



Executive Summary

Choices Matter
2005 SUSTAINABILITY REPORT

Foreword

This past year has been a time of tremendous change for IFC and one in which, in many respects, the eyes of the world have been focused on us. Taking up my position as Executive Vice President in January 2006, I welcomed the challenge and opportunity of joining this institution during such an exciting time.



IFC is a strong organization. It achieved excellent financial results last year and is on track to do the same this year. As we look ahead, we will focus even more on the assessment of our development impact. We will do so to better serve our clients and to meet our ambitious development goals.

The biggest development challenge lies in Africa. IFC can help in many ways: financing of infrastructure, good quality health services, education, and sustainable management of natural resources. Through private sector financing, we can encourage the right kinds of investments and have a real development impact. The section on Sub-Saharan Africa in this report gives a perspective on the work that IFC does in the region.

Since the end of February 2006, IFC has new environmental and social standards, and a new disclosure policy. These standards are stronger, better, and more comprehensive than those we had in place before.

With these new policies, we will increase the development impact of projects in which we invest. We will also give companies operating in emerging markets the capacity to manage fully their environmental and social risks and to compete better in a global economy.

The key challenge lies in the implementation of IFC's new standards. It will require a matching commitment and ability on the part of our staff and our client companies. To that effect, we are building internal capacity and have developed a number of implementation tools to both facilitate and monitor the implementation of the standards, and to assist companies in meeting them.

There are many cross-cutting issues in our work. One example is our response to climate change. Not only are we increasing our investments in projects that have sustainable energy benefits, but we are also facilitating the participation of emerging market companies in the market for carbon credits under the Kyoto Protocol. In keeping with our commitment to reducing carbon emissions, we are now improving the way we assess and offset our own carbon footprint.

Sustainability for me comprises all aspects of a successful business: financial, economic, environmental, social as well as governance issues. Strengthening good corporate governance in our client companies is an essential role for IFC. Combating corruption is an essential role for the whole World Bank Group.

We have multiple stakeholders. The two and a half years of the review process to update our environmental and social standards provided an unprecedented opportunity to hear and exchange views with many of you. We need to continue to engage with our stakeholders and further explore opportunities for partnerships.

There is no question that we face challenges in the years ahead and that our role is to help the private sector meet those challenges. These include climate change as well as emerging risks such as Avian Influenza and other global health pandemics. We are in the fortunate position to have the mandate and the caliber of resources to make good risk judgments. We have a talented, creative team of staff, and a wealth of experience to draw on. Being a pioneer means that we will suffer disappointments from time to time, but our responsibility is to learn, adapt, and improve. I am convinced that we have the strengths and assets to deliver.

Lars Thunell
Executive Vice President, IFC

Sustainability Snapshot

OUR MISSION

As a member of the World Bank Group (WBG), IFC has a mission to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives.

OUR APPROACH TO SUSTAINABILITY

IFC's approach to sustainability is founded on the belief that sound economic growth, facilitated by private sector development, is crucial to poverty reduction. We see sustainability as an opportunity to drive innovation and increase our development impact. In our investments and operations across the globe, we consider four dimensions of sustainability – economic, financial, social, and environmental – and seek to continually improve our performance in these areas. IFC is committed to ensuring that the benefits of economic development are shared equally with those who are poor or vulnerable, and that development takes place in an environmentally sustainable manner. We also see sustainability as an opportunity to drive innovation in new areas and to add value to our clients by helping them improve their business performance.

OUR WORK

IFC invests in private sector enterprises throughout most developing countries. IFC has a full range of financial products and is increasingly providing technical assistance and advisory services to private sector enterprises and related government agencies. We continue to develop new financial tools that enable companies to manage risk and broaden their access to foreign and domestic capital markets.

IFC programs and activities are guided by its 178 member countries, which are also IFC's shareholders and members of the World Bank. IFC has over 2,600 staff, of whom 55 percent work in our Washington, DC headquarters. Approximately 45 percent of IFC staff members are stationed in 96 other offices in 69 countries.

