

SUSTAINABILITY FACT SHEET 2003



IFC identifies, tracks, and assesses new investment commitments that have positive high impact in corporate governance, economic, environmental, and social areas.

This fact sheet provides a snapshot of IFC's contributions to sustainable development through the private sector projects it funds in emerging markets throughout the world. IFC is the private sector investment arm of the World Bank Group.

In fiscal year 2003 (FY03)*, IFC committed financing, for its own account and through syndications, of \$5.0 billion in 204 new investments worldwide. From its founding in 1956 through FY03, IFC has committed more than \$37 billion of its own funds and arranged \$22 billion in syndications for 2,990 companies in 140 developing countries. IFC's worldwide committed portfolio as of FY03 was \$16.8 billion for its own account and \$6.6 billion held for participants in loan syndications.

FINANCIAL DATA 2003

OPERATIONAL RESULTS SUMMARY, FY 2003

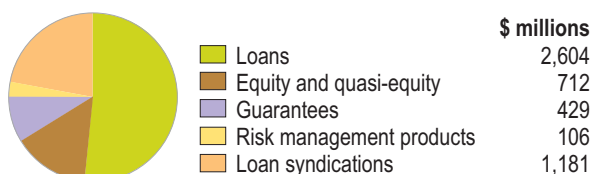
| | |
|---|----------------|
| Resources and Income, FY 2003 | \$ 528 million |
| Operating income | \$ 2.4 billion |
| Paid-in capital | \$ 4.4 billion |
| Retained earnings | \$ 3.5 billion |
| | |
| New projects committed | 204 |
| Total financing committed | \$ 5.0 billion |
| Financing committed for IFC's own account | \$3.9 billion |

INVESTMENT PORTFOLIO BY REGION (For IFC's Account)

| As of June 30, 2003 | \$ millions |
|--|----------------|
| Region | |
| Sub-Saharan Africa | 1,442 |
| East Asia and the Pacific | 2,791 |
| South Asia | 1,447 |
| Europe and Central Asia | 3,581 |
| Latin America and the Caribbean | 6,145 |
| Middle East and North Africa | 1,326 |
| | |
| Total committed loan & equity portfolio* | \$16.8 billion |
| Equity as a % of committed portfolio | 21% |
| Loans as a % of committed portfolio | 71% |
| Guarantees as a % of committed portfolio | 6% |
| Risk management products as a % of | |

* Includes off-balance-sheet products, such as guarantees and risk management products; for IFC's account as of June 30, 2003.

COMMITMENTS BY PRODUCT, FY 2003



COMMITMENTS BY SECTOR, FY 2003*

| | % |
|--|------|
| Financial** | 50.2 |
| Transportation, warehousing, and utilities | 11.2 |
| Oil, gas, mining, and chemicals | 7.6 |
| Food and beverages | 7.5 |
| Industrial and consumer products | 4.9 |
| Nonmetallic mineral product manufacturing | 3.9 |
| information | 3.6 |
| Accommodation and tourism services | 1.9 |
| Wholesale and retail trade | 1.8 |
| Textiles, apparel, and leather | 1.8 |
| Agriculture and forestry | 1.3 |
| Construction and real estate | 1.0 |
| Primary metals | 1.0 |
| Plastics and rubber | 0.9 |
| Health care and education | 0.7 |
| Pulp and paper | 0.5 |
| Professional, scientific, and technical services | 0.1 |

* All commitment data include guarantees and risk management.

** Includes finance, insurance, and collective investment vehicles.

COMMITMENTS BY REGION, FY 2003

| | # of projects |
|---------------------------------|---------------|
| Sub-Saharan Africa | 17 |
| East Asia and the Pacific | 25 |
| South Asia | 16 |
| Europe and Central Asia | 52 |
| Latin America and the Caribbean | 51 |
| Middle East and North Africa | 16 |
| Global | 2 |
| Total projects | 179 |

WHAT DOES SUSTAINABILITY MEAN TO IFC?

Sustainability is central to IFC's move to position itself as a provider of broad commercial expertise, not merely capital, to our private sector clients in developing countries. In the initial decades of IFC's existence, there were few comparable institutions. Now, there are more than 30 bilateral, multilateral, and export credit agencies providing capital to private sector firms in developing countries. What differentiates IFC is our ability to provide value to our clients above and beyond financing. This value comes from the expertise we have amassed over nearly half a century, from our global reach, and from our unique capabilities — particularly our expertise on environmental and social matters.

For IFC, sustainability is an essential element of business success as well as a means of achieving enhanced development impact.

SUSTAINABILITY OF 2003 INVESTMENT COMMITMENTS

IFC reviews its investments at the front end to assess likely outcomes in environmental and social areas. Our environmental and social safeguard policies and guidelines provide the basis for our initial assessment. Ensuring that all IFC projects either comply with these safeguards or have plans in place to get to compliance, provides tangible value to both companies and the public. Our sustainability framework provides a means for assessing project performance in environmental and social areas that are either not addressed by our safeguards or where projects perform at levels beyond our compliance requirements.

