the COVID-19 pandemic are likely to result in increased unrealized losses for the equity and debt securities portfolios and a deterioration of the loan portfolio that could negatively impact IFC's net income and capital adequacy positions over the next 3 to 24 months. Additional capital, as agreed with shareholders, is critical to IFC's ability to meet its long-term 2030 commitments, including the ability to sustainably grow program delivery in priority markets.

[5] Further details will be communicated in the FY21 Budget Paper.

CHAPTER 1. FY18-FY20: A RETROSPECTIVE

CONTEXT

1.1 This SBO launches the second three-year period in IFC's strategy cycle, FY21-23, following the introduction of *IFC 3.0: Creating Markets and Mobilizing Private Capital*[6] in FY17. 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 status and detail forward-looking rolling program targets. In keeping with this practice, IFC will provide updates on this SBO in FY21 and FY22.

1.2 In December 2016, the Board endorsed IFC 3.0 – IFC's ambitious long-term strategy to develop new and stronger markets for private sector-led development. In addition to IFC's traditional role in financing private sector projects with local and international sponsors – IFC 1.0 and 2.0[7] – IFC 3.0 adds a sharpened focus on upstream project development and market creation in areas where bankable transactions are not readily available. IFC 3.0 also positions IFC to work more effectively with the World Bank and MIGA to implement the Cascade approach to Maximizing Finance for Development (MfD) – prioritizing private sector solutions where they can achieve development goals while preserving scarce public resources for where they are most needed.

1.3 On April 21, 2018, the World Bank Group's Development Committee approved a $5.5 billion capital increase for IFC, as part of a historic $13 billion paid-in capital increase package for the World Bank and IFC, with a wide-ranging set of development goals, policy commitments, and internal reform measures ("Capital Package"). The additional capital will be used to enhance IFC's ability to take on greater risk in more challenging markets while strengthening IFC's engagement with all clients. Achieving the 2030 Capital Package goals requires IFC to:

- sharpen its focus on additionality and development impact
- deliver 40 percent of its own-account program in IDA and FCS countries – *quadrupling* from FY18 program levels – and 15-20 percent of its program in Low-Income IDA (LIC-IDA) and IDA-FCS countries
- nearly *double* its annual own-account program (vs. FY18 levels) in non-IDA markets.

1.4 This chapter provides a review of the three-year period since the launch of IFC 3.0 and outlines key lessons learned. IFC's future strategic directions will be informed by these lessons.

ACHIEVEMENTS TO DATE

1.5 As of March 2020, IFC has been implementing IFC 3.0 for approximately three years. IFC 3.0 has necessitated a fundamental reshaping of core elements of IFC's business model as a more systematic approach to market creation has been developed. IFC has revised, extended, and strengthened nearly every aspect of its business to create an institution fit for the purpose of meeting its 2030 Capital Package commitments and the WBG Twin Goals. IFC has continued to maintain momentum in its traditional business of project financing while putting in place the tools necessary to mainstream project and market creation through Upstream engagement and deeper collaboration within the World Bank Group. (See Annex 1 for the IFC 3.0 Toolkit.)

1.6 Among the most notable achievements has been the **renewed emphasis on development impact and its measurement and application**. IFC has improved the use of its development impact assessment to inform project selection through the introduction of the Anticipated Impact Measurement and Monitoring (AIMM) framework and an enhanced additionality framework. The AIMM framework

[6] Also referenced as IFC 3.0 (IFC/SecM2017-0046).

[7] IFC 1.0 – to attract foreign private investments to emerging markets; IFC 2.0 – to invest in local companies and banks with local private investors.

assigns a score that measures the project outcome and its market creation potential. The AIMM score is now an integral element of project assessment, and it has also been incorporated as a key metric in the revamped IFC Corporate Scorecard.

1.7 IFC has also undergone **deep organizational changes** to better respond to the needs of its clients and shareholders, including the formation of the Economics and Private Sector Development Vice Presidential Unit (VPU) to provide strategic analytics and help shape development content to support operations; the Environmental, Social & Governance (ESG) Policy and Standards department to enhance ESG risk management; the appointment of three regional Vice Presidents; the appointment of three Global Heads of Equity to support IFC's new approach to equity; and the creation of four Global Upstream Units (GUU) to sharpen focus on creating new projects and support country-level engagement. In addition, IFC has completed the integration of Advisory Services into Industry departments and is currently working to better leverage Advisory Services for Upstream project development.

1.8 Significant progress has been made not only in **launching new tools and approaches** but also in integrating these to change the way business is done. These changes range from continuing to operationalize the Portfolio Approach to leveraging the IDA18 Private Sector Window and improving the operational Accountability and Decision-Making framework (ADM). The Creating Markets Advisory Window (CMAW) continues to enhance Upstream project preparation and is addressing complex challenges to creating markets in IDA and FCS countries.

1.9 Importantly, IFC has invested heavily in **strengthening its country-level engagement** approach through the use of improved analytics and strategy formulation **–** including the IFC Country Strategies and Country Private Sector Diagnostics (CPSDs). Working off priorities outlined in the Country Strategies, the Upstream units will play the role of incubator and integrator in designing new projects and help to coordinate upstream efforts across the World Bank Group.

PROGRAM RESULTS

1.10 While many of the fundamental improvements that have been implemented will only manifest in results over time, positive effects can already be discerned. For example, although the full impact of the shift to project creation through IFC's Upstream business will be recognized over a longer time horizon, early momentum on Upstream projects has been encouraging with a growing number of projects in the pipeline, while IFC's efforts to ramp up delivery in IDA and FCS markets are firmly in place.

1.11 Between FY17 and FY19, IFC averaged $10.8 billion in own-account (O/A) long-term finance (LTF) commitments and $20.6 billion in total LTF. Core mobilization increased from $7.5 billion to $10.2 billion, reaffirming IFC's leadership and mobilization strength. IFC demonstrated sustained results in Climate (FY17-19 average of 29 percent of O/A LTF) despite increasing targets and in IDA countries, which averaged 23 percent of O/A LTF commitments. In FY19, 35 percent of projects were committed in IDA, and IFC's portfolio in Sub-Saharan Africa, South Asia, and MENA reached 40 percent.

1.12 However, challenges remain. Year-on-year program volatility and inconsistent delivery in IDA/FCS countries continue, with record achievements in FY18 followed by subdued results in FY19. FY18 marked the highest total LTF program in IFC's history, whereas performance in FY19 reflected a challenging year for IFC as it underwent operational changes against a backdrop of a weakening global economic landscape, particularly in core markets. Although IFC's performance continues to be strongly impacted by market developments, a focused approach to long-term pipeline development is being implemented with the introduction of pipeline metrics and targets in the IFC Corporate Scorecard.

TABLE 1: SELECTED PROGRAM RESULTS FY17-19

			FY17	FY18	FY19
Share of IFC O/A LTF Commitments	Themes	IDA17*	25%	20%	23%
		IDA17&FCS*	25%	21%	24%
		Climate*	25%	34%	29%
	Regions	Sub-Saharan Africa	20%	13%	19%
		South Asia	20%	18%	21%
		MENA	5%	9%	6%
	Industries	Financial Institutions Group	50%	50%	57%
		Infrastructure	20%	21%	16%
		Manufacturing, Agribusiness & Services	27%	25%	21%
		Disruptive Technologies & Funds	3%	4%	5%
US$, millions		IFC Total LTF Commitments*	19,316	23,301	19,126
		IFC LTF O/A Commitments*	11,854	11,629	8,920
		IFC Core Mobilization	7,461	11,671	10,206
		Average AIMM score	-	-	50

* Capital Package commitments

LESSONS LEARNED

1.13 The implementation of IFC 3.0 over the last three years has yielded rich learnings that will be applied to steer IFC's future strategic directions.

1.14 *Lesson 1: Ramping up operations in the most challenging markets requires sustained effort and a dedicated shift in resources.* As a result of the characteristics of these markets, FCS operations are more resource-intensive, costing more than twice per dollar of program commitments, compared to other IFC markets. IFC has collaborated intensively on developing the World Bank Group FCV Strategy to have a coordinated and focused approach for maximizing impact. Accelerating Upstream engagement is key to unlocking opportunities and creating markets. IFC is also focusing on building a long-term robust pipeline to address lengthier origination efforts and high attrition in IDA and FCS countries.

1.15 *Lesson 2*: *Front-loading deep internal reform – although important for long-term sustainability – can be disruptive in the short term*. IFC chose to implement deep internal reform measures *early* with wide-ranging changes to its staffing structure in FY18-19 to ensure that the right people with the right skills at the right seniority level were in place. The successful completion of a major workforce planning (WFP) exercise in FY19 was a significant step in rebalancing the staffing structure and freeing up capacity to bring onboard new skill sets required for IFC 3.0. In parallel, the operational leadership team was also restructured with 17 newly appointed directors. Roles, responsibilities, and processes were realigned through a new ADM framework.

1.16 FY19 results were subdued as IFC absorbed these changes, and "change fatigue" impacted staff morale. However, WFP exits are yielding significant cost savings that will be redeployed toward hiring junior-level staff and specialized skill sets. The leadership changes implemented have resulted in greater senior field presence with two additional director appointments in Sub-Saharan Africa and increased diversity. In addition, IFC Management is implementing action plans to directly address areas for improvement identified in the staff engagement survey.

1.17 *Lesson 3: Improving country-level engagement requires hard-wiring links between IFC Country Strategies, staffing and budget allocations.* IFC's ability to deliver 3.0 at scale will depend heavily on strengthening country-level engagement. Significant investments have been made to improve IFC's analytical capacity and foster a deeper understanding of market opportunities and constraints at the country level. Integrating IFC and World Bank Group diagnostics, IFC introduced

"IFC Country Strategies" in FY19 to outline scenarios for its potential work program in a country based on the reform environment. The IFC Country Strategies have become a critical tool for improving IFC's contributions to the WBG Country Partnership Frameworks (CPFs) by clearly articulating to country clients the potential payoffs of implementing Cascade reforms. As of January 2020, 35 IFC Country Strategies have been finalized and 18 are currently under development.

1.18 IFC is now directing efforts at making these strategy tools even more relevant at the operational level. IFC Country Strategies are being used to prioritize IFC 1.0, 2.0, and 3.0 opportunities in each country. Country-driven budgeting is being implemented for Upstream engagements to ensure that country teams have the resources needed to implement their strategies. IFC Country Strategies are now proposing specific projects that IFC can design from the ground up in response to identified development challenges for the country, often in collaboration with the World Bank and other partners (**Error! Reference source not found.**).

1.19 *Lesson 4: Accelerating World Bank Group collaboration on the Cascade approach requires changes to both processes and mindsets.* Significant progress has been made to foster collective action across the World Bank Group to implement the Cascade approach. WBG Sector Groups have been convened and meet regularly around Agribusiness, Housing, Transport, Energy, Telecommunication, Power, and Water sectors to develop joint approaches to promoting private sector solutions. The mandate of the groups is to identify and vet scalable thematic solutions, provide frameworks and support for regional teams as well as reality checks on joint initiatives, and debate and resolve differences around the sequencing of public and private interventions. In addition, (i) World Bank and MIGA teams provide critical, mandatory inputs to IFC Country Strategies and participate in the strategy discussion; (ii) the delivery cycle for CPSDs and IFC Country Strategies has been aligned with the WBG country engagement process; and (iii) IFC's corporate awards program explicitly recognizes World Bank and MIGA staff who have made significant contributions to Cascade initiatives.

1.20 *Lesson 5*: *Achieving the ambitions of the IFC 3.0 requires IFC to take on a prominent role in thought leadership and standard setting*. As cited in the recent IEG report[8], IFC's focus and sustained attention on a relatively few issues of thought leadership, including gender equality, climate change, and mobilizing private capital, have helped achieve strong results. Building on examples such as the Equator Principles and Green Bond Principles, IFC launched the Operating Principles for Impact Management in FY19, which has garnered over 80 private sector signatories, representing institutions that manage an estimated $300 billion in impact assets. The Principles aim to set the market standard for credible impact investing.

1.21 IFC also launched the Ethical Principles in Healthcare (EPIHC), ten concise principles to guide decision-making of organizations participating in private health care provision, and the Ethical Principles for Education are currently under development. IFC chairs the DFI Working Group on Blended Concessional Finance for Private Sector Projects, which serves as a platform to set strong discipline on how blended finance investments happen, thereby building global trust on the use of concessional donor funds. Finally, IFC has made a significant contribution to the field of assessing the development impact of private sector operations with the implementation of AIMM. JP Morgan recently announced the launch of its new development finance arm – JP Morgan Development Finance Institution – which will measure the development impact of its investments using a methodology based on AIMM.

[8] "The World's Bank: An Evaluation of the World Bank Group's Global Convening." January 8, 2020

CHAPTER 2. FY21-23: A FOCUS ON EXECUTION

2.1. Informed by the lessons of experience of the last three years, IFC's focus over the FY21-23 strategy period will be ***on execution*** of IFC 3.0. This chapter provides an overview of IFC's operating environment and lays out IFC's strategic directions and its key priorities on the path to meet the Capital Package commitments.

EXTERNAL CONTEXT

2.2. The rapid spread of COVID-19 across the world and the resulting deepening crisis has overtaken any prior estimates for global and country-level economic growth. In addition to the heavy human toll and its aftermath, COVID-19 poses substantial challenges for the global economy with severe impacts on an already fragile global economic outlook.

2.3. The private sector, which provides around 90 percent of employment in developing countries, is already exposed to the effects of severe supply chain disruptions and contracting economic growth. Market uncertainty surrounding the impact of COVID-19 is evident in the precipitous fall in global equity markets and commodity prices over recent weeks. Given this uncertainty over growth and the lack of a visible and quick path to recovery as the virus continues to spread, declining demand coupled with skewed valuations are also affecting finance and investment providers, who will remain cautious and conservative until market signals are decipherable.

