



INTERNATIONAL
FINANCE
CORPORATION
WORLD BANK GROUP



2003 sustainability review

Innovation, Impact, Sustainability
IFC's COMMITMENT

2003 Sustainability Review

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INTERNATIONAL FINANCE CORPORATION

Since its founding in 1956, IFC has committed more than \$37 billion of its own funds and has arranged \$22 billion in syndications for 2,990 companies in 140 developing countries. IFC coordinates its activities with the other institutions in the World Bank Group—the International Bank for Reconstruction and Development, the International Development Association, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes—but is legally and financially independent. Its 175 member countries provide its share capital and collectively determine its policies.



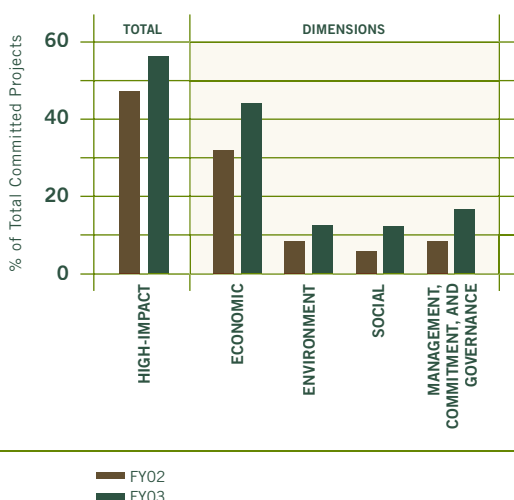
IFC

INTERNATIONAL
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World Bank Group

Sustainability Facts and Figures

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

IFC INVESTMENT IN HIGH-IMPACT PROJECTS, FY02-FY03



SNAPSHOT OF INVESTMENTS BY REGION, FY 2003

REGION	COMMITTED FINANCING IN FRONTIER COUNTRIES, % OF DOLLAR VOLUME ^a	NUMBER OF COMMITTED PROJECTS ^b	NUMBER OF HIGH-IMPACT PROJECTS
Sub-Saharan Africa	82.05	17	5
East Asia and the Pacific	29.83	25	13
South Asia	97.41	16	12
Europe and Central Asia	9.87	52	23
Latin America and the Caribbean	11.80	51	34
Middle East and North Africa	35.98	16	12
Global	n.a.	2	2
TOTAL		179	101

^a To be considered "frontier" by IFC, a country must be either low income, as defined by the World Bank, or high risk, with a rating of 30 or below or unrated according to *Institutional Investor*.
^b Numbers differ from IFC totals because only first-time commitments are counted in high-impact calculation.

ENVIRONMENTAL AND SOCIAL STAFF AND TRAINING, FY 2003

Total IFC staff	2,113
Staff dealing with environmental and social issues in daily operations ^a	1,128
Staff in specialized environmental and social business unit	86
Staff receiving training in environmental and social issues during fiscal 2003	480
Training time in environmental and social areas (hours)	1,940

Note: Numbers reflect recommendations for management performance indicators made by the EPI-Finance 2000 project on sustainability reporting for the financial services industry.

^a Includes mainly investment officers, portfolio officers, strategists, and attorneys.

BREAKDOWN BY ENVIRONMENTAL AND SOCIAL CATEGORY OF FY 2003 COMMITMENTS

	CATEGORY			
	A	B	C	FI
Number of committed projects	3	80	48	62
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.

STAFF TIME DEVOTED TO ENVIRONMENTAL AND SOCIAL REVIEW, FY 2003

ACTIVITY	STAFF HOURS
Appraisal of new projects	24,510
Supervision of portfolio projects	12,879

Note: Staff performed upfront appraisal and follow-up supervision work for over 1,000 individual investment projects in fiscal 2003. In all, 18.7 staff-years were devoted to environmental and social review of investment projects in 2003.

GROWTH OF ENVIRONMENTAL AND SOCIAL STAFF AND SPENDING, FY94-FY02

YEAR	NUMBER OF STAFF	SPENDING (\$millions) ^a
1994	8	2.0
1996	21	3.5
1998	42	5.1
2000	70	9.3
2002	84	11.7

^a 2002 dollars

MESSAGE FROM

The Executive Vice President

At IFC, sustainability is central to our mission of alleviating poverty and an essential part of our corporate strategy. For IFC to be a partner of choice for investment in the private sector of emerging markets, we must offer more than capital. Our experience in analyzing environmental and social impacts and ensuring that harm is mitigated has given us an expertise in sustainability that is second to none among financial institutions and multilateral development banks.

We are making our knowledge and experience available to clients, well beyond the environmental and social review traditionally associated with our investments. Businesses equipped to focus on sustainability enjoy tangible performance benefits—decreased use of resources, improved worker productivity, and new market opportunities such as sale of carbon emissions credits, among others. Through more timely and effective communication with clients, IFC is working to ensure that we are the best source of advice for emerging market firms on financial, environmental, and social sustainability.

New Directions in Our Business

During the year we intensified our efforts on trade facilities, microfinance, housing finance, risk mitigation, local currency financing, and securitization. We not only responded creatively to the evolving needs of the private sector in developing countries but in some instances staked out new ways of doing business.

For example, in Brazil, Guatemala, and India, we helped arrange some of the first carbon emissions transactions, including the biggest deal to date under the Kyoto Protocol's

Executive Vice President Peter Woicke (left) and President James D. Wolfensohn.



BRETON LITTLEHALES

Clean Development Mechanism. In Argentina and Brazil, we played a key countercyclical role, inducing commercial banks and other partners to establish large trade facilities that address the reduction of short-term export credit. In China, we helped set up one of the first major sales of nonperforming loans.

Sustainability Impact

Private sector development in poor countries is not just about making investments. Enlightened companies—not only in the developed world but also in China, India, Eastern Europe, and Latin America—have recognized that long-term profitability is best secured when these investments are made in an environmentally friendly way, when affected people participate in the process, and when local communities receive a real benefit from the investments. The private sector can often make substantial contributions to poverty alleviation, as many of our clients have recognized. With our expertise on environmental and social matters, our knowledge of local supply-chain enhancement, and our HIV/AIDS program, we actively support the private sector in maximizing its sustainability impact.

In this respect, we are pleased and proud that in June 2003, ten leading international banks adopted the Equator Principles. These banks agreed to a set of environmental and social policies and guidelines based on those of the World Bank and IFC, which they will apply to their project financing worldwide. Four more banks have already agreed to these principles, and others are expected to soon. IFC advised on the substance of these principles and played a central role in negotiating the agreement.

These banks see a bottom-line value in having clear, understandable, and responsible standards for investing in emerging markets, which perfectly illustrates the business case for sustainability. For the ten founding banks alone, the Equator Principles will affect about \$100 billion in global investment over the next 10 years, in industries ranging from forestry and manufacturing to infrastructure and extractive industries.

For IFC, this move shows the potential for our leadership on issues of sustainability. It shows that we can help businesses recognize the ways their interests align with those of people in developing countries and with the well-being of the global environment.

World Bank Group Collaboration

In recent years, we have seen a greater emphasis in many countries, even the poorest ones, on economic growth and thus on establishing a better environment for the private sector. These countries are also recognizing the need to build a better infrastructure to attract private sector investments. The World Bank Group's expertise on investment climate issues will be helpful when these countries formulate private sector strategies.

Many projects in developing countries will come to successful fruition only through public-private partnerships. IFC has begun to tap the International Development Association (IDA), the source of concessional lending to the world's poorest countries, for innovative projects that blend public funding with private capital.

The World Bank Group will also need ways of financing subsovereign governments, which are taking on greater responsibility for water, electricity, and other infrastructure deliveries. Having already arranged the first municipal water financing in Mexico, we have now created a joint IFC-World Bank unit to explore the new horizons of subsovereign financing.

Looking Ahead

A number of challenges remain ahead of us: competing financial products from other multilateral development banks, volatile market conditions, and realizing the full potential synergies from our noncommercial activities. We also need to bring more of the world's global businesses on board with sustainability.

As we face the new fiscal year, we are well positioned to take on such critical tasks as revising the IFC safeguard policies, mainstreaming the implementation of environmental and social issues within our investment departments, and segmenting our markets and improving our business promotion.

I have every confidence that we can continue to thrive and grow in the year ahead, with commitment to our overall mission, poverty reduction.



Peter Woicke
Executive Vice President

Innovation, Impact, Sustainability

IFC'S COMMITMENT

At the International Finance Corporation our mandate is to further sustainable economic development through the private sector. We pursue this goal through innovative solutions to the challenges of development, as we invest in companies and financial institutions in emerging markets and as we help build business skills. We consider positive developmental impact an integral part of good business, and we focus much of our effort on the countries with the greatest need for investment. We recognize that economic growth is sustainable only if it is environmentally and socially sound and helps improve the quality of life for those living in developing countries.



RICHARD LORD

ABOVE AND OPPOSITE: Companies benefiting from IFC financing include the GIIS cardboard factory in Ghana and Asaka Bank in Uzbekistan.



PANOS

Innovation...

In fiscal 2003, IFC pioneered a number of new approaches to private sector development.

- In Mexico, we entered the municipal finance market for the first time.
- In China, we developed a new approach to the problem of nonperforming loans.
- In Tajikistan, we helped a private company restore hydropower plants while ensuring affordable energy for local people and safeguarding the environment.
- From India to Russia to Vietnam, we invested in cutting-edge information technology firms and trained workers to increase their high-tech skills.
- In all regions, we worked to increase the role of smaller businesses as suppliers of goods and services to the larger companies in which we invest.

IFC ENTERS THE MUNICIPAL FINANCE MARKET

Municipal governments provide most essential infrastructure services in developing countries but usually lack access to market financing. With a \$3 million partial credit guarantee for a water project in Mexico, IFC has entered the municipal finance market. Partnering with a private bank, IFC will provide a peso-denominated guarantee to a private Mexican trust, which will issue bonds up to \$8.8 million equivalent in the local capital market. Bond proceeds will be used to provide a loan to the city of Tlalnepantla and its municipal water company for design and construction of a wastewater treatment plant. IFC also helped secure a \$5 million letter of credit from a private lender.

