INTERNATIONAL FINANCE CORPORATION

IFC FY23 BUDGET

Enabling Delivery on the Road to 2030

Approved by IFC's Board of Directors on June 29, 2022

Released in accordance with IFC's Access to Information Policy

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ACRONYMS

AIP	-	Annual Investment Plan
AS	-	Advisory Services
BCR	-	Budget Coverage Ratio
CAO	-	Compliance Advisor Ombudsman
CCAP	-	Climate Change Action Plan
CDB	-	Country-driven budgeting
CLED	-	Legal Department
CMAW	-	Creating Markets Advisory Window
CO	-	Country Office
CODB	-	Cost of Doing Business
COVID-19	-	Corona Virus Disease 2019
CPSD	-	Country Private Sector Diagnostics
CSO	-	Department of Special Operations
DEI	-	Diversity, Equity, and Inclusion
ERP	-	Enterprise Resource Planning
E&S	-	Environmental and Social
FCS	-	Fragile and Conflict-Affected Situations
FMTAAS	-	Funding Mechanism for Technical Assistance and Advisory Services
FNA	-	Funding Needs Assessment
HQ	-	Headquarters
HR	-	Human Resources
IBRD	-	International Bank for Reconstruction and Development (also referred to as the Bank and the World Bank)
IDA	-	International Development Association
IFC	-	International Finance Corporation
IS	-	Investment Services
IT	-	Information Technology
ITS	-	Information and Technology Solutions
LIBOR	-	London Interbank Offered Rate
LTF	-	Long-Term Finance
MIC	-	Middle Income Country
PPE	-	Personal Protective Equipment
QBHR	-	Quarterly Budget and Human Resources Report
RFP	-	Request for Proposal
SBO	-	Strategy and Business Outlook
SOFR	-	Secured Overnight Financing Rate
SSA	-	Shared Service Agreements
STF	-	Short-Term Finance
WBG	-	World Bank Group
WFP	-	Workforce Planning

EXECUTIVE SUMMARY

1. This document presents IFC's FY23 budget proposal for Board approval. It builds on the "IFC FY23-25 Strategy and Business Outlook (SBO) Update: On the Road to 2030" discussed by the Board in April 2022.

2. IFC's FY23-25 program will be delivered in a context of heightened uncertainty. Geopolitical tensions and conflict are compounding existing vulnerabilities and interrelated risks. While program volatility will continue over the near term, reflecting underlying economic conditions, IFC remains firmly committed to its 2030 targets and Capital Package compact with shareholders. On the heels of record delivery in FY21, IFC is maintaining the trajectory laid out in the FY22-24 SBO Update, with total financing projected to grow from US$32.3 billion in FY22 (of which US$24.3 billion is long-term financing) to US$40.4 billion in FY25 (of which US$31.3 billion is long-term financing).

3. IFC will strengthen its strategic emphasis in five areas where challenges have become more acute, continuous engagement is needed most, and new opportunities have accelerated due to the pandemic and the war in Ukraine. These are: (i) continuing support for crisis relief and recovery efforts; (ii) sustaining a sharp focus on fragility and forced displacement, including in middle-income countries; (iii) accelerating efforts towards climate response and energy transition; (iv) supporting digital transformation across countries and industries; and (v) promoting healthcare resilience and vaccine access in the context of diversifying global supply chains.

4. IFC will require additional resources to support operational delivery in these five strategic focus areas. The additional resources will be used to further strengthen operational capacity in priority regions and countries, bring in new talent to advance the climate, health, and digitalization agendas, proactively manage environmental, social, integrity and other business risks, continue to lead on transparency, strengthen human resources capabilities, complete implementation of the London Interbank Offered Rate (LIBOR) transition to the Secured Overnight Financing Rate (SOFR), and ensure adequate funding as IFC's business activities – travel in particular – return to pre-pandemic levels. Gross spending needs will be offset by efficiencies, resulting in a net incremental administrative budget of US$78 million and a proposed nominal Administrative Budget of US$1,255 million.

5. IFC's FY23 Capital Budget (IT and Facilities) proposal is US$63 million.

6. As IFC's Advisory activities continue to shift to focus on Upstream work, it is critical to sustain appropriate funding for Upstream projects and sector-level engagements, including via designations from IFC's income. The transfer of net income (loss) to retained earnings and any designations of retained earnings will be submitted to the Board as resolutions immediately following approval of the year-end financial statements.