2.4. Before the rapid spread of COVID-19, global GDP growth was projected to rise from 2.9 percent in 2019 to 3.3 percent in 2020[9], after reaching its lowest level in 2019 since the global financial crisis.[10] Even if no official estimates are yet available, the IMF has already warned that GDP growth in 2020 is likely to fall below the 2019 level as a result of the impact of the outbreak. The World Bank Group is working on the potential impact on Emerging Markets and Developing Economies (EMDE), but already, given the spillover linkages, countries that rely on the tourism sector as well as countries that export natural resources and produce middle/high-value supply chain components are expected to be most affected. Global trade and investment – key drivers of growth – remained exposed to significant policy uncertainty, while international capital inflows into EMDEs were already below historical averages. Economic shocks from pandemic risks have increased fragility as the recent outbreak of COVID-19 demonstrates, underscoring the critical need to invest in stronger pandemic preparedness globally.

2.5. As the world prepares and readies for an unprecedented crisis, there is an urgent need for a coordinated, flexible and fast global response. IFC is committed to playing its part in the global response, working in close partnership with member governments, other agencies and the private sector.

IFC's COVID-19 response

2.6. *Fast Track COVID-19 Facility*[11]: On March 17, 2020, Executive Directors approved a $14 billion World Bank Group Fast Track COVID-19 Facility ("Facility") to assist companies and countries to prevent, detect and respond to the rapid spread of COVID-19. The Facility will strengthen national systems for public health preparedness, including for disease containment, diagnosis, and treatment, and support the private sector. IFC made available up to $8 billion, as part of the $14 billion Facility, to support private companies and their employees hurt by the economic downturn caused by the spread of COVID-19. The IFC Facility is designed to support private sector companies to continue

[9] World Economic Outlook Update, IMF (January 2020)
[10] While the SBO acknowledges the uncertainty of the context, all projections are made pre COVID-19 outbreak.
[11] IFC/R2020-0052

providing vital employment, goods and services, as well as generate tax revenues. The $8 billion IFC Facility is comprised of the following components:

- **$2 billion Real Sector Crisis Response Envelope (RSE)** for existing IFC Infrastructure and Manufacturing, Agribusiness and Services (MAS) clients experiencing or vulnerable to the economic impacts of COVID-19. Funds from the envelope will be structured as medium- to long-term loans and risk-sharing instruments.
- **$6 billion Financial Institutions Response Envelope (FIGE)** to support trade finance to sustain current flows and move goods across borders and to address the liquidity and risk mitigation needs of companies facing demand and supply shocks. The FIGE comprises $2 billion from IFC's existing Board-approved Global Trade Finance Program (GTFP), $2 billion in new Working Capital Solutions (WCS) that provide funding to emerging market banks to extend new working capital lines and/or refinance performing portfolios when cash flows have been disrupted by the crisis, and a $2 billion expansion of IFC's Global Trade Liquidity Program (GTLP) and the Critical Commodities Finance Program (CCFP).

EVOLVING DEVELOPMENT LANDSCAPE

2.7. Development finance is changing fundamentally with the growing focus on the private sector, the concentration of persistent poverty in a small number of countries, and the gap shifting from insufficient finance to a lack of bankable projects. These trends underline the need for a greater emphasis on the development of markets and project pipelines. Climate change, fragility and resilience and the inclusion of women in the economy continue to remain complex development challenges requiring a strong response from the private sector. Mobilizing private investor capital and harnessing the power of technology to accelerate development remain vitally important.

2.8. IFC 3.0 embraces this challenge by both serving all clients as well as focusing on market creation through Upstream engagement and mobilizing private capital, especially in the poorest and most challenging markets. As the largest private-sector development finance institution (DFI), IFC has an opportunity to play a game-changing role by using its experience and its track record in addressing global development challenges to provide innovative solutions for countries with nascent private sectors or replicate and/or scale up existing models that have worked in other markets.

STRATEGIC DIRECTIONS, FY21-23

2.9. The trends shaping the course of development finance reaffirm IFC's focus on market creation and Upstream engagement. Dovetailing these key trends with the IFC's commitments in the Capital Package, IFC's key priorities in FY21-23 are: (i) comprehensive program growth, across client countries; (ii) creating markets and opportunities, and (iii) strengthening the business model.

I. COMPREHENSIVE PROGRAM GROWTH

2.10. IFC's Capital Package commitments envision quadrupling IFC's annual own-account program in IDA and FCS countries and nearly doubling its investment program in non-IDA countries by 2030, while maintaining a sharpened focus on development impact and additionality. Accordingly, IFC is ramping up its investment program across the spectrum of all clients, thereby also creating synergistic effects while addressing development challenges and ensuring the global exchange of resources, knowledge, and experience.

Non-IDA/FCS countries

2.11. Non-IDA/FCS countries present significant development gaps, including environmental degradation, climate-harmful economic growth, and disparate development with regional pockets of poverty. These are areas in which IFC can play a catalytic role and support development impact in furtherance of the Twin Goals. IFC's program in non-IDA/FCS countries also plays a critical role in maintaining its financial sustainability.

2.12. IFC will continue to leverage its strategic toolkit to ramp up delivery and strengthen the impact of its program in non-IDA/FCS countries. With the revised additionality framework[12] firmly in place, IFC continues to be highly selective in non-IDA/FCS countries, focusing on areas such as innovation, inclusion, frontier regions, climate change, and regional integration. Upstream engagement is not limited to IDA and FCS markets and will be pursued in non-IDA/FCS countries to support impactful projects with strong market creation and replication potential. IFC Country Strategies in non-IDA/FCS countries identify opportunities for IFC's Upstream efforts and market creation, recognizing that IFC's program in these countries offers an excellent platform to incubate innovative solutions and technologies that can be scaled and implemented in more challenging markets.

IDA and FCS countries

2.13. Noting the critical importance of the private sector to delivering higher incomes, jobs, and productivity growth, addressing constraints to private sector investment in fragile and low-income countries and directing more financing to these geographies is at the heart of IFC 3.0. IFC is making progress investing in and mobilizing support for the private sector in IDA and FCS countries in line with its ambition to increase the IDA-FCS share of annual own-account LTF commitments to 40 percent by 2030 and the IDA-FCS and LIC-IDA share of annual commitments to 15-20 percent.

2.14. IFC has utilized its diverse financing tools to deliver its program in IDA countries, including syndications, trade finance, and blended finance. In FY19, 37 percent of syndicated third-party funds went to borrowers in IDA and FCS countries, and more than half of IFC's $4.5 billion commitment in trade finance was committed in IDA and FCS countries. The IDA Private Sector Window (PSW), a part of blended concessional finance facilities that cover a range of countries, sectors, and thematic areas, is becoming an increasingly important tool to mobilize private investment in LIC-IDA and IDA-FCS countries. Advisory Services continue to support IFC's business in IDA by delivering around 60 percent of its program in these countries.

2.15. *Adjusting the business model to increase impact in FCS countries.*[13] Operating in FCS presents unique challenges for IFC. FCS markets, in comparison with stable, middle-income countries, usually have poor regulatory/investment climates, smaller and weaker private sectors, and pose higher risks – both financial and non-financial – driven by significant conflict issues. As a result, operating in FCS countries is resource-intensive, costing more than twice the budget resources per dollar committed compared to other IFC markets.

2.16. As detailed in the WBG FCV strategy,[14] IFC's revamped business model in FCS focuses on the following areas:

- ❖ *A differentiated approach* – tailored investment and advisory programs to reflect the different needs and capacities of each type of FCS context: (i) widespread conflict, (ii) high fragility, (iii) low fragility, (iv) sub-national conflict, (v) "prevention", (vi) regional stressors, and (vii) forced displacement
- ❖ *Increased Upstream engagement* – focused efforts to ramp up Upstream project development to identify high impact, FCV-specific projects in countries where governments are supportive. Regional programs such as FCS Africa and Conflict Affected States in Africa (CASA) will be created and/or expanded to strengthen advisory and project preparation work
- ❖ *Enhancing inclusion and conflict sensitivity* – on a best-efforts basis, inclusion of women, youth, and other excluded groups in FCS contexts

[12] A guidance for staff was revised in early 2018; it reflects an ongoing process of harmonization with other MDBs. While the basic concept of additionality has not changed, the way IFC assesses and articulates additionality continues to evolve.
[13] "FCV" is used to reference the strategy; "FCS" is used to reference the countries that are included in the list annually updated by the FCS department. 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.
[14] World Bank Group Strategy for Fragility, Conflict, and Violence (FCV), 2020-2025 [SecM2020-0020]

- *World Bank Group collaboration/ the Cascade approach* – leveraging both public and private-sector financing and solutions for FCS-specific approaches
- *Scaling up Blended Finance solutions, including IDA PSW* – continued deployment of blended finance through the PSW and other FCV-related facilities and expansion of coverage to middle-income countries affected by FCV issues such as forced displacement
- *Streamlining* – scaling up programmatic approaches to provide simplified approval for multiple projects including the Credit Delegation Framework and broader board delegated authority for select projects
- *Country pilots* – leading efforts to increase collective impacts of DFIs in FCS countries, unlocking investment bottlenecks, facilitating dialogue with governments and the private sector, and working to align ESG and integrity due diligence processes between IFC and MIGA, and across other development partners.

In-depth Profile: Blended Finance and IDA PSW in IDA/FCS Markets

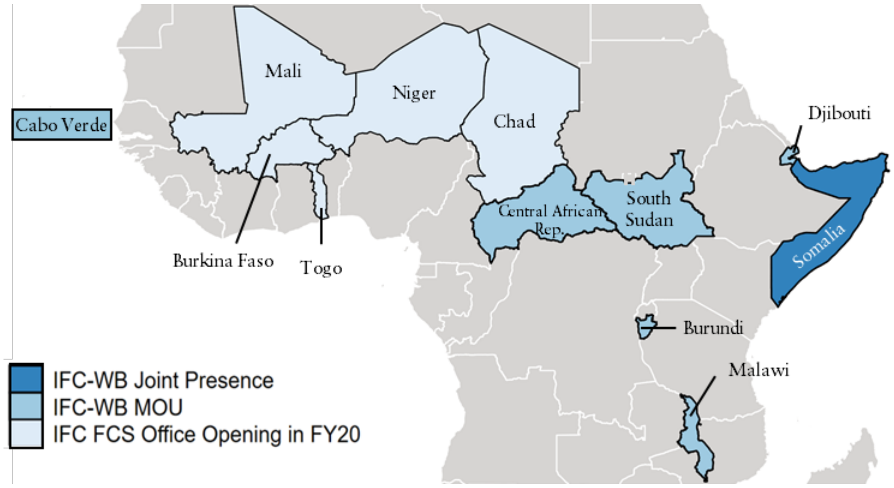
Blended Finance (BF), the combination of concessional funds with other types of finance on commercial terms, allows IFC to mobilize capital and accelerate high-impact private sector investments in new and challenging markets, particularly in FCS countries. From FY19 through the first half of FY20, nearly one-third of IFC's own-account commitments in LIC-IDA17 and IDA17-eligible FCS markets were supported by BF.

The IDA PSW is a key element of IFC's BF toolkit. Under IDA18, the IDA PSW was launched to support the mobilization of private sector investment and the scale-up of sustainable private sector activities in IDA-only countries and IDA-eligible FCS countries. The PSW provides a link between upstream sector reform interventions, often supported by IDA, and downstream private sector advisory and investment transactions supported by IFC and MIGA by offering a financial product that enables IFC and other capital providers to support projects that they otherwise would not. The introduction of the IDA PSW is facilitating the growth of IFC's pipeline in IDA and FCS countries, which increased by 24 percent between December 2016 and December 2019 to reach $5.2 billion. As of December 2019, PSW supported 40 percent of IFC's total pipeline in PSW-eligible countries. Since its launch in 2017, PSW has supported creation of market opportunities in Benin, Djibouti, Kosovo, Kyrgyz Republic, Niger, Papua New Guinea, and Tajikistan. PSW has also supported an increase in market opportunities in Afghanistan, Burkina Faso, Côte d'Ivoire, Ethiopia, Malawi, Mali, Mozambique, Myanmar, Nepal, Rwanda, Senegal, and Uganda.

2.17. *Staffing and resources for FCS countries.*[15] Delivering in FCS countries requires having a greater presence on the ground. IFC is expanding its resources in FCS countries through a combination of (i) in-country presence, (ii) regional/hub model, (iii) enhancing the role of the FCV global unit, and (iv) leveraging World Bank staff. FCS staffing is managed through an in-country and hub model to facilitate knowledge transfer and teamwork. In FY20, IFC opened a new office in an FCS country in Sub-Saharan Africa – Togo – and established a joint presence with the World Bank in Somalia. IFC will open four new offices in FCS countries (Burkina Faso, Chad, Mali, and Niger) by the end of FY20. Finally, an MOU signed between IFC and the World Bank will enable IFC to broaden its reach in six African countries where fully staffed IFC offices are not available: Burundi, Cabo Verde, Djibouti, Central African Republic, Malawi, and South Sudan. The MOU includes reciprocal roles for IFC and World Bank regional and country leadership to work together in engaging client governments on matters of policy reform and to promote and catalyze private sector solutions to development challenges in identified countries.

[15] Chapter 4 provides details on incentives for staff working on FCS.