This project is both the first municipal bond offering in Mexico that is not reliant on sovereign support and the World Bank Group's first direct financial support to a municipality. It creates a model whereby municipalities in Mexico can secure financing entirely through their own revenues rather than a federal guarantee or assignment of federal transfers—and can mitigate their foreign exchange risk. The transaction also introduces a new local asset class for the country's capital markets.

The wastewater treatment plant, the first in Mexico's most industrialized municipality, will stop sewage from flowing untreated into the Rio San Javier. The plant will recycle residential and industrial wastewater for industrial reuse and free up potable water. It should also relieve pressure on heavily exploited groundwater aquifers.

Impact...

IFC seeks out business sectors with the greatest potential for raising living standards.

We place special emphasis on countries that have low incomes or present high risks for investors, and we pinpoint ways that they can improve their investment climates. We also remain committed to addressing the evolving needs of the private sector in middle-income countries.

- For our investments—ranging from a port in Pakistan to microfinance banks in Azerbaijan, Chad, and El Salvador—we work to leverage the positive impact of the projects we finance.
- But because investment alone is sometimes insufficient, we provide technical assistance and advisory services to help ensure that business loans and equity investments, now and in the future, will have sustained economic benefits.
- In countries experiencing economic downturns, we also play a critical role, making working capital available and leading the way for the private sector to invest again.

THE EQUATOR PRINCIPLES

In June 2003, ten major international banks adopted the Equator Principles, a voluntary set of guidelines based on the environmental and social guidelines and safeguard policies of IFC. These principles will be applied to the project finance activities of these banks, globally and in all industry sectors. In drafting the Equator Principles, the banks received extensive advice and guidance from IFC. These ten banks underwrote about \$14.5 billion in project loans during 2002, representing some 30 percent of the project loan syndication market globally. The following banks adopted the Equator Principles:

- ABN AMRO Bank, N.V.
- Barclays PLC
- Citigroup, Inc.
- Credit Lyonnais
- Credit Suisse Group
- HVB Group
- Rabobank
- Royal Bank of Scotland
- WestLB AG
- Westpac Banking Corporation





Sustainability...

Sustainable development—improving corporate governance and taking environmental and social issues into account—is at the heart of IFC’s business.

But we go even further: we explore ways to turn sustainable development into commercial opportunities. Fiscal year 2003 saw a range of these activities:

- We maintained our commitment to smaller businesses by providing a wide range of technical assistance and advisory services and by helping financial institutions serve these clients.
- We helped industrial companies reduce greenhouse gas emissions, in some cases through expected sales in the emerging market for carbon emission credits.
- We educated employers and workers through the IFC Against AIDS program and helped the Brazilian government launch its Zero Hunger initiative.

PROVIDING ELECTRICITY AND SAFEGUARDING THE ENVIRONMENT

With the collapse of the Soviet Union, the subsequent civil war, and sharp economic decline, the diesel generation plants in the Gorno-Badakhshan region of eastern Tajikistan ceased to operate. As a result, the population of this very poor region has come to depend on wood as fuel, and an estimated 70 percent of the tree cover has been cut down in a decade. Schools and other public institutions have had to close during the coldest weather, indoor pollution has become acute, and economic activity has been stifled. IFC and the Aga Khan Fund for Economic Development have established Pamir Energy, a private concessionaire that is taking control of hydropower plants and other facilities that serve 250,000 residents and were previously state owned. The project, the first private investment in the power sector in Tajikistan, will double the capacity of a Soviet-era power plant, improve transmission and distribution facilities, and regulate the level of a lake to ensure adequate flow in the winter. The project also aims to reduce emissions and natural resource depletion. It will create local contract employment during construction, and a more reliable power supply will contribute to the region’s economic recovery.

IFC is investing \$8 million in the new company, of which \$3.5 million is in equity and \$4.5 million in loans. With donor support, we earlier provided the technical assistance needed to structure and fund this investment. In an innovative example of IFC–World Bank cooperation, IDA is providing \$10 million to the Tajik government to help keep tariff rates affordable for the local population. A further grant from the Swiss government will ensure that a minimum monthly supply of electricity is delivered at a very low rate to even the poorest households.

Investments and Services

WHERE THEY MAKE THE MOST DIFFERENCE

IFC focuses its efforts where they make the greatest difference. We invest in the sectors and countries that the private sector is unwilling or unable to enter on its own, either because of an adverse economic situation or because business success has not been demonstrated there before. We also play a catalytic role for other project sponsors, including commercial banks, to invest in developing countries.

Through technical assistance, advisory services, and research, we are helping developing countries improve their investment climates and strengthen the capacity of their private sector to expand and operate. These nonlending services from IFC and its World Bank Group partners help ensure that a country's economy will benefit over the long term from private sector investment.

IFC also demonstrates its commitment to countries in economic crisis, playing a key countercyclical role when there is a retreat of private capital. In fiscal 2003, we helped clients in Brazil and Argentina secure vital trade financing, in collaboration with international banks through the B-loan program. Similar investments we made in East Asia during the crisis of the late 1990s have brought long-term economic benefits.



LINDA YOUNG

WHAT IS IFC'S FRONTIER STRATEGY?

IFC places an emphasis on countries where there is little or no foreign capital flow. To be considered "frontier" by IFC, a country must be either low income, as defined by the World Bank, or high risk, with a rating of 30 or below or unrated according to *Institutional Investor*. IFC helps private companies and financial institutions invest in these countries. Along with the World Bank, we also look for ways to strengthen investment climates, providing advisory services and technical assistance that enable businesses to acquire the skills and know-how that lead to prosperous, sustainable enterprises.



PANOS

Investment Climate and the World Bank Group

A sound legal and regulatory environment is necessary for firms to invest, improve productivity, and create jobs. That environment includes protection of property rights, access to credit, and efficient contract enforcement. But we need to know more about the specific institutional reforms that lead to a favorable environment for doing business.

The Doing Business project, a joint initiative of IFC and the World Bank, fills this gap by creating new, quantitative indicators on business regulations and their enforcement and by analyzing the relationship of these regulations to economic outcomes. The indicators can be compared over time and across more than 130 countries. Topics covered include business registration, labor regulations, contract enforcement, creditor rights, and bankruptcy. New topics will be added in 2004 and 2005 and updated annually. Findings will be published in the annual *Doing Business* report—launched this year in both Web and hard-copy versions—as well as an online database of indicators, academic papers, and country analyses.

The Doing Business indicators can be used to identify specific opportunities for reforming the business environment. They also enable policymakers and investors to compare countries and monitor change. Indicators are already being used in broader World Bank Group efforts to

monitor development effectiveness and allocate funding through IDA for low-interest loans to the world's poorest countries. Doing Business is part of the World Bank Group's increasing emphasis on investment climate issues. During 2003 the Bank Group established a new vice presidency for Private Sector Development to coordinate work on investment climate. The new vice president was also named IFC chief economist.



RICHARD ENGLISH

Krishi Gram Vikas Kendra, sponsored by Usha Beltron, develops agricultural programs for some of the poorest regions in India.

REDUCING EMISSIONS, HELPING THE COMMUNITY

Usha Beltron is India's leading manufacturer of specialized wires, steel wire ropes, and rods—and the world's fourth largest. But like other midsize companies in India, it has limited access to long-term financing. IFC played a key role in restructuring Usha Beltron's operations by providing debt and equity financing on its own account and by mobilizing loans from other investors. IFC also provided the company with valuable advice on setting up a cogeneration power plant that will reduce emissions and power costs by using waste flue gases from the company's iron plant to generate power.

Usha Beltron has a strong corporate commitment to community development. It sponsors Krishi Gram Vikas Kendra, a nongovernmental organization whose activities include watershed development projects in more than 50 villages near Usha Beltron's plants; health care and agricultural development programs in two of India's poorest states, Bihar and Jharkhand; and women's enterprise development in partnership with the Self-Employed Women's Association. Usha Beltron also operates research and learning centers that offer training in business management to small businesses and other local manufacturers.

Building Capacity for Business

IFC supports private sector development both by investing and by providing technical assistance and advisory services that strengthen businesses. Key capacity-building initiatives include training and advisory services for small and medium enterprises, investments in small business, and development facilities serving regions or addressing specific issues of sustainability.

INVESTMENT AT THE GRASS-ROOTS LEVEL

In frontier markets where private capital flows are limited at best, grass-roots groups' income generation projects can make a big difference in poor people's lives. This year, for example, the Mekong Private Sector Development Facility helped create a commercially viable small business in partnership with Hagar, a Cambodian nongovernmental organization that has rebuilt the lives of 20,000 destitute mothers and children over the past decade.

MPDF has been active with Hagar since 1999, providing business advice on the planned commercialization of the nonprofit group's silk handicrafts and soy milk production activities. For the latter, MPDF conducted a market study that showed great potential demand for a repackaged product. It then helped shape the business proposal that this year attracted a \$450,000 IFC equity investment in newly launched Hagar Soya Ltd. and agreed to provide postinvestment marketing and sales support to Hagar as well. This financing will allow Hagar Soya to expand its daily output from 300 to as many as 12,000 liters per day. It will use locally grown soybeans to produce a nutritious drink that is affordable for Cambodia's poor and often malnourished population.

MPDF has also helped Hagar Design, enabling it to obtain \$65,000 in funding from IFC's SME Capacity Building Facility to improve its silk production operations. Hagar Design has established an international market and employs more than 50 previously disadvantaged women to sew high-quality handbags, table mats, and other fabric products.



ABOVE: Hagar Soya. BELOW, LEFT: Hagar Design.





