

*Munira Shonibare, Founder/Executive Director,
IO Furniture, Nigeria*



Gyanesh Pandey, Founder/CEO, Husk Power Systems, India



*Wandee Khundornrakong, President,
Solar Power Co., Thailand*



*Annar Jayyosi, Managing Director, Palestine for Credit and
Development (PATEN), West Bank and Gaza*



I AM
OPPORTUNITY

IFC ANNUAL REPORT 2011

LOOKING AT OUR WORK THROUGH MULTIPLE LENSES

Private sector development is a challenge of considerable complexity. As a global institution, we embrace that complexity.

IFC tackles the most pressing development challenges, approaching them in ways that are responsive to the needs of all our stakeholders—from the governments that comprise our shareholders to our sister organizations within the World Bank Group to the wide array of clients and partners who share our commitment to create opportunity where it's needed most. Being responsive requires us to see the world in different ways.

In this report, we tell our story through several lenses:

WORLD BANK GROUP GLOBAL PRIORITIES

As a member of the World Bank Group, our purpose is to create opportunity in ways that advance the group's global priorities—agriculture and food security, climate change, governance and anticorruption, gender, and fragile states. Our work in these areas is discussed throughout this report.

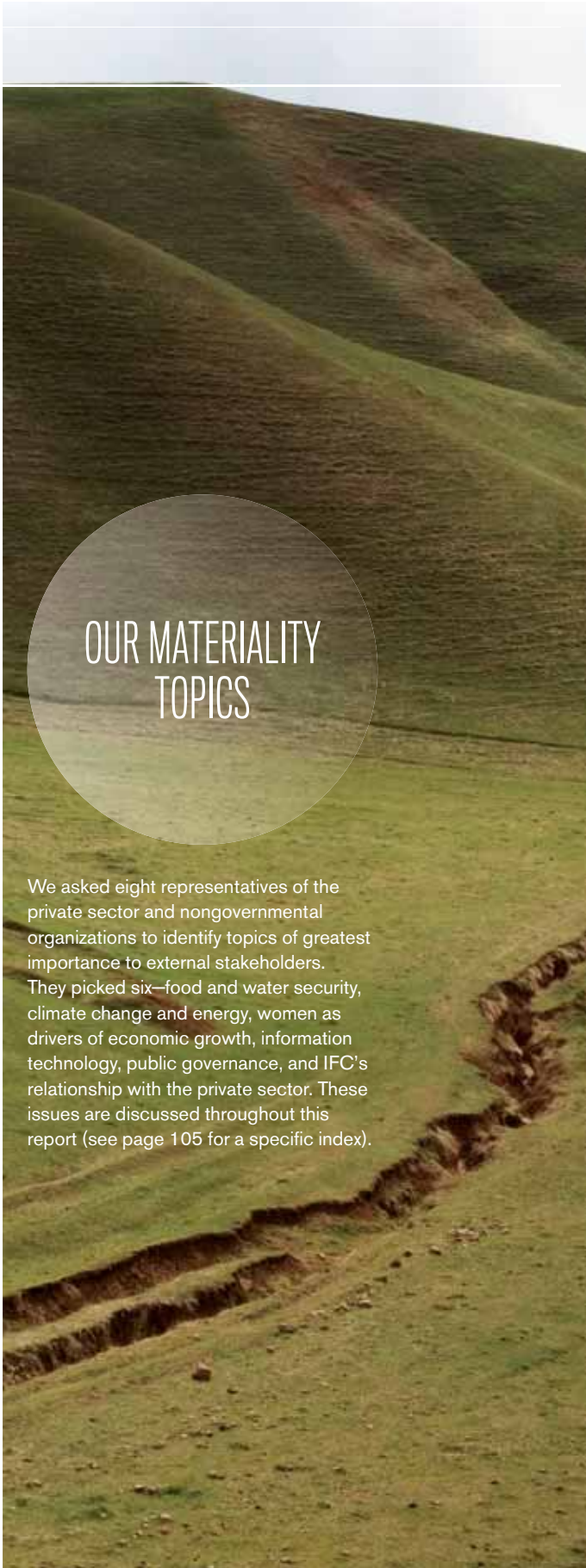
IFC STRATEGY

We have five areas of strategic focus—frontier markets; climate change and environmental and social sustainability; infrastructure, health and education, and the food supply chain; local financial markets; and client relationships. We measure our performance in these areas through quantitative targets (see Scorecard, page 59). This year we are experimenting with a new set of targets we call the IFC Development Goals (see page 79).

OUR BRAND VALUE PROPOSITION

IFC strives to make a difference in four distinctive ways—through innovation, influence, demonstration, and impact. We discuss these ways on pages 18–56.

Looking at our work through all of these lenses isn't easy—sometimes they overlap, and that can complicate the picture. But it ensures that we are never blind to the needs of the poor in developing countries.



OUR MATERIALITY TOPICS

We asked eight representatives of the private sector and nongovernmental organizations to identify topics of greatest importance to external stakeholders. They picked six—food and water security, climate change and energy, women as drivers of economic growth, information technology, public governance, and IFC’s relationship with the private sector. These issues are discussed throughout this report (see page 105 for a specific index).

ABOUT IFC

IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector. We help developing countries achieve sustainable growth by financing private sector investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments. We play a catalytic role by demonstrating the profitability of investments in emerging markets.

Established in 1956, IFC is owned by 182 member countries, a group that collectively determines our policies. Our work in more than 100 countries allows companies and financial institutions in emerging markets to create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities.

IFC’s vision is that people should have the opportunity to escape poverty and improve their lives.

KEY FACTS

1/3

We account for about a third of the financing provided by development finance institutions to the private sector in developing countries.

45

We have disbursed loans denominated in more than 45 local currencies.

3X

Our climate-change investments have tripled since 2007.

\$2 BILLION

Since 2007, we have contributed nearly \$2 billion to the World Bank’s fund for the poorest countries.

750

We work with more than 750 financial institutions that command more than 30,000 distribution points in nearly every corner of the developing world.

2/3

We are more diverse than ever—nearly two-thirds of our staff is from developing countries.

Leadership Perspectives

Letter from the World Bank Group President—Robert B. Zoellick

We are in the midst of a multispeed recovery from the global economic crisis, offering both opportunities and risks. Emerging economies are driving the recovery, highlighting the fact that we are fast moving toward a new multipolar economy, with new avenues for South-South investment, innovation, marketing, and demand. In some emerging markets the greater risk is now of overheating and possible bubbles for some assets. At the same time, much of the developed world is still struggling to create jobs, and set a clear course on spending and sovereign debt. Price pressures for food and energy are stirring new challenges, while putting vulnerable populations at risk.

As IFC's *Annual Report 2011* portrays, a robust and engaged private sector is a key factor in helping economies adjust to challenges, manage risks, and seize opportunities. The Report highlights IFC's support for businesses and entrepreneurs while promoting, developing, and generating growth. This year, IFC provided nearly \$19 billion in financing for private sector development, \$6.5 billion of which was mobilized from partners.

IFC is making important contributions to job creation—connecting the private sector to investments across the agricultural value chain, in health services, education, and training. IFC has put a special emphasis on infrastructure investment, which can provide jobs today and growth tomorrow, and this year launched the Infrastructure Fund to help mobilize finance. This complements the advisory services provided by the Infrastructure Finance Center of Excellence, supported by the Bank Group and the Government of Singapore. IFC is also expanding its work in the poorest countries, post-conflict zones, and areas at risk. Its leadership in private sector development is reflected in IFC's deepening partnership with the Group of 20 on critical issues such as jobs, food security, and opportunities for small and medium enterprises.