FIGURE 1: INCREASING IFC'S FOOTPRINT



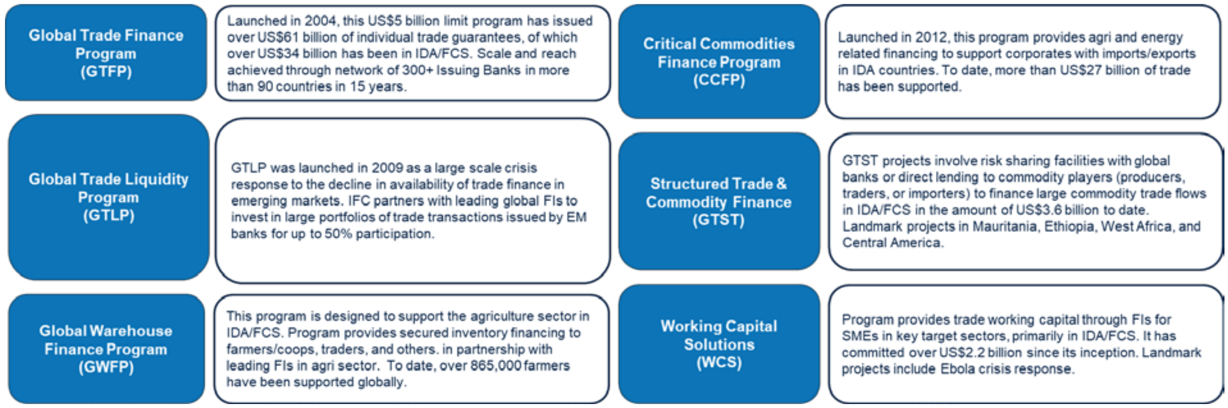
2.18. *Non-financial risks.* Ramping up delivery in FCV contexts will also require an enhanced focus and differentiated treatment for managing non-financial risks, including reputational, ESG, and conflict risks. Advisory Services will be leveraged to proactively address these issues while IFC is mainstreaming a pre-emptive integrity due diligence approach to identify, in advance, suitable partners in FCS markets.

Trade Finance

2.19. Trade Finance is an important instrument with which IFC delivers on its commitments to support clients across the income spectrum. Trade helps to reduce poverty through its contribution to economic growth and job creation, widely recognized drivers of poverty reduction. IFC's Trade finance program is aligned with WBG priority areas of: (i) trade competitiveness and diversification; (ii) managing shocks and promoting greater inclusion; (iii) market access and international trade cooperation; and (iv) trade facilitation, transport logistics and trade finance. It is a critical tool of IFC's rapid response to crises in addition to its centrality to economic development.

2.20. In the last 15 years, IFC has supported around $170 billion of trade. In FY19, the trade program was around $6.8 billion in own-account commitments and mobilization. Figure 2 shows the main components of IFC's program in trade finance.

FIGURE 2: IFC'S TRADE FINANCE PROGRAM COMPONENTS



2.21. The need for trade finance support is increasing especially in IDA and FCS countries given the importance of trade for development and the importance of trade finance for trade. As the largest provider of trade finance among all MDBs, IFC's priorities include continuing to play a strong role in thought leadership as well as promoting more trade finance availability in IDA and FCS countries in collaboration with the World Bank. Building on its proven capacity for business model innovation, IFC plans to grow its trade finance outreach by entering new geographies and channels, implementing new products, and prudently incorporating new technologies.

2.22. A significant component of IFC's rapid response facility to the COVID-19 crisis is the **$6 billion Financial Institutions Response Envelope (FIGE)** to support trade finance that will sustain current flows, move goods across borders, and address the liquidity and risk mitigation needs of companies facing demand and supply shocks. The FIGE comprises $2 billion from IFC's existing Board-approved Global Trade Finance Program (GTFP), $2 billion in new Working Capital Solutions (WCS) that provide funding to emerging market banks to extend new working capital lines and/or refinance performing portfolios when cash flows have been disrupted by the crisis, and a $2 billion expansion of IFC's Global Trade Liquidity Program (GTLP) and the Critical Commodities Finance Program (CCFP).

2.23. GTFP covers the payment risk obligation of emerging markets issuing banks (EMIBs) for any trade-related instruments to support the import and export of a wide array of goods to and from developing countries and can also assist EMIBs to meet working capital liquidity needs related to trade financing. WCS will provide both US dollar and local currency funding to existing IFC client banks for new loans or refinancing to any existing underlying loan by a company that may have difficulties in servicing its debt as a result of the COVID-19 outbreak. Both GTLP and CCFP are proven rapid response, counter-cyclical solutions that partner with global banks to support trade finance with EMIBs and the flow of critical commodities to address financing challenges faced by their client beneficiaries in emerging markets in sectors such as healthcare, agribusiness, manufacturing, and infrastructure.

II. CREATING MARKETS AND OPPORTUNITIES

2.24. Creating Markets and opportunities is at the core of IFC 3.0 and a key enabler of achieving IFC's program targets, especially in the most challenging markets. Upstream engagement is the platform on which IFC is aiming to proactively support market and project creation.

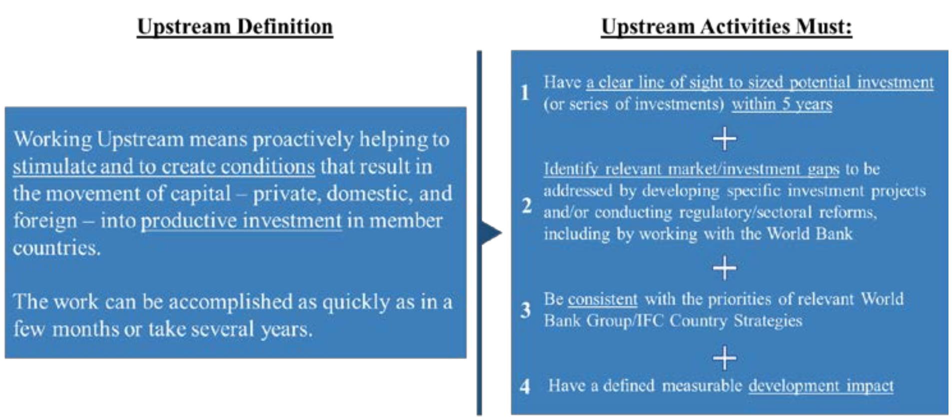
TABLE 2: MAXIMIZING FINANCE FOR DEVELOPMENT, THE CASCADE, AND CREATING MARKETS

Maximizing Finance for Development	***The Objective***	Maximize mobilization of private 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 and Projects	***The Enabler***	Upstream IFC engagement, in collaboration with the World Bank and other partners, as a key mechanism to support the development of new markets and projects or systemic improvements in how markets function, paving the way for private sector solutions.

Accelerating Upstream Engagement and Innovation

2.25. Upstream responds to the critical need to address the shortage of bankable transactions, especially in highly challenging markets. It aims (i) to support the creation and realization of specific projects for which IFC is a likely financing partner and (ii) to have a wider market impact to facilitate private sector investment for which IFC could be a potential financing partner. In FY20, IFC ramped up efforts to accelerate scale-up of its Upstream business. Key drivers of accelerating Upstream growth are (i) **recruitment and resources,** (ii) **pipeline development**, and (iii) **operating and funding model**. Accordingly, in December 2019, a corporate Innovation and Upstream Implementation Task Force was launched to oversee six workstreams: (a) Operating Model Implementation; (b) Pipeline Acceleration; (c) Recruitment; (d) Onboarding, Internal Capability Building, and Training; (e) Country-driven Resource Allocation; and (f) Communication.

FIGURE 3: DEFINITION OF UPSTREAM



2.26. *Staffing and resources.*[16] Upstream projects require dedicated and specialized resources and targeted incentives. Dedicated staff are critical, both (i) to ensure continued focus on Upstream, even as pressures for mainstream delivery of projects are high; and (ii) to build internal expertise, deriving from specialization and working on multiple Upstream projects. Given the need for specialized skills and expertise, Upstream staff will be sourced largely from external recruitment with some targeted internal transfers.

[16] Chapter 4 provides details on incentives for staff working in the Upstream business.

2.27. Delivery of the Upstream program will leverage IFC's existing matrix structure.

- ❖ Global Upstream Units. Four global units have been created and embedded in each of IFC's global industry departments. Their role is to support incubation of new ideas through provision of seed funding and expertise, knowledge transfer, and connecting know-how across sectors and within the World Bank Group.
- ❖ Regional Upstream Units. Fifteen regional units have been created and embedded within IFC's regional industry departments. Their role is to originate and deliver on the Upstream pipeline in close coordination with the country teams.
- ❖ Global Upstream Department. This department was set up recently with a newly appointed director to facilitate Upstream implementation by building the capacity, operations, and culture to support the expansion of Upstream activities as an integral part of IFC's approach, and to drive cross-sector Upstream activities.

2.28. Leveraging IFC's Advisory Services (AS) capability is critical to accelerating Upstream growth. In FY19, most cross-cutting Advisory teams were fully integrated into industry departments, completing the process of AS integration that began in July 2018. The focus is now on shifting the majority of Advisory resources to Upstream.

2.29. *Pipeline development.* Accelerating Upstream is contingent on accelerating idea generation. To mitigate potential lower-than-expected conversion rates of Upstream efforts to projects, IFC is making efforts to create an environment that will both generate and nurture ideas. To further advance implementation, IFC has introduced a much-simplified ADM process to provide seed funding.

2.30. For the first time, IFC introduced a metric and target in its Corporate Scorecard for monitoring the building of a long-term Upstream pipeline with a target of 20 percent of IFC's overall three-year investment pipeline target.[17]

2.31. *Funding model*. IFC will fund Upstream activities with a combination of its own budget allocation, income designations, development partner contributions, and client fees (see Chapter 5).

2.32. IFC is also hard-wiring the links between IFC Country Strategies and the Upstream pipeline by introducing country-driven budget allocations beginning in FY21. Efforts are focused on establishing clear processes for budgeting Upstream priorities as part of country Business Plans and giving Country Managers real "purchasing power" to allocate resources to Upstream initiatives prioritized in their respective IFC Country Strategies.

III. STRENGTHENING THE BUSINESS MODEL

2.33. IFC's business model continues to evolve with a commitment to improving financial sustainability and enhancing productivity, performance, and agility. The comprehensive workforce planning (WFP) exercise completed in FY19 allowed IFC to free up capacity to bring onboard new skill sets required for implementation of IFC 3.0. WFP will remain as an ongoing process to enable IFC to optimize its staffing structure and align it with IFC's strategic priorities. To improve accountability and transparency, IFC has strengthened its overall evaluation framework, revised the Corporate Scorecard, and streamlined its Board reporting. The incentives structure is being revised to re-emphasize the importance of Upstream engagement and the work in challenging FCS markets. IFC will continue to develop targeted staff incentives to motivate the contribution to strategic priorities (see Chapter 4).

Improving Operational Efficiency

2.34. IFC is strongly focused on enhancing the productivity and agility of its operations. Significant achievements have been made to improve the business model using streamlined and

[17] Please see Annex 2 (Regional Annexes) for additional examples of Upstream projects by region.

platform/programmatic approaches. However, much work remains including changes to processes, technology, and most importantly mindsets. Efficiency metrics related to operational improvements have been included in the Corporate Scorecard and cascaded down to departments in the form of Key Performance Indicators (KPI).

2.35. *Portfolio Approach.* The introduction of a quantitative metric for development impact – AIMM – alongside an agreed financial sustainability metric, risk-adjusted return on capital (RAROC), allows IFC to make its traditional balancing of development impact and financial sustainability in a more refined, consistent, and transparent manner. Additionally, this has enabled improved communication with the Board around risk appetite and strategic priorities.

2.36. IFC's Portfolio Approach is supporting project selection and decision-making at the investment program level. IFC is developing portfolio management tools that allow real-time measurement of annual program against agreed upon targets, illustrating regional and sectoral development impact and financial return averages, thus allowing IFC to pursue new commitments within its larger strategic objectives.

2.37. *Productivity.* In FY20, IFC has begun implementation of differentiated processing – a risk-based approach to processing improvements. Differentiated processing aims to improve efficiency and productivity by allowing IFC to more effectively "triage" projects, defining key risk-based eligibility metrics up front and focusing resources on deals that have the highest risk – both financial and non-financial. Project processing is being streamlined for "low-risk" or "low-complexity" project categories while the processing paths for higher-risk projects will retain a more comprehensive approach. To implement this, investment support and operations are working together to (i) review and refine criteria for risk assessment and risk categorization; (ii) agree on the required level of reviewer touch points and process changes commensurate with defined risk categories; (iii) and develop risk-based document templates, decision meeting formats, and portfolio management.

2.38. In July 2019, IFC established a framework to simplify approval processes for repeat business with strategic, long-term partners in the Financial Institutions Group (FIG) by creating client envelopes, which pre-set the maximum amount of credit IFC can extend to a single client for eligible products within a specified time period. To be eligible, clients must meet ex-ante criteria in terms of strategic fit, profitability, and development impact. In addition, IFC introduced the Credit Delegation Framework in October 2019 to scale up growth of small, impactful projects, including in IDA and FCS markets. With respect to AIMM, a tiering approach was established in December 2019 that enables delegation of AIMM scoring decisions and quality control to the level of the sector economics managers for approximately half of all transactions.

Chapter 3. From Strategy to Results

3.1 IFC's Corporate Scorecard ("CSC") remains a critical tool for aligning IFC's operations with its 2030 Capital Package commitments after substantial revisions in FY18 to reflect IFC's Capital Package undertakings and IDA commitments from the Net Income designations of 2016.[18] This revised Scorecard introduces three-year targets recognizing that (i) the time-frame for results, especially in more challenging markets, is often longer than a year and, (ii) a framework for monitoring overall progress on Capital Package commitments was required. The FY20 Scorecard presents targets for the current year, FY20, and two future years, FY21 and FY22. In keeping with the SBO practice of showing three-year forward targets, program delivery targets for FY21-FY23 are presented in this SBO.

3.2 IFC's results are tracked along four key dimensions: *Development Impact, Program and Client Delivery, Financial Sustainability, and Diversity and Efficiency.* This chapter reports on development impact, program delivery results and targets, and financial sustainability and capital adequacy.

Development Impact

3.3 IFC continues to develop AIMM as a key metric for assessing development impact. In FY19, IFC exceeded its CSC target for an average ex-ante AIMM score on committed projects (ex-ante AIMM score of 50 vs. target of 46[19]). Through the first half of FY20, the ex-ante AIMM score was 49, or Good. Eight projects, or nine percent of total committed projects, were rated Very Strong for market creation potential. These market-creating projects typically exhibited characteristics such as (a) operating in a highly underdeveloped or nascent market; (b) contributing to sector-wide interventions that could support market creation outcomes; and (c) involving IFC support for a client that would be among the first private sector entrants into the market, opening it to further private investment and/or providing a model for replication.

