Australian Multilateral Assessment (AMA)

Submission by the

International Finance Corporation (IFC)

October 2011

Executive summary

IFC is part of the World Bank Group (WBG), and the largest global development finance institution (DFI) focused on developing the private sector in low-income and other emerging markets. Its purpose is to create opportunity for people to escape poverty and improve their lives. This document comprises IFC's written submission to the Australian Multilateral Assessment (AMA), and is structured as follows.

Section 1 provides an overview of IFC and the instruments it uses to help developing countries achieve sustainable economic growth through private sector development.

Section 2 describes IFC's commitment to poverty reduction and sustainable economic development, and the systems and structures in place to measure, monitor and report on the Corporation's development impact. It examines IFC's efforts to target the poorest people, and summarizes IFC's development results.

Section 3 describes the ways in which IFC's operations are aligned with Australia's aid priorities and national interests, including through highlighting examples of IFC interventions aimed at (i) increasing access to safe water and sanitation; (ii) providing quality health services; (iii) empowering women; (iv) increasing access to education; (v) improving food security; (vi) reducing the negative impacts of climate change; (vii) improving governance; and (viii) responding to humanitarian needs and disasters. This section also highlights IFC's recent efforts to scale up its activities in the Pacific.

Section 4 describes IFC's contribution to the wider multilateral development system, providing examples of the Corporation's thought leadership and promulgation of norms and standards.

Section 5 sets out IFC's strategic and performance management tools, including the Corporation's Strategic Pillars, Corporate Scorecard, and annual strategy-setting process. This section also describes the IFC's governance structures, independent accountability mechanisms, and human resources management priorities.

Section 6 describes IFC's commitment to delivering cost control and value for money, including efforts to continuously improve productivity and efficiency.

Section 7 discusses IFC's partnership behavior, and efforts undertaken to develop strategic partnerships with a wide range of stakeholders including donor governments; foundations; civil society; and other bilateral and multilateral development institutions. This section also provides examples of IFC's collaboration with the Australia.

Section 8 outlines IFC's commitment to transparency and accountability, including the Corporation's access to information policy and disclosure portal. It describes tools used to ensure transparent resource allocation, budget management and operational planning, and sets out the risk management tools employed by IFC. This section also discusses efforts undertaken by IFC to prevent fraud and promote corporate integrity.

1. Introduction

IFC's purpose is to create opportunity for people to escape poverty and improve their lives. Part of the WBG, IFC is the largest global development institution focused on the private sector. IFC combines financing that helps companies grow quickly and sustainably, with advice that helps them innovate, raise standards, mitigate risk, and share knowledge across industries and regions.

IFC offers clients a unique combination of investment (short and long-term loans, equity, trade finance, syndications, securitized finance, treasury services, liquidity management) and advisory services (advice to firms, sectors and governments) to promote sustainable private sector development in low income and other emerging markets. By combining public and private approaches, IFC helps to ensure that growth is sustainable and inclusive. IFC also mobilizes additional resources from partners, enlarging the pool of available capital and expertise in the countries that need it most, and provides third-party equity fund management services through its subsidiary, the Asset Management Company (AMC).

IFC benefits hugely from its ability to leverage its own resources to deliver greater levels of financing and development impact. IFC's paid-in capital of US$2.4 billion leveraged total mobilization of around US$6.5 billion in FY11. In addition, making IFC own-account investments leverages private sector investments, resulting in a net leveraging effect of up to 11 to 1 – so for every US$1 of IFC investment, up to US$11 of financing flows to private sector development in low-income countries and other emerging markets.

In practice, IFC's unique business model brings together advisory and investment services to deliver benefits to the client over and above what either advisory or investment would bring alone. IFC's advisory work is informed by, and gains credibility from, IFC's experience as an investor. IFC investments can be used to catalyze a supply response to reforms, and so accelerate and demonstrate the benefits of reform, that can in turn be supported by advisory services.

IFC is a profitable organization,[1] and its profits are plowed back into development. In FY11, IFC generated a net income of US$2.2 billion, of which US$600 million was contributed to the International Development Association (IDA), the WBG's fund for the poorest countries; IFC has contributed US$1.9 billion to IDA since FY07. Net income is also used to partly fund IFC's advisory services. Profitability has also enabled IFC to expand rapidly over recent years, both in terms of geographical reach, and in levels of disbursement.

[1] While a net loss of US$151 million was recorded in FY09, this was after transfers of US$450 million to IDA.

IFC OPERATIONAL HIGHLIGHTS Dollars in millions, as of and for the years ended June 30	2011	2010	2009	2008	2007
New Investment Commitments					
Number of projects	518	528	447	372	299
Number of countries	102	103	103	85	69
For IFC's own account	$12,186	$12,664	$10,547	$11,399	$ 8,220
Mobilization					
Syndicated loans[1]	$ 4,680	$ 1,986	$ 1,858	$ 3,250	$ 1,775
Structured finance	$ 0	$ 797	$ 169	$ 1,403	$ 2,083
IFC initiatives & other	$ 1,340	$ 2,358	$ 1,927	n/a	n/a
Asset Management Company	$ 454	$ 236	$ 8	n/a	n/a
Total mobilization	$ 6,474	$ 5,377	$ 3,962	$ 4,653	$ 3,858
Investment Disbursements					
For IFC's own account	$ 6,715	$ 6,793	$ 5,640	$ 7,539	$ 5,841
Syndicated loans[2]	$ 2,029	$ 2,855	$ 1,958	$ 2,382	$ 1,615
Committed Portfolio					
Number of firms	1,737	1,656	1,579	1,490	1,410
For IFC's own account	$42,828	$38,864	$34,502	$32,366	$25,411
Syndicated loans[1]	$12,387	$ 9,302	$ 8,299	$ 7,525	$ 5,543
Advisory Services					
Number of projects	642	736	872	862	1,018
Approved value	$ 820	$ 859	$ 941	$ 919	$ 846
Advisory Services project expenditures	$ 207	$ 188	$ 183	$ 152	$ 118

1 Includes B-Loans, Parallel Loans, and A-Loan Participations.
2 Includes B-Loans and Agented Parallel Loans.

1.1. Investment services

IFC employs a broad suite of financial services to help ease poverty and spur long-term growth by promoting sustainable enterprises, encouraging entrepreneurship, and mobilizing resources that would not otherwise be available. Financing products include loans, equity, trade finance, syndications, structured finance, and client risk-management services. Over recent years, IFC has also been engaged in the provision of concessional financing, particularly to mobilize investments in the climate space. IFC is currently working to develop appropriate principles, rules, and governance mechanisms for the provision of such concessional funding.

Financing products are tailored to meet the needs of each project. IFC provides growth capital, while the bulk of funding comes from private sector owners who also bear leadership and management responsibility. In FY11, IFC invested US$12.2 billion in 518 projects, of which US$4.9 billion went to projects in IDA countries. IFC also mobilized an additional US$6.5 billion to support the private sector in developing countries. New commitments reached US$18.7 billion in FY11, which is more than double the level of five years ago, and reflects an estimated project value of nearly US$100 billion.

1.2. Advisory services

To help the private sector in developing countries, IFC's Advisory Services provide advice, problem solving, and training to companies, industries and governments. Around half of IFC's advisory projects are directed at advising national and local governments on how to improve their investment climate and strengthen basic infrastructure. IFC also helps investment clients improve corporate governance and become more sustainable. IFC's Advisory Services are funded by donor partners, IFC, and client contributions. Since FY04, Australia has contributed US$58.93 million to IFC Advisory Services.[2]

Box 1 – IFC's advisory services pricing model

In 2007, IFC was the pioneer among DFIs in introducing a comprehensive pricing policy for its advisory services. The policy has two goals: (i) to strengthen client commitment to implementation of IFC advice, which is essential to success; and (ii) to ensure any subsidy, particularly to firms, is justified by the public benefits involved. Results from a study undertaken by the WBG's Independent Evaluation Group (IEG) confirmed that IFC advisory services have a stronger development impact when clients contribute.[3] IFC client surveys show that clients who contribute to project costs also have higher levels of satisfaction.

In FY11, total project expenditures totaled US$206.7 million. IFC's Advisory Services operations are organized around four business lines[4]:

- Access to Finance – IFC helps increase the availability and affordability of financial services for individuals and micro-, small- and middle-size enterprises (MSMEs). It also helps clients provide broad-based financial services and promote growth and employment generation by supporting sustainable lending, and to build necessary financial infrastructure, such as credit bureaus and collateral registries.
- Investment Climate – IFC helps governments implement reforms to improve the business environment and help encourage and retain investment, thereby fostering competitive markets, growth, and job creation. IFC aims to design and encourage regulatory reforms that support business and trade-friendly environments, while also helping resolve legal and policy weaknesses that prohibit investment.
- Public-Private Partnerships (PPPs) – IFC helps governments design and implement PPPs in infrastructure and other basic public services. IFC helps governments to achieve long-term

[2] For more information about Australia's financial contribution to IFC's Advisory Services, see Annex 1.

[3] For more information on the IEG, see Box 9

[4] See Annex 2 for a table mapping IFC Advisory Services products to Australia's development goals and objectives.

economic growth and better living standards by harnessing the potential of the private sector to increase access to public services such as electricity, water, health, and education, while enhancing their quality and efficiency.

- Sustainable Business – IFC supports the development of markets that are inclusive, sustainable and efficient. Building on IFC's environmental and social performance standards, IFC promotes sustainable business practices in such sectors as agribusiness; infrastructure; oil; gas and mining; and manufacturing and services. Programs promote good corporate governance practices, build the capacity of small firms and small-scale farmers, advance women entrepreneurs, and engage the private sector in climate change solutions.

1.3. IFC's Asset Management Company (AMC)

The AMC, a wholly owned subsidiary of IFC, mobilizes and manages third-party funds for investment in developing and frontier markets. It was created in FY09 to expand the supply of long-term capital to these markets, enhancing IFC's development impact as well as investing profitably for others. AMC helps IFC achieve one of its core development mandates – mobilizing additional capital resources for investment in productive private enterprise in developing countries. It also enhances IFC's development impact by increasing both the size and number of investments IFC can transact. The AMC invested US$632 million in IFC projects in FY11, and has approximately US$4.1 billion in assets under management. It manages funds on behalf of a wide variety of institutional investors, including sovereign funds, pension funds, and DFIs. It is currently managing three funds: IFC Capitalization Fund; IFC African, Latin American and Caribbean Fund; and the Africa Capitalization Fund. Others are under consideration, including a Climate Catalyst Fund to support PPPs in the climate space.