IFC's work is guided by five strategic objectives that focus on strengthening emerging markets to support sustainable development:

1. Focusing where needs are greatest – in countries that are low income or high risk – and using our capital and technical assistance to demonstrate the viability of private enterprises in these difficult markets
2. Building long-term partnerships with companies to help them succeed in the global marketplace
3. Increasing private sector participation in areas such as infrastructure, health, and education
4. Expanding access to finance through institution-building and innovative products, with particular attention to smaller businesses
5. Providing leadership to companies and financial institutions on social, environmental, and corporate governance issues

In FY05, more than 55 percent of IFC's new investments were in the financial sector, infrastructure, information technology, and health and education. The share of investments for IFC's account in either high-risk and/or low-income countries was nearly 28 percent. We committed a total of 236 projects in 67 countries, compared to 217 projects in 65 countries in FY04. From its founding in

1956 through FY05, IFC has committed more than \$49 billion of its own funds and arranged \$24 billion in syndications for 3,319 companies in 140 developing countries.

OVERVIEW OF OUR INVESTMENTS FOR FISCAL YEAR 2005

New projects committed	236
Total financing committed	\$6.45 billion
Financing committed for IFC's own account	\$5.37 billion
Total committed portfolio*	\$19.3 billion
Loans as a % of committed portfolio	77%
Equity as a % of committed portfolio	17%
Guarantees as a % of committed portfolio	5%
Risk management products as a % of committed portfolio	1%

*For IFC's own account as of June 30, 2005; includes guarantees and risk management products.

MILESTONES ACHIEVED SINCE OUR LAST REPORT

- Following an unprecedented stakeholder consultation process, IFC adopted a revised Disclosure Policy and Policy and Performance Standards on Social and Environmental Sustainability.
- IFC began implementation of a more systematic approach to tracking indicators of development outcomes in all our investments as well as technical assistance and advisory services.
- IFC undertook its first comprehensive assessment to determine the level of renewable energy and energy efficiency components in our mainstream investment portfolio, laying the foundation for an effort to greatly expand sustainable energy investment through our core business.
- IFC scaled up an institutional effort to address barriers to the participation of women in private sector development and received the mandate to host the Secretariat of the Global Banking Alliance for Women.
- IFC and the *Financial Times* launched a new series of Sustainable Banking Awards to recognize global financial institutions whose lending practices involve strong social and environmental standards.
- IFC shared in the 2005 Green Power Leadership Award, which recognized the World Bank Group's purchases of renewable energy to offset electricity use in our own operations.

Introduction

Sustainability is central to IFC's business strategy and, as such, is a theme in our Annual Report and in other IFC publications. Yet there is a clear trend internationally toward more candid, responsive and reflective reporting on sustainability that traditional reporting channels often don't provide. We see this, our fourth Sustainability Report and third stand-alone volume, as an opportunity to engage our stakeholders in a different way and show our support for global efforts toward greater corporate accountability.



Where appropriate, we have used the Global Reporting Initiative (GRI) sustainability reporting guidelines to help shape the report. We're similarly joining in the debate on emerging reporting practices among international finance institutions and are looking at ways to make more information about our sustainability performance available online and in formats more accessible to readers in emerging markets.

However, publishing a sustainability report is as much about the process – how it mobilizes internal resources and identifies where systems can be improved – as it is about reporting on outcomes. One of the questions that drove this year's process was thus “how can the preparation of the report add practical benefits to the way we mainstream sustainability in everything we do?”

As an institution, we've adopted an approach to sustainability that combines risk management – the bedrock of any successful business – with identifying market-based opportunities to improve overall business performance. IFC's new Policy and Performance Standards tie these two dimensions together. We're also spearheading innovations in financial products and services that incorporate gender, health, access to finance, biodiversity, and clean energy.

At the next level up, we have to make sure these innovations are incorporated into all our investments and that we're helping our clients internalize sustainability over the long term. Here, we're making good strides, and a growing number of clients are coming to us for the support we provide to help them improve their performance.