Table 3: Development Impact Metrics in IFC FY20 Corporate Scorecard

	Indicators	FY20 Target	FY21(E)	FY22(E)	FY20-22 Average	FY19 Actuals
Ex-ante	Average ex-ante AIMM score for commitments (likelihood adjusted) (#, rebased scoring / [previous scoring]) (IS)	50 [64]	50 [64]	50 [64]	50 [64]	50 [64]
	Percentage of commitments with contribution to Creating Markets potential rating of "Very Strong" (IS)	15%	18%	20%	18%	12%
Ex-post	Average portfolio AIMM score for active projects (IS)	>40	..	..	..	40
	Satisfactory development outcomes of investment operations (IEG Rating)	*Improving trend*	*Improving trend*	*Improving trend*	*Improving trend*	45
	Advisory services successful development effectiveness rating (IEG Rating)	*Improving trend*	*Improving trend*	*Improving trend*	*Improving trend*	37

3.4 IFC is continuing to develop and refine its AIMM methodology and toolkit. While the development of AIMM is well advanced, work is ongoing to make it an end-to-end system for both Investment and Advisory Services. This includes expanding the system to cover the following areas:

i. *Applying AIMM to the Investment Portfolio*. In FY20, a new ex-post metric, *Average portfolio AIMM score for active projects in IFC's portfolio* was introduced to the CSC. The notional target, >40, is based on the subset of the portfolio that had been scored through that time (that is, through fall 2019). With these AIMM-scored projects, IFC will be able to monitor the extent to which it is living up to its development impact ambitions on an ex-ante and portfolio basis.

[18] A Revised Approach to Income Designations, 2016 [IFC/R2016-0326/1]

[19] Due to the rebasing of the scale last year, this figure is an approximation

ii. *Expansion of AIMM to Advisory Services*. IFC has also launched an adapted AIMM approach for its Advisory Services business lines. The pilot began in Q1 FY20. The purpose of using a similar AIMM approach for AS is to ensure that IFC can assess and report on its contribution to market creation from both its investment and advisory portfolio.

iii. *Alignment of IFC's results measurement with AIMM*. Currently, IFC's results measurement system follows a multi-tiered approach anchored in three elements: (i) the IFC Development Goals, (ii) a monitoring system, and (iii) an evaluation mechanism. During FY20, the AIMM system will begin absorbing key elements of IFC's results measurement system, connecting ex-ante ratings with assessments in supervision, and allowing IFC to better provide an "end-to-end" approach to results measurement.

Improving Development Impact Ratings

3.5 IEG's Development Effectiveness (DE) and Development Outcomes (DO) ratings for IFC's investment and advisory operations have declined over the past decade. To reverse this trend, IFC is implementing an aggressive turnaround strategy that focuses on the following key areas:

i. *Accountability*. IFC is closely monitoring the discrepancy between IFC's self-ratings and IEG's ratings, with a goal to reduce the gap over time. Further, the convergence in these ratings will be a factor in the performance evaluation of managers and directors.

ii. *Project design/execution/closing*. IFC is reviving and revising its training on project design and strengthening the use of project design workshops for the largest initiatives. IFC is also strengthening project management and delivery through more proactive monitoring as well as oversight through Portfolio Reviews and other reporting. A dedicated team has been created to provide resources for projects that need additional support during completion to strengthen IFC's internal measurement and evaluation (M&E) capability.

iii. *IEG engagement*. IFC is being more proactive in its engagements with IEG including joint discussion around new products and assessment methodologies as well as better incorporating IEG's evaluation findings into IFC's operations.

3.6 The lag between project closing and IEG finalization of ratings can be 18 months to three years for Advisory projects and up to seven years for Investment projects. Therefore, meaningful and sustained improvements resulting from the efforts undertaken by IFC to improve project performance in the current active portfolio will take time to be reflected.

PROGRAM AND CLIENT DELIVERY

Investment Program FY21-23

3.7 IFC's FY20 Corporate Scorecard lays out program targets for the coming three years. The program outlook for the SBO mirrors the targets in the IFC Corporate Scorecard for FY20-22 and includes preliminary estimates for FY23.

TABLE 4: PROGRAM AND CLIENT DELIVERY METRICS IN IFC FY20 CORPORATE SCORECARD

	Indicators	FY20 Target	FY21(E)	FY22(E)	FY20-22 Average	FY19 Actuals	FY30 Goal[20]
Program and Client Delivery	Total LTF commitments (excl. MIGA): O/A + core mobilization (US$, billions)	23.5	24.3	26.2	24.7	19.1	48
	LTF OA commitments (US$, billions)	13.3	14.2	15.2	14.2	8.9	25
	IDA-17 + FCS as a % of LTF O/A commitments	27%	29%	31%	29%	24%	40%
	IDA17-FCS & LIC-IDA17 as a % of LTF O/A commitments	9%	10.5%	12%	11%	7%	15-20%
	IDA-17 as a % of LTF O/A commitments	26%	28%	30%	28%	23%	..
	Climate as a % of LTF O/A commitments	29%	30%	35%	31%	29%	35%
	IDA-17 LTF project count as % of LTF Projects	34%	35%	35%	35%	35%	..
	STF commitments (trade and supply chain finance) (US$, billions)	6.1	6.7	7.3	6.7	5.8	..
	IDA PSW funds committed ($) (US$, billions)	1.7	..	..	..	0.19	..
	Share of women directors nominated on IFC Board seats	35%	37%	40	37%	36%	50%
	Gender as % of AS project count	40%	..	..	..	42%	..
	New LTF commitments (O/A + core mob.) to FIs specifically targeting women (US$, billions)	1.15	..	..	..	1.04	2.6
	3-year cumulative investment O/A pipeline beyond current FY (US$, billions)	30.0	39.0	47.0	39.0	..	..
	o/w Upstream investment O/A pipeline	20%	25%	30%	25%	..	..
	Client feedback/satisfaction on IFC IS (% satisfied)	85%	85%	85%	85%	85%	..
	Client feedback/satisfaction on IFC AS (% satisfied)	85%	85%	85%	85%	91%	..

3.8 As shown in Figure 4, IFC is targeting $28.6 billion in total LTF commitments and $16.4 billion in own-account commitments by FY23. Short-term finance commitments, including trade and supply chain finance, are targeted to increase to $8.1 billion by FY23 (Table 5).

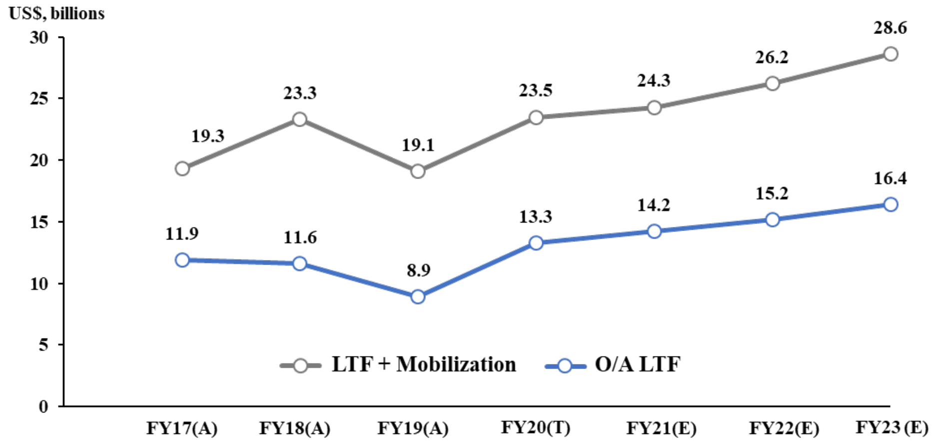
TABLE 5: IFC LONG-TERM FINANCE AND SHORT-TERM FINANCE PROGRAM TARGETS, FY20-23

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

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

[20] FY30 Goals as agreed in the Capital Increase package

FIGURE 4: IFC LONG-TERM FINANCE PROGRAM AND MOBILIZATION TRAJECTORY, FY20-23[21]



3.9 The projected breakdown of IFC's commitments by focus theme and focus region over the FY21-23 period is provided in Table 6. Accelerating Upstream and implementation of the FCV strategy are expected to boost IDA and FCS program growth. A short summary of IFC's program across regions and industries is provided in Annex 2 (Regional Annexes) and Annex 3 (Sector Deep Dives).

TABLE 6: IFC COMMITMENTS BY FOCUS THEME AND REGION

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

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

3.10 Previously, IFC identified "focus industries" to highlight the importance of sectoral priorities – financial and social inclusion, core infrastructure, and agribusiness. Given the increasing emphasis on country-level outcomes, this delineation is less relevant as industry priorities vary based on the country or regional context. IFC will continue to deliver its program through its four main industry groups – Financial Institutions Group (FIG); Infrastructure (INR); Manufacturing, Agribusiness and Services (MAS); and Disruptive Technologies and Funds (CDF).

In-depth Profile: Disruptive Technologies

In view of technology's ability to be a game-changer, disrupting traditional pathways to a country's economic development, as well as its potential impact on the global financial architecture, IFC emphasizes the role of technology in its investment program and in knowledge building and sharing. Disruptive technologies have a critical role to play in achieving the Twin Goals and supporting private sector activity across key sectors such as climate, health, education, agribusiness, gender, and financial inclusion. IFC plays an important role in this space by providing early-stage capital that is critical to building dynamic, job-creating companies that provide value-added services while reducing costs, enhancing access, and creating pathways to greater economic prosperity.

In 2019, IFC created the Disruptive Technologies and Funds (CDF) group. Together with IFC's FinTech team in FIG, CDF identifies new technologies and innovations, and incubates new business models. IFC takes an integrated, three-pronged investment approach to address the needs of the entire Venture Capital (VC) and entrepreneurial ecosystem through investments in creating start-up accelerators, funds, direct investments, and co-investments with fund managers. In this business line, IFC has created the ability to execute transactions at an earlier stage than IFC's more traditional business, thereby focusing on creating a new generation of growth businesses and enabling cross-border technology transfers with the ultimate goal of scaling new solutions across multiple markets. This effort will complement the work already done by IFC's other Industry departments in new disruptive technologies in their respective sectors.

[21] (A): actual; (T): target; (E): estimate

FinTech is a critical area in the Disruptive Technologies space. Building on advances in connectivity, data, and technology, FinTech helps address barriers to growth and create markets for new business models that have the potential to transform financial services for the poor. IFC is the leading FinTech investor in emerging markets with investments in more than 46 companies across 25 markets, covering the full range of financial services at all stages of the equity lifecycle.[22]

3.11 *Mobilization.* Mobilization is a core pillar of IFC 3.0. Over the past three years, IFC has focused on maximizing mobilization – as an essential aspect of IFC's development mission. In FY18 and FY19, IFC mobilized more than $10 billion for clients, achieving a mobilization ratio (core mobilization divided by own-account commitments) exceeding 1.0x.

BOX 1: CONTINUED LEADERSHIP IN MOBILIZATION

The Managed Co-Lending Portfolio Program (MCPP) creates loan portfolios for institutional investors, giving them a vehicle to participate alongside IFC as debt syndications partners. IFC continues to deploy the $8.1 billion of total MCPP funds raised to-date. As of January 31, 2020, MCPP investors have collectively approved allocations totaling $6.5 billion for 164 projects across 46 countries, of which $5 billion has been committed. The MCPP FIG facility, which uses a credit insurance structure to mobilize global insurance companies, has also proved to be a particularly successful model, allocating $1 billion over 20 months to FIG loans across 17 countries. Adaptations under development are aimed at replicating MCPP FIG with a broader set of partners to cover a wider range of assets.

3.12 *Integration of IFC Asset Management Company (AMC)*. Since its formation in early 2009, AMC was a wholly owned subsidiary of IFC and organized as a Limited Liability Company (LLC) under the laws of Delaware. The merger of AMC into IFC was approved by IFC's Board on June 27, 2019 and effective January 31, 2020. The AMC VPU now houses all staff working on AMC matters.

3.13 *Climate*. In line with the World Bank Group's climate targets, IFC is set to achieve an average of at least 35 percent of climate-related investments in own-account commitments over the FY21-25 period, as well as contributing to the World Bank Group's climate mobilization target of $67 billion for the same time period. In FY19, IFC's own-account climate-related investments accounted for 29 percent, at $2.6 billion, and core mobilization stood at $3.2 billion. FY19 climate investments were spread across 93 deals; nearly one-third of these projects were in IDA countries.

3.14 IFC remains focused on the Capital Package climate policy commitments, including applying a carbon price, disclosing greenhouse gas (GHG) emissions, and screening projects for climate risk. IFC discloses aggregated GHG emission reductions from climate mitigation investments and advisory activities in its annual report, and efforts are underway to expand GHG disclosure and risk screening. IFC also examines climate-related financial risk and was the first DFI to use the Taskforce on Climate-related Financial Disclosure guidelines to disclose its approach.

3.15 IFC will continue mainstreaming climate, focusing on five key areas (clean energy, green buildings, climate-smart agribusiness, climate-smart cities, and green finance), and mobilizing private sector finance. Beginning in February 2020, IFC will lead the DFI climate working group for a six-month period, leading up to 26th United Nations Climate Change Conference (COP26). The agenda for this period includes collaboration on best practices, developing harmonized definitions for climate investments, and furthering work on both physical and transition climate risk.

3.16 *Gender*. IFC strives to create private sector markets that provide equal economic opportunities to women across regions, industries, and other thematic focus areas. In line with the World Bank Group Gender Strategy 2016-2023, IFC has improved its delivery of gender standalone investment and advisory, as well as increased its focus on selective and strategic integration of gender activities in projects with broader objectives. Market-based gender solutions have been expanded beyond entrepreneurship to also include a focus on employment and leadership; a wider range of assets beyond banking such as insurance, housing finance, trade finance, and technology; and tackling barriers that

[22] IFC will present its FinTech Deep Dive to the Board in Q3 FY20.

prevent more women from entering and staying in the labor force such as childcare, gender-based violence (GBV), and transport.