JOSE ZEVALLOS

IMPROVING PRACTICES TO MAINTAIN MARKET ACCESS

Favorita Fruit, an IFC client in Ecuador, is a pioneering firm on environmental and social issues. In 1999, its banana exporting subsidiary, Agricola Bananera Reybancorp, had all the banana farms it owns certified by Rainforest Alliance for environmental and labor practices. Through Fundacion Wong, named after the company's founder, Favorita supports over 30 schools for children in the rural areas from which it sources bananas. Supporting schools complements Favorita's leadership in efforts to eradicate child labor in the banana fields through the exporters' trade association, CORPEI.

In 2003, Favorita and IFC's Corporate Citizenship Facility have begun to develop and implement a program of outreach and training for independent banana suppliers, which account for over half the company's exports. The program will impart basic environmental and labor practices that are becoming essential for Ecuadoran farmers to maintain access to markets in the EU and the United States. It consists of sessions in each of four banana-growing regions and field visits to certified Favorita facilities. There is no charge for farmers to attend the training. The project has the potential to affect environmental and labor practices on 18,000 hectares of banana plantations and to influence the lives of thousands of workers. The facility is funding all training costs and materials and the rental of venues for training. Favorita Fruit is providing staff support and all transportation.

Environmental and Social Facilities

With support from donor governments, IFC has established resources that provide technical assistance and funding to help companies in specific aspects of environmental and social development:

- Corporate Citizenship Facility.** This facility supports the development of good practice in community development, environmental stewardship, and labor standards. The facility also disseminates good practices and helps IFC project clients take a more proactive approach to corporate social responsibility, beyond compliance with environmental and social requirements. Costs of the programs are shared by the facility and client companies.
- Environmental Opportunities Facility.** This facility supports projects that offer innovative private sector solutions to local environmental issues. Such projects produce goods or services that reduce pollution or improve the use of resources such as water and energy. The facility provides funds for project development and flexible financing to help overcome barriers to such projects and move them toward commercial viability.
- Sustainable Financial Markets Facility.** This facility promotes environmentally and socially responsible lending and investment, both through IFC's financial intermediaries and in the financial sector of emerging markets generally. Funded by grants, these programs include training and technical assistance to build financial institutions' understanding of environmental and social issues and the capacity to address them.



JOSE ZEVALLOS

Biodiversity Conservation and IFC

IFC is involved in projects that permit the private sector to contribute directly to the preservation of animal and plant species around the world. We are working to help the private sector in emerging markets be a positive force for maintaining the world's biodiversity.

Through grant funding, we develop and deliver projects with specific biodiversity impacts. These include our efforts to preserve poison dart frogs in Peru and the Siberian salmon in Mongolia (see box). Another example is the Balkan Herbal Development Initiative. With partners, we have examined the prospects for marketing the region's naturally occurring herbs to the European Union, while identifying specific measures that will protect biodiversity and ensure sustainable harvesting.

We also encourage attention to biodiversity through our mainstream investment projects. The effort to save the sarus crane is proceeding with financial support from Holcim Vietnam, a cement producer with operations adjacent to crane habitats (see box). In the Maldives, Villa Shipping is leading efforts, through a trade association, to implement integrated shoreline protection, which should help maintain habitat for sea turtles. The company is also monitoring the health of nearby coral reefs.



INTERNATIONAL CRANE FOUNDATION



NICK FLANDERS

SUSTAINABLE ECONOMIC BENEFITS FROM SAVING SPECIES

As part of its commitment to preserving biodiversity in developing countries, IFC has launched innovative projects in Peru and Mongolia in partnership with local civil society organizations. The projects are funded by the Global Environment Facility.

In the rainforests of Peru, IFC is working with two nongovernmental organizations to establish a ranching and export business for poison dart frogs. This will help rural communities generate income from a practice that enriches the rainforest rather than depleting its diversity. The project is expected to stabilize or increase the population of at least 60 frog species, many of which have been smuggled out of the area. It will also employ about 250 families and conserve more than 3,000 hectares of tropical forest.

In northern Mongolia, IFC invested in a river conservation project that will protect the Siberian salmon, a threatened fish species, and provide a sustainable source of income for local nomadic communities. The project contributes \$1 million to help the Taiman Conservation Fund, a nongovernmental organization, develop a financially sustainable conservation management system for the Eg-Urr watershed. The plan allows for development of low-impact tourism in this wild and scenic waterway.



SAM KELLER



INTERNATIONAL CRANE FOUNDATION

PROTECTING A CULTURAL ICON

The grasslands of the Ha Tien Plain in southwest Vietnam represent the last ecosystems of their type in the country and hold significant biodiversity, including the globally endangered sarus crane. The world's tallest flying bird, the crane is a cultural icon throughout the region, symbolizing long life and evident in every place of worship.

The grasslands have been subject to rapid conversion to agriculture, much of it unsustainable. Examples of land use in the area include 22,000 hectares of failed eucalyptus plantation and low-yield rice farming. Meanwhile, a rapid increase in shrimp aquaculture leads to acidic water that is in constant need of neutralization.

In collaboration with Holcim Vietnam, an IFC client based in the region, and the International Crane Foundation, IFC's Corporate Citizenship Facility supported a land use mapping and critical natural habitat identification exercise in early 2003. The results of this work were presented in a workshop to key stakeholders, from which specific conservation proposals emerged. A fundraising effort is now underway to allow a detailed feasibility analysis of the proposals.

TOP: Ecotourism yurts in Mongolia. **ABOVE, LEFT:** Poison dart frog in Peru. **LEFT AND OPPOSITE:** Sarus cranes in Vietnam.

Improving Use of Resources

Focusing on sustainability makes good sense for business. IFC's current work in the energy sector—with utilities, private companies, and financial institutions—provides examples of how innovative approaches to project finance can allow the private sector to achieve environmental benefits while enhancing profitability.

Our investments, for example, include projects that commercialize energy efficiency in several Central European countries (see box). IFC is also breaking new ground in the market for greenhouse gas emission reductions—also called carbon credits—together with government and private sector buyers of emission reductions and sponsors in developing countries (see box). Industrialized countries that ratify the Kyoto Protocol will be required, once it comes into force, to reduce emissions they produce domestically. These countries can also meet a part of their obligation by purchasing carbon credits from projects in developing countries.

IFC supports this market-based approach through several World Bank Group facilities that purchase carbon credits. For developing countries, the sale of carbon credits will encourage the transfer of cleaner technologies at an effectively reduced cost. For developed countries, the purchase of credits increases the range of options for complying with the Kyoto Protocol. Use of a market-based system is a groundbreaking step for achieving environmentally beneficial impacts globally, and IFC is actively facilitating the development of this market.



COMMERCIALIZING ENERGY EFFICIENCY FINANCE

Central European countries remain three to five times more inefficient in energy use than their Western European neighbors. This inefficiency impairs economic competitiveness, creates social pressures, causes air pollution, and poses obstacles to EU accession. The demand for new, energy-efficient technologies is strong, but there is little capital available. Local financial intermediaries consider energy efficiency projects high risk because of their novelty and the difficulty in structuring collateral.

To promote such projects, IFC, in partnership with the Global Environment Facility and bilateral donors, has established a \$90 million guarantee facility, including up to \$75 million invested by IFC. The facility provides a partial guarantee for loans made by local financial intermediaries when they invest in energy efficiency projects. This innovative structure will enable IFC to leverage more than \$225 million in private capital investments. IFC launched a similar project in Hungary in 1997 and began this new initiative in the Czech Republic, Estonia, Latvia, Lithuania, and Slovakia in June 2002.

The goal is to build a sustainable market for financing energy efficiency. The initiative uses a combination of technical assistance and credit enhancement instruments to enable local financial institutions to develop a profitable business in energy efficiency lending.

This effort will have significant economic, environmental, and social benefits, and it supports the participating countries' targets for EU accession. Examples of program impacts in Hungary include investments in projects to upgrade street lighting in small towns in the poorest parts of the country and to replace outdated, unreliable heating technologies in hospitals.



NIELS VESTERGAARD

MARKET MECHANISMS THAT REDUCE EMISSIONS

In addition to offering project financing, for eligible projects IFC can help companies increase their income while reducing environmental impacts. For example, IFC recently committed \$15 million in financing to Balrampur Chini Mills Limited, one of India's premier sugar companies, to help finance a 20-megawatt cogeneration plant that will produce electricity from the biomass waste product of its sugar operations. The IFC-Netherlands Carbon Facility is also negotiating to purchase up to 2 million tonnes of emission reductions from their operations.

Another example of combining conventional project financing and carbon financing to help companies lower costs and increase efficiency is the El Canadá hydroelectric project in western Guatemala, which will displace about 144,000 tonnes annually of greenhouse gas emissions that would otherwise be generated through thermal plants. In addition to \$27 million in financing (including a \$12 million syndicated loan), IFC collaborated with the sponsors and the Prototype Carbon Fund to arrange carbon credit financing.

IFC is also promoting the market for greenhouse gas emission reductions by helping companies in which it is not investing directly. This year the IFC-Netherlands facility struck a €15 million deal to purchase 5 million tonnes of emission reductions from V&M do Brasil, a leading producer of steel tubes in Brazil that uses sustainably produced biomass charcoal instead of coal in its steel production. Revenues from this sale of carbon credits will be used by the company to continue maintaining its biomass plantations. IFC also facilitated a one-time sale of 400,000 tonnes of credits by V&M to Toyota Tsusho Corporation of Japan.



NIELS VESTERGAARD

ABOVE: A jetty used to import liquid petroleum gas to China. **LEFT:** Liquid steel at the Ispat Karmet plant, Kazakhstan.

Financial Highlights

OPERATIONAL RESULTS SUMMARY, FY 2003

New projects committed	204
Total financing committed	\$ 5.0 billion
Financing committed for IFC's own account	\$ 3.9 billion
New projects approved	186
Total financing approved	\$ 5.4 billion
Financing approved for IFC's own account	\$ 4.0 billion
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 committed portfolio	2%

* Includes off-balance-sheet products, such as guarantees and risk management products; for IFC's own account as of June 30, 2002.