Given the markets in which IFC operates and where we can add the most value, it is natural and logical that we find ourselves involved in many high-risk, high-profile – and occasionally highly controversial – projects. This past year was no exception. We continue to increase our effectiveness in mitigating social and environmental risks in these areas by employing more integrated and measured approaches to addressing the challenges. However, our ability to leverage our expertise and ensure outcomes is sometimes limited.

This may not necessarily mean that we shy away from these projects, but rather that we utilize our resources and expertise in a way that minimizes the risks while maximizing the opportunities to drive sustainable development where it is needed the most. This is an IFC tradition of which we are most proud. We take our responsibilities very seriously, and hold ourselves accountable in those areas where we can control outcomes. Fundamental to this is continued engagement with affected stakeholders to ensure that all concerns are considered.

Telling the story of such a large, diverse and decentralized organization is a formidable task, and we don't pretend to have captured every aspect of what we do. If we've missed something, we want to know about it. I hope you enjoy this report, and I look forward to your feedback on how well we've succeeded.

Rachel Kyte
Director, Environment & Social Development Department

IFC Investment Cycle

The following cycle shows the stages a business idea goes through to become an IFC-financed project.



1. Business Development

Guided by IFC's strategic goals, our investment officers (IOs) and business development officers identify suitable projects. This initial conversation with the client is critical in helping us understand their needs and determine whether there is a role for IFC.

2. Early Review

The IO prepares a description of the project, IFC's role, the anticipated contribution to development and benefits to stakeholders, and any potential deal-breakers. Lessons from previous projects are considered here and, in some cases, a pre-appraisal visit is conducted to identify any issues in advance. IFC senior management then decides whether to authorize project appraisal.

3. Appraisal (Due Diligence)

The investment team assesses the full business potential, risks, and opportunities associated with the investment through discussions with the client and visits to the project site. The following questions are asked: Is the investment financially and economically sound? Can it comply with IFC's social and environmental Performance Standards? Have lessons from prior investments been taken into account? Have the necessary disclosure and consultation requirements been met? How can IFC help the client further improve the sustain-ability of the project or enterprise?

4. Investment Review

The project team makes its recommendations to IFC departmental management, who will decide whether to approve the project. This is a key stage in the investment cycle. The team and departmental management must be confident that the client is able and willing to meet IFC standards and work with us to improve the sustainability of their enterprise.

5. Negotiations

The project team starts to negotiate the terms and conditions of IFC participation in the project. These include conditions of disbursement and covenants, performance and monitoring requirements, agreement of action plans and resolution of any outstanding issues.

6. Public Notification

A Summary of Proposed Investment (SPI) for the project and the environmental and social review, where applicable, are posted on IFC's Website before being submitted to the Board for review. The length of the disclosure period is determined by the category of the project.

www.ifc.org/projects

7. Board Review and Approval

The project is submitted to IFC's Board of Directors for consideration and approval through regular or streamlined procedures. "Streamlined" means that the members of the Board review the documents but don't meet to discuss the project. This option is available to low-risk projects of a small enough size. Certain small projects can be approved by IFC management under delegated authority. The due diligence process and public disclosure remain the same in all cases. The Board demands that each investment have economic, financial, and development value and reflects IFC's commitment to sustainability.

8. Commitment

IFC and the company sign the legal agreement for the investment. This includes the client's agreement to comply with the applicable Performance Standards, to immediately report any serious accident or fatality, and to provide regular monitoring reports. The legal agreement will also covenant the client's Action Plan.

9. Disbursement of Funds

Funds are often paid out in stages or on condition of certain steps being completed as agreed in the legal agreement.

10. Project Supervision and Development Outcome Tracking

We monitor our investments to ensure compliance with the conditions in the loan agreement. The company submits regular reports on financial as well as social and environmental performance, and information on factors that might materially affect the enterprise. Ongoing dialogue during supervision allows IFC to support clients, both in terms of solving issues and identifying new opportunities. We also track the project's contribution to development against key indicators identified at the start of the investment cycle.

11. Evaluation

We evaluate projects on a regular basis. To help improve our operational performance, annual evaluations are conducted based on a stratified random sample of projects that have reached early operating maturity.