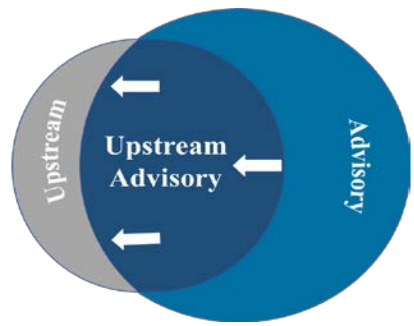
Box 2: Harnessing Women's Economic Potential through the Power of Insurance

> Globally, women's socio-economic status is rising, enabling them to earn more and better control their assets. Yet women's ability to mitigate financial risks remains low. In most markets, the insurance industry has not fully recognized women's specific financial protection and risk mitigation needs at every life stage. The launch of IFC's She-for-Shield report in 2015 outlined that if firms meet the unique insurance needs of women, they could earn up to $1.7 trillion by 2030, with fifty percent coming from ten emerging markets alone.
>
> IFC has partnered with insurers to launch innovative programs in Ghana, Nigeria, Cameroon, and the Philippines. In Nigeria, AXA Mansard is close to meeting its target of 50 percent female clients, from about 36 percent in 2017. In 2019, IFC's clients in Cameroon, Ghana, and the Philippines publicly unveiled their women's insurance programs and collectively launched ten women-centric solutions tailored to local women's needs. The insurance program will be scaled up to more clients, launch country-specific risk profiles for women, and launch company-specific impact case studies.

Advisory Program FY21-23

3.17 Advisory Services (AS) has traditionally been a mechanism for IFC to de-risk investments and open markets to new private sector opportunities. The scope of IFC's Advisory business includes client capacity building, which provides support to current or prospective clients, and market-enabling activities, which are long-term engagements that improve the investment climate. Increasingly, AS is working Upstream, alongside Investment operations, to support market creation and to generate a bankable pipeline, especially in challenging IDA and FCS markets. This emphasis on Upstream Advisory activities and the creation of new opportunities is expected to grow with Advisory teams playing an increasing role in implementing the Upstream agenda as defined through IFC Country Strategies.

Figure 5: Advisory Operating Model



FINANCIAL SUSTAINABILITY AND CAPITAL ADEQUACY

Financial Sustainability

3.18 IFC's financial sustainability is tracked in the Corporate Scorecard along two metrics: 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.

Table 7: Financial Sustainability Metrics in IFC FY20 Corporate Scorecard

	Indicators	FY20 Target	FY21(E)	FY22(E)	FY20-22 Average	FY19 Actuals
Financial Sustainability	IFC debt portfolio RAROC (%)	>8%	>8%	>8%	>8%	8.2%
	Equity portfolio total return ~ MSCI	>0	>0	>0	>0	Negative

3.19 *Equity approach.* The performance of IFC's equity portfolio plays a critical role in both (i) IFC's long-term financial sustainability – as a key driver of retained earnings, and (ii) on IFC's ability to deliver its program in higher-risk, less profitable markets.

3.20 Seeking to reverse the decline in performance that had followed the rapid increase in equity commitments after 2009, IFC presented its updated approach to equity to the Board in November 2018.[23] Under this new approach, IFC slowed down the pace of new equity investments over the

[23] IFC/SecM2018-0160

near/medium term as it implemented a rebalancing of the portfolio, a turnaround program focused on improving project selection, and active management of its equity holdings.

3.21 Implementation of the new approach is well underway. Currently, IFC's equity commitments represent around five percent of total LTF. In parallel, IFC launched an effort to streamline its equity portfolio, exiting from small-stakes investments where IFC had fulfilled its role. IFC intends to gradually scale up equity investments in the coming years, on a path to reaching its Capital Package ambition of $4 billion (16 percent) in own-account equity commitments by FY30.

Capital Adequacy

3.22 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. IFC's capital position is tracked over time by using the DSC ratio, which represents DSC divided by capital available.

3.23 DSC projections are presented as a range based on different scenarios given the uncertainty in forecasting IFC's income and portfolio growth.

CHAPTER 4. STAFFING AND WORKFORCE PLANNING

4.1. IFC 3.0 requires ensuring that the right people with the right skill sets are in the right places. This chapter provides details on actions IFC is taking in the areas of (i) **staffing and workforce planning**, (ii) **incentives**, and (iii) **diversity and inclusion**.

ALIGNING HUMAN RESOURCES WITH STRATEGY THROUGH WORKFORCE PLANNING

4.2. Delivery of IFC's 2030 Capital Package commitments will require an increase in staffing. The comprehensive workforce review taken by IFC in FY18 and FY19 freed up critical capacity and laid the foundation for IFC to invest in the skills and grade mix that will be necessary to execute its strategy. Recognizing the time needed for new staff to be trained and become fully productive, most of the recruitment will be upfronted in FY20 with some onboarding of recruits spilling into FY21.

4.3. Since 2018, IFC has been implementing workforce planning as an annual process to align staffing with IFC's strategic priorities. IFC's staffing strategy is focused on the following areas:

i. *Strengthening regional and country capacity and realigning staff toward priority regions*. New staff resources will be focused on delivering in IDA and FCS locations, with increased presence in the strategic focus regions of Middle East and North Africa, Sub-Saharan Africa, and South Asia.

ii. *Ramping up specialist expertise*. In addition to upstream project development skills, management is focused on acquiring and developing specialized skill sets, including in the areas of equity, technical industry experience, risk management, environmental and social assessment and monitoring, compliance, and litigation preparedness.

iii. *Continuing to rebalance the pyramid and better leverage senior staff*. The significant majority of hires, as well as recruitment efforts, in FY20 have focused on filling junior roles. This approach allows IFC to better leverage senior staff, improve the skills-mix, and increase productivity. IFC is also moving senior staff who have global knowledge and specialized expertise to priority areas including Upstream, Global Industries, ESG, Equity, and Country Economics. Furthermore, IFC will recruit skilled regional staff who understand market conditions in the countries in which it operates. This two-pronged approach is designed to enable IFC to serve clients more effectively, especially in challenging environments, by providing on-the-ground sector and product expertise complemented by solid local knowledge and processing capacity.

4.4. To support WFP on an ongoing basis and ensure the resources are available to deliver on strategic priorities, IFC has also put in place new HR processes, including position management – a planning and control mechanism that ensures promotions and progressions truly reflect a change in scope and accountability; and new programs that will facilitate internal rotations and support managers by providing access to a pool of talent within and outside their VPUs.

4.5. *Recruitment and onboarding*. IFC is implementing a comprehensive recruitment strategy, including in-house sourcing expertise, outreach plans, and a career-branding campaign. In addition, IFC is also planning on leveraging the World Bank Group Young Professionals Programs (YPP), which IFC and the World Bank have recently agreed to merge into one unified program, also incorporating MIGA. The goal of the new WBG YPP program is to build a strong pipeline of leaders who have a WBG perspective and can collaborate effectively on World Bank Group solutions, including through promoting private solutions under the Cascade approach.

4.6. Given the large number of new staff joining IFC over FY20-21, IFC has revamped its corporate onboarding program including collaborating with relevant units to explore the inclusion of more technical training, online modules, an expanded induction curriculum featuring additional elements for staff outside of Washington, DC. In addition, IFC has launched a redesigned mentorship program. The first cohort saw the matching of GH level staff with recent GF level recruits. The Mentoring for New Hires program will be one of the ways that GH+ staff can achieve their yearly performance objective of developing junior colleagues.

ALIGNING INCENTIVES AND PRACTICES WITH IFC 3.0

4.7. The implementation of IFC 3.0 requires implementing adequate incentives to encourage collaboration among staff across World Bank Group and sustained commitment to long-term engagement in challenging markets. Over the past two years, IFC has taken steps to steer its incentives in that direction, including revamping its Corporate Scorecard to align it more closely with organizational priorities; adjusting its awards programs to further acknowledge staff, across the World Bank Group, for exceptional work in delivering IFC 3.0 and the Cascade; and launching a new competency framework for Operations staff that defines core skills required to deliver the new strategy, including Upstream experience.

4.8. As discussed in Chapter 2, targeted staff incentives are a critical element of building the Upstream business. IFC is putting in place a combination of monetary and non-monetary measures to encourage staff to work on Upstream engagements, including:

- ❖ An earmarked pool of funds (within the approved awards budget) is being set aside to reward Upstream activities that are particularly promising and innovative, have reached key project milestones, or have converted to a mainstream investment opportunity. IFC plans for this Upstream pool to become a permanent component of IFC's awards structure.
- ❖ Experience working and delivering Upstream projects will become an increasingly important consideration for senior appointments. In this context, IFC will offer career progression, leadership, external training and exchange opportunities as well as dedicated budget for such activities. It will also offer mobility opportunities and greater internal recognition throughout the project lifecycle.

4.9. Similarly, IFC has also developed incentives to encourage staff working on FCS countries. IFC will consider FCS experience and the specific challenges of working on FCS countries when evaluating staff performance, continue the Corporate Awards Program with a strong focus on recognizing FCS work, and develop new IFC HR guidelines that ensure FCS experience is given priority for career progression and mobility.

PROMOTING A DIVERSE WORKFORCE

4.10. IFC has made significant strides in improving diversity and inclusion while attracting the specific skill sets needed from the external market. The result has been significant progress in the hiring of underrepresented nationalities, such as Sub-Saharan African (SSA) and Caribbean (CR) nationals: by the end of FY19, the representation of SSA/CR nationals at grades GF+ reached 13.5 percent, a substantial increase from 11.2 percent at the end of FY18 in contrast to the relative stagnation of this metric over the previous ten years. Current results demonstrate the significant strides that have been made in addressing diversity and inclusion and gender parity.

4.11. In FY20, the World Bank Group introduced a new approach to diversity indicators, with gender targets by grade and indicative staff representation across 20 sub-regions. IFC will align VPU Diversity and Inclusion Compacts and its Corporate Scorecard to the new World Bank Group gender-only indicators at the start of FY21. New IFC recruitment guidelines are also being planned in line with the World Bank Group diversity indicators.

4.12. In addition to the World Bank Group's gender diversity targets, IFC is working to continue to bridge gaps in existing and ongoing WBG commitments, such as achieving gender parity among senior management (Vice Presidents and above) by 2020 and within technical positions by 2022.

ANNEXES

ANNEX 1. IFC 3.0 TOOLKIT[24]

<table>
<tr><th colspan="3">New Tools</th></tr>
<tr><td rowspan="2">Country Private Sector Diagnostics (CPSD)</td><td>15 complete (post-decision review meeting)</td><td>29 under development</td></tr>
<tr><td>Angola, Burkina Faso, Ethiopia, Ghana, Indonesia, Kazakhstan, Kenya, Morocco, Nepal, Rwanda, South Africa, Philippines, Uzbekistan, Guinea, Senegal</td><td>Albania, Azerbaijan, Bangladesh, Bolivia, Cameroon, Central African Republic, Colombia, Dem. Rep. of Congo, Côte d'Ivoire, Ecuador, Egypt, Haiti, Honduras, Jordan, Kyrgyz Republic, Madagascar, Malawi, Mali, Mozambique, Myanmar, Nigeria, Pakistan, Serbia, Sri Lanka, Tanzania, Tunisia, Uganda, Ukraine, Vietnam</td></tr>
<tr><th colspan="3">New Strategic Products</th></tr>
<tr><td rowspan="2">IFC Country Strategies</td><td>35 complete</td><td>18 under development/planned for FY20/FY21</td></tr>
<tr><td>Angola, Argentina, Armenia, Bhutan, Brazil, Cambodia, China, Côte d'Ivoire, Dominican Republic, Egypt, El Salvador, Ethiopia, Fiji, Ghana, Indonesia, Jamaica, Kazakhstan, North Macedonia, Mexico, Mongolia, Morocco, Myanmar, Nigeria, Papua New Guinea, Paraguay, Philippines, Senegal, Serbia, Sierra Leone, South Africa, Timor-Leste, Turkey, Ukraine, Uzbekistan, Vietnam</td><td>Albania, Bosnia and Herzegovina, Bangladesh, Central African Republic, Colombia, Congo, Rep., Dem. Rep. of Congo, Gabon, Gambia, Haiti, Honduras, Kenya, Madagascar, Malawi, Maldives, Pakistan, Rwanda, Sri Lanka</td></tr>
<tr><td rowspan="2">IFC Sector Deep Dives</td><td>11 complete (and presented to the Board)</td><td>6 under development</td></tr>
<tr><td>Agribusiness, Capital Markets, Digital Economy, Education, Health, Manufacturing, Microfinance, Power, SME Finance, Textiles, Water & Sanitation</td><td>FinTech, Funds, Housing Finance, Mobile/Broadband, Transport, Agribusiness Value Processing</td></tr>
<tr><td>Country Macro Forecasts</td><td colspan="2">• The Country Macro Forecasts is a tool that provides current forecasts of Exchange Rates, Inflation, and GDP. It contains annual forecasts for 194 countries and quarterly forecasts for up to 50 countries.
• Launched in early 2019, the tool is available to all teams in IFC, in order to bring consistency in terms of macroeconomic projections in IFC's documents and numbers used in financial projections for projects.</td></tr>
<tr><th colspan="3">Frameworks</th></tr>
<tr><td>AIMM</td><td colspan="2">• Completed the 6th quarter of full AIMM implementation
• Currently developing the AIMM framework for Advisory Services, which has been under pilot implementation since Q1 FY20, with an incremental rollout based on project size</td></tr>
<tr><th colspan="3">Platforms</th></tr>
<tr><td>IDA-PSW</td><td>Utilized $339 million across 36 commitments
Leveraged to enable $338 million in IFC OA investment</td><td>Pipeline of approximately $2.4 billion</td></tr>
<tr><td>MCPP</td><td>Raised $8.1 billion, through 8 operating partnerships</td><td>$6.5 billion committed to 164 projects in 46 countries</td></tr>
<tr><td>AMC</td><td>Raised $10.1 billion</td><td>Committed $6.8 billion to 126 companies and funds</td></tr>
<tr><td>J-CAP</td><td>Raised $14 million for market building advisory</td><td>$340 million of issued/committed deals;
pipeline of ~$0.5 billion</td></tr>
<tr><th colspan="3">Instruments</th></tr>
<tr><td>CMAW</td><td colspan="2">Since FY18, $99.6 million approved for 460+ projects in 60+ countries;
46% in SSA, across Power, Agriculture and E&S</td></tr>
<tr><th colspan="3">Thought Leadership</th></tr>
<tr><td colspan="3">Operating Principles for Impact Management launched with over 80 signatories; reports on Impact Investing and Disruptive Technology</td></tr>
</table>

[24] As of January 2020.