1.4. Special initiatives

IFC also undertakes a number of special initiatives that cut across both investment and advisory operations. For example, in FY09 in response to the unfolding financial and global economic crisis, IFC – in conjunction with a number of bilateral and regional development bank (RDB) partners – launched a number of special initiatives aimed at helping restore liquidity, rebuild financial infrastructure, reduce food scarcity, manage troubled assets, and alleviate specific regional difficulties. These included:

- Trade finance – IFC tripled the size of its existing Global Trade Finance Program to US$3 billion to provide guarantees for trade transactions in developing countries. With G20 endorsement, IFC also helped launch the Global Trade Liquidity Program (GTLP), which brought together governments, DFIs, and commercial banks to help unlock trade finance in developing countries. Partners included Canada, China, Japan, the Netherlands, Saudi Arabia, Sweden, UK, the African Development Bank (AfDB), and the OPEC Fund for International Development. In FY11, IFC issued over 3,100 guarantees totaling US$4.6

billion. More than half of the volume of guarantees issued went to IDA countries. Separately, the GTLP has provided liquidity for trade in developing countries, supporting more than US$15 billion in global trade since it was established in 2009.

- Infrastructure Crisis Facility – IFC established this facility to ensure the availability of long-term debt to support private infrastructure projects affected by capital shortages because of the global crisis. Supported by IFC, Proparco (France), DEG and KfW (Germany) and the European Investment Bank (EIB).
- Microfinance Enhancement Facility – the financial crisis also threatened to restrict financing for microfinance institutions, which play a vital role in the fight against poverty. IFC, together with KfW, OeEB (Austria), EIB, OPEC Fund for International Development, and development agencies from Austria, Germany, the Netherlands and Sweden, came together to establish a facility to provide refinancing to more than 100 microfinance institutions in 40 countries, to support lending to as many as 60 million low-income customers.
- Debt and Asset Recovery Program – this program was established to make direct investments in businesses that need to restructure debt, in pools of distressed assets, and in specialized companies that manage distressed assets.
- The Global Agriculture and Food Security Program – launched together with the World Bank to assist in the implementation of pledges made by the G8 and G20 to strengthen food security in low-income countries. IFC manages funding allocated for private initiatives and provides long- and short-term loans, credit guarantees, and equity to local companies and financial intermediaries.

2. Delivering results on poverty and sustainable development

Development effectiveness is the guiding principle of IFC's work, and greater development impact is IFC's principal corporate goal. IFC recently established the Development Impact Department to give even greater priority to the measurement of development impact across both its investment and advisory services. The Development Impact Department is focused on delivering a unified results-measurement system that drives IFC's performance, sharpens its additionality, and extends IFC's thought leadership. Central to delivering on this objective is IFC's Development Outcome Tracking System (DOTS). DOTS allows IFC to track development results for its entire portfolio continuously through the project cycle, allowing IFC to better understand how strategy is working, and whether interventions are reaching the people and industries that most need help.[5]

IFC was the first DFI to report on development results for its entire portfolio, and to have an external firm review the application of methodology and reported results. In recognition of DOTS' robustness, the Commonwealth Development Corporation has used it as the basis for its

[5] For more information on how DOTS works, see the IFC FY11 Annual Report, *I am Opportunity*, p82

own internal development tracking system, and other DFIs have referred to DOTS to develop similar systems.

For investment projects, staff provide ex-ante estimates of development results for all new projects and then track performance against expectations. On the advisory side, every intervention is subject to rigorous monitoring and evaluation. At project approval, objectives and results indicators are specified alongside a results framework and logic model. These indicators, developed in collaboration with donors and other multilateral organizations, are tracked through project implementation and subjected to semi-annual supervision. At project completion, the projects are evaluated for development effectiveness. The results are validated by an internal results measurement team, and a sample is validated by the IEG.[6] Pilot programs and large interventions are evaluated by academia, local consulting firms, and sometimes donors.

2.1. Improving aid effectiveness through results monitoring

Building on new business reach expectations of IFC's tracking system, and the target number of people expected to benefit from IFC projects, this year IFC took an important step forward that consolidates IFC's leadership in results measurement. Inspired by the Millennium Development Goals, IFC began testing the concept of IFC Development Goals (IDGs), which should allow the Corporation to better integrate results measurement with business strategy. These goals measure the expected development impact of IFC's projects at the time of an investment commitment or an advisory services agreement. Regular monitoring will help ensure that the promises implicit in the goals are kept over time. The first year of testing was used to learn and improve the design of six IDGs (rather than focusing on achieving numerical targets). Extensive feedback has been sought from staff, clients, and external stakeholders, including civil society, to ensure that the IDGs become useful tools and a component of IFC's strategy making process. The IDGs will be further tested and refined through FY12, with the aim of a full roll-out in FY13. Box 2 summarizes the results of this first year of testing.

[6] In FY09, the IEG found that IFC's results measurement systems provide current, unbiased assessments of the development results of IFC investments. It noted that IFC introduced mechanisms to link staff incentives to project results through performance awards. "In so doing", the IEG report noted, "IFC has been at the forefront of performance measurement among MDBs".

Box 2 – the IFC Development Goals (IDGs)

- IDG1: Agribusiness – increase or improve sustainable farming opportunities for 62,000 people in FY11 (percentage of target achieved – 1,787%)
- IDG2: Health and education – improve health and education services for 1.69 million people in FY11 (percentage of target achieved – 121%)
- IDG3: Access to finance – increase access to financial services for 16.9 million microfinance clients and 600,000 SME clients in FY11 (percentage of targets achieved – 136% and 73%)
- IDG4: Infrastructure – increase or improve infrastructure services for 32.8 million people in FY11 (percentage of target achieved – 123%)
- IDG5: MSMEs – help MSMEs increase their revenues by US$7.46 billion in FY11 (percentage of target achieved – 32%)
- IDG6: Climate change – increase climate-positive investments, making 14% of IFC's FY11 investments climate positive (percentage of target achieved – 98%)

In the run-up to the WBG 2011 Annual Meetings in Washington, D.C., IFC convened a workshop, "How can Development Goals best help IFC drive Strategy and Decision-Making?" to bring together representatives of IFC shareholders, DFIs, civil society, private sector clients, and experts/academics. The workshop enabled IFC to gather invaluable feedback to assist with adjustments during the second year of IDG implementation.

2.2. Targeting the poorest people

This year, a report from the IEG found that IFC's approach to fighting poverty has evolved in the right direction, with a growing emphasis on supporting private sector growth that can benefit the poor and the vulnerable. But it also urged IFC to strengthen its focus on poverty, calling for more IFC projects to have explicit objectives around poverty alleviation or pro-poor growth. The IEG report was timely, coinciding with IFC's own recognition that it is possible in many instances to achieve both broad-based growth and inclusiveness. This has now become an integral part of IFC's strategy.

IFC aims to support inclusive and sustainable growth as a means to reduce poverty, with a particular focus on the needs of people at the base of the economic pyramid for access to goods, services and livelihoods in both low- and middle-income countries (MICs). IDA countries are a particular priority for IFC: about 2.5 billion people – half the population of the developing world – live in 80 IDA countries.

Since 2004, one of IFC's strategic priorities has been investments in frontier markets, where poverty is structural and the business environment is frequently too risky for private companies to invest. In an effort to better target the poor, IFC continues its focus on IDA countries, fragile situations, Africa, frontier regions of MICs, and engagement at the base of the pyramid, even though it is often more resource intensive to do so.

The combined gross domestic product (GDP) of IDA countries accounts for only 16% of emerging market GDP. IFC's investments continue to be significantly more concentrated in IDA countries that global foreign direct investment (FDI). There is a clear need for IFC to continue investing and helping to create the business environment that will help IDA countries attract more FDI. At end FY11, more than 30% of IFC's portfolio was committed in IDA countries – compared to only 21% of global FDI. For FY11 new business, 40% of IFC's commitment volume, and 48% of commitments by number, were in IDA countries.[7]

Advisory services continue to be an area where IFC has most heavily concentrated its IDA operations. When investing in the difficult business environment of IDA countries, IFC often starts by providing advisory services to help improve the investment climate. In many instances, IFC accompanies its investments with advisory services, which help businesses by increasing access to financial services or by conducting training for SME entrepreneurs. IFC's experience in IDA and fragile countries clearly demonstrates that development impact is increased when advisory and investment interventions are tailored and sequenced to address programatically the challenges in fragile states, including expanding access to infrastructure, supporting MSMEs, enhancing gender equality, and improving food security. IFC interventions in IDA countries are tracked closely, with a target of ensuring that 50% of investment projects, and 67% of advisory interventions, are in IDA countries by 2014.

IFC employees are based in 48 IDA countries; this decentralized structure makes IFC an important contributor to development in IDA countries. In FY11, IFC invested in 251 projects in 56 IDA countries. Since FY00, IFC investments in IDA have grown tenfold, totaling US$4.9 billion in FY11 alone. Nearly half of IFC's investment projects, and 66% of advisory project expenditures, were in IDA countries in FY11. In addition, IFC has contributed US$1.9 billion to IDA replenishments since 2007.

To help tackle poverty, in FY11 IFC developed an action plan that is in the process of implementation. The plan will help strengthen IFC's focus on the poor from the outset of operations, and create opportunity by improving access to basic goods and services, while stimulating sustainable growth. Work has also commenced on a new integrated investment and advisory facility to address programmatically the challenges in fragile and post-conflict states (FCS), expand access to infrastructure, support MSMEs, enhance gender equality, and improve food security. IFC is considering scaling up its capacity to deliver in FCS, including through staff development and recruitment, and include a heavy focus on knowledge management and

---

[7] Investing in many IDA countries can be difficult. IFC continues to embrace these challenges, and is often breaking new ground with its IDA investments. Overall, commitment volumes for IDA tend to be smaller. For this reason, IFC's Management Team emphasizes the *number* of projects in IDA countries, rather than commitment volume, and includes this metric in its Corporate Scorecard.

sharing, including through strengthening relationships with non-governmental organizations (NGOs), think-tanks and donors.