12. Closing

We close our books on the project when the investment is repaid in full or when we exit by selling our equity stake. In specific cases we may decide to write off the debt. Our goal is to help the client reach a high level of sustainability that will continue long after our involvement has ended.

PROJECT CATEGORIES:

An environmental and social category is assigned anytime after appraisal and before public disclosure. Category A projects require a minimum 60-day disclosure period. All other projects require at least 30 days.

CATEGORY A

Projects expected to have significant adverse social and/or environmental impacts that are diverse, irreversible, or unprecedented

CATEGORY B

Projects expected to have limited adverse social and/or environmental impacts that can be readily addressed through mitigation measures

CATEGORY C

Projects expected to have minimal or no adverse impacts, including certain financial intermediary projects

CATEGORY FI

Investments in Financial Intermediaries that themselves have no adverse social and/or environmental impacts but may finance sub-projects with potential impacts

Listening to our Stakeholders

Internally and within the scope of our investments, we engage actively with clients, partners, shareholders and staff. We draw on several key sources of feedback in order to identify issues of importance to these groups and frequently adapt our strategies and procedures in response to their needs.

OUR WIDEST CONSULTATION EVER

In August 2004, IFC launched a broad public consultation as part of the comprehensive review of our environmental and social safeguards and disclosure policy. Among the issues that matter most to a large number of our external stakeholders, three main areas of interest emerged:

- How IFC contributes to development through its products, services and investment choices
- How sustainability is being mainstreamed in internal governance and accountability
- How IFC engages with and supports a variety of stakeholder groups, including communities, clients, civil society and governments

CLIENTS

IFC conducts an annual external client survey to obtain the views of investee companies on their experience of working with us. In line with previous years, the 2005 survey found that a major portion of clients came to us seeking a mixture of product (loan maturity or loan/equity pricing) and other attributes, such as country, technical and financial expertise; long-term relationship; stamp of approval; environmental, social and corporate governance skills; political risk cover, and global presence.

Client satisfaction for IFC's overall services, the most representative indicator of the client satisfaction, was 79 percent this year. Notably, the environmental, social and corporate governance category had the largest increase in why clients came to IFC compared to 2004, with corporate governance in particular contributing to this result.

RESPONSES TO IFC CLIENT SURVEY

	2003	2004	2005	
	IFC added value	IFC added value	Importance to client	IFC added value
Environmental and Social Knowledge	75%	78%	72%	79%
Environmental and social TA and Advisory Services		78%	69%	72%
Perceived stamp of approval on environmental and social issues		87%	73%	82%

STAFF

The 2005 World Bank Group staff survey found that staff remain proud to work at the World Bank Group and most feel that it compares favorably with other employers. The survey showed a strong perception among staff that integrity and a respect for diversity were truly mainstreamed in day-to-day interactions in the workplace, but with some room for improvement still remaining.

In addition, IFC's environmental and social department conducted a survey in 2003 and 2004 to gather detailed feedback from IFC staff on the department's delivery and contribution to IFC sustainability leadership. The survey showed demand for more training and development of mainstream investment staff to assess environmental and social risk and opportunity in projects.

Our Investments

IFC invests in companies and financial institutions in all emerging markets. IFC will invest in projects that are financially sound, do not depend on distortions such as protection or subsidies, and meet our environmental and social standards.

We emphasize investments that have a high impact on the economies of developing countries, either by reaching large numbers of people or by benefiting a wide range of sectors, particularly those dominated by small and medium-scale enterprises.

IFC won't invest in any product or activity illegal under host country laws or regulations, or international conventions and agreements. In addition, we won't invest in production or trade in weapons and munitions, alcoholic beverages (excluding beer and wine), tobacco, radioactive materials, unbonded asbestos fibres, gambling, casinos, and equivalent enterprises, and drift net fishing in the marine environment using nets in excess of 2.5 kilometres in length.

TECHNICAL ASSISTANCE AND ADVISORY SERVICES

An important part of IFC's role is to transfer not just capital but knowledge and expertise to our developing country partners. Increasingly, this added value is channeled through technical assistance (TA) and advisory services (AS), unbundled from the provision of capital. Knowledge about emerging trends and risk mitigation has been a key element in these services, and has broadened recently to include corporate governance and environmental and social management.