RESOURCES AND INCOME, FY 2003

Operating income	\$ 528 million
Paid-in capital	\$ 2.4 billion
Retained earnings	\$ 4.4 billion
Borrowings for the fiscal year	\$ 3.5 billion

SUSTAINABILITY AND IFC, FY 2003

Committed projects with high sustainability impacts*	56%
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* On a pilot basis, IFC identifies, tracks, and assesses new investment commitments that have positive high impact in corporate governance, economic, environmental, and social dimensions.

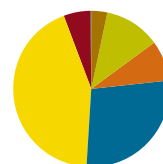
WHAT

COMMITMENTS BY SECTOR, FY03*	\$ millions	%
Financial**	2,529	50.2
Transportation, warehousing, and utilities	562	11.2
Oil, gas, mining, and chemicals	383	7.6
Food and beverages	378	7.5
Industrial and consumer products	246	4.9
Nonmetallic mineral product manufacturing	194	3.9
Information	182	3.6
Accommodation and tourism services	98	1.9
Wholesale and retail trade	93	1.8
Textiles, apparel, and leather	91	1.8
Agriculture and forestry	66	1.3
Construction and real estate	50	1.0
Primary metals	50	1.0
Plastics and rubber	47	0.9
Health care and education	37	0.7
Pulp and paper	23	0.5
Professional, scientific, and technical services	7	0.1
TOTAL COMMITMENTS	\$ 5,033	

* All commitment data include guarantees and risk management.

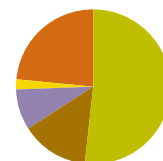
** Includes finance, insurance, and collective investment vehicles.

WHERE



COMMITMENTS BY REGION, FY03	\$ millions
Sub-Saharan Africa	167
East Asia and the Pacific	583
South Asia	422
Europe and Central Asia	1,394
Latin America and the Caribbean	2,180
Middle East and North Africa	279
Global	9

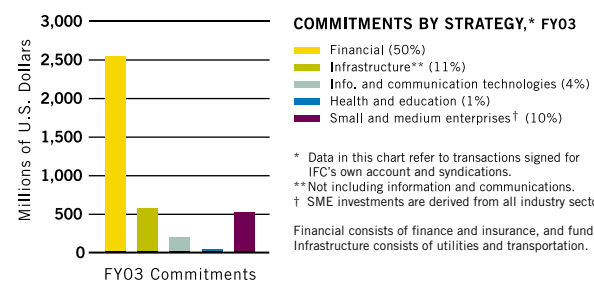
HOW



COMMITMENTS BY PRODUCT, FY03	\$ millions
Loans	2,604
Equity & quasi-equity	712
Guarantees	429
Risk management products	106
Loan syndications	1,181

WHY

IFC strategy emphasizes sectors targeted for their high potential for sustained development impact.

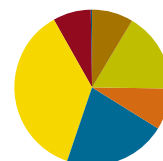


COMMITMENTS BY STRATEGY,* FY03

Financial (50%)	2,529
Infrastructure** (11%)	562
Info, and communication technologies (4%)	194
Health and education (1%)	37
Small and medium enterprises† (10%)	503

* Data in this chart refer to transactions signed for IFC's own account and syndications.
** Not including information and communications.
† SME investments are derived from all industry sectors.
Financial consists of finance and insurance, and funds.
Infrastructure consists of utilities and transportation.

INVESTMENT PORTFOLIO BY REGION (for IFC's Account)



As of June 30, 2003 REGION	\$ millions
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
Global	45
TOTAL	\$ 16,777

Annual Review

The International Finance Corporation, the private sector arm of the World Bank Group, is a global investor and advisor committed to developing a sustainable private sector in emerging markets. For many years, we have sought convergence and common ground between the pursuit of financial gain, the need for economic growth, and the safeguarding of the environment and people's interests. We are cognizant of lessons learned through our nearly 50 years of service and are committed to ensuring that we are part of solutions that work for all. For us to achieve this goal, sustainability must be a central theme for the institution, its staff, and the clients with whom we work. This report shares with stakeholders our intentions, means, and progress on our commitment to sustainability.

SUSTAINABILITY— MORE THAN A THEME, IT IS OUR STRATEGY

Sustainability is central to IFC's move to position itself as a supplier of broad commercial expertise, not merely capital, to our private sector clients in the developing world. There were few institutions similar to IFC in the early decades of our existence. 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.

THE GLOBAL CONTEXT

The past year brought into sharp relief several major challenges for sustainable development in IFC's member nations. The global economy—facing a combination of corporate governance scandals, overcapacity in key sectors, political instability, slowed trade negotiations, SARS, and backlashes in some places against market liberalization—continued to struggle to regain momentum from its steepest decline since the oil crisis of 1973.

In this context, 2.5 to 3 billion people in developing countries continue to live on less than \$2 a day. Over the next 30 years, the world's population is expected to increase by an additional 2 billion, with nearly all the increase occurring in developing countries. To address this increase in population among other challenges, growth and innovative approaches are essential.

Together, these factors have placed private sector investment as an engine for economic growth at the forefront of the poverty reduction agenda. But the World Summit on Sustainable Development, held in September 2002 in Johannesburg, underscored the sobering reality that the global growth needed in coming decades cannot be achieved using the methods and models of the past. Throughout the developing world, clean water, clean air, biodiversity, fisheries, and fertile soils are all at risk because of unsustainable growth.

The challenges for a global development finance institution such as IFC have never been greater. The need for our capital is clear, but so also is the need for IFC to pioneer the creative solutions that will contribute to the sustainability of private sector activity in emerging markets.

ENHANCING SUSTAINABILITY

IFC's mission is to invest in high-risk environments, while turning a profit, to give confidence to other private investors that a given country or sector presents viable investment opportunities. At the same time, IFC must ensure that these investments are developmentally sound and sustainable. If they are not, then we are not delivering on our mandate.

IFC has always been about promoting sustainable development (even before the term was coined), staffed by people with a personal and professional commitment to seeing the private sector serve long-term objectives in human development and environmental stewardship. But we must ensure that lessons learned inform our commitment to doing things better in the future.

While IFC has been a leader in incorporating environmental and social standards in its projects since 1989, we increasingly seek ways to encourage, through our investments in client companies, even better performance in these areas. A number of investments in IFC's portfolio have outperformed our high environmental and social standards—and gained

commercial benefits as a result. But at the same time that we seek out new clients capable of excelling on environmental, corporate governance, and social issues, we will continue service to those clients for whom achieving compliance with our baseline standards represents a significant achievement. We bring value to our clients and the societies in which they operate when we engage with a smaller firm in a low-income country and help it move to international standards of performance on environmental, corporate governance, and social issues. Any new system that IFC devises to encourage performance beyond its baseline standards must be practical and allow for incremental improvements in the tougher markets.

These tensions and challenges guide IFC as we assess how we can do more for sustainable development around the world. Our sustainability initiative is a development and an articulation of our commitments, an opportunity to refocus our efforts.

Organization of the Review

IFC's 2003 Sustainability Review is designed to offer our stakeholders as complete a picture as possible of IFC's sustainability efforts over the past fiscal year. This is IFC's second annual Sustainability Review, and we intend for the information and metrics shared in this review to form a basis for reporting going forward.

- **What Does Sustainability Mean to IFC?** For our stakeholders to gain a fuller understanding of what we intend to do through our commitment to sustainability, they must know what sustainability means to IFC. We look at sustainability as a matter of making investments in firms that are profitable and competitive in their markets but also good neighbors interested in social development and respectful of the environment.
- **IFC's Sustainability Outreach and Training.** The section gives examples of some key contributions to sustainable development during fiscal 2003.
- **Implementing Sustainability.** This section shares details on the efforts underway to make IFC's corporate commitment to sustainability a reality. This is not so much about fundamental change as it is about a sharpening of focus.
- **Operational Performance.** The greatest impact IFC can have on sustainable development comes from our core function, making capital available to the private sector in the developing world. This section details the expected developmental impact of our new investments, our investment in environmental sectors, and our funding of special projects through new environmental and social funding facilities.
- **IFC's Own Environmental and Social Impacts.** Although sustainability efforts focus on our investment activities, IFC also pays attention to the environmental and social impact of its own operations.

What Does Sustainability Mean to IFC?

For IFC, sustainability is a matter of making investments that serve our mission—to promote private sector investment in developing countries, helping to reduce poverty and improve people’s lives.

A project needs to turn a profit, and thus remain in business, to serve its owners and the communities in which it operates and to make effective use of capital. Likewise, to serve our mission, a project should not only generate profits but also respect the environment and adhere to labor standards.

Seeking to foster private sector growth while ensuring that social development and environmental stewardship concerns are addressed is not a new objective for IFC. We have always focused on the business of working through the private sector to achieve public good.

WHAT IS DIFFERENT NOW?

Whereas in the past we worked hard to ensure that the environmental and social impacts of our projects did no harm, we now aim for our investments, wherever possible, to “do good”—to achieve wider and more far-reaching environmental and social goals.

We have developed new metrics to assess the development impact of our projects. We have aligned staff incentives so that development impact is a criterion along with profitability and client satisfaction in assessing the performance of investment staff. We have sought to develop tools and build internal capacity so that we can be the best source of advice and guidance for our investment clients—whether on issues of finance, corporate governance, community development, or environmental management. Finally, we are committed to working with our various stakeholders on complex issues, such as managing the revenues generated through our investments, the impacts of economic activity on climate change, and the protection and enhancement of global biodiversity.

Committing to a more systematic method of assessing likely project outcomes, reporting our assessments of projects in a transparent and comparable manner, and continuing our conversations with stakeholders on complex global issues—these are all aspects of what sustainability means to IFC.

WHAT DOES IFC CONTRIBUTE TO SUSTAINABILITY?