IFC has also launched a dedicated Inclusive Business Group to create the tools, resources and events that will help investment and advisory staff develop new ways to support IFC clients help those at the base of the pyramid. The role of this Group is to (i) demonstrate with evidence from IFC's projects that inclusive business models can be profitable, reach scale, and improve the lives of millions of those at the base of the pyramid; (ii) disseminate IFC's knowledge and expertise widely; and (iii) catalyze activity in this innovative area where the private sector addresses the needs of the base of the pyramid directly and in a commercially viable way.

Box 3 – Inclusive business approaches build markets for the poor

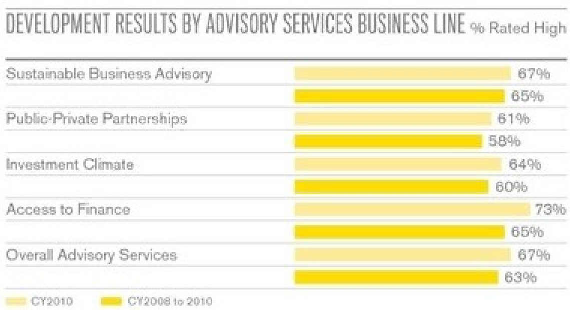
IFC has a significant number of clients pioneering inclusive business models that serve the base of the pyramid (BOP) in commercially viable, scalable ways. Reviews of IFC's portfolio have led to case studies with clients in key strategic sectors: telecommunications infrastructure; health and education; agribusiness; and financial services in all regions. The analysis pointed to three barriers that companies need to overcome in order to do business with the BOP:

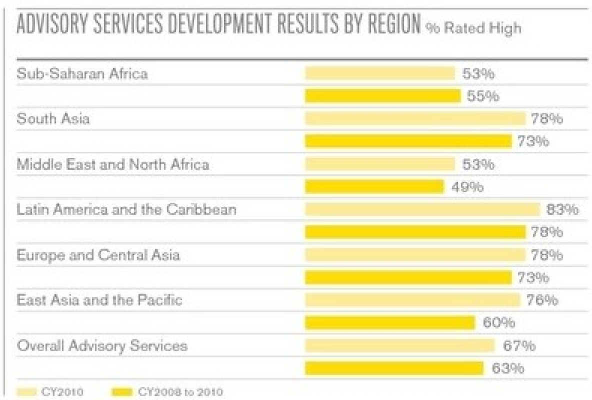
- building distribution networks that reach the BOP at scale;
- increasing access to finance all along the value chain; and
- changing behaviors and mindset of BOP consumers and suppliers.

By providing strategic solutions and investment and advisory product innovations to overcome such barriers, IFC has been able to attract new and repeat investments with clients engaged in inclusive business models. For example, Grupo Martins in Brazil had to build a large distribution infrastructure in order to meet the demand of its vast client base: 300,000 MSME retail shops that serve BOP customers throughout the country. Access to credit for these small shops was scarce, so Grupo Martins created Tribanco to provide financial and management assistance to serve over 150,000 retailers. The people that shop at these small stores are primarily low-income and with limited access to financial products; Tribanco therefore established a private label credit card company that has issued over 4 million credit cards to serve retail outlet customers at the BOP. Finally, Tribanco, with IFC's assistance, developed educational modules to advocate the responsible use of credit by its staff and retail clients, as well as the credit card customers.

2.3. Demonstrated development results

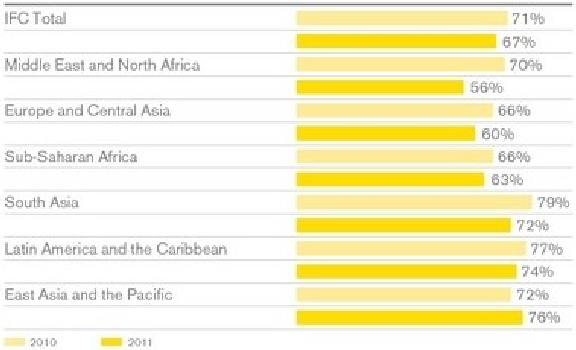
IFC's development results reporting covers all operations,[8] and is assured by an external assurance provider, currently Ernst & Young. IFC's overall development outcome rating for investment projects in FY11 was 67%, exceeding a long-term target of 65%. For advisory services, 67% of advisory projects that closed during 2010 that could be assessed for development effectiveness were rated as mostly successful or higher.



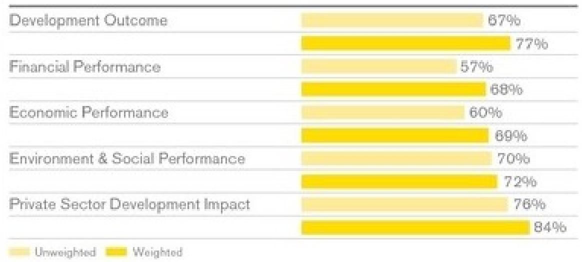


[8] After having in the past evaluated trade finance on a program level, and recognizing the growing importance of trade finance amongst IFC products, IFC is this year implementing a newly-developed trade finance monitoring and evaluation framework that includes project-level results tracking. This new framework will improve the ability to track, report, and feedback development results into operations.

DEVELOPMENT OUTCOME BY REGION, FY11 VS. FY10 % Rated High



DEVELOPMENT OUTCOME BY PERFORMANCE AREA, FY11 % Rated High



DEVELOPMENT OUTCOME BY INDUSTRY, FY11 VS. FY10 % Rated High

FY10 data have been recalculated following an internal reorganization that resulted in the creation of new industry categories and the elimination of others.

DEVELOPMENT REACH BY IFC'S INVESTMENT CLIENTS

	Portfolio CY09	Portfolio CY10	New Business Expectations FY11[4]
Investments			
Employment (millions of jobs)	2.2	2.4	0.2
Microfinance loans[1]			
Number (million)	8.5	8.0	24.7[5]
Amount ($ billions)	10.79	12.62	13.73[5]
SME loans[1]			
Number (million)	1.5	1.7	1.0
Amount ($ billions)	101.32	127.82	49.12
Customers reached with services (millions)			
Power generation[2]	57.4	41.9	12.8
Power distribution	29.4	32.0	0.3
Water distribution[3]	26.6	20.1	0.4[6]
Gas distribution	15.7	17.2	NA
Phone connections	169.3	179.7	7.4
Patients reached	7.6	7.5	2.6
Students reached	1.4	1.0	0.5
Farmers reached	2.1	2.5	1.2
Payments to suppliers and governments			
Domestic purchases of goods and services ($ billions)	38.02	39.51	7.47
Contribution to government revenues or savings ($ billions)	20.08	20.28	6.44

1 In many cases, results also reflect contributions from IFC Advisory Services.

2 IFC has revised its methodology for estimating residential power customers served. Estimates for past years have been revised accordingly.

3 CY09 water figure has been corrected. It included 7 million customers of sewage services.

4 New Business figures for all reach indicators other than infrastructure or telecom are reported as targets and not increments.

5 For FY11, expected Microfinance reach includes one project in South Asia that accounts for 12 million loans and $4.2 billion of outstanding portfolio, by March 2016.

6 In FY11, in addition to water distributed, we also expect to reach 1.6 million sewerage and wastewater customers.

3. Alignment with Australia's aid priorities and national interests

In line with the fundamental purpose of Australian aid, IFC's overarching vision is that people should have the opportunity to escape poverty and improve their lives. IFC does this by:

- mobilizing sources of finance for private enterprise development;
- promoting open and competitive markets in developing countries;
- supporting companies and other private sector partners where there is a gap; and

- helping to generate productive jobs and deliver essential services to the vulnerable.

To achieve this purpose, and as discussed in Section 1, IFC is comprised of three main businesses – investment services, advisory services, and the AMC. Within the investment business, operations are organized by sector and region, and within advisory, by business line and region. IFC operations are tailored to specific client-needs and country circumstances, and cross a broad spectrum of sectors, industries, and themes. All are aimed at promoting sustainable economic development, and the vast majority at improving incomes, employment, and enterprise opportunities. There are also a plethora of examples of IFC interventions that align very closely with Australia's other aid priorities and national interests, as described below.

3.1. Increasing access to safe water and sanitation

IFC is working to increase the efficiency of water supply and treatment. By 2013 IFC, through its clients, aims to provide access to water for 100 million people, to save or treat 20 billion cubic meters of water per year, and to invest US$1 billion per year in water security projects.

An example of one such project is IFC's work with Companhia Catarinense de Agua e Saneamento (CASAN) in Brazil. CASAN provides water and sanitation services for 2.3 million people in southern Brazil, where between 23% and 40% of the water produced is currently lost because of poor technology and simple measurement errors. With help from IFC, CASAN intends to replace 300,000 outdated water meters and update the customer database by conducting household inspections. The latter step will enable CASAN to identify low-income residents who may be eligible for state water subsidies. IFC and CASAN are hoping to demonstrate to other utility companies and investors that it is possible for environmental, development, and financial interests to converge.

3.2. Quality health services

IFC is working with the private sector to find innovative ways to ensure the poor can access quality health care services, and the private sector has a significant role to play in health care in developing countries. In Sub-Saharan Africa, for example, private health care providers are often the only option for people living in rural areas and urban slums. Yet oversight of these providers is minimal.[9] IFC helps governments forge partnerships with the private sector that can foster better funding of health care for the poor, and promote more effective regulation.

In Andhra Pradesh, India, for example, IFC developed a unique PPP to upgrade radiology services at four teaching hospitals. Under this project, a consortium will refurbish and build facilities, install equipment, and offer services. Scans provided by the consortium will cost around half the market rate. The initiative is structured to maximize development impact by

[9] See *Healthy Partnerships,* a report published by the IFC and World Bank in June 2011

fusing the private sector's expertise with public policy objectives. IFC expects the initiative to serve 100,000 people per year, around 85% of whom live below the poverty line.

Box 4 – Scaling up in the Pacific

IFC has projects in more than 20 countries across East Asia and the Pacific. In the Pacific Islands, IFC aims to foster sustainable economic growth by financing private sector investment, mobilizing capital, and advising business and governments on projects that provide lasting benefits to communities and the environment.