CHAPTER 1: STRATEGIC PRIORITIES AND RESOURCE SHIFTS

1.1. As detailed in the FY23-25 "IFC Strategy and Business Outlook Update: On the road to 2030" (SBO Update), the global outlook remains volatile and highly uncertain. The prospect of global recovery, which was tenuous before the war in Ukraine, is at risk. Geopolitical tensions and conflict are compounding existing vulnerabilities and interrelated risks, including economic, health, and social setbacks from the pandemic, unsustainable debt levels, surging inflation, constrained fiscal capacity, and climate change, causing serious reversals in development.

1.2. At the same time, the private sector is ever more critical to investing, innovating, and creating jobs in client countries where public finances are stretched, and development gaps remain large. Opportunities brought about by climate transition, digitalization, and changing patterns of production are growing, and private sector solutions are key to supporting green, resilient, and inclusive development and reversing development setbacks.

STRATEGIC PRIORITIES

1.3. To respond to acute challenges across the globe while addressing new opportunities and development needs, IFC will sharpen its strategic emphasis over the FY23-FY25 period in the following five priority areas, with a commensurate and deliberate shift of its human and financial resources:

- *Continuing Relief and Recovery Efforts* through: (i) short and medium-term financing for resilience and food security; (ii) addressing gender and inclusion gaps; and (iii) scaling up private capital mobilization through Upstream project development.
- *Sustaining a Sharp Focus on Fragility and Forced Displacement* by: (i) maintaining strong Upstream focus on IDA-FCS; (ii) continuing to scale up the use of de-risking instruments, with an aspiration also to address fragility in MICs; and (iii) deepening collaboration within the World Bank Group (WBG) on private sector-oriented policy reform, using Country Private Sector Diagnostics (CPSDs) and IFC Country Strategies. Notably, in FY22, IFC established a new Regional Vice Presidency that encompasses the Middle East, Central Asia, Türkiye, Afghanistan, and Pakistan to strengthen strategic focus, management oversight and staffing for this region, and enhance in-country program delivery.
- *Accelerating Efforts towards Climate Response and Energy Transition* by scaling up climate finance, which is at the heart of IFC's efforts to support a resilient recovery and meet the 2030 Capital Package aspirations. In line with the WBG's climate targets indicated in the new Climate Change Action Plan (CCAP), IFC remains committed to achieve an average of 35 percent per year of climate finance through 2025, to screen all projects for physical climate risk by FY23 and to advance private sector solutions for climate adaptation.
- *Supporting Digital Transformation* through: (i) strengthening digital infrastructure and platforms, with a focus on IDA-FCS markets; (ii) increasing investment in digital-enabled services and digital transformation; (iii) supporting technology entrepreneurship and disruptive technologies, particularly in climate; (iv) supporting digital skills development; and (v) investing in emerging areas of importance in the digital economy such as artificial intelligence, machine learning and creative industries in developing countries.
- *Promoting Healthcare Resilience* through: (i) increasing developing countries' access to key medical products and services (such as personal protective equipment (PPE), vaccines,

other pharmaceuticals, and healthcare services) and (ii) creating healthcare resilience and pandemic preparedness through support for sustainable regional health value chains.

1.4. Despite the highly uncertain environment, IFC remains firmly committed to its 2030 Capital Package goals and is maintaining the program trajectory laid out in the previous (FY22-24) SBO Update, though the program volatility is expected to continue in the medium term.

1.5. IFC will flexibly use its full toolkit and will continue to be innovative in its way of working, including product development, partnering with others, and internal processes. With a strong capital base, well-managed portfolio, and IFC 3.0 tools such as Country Private Sector Diagnostics, County Strategies, Upstream, and Integrated Country Driven Budgeting, which enables strategic resource allocation at the country level, IFC is uniquely placed to help clients survive, recover, and pursue opportunities toward inclusive and sustainable development.

STRATEGIC RESOURCE SHIFTS

COST OF DOING BUSINESS

1.6. The Cost of Doing Business (CODB) model is a tool that provides a useful directional indication of the resources needed to deliver increasingly complex Advisory, Upstream, and Investment programs in line with IFC's strategic priorities.

1.7. The Investment Services CODB indicates that additional resources will be required to enable IFC's planned growth in strategic focus areas. Table 1 presents the historical deployment and growth in Total Investment Services (IS) Resources in strategic priority areas to deliver SBO commitment volumes from FY19 through FY21.