In FY05 nearly one third of IFC's staff were involved in these efforts, in Washington and in the field. Much of this work is conducted through units or programs managed by IFC but funded in partnership with donor governments and other multilateral institutions. IFC also makes cash contributions to the various TA activities from our own net income, which have increased steadily in recent years.

During FY05, donor-funded operations accounted for about \$108 million in expenditures. IFC provided more than \$57 million in funding. Cumulative contributions to all donor-funded operations managed by IFC reached \$1.11 billion through FY05.

Our Approach to Sustainability

Sustainability is at the heart of IFC’s business model. As a development bank, we are charged by our shareholders with a mission to reduce poverty and improve people’s lives. The projects we choose to finance and the various products and services we offer must have a long-term outlook and fulfill development goals that go beyond financing.

IFC AS STANDARD SETTER

IFC was one of the first multilateral finance institutions to adopt high social and environmental standards of due diligence tailored specifically to private sector investment activities. Having for many years used the World Bank’s environmental and social safeguards, we adapted them in 1998 to make them more applicable to the private sector. This commitment reflected our belief in sustainability as a guiding business principle.

These early safeguards were adopted in 2003 by commercial financial institutions as the basis for the Equator Principles. As of February 2006, 41 banks had adopted the Principles, and it is estimated that they now cover approximately 80 percent of global project lending. To ensure that our standards kept pace with emerging best practice in sustainability, we launched a comprehensive revision of our safeguards in 2004.

A NEW POLICY AND PERFORMANCE FRAMEWORK

In February 2006 – following a rigorous public consultation process – IFC launched its new Policy and Performance Standards on Social and Environmental Sustainability and Disclosure Policy. The new policies and Performance Standards will be among the strongest environmental and social standards globally. They clearly state IFC’s requirements which are applicable to all our investments. They also add new requirements relating to integrated social and environmental assessments, core labor standards, greenhouse gas emissions, and community health and safety.

INCREASING IFC’S DISCLOSURE

IFC’s updated Disclosure Policy clarifies and expands the responsibilities of IFC to disclose corporate information to the public. It determines the appropriate level of disclosure for IFC as a publicly owned institution working in the private sector and respecting the business confidentiality of its client companies. The policy improves IFC’s process for disclosing information as well as expanding the types of information disclosed.

All commitments as of June 2005 by Environmental and Social Category

Category	Commitments in billions	Number
A	\$3.86	120
B	\$21	1444
C	\$5.33	637
FI	\$9.54	625
N	\$7.59	1194
U	\$2.01	289

FY05 Commitments by Environmental and Social Category

Category	Commitments in billions	Number
A	\$169.09	3
B	\$2,515.26	101
C	\$1,078.54	61
FI	\$1,378.02	68

Staff devoted to environmental, social and insurance-related supervision

	FY03	FY04	FY05
Number of environmental & social specialists	27	27	36
Number of insurance specialists	6	8	7

Staff collocated

	FY03	FY04	FY05
Number of E&S specialists in regional offices	5	7	10
Number of E&S specialists co-located in industry departments	7	7	11

Staff hours spent on environmental and social appraisal and supervision

	FY03	FY04	FY05
Appraisal of new projects	20,576	21,099	21,689
Supervision of portfolio projects	12,865	9,768	10,314
Insurance-related appraisal	2,099	2,004	2,400
Insurance-related supervision and added value	3,071	3,056	4,337

Our commitment: In our next sustainability report, we commit to report on

- Progress with implementation of the new IFC Policy and Performance Standards on Social and Environment Sustainability
- The volume of business to which individual Performance Standards are being applied
- The environmental and social performance of our portfolio according to sector and region, and lessons from experience

A Commitment to Continuous Improvement

BUILDING A TALENTED AND DIVERSE WORKFORCE

IFC has made progress on several diversity issues in recent years by increasing the representation of women and people from developing countries and by raising awareness of this issue. Going forward, issues of diversity and inclusion will be getting greater attention, with a particular focus on having women in senior positions, widening the representation of nationalities, and recruiting people from more diverse educational backgrounds.