As IFC has shifted resources away from MICs to those most in need over recent years, the Pacific region has benefitted. IFC has doubled staff numbers in the region over the last 5 years, and achieved a record investment commitment in FY10 of US$236 million, a sum that exceeded in one year IFC's total historical commitments in the region. Examples of IFC engagements in the Pacific include:

- working with Digicel to increase access to reliable telecommunications across the Pacific. In countries such as Tonga and Vanuatu, mobile phone usage rates have increased from 6% to 60% of the population;
- working with KK Kingston, a local manufacturing and trading firm in Papua New Guinea, to help expand capacity to meet demand being generated by large investments in extractive industries and associated infrastructure and services. With the resultant increased production, the company expects to create an additional 100 jobs by 2013;
- in the Soloman Islands, IFC provided financing to restart operations at the Gold Ridge mine, providing an opportunity to develop a community investment program that will link small businesses to the mine's supply chain, and support good management and distribution of mining royalties. The project is the Islands' largest private sector project, and at full production, is expected to account for around 20% of GDP and create or maintain 450 jobs;
- in Tonga, IFC partnered with microfinance provider South Pacific Business Development (SPBD), to increase women's access to microfinance. Since the partnership started, SPBD has reached over 3,000 women in Tonga; and
- in Papua New Guinea, IFC partnered with the National Courts to establish an Alternative Dispute Resolution program, which is helping businesses in dispute to resolve their differences quickly and cost-effectively. To date, mediation has resulted in substantial savings in legal costs, estimated at around US$244 million for mediation participants.

3.3. Empowering women

Recognizing that aspiring business women are often prevented from realizing their economic potential, IFC is committed to creating opportunities for women in business. The Women in Business program aims to mainstream gender issues into IFC's work, while helping to better leverage the untapped potential of women in low-income and emerging markets. IFC provides financial products and advisory services to: (i) increase access to finance for women entrepreneurs; (ii) reduce gender-based barriers in the business environment; and (iii) improve the sustainability of IFC investment projects.

Overall, the Women in Business Program has invested more than US$118 million in commercial banks in developing countries. Through FY11, these banks have disbursed US$86 million to 2,200 women-owned small and medium enterprises (SMEs), while more than 3,000 entrepreneurs have been trained.

IFC also helps create jobs for women. Data from 615 investment clients across all regions and industry sectors show that they employed more than 630,000 women in 2010, or 31% of their workforce. Over the past three years, a sub-set of 293 IFC clients added nearly 35,000 jobs for women, a net increase of 14% in female employment. Looking forward, IFC aims to provide loans through financial intermediaries to 3.1 million SMEs by 2013, at least a quarter of them women-owned. IFC also aims to expand financial services to 58.4 million microfinance clients, at least half of them women.

IFC is the lead sponsor of the Global Banking Alliance for Women, bringing together 31 financial institution members committed to leveraging the women's market around the world.

3.4. Education for employment

The Middle East and North Africa have the highest rates of youth unemployment in the world – over 25%. Two-thirds of the region's people are younger than 30, implying an enormous need for job creation. To help address this challenge, IFC and the IsDB are launching a program that over five years could mobilize up to US$2 billion to promote Education for Employment (E4E) in the Middle East and North Africa. Through a combination of investment and advisory services, the initiative will support vocational education, training, work-readiness programs, and university education throughout the region.[10]

3.5. Improving food security

IFC is playing a critical role in addressing the challenge of feeding hungry people across the globe by supporting effective and sustainable practices throughout the agribusiness value chain. IFC's work gives farmers better access to finance, letting them reach new markets. IFC helps them improve productivity, reduce waste, and adopt sustainable methods. By channeling investment to promote global and local trade in food and agriculture, IFC strengthens the global distribution of food. IFC also creates innovative products that protect farmers from unforeseen risks, and provides training on sustainable practices.

IFC is working to help farmers mitigate price risk, improving access to finance and opening the way for much-needed agricultural investment. Alongside JPMorgan Chase, IFC is working to

[10] For more information on the Education for Employment initiative, see http://www.e4earabyouth.com

overcome the market constraints that keep banks from under-writing more price-hedging products, an approach IFC believes will result in an increased use of swaps and forward contracts for corn, wheat, and other commodities. The project will make more capital available for farmers, and ease banks' country risk and capital constraints. The product will provide up to US$4 billion in price protection for farmers, producers and consumers. It will also help demonstrate the role the private sector can play in addressing the food crisis.

Other ongoing initiatives include the Global Agriculture and Food Initiative (see Section 1.4), the promulgation of a Global Palm Oil Strategy (see Box 14), a Global Agribusiness Approach for IFC's future engagement in this sector, and a Global Water Initiative.

Box 5 – The Water Resources Group

The Water Resources Group (WRG) is a private-public global initiative aimed at mobilizing a broad range of stakeholders – private sector, government leaders, civil society, bilateral partners, and MBDs – to support governments willing to accelerate their progress towards national water security.

Formed in 2008 to contribute new insights to the critical issue of water security in the context of economic growth, WRG brought together a consortium of stakeholders including the WBG and private sector companies. In 2009, the group published the report, *Charting our Water Future*. It highlighted the issue of water scarcity through the growing gap between demand and supply for water, particularly in the developing world: by 2030, demand will have outstripped the capacity to meet it by 40%, and a third of the global population will live in areas where that gap is 50% or more.

To that end, the IFC is currently undertaking the effort to establish a new WRG entity with an initial mandate to drive country water sector transformation programs over a five-year horizon supported by an estimated US$75-100 million trust fund facility.

3.6. Reducing the negative impacts of climate change

IFC brings market-based solutions to the challenge of creating low-carbon economic growth that meets the needs of the poor. IFC helps private companies in low-income and emerging markets identify business risks and opportunities associated with climate change. IFC provides financing through loans and equity to climate friendly projects, including renewable energy power plants, sustainable forest plantations and clean technologies. IFC also provides client companies with expert advice on reducing greenhouse gas emissions and on adapting to potential impacts of climate change to their businesses. IFC clean energy projects span the value chain – early stage clean tech, manufacturing (solar cells), power generation (hydro, wind, geothermal, solar), industrial energy supply (biomass power generation, waste heat recovery, industrial efficiency), retail distribution, and consumer financing.

On the advisory side, IFC aims to mitigate climate change by reducing greenhouse gas emissions through agricultural products, and increasing efficiencies from cleaner production and utility efficiencies. IFC also supports adaptation to the impacts of climate change by addressing water access and biodiversity issues. In 2010, IFC Advisory Services reached 200 entities through cleaner production audits and broader workshops. In FY11, IFC committed nearly US$1.7 billion in energy efficiency and renewable energy projects. IFC has committed to make at least 20% of its investment commitments climate-friendly by 2013 (up from 14% in FY11), and more than double its advisory activities in the climate space, to 26% of the portfolio by 2014.

Box 6 – Post-2012 Carbon Facility

To promote low-carbon growth, IFC launched the Post-2012 Carbon Facility in February 2011. The fund closed, fully subscribed, in June 2011. It will purchase Certified Emission Reductions (CERs), a type of carbon credit governed under the Kyoto Protocol, through 2020, providing certainty to businesses and markets following the expiration of the Protocol. The IFC facility helps address uncertainty around the market for CERs, by purchasing credits directly from companies with projects that reduce greenhouse emissions. IFC has committed €15 million to the fund, and as mobilized an additional €135 million from European energy groups.

3.7. Effective governance

IFC helps guide countries to a position where they can attract – and retain – the capital that creates jobs and improves lives. IFC uses its influence with governments and companies to bolster corporate governance and raise performance standards, essential ingredients in a vibrant private sector.

Though its Investment Climate advisory services, IFC helps governments implement reforms that improve the business environment and help encourage and retain investment, thereby fostering competitive markets, growth, and job creation. IFC's priorities are to design and encourage regulatory reforms that support business and trade-friendly environments, while also helping resolve legal and policy weaknesses that inhibit investment. At end FY11, IFC had an active portfolio of 132 investment-climate projects in 57 countries, valued at around US$204 million. In FY11, 79% of IFC's investment climate activities were in IDA countries.

3.8. Humanitarian and disaster response

IFC is not an institution geared toward humanitarian or disaster response efforts. But it is clear that recovering from such disasters requires the prompt restoration of basic services, together with mobilizing the private sector to help create the opportunity for people to improve their lives. Following the 2010 earthquake in Haiti, IFC was able to help do just that.

IFC led the financing construction of a 30-megawatt power plant outside the capital, inaugurated in January 2011. This new plant immediately increased the energy supply capacity in the Port-au-Prince metropolitan area by approximately 35%.[11] More broadly, IFC invested US$15 million in projects in Haiti focused on job creation in the garment, finance, mining, and hospitality sectors. IFC's portfolio of investments amounts to US$47.7 million in seven operations in the country. Through IFC's Advisory Services, the Corporation structured a PPP that generated the largest FDI since the quake: US$100 million from Vietnam's Viettel to Haiti's TELECO to upgrade communications systems. IFC's combined investment and advisory projects are supporting the creation of 5,000 new jobs in Haiti, and safeguarding 5,000 existing jobs. Through advisory services, IFC has also trained more than 1,500 managers of SMEs across Haiti, improving their growth potential and their ability to create jobs.

4. Contribution to the wider multilateral development system

IFC teams up with many multilateral and bilateral private sector DFIs, pooling resources to expand reach and maximize the impact of investments and advisory services. Collaboration allows for knowledge sharing and promulgation of best practice.

IFC is also contributing to the wider multilateral development system through the development and promulgation of innovative tools and techniques to further development outcomes. For example, in the field of climate change, IFC remains the only IFI to offer structured carbon finance products for its own account, and has recently launched the €150 million IFC Post-2012 Carbon Facility that will mobilize funds from European utilities and energy companies to help extend carbon markets beyond 2012 for eligible projects (see Box 6).

[11] The "E-Power" plant is majority owned by local investors and will produce electricity for the state-owned utility company under a 15-year purchase agreement. IFC provided US$17 million in debt financing, and mobilized US$12 million from the Netherlands FMO and US$28 million from local banks and investors. The total project cost was US$57 million.

Box 7 – Thought leadership and promulgation of norms and standards

Since they became effective in 2006, IFC's performance standards have become a leading benchmark for environmental and social risk management in the private sector. The Equator Principles, a voluntary environmental and social risk-management framework based on IFC's Performance Standards, are now used by 72 financial institutions worldwide. In addition, 32 Export Credit Agencies from the OECD rely on the Performance Standards as a benchmark. European DFIs use the Performance Standards in their operations, and in 2008, the EBRD modeled its own Performance Requirements on IFC's Performance Standards.