Along with the rest of the Bank Group, IFC has been focused on events in the Middle East and North Africa this year, where we have seen the impact and challenges posed by citizens demanding change. Many of the underlying grievances have been economic and social in nature, including lack of access to good jobs.

IFC responded quickly to these events, emphasizing short-term job creation connected to long-term job investment. Working with the Islamic Development Bank, IFC co-launched the “e4e,” or Education for Employment, initiative to address the social and economic disconnect between jobs, skills, and opportunity. The initiative is looking at how the public and private sectors can

join forces to meet the challenge of increasing job-oriented education, and is mobilizing up to \$2 billion over the next five years for vocational training programs across the Middle East and North Africa.

This year's *World Development Report*, on Conflict, Security, and Development, underscores the critical role the private sector can play in countries affected by fragility and conflict. One of the Report's conclusions is that access to capital and finance is vital, and private sector development is a key factor in service delivery and job creation to show early results as well as longer-term growth. IFC has been supporting private investment in several of these countries—for example, through a \$400 million investment for telecommunications infrastructure in Iraq. IFC also launched the SME Ventures Funds this year, to encourage business in the poorest high-risk countries.



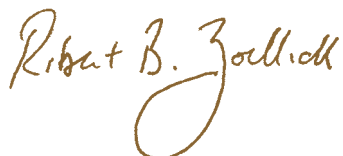
At the same time, IFC Asset Management Company, a wholly owned subsidiary that manages funds for sovereign wealth funds, pension funds, and other investors, more than doubled its investments in IFC projects. With about \$4 billion under management, AMC has become a powerful way to mobilize capital for development.

Over the past year, the World Bank Group has been urging the world to “put food first.” Higher food prices have pushed 44 million more people into extreme poverty. IFC and its partners are finding innovative ways to invest in food security and agriculture. In June, IFC launched an unprecedented Agriculture Price Risk Management project with JPMorgan Chase to provide up to \$4 billion in protection from food price volatility. This new facility allows smaller agriculture producers and consumers, who might not otherwise have access to hedging products, to cushion against downward price swings. We look forward to extending this project with more banks.

IFC has also continued to expand its commitments to the poorest countries. Nearly half of IFC’s investment projects last year and two-thirds of its advisory project expenditures were in the poorest countries eligible to borrow from the International Development Association. In FY11 alone, IFC invested nearly \$5 billion in 251 projects in 56 IDA countries.

IFC works closely with other parts of the World Bank Group and other member institutions. For example, IFC and World Bank partners are leading the G-20 Financial Inclusion Initiative, to simplify and expand access to financing for small and medium enterprises in the developing world; and IFC is cooperating with other member institutions to expand the work of Investment Climate Advisory Services, to improve the business environment in member countries. By simplifying regulations, streamlining registration, and pushing for legal reform, IFC and the World Bank have promoted market development around the world.

I want to thank IFC’s staff for their hard work and dedication. IFC’s achievements this year reflect the strong leadership, drive, and vision of Lars Thunell and his management team. I also want to thank our Board of Governors, the Board of Directors, and our contributors and partners.

A handwritten signature in dark ink, reading "Robert B. Zoellick". The signature is written in a cursive style with a large, looping flourish at the end of the name.

Robert B. Zoellick
World Bank Group President

Leadership Perspectives

Letter from the IFC EVP and CEO—Lars Thunell

This is the year of the client. Our clients in the private sector make IFC's work real. Their partnership with us promotes development and helps create opportunity for the poor—and they deserve special recognition for it.

They are innovators as much as entrepreneurs. They create jobs where you would not think possible. They pioneer renewable energy projects. They provide food for millions. They take one-room shops and transform them into thriving international firms.

In short, they make lives better. They are our clients—but more, our partners in development. They are individuals who, through their entrepreneurship, embody the imaginative ways in which we expand opportunity in developing countries and across the globe.

In fiscal year 2011, IFC promoted private sector development in distinctive ways—through innovation, influence, demonstration, and impact. These are our biggest strengths, and they leverage IFC's brand in the marketplace. As a result, our clients can make the most of the opportunity provided by IFC and pass it on to others.

Our clients help us achieve the full impact of our investments. Over the past year, our investment clients provided employment to about 2.4 million people—a record. They made nearly 10 million loans totaling about \$140 billion to micro, small, and medium enterprises. They helped bring health care to 7.5 million patients; educated 1 million students; and provided water, power, and gas to tens of millions of citizens.

During my travels this year—to East Asia and the Middle East, to Europe and Africa—I saw firsthand how IFC, together with its clients, is turning volume into value and value into impact. Our investment clients contributed about \$20 billion to government revenues and \$36 billion to purchases in local economies. Considering that total global aid flows are about \$100 billion, it is clear that the work of IFC and our clients is having a giant impact in developing countries.

In the past year, we mobilized more money than ever for development—\$6.5 billion. New commitments reached \$18.7 billion, which is more than double the size of our investments just five years ago and reflects an estimated project value of nearly \$100 billion. We generated net income of nearly \$2.2 billion for the year—that's before our contribution of \$600 million to the International Development Association, the World Bank's fund for the poorest.

IFC's Asset Management Company, established just three years ago, is making great strides. AMC is a wholly owned subsidiary of IFC that serves as a fund manager for governments, pension funds, sovereign wealth funds, and others. It has established a new model for us to mobilize investment for development. It invested \$682 million in IFC projects during the year—more than double the previous year's tally—and now has about \$4 billion under management.

A vibrant and sustainable private sector needs more than just investment. To support our clients, we offer over 25 years of experience in providing advisory services that improve the investment climate; foster vital public-private partnerships; raise environmental, social, and corporate governance standards; build inclusive supply chains; and strengthen expertise.



IFC Advisory Services is delivering for clients—governments and private enterprises—like never before. In FY11, Advisory Services project expenditures reached a record of over \$200 million, about two-thirds of which was attributable to clients in IDA countries.

Our advisory services are delivering real results. Our advice helped our financial intermediary clients provide 3.4 million microfinance loans and 700,000 loans to small and medium enterprises, often in conjunction with IFC investments. We helped governments in 44 countries implement 72 reforms to improve

their investment climates. We helped strengthen the capacity of over 9,000 farmers and businesses in 71 countries.

Such efforts make daily business smoother for our clients, who are then better able to generate opportunity for their own clients, employees, and communities.

We have updated our Sustainability Framework after an extensive, 18-month consultation process with numerous stakeholders. It promotes sound environmental and social practices and helps clients create sustainable businesses. Increasingly, outside organizations see our framework as a mark of quality: 15 European development finance institutions and 32 export credit agencies now refer to IFC's performance standards in their operations.

We have also adopted a new strategy for the palm oil industry. After a year of investigation and meetings with 350 stakeholders, we found an approach that reflects our joint commitment to clients and to long-term, sustainable growth.

Political leaders around the world increasingly recognize the leadership role IFC can play supporting clients in private sector development. The Group of 20 recently launched a Financial Inclusion Initiative to expand access to finance for small and medium businesses. They have asked IFC to play a leading role in this effort.

Likewise, G-20 agricultural ministers recently agreed that price hedging in the food market can reduce volatility. IFC is supporting clients on this front: we recently struck a deal with JPMorgan Chase to provide \$4 billion in price-risk management for agricultural commodities. This will enable farmers to promote food security.