Table 1: Historical IS Resource Deployment to Deliver Program Volumes by Priority Area

	Total Commitment Volume (LTF Own Account (OA) + LTF Core Mobilization)				Resource Allocation within Operations			
	FY19	FY20	FY21	Δ FY21-19	FY19	FY20	FY21	Δ FY21-19
Priority Areas[1]								
IDA17 OA	23%	25%	23%	-	30%	31%	32%	2%
IDA17 + FCS OA	24%	25%	25%	1%	32%	34%	34%	2%
Industries								
Financial Institutions Group	44%	44%	40%	(4%)	34%	34%	32%	(2%)
Manufacturing, Agribusiness & Services	18%	21%	25%	7%	30%	30%	31%	1%
Infrastructure	28%	22%	18%	(10%)	30%	31%	31%	1%
Disruptive Technologies & Funds	4%	3%	2%	(2%)	6%	5%	5%	(1%)
Regions								
Africa	23%	23%	27%	4%	27%	28%	30%	3%
Central Asia and Turkey	1%	5%	9%	8%	5%	5%	5%	-
East Asia and the Pacific	19%	18%	16%	(3%)	15%	15%	16%	1%
Europe	6%	6%	9%	3%	9%	8%	8%	(1%)
Latin America & the Caribbean	33%	32%	24%	(9%)	20%	20%	18%	(2%)
Middle East, Afghanistan & Pakistan	4%	4%	5%	1%	7%	8%	8%	1%
South Asia	15%	10%	10%	(5%)	11%	11%	11%	-
World	-	-	-	-	6%	6%	4%	(2%)

[1] The total commitment volume percentages for priority areas include LTF OA only. The resources allocation data represents the total resources deployed to investment projects with IDA17 and FCS tags.

1.8. The Advisory Services CODB indicates that the Total Resources required to deliver an Advisory project vary greatly based on the type of engagement.

1.9. Data on Upstream spending specifically is still insufficient to form firm conclusions about the related CODB. As the Upstream pipeline matures, and the dataset increases, IFC will work on developing a comprehensive methodology for Upstream activities that will draw on Investment Services CODB as it will assess Upstream costs per expected/actual investment volume generated.

INTEGRATED COUNTRY-DRIVEN BUDGETING

1.10. Building upon the first-year experience of integrated Country-Driven Budgeting (CDB) and Funding Needs Assessment (FNA), in FY22Q3, IFC completed comprehensive, bottom-up stock taking and planning for FY23-25 to ensure that Advisory and Upstream project budgets align with the country strategies. This process was anchored in high-level regional and global budget envelopes for Advisory Services and Upstream activities set by senior management.

1.11. The integrated country-driven budgeting hardwires the links between country strategies and resource allocation. It enables Regional Directors and Country Managers to devise, fund, and operationalize priority strategic initiatives that deliver against the goals of IFC's country strategies and business plans and allow for strategic decision making and trade-offs. This approach also entails close monitoring of spending against budget and enables responsive and proactive reallocation of resources throughout the year, as country/regional economic conditions shift, or project progress does not justify continued support.

UPSTREAM RESOURCES

1.12. The strong corporate emphasis on Upstream operations, including front-loading the hiring of Upstream staff in FY20 and FY21, has led to a growth of IFC's Upstream pipeline. Pipeline growth is expected to stabilize in the near future as Upstream attains a steady state of operating and new projects and initiatives replace successful conversions and dropped projects. IFC Management will monitor Upstream's financial sustainability through a variety of metrics, including conversion rates, time to conversion, and average age of the Upstream pipeline.

1.13. Upstream staff costs are funded primarily from the Administrative Budget. For Upstream program funding, IFC will continue to leverage other internal funding sources including CMAW and FMTAAS and seek external funding from Development Partners, when needed. As the Upstream delivery model matures, IFC will move more Upstream resources to the regions and will continue to merge Advisory and Upstream units to help simplify and streamline the management of the Advisory-Upstream-Investment continuum.

CHAPTER 2: GROSS RESOURCE NEEDS

STAFFING AND COMPENSATION

2.1 Staffing expenses are the primary driver of IFC's cost base. The annual Workforce Planning (WFP) exercise ensures alignment between business needs and the workforce, including the number, level and location of staff, and skills mix.