ANNEX 2. REGIONAL ANNEXES

The Regional Annexes outline IFC's expectations and constraints in the regions of its operations within the larger context of the objectives set out in the SBO. They also provide a broader context for IFC's regional portfolios and their performance.

The Regional Annexes provide a more detailed sense of the state of local markets (dynamics, skills, and conditions) and the realities of economic, institutional, and social contexts, especially those aspects that are relevant to increasing private sector participation in the regional economy.

In this SBO, the Regional Annexes highlight the Upstream engagement in each region and provide examples of some active Upstream projects.

Projections and targets were made before the outbreak of COVID-19 and its resulting market disruptions. As the effects of the pandemic are still unfolding, macroeconomic conditions in every region may change significantly with consequent impact to IFC's portfolio and program.

EAST ASIA AND THE PACIFIC REGION

STRATEGIC CONTEXT

Real GDP growth in the East Asia and the Pacific (EAP) region slowed from 6.3 percent in 2018 to an estimated 5.8 percent in 2019 and is expected to moderate to 2.4 percent in 2020.[25] Developing economies in EAP have been severely impacted by the slowdown in global trade and investment and a structural slowdown in China, exacerbated by a sharp decline in economic activity resulting from the COVID-19 pandemic and market turmoil. The medium- to long-term impact will depend on the severity, the spread and the duration of the outbreak, and the policy actions the authorities take to support businesses and business activity. The negative fallout from the outbreak to date has been substantial and has affected the outlook in major regional economies. While most EAP economies have eased monetary policy and loosened fiscal policy to mitigate the economic impact, risks to growth are tilted to the downside. Major risks include (i) a severe deterioration of the coronavirus pandemic prolonging disruptions in industrial production, supply chains and travel; (ii) a sharper-than-expected slowdown in major economies; (iii) a sharp slowdown in global trade due to re-escalation of trade tensions; and (iv) a sudden reversal of capital flows due to an abrupt deterioration in financing conditions, investor confidence, or geopolitical relations.

Strong income growth in the bottom 40 percent of the population has supported the reduction in extreme poverty in EAP over the past decade, which is now at less than 2 percent of EAP population (3.6 percent excluding China), with the highest rates of reduction in Lao PDR, PNG, and Timor-Leste. However, lower projected growth in EAP will slow down the pace of poverty reduction. It is estimated that 15-28 million fewer people will escape poverty in the region in 2020.[26] Inequality remains a pressing problem in China, the Philippines, Vietnam, and PNG. The business environment, as measured by the *Doing Business* (DB) report, has improved with China among the top performers globally, while other strong performers included Indonesia, Myanmar, and the Philippines. Weather shocks from climate change present a significant risk: EAP includes 13 of the 30 countries most vulnerable to climate change and bears the brunt of 70 percent of world's natural disasters. High and rising leverage in some economies may affect investor confidence and growth: credit to private sector was 355 percent of GDP in China, 202 percent in Malaysia, and 165 percent in Thailand in 2018. US-China trade tensions have created new opportunities for some EAP economies as firms relocate their supply chains.

BUSINESS HIGHLIGHTS

Gender Bond of Bank of Ayudhya is IFC's anchor investment of up to $150 million in "Women Entrepreneurs Bonds" for expansion of Ayudhya Bank's women-owned SME loan portfolio in Thailand. **Sustainable Pepper Sector** aims at building a sustainable, traceable, certified, and quality-compliant pepper supply chain in Vietnam by 2025. The project will reach 2,000 farmers of which 30 percent are women. **MSME Access to Finance** is a joint IFC-IBRD project on regulatory environment and financial infrastructure that has led to a strong early investment pipeline with banks/NBFIs to unlock MSME financing in Myanmar, where less than five percent of adults and only around half of the firms have bank accounts.

UPSTREAM ENGAGEMENT IN THE REGION

IFC's Upstream priorities include helping fill the large infrastructure gaps, increasing affordable housing and access to finance, supporting green growth and reducing inequality – particularly by addressing gender disparities. An emerging Upstream area is addressing ocean plastic pollution since around half of global plastic pollution in the oceans originates from just five EAP countries. To ensure that World Bank Group CPFs present a truly joint program to support the private sector, IFC has

[25] World Bank. 2020. East Asia Pacific Economic Update April 2020. Preliminary Draft.
[26] ibid.

prepared strategies and detailed business plans for ten EAP countries identifying key constraints and laying out joint World Bank Group approaches to alleviate them, including Upstream work.

To identify key Upstream activities and ensure that the private sector is well integrated into World Bank Group country engagements, IFC is utilizing its full complement of analytical and strategy tools. With IDA/FCS markets a clear regional priority, CMAW continues to support high-impact activities that help build the enabling environment for the private sector. For example, development of climate-resistant affordable housing in PNG and Timor-Leste was based on the lessons from a PPP in Fiji, and access to finance for MSMEs was improved through the development of a value chain finance market in Mongolia. The IDA PSW helps IFC expand its engagement in FCS countries, by building client digital financial services, increasing access to finance for farmers and women in Timor-Leste, and establishing a risk-sharing facility with one of Myanmar's leading private banks to build capacity and boost SME lending in the country.

IFC is also working to establish proof of concept and improve legal and regulatory frameworks for issuance of corporate bonds in Myanmar. CPSDs were completed for Myanmar, Indonesia, and the Philippines; work on the Vietnam CPSD has been launched.

CHALLENGES AND TRADE-OFFS FOR IFC IN THE REGION

IFC is monitoring portfolio clients to assess the impact of COVID-19. As part of IFC's global response to the outbreak, IFC is developing programmatic and project-level interventions, including trade finance for critical goods, equipment and supplies, working capital lines to existing financial institution clients and liquidity support to existing real sector clients experiencing disruptions in operations. As trade tensions remain high and global value chains are adjusting, IFC is preparing to adapt and support clients to take advantage of new opportunities, while also mitigating risks from the disruption of established trade patterns.

High debt levels and external vulnerabilities in some EAP countries could amplify the effect of external shocks such as a sudden fall in capital flows or a rise in borrowing costs, leading to an increase in demand for IFC services. Increasing fiscal pressures may prompt governments to more actively seek private sector solutions for large scale infrastructure projects, leading to more Cascade opportunities. However, realizing these opportunities requires significant Upstream work and staff resources. IFC is pursuing this agenda by monitoring the implementation of IFC Country Strategy and Business Plans and prioritizing Creating Markets reforms.

IFC operations continue to face increased political risk in some fragile EAP states. IFC is collaborating with the World Bank to monitor these countries and ensure that World Bank Group engagement contributes to peace building and stability.

South Asia Region

STRATEGIC CONTEXT

During 2014-18, South Asia (SA) GDP grew by 7.2 percent (vs. 6.5 percent for EAP), making it the fastest growing region in the world. This was driven by strong growth in India (approximately 80 percent of region's GDP) and Bangladesh. In 2019, growth in SA is estimated to have decelerated to 4.9 percent from 7.1 percent in 2018, compared to 5.8 percent in EAP, which is now the fastest-growing region. Structural issues in India's financial system (non-performing assets of the banking sector, liquidity stress of non-banking financial institutions, slowing credit growth), and fiscal consolidation and monetary tightening under the IMF program in Pakistan largely reinforced growth deceleration in the region's two largest economies. After a period of remarkable reduction in poverty rates – poverty rate of $1.90 per day at 2011 PPP declining from 24.6 percent (2010) to 12.4 percent (2015) – the pace of poverty reduction has moderated, while poverty has increased in Afghanistan. Moreover, inflationary pressures have heightened, especially with rising food prices (except in Sri Lanka and India), further increasing vulnerability of poor households.

While growth in South Asia was projected to gradually pick up to 6 percent in 2022, the recent increase in risk aversion and a possible global recession caused by the COVID-19 outbreak is likely to severely impact the economic outlook. As of March 21, growth forecasts for South Asia have been revised downwards to 4.8 percent in 2020 (from the pre-crisis estimate of 5.5 percent) and to 5 percent in 2021 (from 5.9 percent), with risks tilted to the downside. SA's high population density and weak healthcare systems put the region at a particular risk of pandemic outbreaks. Given that all countries in the region depend on external financing, they are exposed to shocks from a reversal of capital flows to emerging markets, even though the decline in crude oil prices provide some buffer to the current account deficit. India has low external debt and high foreign exchange reserves, which makes it the best positioned in South Asia to withstand any capital flow shocks.

As India's economy had begun to slow down prior to the crisis, policy makers in India had implemented measures to revive the economy, including monetary easing, liquidity support to non-banking financial companies, legislative changes for the faster resolution of bad debts, reduction in corporate tax rates (from 33 percent to 25 percent), and efforts to liberalize the FDI regime – which are expected to boost confidence and support GDP growth over the medium term.

In response to the crisis, the Reserve Bank of India has provided liquidity support to the financial system. Furthermore, while the central government is in the process of developing its own stimulus package, some state governments (Kerala, Delhi, UP) have already announced targeted measures to support poorer segments of the population. Pakistan's Central Bank reduced the policy rate by 75 bps and announced a Temporary Economic Refinance Facility to stimulate new investment in manufacturing and a Refinance Facility for Combating COVID-19. Other countries in SA are yet to adopt specific monetary or fiscal policy measures to address the crisis. With high external financing needs due to lumpy debt repayments and large current account deficits, Sri Lanka and Pakistan remain vulnerable to global financial market cycles. In addition, potential intensification of geopolitics and the worsening security environment in Afghanistan could dampen outlook prospects. Moreover, three of the world's five most vulnerable countries to climate change are in SA, and 80 percent of major cities in the region are exposed to floods.

BUSINESS HIGHLIGHTS

Gender Financing: In India and Bangladesh, IFC is conducting a study to understand unique challenges faced by women entrepreneurs regarding graduation from micro enterprises: required collateral by FIs, lack of proper credit assessment tools, low loan amounts and other challenges with financing. IFC also plans to work on providing tools for effective individual assessments of female entrepreneurs to enable them access to higher-value funds.

Renewable Energy: In Pakistan, IFC arranged a $320 million debt package (including mobilization of $235 million from MCPP investors, DEG and local commercial banks) under a programmatic approach for six wind projects (Super Six) with a total installed capacity of 310 MW, generating about 1,084 GWh of electricity annually (the equivalent of powering 450,000 homes) and is expected to lead to emission reductions of about 650,000 tons of carbon dioxide a year with 40 percent lesser power generation costs, supporting the government of Pakistan's efforts to reduce the overall generation cost.

UPSTREAM ENGAGEMENT IN THE REGION

Upstream priorities in SA are focused on Affordable Housing, Renewable Energy, Electricity Distribution, Climate Change, Distressed Assets, Agriculture, Financial Inclusion, Tourism, Waste and Water Management, Healthcare, Logistics, and Airports. The Nepal CPSD, the first in South Asia was completed in 2018 (Pakistan, Sri Lanka, and Bangladesh are underway). J-CAP is underway in Pakistan to support the development of capital markets and long-term financing, especially in infrastructure and housing. In Bangladesh, J-CAP is helping broaden the scope of long-term financing through the issuance of diverse debt instruments, green bonds and securitizations and supporting the development of a national affordable housing policy framework. IFC and World Bank GPs have been working jointly with the government of India to build an effective implementation of the Insolvency and Bankruptcy Code. In Pakistan, the World Bank Group is working to unlock the affordable housing market and expanding mortgage refinancing by creating the regulatory infrastructure with financial inclusion by supporting digitization and credit infrastructure for MSMEs, especially for women.

Linked to the success of the Upstream agenda is the efficient deployment of instruments such as Blended Finance and Risk-Sharing Facilities through the IDA PSW and CMAW that will help enable de-risking and delivery of high-impact projects. For example, in Nepal, CMAW funds were used for a study to provide analytical inputs that were used in conjunction with the implementation of the IDA PSW for two FIG projects supporting development of the microfinance sector, while IFC and the World Bank worked on the development of the hydropower sector, which led to the landmark IFC investment in the Upper Trishuli-1 (UT-1) project of $453 million, expected to be Nepal's largest FDI to date. CMAW funding, used for a study on renewable energy and grid connectivity, supported the first solar IPP through PSW and a diagnostic work for the first gas-powered IPP (50 MW) in Mazar, Afghanistan.

CHALLENGES AND TRADE-OFFS FOR IFC IN THE REGION

IFC is on track to successfully implement its strategy in SA, despite an expected slump in investment volume growth given the deceleration in the region's largest economies – India and Pakistan. If further deterioration of the macroeconomic environment continues, IFC will shift focus to protecting its portfolio and increase selectivity of projects even further. IFC has demonstrated its ability to play a countercyclical role in times of economic stress, as showcased by engagements such as DARP, MSME finance, and the Masala Bond issuance.