Events across the Middle East and North Africa are reminders that we are living in a world of heightened political, social, and economic volatility. They are also reminders of the importance of the private sector and job creation for equitable growth. These are countries with high youth populations, but also high unemployment. There is a need to balance longer-term fiscal stability with shorter-term job creation.

IFC and the Islamic Development Bank have suggested one innovative solution to this problem through the Education for Employment program, or e4e. We're bringing together governments and companies to match education with necessary job skills. We look to mobilize \$1.5 billion to \$2 billion for the program over the next three to five years, funds that will support job creation across the region.

IFC's strategy is working. And our strong corporate values and vision position us well for 2012 and beyond. We will continue to work alongside our clients to maximize development impact. Our activities in FY11 show how we can work with clients to increase access to finance for small and medium businesses, to raise standards, to create jobs where they're needed most—to create opportunity and pass it on.

I would like to thank our Board of Directors for their guidance during complex times. I'm grateful to our donors for their invaluable support in helping extend IFC's reach. I also thank our staff for their dedication, creativity, and hard work. I am proud to be a member of the IFC family—it is an exceptional organization with exceptional people.



Lars H. Thunell
IFC Executive Vice President
and Chief Executive Officer

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Open to learn more about IFC



IFC WORKS TO
PROVIDE OPPORTUNITY
WHERE IT'S NEEDED
MOST. PEOPLE MAKE THAT
POSSIBLE.

*We maximize the ability of the private sector—
of individual entrepreneurs such as those on the following
pages—to create opportunity.*

I CAN BRING SOLAR POWER TO SOUTHEAST ASIA



Wande Khunchornyakong
President, Solar Power Co., Thailand

Investors were skeptical. After all, just 6 percent of Thailand's energy comes from renewable sources. But Wande saw an opportunity where others didn't. She saw that solar plants would create jobs in Thailand's rural north and promote infrastructure development and generate clean energy all at once. She contacted IFC—we understood the mission, the opportunity. Now she runs the largest solar farm in all of Southeast Asia. And her business is expanding. Rapidly. Her company expects to complete 34 such farms by 2013.

I CAN FEED MORE THAN 2 MILLION PEOPLE



Ivan Guta

Chairman of the Board, Mriya Agro Holding, Ukraine

Guta worked for eight years on a communal farm. In 1992 he set up Mriya—“dream” in Ukrainian—on less than one square kilometer of land. Now his company has 2,400 square kilometers in cultivation and is expanding to more than 4,400 (almost twice the area of Luxembourg). With \$50 million in backing from IFC and advice on how to become more energy-efficient, Mriya can now produce enough grain to feed over 2 million people per year. It sells wheat, corn, and potatoes in more than 20 countries. In a time of lagging agricultural output and soaring prices, Guta is bolstering food security.

I CAN TURN LEFTOVER RICE HUSKS INTO ELECTRICITY



Gyanesh Pandey
Founder/CEO, Husk Power Systems, India

As a young man, Pandey went to the U.S. to study engineering. But his heart never left India. He aspired to make life better for rural Indians. Then he hit on an idea: an innovative way to produce combustible gas—and electricity—from leftover rice husks. Backed by IFC investment and advisory services, Pandey's Husk Power Systems operates over 70 plants in Bihar, one of India's poorest states. They provide affordable electricity to around 250 villages and more than 150,000 people. Children study easier, women cook at more convenient times, shops stay open longer. Gyanesh plans to run over 2,000 plants by 2014.

I CAN EMPOWER ENTREPRENEURS IN A RISKY ENVIRONMENT



Anwar Jayyosi

Managing Director, Palestine for Credit and Development (FATEN), West Bank and Gaza

In West Bank and Gaza, some 50 percent of people live below the poverty line. Of the jobs that exist, 80 percent are generated by micro, small, or medium enterprises. Instability in the territories has impeded the growth of a financial sector. But Jayyosi is creating opportunity by extending loans to small-business owners. To date, FATEN has disbursed more than 95,000 loans worth about \$100 million. Eighty percent of its 12,000 clients are women. IFC supported his work with a \$3 million loan in April 2011. He expects to reach 22,000 clients by 2015.

I CAN CREATE AN INTERNATIONAL BUSINESS



Munira Shonibare

Founder/Executive Director, IO Furniture, Nigeria

Shonibare started an interior design consultancy. When her contractors couldn't deliver, she opened her own manufacturing shop. When big clients came calling—oil companies, banks, hotels—she partnered with an Italian design firm. And when she needed funding to scale up, she turned to Access Bank, an IFC client. IFC extended a \$15 million loan to Access to provide credit for women entrepreneurs. Access passed the opportunity on to Shonibare. We also helped her strengthen her business and financial skills. Now she runs the only furniture company in Nigeria with a modern production line, garnering 20 percent of the market.

I CAN BUILD HAITI'S BUSINESS INFRASTRUCTURE



Jerry Tardieu
CEO, Oasis Hotel, Haiti

It was supposed to be one of the best business hotels in Port-au-Prince. The Oasis. Then a devastating earthquake. Lives and livelihoods destroyed. The project halted, financing in jeopardy. But Tardieu pushed on with a \$7.5 million IFC loan, which helped raise an additional \$15 million. Rebuilding meant creating jobs and infrastructure. Rebuilding meant buying goods from local fishermen and farmers. Rebuilding meant employing hundreds of workers. Rebuilding meant setting an example: "The Oasis project will be a tangible symbol of Haiti's rebirth from the ashes of the January 12 earthquake," Tardieu says.

1

PART 1

IFC'S GLOBAL RESULTS

Highlights

IFC provided a record amount of financing to businesses in developing countries in FY11, helping the private sector create jobs, strengthen infrastructure, improve agricultural efficiency, and confront other development challenges.

IFC FINANCIAL HIGHLIGHTS

Dollars in millions, as of and for the years ended June 30*

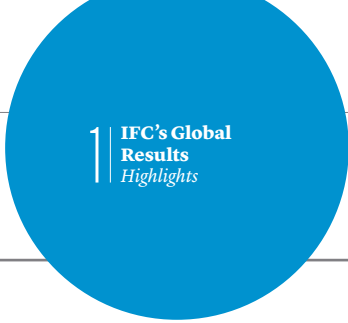
	2011	2010	2009	2008	2007
Net income (loss)	\$ 1,579	\$ 1,746	\$ (151)	\$ 1,547	\$ 2,490
Grants to IDA	\$ 600	\$ 200	\$ 450	\$ 500	\$ 150
Income before grants to IDA	\$ 2,179	\$ 1,946	\$ 299	\$ 2,047	\$ 2,640
Total assets	\$68,490	\$61,075	\$51,483	\$49,471	\$40,599
Loans, equity investments and debt securities, net	\$29,934	\$25,944	\$22,214	\$23,319	\$15,796
Key Ratios					
Return on average assets (GAAP basis)	2.4%	3.1%	-0.3%	3.4%	6.3%
Return on average capital (GAAP basis)	8.2%	10.1%	-0.9%	9.6%	19.8%
Cash and liquid investments as a percentage of next three years' estimated net cash requirements	83%	71%	75%	62%	85%
Debt to equity ratio	2.6:1	2.2:1	2.1:1	1.6:1	1.4:1
Total resources required (\$ billions)	\$ 14.4	\$ 12.8	\$ 10.9	\$ 10.4	\$ 8.0
Total resources available (\$ billions)	\$ 17.9	\$ 16.8	\$ 14.8	\$ 15.0	\$ 13.8
Total reserve against losses on loans to total disbursed loan portfolio	6.6%	7.4%	7.4%	5.5%	6.5%