IFC also supports a range of agricultural commodity roundtables committed to improving production practices throughout the entire supply chain in commodities such as palm oil, cotton, sugar, soy, and beef. These roundtables bring together key players in the agricultural supply chain, banks and civil society groups. They work together to define principles of sustainable production. The first of these, the Roundtable for Sustainable Palm Oil, was established in 2004. Through collaboration with the Indonesia Palm Oil Producers Association, Unilever, HSBC, WWF, Oxfam, IFC and many others, the first certified sustainable palm oil became available in November 2009. Since then, more than 4 million metric tonnes have been certified.

Through the Global Corporate Governance Forum, a multi-donor trust-fund facility, IFC drives the corporate governance agenda amongst policymakers, regulators, leading corporate directors' organizations, and the business media. IFC brings together international portfolio investors and prominent business leaders to discuss what governance changes are needed to attract more capital.

IFC is also at the forefront of an effort to understand which interventions in what country conditions are most likely to catalyze job creation or benefit the poor. With a strong network of partners in development, IFC has recently launched a study focused on the practical lessons that can be learnt about job creation through private sector development. The findings of the study will be useful for policy makers, private-sector oriented DFIs, private companies, and IFC itself. The study – currently a work-in-progress – is closely aligned with the 2013 *World Development Report* on employment, and draws upon relevant departments within the WBG and IFC, and on the expertise of external consultants, partners, and clients.

Box 8 – IFC and global knowledge

Knowledge is a key competitive advantage for IFC. As a global institution, IFC is able to take lessons learned in one region, industry or sector, and replicate them in another. IFC strives to deliver best-in-class knowledge and innovation to clients, and has internal structures in place to capture and disseminate knowledge to empower staff to effectively deliver quality services to clients. An example is the SmartLessons program, which was launched by IFC and subsequently rolled out across the WBG.

SmartLessons enables development practitioners to share their lessons of experience in working on technical and operational issues as part of program implementation. SmartLessons are short papers (2-4 pages), that provide first-hand, straightforward, and useful analysis. They are written by professionals for professionals and capture practical (positive and negative) lessons that can be useful for colleagues working on similar projects/programs or facing similar issues.

Over 600 SmartLessons have been published, covering a variety of themes across IFC's Advisory and Investment services. Recent topic areas of focus include: Private Sector Participation in Water; Knowledge Management; Strategic Communications; Working in FCS; Gender in Development; and Women in Business.[12]

5. Strategic management and performance

IFC tries to be selective and prioritize its activities where the need is greatest. IFC screens all its activities to ensure development impact, additionality, and financial sustainability. The five Strategic Pillars, which have been in place since 2004 (with some evolution) and consistently endorsed by the Executive Board, are consistent with the WBG's Post-Crisis Directions, and remain the framework for identifying priority development areas:

- strengthening the focus on frontier markets – IDA countries, FCS, and frontier regions of middle-income countries;[13]
- addressing climate change and ensuring environmental and social sustainability – developing new business models and financing instruments, setting and raising standards;
- addressing constraints to private sector growth in infrastructure, health, education, and the food-supply chain – increasing access to basic services and strengthening the agribusiness value chain;

[12] For more information on SmartLessons, and for the lessons themselves, see http://www.smartlessons.ifc.org

[13] IFC is working on adding an additional element to its definition of "frontier" region, to cover activities which address the needs of the poor wherever they are. For more information, see the IFC Roadmap FY12-14.

- <u>developing local financial markets</u> – building institutions, mobilizing resources, and introducing innovative financial products, focusing on MSMEs; and
- <u>building long-term client relationships in emerging markets</u> – using the full range of IFC products and services to guide clients' development and assist cross-border growth.

IFC Management track the Corporation's performance under these pillars and report to the Executive Board through a Corporate Scorecard (see below). Anecdotes of achievements are also reported in the *Road Map* paper, an annual Board-approved document that sets the overall strategic priorities for the Corporation for the coming years. IFC has successfully met its targets since the introduction of the Corporate Scorecard in FY05.

The Scorecard
IFC's Performance on Strategic Priorities

Indicator	Performance FY11	Performance FY10
DEVELOPMENT RESULTS		
Investment Projects Rated High (DOTS Score)[1]	67%	71%
Advisory Projects Rated High[2]	67%	63%
FOCUS AREAS		
FRONTIER MARKETS		
Number of Investment Projects in IDA Countries	251	255
Commitments in IDA Countries (millions)	$4,867	$4,881
Advisory Services Expenditures in IDA Countries (millions)[3]	$ 107	$ 95
Commitments in Sub-Saharan Africa (millions)	$2,150	$2,428
Commitments in Middle East and North Africa (millions)	$1,603	$1,572
CLIENT PARTNERSHIPS		
Number of South-South Investment Projects	32	71
Commitments in South-South Investment Projects (millions)	$1,034	$1,654
CLIMATE CHANGE		
Commitments in Energy Efficiency and Renewable Energy (millions)	$1,671	$1,644
INFRASTRUCTURE, HEALTH, EDUCATION, FOOD		
Commitments in Infrastructure, Health and Education, and Food[4] (millions)	$2,200	$3,173
LOCAL FINANCIAL MARKETS		
Commitments in Financial Markets (millions)[5]	$8,176	$6,654
Commitments in Micro, Small, and Medium Enterprises Sector (millions)[6]	$6,020	$5,279

1 DOTS scores: Percentage of client companies with development outcomes rated high as of June 30 of the respective year, for a rolling average of six years of approvals (2002–2007 for FY11).
2 For Advisory Services, development effectiveness ratings are for calendar years 2010 and 2009 (FY11=CY10; FY10=CY09).
3 FY10 and FY11 figures reflect improved methodology for measuring Advisory Services expenditures in IDA countries, incorporating regional projects.
4 Commitments of IFC's Infrastructure, Communications and Information Technologies, Subnational Finance, Health & Education, and Agribusiness departments (not the entire food-supply chain).
5 Commitments of IFC's Financial Markets department.
6 Includes direct MSME borrowers, financial institutions with MSMEs accounting for more than 50% of their business clients, and any other investments that specifically target MSMEs as primary beneficiaries.

5.1. Clear strategy and plans, effectively implemented

In addition to its Strategic Pillars, IFC also undertakes a comprehensive annual strategy setting process. Every year, the Management Team start the process by holding structured strategy discussions, in order to set overall guidance to each department. Each department within IFC then holds internal strategy discussions to form their own strategies. The resultant regional and industry strategies are presented and discussed with and by the Management Team in a week-long meeting. These departmental strategies feed into a corporate-wide annual strategy, and ultimately, the annual *IFC Road Map* publication, which is discussed and approved by the Executive Board. Strategy discussions not only include each region and industry's strategic imperatives, but also the common metrics such as development impact, operational effectiveness, and portfolio figures. Strategy discussions also feed into annual budget allocation discussions, where priorities and productivity are important drivers of budget allocations.

Over the past year, in addition to the annual strategy discussion, there have been strategic engagements with the Executive Board as part of broader discussions on a variety of topics, including the financial crisis and IFC's response to it, a proposed IFC capital increase, IFC's net income position, and IFC's long-term strategy.

The Corporate Scorecard is an important tool for both the Executive Board and IFC to monitor progress against the strategic priorities. Based on these targets and the focus areas identified in the annual Management Team strategy discussion, each Vice President sets personal objectives and metrics to measure progress towards them. Delivery against these targets is then assessed during each Vice President's annual performance evaluation. The objectives and targets are also cascaded down to directors, managers, and staff, to ensure that each staff members' individual performance targets are aligned with the IFC's strategic priorities.

IFC's strategy formulation and operational decisions are also informed by findings from independent evaluations by the IEG (see Box 9 and Section 8.2, below), DOTS results (see Section 2, above), and by IFC-commissioned third party evaluations. IFC also routinely measures and reports on the reach and other measurable development results of its investment and advisory portfolio.

As discussed in Section 2, IFC has also begun testing the concept of IDGs, which aim to allow IFC to integrate results measurement with business strategy. The goals are intended to measure the expected development impact of IFC's projects at the time of an investment commitment or advisory services agreement, and to ensure IFC activities remain focused on, and consistent with, development impact and poverty reduction.

5.2. Effective governance

IFC is one of five members of the WBG, though it is a separate legal entity with separate Articles of Agreement, share capital, financial structure, management, and staff. Membership in IFC is only open to member countries of the International Bank for Reconstruction and Development. As of 30 June 2011, IFC's share capital of around US$2.4 billion was held by 182 member countries. These countries guide IFC's programs and activities.

Each of IFC's member countries appoints one Governor and one alternate Governor. Corporate powers are vested in the Board of Governors, which delegates most powers to an Executive Board of 25 Directors based in Washington, D.C. Voting power on issues brought before the Executive Board is weighted according to the share capital each Director represents. The Directors meet regularly to review and decide on investments, development interventions, and provide overall strategic guidance to IFC management. Executive Directors serve on one or more standing committees: the Audit Committee, Budget Committee, Committee on Development Effectiveness, Ethics Committee, Committee on Governance and Administrative Matters, and/or the Human Resources Committee. With the committees' help, the Board discharges its oversight responsibilities through in-depth examinations of proposed investments, policies and practices. The Executive Directors' Steering Committee, an informal advisory body, also meets regularly.

Robert Zoellick is President of IFC and the other WBG institutions; he also serves as Chairman of the Board. Lars Thunell is IFC's Executive Vice President (EVP) and Chief Executive Officer (CEO), and oversees IFC's overall strategy and operations.

Box 9 – Independent accountability mechanisms

The Independent Evaluation Group (IEG) is an independent unit within the WBG. It evaluates IFC's work in private sector development, reporting directly to IFC's Board of Executive Directors. IFC's management cannot alter IEG's findings, or prevent their releases. This independence allows IEG to strengthen accountability and make recommendations based on lessons of experience.

The Office of the Compliance Advisor/Ombudsman (CAO) is the independent accountability mechanism for IFC and the Multilateral Investment Guarantee Agency (MIGA). Reporting directly to the WBG President, CAO responds to complaints from people affected by IFC and MIGA projects, with the goal of enhancing social and environmental outcomes and strengthening the public accountability of IFC and MIGA. Since CAO was established in FY00, it has helped address 82 complaints related to 55 different IFC projects in 29 countries. It has enabled IFC to respond quickly and effectively to citizens' concerns, and ensure that their voices are heard and acted upon.

5.3. Human resource (HR) management

IFC's recognizes that its performance is directly linked to the skills, knowledge, and motivation of its workforce. IFC's HR strategy, aligned to support the Corporation's business objectives, has played a critical role in IFC's achievements to date and will be essential to IFC's continued ability to deliver development outcomes.