Corporate social responsibility (CSR) departments are found in many companies today. Sustainability and CSR reports are even more common. Specialized nongovernmental organizations, business associations, and consultancies are to be

found on all sides of the globalization and sustainable development agendas.

There are several aspects of our role, however, that lend us a distinct perspective. One distinction has been our commitment to articulating the reasons why businesses ought to become more sustainable. We have found it important as a financial

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 ESSR AND IRR	
ESSR	IRR
1	8%
2	4%
3	-1%
4	-31%

institution—whose main impacts on the environment and communities are not direct but through investment project activity—to understand the potential benefits to business that can arise through better environmental, social, and corporate governance performance. This “business case” is critical to improving the convergence between our two objectives of accelerating economic growth and improving the sustainability of economic activity in our developing member countries. Raising environmental and social requirements is not sufficient: it can serve to crowd out investment in the toughest markets and is sometimes not the most efficient means of improving performance. To bring about the change we seek, we also need an ability to appeal to firms’ self-interest as a means of enhancing the sustainability of economic activity.

Little hard evidence of a business case for sustainability has previously been available in the public domain, particularly as it relates to companies in the developing world. Based on our experience and mission, we found ourselves in a unique position to fill this gap in information, and over the past few years we have developed and articulated the existence of a business case for large and small firms across many sectors.

IFC is also fortunate to have a depth and breadth of in-house environmental and social expertise. We have helped companies meet our environmental and social policies and guidelines as part of our investment operations for more than a decade, giving us substantial experience in making the subjective judgments that often arise in difficult situations. This expertise and experience enable us to confront environmental and social issues as part of complex transactions while other financiers are often unable or unwilling to take on and manage these risks. Our ability and willingness to address environmental and social concerns as part of the most complex

investments, coupled with our commitment to finding win-win scenarios through application of the business case, differentiate us from our peers in the area of sustainability.

Sustainability Outreach and Training

In 2003, IFC engaged with sustainability leaders, participated in global discussions, and conducted research on the business case for sustainability. We also trained staff to enhance their understanding of sustainability issues and familiarize them with available tools. The following are highlights from these efforts.

WORLD SUMMIT ON SUSTAINABLE DEVELOPMENT

IFC undertook many activities in conjunction with the World Summit on Sustainable Development in Johannesburg in 2002. Most notably, IFC cohosted an event with the World Business Council for Sustainable Development and its regional chapters: “The Business Case for Sustainable Development: Doing Good and Doing Well.” This event featured presentations from some of the leading experts on sustainability in the developing world. Four IFC investment client companies participated: DESC, a Mexican chemicals firm; Spier Estates, a South African tourism concern; Intercell, a pulp and paper producer in Poland; and Sinoforest, a Chinese forestry company. Each shared experiences in making their operations as sustainable as possible and discussed the benefits to financial performance from a focus on sustainability.

Commercial Banks Adopt IFC’s Environmental and Social Policies

Through consultation with IFC, ten major international banks have decided to adopt environmental and social monitoring procedures in their global project finance activities based on IFC and the World Bank’s environmental and social policies and guidelines. The banks have all agreed to what have become known as the Equator Principles (see box, p. 6). Four more banks have already signed on, and others are expected to adopt these principles in the coming months.

Banks agreeing to the principles will review potential projects much as IFC does for its own investment activities. These investment projects will be categorized for environmental and social impact using the same criteria as IFC. Based on this ex ante categorization, projects will be expected to comply with the requirements for environmental assessments, environmental management plans, and public disclosure as similarly used in IFC projects.

PUBLICATION OF DEVELOPING VALUE

Although there is a growing body of literature exploring the business case for sustainability, most work has centered on the developed world. Recognizing the need to examine the nature of the business case for firms in emerging markets, IFC partnered with the U.K.-based consultancy, SustainAbility, and with Brazil's Ethos Institute to research and publish *Developing Value: The Business Case for Sustainability in Emerging Markets*.

The book concludes that, indeed, in many cases there is a business rationale for seeking improvements in environmental, social, and governance performance. It draws on evidence from 240 case studies spanning 60 countries in emerging markets around the world. In addition to English, the book has been published in Chinese, French, Portuguese, and Spanish. The book is available through the World Bank Group's InfoShop, and an accompanying Web site offers an executive summary and some interactive features.

IFC AGAINST AIDS

IFC works with clients to address HIV/AIDS in many developing member countries through the IFC Against AIDS program. In much of the world, HIV/AIDS is as much a business issue as a health and humanitarian concern. Workforces and consumers alike are being ravaged by the virus, with economic harm likely to extend into future generations.

IFC Against AIDS works with client companies in high-risk settings to develop specifically tailored tools and

advice that address workforce and community-related issues stemming from the disease. IFC has also published a "Good Practice Note on HIV/AIDS in the Workplace," which provides general guidance and corporate good practice examples to a wider audience. Highlights from IFC Against AIDS activities for fiscal 2003 include:

- **Jamaica Public Service Co., Jamaica.** IFC provided guidance to this power company on how to formulate an HIV policy and develop an action plan to address HIV/AIDS in the workplace and surrounding communities. IFC will also provide guidance on implementation.
- **Kenya Tea Development Agency, Kenya.** IFC provided terms of reference for a technical assistance project to help the agency develop an HIV/AIDS awareness, prevention, and care program for its communities of small outgrowers.
- **Mozal, Mozambique.** IFC supported the Mozal Community Development Trust in efforts on women's health and voluntary HIV counseling and testing. In particular, the program will help the trust establish a strategy for prevention of mother-to-child transmission of HIV.
- **MSI, Africa.** IFC is helping the mobile telephone company refine its HIV policy and develop an action plan to address HIV/AIDS in the workplace and potentially in surrounding communities. IFC's Corporate Citizenship Facility is funding a cost-benefit analysis and examining the likely impact of providing antiretroviral treatment for employees as part of the action plan.

BRAZIL: COMBATING HUNGER AND POVERTY

Although a decade of economic liberalization has given Brazil a better foundation for improving living standards, millions of people still live on less than \$1 a day. The new administration of President Luiz Inacio Lula da Silva has launched Fome Zero (Zero Hunger), a major campaign to address the issue of social inequality, focusing on food security for poor people and calling for involvement of the private sector and civil society. IFC is supporting this campaign and rallying the country's private sector to participate.

As a first step, the Brazilian government has allocated funds to supply 1.5 million of its neediest families with a monthly subsidy to buy food. For its part, IFC is granting \$300,000 to the Ethos Institute, a nongovernmental organization, and the Polis Institute, a think tank. These Brazilian partners will create innovative links between businesses and the communities to be served by the Zero Hunger program.

This IFC-supported project will set up a database to record the needs of more than 900 municipalities and the contributions being offered by corporate participants. Polis and Ethos will also set up a call center and a Web site where companies can receive information and be matched with local communities.

IFC has many long-standing Brazilian clients with strong managerial experience and a commitment to social responsibility. With the expertise of its two local partners, IFC is well positioned to help connect private sector resources with the needs of Brazil's poorest communities. This public-private partnership is an important element in advancing the Zero Hunger program.

- **Odebrecht, Angola.** Odebrecht, a Brazilian engineering and construction company, earmarked \$1 million of a \$280 million corporate loan from IFC for efforts against AIDS. In August 2002, IFC and Odebrecht launched an education, prevention, and care program reaching 30,000 people in the communities near the company's operations in Angola. The program places special emphasis on women's health and prevention of HIV transmission from mother to infant and will assess the feasibility of providing antiretroviral therapy at the company's sites. Odebrecht has adopted an HIV/AIDS policy for all its operations worldwide.
- **Promasidor, Africa.** IFC provided an overview of the impacts of HIV/AIDS on businesses to the food and beverage company's management. Using a risk assessment tool that IFC provided, the company evaluated the relevance of a wellness program for its operations and decided to place emphasis on its Nigerian operations.

GLOBAL CORPORATE GOVERNANCE FORUM

IFC views proper corporate governance as essential to the sustainability of private sector activities. Good management increases a company's accountability, responsiveness, and efficiency in handling all business issues, including environmental and social risks and opportunities.

Because of the impacts of corporate governance on the quality of IFC investments and on our clients' ability to

handle their environmental and social responsibilities, we provide advice to clients on improvements in governance structure. IFC has also helped lead corporate governance reform in the developing world.

To meet the growing demand for governance reform worldwide, the World Bank Group and OECD have entered into a framework agreement for cooperation and are convening the Global Corporate Governance Forum. This initiative brings together the leading bodies engaged in governance reform worldwide: multilateral banks and international organizations alongside professional standard-setting bodies and the private sector.

The forum has been established to provide assistance to developing and transition countries on corporate governance. It serves to broaden the dialogue on corporate governance, to exchange experience and good practices, and to coordinate activities by identifying and filling gaps in the provision of technical assistance.

A critical task for the forum is to help countries identify priority areas for reform and implement them in a consistent and sustained manner through shared resources and expertise. IFC's Corporate Governance Unit serves as the secretariat to the forum's Private Sector Advisory Group on Corporate Governance, an association of company leaders, institutional investors, professionals, and other experts dedicated to fostering improvement of corporate governance standards in developing countries.

EGYPT: IFC CLIENT SUBJECT OF INNOVATIVE BUSINESS SCHOOL STUDY

Alexandria Carbon Black, a client of IFC since 1992 and a company that understands the contribution that environmental and social issues make to business performance, was recently the subject of a study conducted by students at Harvard Business School. The company was selected because it has demonstrated the positive results that can be achieved by committing to sustainable development. The study attempted to calculate the returns to society and the local economy from the investment.

Although carbon black, an industrial by-product that is a main component in tire manufacture, is notoriously unfriendly to the environment, ACB has succeeded in managing the production process to minimize negative impacts. The company has attained numerous certifications: ISO 14001 for environmental management, OHSAS 18001 for health and safety in carbon black, ISO 9002 for general management, and QS 9000 for quality assurance. The students identified benefits realized by the employees, the local community, customers, and suppliers, as well as the Egyptian economy as a whole.