*See Management's Discussion and Analysis and Consolidated Financial Statements for details on the calculation of these numbers, available here: www.ifc.org/AnnualReport.**IFC OPERATIONAL HIGHLIGHTS**

Dollars in millions, as of and for the years ended June 30

	2011	2010	2009	2008	2007
New Investment Commitments					
Number of projects	518	528	447	372	299
Number of countries	102	103	103	85	69
For IFC's own account	\$12,186	\$12,664	\$10,547	\$11,399	\$ 8,220
Mobilization					
Syndicated loans ¹	\$ 4,680	\$ 1,986	\$ 1,858	\$ 3,250	\$ 1,775
Structured finance	\$ 0	\$ 797	\$ 169	\$ 1,403	\$ 2,083
IFC initiatives & other	\$ 1,340	\$ 2,358	\$ 1,927	n/a	n/a
Asset Management Company	\$ 454	\$ 236	\$ 8	n/a	n/a
Total mobilization	\$ 6,474	\$ 5,377	\$ 3,962	\$ 4,653	\$ 3,858
Investment Disbursements					
For IFC's own account	\$ 6,715	\$ 6,793	\$ 5,640	\$ 7,539	\$ 5,841
Syndicated loans ²	\$ 2,029	\$ 2,855	\$ 1,958	\$ 2,382	\$ 1,615
Committed Portfolio					
Number of firms	1,737	1,656	1,579	1,490	1,410
For IFC's own account	\$42,828	\$38,864	\$34,502	\$32,366	\$25,411
Syndicated loans ¹	\$12,387	\$ 9,302	\$ 8,299	\$ 7,525	\$ 5,543
Advisory Services					
Number of projects	642	736	872	862	1,018
Approved value	\$ 820	\$ 859	\$ 941	\$ 919	\$ 846
Advisory Services project expenditures	\$ 207	\$ 188	\$ 183	\$ 152	\$ 118

¹ Includes B-Loans, Parallel Loans, and A-Loan Participations.² Includes B-Loans and Agented Parallel Loans.



We invested nearly \$19 billion in more than 500 projects in 102 countries, of which \$12.2 billion was for our own account. In addition, we mobilized nearly \$6.5 billion from other investors. Our Advisory Services project expenditures totaled \$206.7 million.

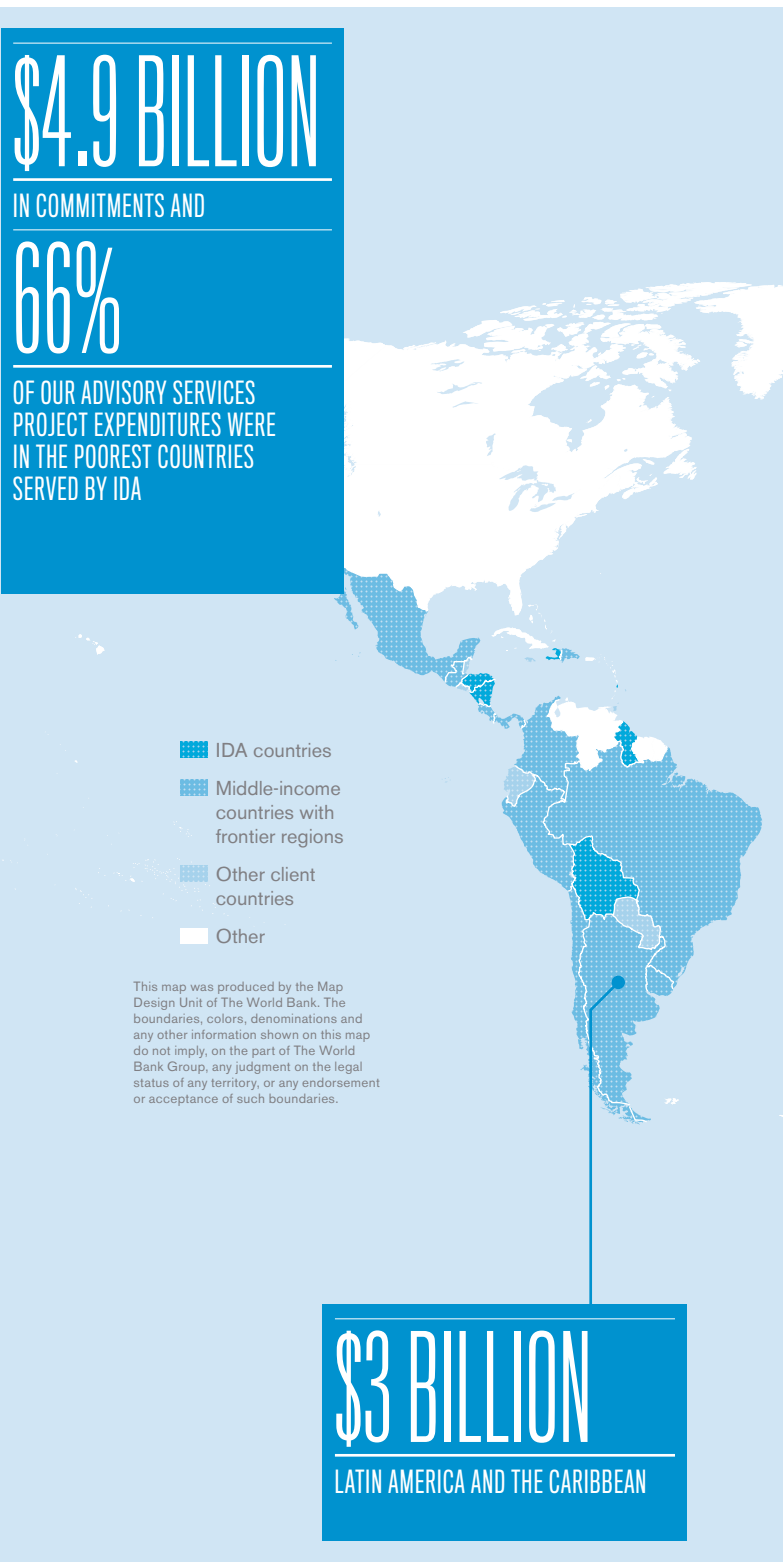
Half our investment projects—totaling \$4.9 billion in commitments—and about two-thirds of our Advisory Services project expenditures were in the poorest countries, those served by the International Development Association. We committed about \$3 billion for our own account in Latin America and the Caribbean. We also committed about \$2.7 billion in Europe and Central Asia, about \$2.2 billion in Sub-Saharan Africa, \$1.6 billion in the Middle East and North Africa, \$1.9 billion in East Asia and the Pacific, and \$742 million in South Asia.