People are IFC's most important asset. IFC is intensifying its efforts to build a global cadre of professionals who bring the full spectrum of global, local, and technical expertise to clients. In FY11, IFC strengthened its performance-management system by introducing a new objective-setting process that better aligns individual performance objectives with corporate priorities, including to ensure that personal objectives are specific, measurable and time-bound. IFC also employs a variable pay program, consisting of several components (recognition, annual, and long-term performance awards) to support IFC's high performance culture. These awards are designed to encourage teamwork, reward top performance, and support IFC's strategic priorities.

Box 10 – IFC change management

The IFC 2013 Initiative is the next step in an ongoing evolution of IFC's organization structure, processes, and incentives to better align with its strategic priorities. IFC began the decentralization process in earnest in FY02 with the movement of Regional Departments to the field. Five years later, in FY07, IFC embarked on "Vision 2010" which aimed to bring more staff, as well as decision-making, closer to clients.

Notwithstanding the substantial gains from decentralization, growing feedback from clients and staff indicated that the changes had also introduced complexity in some areas, and that IFC was not fully realizing the benefits of a decentralized operating model. A comprehensive change management process was launched to better understand these limitations and opportunities, and to determine how best to position IFC for continued success in the future. It has the following objectives:

- expand IFC's development impact;
- strengthen IFC's ability to be financially sustainable;
- improve client satisfaction;
- strengthen talent management and people development; and
- better leverage Global Knowledge in a decentralized environment.

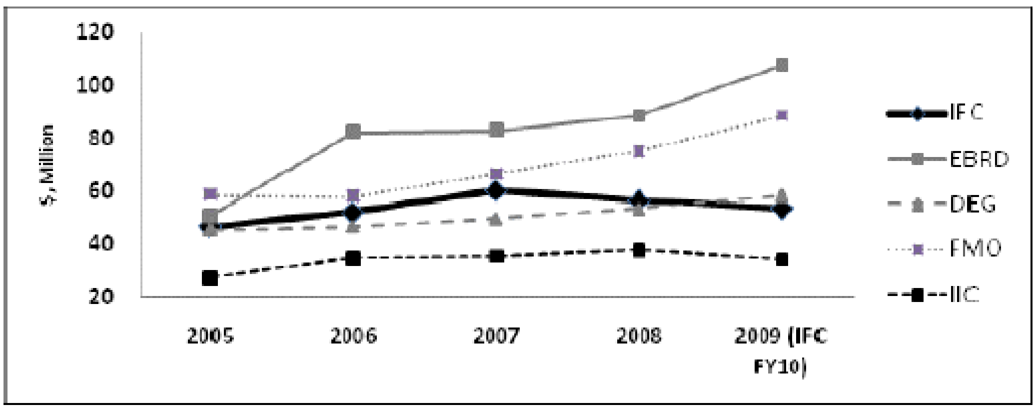
This process has seen the introduction of the IDGs (see Box 2), the adoption of measures to strengthen IFC's financial sustainability; the launch of a new performance management approach; and revisions to IFC's organizational structure to clarify roles and promote functional specialization of front-line staff to further efficiency, productivity, and accountability.

IFC staff are drawn from 140 countries, and are located in 102 offices in 92 countries. In FY11, 55% of staff were based in the field, close to clients, and 66% of the workforce are from developing countries.[14]

6. Cost control and value for money

IFC is committed to continuous improvement in its productivity and efficiency, using two major sets of metrics for investments: (i) investment operation productivity ratios; and (ii) benchmarks against other IFIs. The ratio of commitments per dollar of budget steadily improved from FY03 to FY10, and was flat in FY11 as more investments were made in equity and IDA countries which are more costly per dollar invested. On the advisory side, project-related expenditure as a proportion of total expenditure has increased from 75% in FY05 to stabilize at around 83% in recent years.

Figure 1 – IFI benchmarking: US$ committed portfolio per administrative expenses



Productivity and efficiency, development impact results, and strategic priorities are key drivers of annual budget allocations. Since FY01, IFC's regular administrative budget has a percentage of its total committed portfolio has not exceeded 2%.

6.1. Productivity and efficiency

IFC continuously strives to improve the productivity and efficiency of its operations. The Corporation has employed various metrics through the years to track productivity. All such metrics are shown in the form of a ratio of output to input. In formulating the *FY12 Business Plan and Budget*,[15] IFC decided to simplify the calculation, reporting and tracking of productivity, while at the same time limiting number of metrics the Management reviews in

[14] For more information on IFC's Human Resources policies, see the FY11 IFC Annual Report, *I am Opportunity*, pp87-88

[15] As approved by the Executive Board on 20 June 2011

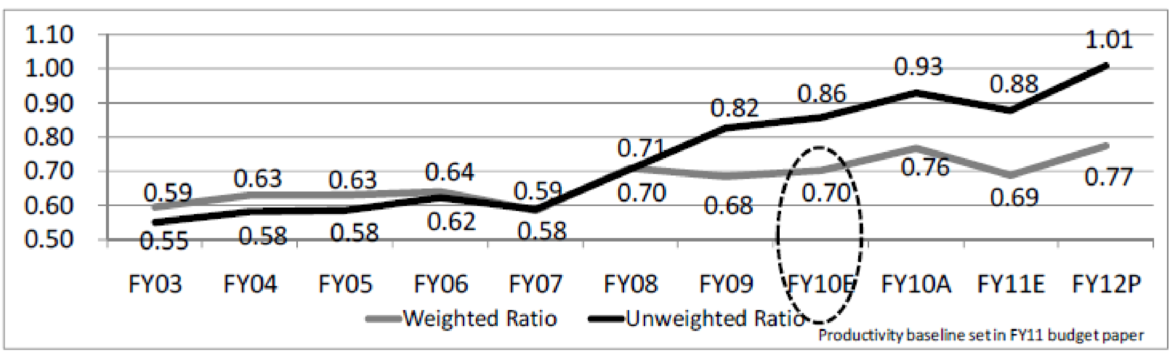
assessing the Corporation's performance. With these goals in mind, IFC now focuses on a variation of the metric introduced to gauge improvements; specifically, IFC set the explicit goal of increasing the ratio of commitments per staff by 20% from FY10 to FY13.

The current methodology uses average number of Investment Officers for a fiscal year as the input dimension; this limits debate over data quality and requires no interpretation in calculations. The output, number of commitments, has also been refined to differentiate the various levels of effort required to deliver a project based on its geographic composition (IDA country), or the underlying financial product (loan versus equity and short-term finance), and is weighted as follows:

- IDA loans: 111%
- IDA equity: 133%
- Non-IDA loans: 100%
- Non-IDA equity: 120%
- Short-term finance: 25%

This weighting schema was developed based on an analysis of the relative cost intensity of each commitment in IFC's portfolio. The weighting factors thus reflect the higher effort required to process projects in IDA countries, as well as to differentiate between loans and equity.

Figure 2 – Number of commitments per investment officer



It is far more difficult to systematically measure the productivity and efficiency of advisory services operations. That said, IFC routinely attempts to assess the efficiency of each intervention at the completion of a project, as part of determining its overall development effectiveness rating. As part of a Project Completion Report, project officers must rate the intervention against three broad categories:

- cost versus benefit (or how much "bang for the buck" the project delivered);
- how economically funds, expertise, time etc were used, compared to similar projects; and
- whether, in retrospect, there were less costly ways to achieve the same objectives.

Obviously this process is more art than science, and is constantly being refined. In an attempt to reduce subjectivity, all ratings are assessed and verified by IFC's Development Impact Department, including to ensure that lessons are learnt from each intervention, which can then be applied to future projects. IFC are also planning the roll-out of a component-based accounting system for advisory services, which should further strengthen its ability to monitor the efficiency of advisory services interventions.

7. Partnership behavior

IFC seeks out partnerships with a wide range of stakeholders, including donor governments, foundations, and civil society to increase impact around mutually important strategic themes, thereby leveraging resources to increase development impact. Other areas of partnership include standard setting, sharing of best practice, results measurement, and research (see Box 7). Framework or partnership agreements, which provide an overarching framework to IFC's engagement with a particular donor, play an important role in this process. Agreements have been signed with Austria, Denmark, the European Commission, Ireland, Japan, Korea, Luxembourg, the Netherlands, Norway, and Switzerland.

Box 11 – Examples of IFC collaboration with Australia

Advisory services – through contributions to the Enterprise Development Facility trust fund and Foreign Investment Advisory Service (FIAS), Australia and IFC have provided advisory services to improve the investment climate, increase access to finance, provide sustainable business advisory, and create effective PPPs in the Pacific. In 2010, IFC partnered with Australia to launch the Pacific Microfinance Initiative to improve basic financial services, particularly for women, rural households and enterprises, in Papua New Guinea, Timor-Leste and the Pacific Islands. The program is supporting the development of the first multi-country microfinance franchise in the Pacific (SPDB) which started in Samoa, expanded to Tonga, Fiji, and may soon roll out to Vanuatu, as well as providing support for the major new rural finance initiative in Papua New Guinea with Bank South Pacific, which targets increasing access to financial services in the country by 40%. Australia provided A$9.5 million towards the total cost of the four-year A$12.3 million initiative.

Investment – to date, IFC has committed over US$1.2 billion of financing to Australian companies globally. For example, IFC provided financing to restart operations at the Australian-owned Gold Ridge mine in the Solomon Islands – the Islands' largest private sector project. At full production, the project is expected to account for as much as 20% of Solomon Islands' GDP and create or maintain around 450 jobs.

Financial markets – the Australian financial markets are an important source of funds for IFC. IFC launched a stand-alone Australian dollar domestic debt issuance program in 2007 and five different maturities of A$ Kangaroo bonds in the market now total A$7.1 billion.

IFC's focus is on developing strategic partnerships that stress the value of thematic, operational and financial synergies: IFC is an active member and partner of the World Economic Forum, and this year joined the Aspen Network of Development Entrepreneurs (ANDE), a global network of organizations that seek to promote entrepreneurship in emerging markets.

In recent years, partnerships with other IFIs have deepened under the IFI Cooperation Program, in which the IFC has taken a leadership role. In addition, IFC has expanded its partnerships with donor governments, foundations, and civil society. IFC's advisory services are supported with funding from donor governments, including Australia,[16] and more recently – and to a much lesser extent – from philanthropic organizations.