MIDDLE EAST AND NORTH AFRICA REGION

STRATEGIC CONTEXT

Growth in the Middle East and North Africa region (MENA) slowed to an average of 1.5 percent during the past three years (2017-2019), from an average of 3.5 percent during 2014-2016, due to geopolitical tensions and lower oil prices. Growth was projected to gradually rise to 2.8 percent in 2020 and about 3.0 percent in 2021-22, supported by continued public investment and a potential pick-up in private investments benefiting from structural reforms. However, economic disruption in MENA stemming from the COVID-19 pandemic will be significant, with lower oil prices, tourism, remittances, and tighter financial conditions likely to be the main channels for transmission of global spillovers. Preliminary estimates suggest that MENA GDP will be hit hard, with the largest impacts in Saudi Arabia, Oman, Iraq, Bahrain, Algeria, economies that heavily rely on tourism (Tunisia, West Bank and Gaza), and those that are already in precarious macroeconomic situations (Lebanon, Libya, Syria and Yemen). Negative overall effects for the region will reflect the large number of oil producers and the importance of remittance flows from them to other countries in the region. Medium-term financing is expected to help limit demand weakness and related damage to the balance sheets of lenders, borrowers and governments, improving prospects for earlier recovery once the pandemic and its economic and financial effects have run their course. As a result, long-standing challenges, such as high unemployment rates among youth and women and high poverty rates in some countries will intensify. Monetary and fiscal policies will take the lead in the policy reform agenda as countries adapt their policies to the new challenges of contracting domestic and global demand and squeezed credit conditions.

Structural reforms enhancing the investment climate that were underway in many MENA countries, will be fast-tracked, where possible, to relieve financial constraints for the corporate sector, SMEs in particular, and support investor confidence. This includes, notably, revisiting the prominent role of state-owned enterprises (SOEs) in the economy that prevent a level-playing field for private investments, and addressing barriers to competition and labor market inefficiencies. Risks to private investment and project profitability are mainly associated with the impact of COVID-19 on the economy. While plummeting oil prices pose a risk to investments for oil exporters, high deficit and debt levels and a burdensome regulatory environment are the main challenges among oil importers.

BUSINESS HIGHLIGHTS

The **MENA Cities program** was launched in December 2019 and aims to implement advisory services across several markets, starting with Morocco and Jordan. IFC also signed an agreement with a dairy and food company in the West Bank and Gaza to help enhance their internal financial management capacity and to facilitate fund mobilization of a corporate secured loan. Supporting microfinance institutions in Egypt will help build its institutional capacity, increase resilience, and improve/diversify its product offering, ultimately scaling up its outreach to micro and small enterprises across Egypt to reach 525,000 active clients by 2025.

UPSTREAM ENGAGEMENT IN THE REGION

IFC's Upstream work can unlock private sector opportunities in the region by focusing on enabling sectors such as energy, transport, logistics, and finance through support to sector-specific and cross-cutting policies such as regulatory reform and institutional capacity building. Key priority areas include supporting: (i) power regulators to provide the framework and incentives for renewables; (ii) the development of sustainable capital markets and the development of new asset classes for retail, SME, and corporate clients (green building financing, solar PV products, project finance for renewable energy); (iii) capacity building of local stakeholders to support PPPs in infrastructure; and (iv) clean tech entrepreneurship through capacity building to ecosystem players, including incubators/accelerators and academia. In MENA, the identification of country-specific private sector solutions has been supported by the development of CPSDs in Egypt, Jordan, Morocco, and Tunisia.

CMAW: Funding has provided support for early-stage diagnostic and project scoping activities as well as client and market preparation projects in priority sectors such as refugees, water, logistics, renewable energy, and transportation. Since the launch in FY18, $4 million has been allocated to 28 projects in six countries, including assistance to the Arabian Yemen Cement company (AYCC) and conducting a complex analysis covering solar PV and waste heat recovery and energy efficiency in Yemen.

IDA-PSW: The region's contributions to IDA targets remain limited given that Yemen is its only IDA country. However, Yemen is extending technical support to Al Kuraimi Bank to scale its business operations and expand lending outreach to MSMEs, building on the success of the phase one Advisory work.

FCS: IFC has a strong presence in Conflict-Affected States, including advisory mandates for independent power producers, airport expansion, and women employment in Lebanon; promoting good corporate governance standards in Iraq and Yemen; supporting solar PV finance in Yemen; and solar energy and Islamic finance in the West Bank and Gaza.

Development Partner Support: The region raised a record of more than $100 million from development partners to support Advisory and Blended Finance activities, including early-stage projects that lead to Upstream activities under the MENA PSD and MSME 2.0 programs.

CHALLENGES AND TRADE-OFFS FOR IFC IN THE REGION

The overarching challenge is operating in an extremely volatile and uncertain economic environment where global impacts of COVID-19 add to pre-existing political risks in the region.

A trade-off for IFC is choosing to support and alleviate financial burden for negatively impacted private sector companies with a high probability of loss, as opposed to waiting until things get resolved.

Choosing between creating new markets in a high-risk environment where policy direction is unpredictable and where an already weak policy implementation capacity is aggravated by the COVID-19 crisis, as opposed to following a more opportunistic approach with established clients that limits the scope for business development and impact but involves less risk is a trade-off.

Another trade-off is between project profitability and IFC's ability to support smaller and riskier projects, especially in FCS.

SUB-SAHARAN AFRICA REGION

STRATEGIC CONTEXT

After a sharp slowdown in 2016, the economy of the Sub-Saharan Africa region (SSA) was gradually recovering, with growth projected to edge up to 3.1 percent in 2020-22, led by dynamic hubs centered in Ethiopia, Kenya or Côte d'Ivoire. However, the effects of COVID-19 on supply and demand will now combine with collapsed prices for oil and other commodities to generate contractionary effects across the region. It is expected that commodity exporters (Angola, Gabon, Ghana, Nigeria, South Africa, Republic of Congo, and Zambia) are the hardest hit while oil importers are expected to benefit, but join others suffering from weaker foreign demand, supply chain disruptions and reduced inflows from tourism, remittances, and foreign capital. Strong interconnections with China and Europe will magnify negative effects. Negative impacts could be particularly pronounced in Nigeria, Angola, and South Africa, the three largest economies in SSA. Countries that were already in debt distress or at high risk of external debt distress (about one-third of all SSA countries), will also be poorly equipped to mitigate the macroeconomic impact of COVID-19. Since January 2020, spreads sharply increased in a number of SSA countries, making debt refinancing extremely costly.

In recent years, economic growth in SSA had been too slow to make a significant dent on poverty, as the slow decline in the proportion of poor was offset by the region's rapid population growth. Economic growth is expected to increase with a likely negative per capita growth in the future and combine with demographics to accelerate the rise in the number of poor people in SSA. Particularly worrisome is the risk of a wide spread of the virus over the continent, which could strongly aggravate economic and social conditions. The risk of COVID-19's spread over the continent is expected to pose high concerns given the region's existing fragile healthcare system with low potentials for rapid response to set-up healthcare conditions for treatment and prevention.

External risks to investment traditionally considered in SSA, such as shocks to commodity prices and the tightening of global financial conditions, to which countries are exposed in varying degrees, have now, to a large extent, materialized. New risks include a wide spread of COVID-19 in the region, the prolongation of negative global spillovers and second round effects from the pandemic, which add to high climate and security risks in many parts of the region.

BUSINESS HIGHLIGHTS

IFC is working with **Mali Shi,** a shea butter supplier in Mali, to help build a modern shea butter processing plant to increase market access and incomes for about 120,000 shea kernel producers, most of whom are women. The investment loan is provided under the PSW of Global Agriculture and Food Security Program (GAFSP) and is complemented by advisory services to build managerial and financial capacity of more than 100 harvesting cooperatives in the supply chain. IFC invested in **Kobo360**, a tech-enabled e-logistics platform that connects cargo trucks with the demand for such services mostly in Northern Nigeria. It is expected to improve the supply chain for mass-market goods and facilitate economic growth in an FCS region of the country and plans to expand to other West African countries.

UPSTREAM ENGAGEMENT IN THE REGION

The IFC 3.0 approach in SSA focuses on dismantling cross-cutting and sector specific constraints to create new markets in key priority areas, including closing the transport infrastructure and logistics gap; broadband connectivity (expanding mobile broadband, internet access) to unlock digital economy potential (e-commerce, digital banking); agriculture development (irrigation and livestock), and agribusiness value chains to tackle food insecurity; smart energy production (accessible, affordable, reliable and renewable); inclusive financial solutions to facilitate access to finance for SMEs, housing finance and capital market development; and private provision of health and education services to close skills and productivity gaps. Collaboration with the World Bank to identify key policy reforms and support their implementation will continue to be highly instrumental. In SSA, CPSDs were completed in Angola, Burkina Faso, Ethiopia, Ghana, Kenya, Rwanda, and South Africa while being developed in Cameroon, Central African Republic, Malawi, Mali, Tanzania, Tunisia, Uganda, Democratic Republic of Congo, Madagascar, Mozambique, Côte d'Ivoire, Guinea, Nigeria, and Senegal.

Cascade: The Cascade approach adopted for the development and realization of complex projects include the Nachtigal hydropower project in Cameroon, a multi-year engagement that required support from the World Bank Group and commercial lenders, and the Bovima agribusiness project in Madagascar with the World Bank, IFC Advisory, and Investment teams.

CMAW: Funding has provided important support for early-stage diagnostic and project scoping activities as well as client and market preparation projects. Since the launch of CMAW in FY18, $44 million has been allocated to 171 projects in 35 countries and supported firms in Togo and Niger.

FCS: The Conflict-Affected States in Africa (CASA) Initiative provides important support to Upstream engagement in FCS countries – deployment of in-country teams in FCS locations and supporting diagnostics, client and market preparation, and the management of challenging/distressed projects.

IDA-PSW: IFC has committed 25 PSW-supported projects with $114 million in PSW funding – Caisse Régionale De Refinancement Hypothécaire (CRRH) in West Africa, a regional mortgage refinancing company for affordable housing while the pipeline of $1.6 billion includes upstream engagements (Bus Rapid Transit system in Dakar and housing finance in Côte d'Ivoire).

CHALLENGES AND TRADE-OFFS FOR IFC IN THE REGION

The overarching challenge is operating in an extremely volatile and uncertain economic environment, where global impacts of COVID-19 add to pre-existing macroeconomic, climate, and security risks in the region.

A trade-off for IFC is choosing to support and alleviate financial burden for negatively impacted private sector companies with a high probability of loss, as opposed to waiting until things get resolved.

Another trade-off is choosing between creating new markets and opportunities in a high-risk environment where policy direction is unpredictable and where an already weak policy implementation capacity is aggravated by COVID-19, as opposed to following a more opportunistic approach with established clients that limits the scope for business development and impact but involves less risk.

Project profitability and IFC's ability to support smaller and riskier projects, especially in FCS, where expected profitability may be lower even if the expected development impact is larger remains a challenge.

In FCS, this trade-off is aggravated by the absence of non-politically exposed investors, and the low prevalence of firms with sufficient capacity (financial, governance, environmental, and social standards) and insufficient competition in some markets, corruption and elite capture.

EUROPE AND CENTRAL ASIA REGION

STRATEGIC CONTEXT

After reaching a peak of 4 percent in 2017, growth decelerated to 3.2 percent in 2018 and was estimated at 2 percent in 2019. Europe and Central Asia (ECA)'s performance is affected mainly by the slowdown in Turkey and Russia. Prior to the COVID-19 outbreak and recent collapse in oil prices, growth was expected up to 2.6 percent in 2020, and 2.9 percent in 2021-22, assuming commodity price stabilization, recovery in the Euro Area, Turkey and Russia, de-escalation of US-China trade tensions, and an orderly Brexit. These assumptions dissipated in the last month, as the epicenter of COVID-19 has moved to Europe. Close trade and financial links with EU make ECA highly vulnerable to the severe shock triggered by COVID-19. GDP growth is likely to turn negative in the short term.

Productivity growth slowed across ECA, with near-zero rates in Russia and the Western Balkans but above 2.5 percent in Central Asia and Central Europe. ECA's growing participation in global supply chains increased its connectivity, although it is still much lower than in the EU. Unfavorable demographic trends negatively affected growth and government finances. While migration and brain drain persist, high levels of youth unemployment linger in several countries. Parts of ECA represent some of the most energy-intensive economies globally (Central Asia, Ukraine). While ECA performs poorly in governance and business climate, the footprint of the state remains large.

Significant vulnerabilities remain in ECA, with 60 million people considered poor (average earning at $5.50 per day, 2011 PPP), while nearly 70 percent of those in lower-middle income countries remain vulnerable. ECA's outlook is subject to significant downside risks emanating from the unfolding impact of the COVID-19 outbreak which will cause major disruptions in regional supply chains, employment, trade and tourism flows, weakening of the financial markets, and capital inflows. Countries with large imbalances, low FX reserves and/or large upcoming FX debt repayments could come under significant strain in short term as they struggle to roll over debt. Anticipated slower growth in China also pose great risks in the short term through trade, supply chains, and commodity price channels. ECA's energy exporters are expected to experience economic shocks due to plummeting oil prices.

BUSINESS HIGHLIGHTS

IFC provided $100 million in a local currency loan of Georgian lari (about $35 million) to **the Bank of Georgia** to help boost access to finance for smaller businesses and women entrepreneurs. IFC made an $80 million investment in the $600 million bond issued by **Mersin International Port (MIP)**, the largest port operator in Turkey to help sustain critical transport infrastructure and deepen capital markets. A financing package of up to $50 million equivalent to **OTP Leasing** in Ukraine was signed to scale up sustainable energy investments, particularly for SMEs.

UPSTREAM ENGAGEMENT IN THE REGION

IFC ECA priority areas include (i) increasing competitiveness and economic diversification, (ii) increasing financial access, (iii) improving market and regional integration, and (iv) addressing climate change.

IFC Country Strategies and CPSDs catalyze a focused World Bank Group Upstream approach: in Uzbekistan, IFC leverages the World Bank DPOs to develop joint engagements in agriculture, SOE, and aviation sectors; in Ukraine, IFC and the World Bank help the government increase private sector participation in infrastructure, develop competitive agribusinesses, and strengthen the banking sector; in Kazakhstan, the CPSD led by IFC helped the World Bank to proceed with a livestock program; and in Serbia, IFC and the World Bank are exploring the role of private investment in agribusiness and lithium downstream sectors.

In IDA countries, IFC recently utilized PSW and CMAW facilities to support broader access to credit by MSMEs and agribusinesses in Tajikistan and Kosovo. CMAW supports market creation in Eastern Europe through an integrated Environment, Social & Governance (ESG) program.