HQ vs. Field Staff

1,351 in Washington, DC (56%) 1,082 in field offices (44%)



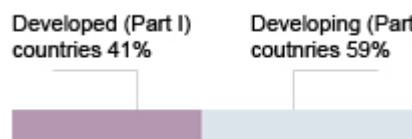
Gender distribution – Full-time staff



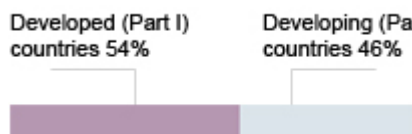
Gender distribution – Officer level (F+) and higher



Regional distribution - Full-time staff



Regional distribution – Officer level (F+) and higher



MAINSTREAMING SUSTAINABILITY

Since 2004, a dedicated staff training program has introduced staff to best practices and familiarized them with sustainability as a business strategy. The Building Better Business - Sustainability Learning Program (SLP) has now been offered nine times to staff from all departmental levels, including three times in the field (Johannesburg, Bangkok and Istanbul). The program has covered all investment departments and will be mainstreamed via integration into existing training programs.

In addition, corporate-wide training on IFC's new Sustainability Policy and Performance Standards and Disclosure Policy has begun. All operational staff at IFC Headquarters in Washington, DC, as well as staff in field offices are, being trained on the basic content, functionality, rationale, and implementation.

MAKING SUSTAINABILITY A PERFORMANCE CRITERION

Our corporate scorecard looks at IFC's corporate performance in three areas – client satisfaction, development impact and financial performance. In the development impact category, the scorecard has targets agreed to with our shareholders in IFC's pursuit of its developmental priorities, and the areas where IFC has a strong role in adding value to our projects, including the sustainability agenda.

In FY05 a long-term performance incentive was introduced for individual investment officers. The program assesses the long-term success of individual projects in terms of equally-weighted financial and development impact contributions.

PROMOTING A LEARNING CULTURE

Our ability to learn and improve is crucial to our long-term success and our ability to have a lasting development impact. As we take risks and pioneer new approaches to development and to investment, we are also constantly collecting and evaluating our experiences and working to ensure that these are incorporated into future efforts. We also develop and publish lessons from our investments and technical assistance projects.

Measuring the Impacts of Our Operations

Monitoring and evaluation of our projects, policies, and procedures constitute a critical part of what IFC does. We already track 'high impact' projects based on their potential to go significantly beyond compliance with IFC's social and environmental standards and to deliver a high economic return. The intention has been to help investment staff identify opportunities to add value to their projects and to recognize this through departmental scorecards.

This year an institution-wide effort was launched to improve the way we track the full sustainability and development impact of our investments as a means to report on our overall contribution to development.

The new approach involves identifying and monitoring selected development indicators throughout the life of a project, including economic, financial, corporate governance, social, and environmental dimensions. The new system aims to fulfill IFC's commitment to systematically articulate expected development results at approval and track them during supervision. A similar system is currently being developed for our technical assistance and advisory services.

Promoting Good Corporate Governance

IFC systematically examines corporate governance in its investment process, and is a leader in the dialogue on corporate governance in emerging markets. We work with clients to improve their practices, looking at four dimensions in particular:

- Commitment to good corporate governance
- Treatment of shareholders and other financial stakeholders
- The control environment, transparency and disclosure
- The role and functioning of the Board of Directors

In addition to client companies, IFC provides advice on corporate governance issues to governments, regulators, stock markets, institutes of directors, and other private sector players. Since 2000, IFC has co-sponsored the Latin American Corporate Governance Roundtable with OECD. IFC also regularly contributes to similar fora in Asia, Eurasia, and Russia.

www.ifc.org/corporategovernance

Creating Business Value

IFC goes beyond financing to help companies increase the sustainability of their businesses and to generate benefits that can be shared by communities and other stakeholders. We also play a wider role in promoting the overall sustainability of emerging markets by strengthening investment climates, supporting the development of the private sector, and by facilitating the creation of public goods, such as clear air, clean water, protection of biodiversity, and improvements in public health. Our approach consists of a combination of investments, technical assistance to clients and stakeholders, and research and innovation in response to pressing economic, environmental and social needs.