ACB provided the students with a wealth of information, not only on its environmental and social efforts but also on its financial performance. IFC seeks to facilitate clients' participation in such partnerships, so that good corporate practices can be documented and publicized for the benefit of the wider private sector in emerging markets.

SUSTAINABILITY TOOLS

In 2003, IFC focused much attention on providing investment personnel with the tools and knowledge they need to make the business case for sustainability to clients. An internal Web site offering various sustainability tools was made available to staff beginning in early 2002. This Web site, the Sustainability Toolkit, has as its centerpiece a database of over 400 private sector examples of projects and companies that have found financial benefits through attention to sustainability. The toolkit provides real-world examples of where sustainability has worked to encourage replication and stimulate ideas going forward. It seeks to highlight convergence between the aims of sustainable development and improved business performance, which is increasingly where IFC's value-added contribution to clients is greatest.

A corporate governance Web site with information and guidance on governance issues is also available to all investment staff. The site guides investment officers through IFC's corporate governance methodology for appraising companies. It also provides tools to add value to client companies by improving their governance as part of an IFC investment. These tools include examples of best practices and model documentation, which is often tailored to the various types of companies that IFC invests in, such as listed companies, family companies, or financial institutions.

TRAINING FOR STAFF

A training program was initiated in 2003 to acquaint investment staff with the corporate aims for sustainability and the new tools developed to assist them. Industry and regional departments have received, or will receive, training specifically tailored to the business environment or region in which they work.

Training centers on developing investment staff's ability to understand and then articulate the business case for sustainability to clients. This is part of enhancing investment officers' inclusion of sustainability issues in their early consultations with prospective clients. Staff are given an opportunity to apply the available sustainability tools to investment scenarios in their sectors and to practice engaging in a conversation with clients about sustainability risks and opportunities. To date, 480 staff from eight of nine industry departments, four of seven regional departments, and three support departments have received training.

A new, comprehensive sustainability training program for staff has been budgeted for fiscal 2004 and is in development.

TRAINING FOR MANAGEMENT

IFC is a Global Corporate Founding Partner of the Prince of Wales Business and the Environment Programme, a forum that allows business leaders and other opinion formers to

Training Increases Use of Sustainability Toolkit

From its launch in April through September 2002, the Business Case Database, the centerpiece page of the Sustainability Toolkit Web site, received about 400 visits. The training sessions around the site raise staff awareness and familiarity with the tools available online. Since October 2002, the first full month after the start of training, the site has averaged over 3,000 visits each month.

debate and discuss the role of business in sustainable development. The program is designed and administered by the University of Cambridge Programme for Industry, and core faculty lead each seminar. IFC is helping the program expand its reach beyond Europe and the United States.

IFC has also encouraged members of its management ranks to attend the training seminars offered by the program. In 2003, 18 IFC vice presidents, directors, and managers attended a four-day session on business and the environment—there are just four such sessions held each year, accommodating up to 45 attendees each. Participating as members of these small groups of leading thinkers has helped acquaint IFC management with the global landscape of sustainability. Access to the network of program alumni also helps participants remain abreast of new business approaches to sustainability. IFC also encourages and facilitates participation in the program by its investment clients.

Implementing Sustainability

IFC believes that to make a greater contribution to sustainable development through our investments in emerging markets, we must adjust the way environmental and social concerns are viewed within our institution.

MAINSTREAMING ENVIRONMENTAL AND SOCIAL FOCUS

Although projects have had to undergo regular and systematic environmental and social assessments and comply with policies and guidelines in these areas for nearly 15 years, responsibility for these procedures rests with specialized environmental and social staff, housed in a separate business unit. Operating separately from other business units has certain advantages. It allows environmental and social staff greater independence to exercise judgment and has afforded the opportunity to standardize review procedures.

The corresponding challenge is not to let environmental and social issues become disconnected from investment decisions. Through the sustainability initiative, IFC is working

to keep the goals of economic growth on the one hand and sustainability on the other as integrated as possible.

Since IFC established its environment and social business unit, the world has changed in many ways. Consumer and investor concern around the issues of sustainability, which prompted IFC's policy structure, continues to bring changes in the way the private sector does business. The work of advocacy groups and the coverage and timeliness provided by the Internet have meant that nothing occurs in a vacuum. As a result, companies have had to evolve.

IFC believes it must transform itself in some ways to serve this new business environment. Where in the past IFC's environmental and social review might have represented the first time an IFC client ever thought of sustainability issues, we rarely find that to be the case now. Often, our investment clients are eager to receive suggestions and advice on how to improve resource use, emissions, community relations, or the health and safety of their workforce.

In this new market, IFC must consider environmental and social concerns much earlier in the project planning and decision process. Clients have always had the benefit of our financial modeling services and guidance on market trends, but we are now striving to offer the best, most timely advice on environmental and social risks and opportunities. To make this happen, we are working to integrate the environmental and social side of our organization more fully into our investments. We are helping our investment staff, who have much broader and more frequent interaction with clients than environmental and social staff, become more comfortable with, and knowledgeable about, environmental and social issues. At the same time, environmental and social staff are being asked to spot opportunities, not just enforce the rules.

INCENTIVES FOR SUSTAINABILITY PERFORMANCE

To align itself more completely with the aims of sustainable development, IFC is establishing a process for basing the performance evaluation of investment staff, in part, on their delivery of sustainable investment outcomes. Sustainability performance is now an integral part of rating criteria for departments and an area covered in competency models for investment staff.

In keeping with our increased focus on results and the mainstreaming of sustainability concerns throughout our business, IFC has put in place a new approach to assessing the performance of its business units, based on the "balanced scorecard" methodology. These scorecards reflect business unit performance in three areas: profitability, development impact, and client satisfaction.

Performance ratings include three measures to generate a score for development impact. First is the proportion of activities in IFC's most difficult markets. Second is the

proportion of projects that demonstrate, on an ex post basis, satisfactory or better performance on environmental and social compliance. Third is the proportion of new activity expected to lead to high development impact, based on our framework for sustainable development impact (see "How are projects assessed?").

The department scorecard is also used as a tool to apportion budget for staff performance awards among investment departments. Departments that rank high in the performance dimensions captured in the scorecard—profitability, development impact, and client satisfaction—receive proportionately higher funding for performance awards to their staff.

The strengthening of sustainable development impact is also a criterion for assessing the performance of investment staff when they are considered for promotion.

Operational Performance

In reporting on sustainability, we focus mainly on the operational performance of our investments in the developing world. This is our area of greatest impact and also what stakeholders emphasize. In addition, some corporate-level indicators are shared later in this review.

SUSTAINABILITY OF 2003 INVESTMENT COMMITMENTS

IFC looks thoroughly at 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. We have also developed means for assessing project performance in environmental and social areas that are not addressed by our safeguards, as well as performance that exceeds our compliance requirements.

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.

Prospective clients not operating in compliance with IFC's requirements at project inception are not simply 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 consult with clients to propose corrective action plans that allow for needed changes and assign dates for completion. A corrective action plan and its terms then become part of the loan agreement between the client and IFC. This engagement to improve private sector performance, rather than simply turning away difficult investments, is key to IFC's distinctive role.

Disclosure of project information

For all projects in which IFC invests, a summary of project information (SPI) must be prepared and disclosed publicly 30 days prior to review of the proposed project by IFC's Board of Directors. Category A projects have significant potential for adverse environmental or social impacts; Category B projects have less significant or more manageable impacts. For all Category A projects, a full environmental impact assessment must also be disclosed 60 days before Board consideration. All Category B projects must disclose an environmental review summary (ERS), in addition to the SPI, 30 days before the project goes to the Board.

An SPI includes the following information:

- Description of company and purpose of project
- Project sponsor and major shareholders of project company
- Total project cost and proposed IFC investment
- Location of project and description of site
- Project development impact and IFC's role
- Environmental and social issues (includes categorization)
- Company contacts

An ERS offers much greater detail on environmental and social impact and is generally composed of the following:

- Project description
- Environmental category and disclosure requirements
- Environmental and social issues
- Proposed mitigation for environmental and social issues
- Monitoring and compliance
- Additional environmental and social documentation

A full environmental impact assessment, as required for Category A and some Category B projects, is a far more thorough document that differs greatly according to the particularities of the project.

The SPI and the appropriate environmental documents must be disclosed through the World Bank's InfoShop and locally through appropriate channels (including newspaper, radio, and public posting). To see IFC's project information on the Internet, visit <http://www.ifc.org/projects>.

IFC disclosed 202 SPIs and 94 ERSs and environmental impact assessments in 2003.

Capturing and assessing impacts outside of compliance

IFC does not have a policy or guideline covering every possible social and environmental impact that a project may have. In some cases, too, IFC clients demonstrate a commitment to the environment or to social development that exceeds what is required by our policies and guidelines.

IFC, like any financial institution, has to be adept at assessing a project's ex ante financial prospects. Our investment staff are trained to analyze business plans, to anticipate changes in the market, and to forecast the future performance of investment targets. We also have a credit department that works in concert with business units to agree on pricing of loans and to act as a second level of analysis on financial prospects. Like most other development institutions, we have long assessed the economic viability and contributions of a project to society—primarily by generating expected economic rates of return.

A Principled Approach

The Environment and Social Development Department of IFC recently adopted principles to guide the work of its staff in enforcing policies and guidelines and spotting opportunities to add value to business operations through better sustainability performance.

The principles are designed to make explicit the values and beliefs that form the basis for environmental and social review of projects. They describe a vision that is consistent with IFC's Shared Principles and Practices and the World Bank Group's pursuit of the Millennium Development Goals. The principles seek to ensure fairness and consistency in the application of policies and guidelines when confronted with variables such as country context, sponsor capacity, and project factors. Through adherence to these principles, we demonstrate international good practice and leadership, helping influence industry sectors and markets.