2.2 In Operations, the focus of the FY23 WFP is to strategically reallocate senior industry resources from Headquarters (HQ) to strengthen business development and client/partner engagement at a country level. Additional skill sets will be needed to scale up climate finance and ensure alignment with the Paris Agreement, support the digitalization agenda, and define and implement a roadmap to strengthen healthcare systems, including by creating local vaccine manufacturing capacity.

2.3 In operational support functions and corporate services, IFC's resource requirements are geared towards: (i) ensuring IFC continues its leadership on transparency, environmental and social (E&S) policies and risk management, and integrity and tax due diligence; (ii) enhancing development results through thorough economic analysis and impact measurement; and (iii) strengthening human resources (HR) capabilities to support organizational growth, talent development at all levels, and implementation of the diversity, equity and inclusion (DEI) agenda.

GLOBAL FOOTPRINT

2.4 In FY22, IFC maintained 106 offices in 100 countries. IFC and IBRD co-locate in Country Offices where feasible and when business needs are supported. Currently, 83 IFC offices are co-located with IBRD, including all offices opened in Africa in the past two years.

2.5 Country Office facilities costs are expected to increase in FY23 due to higher operating costs from new or expanded leases, particularly in Africa and South Asia. These increases will be partially offset through lease renegotiations and capacity optimization whereby IFC reduces or limits its footprint expansion in high-cost locations and applies lessons learned from agile workspace pilots in London and Bangkok.

2.6 IFC will also continue to offset its facilities costs through rental of surplus space that it owns in HQ and Country Offices to third parties.

LIBOR TRANSITION

2.7 The publication of LIBOR will cease after June 30, 2023 (extended from the original deadline of December 31, 2021) and IFC is transitioning to SOFR. Several important milestones have been met since the LIBOR Transition project was launched in FY21 including: (i) development of the SOFR loan product; (ii) a related necessary upgrade of the Summit system, the trading system used for derivatives and publicly traded securities; (iii) putting in place remediation plans to convert all IFC LIBOR referencing loans into new SOFR; and (iv) the first in the market Social SOFR Floating Rate Note issuance.

MODERNIZATION OF THE ENTERPRISE RESOURCE PLANNING SYSTEM

2.8 In FY21, preparatory work was undertaken to examine options for a transition from SAP to a new WBG Enterprise Resource Planning (ERP) system (Project Aria). The WBG Management has determined that a two-phase implementation approach (FY22 through FY30) will allow time to build the required staff capacity, allow for better monitoring, and enable course corrections, as needed. A Board technical briefing was held in February 2021.

2.9 As of February 2022, the ERP procurement strategy has been developed and endorsed by the VP Sponsors and the WBG Procurement Committee. The technical evaluation team has been put in place, and the evaluation framework and the Request for Proposal (RFP) package are being developed and are expected to be launched in July 2022, as per the Phase 1 schedule.

COMPLIANCE ADVISOR OMBUDSMAN (CAO)

2.10 As per the new CAO Policy, the CAO is accountable to and reports directly to the Board and the Board will provide CAO such budgetary resources sufficient to carry out its activities.

2.11 The CAO Director General submitted to the Board for approval, its budget request for FY23.

CORPORATE OVERHEADS AND OTHER EXPENSES

2.12 Increased costs are expected from Shared Service Agreements (SSA) with IBRD and higher variable costs as normal business activities resume.

CHAPTER 3: EFFICIENCIES

EFFICIENCY SAVINGS

3.1 The FY23-25 budget trajectory includes efficiency savings in line with the Capital Package commitments.

BUDGET COVERAGE RATIO (BCR)

3.2 As part of the Capital Package compact with shareholders, in addition to achieving efficiency savings, IFC committed to maintain a debt income to administrative budget ratio of at least 1.1, which translates into a Budget Coverage Ratio (BCR) of no higher than 91 percent.

3.3 While it is difficult to predict with certainty given the volatility of the key drivers, IFC expects the BCR to get to its target level by FY25.

CHAPTER 4: FY23 BUDGET FRAMEWORK

ADMINISTRATIVE BUDGET TRAJECTORY

4.1 To maintain the pace of IFC 3.0 implementation with sustained fiscal discipline, IFC is proposing a 1.3 percent real budget increase (6.6 percent in nominal terms) for FY23. In real terms, the FY23 Administrative Budget ask has been moderated from the indicative trajectory of 2 percent included in the FY22 Budget Paper as the underlying assumptions have changed.