Our global leadership position and AAA credit rating allow us to take educated risks that the private sector is reluctant to take alone. Our extensive international experience and presence in a wide range of regions and sectors enables us to pioneer new approaches and help sustainable products

overcome initial market barriers. Through a combination of risk-taking and strategic support we are helping businesses improve their triple bottom line performance, and helping other stakeholders tap into the potential for change offered by the private sector.

INCREASING ACCESS TO MICROFINANCE

IFC has adopted several approaches to developing the microfinance sector. These include

- Setting up “greenfield” operations
- Helping nonprofit organizations evolve into commercially sustainable regulated financial intermediaries with the scale and capacity to reach a greater number of clients
- Working with global and regional microfinance networks with expertise and proven experience to create on-the-ground management and staff capacity
- Helping commercial banks develop microfinance operations worldwide (“downscaling”)
- Encouraging commercial investors to increase financing to underserved groups through specialized vehicles

As of June 30, 2005, our portfolio included investments in 69 microfinance projects in 43 countries, with a total value of \$323 million. These investments have reached more than 1.2 million clients, for a total microcredit volume of more than \$1.5 billion.

www.ifc.org/gfm

SUPPORTING SMES

We promote small business development through a combination of advisory and investment services, increasingly using intermediaries as a way to reach SMEs more effectively. IFC provides equity and medium-term loans to banks and leasing companies that serve small businesses. Our investment in financial institutions where SMEs are more than half the client base has grown from \$229 million in FY00 to \$1.1 billion in FY05. IFC-supported financial institutions have provided over 1.7 million loans for over \$16 billion to SMEs over this period.

In addition, we help local firms become suppliers to IFC investment projects. In partnership with our investment clients, we provide training and advisory services to local small businesses, enabling them to improve the competitiveness of their products and services. This work provides the tools for local entrepreneurs to benefit directly from an IFC investment, and also contributes to local economic development. In FY05, IFC implemented advisory projects in 134 countries including 82 frontier countries, mostly through over 60 field offices.

www.ifc.org/sme

CREATING SUSTAINABLE FINANCIAL MARKETS

Since 2002, IFC has been promoting environmentally and socially sustainable lending and investment practices among our financial intermediaries and the wider emerging markets financial sector. Using donor funds, we provide executive education and institutional capacity to a wide range of financial institutions of all sizes. We are also helping to develop good practice through demonstration models, market research and feasibility studies. In 2005, IFC collaborated with BOVESPA, the Brazilian stock exchange, to launch a sustainability index that would encourage Brazilian companies to take fuller advantage of this area of added value to their businesses.

www.ifc.org/gfm

CLOSING THE GENDER GAP

In FY05, IFC launched a cross-cutting institutional effort to mainstream gender issues throughout our operations, while at the same time helping to better leverage the untapped potential of women

in emerging markets. This has added a critical dimension and new capacity to IFC's development mission. It has also helped us to begin identifying gaps in investments and services to clients.

www.ifc.org/gem

SHARING STRATEGIES FOR SOCIAL RESPONSIBILITY

Social responsibility has become an important part of doing business for a growing number of our clients. Because of our extensive experience and networks in emerging markets, IFC is able to provide access to expertise and technical support in developing successful strategies in this area. Working closely with our clients, we are helping them develop solutions to particular issues surrounding their business, such as labor and human rights, and developing models for community engagement. We've also begun assisting companies in producing their first sustainability reports.

www.ifc.org/SocialResponsibility

STRENGTHENING BUSINESS RESPONSES TO HIV/AIDS

As an investor in regions hardest hit by HIV/AIDS or where prevalence is low but new infections are rising rapidly, IFC is committed to helping clients develop proactive approaches to the pandemic. Through a dedicated program launched in 2000, IFC's support to businesses includes guidance, training, and special initiatives based on the analysis of the pandemic's dynamics as well as private sector responses.