\$4.9 BILLION

IN COMMITMENTS AND

66%

OF OUR ADVISORY SERVICES PROJECT EXPENDITURES WERE IN THE POOREST COUNTRIES SERVED BY IDA

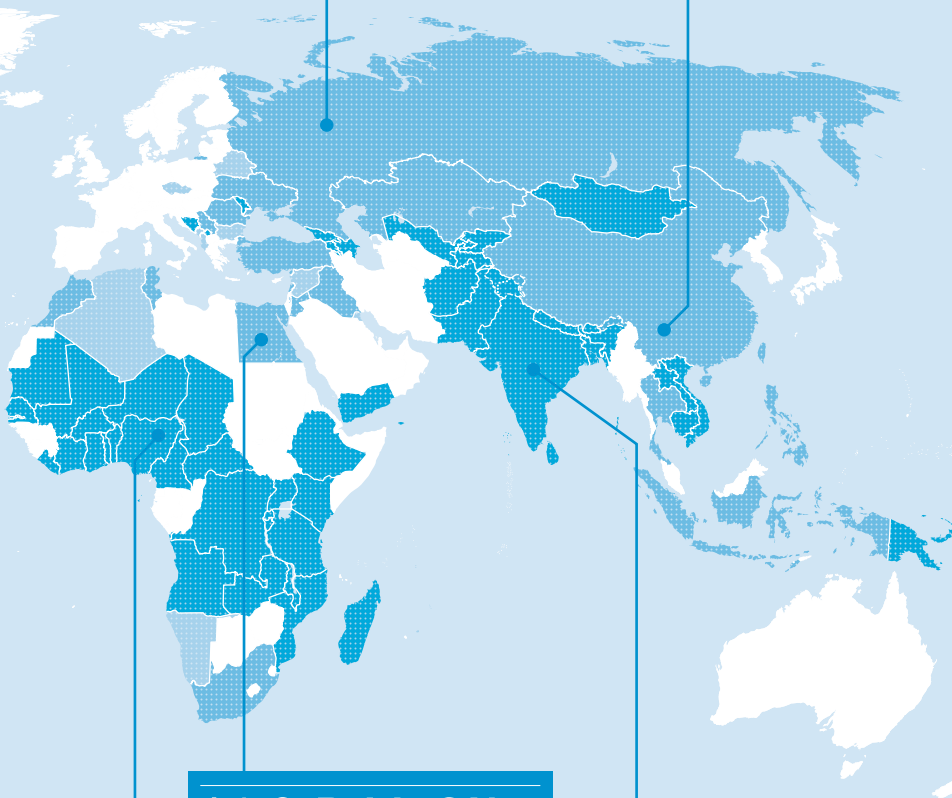


\$2.7 BILLION

EUROPE AND CENTRAL ASIA

\$1.9 BILLION

EAST ASIA AND THE PACIFIC



\$1.6 BILLION

MIDDLE EAST AND NORTH AFRICA

\$2.2 BILLION

SUB-SAHARAN AFRICA

\$742 MILLION

SOUTH ASIA

Key Events

July 2010

IFC Development Goals launched

September 2010

Launched IFC Istanbul Operations Center

October 2010

Hosted first Inclusive Business Leaders conference

November 2010

Disbursed IFC's first local-currency loan in Rwanda, to support agribusiness

G-20 asked IFC to play leading role in global SME finance initiative

January 2011

IFC-funded energy plant E-Power began operations in Port-au-Prince, a year after the earthquake

February 2011

IFC helped South Sudan launch private-sector development program

March 2011

IFC became first global development bank to sign U.N. Principles for Responsible Investment

Mobilized \$245 million for communications infrastructure development in Iraq

IFC made largest-ever insurance investment, providing \$100 million to Barbados-based Sagicor

April 2011

IFC and World Bank Group adopted New Strategy for Engagement in the Palm Oil Sector

Announced largest syndication in IFC history—€700 million for Enerjisa Enerji Uretim to build a series of power plants in Turkey

Under the Education for Employment initiative, IFC and Islamic Development Bank announced mobilization plan of up to \$2 billion for vocational training in Arab world

IFC Capitalization Fund invested \$280 million in Ahli United Bank, the largest commitment to date for an AMC-managed fund

May 2011

Updated IFC Sustainability Framework and introduced new Access to Information Policy

Raised \$135 million in Green Bonds for climate-friendly projects

Operations started on €150 million Carbon Fund to promote climate-friendly investments

June 2011

Teamed with Russian government and Vnesheconombank to create Russian Bank Opportunity Fund











IFC and World Bank Group announced \$4 billion deal with JPMorgan Chase for agricultural price protection

Held first Global Insurance Conference to promote best practices in the sector

IFC investments, including mobilized funds, reached a record \$18.7 billion for FY11




FY11 COMMITMENTS

Dollar amounts in millions

Total	\$12,185.69 (100.00%)	
By Industry		
Agribusiness & Forestry	\$512.10 (4.20%)	
Consumer & Social Services	\$445.29 (3.65%)	
Financial Markets	\$3,088.03 (25.34%)	
Funds	\$434.49 (3.57%)	
Infrastructure	\$1,620.87 (13.30%)	
Manufacturing	\$830.20 (6.81%)	
Oil, Gas, & Mining	\$229.27 (1.88%)	
Telecommunications & Information Technology	\$337.21 (2.77%)	
Trade Finance	\$4,653.44 (38.19%)	
Other Sectors	\$34.77 (0.29%)	

Industry sectors have been aligned to the new IFC organization structure implemented in FY11. Prior years reported throughout this Annual Report have also been converted to ensure accurate comparability.







By Product

Loans ¹	\$4,991.68 (40.96%)	
Equity ²	\$1,967.59 (16.15%)	
Guarantees	\$5,167.01 (42.40%)	
Risk management products	\$59.40 (0.49%)	

¹ Includes loan-type, quasi-equity products.

² Includes equity-type, quasi-equity products.

















By Region

East Asia and the Pacific	\$1,925.92 (15.80%)	
Europe and Central Asia	\$2,682.45 (22.01%)	
Latin America and the Caribbean	\$3,031.13 (24.87%)	
Middle East and North Africa	\$1,603.26 (13.16%)	
South Asia	\$742.45 (6.09%)	
Sub-Saharan Africa	\$2,150.15 (17.64%)	
Global	\$50.32 (0.41%)	

Some amounts include regional shares of investments that are officially classified as global projects.

COMMITTED PORTFOLIO

For IFC's own account as of June 30, 2011

Total	\$42,828 (100%)	
By Industry		
Agribusiness & Forestry	\$3,095 (7%)	
Consumer & Social Services	\$3,071 (7%)	
Financial Markets	\$14,095 (33%)	
Funds	\$3,137 (7%)	
Infrastructure	\$7,490 (17%)	
Manufacturing	\$5,095 (12%)	
Oil, Gas, & Mining	\$2,169 (5%)	
Telecommunications & Information Technology	\$1,635 (4%)	
Trade Finance	\$2,424 (6%)	
Other	\$615 (1%)	
By Region		
East Asia and the Pacific	\$6,188 (14%)	
Europe and Central Asia	\$11,064 (26%)	
Latin America and the Caribbean	\$10,144 (24%)	
Middle East and North Africa	\$4,750 (11%)	
South Asia	\$4,353 (10%)	
Sub-Saharan Africa	\$5,900 (14%)	
Global	\$429 (1%)	

Some amounts include regional shares of investments that are officially classified as global projects.

FY11 COMMITMENTS BY ENVIRONMENTAL AND SOCIAL CATEGORY

Category ¹	Commitments (\$ millions)	Number of Projects
A	554	10
B	2,975	133
C	5,445	246
FI	3,212	129
Total	12,186	518

¹ See category descriptions on p. 97.

FY11 LARGEST COUNTRY EXPOSURES¹

June 30, 2011 (Based on IFC's Account)

Country (Rank)	Committed Portfolio (\$ millions)	% of Global Portfolio
India (1)	3,766	9%
Brazil (2)	2,697	6%
Russian Federation (3)	2,579	6%
Turkey (4)	2,422	6%
China (5)	2,411	6%
Philippines (6)	1,086	3%
Colombia (7)	1,073	3%
Argentina (8)	1,038	2%
Nigeria (9)	1,008	2%
Mexico (10)	1,003	2%

¹ Excludes individual country shares of regional and global projects.