Countries with a large state footprint such as Ukraine, Uzbekistan, and Armenia are becoming more open to market-based solutions under new reform-minded governments. However, reform progress remains sluggish in Serbia and Bosnia and Herzegovina. The ECA Upstream strategy, therefore, aims to make full use of the World Bank Group toolkit to create markets and generate transactions. Examples include project development advisory (Lviv electric buses); PPP transaction advisory (Scaling Solar Uzbekistan, Olvia Port, Serbia Waste-to-Energy); market development with the World Bank (Ukraine energy storage, Armenia energy and capital markets development); and regional Upstream initiatives (Southeast Europe Light Manufacturing Project, Western Balkans Trade Facilitation Advisory, Regional Investment Policy and Promotion).

CHALLENGES AND TRADE-OFFS FOR IFC IN THE REGION

The continuum of structural reforms in parts of ECA (Ukraine, Uzbekistan, Armenia, Azerbaijan) is providing the impetus to IFC for a stronger engagement in these countries.

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

In upper middle-income and EU countries, IFC’s interventions are focusing on bridging regional disparities, improving infrastructure, cross border competitiveness, strengthening capital markets, and deploying climate change solutions.

In Turkey, economic and political volatility affected IFC’s business during FY19 and IFC continues to support improved access to finance, sustainable energy, and development of critical infrastructure in the country, including at the municipal level.

Under the IFC Fast Track COVID-19 Facility, IFC will prioritize allocation of resources to deliver solutions to clients in ECA dealing with the impact of COVID-19 in their operations.

LATIN AMERICA AND THE CARIBBEAN REGION

STRATEGIC CONTEXT

The Latin America and the Caribbean (LAC) region has been hit by COVID-19 later than most other regions, but the close trade and financial links with the US and China make the region vulnerable to shocks emanating from the outbreak.

Economic growth in the region had been modest prior to the crisis, averaging 1.8 percent[27] between 2017 and 2018 and standing at about 0.8 percent in 2019. The impact of COVID-19 and a decline in commodity prices has led to a substantive deterioration of the outlook from a previously projected 1.8 percent in 2020. Financial market effects are expected to be particularly pronounced with capital flows to the region decreasing significantly. Portfolio outflows, as investors move to safe assets, will put substantial pressure on LAC currencies. That pressure will be exacerbated by worsening external balances in commodity exporting countries triggered by price declines and growth deceleration in China. Among commodity exporters, energy exporters will be hardest hit while the impact on metal or agricultural commodities exporters or countries with a more diversified commodities export base will be less severe. Supply chain disruptions resulting from COVID-19 will have a negative impact on countries better integrated into global trade, such as Mexico and Panama. Disruptions will also impact economies of countries benefiting from tourism, including Mexico, the Caribbean. The crisis will exacerbate the region's long-standing challenges, such as insufficient investment in infrastructure and education, and high levels of corruption and a weak rule of law.

Poverty declined from 45 percent of the population in 2002 to 26.3 percent in 2015, largely based on government spending funded by high commodities prices. Despite these gains, LAC remains the most unequal region with a GINI coefficient of 0.51. COVID-19 will disrupt countries' ability to attract investments required to achieve sustainable long-term poverty reductions through productivity-based growth. Limited fiscal and monetary space will make it difficult for affected countries to sustain spending in support of vulnerable groups and the economic shock caused by COVID-19 will pose a risk for LAC's large informal sector to fall back into poverty.

BUSINESS HIGHLIGHTS

LNG-to-power is the result of several years of IFC Upstream work and involves the commitment of a financing package of $660 million, coordinated by IFC, to support the construction of an LNG-to-power project in Acajutla. The project is the largest private financing ever in El Salvador. **Banco Davivienda** in Colombia is a $335 million loan facility that combines investment and advisory services to facilitate climate friendly investments and promote gender equity. In the manufacturing space, a $280 million investment for **Klabin** in Brazil's globally competitive paper and pulp sector has been one of IFC's largest climate investments of the year.

UPSTREAM ENGAGEMENT IN THE REGION

Supporting the foundations for inclusive growth: IFC is using the Cascade approach to scale up private sector solution and complement scarce public financing which includes fostering job creation, supporting improvements in the business climate, and investing in human capital by increasing access to quality education and health care.

Supporting entrepreneurship and promoting innovation: IFC supports access to finance with a focus on SMEs, particularly women-owned SMEs, as well as innovation such as fintech and digital service platforms applied to traditional businesses such as Agritech.

[27] Source: World Bank, Global Economic Prospects database

Building resilience: IFC helps finance and build sustainable infrastructure with a special focus on sustainable urbanization by investing in renewable energy projects and green building programs. It fosters capital market innovation, for example by promoting the use of green bonds.

Connectivity: IFC supports improvements to the region's connectivity by investing in various modes of transport, ICT, and logistics to foster the integration of Latin America's disadvantaged populations into the intra-regional and global economies.

A variety of Upstream tools are being used in LAC. Several early stage venture and project development projects support the creation of PPPs. Since FY18, CMAW has allocated $3 million of funds across 28 projects in 10 business departments. With several more in the pipeline, the CMAW program continues to grow its portfolio in seven LAC IDA countries. IFC has also continued to support to the strategic priorities of gender and climate. In Haiti, LAC's only LIC-IDA and FCS country, the recent use of the IDA-PSW resulted in the closing of three strategic investment interventions in the leasing and SME space in support of financial inclusion in the country. The region has completed country strategies for Argentina, Brazil, Dominican Republic, El Salvador, Jamaica, Mexico and Paraguay while strategies for Haiti, Honduras, and Colombia are underway.

CHALLENGES AND TRADE-OFFS FOR IFC IN THE REGION

With few exceptions, fiscally constrained commodity exporters will not be able to roll out stimulus packages of a size that would significantly soften the blow of COVID-19. Even before the crisis, LAC struggled to reform its economies and invest in a more sustainable, productivity-led growth path. While governments are strengthening their safety nets in response to the crisis, past progress of poverty reduction is being threatened with reversal and inequality remains high, prompting protests and social unrest.

The region's business climate is falling behind and there was not a single LAC country among the top 50 in the Doing Business rankings. This, together with an underinvestment in infrastructure and a low level of regional integration, contributes to the low participation of the region in global value chains. As a middle-income region, LAC is also faced with reduced access to traditional sources of sovereign aid and concessional funding. This combination of factors creates an increased role for IFC to mobilize private sector funds to make up for reduced potential government spending and to foster productivity-enhancing investments. IFC's role is particularly important since concerns regarding business environment, openness to trade, and lagging infrastructure will make attracting private investments without multilateral support difficult. IFC's investment in local technology companies aims to help leap-frog some of these obstacles while a focus on PPPs complement governments' efforts.

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 IFC 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 regularly with a set of Sector Deep Dives to demonstrate how creating markets might work in practice. 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
- 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 – CAPITAL MARKETS

There are significant financing gaps in developing countries: $23 trillion[1] is needed for Climate, $2 trillion[2] for Infrastructure, $5.2 trillion for MSMEs, and $16 trillion is required to meet the demand for affordable housing. Banks cannot provide this kind of long-term capital and governments are fiscally constrained; capital markets can help bridge this gap by mobilizing savings to these and other priority sectors.

Challenges in Capital Markets

Effective capital market development **requires important preconditions** to be in place: stable macroeconomic fundamentals, a sound banking system, a good institutional and regulatory framework, and sufficient market size. These preconditions may be lacking in a number of developing markets.

Even where they exist, capital markets development is a long-term endeavor with significant challenges in EMs:

- On the regulation side, there are insufficient / ill-suited regulatory frameworks and weak supervisory authority.
- On the supply side, there is an insufficient number of companies or issuers coming to market, high costs, uncertainty of timing, and complexity to meet the information requirements for first time issuers and limited liquidity.
- On the demand side, there is the challenge of an underdeveloped local investor base, lack of credit culture, and limited capacity to analyze risk, barriers to foreign investors' access to domestic capital markets and limited availability of information.

IFC's Approach

Going forward, the IFC/WB Joint Capital Markets work will focus on:

- **Developing local capital markets** to attract a wider range of issuers, build and diversify local investor bases, and build market infrastructure
- **Supporting deepening, broadening, and innovation** in capital markets by introducing new asset classes, products, and structures, including FinTech, and other innovative approaches
- **Accessing global capital** by mobilizing global foreign portfolio investment in general, specifically through co-investment and de-risking instruments/platforms

To increase the scope in both equity and debt capital markets development, IFC will need a set of enablers, these include: adequate staffing, ramping up development of more market and investor-oriented approaches, and a higher institutional risk appetite and more tolerance for greater portfolio valuation volatility.

IFC and the World Bank will also need to collaborate effectively. **While J-CAP will be the main collaboration framework** for participating countries, non-J-CAP countries will continue to be served by WB FCI, IFC FIG, and IFC and WB Treasury individual products. The Cascade approach will be used to ensure private solutions are first explored and engagements are economically sustainable.

Recent Developments

The Capital Markets Deep Dive was recently used in an IFC panel titled "Strategic Directions in Capital Markets: The Role of IFIs". The panel included external participants Dan Zelikow, Vice Chairman-JP Morgan, and Miguel Savastano, Dy. Director, Monetary & Capital Markets, IMF. The panel explored the main trends in DM and EM, issues in local capital market development that can be addressed with policy dialogue, investment transactions, and where and how DFIs can be more effective.

Sources: 1. "Climate Investment Opportunities in EM", IFC, 2016. 2. "Bridging Infrastructure Gaps", McKinsey Global Institute. 3. "Tackling the World's Affordable Housing Challenge" McKinsey 2014.

IFC SECTOR DEEP DIVE – TEXTILE AND APPAREL

Textiles and apparel manufacturing is a key contributor of economic growth for most developing countries. In Bangladesh and Cambodia, it contributes to 70 percent[1] of GDP. In addition, over 60 million[2] people work in the sector, mainly women. Global consumer expenditure on clothing and footwear in 2018 was $2.2 trillion and is expected to grow to $4.4 trillion by 2030,[3] with most growth coming from emerging and developing economies.

Challenges in the Textile Sector

The textile industry is going through unprecedented change and disruption:

- Demand and production are shifting to developing economies. Growing demand for apparel products in developing economies is leading to a shift away from the EU and the U.S. as the two major markets for apparel globally. Production is also shifting from China to developing countries.
- Market power is shifting; global apparel brands are gaining global market share and buying larger volumes from fewer, more strategic suppliers. Online retail is disrupting traditional brick and mortar stores.
- Technological advancements will lead to productivity improvements and some jobs in specific segments of the value chain will be impacted.
- Despite technological changes, the total number of jobs in developing economies is expected to increase due to increased production, driven by greater demand from these countries.
- Addressing climate change, the circular economy and labor standards will continue to be critical for business survival.
- On the demand side there is the challenge of underdeveloped local investor base, lack of credit culture and limited capacity to analyze risk, barriers to foreign investors access to domestic capital markets, and limited availability of information.

IFC's Approach

IFC/WB vision is to unlock the value of manufacturing for development through the textiles and apparel value chain to help countries become more diversified and competitive by:

- **Laying the foundation** for industrial production of textiles and apparel by building commercially-viable resource based textiles and apparel industries, strengthening local basic supply chains and supporting production and assembly of simple textiles and apparel products in GVCs.
- **Expanding and diversifying** the textiles and apparel manufacturing base by building foundational textiles and apparel manufacturing capabilities, developing local textiles and apparel products, focusing on local and regional markets and helping countries become more competitive by entering multiple global value chains.
- **Supporting more complex textiles and apparel manufacturing** by strengthening inter-industry linkages to sustain global competitiveness, supporting leading domestic/regional firms to build a global footprint and enhancing "servicification", R&D leadership and branding.

To implement this road map, IFC will need a set of enablers. These include building sector expertise through AS/IS including industry specialization, collaborating with the WBG, prioritizing Upstream work as a key differentiator, and deepening relationships with selected strategic clients in textiles and apparel including other MDBs.

Recent Developments

The Deep Dive was recently delivered to the Board on Jan 15, 2020, as a technical briefing. The discussion with EDs focused on the impact of technology on jobs, the shift in production from China to developing countries, the distribution of margins, and lessons learned from previous engagements.

Sources: 1. Pulse of the Fashion Industry, 2017. 2. Better Work 2018-22 Strategy. 3. Euromonitor International, 2019.

IFC SECTOR DEEP DIVE – AGRIBUSINESS[28]

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
- 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.

IFC SECTOR DEEP DIVE – DIGITAL ECONOMY[29]

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
- An enabling e-government platform for digital identification

Going forward, 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
- E-payments that facilitate digitized social transfer payments from government.

Sources: Digital Economy Deep Dive, 2017.

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

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

IFC SECTOR DEEP DIVE – EDUCATION[30]

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 youth remain unemployed with a large amount of young adults without fundamental skills, and 40 percent4 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
- 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) 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) generating 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.

IFC SECTOR DEEP DIVE – HEALTH[31]

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

WBG's goal is to assist countries to accelerate progress toward 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
- 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

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

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

IFC SECTOR DEEP DIVE – MANUFACTURING[32]

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
- 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 (such as electric vehicles, waste heat recovery, cooling chains)
- Realization of production efficiencies, resource, and energy efficiency

IFC SECTOR DEEP DIVE – MICROFINANCE[33]

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
- 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.

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

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

IFC SECTOR DEEP DIVE – POWER[34]

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 billion1 to 2030. If historical rates of investment continue, the investment gap is forecast to be $280 billion per year1.
- 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
- 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.

IFC SECTOR DEEP DIVE – SME FINANCE[35]

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
- 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

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

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

IFC SECTOR DEEP DIVE – WATER AND SANITATION[36]

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
- 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.

[36] 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).

	List 1	List 2:		List 1	List 2:		List 1	List 2:
Country/Region	IDA17 + FCS FY19	LIC-IDA17+ IDA17-elig. FCS	Country/Region	IDA17 + FCS FY19	LIC-IDA17+ IDA17-elig. FCS	Country/Region	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			