COMPLIANCE ADVISOR/OMBUDSMAN

Safeguards Review

In 2001, IFC senior management commissioned the Office of the Compliance Advisor/Ombudsman to review the implementation and impact of IFC's safeguard policies since their formal adoption in 1998. The CAO was also asked to make recommendations on the content of the policies and their means of application in IFC's work. This review was completed in January 2003.

The main conclusion is that the commitment of the client firm to environmental and social issues is the key determinant of success in implementing IFC's policies and guidelines successfully. The review points out that it is commitment, not capacity, that is crucial. An IFC client might lack the resources or expertise to implement a thorough environmental and social management system, but as long as the firm is committed IFC can work in partnership with it to improve capacity. Where commitment is lacking, however, ample capacity may not lead to positive outcomes. Hence the review recommends that commitment in environmental and social areas should be a major factor in the selection of future IFC clients.

The review also calls for further simplification and focusing of the policies and guidelines to match the realities of the private sector and for IFC to be able to make periodic amendments to address changing circumstances. The review recommends improving internal processes for implementing the safeguards and mainstreaming environmental and social concerns throughout IFC's business units. The full CAO report is available on the CAO's Web site at www.cao-ombudsman.org.

Compliance audit role

As part of its function as an independent assurance mechanism for environmental and social concerns, the CAO is charged with ensuring that IFC diligently monitors client companies' compliance with environmental and social policies and guidelines. The CAO's office has formalized its compliance audit role for environmental and social issues by hiring a senior specialist for compliance and publishing a guidance document to explain the audit role, the triggers for a compliance audit, and the principles underpinning conduct of an audit.

Compliance audits will be instituted in instances where an IFC project is alleged to be operating outside the bounds of its environmental and social policies and guidelines. Audits can be initiated by complaints made to the CAO by external stakeholders, by a request from senior management, or on the authority of the CAO. Although audits will focus on how safeguard policies and associated guidelines were applied to projects by IFC staff, the overarching goal of enhancing the environmental and social outcomes of projects will be stressed throughout the audit process.

What IFC has not been able to do systematically before now is to predict a project's sustainable development impacts except within the context of our compliance process. Our focused look at sustainability has led us to pioneer tools to assess the environmental, social, corporate governance, and nonquantifiable economic impacts of investments.

IFC Safeguard Policies

Environmental assessment

Natural habitats

Forestry

Pest management

Dam safety

International waterways

Involuntary resettlement

Indigenous peoples

Cultural property

Harmful child labor and forced labor

How are projects assessed?

IFC has developed a framework to facilitate assessments of projects for their potential contributions to sustainable development. This is referred to as our "high-impact" framework. One part of the framework focuses on economic impacts.

Economic impact assessments look at whether projects are expected to go beyond satisfactory economic impacts—generally an economic rate of return in excess of the cost of capital—in the following areas:

- Significant contributions to economic development: projects receive a high rating based either on expected exceptional economic rate of return or on more specific, substantial expected nonquantified economic benefits resulting from the project.
- Significant contributions to regulatory and investment climate: project results in improvements in specific laws and regulations or better enforcement and administration of existing laws and regulations.

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 is 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 to the local community 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.

- Significant contributions to poverty reduction: project results in direct identifiable benefits to employees, consumers, or communities counted among the poor.

The other part of the framework developed to assess whether new projects are expected to deliver higher development impacts is referred to as the “sustainability framework.” This part of 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; and accountability and transparency.
- Environment: eco-efficiency and environmental footprint; and environmental performance of products and services.

- Socioeconomic development: local economic growth and partnerships; community development; and health, safety, and welfare of the labor force.

To make the sustainability framework a useful metric of sustainability performance, we have identified four levels of performance for each subtopic (see box).

The framework assesses expected impacts of projects in various sustainable development areas. We have aligned it with the ex post project reviews conducted by our Operations Evaluation Group, so that results of the project can be assessed in terms of sustainable development. We are also building a system that will allow us to monitor performance in these areas throughout the life of a project, not only at inception and close.

High-impact projects

Projects that, at commitment, score at or above Level 2 for any element in the 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. See facts and figures, page 1, for 2003 statistics.

Selected high-impact projects for 2003 include:

- **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 farmers on critical natural habitats. The system will include a monitoring program to ensure proper implementation of these initiatives.
- **Commercializing Energy Efficiency Finance, Eastern Europe.** The project involves a facility of up to \$90 million to provide partial guarantees for energy efficiency loans made by financial intermediaries in the Czech Republic, Estonia, Latvia, Lithuania, and Slovakia, combined with a technical assistance facility funded by the Global Environment Facility and other donors. A joint venture between IFC’s Global Financial Markets and Environment Departments, the investment leverages the substitution of environmentally damaging processes and displaces existing polluting activities. The project’s innovative structure enables IFC to leverage up to \$225 million in private capital investments in energy efficiency. The result is a significant set of developmental and environmental benefits. The project is expected to mobilize energy efficiency investments in countries whose economies are three to five times more energy-intensive than the EU standard. Unlike most approaches promoting energy efficiency, the project is designed to ensure a sustained developmental impact. It includes technical assistance targeted at building energy efficiency finance expertise in the financial sector and among local project developers. It establishes a strong market orientation with the guarantee’s market-based pricing and availability to multiple financial intermediaries in each country.
- **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 Farmers’ Ownership Model, another IFC effort that raises farmers’ income and productivity and enables them to sell quality cotton directly to Giavoni on commercial terms.

- **Villa Shipping, Maldives.** One of the largest private firms in the Maldives, Villa Shipping operates five resorts and imports fuel for sale in the country. The expected economic rate of return of IFC’s investment indicates significant benefits to the economy as a whole. Expanding the company’s trading activities and improving its storage infrastructure will increase the choices available to consumers and lead to more efficient delivery and market-linked prices of essential goods, including diesel fuel, liquid petroleum gas, and cement. The project will extend the fuel distribution network to the more remote islands, which currently are not fully served. The company also has a strong commitment to environmental protection beyond the scope of IFC’s own investment, including shoreline protection, coral reef monitoring, sea turtle protection, and wastewater treatment. The project facilitates an energy savings program that includes solar water heating systems, heat recovery systems, and rationalization of the installed power-generating capacity. These systems will reduce energy consumption by 10 to 20 percent.

ENVIRONMENTALLY BENEFICIAL SECTORS

IFC works on several fronts to encourage private sector investment in sustainable businesses. In addition to investing IFC’s own capital, we make funding available as a private sector implementer for the Global Environment Facility and through our specialized environmental and social facilities (details below).

IFC is positioned to make its most significant impact through mainstream, commercial investment activity that is geared to serve the goals of sustainability—for example, in such areas as potable water, ecotourism, and renewable energy. We work across sectors including: environmental infrastructure, sustainable energy, pollution prevention, sustainable resource use, and greenhouse gas emissions reductions. Many of these sectors include investment activities that cross IFC’s departmental boundaries and thus present challenges from a

reporting standpoint. Going forward, we are aligning internal processes to improve our sustainability reporting. Below are details on investment commitments for fiscal 2003 in sustainable energy and environmental infrastructure.

Sustainable energy

IFC helps finance the delivery of electrical power to industries and communities in emerging markets. While these investments are generally a response to market demand, we try to lead the market toward the use of renewable sources and clean energy technologies wherever possible.

When traditional production methods for power are used, IFC encourages clients to improve distribution losses and management of demand. Through better efficiency in coal, oil, and gas-fired production networks and distribution systems, it is possible to reduce environmental impacts significantly. For instance, \$1 million spent on improved distribution efficiency and management of demand in a network generates savings of roughly 10 megawatts of electricity. By contrast, a similar \$1 million investment in wind power produces only a single megawatt of energy.

Examples of IFC's 2003 investment commitments that contribute to the sustainability of power generation and distribution include the following (see also pp. 14-15).

- **Balrampur Chini Mills Ltd., India.** A 20-megawatt biomass-fired cogeneration plant is associated with an investment in sugar mills in Uttar Pradesh. The power plant will use bagasse, a waste produced after sugar cane is crushed, as the biomass feedstock to generate electricity for the sugar operations. A surplus of nearly 16 megawatts will also be dispatched into the Uttar Pradesh electricity grid.
- **El Canadá, Guatemala.** A 43-megawatt, run-of-river hydroelectric project will offset 144,000 tons of greenhouse gases annually during its operational life. The project takes advantage of this reduction by selling its carbon credits through the Prototype Carbon Fund.
- **Jamaica Public Service Co., Jamaica.** As part of the privatization of a distribution utility, the proceeds of the IFC investment will help reduce systemwide losses, yielding greenhouse gas emission reduction of 54,000 tons per year on an ongoing basis.
- **Pamir, Tajikistan.** The project will expand a planned 14-megawatt hydroelectric project to 28 megawatts and engineer improvements to ensure year-round water flows. IFC accessed IDA's concessional funding to help make project costs and tariffs more affordable and worked with the government and other partners to establish a lifeline tariff for the poorest consumers.

IFC client companies are also expanding their efforts in sustainable energy. In Brazil, El Paso, the sponsor of the Macae merchant power plant that IFC helped finance, is implementing a solar photovoltaics village power supply program to five villages not previously electrified in the southern part of São Paulo state. El Paso has committed to invest part of its plant revenues for 10 years to help support such alternative energy, renewable energy, and public illumination projects. In the Philippines, IFC's client company Mirant Philippines has established a foundation that is involved in Project BEACON, a facility that provides electrification to previously unserved areas in the rural countryside. Under Project AMORE in Mindanao, the foundation, together with other funding sources, is using solar photovoltaics to provide off-grid rural electrification services to isolated rural households.

Environmental infrastructure

The Millennium Development Goals, articulated by the United Nations at the Millennium Summit in 2000, include targets for improved water safety and sanitation. The goals are to halve the proportion of people without access to both safe water and sanitation by 2015. For these goals to be reached, 1.5 billion people will have to receive access to water, while 2 billion must receive adequate sanitation services. These improvements will require a doubling of current global investment levels from \$15 billion to \$30 billion per year through 2015.