ADVISORY SERVICES BUDGET TRAJECTORY

4.2 The construction of the Advisory Services budget trajectory is grounded in: (i) country and sector strategies; (ii) resulting regional and industry workforce plans to enable implementation of these strategies through Advisory and Upstream engagements; and (iii) the Advisory and Upstream funding needs assessment conducted at the regional and global levels as part of the integrated country-driven budgeting exercise.

4.3 After the resource needs are assessed, IFC determines the appropriate budget level for each source of funds based on financial sustainability and operational and financial principles, aligning sources and uses of funds. These principles include funding availability and eligibility, leverage acceptance, and appetite from Development Partners.

AGGREGATE ADMINISTRATIVE AND ADVISORY BUDGET TRAJECTORY

4.4 The Total Resources, or "All Funds", trajectory shows a nominal growth of 4.3 percent in FY23 (see Table 2).

Table 2: FY22-23 Total Resources Trajectory

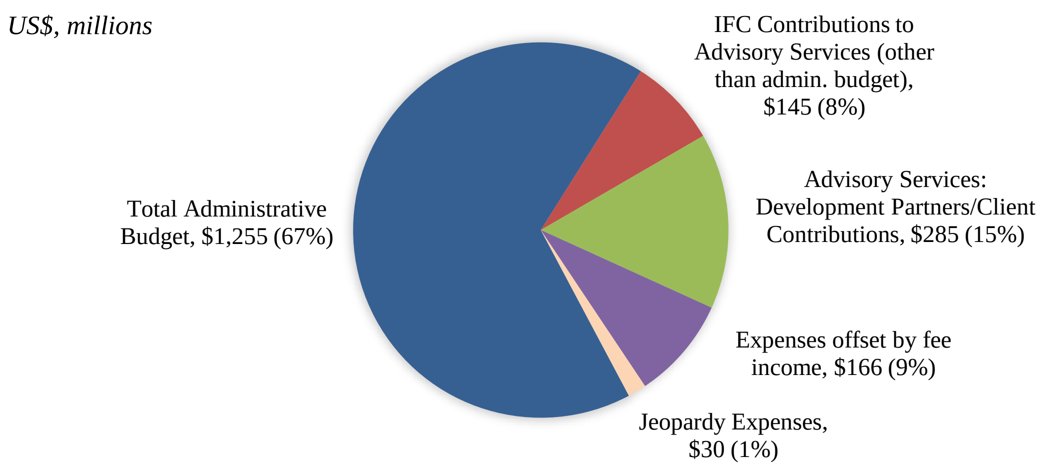
US$, millions	**FY22**	**FY23E**
Administrative Budget	1,177	1,255
Advisory Services (AS) Non-Administrative Budget	430	430
Aggregate Administrative and Advisory Services Budget	**1,606**	**1,684**
Earmarked Service Fees and Others	196	196
IFC Total Resources	**1,803**	**1,880**
% Growth Aggregate Administrative and AS Budget		4.8%
% Growth Total Resources		4.3%

CHAPTER 5: FY23 BUDGET PROPOSAL DETAILS

FY23 TOTAL RESOURCES VIEW BY SOURCES OF FUNDS

5.1 IFC's projected Total Resources budget for FY23 is US$1,880 million, as shown in Figure 1. This view reflects the gross needs as described earlier in this document partially offset by efficiencies.

Figure 1: FY23 Total Resources



ADMINISTRATIVE BUDGET

5.2 IFC Management proposes an FY23 Administrative Budget of US$1,255 million, which represents a 1.3 percent real increase (6.6 percent in nominal terms) over the FY22 Administrative Budget.

5.3 The incremental FY23 Budget ask is based on an assessment of gross spending needs as detailed in Chapter 2. The total gross needs are expected to be offset by efficiency savings, resulting in a net incremental budget need of US$78 million.

COST CATEGORY VIEW OF ADMINISTRATIVE BUDGET

5.4 IFC's Administrative Budget can also be viewed by Cost Category as shown in Table 3. This view provides the actual expenses for FY20 and FY21 with FY22 projected spend and FY23 estimates. Salaries and benefits remain the main driver of the total expenses.

