

INTERNATIONAL FINANCE CORPORATION

# IFC FY25 BUDGET

Enabling the WBG Evolution Ambitions

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## GLOSSARY

BCR	- Budget Coverage Ratio
CAO	- Compliance Advisor Ombudsman
CDB	- Country-Driven Budgeting
CMAW	- Creating Markets Advisory Window
CODB	- Cost of Doing Business
CPSD	- Country Private Sector Diagnostics
CSO	- Department of Special Operations
E&S	- Environmental and Social
FCS	- Fragile and Conflict-Affected Situations
FMTAAS	- Funding Mechanism for Technical Assistance and Advisory Services
FY	- Fiscal year
GCP	- Global Challenge Program
IDA	- International Development Association
IFC	- International Finance Corporation
IT	- Information Technology
PCM	- Private Capital Mobilization
SBO	- Strategy and Business Outlook
SOF	- Source of Funds
US\$	- United States Dollar
WBG	- World Bank Group

## EXECUTIVE SUMMARY

1. IFC's FY25 budget builds on the World Bank Group (WBG) FY25 Strategy and Business Outlook (SBO) and reflects the WBG evolution priorities while maintaining the 2030 Capital Increase Package commitments.
2. To support the FY25 work on evolution priorities and the expected program and portfolio growth, IFC needs additional resources to (i) enhance client engagement and origination capabilities by adding more senior regional/industry staff and equity specialists in Country Offices and senior expertise in global teams, (ii) further expand environmental and social (E&S) capabilities to take more and better informed risks and strengthen non-financial additionality to clients, (iii) build impact monitoring and evaluation capacity to operationalize the new WBG scorecard, (iv) deepen analytical capabilities of country advisory and economics units and global industry departments, while building corporate knowledge management function, to deliver Country Private Sector Diagnostics (CPSD) 2.0 and support the WBG knowledge compact, and (v) strengthen our HR function to recruit, develop and retain the best talent.
3. Incremental gross spending needs of approximately US\$203 million will be offset by US\$50 million in efficiency gains and US\$60 million of internally redeployed resources, resulting in a net incremental Administrative Budget increase of US\$93 million (3.0 percent real or 7.1 percent nominal over the FY24 Administrative Budget) and a proposed nominal FY25 Administrative Budget of US\$1,399 million.
4. IFC's FY25 Capital Budget (Information Technology and Facilities) proposal is US\$114 million.
5. IFC's Upstream and Advisory engagements to support sector reform, build client capacity, and grow the pipeline of bankable projects are critical for the Private Capital Mobilization (PCM) agenda and for the success of the Global Challenge Programs (GCPs). It is therefore critical to sustain appropriate level of funding for Upstream and Advisory activities, including via designations from IFC's income. The final designations will be submitted to the Board as resolutions following approval of FY24 year-end financial statements.

# **CHAPTER 1: PROGRAM AND PORTFOLIO OUTLOOK**

## **PROGRAM OUTLOOK**

1.1 Based on the program results in recent years and outlook for FY24, IFC is likely to exceed the 2030 Capital Increase Package trajectory for own account (OA) and core mobilization metrics.

1.2 Regionally, IFC is maintaining its strong focus on Africa while growing the program in all other regions too. Thematically, we expect strong demand to support long term critical investments across real sector related to climate mitigation and adaptation, as well as for digital transformation. We also expect strong demand for innovative financial products to optimize capital structures and to provide much needed equity capital across sectors and regions.

1.3 Mobilization efforts will have to be appropriately supported by blended finance resources to de-risk projects in challenging markets. Emphasis on International Development Association (IDA) countries and Fragile and Conflict-Affected Situations (FCS) remains.

## **PORTFOLIO OUTLOOK**

1.4 IFC's committed portfolio exposure is projected to follow an upward trend, aligned with the commitment targets for FY24 and FY25. The growth of portfolio, especially in more challenging environments, has increased risk management needs and supervision demands.