HOW ARE PROJECTS ASSESSED?

IFC has developed its sustainability framework to facilitate assessments of projects for their *potential* contributions to sustainable development. The framework assesses whether *expected* project performance goes significantly beyond compliance with IFC's safeguard policies and associated guidelines in the following areas:

- ▶ Management commitment and governance
 - Environmental management, social development commitment, and capacity
 - Corporate governance
 - Accountability and transparency
- ▶ Environment
 - Eco-efficiency and environmental footprint
 - Environmental performance of products and services
- ▶ Socioeconomic development
 - Local economic growth and partnerships
 - Community development
 - Health, safety, and welfare of the labor force

To make the sustainability framework a useful metric of sustainability performance, four levels of performance have been identified for each subtopic as detailed in the "Sustainability Framework" figure at the bottom of this page.

IFC'S SUSTAINABILITY FRAMEWORK

| Level 1 Complies with IFC and National minimum standards | Level 2 Added environmental, social, or corporate governance value | Level 3 High-Performance | Level 4 Leadership |
|--|--|---|---|
| <ul style="list-style-type: none"> ▶ The economic activity conducted by the project or company in accordance with accepted national and international (IFC) standards for mitigating potential environmental or social harm stemming from the activity. | <ul style="list-style-type: none"> ▶ Handling of environmental or social issues materially exceeds minimum standards. ▶ In so doing, the project or company creates local or global benefits in terms of reduced waste, emissions, or use of natural resources of its economic activity or helps spread the benefits accruing from its economic activity or to groups that often fail to benefit from such activity. ▶ Corporate governance practices are good enough to affect positively views of investors about investing in the country. | <ul style="list-style-type: none"> ▶ Handling of environmental and social issues materially exceeds WBG minimum standards. ▶ Formalization of practices or other steps enable good practices on environmental, social, and corporate governance issues to leverage change broadly within a region, a sector, or a supply chain. ▶ Economic activity beyond the firm is influenced in the direction of improved resource intensity and inclusion of new beneficiaries. ▶ Corporate governance attributes of the project are sufficiently advanced that a demonstration effect is possible. | <ul style="list-style-type: none"> ▶ Company is actively engaged on many fronts in the dissemination of best practice. ▶ Economic activity well beyond the firm is influenced in the direction of improved resource intensity and inclusion of new beneficiaries. ▶ Firm is seen as a global corporate governance leader, with wide influence. |



HIGH-IMPACT PROJECTS

Projects that, at commitment, score at or above Level 2 for an element in the sustainability framework are classified as "high-impact projects." We use the percentage of newly committed projects classified as high-impact as an annual indicator of the contributions expected to be made to sustainable development above and beyond those that would accrue through compliance with our safeguards. For example:

- Amaggi, Brazil.** With the help of IFC, Amaggi — a soybean merchandiser, crusher, and exporter — is implementing an environmental management system that will help the company improve environmental and social practices in its operations and strengthen environmental and social due diligence by providing prefinancing to farmers. The system will also help Amaggi in its dialogue with nongovernmental organizations and limit the negative impact of farming on critical natural habitats. The system will include a monitoring program to ensure proper implementation of these initiatives.
- Giavoni, Tajikistan.** The project will upgrade the company's textile factory and expand its vertically integrated operations through construction of a jean manufacturing facility. The project is expected to provide exceptional returns to the economy as a whole, through higher wages and supplier linkages in the cotton sector, one of Tajikistan's few internationally competitive sectors. It will mean a significant increase in employment of the poor; about 2,000 jobs should result. The company is moving toward international best practice in the functioning and structure of the board of directors. The company also provides training and shares standards with local suppliers to meet the company's quality standards and to build local capacity to generate wealth. The project will develop links with more than 350 farm families participating in the Farmer's Ownership Model, another IFC effort that raises farmers' income and productivity and enables them to sell directly to Giavoni on commercial terms.

WORKING WITH CLIENTS TO SATISFY SAFEGUARDS

Compliance with IFC's environmental and social safeguard policies and guidelines is a requirement for clients to receive funding, but in many instances clients have also found that compliance adds value to their operations. Whether the move to internationally accepted standards prepares clients for unforeseen regulatory changes, cuts their costs through decreased resource use, or enhances their access to developed world markets and capital, we often hear from clients that our environmental and social safeguards, though initially considered an additional requirement,

ultimately improve their operations. In fact, fully three-quarters of IFC clients surveyed in 2003 reported that they valued working with IFC because of its environmental and social expertise. Further, 48 percent of clients reported that IFC's environmental and social requirements and procedures had improved their business performance.