www.ifc.org/ifcagainstaids

PIONEERING APPROACHES TO BIODIVERSITY

IFC is the executing agency with the largest private sector portfolio working on behalf of the Global Environment Facility (GEF), the financing mechanism of the U.N. Convention on Biological Diversity. In partnership with NGOs, the private sector, other financial institutions and donors, IFC has developed a variety of approaches to biodiversity that combine conservation, risk mitigation and business opportunity to achieve sustainable wealth creation for communities and the environment, as well as for the private sector. These range from incubating new "bio-businesses" to moving markets to more sustainable practices through multi-stakeholder efforts.

www.ifc.org/biodiversity

Responding to Climate Change

INVESTING IN SUSTAINABLE ENERGY

IFC is taking a leading role in developing new business models that stimulate private sector investment in sustainable energy and at the same time support sustainable economic development in emerging markets. This includes helping fledgling products, such as low-cost clean energy alternatives, enter the marketplace.

This year, IFC this year conducted the first ever assessment of sustainable energy components within our mainstream portfolio. In FY05, IFC invested \$705.1 million in 21 projects that had a sustainable energy component. The amount of IFC investment that directly supported the sustainable energy components within these projects was estimated to be \$220.9 million (\$64.59 million in RE; \$156.35 million in EE).

SUPPORTING THE CARBON FINANCE MARKET

With the Kyoto Protocol having come into force, IFC is facilitating the development of a commercial carbon market. Besides helping developed country partners meet their commitments to reduce greenhouse gas emissions (IFC currently has approximately US\$100 million¹ under management in partnership with the Government of the Netherlands), we also plan to deliver new financial products that allow our clients in emerging markets to unlock the value of their carbon assets.

DRIVING INNOVATION IN CLEAN ENERGY

In addition to IFC's substantial portfolio of commercial investments in sustainable energy, we support technology development and the establishment of new business models to move markets towards sustainable energy, technology and services. With Global Environment Facility (GEF) and other donor resources, IFC oversees a diverse portfolio of more than US\$200 million dedicated to helping the private sector develop commercially viable, climate friendly products, as well as working to remove market barriers and reduce future transaction costs.

PREPARING FOR A NEW CLIMATE OF RISK

One of the services that IFC provides is assistance to clients to assess their business exposures, and to structure appropriate, cost-effective methods to mitigate, treat or transfer risks. This includes providing expertise on appropriate insurance coverage. Because we work with clients across a wide range of regions and sectors, we are well placed to help insurance providers adapt to new and emerging areas of risk. Such areas include climate change and natural disasters.

The majority of small businesses that were impacted by the Indian Ocean tsunami of December 2004, particularly in the tourism sector, had little or no insurance in place to help rebuild their operations and recover lost expenses and revenue. IFC has since run risk and insurance awareness workshops for these businesses to highlight the importance of insurance and good risk management, and has also been working with local insurance markets to find ways to make insurance protection more readily available and affordable for this sector of society.

Our Values at Work

Practicing sustainability in our headquarters in Washington D.C. and in our field offices is an important part of living out our mission statement and being consistent with what we ask of our clients. This means improving our environmental and social footprint, which is made up of the direct impacts due to the operation of our buildings and daily work habits, and the relationship between IFC and the local communities in which we work and live.

Over the past several years, we have taken various steps to improve our footprint. In 2005, we stepped up our workplace greening and community outreach programs by appointing a dedicated Footprint Officer to work full time on these issues. The Footprint Program has also allowed us to increase collaboration between departments through an advisory committee and departmental champions, and to more actively reach out to field offices. The priority areas identified for the Footprint Program are:

- energy/CO₂ emissions (including business travel)
- procurement
- paper consumption and electronics use
- community outreach
- diversity
- staff awareness and engagement

¹ This will soon be expanded by an additional \$55 million.

Our commitment: This year we began gathering baseline footprint data on all of our regional offices, and we received responses representing approximately 30% of field staff. Our goal is to report for FY2006 on the footprint impacts of offices representing at least 60% of staff.