Box 12 – Working with donors

IFC has developed key Principles of Partnership, which detail how the Corporation engages with its donor partners and how it ensures that the partnerships are complementary and mutually reinforcing:

- IFC and donor partners pool resources to achieve a common goal of promoting sustainable private sector development.
- IFC and donor partners create opportunities to share knowledge and views about strategies and approaches to be adopted. The opportunities for strategic consultations are multiple, sometimes formalized in agreement, sometimes ad hoc based on ongoing interactions.
- IFC provides donor partners with regular operational and financial updates that allow donors to understand how IFC is spending their funding, to assess project progress, and provide timely feedback.

IFC has teamed up with a host of multilateral and bilateral private sector DFIs, pooling resources to expand reach and maximize the impact of its interventions. Collaboration promotes knowledge sharing, and the design of more efficient programs. Collaboration was critical in IFC's response to the global economic crisis (see section 1.4), allowing IFC to swiftly launch new initiatives to boost trade finance, recapitalize banks, and spur infrastructure investment. Under the Caribbean Joint Action Plan, for example, IFC and five DFIs committed more than US$960 million in FY11 to sustainable private and public sector projects in the region. In the Middle East and North Africa, IFC is working with the IsDB to engage the private sector to create new opportunities for employment through the Education for Employment Initiative (see section 3.4).

In addition, IFC has long fostered collaboration on development results among MDBs including in the context of the private sector portion of the Common Performance Assessment System

[16] See Annex 1

(COMPAS) since 2007.[17] IFC continues to work on collaboration and harmonization among MDBs and DFIs on three main fronts:

- continued collaboration with MDBs in the context of the Management for Development Results (MfDR) working group and the COMPAS report;
- work with DFIs on harmonization of indicators, on which the IFC hosted a workshop at IFC headquarters in September 2011; and
- provision of training and presentations to a large number of DFIs and other organizations.

Box 13 – IFIs and development through the private sector

IFC also participates in the Private Sector Development Institutions Roundtable – an annual meeting of the heads of the IFIs that focus on the private sector. These institutions recently collaborated to prepare and launch a new report, *International Finance Institutions and Development through the Private Sector*. The report was produced under IFC leadership, and draws together the experience and knowledge of 30 private sector DFIs.[18]

The report makes a strong case for the role of the private sector role in development. Key findings include:

- IFIs provide the private sector in developing countries with critical capital and knowledge. Private sector direct foreign investment finance has reached over US$40 billion in annual commitments (about 5% of capital flows to emerging markets).
- IFIs help companies set standards and manage risks in areas such as environmental and social standards; corporate governance; health and safety; sponsor and business integrity; labor and human rights; revenue transparency; and international financial reporting.
- IFIs catalyze additional financing from other private sector players. Each US$1 of capital supplied to IFIs can lead to US$12 in private sector project investment.
- IFIs support entrepreneurship and innovation, helping demonstrate the viability of private solutions in new or challenging areas.

More broadly, IFC and other DFIs participate together on individual projects, provide joint financing, and cooperate on best practices and standards. Through the Master Cooperation Agreement, IFC has expanded its formal co-financing arrangements with DFIs. The agreement, which details how IFIs work together to co-finance projects led by IFC, helps increase commercial finance in times of scarcity.

[17] For more information, see http://www.mfdr.org/Compas/index.html

[18] The full report is available at http://www.scribd.com/doc/65954409/International-Finance-Institutions-and-Development-through-the-Private-Sector

IFC senior management also meets periodically with counterparts from over 30 other private sector DFIs to review the progress of joint initiatives. More than 15 working groups have been created to share best practices and harmonize approaches to corporate governance, offshore financial centers, and development results.

8. Transparency and accountability

IFC believes that transparency and accountability are fundamental to fulfilling its development mandate. Transparency is essential to building and maintaining public dialogue, and increasing public awareness about IFC's development role and mission. It is also critical for enhancing good governance, accountability, and development effectiveness. Openness promotes engagement with stakeholders, which in turn, improves the design and implementation of projects and policies, and strengthens development outcomes.

Box 14 – Listening to stakeholders: the review of the IFC palm oil operations

Following an audit by the CAO that identified deficiencies in the way IFC applied its Performance Standards to assess investments in a large palm oil trader and refinery, IFC froze all new investments in the sector and developed a strategic approach to engagement. Beginning in November 2009, IFC spent more than 12 months consulting with stakeholders and experts around the world, discussing key issues facing the sector and the role of the WBG. Meetings were conducted with almost 350 stakeholders from 30 countries, a group that included representatives of the private sector, governments, civil society organizations, indigenous groups, smallholders, donors and others. In addition, 'e-consultations' were held with 282 people from 51 countries, and a global multi-stakeholder meeting was convened in Frankfurt, Germany where 59 participants attended from 14 countries. The feedback received during the 18-month review – all of which is catalogued on the IFC website[19] – shaped a new strategic framework to guide IFC decision making on the selection, design and implementation of palm oil projects.

IFC's Access to Information Policy reaffirms and reflects IFC's commitment to enhance transparency about its activities, improve development effectiveness, and promote good governance.

The policy, which is available in full on the IFC website,[20] sets out in detail the information IFC routinely makes available, including strategies, budgets and policies; financial information; minutes of Board proceedings; corporate governance information; donor contributions; development outcomes and results; IFC's carbon footprint; and general staffing information. It also provides for the release of information on investment projects under consideration and, effective January 2012, will provide updates regarding client actions taken to mitigate environmental and social risks, as well as reporting development outcomes.

---

[19] See http://www.ifc.org/palmoilstrategy

[20] IFC's full Access to Information Policy can be found at www.ifc.org/disclosure

As the policy makes very clear, there is a presumption in favor of disclosure, absent a compelling reason not to disclose. In determining whether any particular information is to be made available by IFC as a routine matter or upon request, IFC first considers whether such information falls within the scope of IFC's responsibilities and, if so, whether there is any compelling reason not to disclose all or any part of such information. In making this determination, IFC considers whether the disclosure of information is likely to cause harm to specific parties or interests that outweighs the benefit of disclosure, or whether the information contains or makes reference to information described in the list of exceptions set out in the Policy. The exceptions include information that is commercially sensitive, confidential or deliberative in nature, as well as staff personal information.

Box 15 – IFC's disclosure portal

IFC has developed an innovative, internet-based Disclosure Portal to serve as a central location for corporate information, policies and standards, proposed investments, and stakeholder feedback. The site links to a project database containing client information, summaries of proposed investments, environmental and social reviews and mitigation measures, and expected development impact. The database also includes Advisory Services projects.

The Disclosure Portal encourages stakeholder feedback, allowing users to ask questions or provide comments about specific projects. IFC attempts to provide an answer to all disclosure inquiries within 30 days, with an average response time of 21 days. For members of the public who feel that an initial request for information has been unreasonably denied or that IFC's disclosure policy has been incorrectly applied, the website also includes a complaints mechanism.

IFC's Disclosure Portal was profiled in the *2008 Global Accountability Report* by British NGO OneWorld Trust as an example of good practice in corporate transparency.[21]

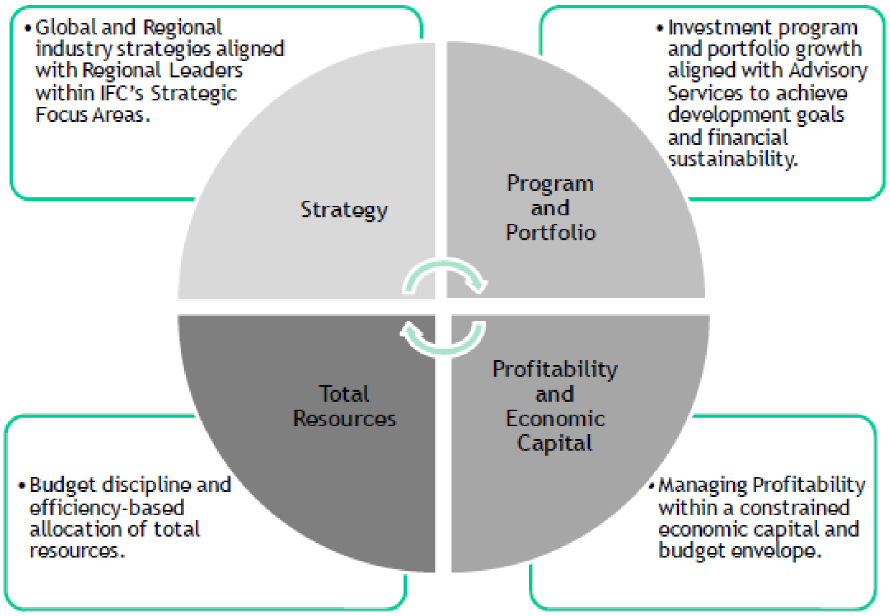
8.1. Transparent resource allocation, budget management and operational planning

IFC's goal is to deliver development impact in a financially sustainable way for the private sector in developing countries through investments (including mobilization), and advisory services. This ultimate goal drives the Corporation's budget planning process, with the aim of allocating optimum resources to programs and activities that will have the greatest impact, while exercising fiscal discipline and closely monitoring performance. The dimensions of economic capital and profitability have been added to the planning equation as IFC tries to balance responding to demand for its products and services in line with its strategic direction, and playing a countercyclical role with the proactive management of its financial sustainability.

[21] For full information, see http://www.ifc.org/disclosure

A dynamic process has been instituted so that budget and strategy considerations are revisited throughout the year in a feedback loop which includes program and portfolio review, updates of profitability, and economic capital usage.

Figure 3 – the IFC planning cycle: aligning budget resources and profitability, with strategy



The momentum which is gained through the strategy and planning cycle is further continued through a quarterly Management Team review of IFC's quantitative and qualitative results. Among many topics, the Management Team engages in a comprehensive discussion around human resource allocation, new investment progress, mobilization results, scorecard progress, development impact, initiative outcomes, advisory services, capital usage, portfolio status, AMC investments, budget expenses, and IFC's profitability and returns. The Quarterly Reviews provide a consistent periodic forum to bring all of the Management Team together to discuss the over-arching and interrelated issues facing the IFC. The discussion functions as the final feedback loop which links budget back to the IFC's strategy, and ensures that the process is continuously refreshed throughout the year.