Table 3: IFC's Administrative Expenses and Budget by Cost Category

US$, millions	FY20A	FY21A	FY22E	FY23E
Fixed Expenses	**841.1**	**888.0**	**940.6**	**996.2**
Salaries and Benefits	710.0	763.7	797.5	849.1
Communications & IT	23.5	20.4	19.6	28.3
Depreciation	62.0	59.9	73.8	64.2
Equipment & Building	45.6	45.6	49.7	54.5
Variable Expenses	**244.0**	**215.3**	**242.2**	**278.4**
ST Consultants & Temporaries	15.1	12.6	15.9	14.9
ET Consultants & Temporaries	4.4	7.6	10.1	14.0
Travel, Representation and Hospitality	21.9	4.1	10.1	26.8
Contractual Services	46.8	34.2	39.6	53.0
Services and Support Fees	139.2	141.5	153.7	150.9
Other Expenses	16.6	15.2	12.8	18.7
Total Expenses	**1,085.1**	**1,103.3**	**1,182.8**	**1,274.6**
Total Non-Operational Revenue	(21.6)	(21.8)	(22.4)	(20.0)
Net Expenses	**1,063.5**	**1,081.5**	**1,160.4**	**1,254.6**

ADVISORY SERVICES SOURCES OF FUNDS

5.5 Advisory Services sources of funds are used to support both Advisory and Upstream activities. These activities draw on IFC's internal funding sources, Development Partners, and Client Contributions. The combination of funding sources creates a robust and diversified funding model with enough flexibility to enable the successful implementation of IFC 3.0 (see Table 4).

Table 4: Advisory Services Sources of Funds

	FY22B		FY23E	
US$, millions	US$	%	US$	%
External Funding	**285.0**	**57%**	**285.0**	**58%**
Development Partners	240.0	48%	240.0	49%
Client Contributions	45.0	9%	45.0	9%
IFC Internal Funding	**218.8**	**43%**	**209.5**	**43%**
AS Admin Budget	74.3	15%	65.0	13%
CMAW	80.0	16%	80.0	16%
FMTAAS	50.0	10%	50.0	10%
Other IFC Sources	14.5	3%	14.5	3%
Total Advisory Services Budget	**503.8**	**100%**	**494.5**	**100%**

5.6 *External Funding.* Development Partner and Client support for Upstream work, Advisory Services, and Blended Finance will be critical for implementing IFC 3.0 and ramping up delivery in key focus areas such as IDA, FCS, Climate, and Gender.

5.7 IFC continues to manage and enhance existing Development Partner relationships, with a transition to a more disciplined and strategic approach to partner outreach. To promote long-term financial sustainability, IFC is also continuing to diversify its sources of donor funding by attracting foundations, philanthropic partners, and other non-traditional partners as the philanthropic and impact investment ecosystems diversify.

5.8 Client Contributions are primarily used as a tool to strengthen client ownership and commitment to implementation and to ensure that any subsidy embedded in pricing is justified by the public benefit involved. It is expected that Upstream will also draw on Client Contributions going forward, further diversifying and strengthening its funding model.

5.9 *IFC's Internal Funding.* IFC's direct contributions ensure a sustainable funding model for initiatives beyond those provided by IFC clients and pay for seed activities in strategic priority areas where Development Partner interest has not yet materialized.

FEE BUDGETS

5.10 IFC has a long-established practice of using fees to cover direct out-of-pocket expenses incurred for investment related project expenses 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.

5.11 IFC ensures that fee budgets do not exceed the fee collections by placing control mechanisms to mitigate the risks of the fluctuating fee incomes and to ensure that spending against fee budgets remains well below the generated revenue. By using fees to cover variable costs, IFC can expand or contract its activities without changing its permanent cost base and more flexibly redirect resources toward corporate priorities and strategic objectives.

5.12 *Budget Allocation to cover Outside Counsel Fees and Expenses (Legal Pooled Fees).* IFC maintains a centralized and dedicated fee pool to cover certain outside counsel fees and expenses. These fees are used to pay outside legal counsel charges and related out of pocket expenses arising in relation to certain IFC transactions and corporate matters when other internal and external funding sources are not available.

JEOPARDY BUDGETS

5.13 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. The Board has traditionally recognized jeopardy expenses as being tracked separately from the Administrative Budget due to the volatility and unpredictability of the jeopardy cases. The cases often generate significant out-of-pocket expenses and can span many years.

5.14 To manage the jeopardy related expenses, IFC increased its total allocation in FY21 that can be drawn by the Department of Special Operations (CSO) and the Legal Department (CLED).