To meet this urgent need, private sources of capital will be essential. Governments in developed and developing countries alike have begun to turn to private operators to improve the efficiency and reach of their water and sanitation services. IFC considers infrastructure, including water and sanitation networks, a priority sector and has made numerous investments in the sector. Our fiscal 2003 investments in water and sanitation include the following (see also box, p. 5).

- **AAA, Colombia.** IFC is guaranteeing payment of up to \$24 million for two local currency bonds issued by a private company to fund improvements to water and sanitation to over 1.5 million people in Barranquilla. The company, a water, sanitation, and solid waste service utility, will expand service to the city's poorest area. New construction will connect 350,000 previously unserved people to safe water and adequate sanitation services by the end of 2003. As a condition of the concession agreement with the government, construction is being contracted to locals, resulting in 4,100 direct and 9,000 indirect jobs. As part of its solid waste services, the company has developed several programs to promote waste recycling.

- **Aguas de Panama, Panama.** IFC will provide a \$5 million loan from its own account and syndicated loans totaling \$9 million to support the company's provision of treated potable water to the urban areas of Arraijan, Chorrera, and Capira. The project will construct and operate a 20 million gallon per day water treatment plant to supply treated potable water to an existing distribution network that serves 270,000.
- **Manila Water Co., Inc., Philippines.** IFC will lend \$50 million to the company as it develops new water sources, expands water supply facilities and service within Manila, and improves its distribution network. The company pays attention to the needs of the poor. Its Tubig Para Sa Barangay program increases service to the poorest areas. It establishes neighborhood cooperatives to manage water systems and allows for sharing of costs and use of water meters among residents. Since the program's inception in 1998, 306,000 residents have been connected to safe, reliable water service. Through an expansion, the program will provide safe water to 350,000 new participants. Connected households pay \$.07 per cubic meter of water compared to \$1.96 per cubic meter charged by water vendors, previously the only source of safe water in poorer areas of the city.

ENVIRONMENTAL AND SOCIAL FACILITIES

The three new environmental and social facilities approved by IFC's Board of Directors in June 2002 began to have an impact in 2003. Using donor funds, the facilities make grant funding available in three core areas of IFC's work (also see box on p. 11).

- Mainstream project-related work (Corporate Citizenship Facility)
- Projects generating local environmental benefits (Environmental Opportunities Facility)
- Capacity building in financial markets (Sustainable Financial Markets Facility)

Project examples from the environmental and social facilities include the following.

Corporate Citizenship Facility

- **Holcim Vietnam, Vietnam.** In connection with the biodiversity conservation project featured on page 13, Holcim Vietnam and the facility supported a land-use mapping and critical natural habitat identification exercise. The work resulted in specific conservation proposals, which will next receive a detailed feasibility analysis.

- **Favorita Fruit, Ecuador.** IFC client Favorita Fruit was the first company to have all its owned farms certified to the Rainforest Alliance-sponsored Eco-OK/Better Banana standard for environmental and labor practices. It is receiving facility funding for supplier training (see box, p. 11).
- **Usha Beltron/KGVK, India.** The facility is working with Usha Beltron and its community development foundation on rural development (see box, page 9).

Environmental Opportunities Facility

- **Water recovery technology.** The facility will make \$120,000 available to Grupo Calidra, a Mexican lime producer, for installation of water recovery equipment as part of a pilot to test the feasibility of this approach. The plants are located in desert locations where water is scarce but essential to the production process. The equipment will be installed on one of four hydrators at one plant and should permit recovery of roughly 10 percent of the water used in the hydrator. If the approach is successful, the company will replicate it for all its hydrators in desert regions.

Sustainable Financial Markets Facility

- **Market Intelligence Briefs.** These briefs are a series of concise publications designed to familiarize IFC financial intermediary clients with sustainability issues relevant to their operations. The briefs provide an analytical but nontechnical discussion to stimulate interest, initiate a conversation with clients about sustainability risks and opportunities, and increase IFC's understanding of market trends affecting clients. A brief giving a general overview of sustainability issues affecting financial institutions is in production, as is one on socially responsible investing and its applicability to emerging markets.
- **Sustainable investment training.** The facility ran six sustainability training courses for financial intermediaries in FY03, reaching over 160 participants. These courses are targeted at senior executives and investment professionals from developing country banks, leasing companies, and fund managers and provide a comprehensive introduction to the rationale and practice of environmentally and socially responsible finance.

IFC's Own Environmental and Social Impacts

When assessing IFC's contribution to sustainable development, we emphasize the performance of the projects funded through our investment activities. But IFC also pays attention to the environmental and social impacts of its own operations. For 2003, we are reporting only on performance related to our headquarters in Washington, D.C.

ENVIRONMENT

IFC's headquarters is rated as one of the most energy-efficient buildings in the eastern United States and is recognized by the U.S. Environmental Protection Agency and U.S. Department of Energy as an Energy Star certified facility. Certification to this standard indicates that a facility is in the top 25 percent for energy efficiency among U.S. office buildings.

IFC has increased its attention to the impacts of its headquarters operations. Headquarters now participates in a program through the public electric utility to ensure that a percentage of the power purchased comes from renewable sources such as wind power and biogas (natural gas derived from organic decomposition). To mitigate the impact of 1,800 staff traveling to the office daily, IFC also encourages use of mass transit through a program run by the Washington Metropolitan Area Transit Authority. Staff who commute using bus or rail receive a monthly stipend toward their transport costs.

EMPLOYEES

A key stakeholder audience for IFC, as for any corporation or institution, is its staff. We are fortunate to have a very diverse workforce, with employees from 130 different countries each bringing his or her own unique perspective and skills to the organization.

Diversity and gender issues remain a focus of IFC's recruitment and professional development efforts, particularly for the higher ranks of the institution. We are proud of our record to date but aware that improvements are possible. In particular, IFC is committed to increasing its recruitment of investment staff from leading universities in developing countries.

Gender

Women account for 51.3 percent of the workforce at IFC. At the officer level and above, 31.5 percent of positions are held by women, and the intention is to raise this percentage through promotions and new recruitment.

IFC'S HEADQUARTERS: ENVIRONMENTAL FOOTPRINT

EMPLOYEES	1,800
Office space	819,848 sq. feet
VOLUME OF WASTE PRODUCED	
absolute	473.09 tons
relative	520 lbs/employee
PAPER USE	
absolute	99.56 tons
relative	122 lbs/employee
WATER	
absolute	12,855 CCF
relative	7.14 CCF/employee
POWER	
absolute	16,239,247 kWh
relative	9,021.8 kWh/employee
THERMAL ENERGY (Natural gas)	
absolute	1,676,969 kWh
relative	2.05 kWh/sq. foot
CO² EMISSIONS (FACILITY-BASED)	
absolute	149.1 tons
relative	166 lbs./employee

Note: Numbers are from 2002.

Staff from developing countries

Nationals of developing countries make up 57 percent of IFC's overall workforce. At the officer level and above, developing country nationals account for 45.8 percent of positions.

Diversity and salary

IFC actively seeks to maintain equity in terms of diversity in its salary distributions, the key groups it examines being women and staff from developing countries. Comparisons are offered below for average salaries at the managerial level.

MANAGERIAL POSITIONS

GENDER-NATIONALITY	SALARY INDEXED TO AVERAGE (100=AVERAGE)
Male - Developed	99.8
Male - Developing	101.7
Female - Developed	97.8
Female - Developing	98.3

COMMUNITY

IFC has been based in Washington, D.C., for its 47 years of service. IFC staff, and staff from the World Bank Group generally, have always been involved in the local community, but recently the institutions themselves have increased their focus on community involvement.

One example of this institutional commitment can be found in a list of the leading corporate philanthropists in the Washington, D.C., area. In 2002, the World Bank Group ranked number 19 on the annual list of corporate givers from *Washington Business Journal*—the first time an international institution had ranked in the top 25.

While contributions to charitable causes are important, another initiative championed by IFC is directly affecting the lives of hundreds of formerly homeless people. The program, known as A Chance to Work, is administered by the IFC Legal Department. It offers disadvantaged people an opportunity to work in data entry, filing, mailroom, and other clerical services as a member of the IFC workforce. The program also facilitates direct placements in a wide range of jobs through partnerships with local businesses.

To date, disadvantaged individuals have been placed in over 100 jobs. Some have found permanent jobs within the World Bank Group itself.

In identifying participants, IFC partners with homeless shelters that administer substance abuse rehabilitation, psychological support, and education programs to residents. Those that graduate from these recovery programs are then offered an opportunity to work in the Legal Department, where they are given training in office skills and have access to a support group.

Based on the program's success at headquarters, pilots have begun in the field. In Cairo, IFC established a partnership with the Mansour Group, a leading local business organization, and a local nongovernmental organization to provide training in marketable skills for people from poor areas of Cairo. In a pilot program, 30 people received on-the-job training in Mansour Group facilities. Graduates are now working as plumbers and automotive body workers. The LEAD Foundation was founded to administer and scale up the program in Cairo.

An IFC team is also preparing a pilot project in Moscow.



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The Corporation defines a commitment to include: (1) signed loan and equity (including quasi-equity) investment agreements; (2) signed guarantee agreements; and (3) risk management facilities that are considered ready for execution as evidenced by a signed ISDA agreement or a signed risk management facility agreement with a client.

Currency is given in U.S. dollars throughout unless otherwise specified.

2003 sustainability review

At IFC our mandate is to further sustainable economic development through the private sector. We pursue this goal through innovative solutions to the challenges of development, as we invest in companies and financial institutions in emerging markets and as we help build business skills. We consider positive development impact an integral part of good business, and we focus much of our effort on the countries with the greatest need for investment. We recognize that economic growth is sustainable only if it is environmentally and socially sound and helps improve the quality of life for those living in developing countries.



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