FY11 DEVELOPMENT OUTCOME BY INDUSTRY

Oil, Gas, & Mining	23 (\$1,119)	83%
Infrastructure	74 (\$2,798)	77%
Agribusiness & Forestry	64 (\$2,781)	70%
Funds	63 (\$829)	68%
Financial Markets	196 (\$15,123)	66%
Telecommunications & Information Technology	25 (\$692)	64%
Manufacturing	69 (\$2,447)	59%
Consumer & Social Services	68 (\$1,396)	59%
IFC Total	582 (\$27,184)	67%

Numbers at the left end of each bar are the total number of companies rated. Numbers in parentheses represent total IFC investment (\$ millions) in those projects.

FY11 DEVELOPMENT OUTCOME BY REGION

East Asia and the Pacific	86 (\$4,024)	76%
Latin America and the Caribbean	131 (\$7,975)	74%
South Asia	64 (\$2,118)	72%
Sub-Saharan Africa	92 (\$3,450)	63%
Europe and Central Asia	134 (\$6,582)	60%
Middle East and North Africa	66 (\$2,853)	56%
IFC Total	582 (\$27,184)	67%

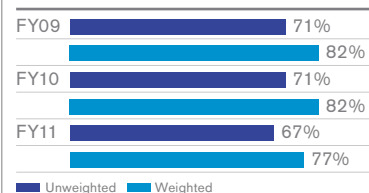
Numbers at the left end of each bar are the total number of companies rated. Numbers in parentheses represent total IFC investment (\$ millions) in those projects.

FY11 ADVISORY SERVICES PROJECT EXPENDITURES

(dollar amounts in millions)

Total	\$206.66 (100.00%)
By Business Line	
Access to Finance	\$63.27 (31%)
Investment Climate	\$55.87 (27%)
Public Private Partnerships	\$27.75 (13%)
Sustainable Business	\$59.78 (29%)
By Region	
East Asia and the Pacific	\$26.80 (13%)
Europe and Central Asia	\$34.80 (17%)
Latin America and the Caribbean	\$19.33 (9%)
Middle East and North Africa	\$16.29 (8%)
South Asia	\$22.69 (11%)
Sub-Saharan Africa	\$51.12 (25%)
Global	\$35.63 (17%)

WEIGHTED AND UNWEIGHTED OVERALL DEVELOPMENT OUTCOME





IFC'S ROLE IN SUPPORTING WOMEN AS DRIVERS OF ECONOMIC GROWTH

Promoting women in business is at the heart of our work.

Developing countries can't achieve sustainable growth without the active participation of women. As entrepreneurs, they are critical to economic growth and job creation—and to IFC's strategy.

Women own more than 35 percent of the world's registered small businesses, and small enterprises are responsible for the bulk of employment in developing countries. Even though women entrepreneurs frequently lack access to financial services or other business support, they are often better able to shape their communities than their male counterparts—by reinvesting earnings in health, education, and family.

Our goal is to unleash the untapped economic potential of women entrepreneurs by boosting access to finance and eliminating gender-based barriers to investment. It's good for business, it's good for women, and it's good for development.

This cycle of entrepreneurship and development is what IFC is fostering through our Women in Business Program, which brings gender issues to the heart of our work.

IFC's role is clear. We're working with banks to reach a vital underserved market profitably. We're helping them train women so that they gain the business and financial skills they need. We're supporting



BY 2013

25%

OF THE SMEs
REACHED THROUGH
IFC'S INVESTMENTS
WILL BE OWNED
BY WOMEN

Left Sales are growing at Sharlene DeBuisso's shop in Haiti, thanks to ideas she got from IFC's Business Edge management training.

Below The Village Phone Program has created opportunity for thousands of women entrepreneurs, including Marie Fleur Rasoloarivao in Madagascar.

policy reforms that level the playing field for women.

Overall, our Women in Business Program has invested more than \$118 million in commercial banks in developing countries. Through FY11, these banks have disbursed \$86 million to 2,200 women-owned small and medium enterprises, while more than 3,000 entrepreneurs have been trained.

Our work supports employment for women. Data from 615 investment clients across all regions and industry sectors show that they employed more than 630,000 women in 2010, or 31 percent of their workforce. Clients for whom we have three years of data—293 in all—added

nearly 35,000 jobs for women, which represented a net increase of 14 percent in female employment.

We have joined ranks with one of Nigeria's largest banks to offer crucial backing to SMEs owned by women. We provided Access Bank with a \$15 million credit line for lending to women and put our Advisory Services to work in parallel. The results have been impressive: since linking up with Access Bank, more than 550 women-owned SMEs have received nearly \$40 million in loans. At the same time, almost 900 women entrepreneurs have been trained.

This has set an example for many other banks and prompted them to follow Access Bank's lead. In addition, we have decided to expand this model to other parts of the world. For example, we are providing a \$75 million investment—along with advisory services—to Bank Internasional Indonesia. IFC will help the bank identify the financial needs of its female clients and develop products to meet those needs.

Our commitment to promoting women in business is embedded in our work. We've added a gender dimension to the way we measure our development results, a change that will give us fresh insight into the effectiveness of our work and guide future projects. And we've made gender targets a part of the IFC Development Goals—by 2013, 25 percent of the SMEs reached through our investments will be owned by women.

Our efforts aren't limited to giving women better access to finance. IFC is giving governments and the private sector tools to leverage the potential

of women as entrepreneurs, employees, and executives, bolstering economic growth and job creation.

Making it easier for women to thrive in business is especially important in the Middle East and North Africa, where less than 15 percent of registered businesses are owned by women, and women's participation in the labor force is just 26 percent—the lowest in the world.

We support mediation in countries where courts can take years to resolve business disputes, giving women-owned businesses a chance to overcome hurdles to job creation and expansion. IFC Advisory Services is working on Alternative Dispute Resolution projects in Egypt, Morocco, and Pakistan that give businesswomen a better chance for justice.

Our work with the Village Phone Program is another landmark. The program, which recently received the annual IFC CEO Gender Award, provides microloans of about \$200 for the purchase of cell phones and antennas by entrepreneurs in rural areas of Africa. Phone operators then sell calling time to villagers, generating income while providing neighbors with much-needed phone services. Women often make the most successful operators.

Since the program's introduction in 2003, Village Phone has helped bring credit to over 7,500 women entrepreneurs and helped an estimated 18,000 start businesses in Madagascar, Malawi, and Nigeria. In Madagascar alone it's estimated that over 3 million users have benefited from the Village Phone program. The program has now been launched in Chad, and plans include expansion to Burkina Faso.

Through Village Phone and other groundbreaking work, IFC will continue to confront the development challenges of gender inequality. It's an opportunity we can't ignore.