8.2. Risk management

IFC's Board of Executive Directors and Board Committees oversee the overall risk tolerance for the Corporation, and provide the highest level of oversight. The Executive Board exercises oversight and fiduciary responsibilities, including through its Audit Committee. The Audit Committee has a mandate to assist the Board in overseeing and making decisions regarding the

IFC's financial condition, its risk management and assessment processes, the adequacy of its governance and controls, and its reporting and accounting policies and procedures.[22]

The key principles that guide IFC's integrated risk management framework are effective balancing of risk, development impact and reward; ensuring business decisions are based on an understanding of risks; not undertaking activities that could adversely impact its reputation; and clear accountability and responsibility for the various components of risk management across the Corporation.

Centralized risk management is provided by IFC Committees and Senior Management. IFC's Management Team, under the direction of the EVP/CEO, is responsible for the day-to-day operations of the IFC. The Corporate Risk Committee, under the leadership of the EVP/CEO, is responsible for oversight and management of existing and potential risks. The Risk Management Vice-Presidency has oversight responsibility for financial and operational risks. Project-specific environmental, social and corporate governance issues that arise out of IFC's engagements are overseen by the Advisory Services Vice-Presidency, and legal issues are overseen by the General Counsel Vice-Presidency. There is a common and shared accountability for reputational, strategic and stakeholder risk management at the IFC Management Team level, with support from IFC's Corporate Relations Department and global communications practice group.

Two independent bodies that serve to ensure IFC remains accountable to shareholders on the one hand, and accessible by impacted and concerned stakeholders on the other, are the IEG and the CAO (see Box 9), respectively. In addition, the WBG's Internal Audit Vice-Presidency monitors internal controls and governance, and the WBG's Integrity Vice-Presidency is responsible for monitoring integrity in operations and investigating allegations of fraud and corruption (see Section 8.3, below).

Box 16 – Internal auditing

The Internal Auditing Department (IAD) helps the WBG achieve its mission by providing objective assurance and advice to add value; enhance risk management, control, and governance; and improve accountability for its results. The department conducts its work in all organizational activities (including trust-funded operations) in accordance with the International Standards for the Professional Practice of Internal Auditing, promulgated by the Institute of Internal Auditors.

[22] Until his departure in August 2011, the Executive Director representing Australia – James Hagan – was a member of the Audit Committee.

8.3. Fraud prevention and corporate integrity

Promoting the corporate integrity of clients is an important element of IFC's effort to promote sustainable private sector development. Working to ensure corporate integrity through the application of strong internal procedures also helps IFC manage financial and reputational risks.

IFC has strong due-diligence process and procedures, which are the first line of defense against corruption in IFC projects. IFC continues to improve its information-gathering and analytical capabilities – among other things, by adopting a more comprehensive database for inquiring into the background of potential partners and their stakeholders.

IFC's anticorruption stance is incorporated into the legal framework governing IFC investments. Under the WBG sanctions process, persons or entities found to have engaged in corrupt, fraudulent, coercive, collusive, or obstructive practices in an IFC project can have their names published on a public website, and may be debarred from WBG financing.

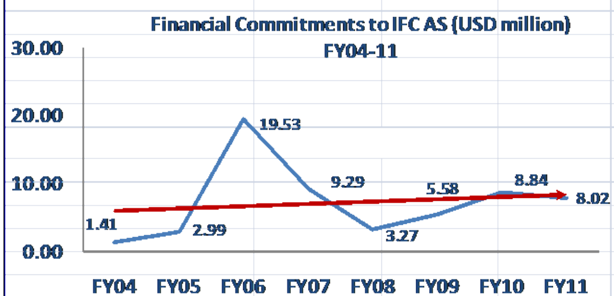
The WBG's investigative unit, the Integrity Vice-Presidency, is responsible for investigating allegations of fraud and corruption in IFC projects. The Integrity Vice-Presidency consists primarily of two units: an external unit, which handles allegations of fraud or corruption in WBG-financed projects involving persons and entities outside the WBG, and an internal unit, which is dedicated exclusively to investigating allegations of staff misconduct throughout the WBG.[23]

IFC participates in the cross-debarment agreement between the WBG and other leading MDBs. Under the agreement, entities sanctioned by one participating MDB may be cross-debarred by the others for the same misconduct. The accord helps ensure a level playing field for all firms competing for MDB projects.

[23] The Integrity Vice-Presidency's annual report can be found on the World Bank's website. A list of debarred firms is also available on the World Bank's website.

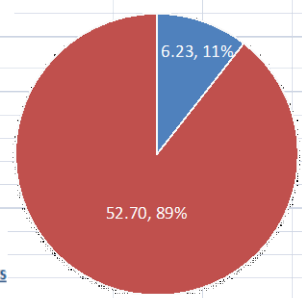
Annex 1 – Australia's contribution to IFC's Advisory Services

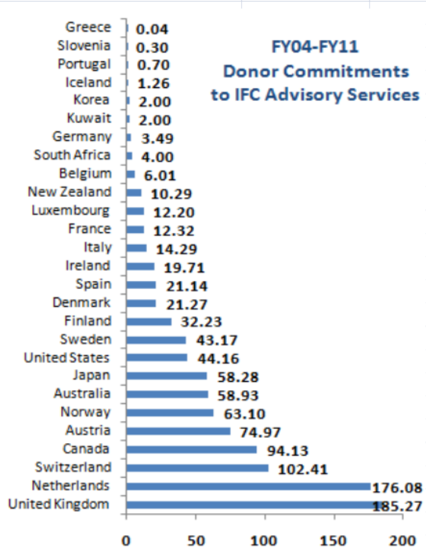
Australia: Financial Commitments to IFC Advisory Services										
Donor Commitments as of June 30, 2011	US$Million cumulative	Prior to FY04	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Global facilities and programs:										
FIAS	8.72	2.91		2.54			3.27			
CPA/SME/DCED	0.12	[illegible]				0.01		0.01	0.04	0.06
TATF	4.74	4.44	0.30							
Global Programs	13.58	7.35	0.30	2.54	0.00	0.01	3.27	0.01	0.04	0.06
Regional facilities:										
PEP-China	4.21	1.48				2.54		0.20		
MPDF	8.46	2.90	0.40	0.14	4.81	0.20				
PEP-Pacific (incl. PMI in Q4 FY10 7.87m)	29.52	5.01		0.03	8.75			3.75	8.80	3.18
PENSA	4.74	2.51	0.09	0.28		0.23		1.63		
PEP-Philippines	5.53	[illegible]			0.75					4.78
IFC-SADI	6.11	[illegible]				6.11				
PEP-ACEH	5.22	[illegible]			5.21					
Regional Standalone Projects	0.81	[illegible]	0.62			0.19				
East Asia and the Pacific	64.61	11.91	1.11	0.45	19.53	9.28	0.00	5.57	8.80	7.96
TOTAL	78.19	19.26	1.41	2.99	19.53	9.29	3.27	5.58	8.84	8.02

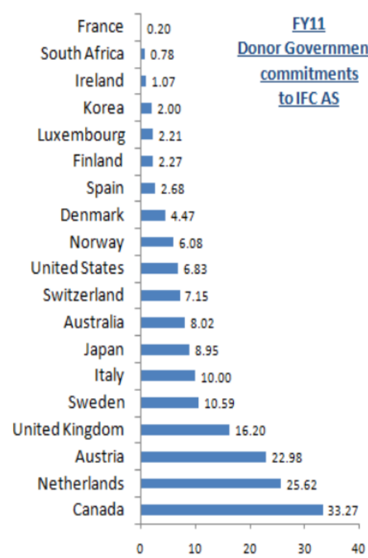


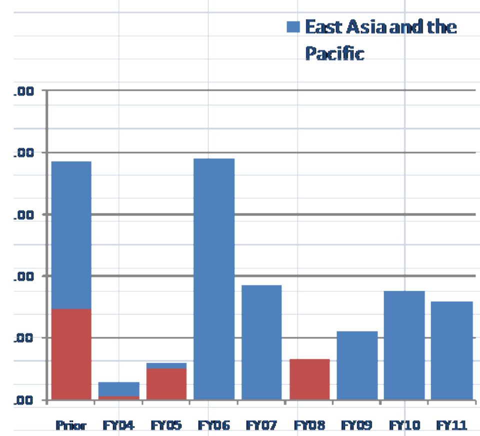
Support to IFC AS by Region:

FY04-FY11 Total: $58.93 m









Annex 2 – Synergies between Australia's development priorities and IFC Advisory Services business lines & special initiatives

	Saving lives		Promoting opportunities for all			Sustainable economic development			Effective governance	Disaster response
	Access to safe water and sanitation	**Access to health services; disease prevention**	**School access**	**Empowering women to participate in economy, leadership & education**	**Enhancing lives of disabled**	**Improving food security**	**Improving incomes, employment & enterprise opportunities**	**Reducing negative impacts of climate change**	**Improving governance to deliver better services**	**Disaster and crisis response**
Access to Finance		Gender advisory		- Women in Business - Microfinance - SME banking		Agrifinance	- Agrifinance - Microfinance - SME banking - Trade finance - Mobile money - Housing finance - Insurance - Responsible finance	Sustainable energy		
Investment Climate		Health in Africa program					- Business entry - Business operation - Business taxation - Doing Business reform advisory - BEE - Investment policy & promotion - Special Economic Zones - Trade Logistics		Doing Business reform advisory	
	Saving lives		**Promoting opportunities for all**			**Sustainable economic development**			**Effective governance**	**Disaster response**
	Access to safe water and	**Access to health services;**	**School access**	**Empowering women to participate in**	**Enhancing lives of disabled**	**Improving food security**	**Improving incomes, employment &**	**Reducing negative impacts of climate**	**Improving governance to deliver**	**Disaster and crisis response**

	sanitation	disease prevention		economy, leadership & education			enterprise opportunities	change	better services	
Sustainable Business				- Farmer & SME training		Farmer & SME training	Business Edge	- clean energy - resource efficiency	Corporate governance advisory	
Public-Private Partnerships	Water and waste PPP advisory	Health PPP advisory	Education PPP advisory			PPP advisory for irrigation, grain storage	Hotel PPP advisory	- PPP advisory for renewable energy - PPP advisory incorporating climate friendly design (e.g. Green buildings)	Post-PPP transaction support to governments to help monitor contracts	
Special Initiatives				- A2F Crisis Initiative - Micro-finance Facility		Global Agriculture and Food Security Program	- GTLP - GTFP - A2F Crisis Initiative - MEF	- Climate Finance		- Fragile & Conflict Affected Initiative - CASA