## **COST OF DOING BUSINESS**

1.5 The Cost of Doing Business (CODB) model provides a directional indication of the resources needed to deliver growing and increasingly complex investment program, and tradeoffs to be considered as we tackle regional, sector and thematic priorities, all aimed at amplifying IFC's development impact.

1.6 Overall, the average CODB has increased from FY18-22 to FY19-23. The upward trend is likely to continue as IFC works towards achieving its IDA and FCS targets.

## **CHAPTER 2: GROSS RESOURCE NEEDS**

### **STAFF AND STAFF RELATED COSTS**

2.1 Staff are the primary driver of IFC's cost base. The annual workforce planning exercise aligns the size, composition, and capabilities of IFC's workforce – staff numbers, levels of seniority, locations, skills mix – with business requirements informed by IFC's strategic priorities.

2.2 In addition to redeploying resources and redirecting work programs, incremental positions will be required to (i) boost IFC's monitoring and evaluation capacity to operationalize the new WBG scorecard, (ii) further strengthen E&S investment support and supervision (iii) build corporate knowledge management capabilities to support the WBG knowledge compact, and (iv) enhance the HR function to fully implement skills-based approach to talent management and staff career development.

2.3 FY25 will mark the implementation of the revamped IFC knowledge and learning strategy, which, aligned with the WBG knowledge compact, is designed to unlock innovation and facilitate continuous learning across the institution. Additional resources will be allocated to a centralized budget dedicated to staff learning, as well as to expand leadership and professional development programs that build critical leadership aptitude and technical skills at every level of the organization, improving staff engagement and productivity.

### **ENVIRONMENTAL AND SOCIAL ACCOUNTABILITY**

2.4 The implementation of the Compliance Advisor Ombudsman (CAO) Policy and IFC's leadership in the areas of responsible exit and remedial actions are adding cost pressures to IFC's Administrative Budget.

2.5 IFC's FY25 budget reflects IFC's share of the CAO's budget, equivalent to US\$11.8 million, representing a 12.4 percent increase in real (16.5 percent nominal) terms over the FY24 budget.

### **SHARED SERVICES**

2.6 Management across WBG is working on a new approach to shared services administration, whereby costs would be managed at the aggregate level through a single master agreement. The goal is to improve efficiencies, while increasing accountability for the quality of service delivery and supporting a more streamlined planning and budget process.

## **CHAPTER 3: EFFICIENCIES**

3.1 From FY19 to FY23, IFC generated efficiency savings towards its Capital Increase Package commitments and estimates further efficiency savings in FY24. The FY25 budget ask is net of estimated internally redeployed resources and efficiency savings.

### **BUDGET COVERAGE RATIO (BCR)**

3.2 As part of the Capital Increase Package, IFC committed to a target ratio of Debt Income to the Administrative Budget of at least 1.1, which translates into a Budget Coverage Ratio (BCR) of no higher than 91 percent.

3.3 Management expects to end the fiscal year with the BCR below the 91 percent threshold.



## CHAPTER 4: FY25 BUDGET PROPOSAL

### ADMINISTRATIVE BUDGET

4.1 The incremental FY25 Administrative Budget ask of US\$92.8 million, representing a 3.0 percent real increase (7.1 percent in nominal terms) over FY24, is based on an assessment of gross spending needs, as detailed in Chapter 2.

### TOTAL RESOURCES

4.2 The Total Resources, or “All Funds,” trajectory shows a nominal growth of 7.6 percent in FY25 compared with FY24 (See Table 1). It reflects a comprehensive Upstream and Advisory funding needs assessment conducted at the regional and global levels as part of the integrated country driven budgeting exercise.