Jingdong Hua
Vice President,
Treasury and
Information
Technology

Rachel Robbins
Vice President and
General Counsel

Thierry Tanoh
Vice President,
Sub-Saharan
Africa, Latin
America and the
Caribbean, and
Western Europe

Rachel Kyte
Vice President,
Business Advisory
Services

Lars H. Thunell
Executive Vice
President and Chief
Executive Officer

Janamitra Devan
Vice President,
Financial and
Private Sector
Development

Gavin E.R. Wilson
CEO, IFC Asset
Management
Company

Jorge Familiar
Calderon
Vice President
and Corporate
Secretary
Not Pictured

Dorothy Berry
Vice President,
Human Resources,
Communications,
and Administration



OUR MANAGEMENT TEAM

Our accomplished executive team positions IFC to create opportunity for clients. IFC's management team draws from years of experience and distinct cultural backgrounds to maximize development impact and improve the lives of people around the world. The team shapes our strategies and policies, our work ethic, and corporate culture. Our executives embody and promote IFC's mission and vision.

Rashad Kaldany
Vice President,
Asia, Europe,
Middle East, and
North Africa

Jyrki Koskelo
Vice President,
Global Industries

Saadia Khairi
Vice President,
Risk Management,
Financial Reporting,
and Corporate
Strategy



IFC's Client Leadership Award

Energy Development Corporation, Philippines

Each year, IFC recognizes a corporate client who best represents leadership, innovation, and superb corporate governance. We present the Client Leadership Award to the organization that—through its work and social activities—embodies our values and symbolizes our shared commitment to sustainable development.

This year, we honor the Energy Development Corporation of the Philippines. EDC has been a global pioneer in the field of geothermal energy. Its five steam fields, in combination with its hydropower projects, provide 12 percent of the country's power capacity and serve 12 million households. This reduces the Philippines' reliance on fossil fuels while supplying much-needed energy to an emerging market.

In addition, the company promotes reforestation and biodiversity through "social forestry;" it has reforested 10,000 hectares around its five project sites and has worked closely with indigenous and farmers' groups to cultivate the land and plant endangered trees. We congratulate EDC on its achievements and anticipate continued excellence in both renewable energy development and social responsibility.

2

PART 2

HOW IFC CREATES
OPPORTUNITY***Innovation, Influence
Demonstration, Impact***

IFC brings a distinctive set of comparative advantages to help the private sector reduce poverty and foster inclusive economic growth.

We're helping to...

Bring satellite-based Internet to millions in Africa · Ease volatility in the food market · Provide access to water for 100 million people · Provide health care to 100,000 low-income residents of the Indian state of Andhra Pradesh · Lead the G-20 Financial Inclusion Initiative · Establish global standards for development finance institutions · Create a €150 million fund to purchase carbon credits and promote green industries · Mobilize up to \$2 billion from investors for vocational training in the Middle East and North Africa · Provide \$400 million for telecommunications infrastructure in Iraq · Sponsor a competition to find the best commercial lenders for small businesses · Bring mobile communications to millions in Madagascar, Malawi, and Nigeria... Here's how.

INNOVATION

Tackling problems, finding solutions

P20-29



DEMONSTRATION

Mobilizing capital, setting an example

P40-47



INFLUENCE

Shaping policy, raising standards

P30-39

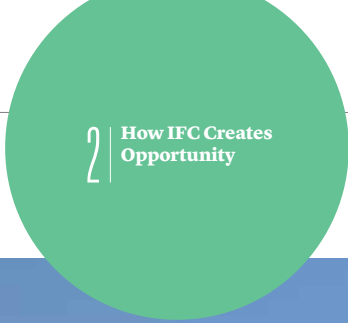


IMPACT

Improving lives, promoting development

P48-56





INNO

ON

It takes creativity to conceive and execute game-changing projects.

Money alone can't address the needs of the developing world. We're leveraging IFC's expertise and global presence to find new approaches to the most pressing challenges—from food and water security to climate change to job creation.

In an increasingly complex global economy, the demand for private sector development—and IFC—is great. We're meeting the demand with innovative initiatives that maximize the private sector's capacity to create opportunity and promote inclusive growth.

As the world's preeminent development institution devoted to the private sector, IFC's work gives the poor a shot at high-quality medical care, links impoverished communities to the power of the Internet, supports the transition to renewable energy, and gives women entrepreneurs the backing they need to expand their businesses and hire new workers.

WATI



BRINGING THE INTERNET TO THE “OTHER 3 BILLION”

O3b Networks will soon help lower Internet access costs in rural areas.

Broadband Internet is a crucial portal to the global economy. But traditional, land-based cables don't reach much of the world, especially those individuals and businesses located in developing regions. In 2010, for example, fixed broadband subscriptions in Africa accounted for less than 1 percent of the global total, while estimated Internet users on that continent accounted for less than 4 percent.

By funding a satellite-based Internet development project, IFC is helping address that problem. O3b Networks, a company striving to bring Internet access to the “other 3 billion” potential users worldwide, will soon deliver broadband connectivity to underserved regions—from space. From a constellation of eight satellites in medium earth orbit, O3b will increase bandwidth capacity and lower Internet access costs for those rural areas between 45 degrees of latitude north and south of the Equator. The system has the potential to provide millions of people with connectivity to broadband networks.

Though initially backed by a number of high-profile investors—including Liberty Capital, HSBC, and Google—many commercial lending

banks deemed the venture too risky because of volatility in credit markets and uncertainty resulting from the global economic downturn.

IFC helped rally support from development finance institutions to bridge the investment gap. By pledging \$70 million from its own account and mobilizing \$170 million in parallel loans from other institutions, IFC helped fulfill the remainder of O3b's investment goals.

Expanded Internet access aligns with a number of IFC's strategic priorities. We're tackling constraints to private sector growth by improving access to communications technology, addressing access gaps in telecommunications services, and supporting Internet-based business innovations.

In addition, the undertaking should lower costs for cellular operators. Mobile phone use is generally more common than Internet use in developing regions—lower costs here will also mean greater connectivity.

The first round of satellites will be launched in 2013.