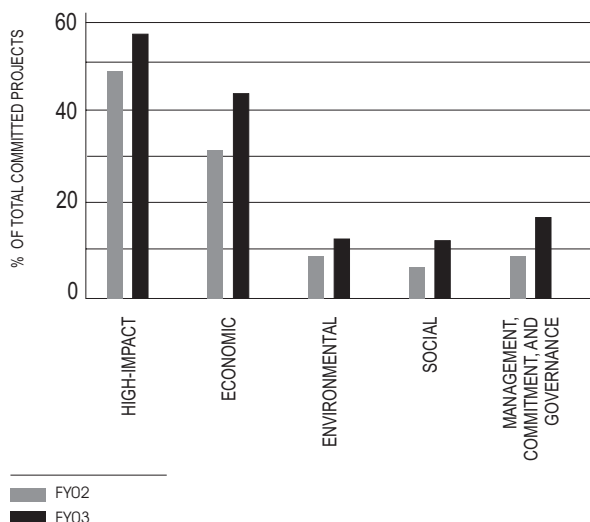
SNAPSHOT OF HIGH-IMPACT INVESTMENTS BY REGION, FY 2003

| Region | # of Projects | # of Committed High-Impact Projects |
|---------------------------------|---------------|-------------------------------------|
| Sub-Saharan Africa | 17 | 5 |
| East Asia and the Pacific | 25 | 13 |
| South Asia | 16 | 12 |
| Europe and Central Asia | 52 | 23 |
| Latin America and the Caribbean | 51 | 34 |
| Middle East and North Africa | 16 | 12 |
| Global | 2 | 2 |
| Total | 179 | 101 |

Note: Category A projects have significant potential for adverse environmental or social impacts; Category B projects have less significant or more manageable impacts; Category C projects have minimal or no environmental or social impacts; and financial intermediaries are treated separately.

Note: Commitment numbers differ from those on page 1 because only first-time commitments are counted in high-impact calculation.

IFC INVESTMENT IN HIGH-IMPACT PROJECTS, FY 2002 - FY 2003



Note: In FY02, 88 of 185 committed projects were deemed high impact. For FY03, 101 of 179 were high impact (see table at left).



LINKS BETWEEN ENVIRONMENTAL RISK AND INVESTMENT PERFORMANCE

Prospective clients not operating in compliance with IFC's requirements at project inception are not necessarily refused investment. Rather, actions are specified to remedy noncompliance, provided the client is committed to making necessary changes to its facilities, operations, or processes. Our environmental and social staff work with clients to develop corrective action plans that allow for needed changes and determine timetables for completion. A corrective action plan and its terms then become part of the loan agreement between the client and IFC. This commitment to improving private sector performance, rather than simply turning away difficult investments, is key to IFC's distinctive role.

BREAKDOWN BY ENVIRONMENTAL & SOCIAL CATEGORY OF FY 2003

| | Category | | | |
|-------------------------------|----------|----------|--------|----------|
| | A | B | C | FI |
| Percent of committed projects | 1.6% | 41.5% | 24.9% | 32.1% |
| Amount committed (\$millions) | 169.74 | 1,586.30 | 899.74 | 1,143.33 |

Note: Category A projects have significant potential for adverse environmental or social impacts; Category B projects have less significant or more manageable impacts; Category C projects have minimal or no environmental or social impacts; and financial intermediaries are treated separately.

GROWTH OF ENVIRONMENTAL & SOCIAL DEVELOPMENT AT IFC, 1994-2002

| Year | Number of Staff | Spending (\$millions) |
|------|-----------------|-----------------------|
| 1994 | 8 | 2.0 |
| 1996 | 21 | 3.5 |
| 1998 | 42 | 5.1 |
| 2000 | 70 | 9.3 |
| 2002 | 84 | 11.7 |

* 2002 dollars

ENVIRONMENTAL AND SOCIAL RISK RATINGS AND COMMERCIAL PERFORMANCE

IFC calculates an environmental and social risk rating (ESRR) for all its portfolio projects. The ESRR is predicated on a 1-4 scale, with a score of 1 indicating very low risk and a score of 4 signaling very high risk. The risk rating is updated annually. This rating allows for a concise, up-to-date assessment of client environmental and social risk throughout the life of the project. It permits IFC to allocate staff and resources for environmental and social supervision.

IFC also has means of monitoring and assessing financial performance over the life of an investment. One such measure is a credit risk rating (CRR), which is done annually to offer guidance on the financial health of a given investment. The CRR is based on a 1-7 scale, where 1 is best and 7 worst. For IFC equity investments, investment rates of return (IRR) are also calculated.

Having these data points at our disposal has permitted IFC to examine the impact of environmental and social risk on investment performance. Analyzing the correlation between environmental and social risk and the various measures of financial health has revealed an interesting connection: over 75 percent of all loan investments with an ESRR of 4 also carry credit risk ratings of 5 or above. The story for equity investments is even starker: over 97 percent of investments with an ESRR of 4 are rated at 6 or above on credit risk rating.

Investment rates of return for equity investments also show a strong correlation to ESRR scores. The following table shows the average IRR for all portfolio equity projects at each ESRR rating:

CORRELATION BETWEEN ESRR AND IRR

| ESRR | IRR |
|------|------|
| 1 | 8% |
| 2 | 4% |
| 3 | -1% |
| 4 | -31% |