**Table 1: FY21-25 Total Resources Trajectory**

<i>US\$, millions</i>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24</b>	<b>FY25</b>
Administrative Budget	1,139	1,177	1,255	1,307	1,399
Trust Funds <sup>1</sup>	460	430	430	430	480
Earmarked Service Fees and Others	224	196	196	182	185
<b>IFC Total Resources</b>	<b>1,823</b>	<b>1,803</b>	<b>1,880</b>	<b>1,918</b>	<b>2,064</b>
% Growth Total Resources		(1.1%)	4.3%	2.0%	7.6%

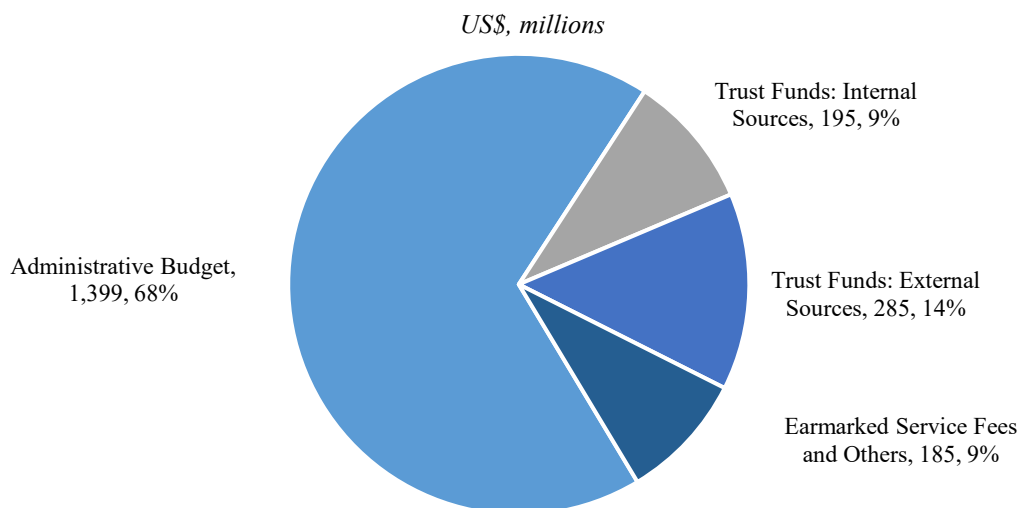
<sup>1</sup>Includes CMAW, FMTAAS and Donor Funds

## CHAPTER 5: FY25 BUDGET PROPOSAL DETAILS

### FY25 TOTAL RESOURCES BY SOURCE OF FUNDS (SOF)

5.1 Administrative Budget constitutes 68 percent of IFC’s projected Total Resources budget for FY25 of US\$2,064 million, as shown in Figure 1.

Figure 1: FY25 Total Resources



### COST CATEGORY VIEW OF ADMINISTRATIVE BUDGET

5.2 The FY25 Administrative Budget broken down by cost category is shown in Table 2 against FY24 projected spend.

Table 2: FY25 Administrative Budget by Cost Category

US\$, millions	FY24E	FY25P
<b>Fixed Expenses</b>	<b>1,029.2</b>	<b>1,098.3</b>
Salaries and Benefits	884.7	943.9
Communications & IT	25.9	28.3
Depreciation	58.5	62.7
Equipment & Building	60.2	63.4
<b>Variable Expenses</b>	<b>297.1</b>	<b>321.1</b>
ST Consultants & Temporaries	20.3	13.9
ET Consultants & Temporaries	16.3	11.2
Travel, Representation and Hospitality	36.8	43.5
Contractual Services	51.5	59.0
Services and Support Fees	158.9	172.8
Other Expenses	13.3	20.7
<b>Total Expenses</b>	<b>1,326.4</b>	<b>1,419.4</b>
Total Non-Operational Revenue	(24.0)	(20.0)
<b>Net Expenses</b>	<b>1,302.4</b>	<b>1,399.4</b>

### UPSTREAM AND ADVISORY SERVICES BUDGETS

5.3 Program funding for all IFC Upstream and Advisory portfolio and pipeline engagements, as well as new ideas and projects expected to be approved via the applicable accountability and

decision-making framework throughout the year, is determined through the annual integrated country driven (CDB) exercise.

5.4 Starting in FY25, we have streamlined the CDB process, avoiding funding being tied up in projects that are not progressing in line with expectations and enabling a simpler process for reallocating funds to new opportunities and emerging priorities during the fiscal year. Table 3 presents the breakdown of the program funding by source of funds.