CARRYOVER MECHANISM

5.15 IFC's existing Carryover mechanism is based on the prior year spending against the administrative budget and allows IFC to carry forward the uncommitted funds as of June 30 of one fiscal year, up to a limit of 5 percent of the approved budget for that fiscal year, to be used in the subsequent fiscal year. The carryover does not accumulate year-on-year or add to the base administrative budget.

CHAPTER 6: FY23 CAPITAL BUDGET

6.1 The proposed Capital Budget request for FY23 reflects IFC Management's prioritization of business demands for Facilities and IT investment and the resulting impact on the Administrative Budget through depreciation.

6.2 IFC's Capital Budget funds IFC HQ and Country Office (CO) Facilities and Information Technology (IT) required to support IFC's business model. The proposed FY23 Capital Budget is US$63 million (see Table 5).

Table 5: Capital Budget Request

US$, millions	**FY22B**	**FY23E**
Headquarters Facilities	2.7	10.6
Country Office Facilities	5.5	7.2
Information Technology	37.7	45.0
Total	**45.9**	**62.8**

6.3 To better manage its capital investments, for large capital projects, IFC phases the funding across several Annual Investment Plan (AIP) cycles based on the timing of anticipated spend.

FACILITIES

6.4 *Headquarters (HQ) Facilities*. IFC has embarked on a comprehensive HQ modernization project which is anchored by three main objectives: (i) to optimize utilization of the existing office space to create a more intuitive, convenient, and collaborative environment; (ii) to ensure staff and visitor safety and support employee wellbeing; and (iii) to enable flexibility to address evolving staff expectations of the workplace experience – all while being environmentally responsible and using resources efficiently. As part of the project, IFC has launched a broad master planning exercise, which will facilitate the convergence of the two adjoining HQ buildings to a shared standard and aesthetic and will guide the management of the HQ office space going forward.

6.5 The proposed capital budget for HQ facilities will for the most part fund refurbishment and construction that materialize out of the HQ modernization project; building infrastructure cyclical replacement and upgrades; as well as improvements to the audio-visual and video conferencing capabilities in IFC's HQ buildings.

6.6 *Country Office (CO) Facilities*. The CO facilities capital budget proposal reflects plans to optimize the global office footprint, enhance sustainability, and implement office reconfiguration and retrofit initiatives. The scope of work planned will focus on upgrades and replacement of building equipment and furniture; sustainability initiatives; office expansion, relocation and footprint optimization driven by strategic needs; and improvements to AV/VC capabilities.

6.7 IFC will continue to support, in coordination with IBRD, the upgrade of security equipment for Country Offices in FCS and medium- and high-risk countries (as defined by WBG Corporate Security) through the allocation of capital funds to purchase new or replace outdated security equipment. In addition, Country Office fit-outs and purchase/construction projects in these countries will continue to benefit from direct security needs assessments by WBG Corporate Security Specialists to ensure that all appropriate security measures are included in the overall project capital requirements and funding.

INFORMATION TECHNOLOGY

6.8 The FY23 Capital Budget will fund two main categories of IT investment:

- *Steady State and Enhancements.* These programs ensure the reliability of existing systems and infrastructure by addressing cyclical end-of-life replenishment needs as well as implementing bug fixes and minor enhancements to existing systems required for continuous and effective support of business operations.
- *Systems Development.* These programs focus on developing new or enhanced IT solutions to support IFC's lines of business. They include the introduction of technology to improve operational effectiveness and efficiency and to accommodate IFC's growth through automation of existing business processes and the introduction of new IT capabilities.

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 DESIGNATION

7.2 Since FY21, as part of the Budget Paper, the Board approves a range (including maximum) of potential designations for CMAW and FMTAAS, based on a sliding scale formula and a waterfall prioritization. After the close of the fiscal year, the formula will be 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 current projections, the amount available in CMAW reserves is sufficient to fund up to three years of projected spend. Therefore, IFC proposes not to make additional designations to CMAW from FY22 Net Income. IFC will continue to make designations to CMAW in future years as allowed through IFC's Net Income. Depending on final FY22 income amounts available for designation under the sliding-scale formula, IFC will propose to make designations to FMTAAS.

CHAPTER 8: RECOMMENDATIONS

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

A. Administrative Budget Authority

- An Administrative Budget for FY23 of US$1,254.6 million.

B. Capital Budget Authority

- A Capital Budget for FY23 of US$62.8 million.

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

A. From net income, IFC proposes to designate allocations to FMTAAS.

B. The designation of net income to be disclosed in the Management's Discussion and Analysis for FY22.