**Table 3: FY24-25 Upstream and Advisory Services Budget by Source of Funds**

<i>US\$, millions</i>	<b>FY24B</b>	<b>FY25E</b>
IFC Internal Funding	302	342
<i>Administrative Budget &amp; Fees</i>	<i>170</i>	<i>170</i>
<i>CMAW, FMTAAS and others</i>	<i>132</i>	<i>172</i>
External Funding	285	285
<b>Total</b>	<b>587</b>	<b>627</b>

## **FEE BUDGETS**

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

5.6 By using fees to cover variable costs while maintaining appropriate controls to ensure that fee budgets do not exceed fee collections, IFC can expand or contract its activities without changing its permanent cost base and more flexibly redirect resources toward corporate priorities and business objectives.

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

## **JEOPARDY BUDGETS**

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

5.9 The Department of Special Operations (CSO) jeopardy allocation is used to finance the costs associated with restructuring or recovery of projects at risk. The jeopardy allocation to the Legal Department (CLED) is intended to address the possibility that IFC may be subject to future litigation (including third-party litigation claims), especially as its operations expand into markets with greater complexity and in challenging environments amid growing scrutiny from civil society organizations.

## **FLEXIBILITY MECHANISM**

5.10 In previous years, IFC had the Carryover Mechanism, which provided the flexibility to

carry forward an underrun against Management's annual spending authority (up to a maximum of 5 percent of the total Administrative Budget) from one fiscal year to the next. As discussed with the Budget Committee last year, beginning in FY25, IFC's Management proposes to replace the Carryover Mechanism by a  $\pm 2$  percent Flexibility Band, better suited to provide IFC the needed flexibility to respond to significant unexpected events or budgetary needs.

# CHAPTER 6: FY25 CAPITAL BUDGET

6.1 The Capital Budget request for FY25 reflects Management’s prioritization of business demands for Facilities and Information Technology (IT) investments and the resulting impact on the Administrative Budget through depreciation.

6.2 The proposed FY25 Capital Budget is US\$114 million (see Table 4). It aligns the funding for multi-year projects with the project implementation timeline to utilize resources optimally, by phasing the funding across several annual investment cycles.

**Table 4: FY25 Capital Budget Proposal**

<i>US\$, millions</i>	<b>FY24B</b>	<b>FY25E</b>
Facilities	34	39
Information Technology	30	75
<b>Total</b>	<b>64</b>	<b>114</b>

## FACILITIES

6.3 The FY25 Facilities capital budget will enable (i) growth of IFC’s global footprint to support the WBG evolution process, (ii) upgrades for sustainability, technology advancement and risk mitigation, and (iii) investments to ensure staff safety and security in an increasingly fragile geopolitical context.

## INFORMATION TECHNOLOGY

6.4 The focus of the IFC’s planned FY25 IT investments is to automate and integrate business processes to support various elements of the WBG evolution.

6.5 IFC will also continue to modernize its systems, automate the end-to-end process for clients, and scale up the use of Artificial Intelligence and Robotic Process Automation to increase efficiencies.

## **CHAPTER 7: INCOME DESIGNATIONS**

### **USE OF IFC'S NET INCOME**

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

### **METHODOLOGY FOR INCOME DESIGNATIONS**

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

7.3 Based on final FY24 income amounts available for designation under the sliding-scale formula, IFC will propose to make designations to CMAW and FMTAAS.

## **CHAPTER 8: RECOMMENDATIONS**

- 8.1 IFC Management recommends that the Board resolve to approve the following:
1. Administrative Budget Authority:
    - An Administrative Budget for FY25 of US\$1,399.4 million.
  2. Capital Budget Authority:
    - A Capital Budget for FY25 of US\$114 million.
  3. Budget Flexibility Mechanism:
    - A Flexibility Band allowing for an annual Administrative Budget overrun of up to 2 percent.
- 8.2 IFC Management recommends the following with respect to income available for designations:
1. From income, IFC proposes to designate allocations to CMAW and FMTAAS.
  2. The designation of income to be disclosed in the Management's Discussion and Analysis for FY24.