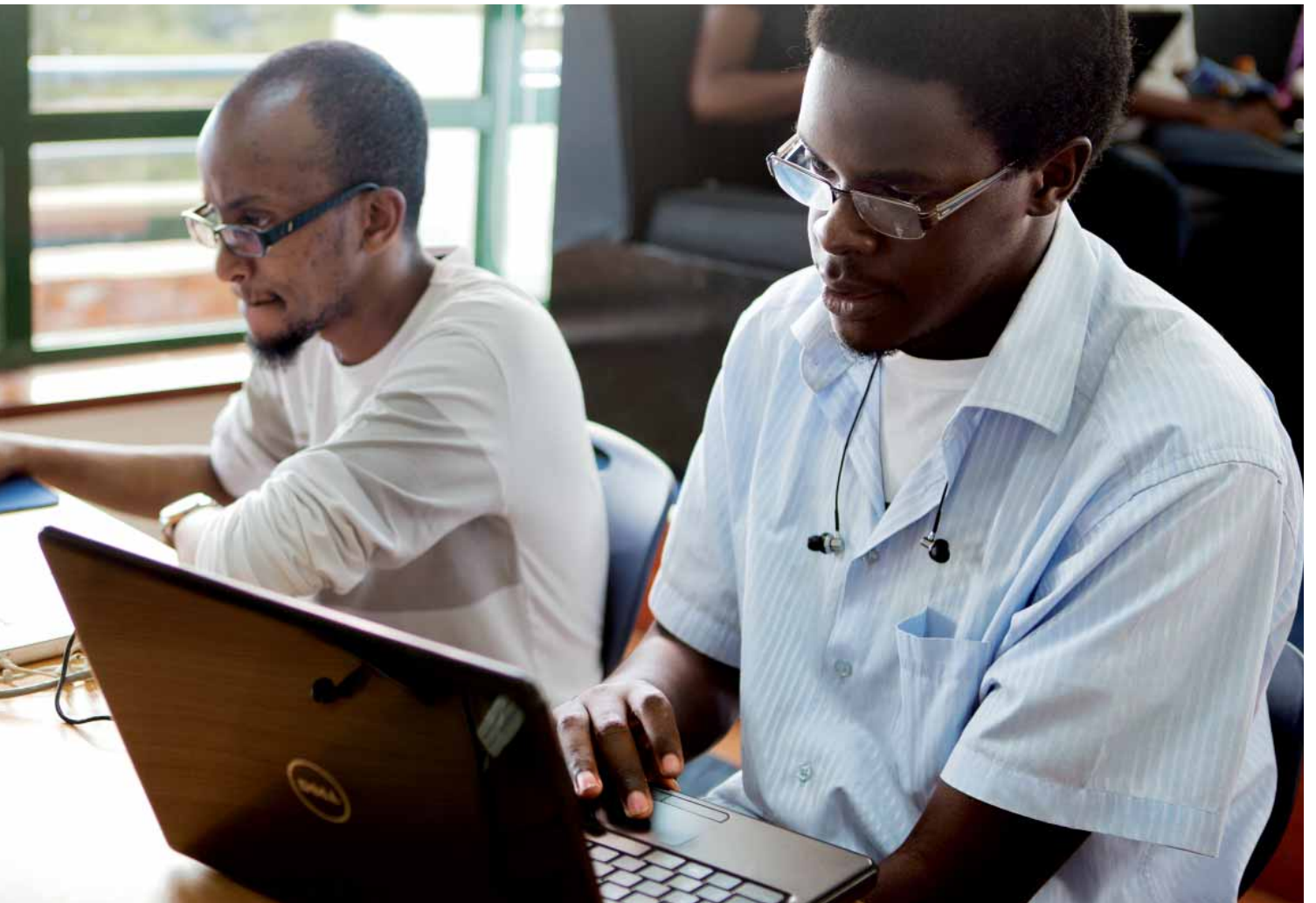
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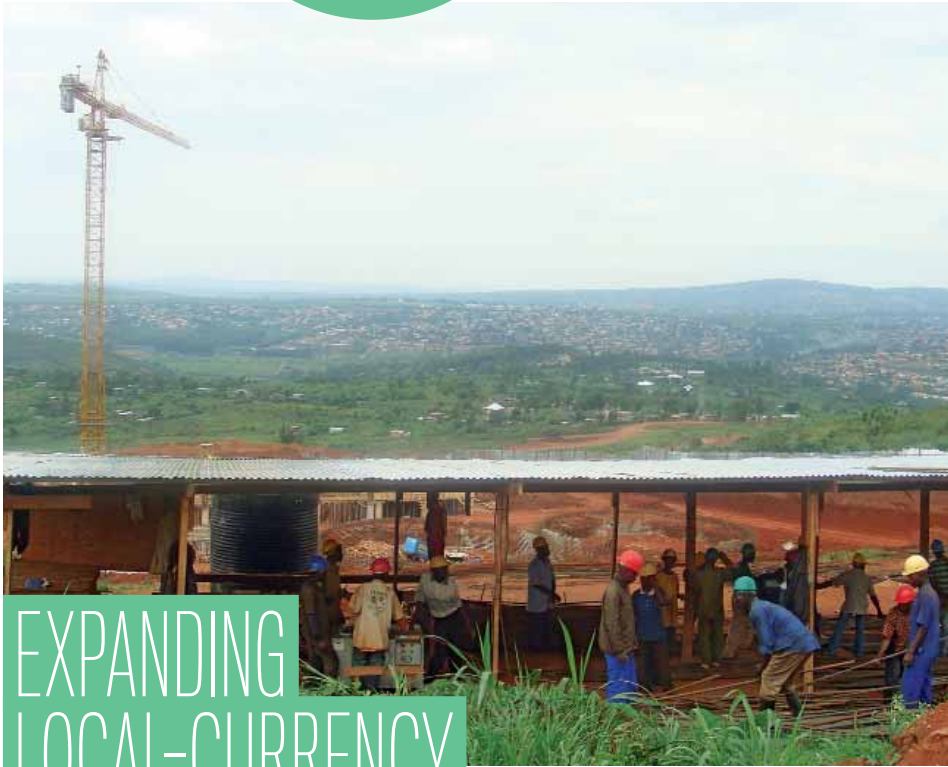
SATELLITES PROVIDING LOWER INTERNET ACCESS COSTS TO RURAL AREAS BETWEEN

45°

OF LATITUDE NORTH AND SOUTH OF THE EQUATOR







EXPANDING LOCAL-CURRENCY LOANS IN AFRICA

We are helping Rwanda develop a commercial swaps market.

IFC HAS PROVIDED FINANCING IN

45

LOCAL CURRENCIES



Bakhresa Group, an agricultural company and IFC client, was eager to scale up its wheat flour production operations in Rwanda with a new mill. But it faced a challenge not uncommon to agribusinesses in emerging market countries—how best to lock in stable, long-term financing in an environment fraught with foreign-exchange risk and commodity price volatility.

Rwanda does not have a swaps market that can enable long-term lending in local currency. IFC came up with a novel way to inject additional liquidity into the food supply chain, enhance agricultural productivity, and help develop a vibrant and efficient capital market. We provided the client a long-term loan that was partially disbursed in Rwandan francs.

The solution—a swap arrangement with the Rwandan Central Bank—is unique. It allows IFC to provide loans in local currency to Bakhresa and several other enterprises. In doing so, we helped them avoid the financial risks of borrowing in foreign currencies. These swaps are financial instruments that allow IFC to exchange a stream of future local-currency cash flows for U.S. dollar cash flows, assuring stable financing for local borrowers.

The Rwanda initiative marked the first time a multilateral financial institution has entered into a long-term

swap with an African central bank to provide local-currency financing—a milestone where IFC filled a void in Rwanda and helped further the development of local capital markets there.

The arrangement helps pave the way for the development of a commercial swaps market in Rwanda. It also provides a successful template as IFC works with other central banks in developing countries to fashion similar programs—for example, we recently signed a similar agreement with the Central Bank of Paraguay.

This initiative also benefits the central banks of developing countries in several ways. It allows them to work directly with cross-currency swaps. As commercial swaps markets develop in these countries, central bankers with hands-on experience with swaps will be better positioned to oversee these markets and ensure their effective functioning.

IFC extended its first local-currency loan in Africa a decade ago. We have used cross-currency swaps to finance local-currency projects in several African currencies, including Ghanaian cedis, Kenyan shillings, Moroccan dirhams, Nigerian nairas, South African rand, Tunisian dinars, Tanzanian shillings, and Zambian kwacha. IFC also provides local-currency loans in Africa by issuing bonds in local currency and through structured financial products.

Above Construction workers build Bakhresa Group's new wheat flour mill at the Kigali Industrial Park in Rwanda.



PROMOTING THE USE OF CLEAN TECHNOLOGY

In FY11, we invested \$1.7 billion in climate-friendly projects.

Confronting climate change is expensive and interlinked with some of the toughest development challenges—water, food, health, and conflict.

Within two decades, the cost of addressing global warming in developing countries could reach \$275 billion a year, an investment that won't be possible without the private sector, which is expected to pay for more than 80 percent.

IFC is working with the private sector to advance climate-friendly renewable energy projects in the poorest areas, where climate change has the potential to do the most harm. Our relationship with China WindPower Group shows how IFC is helping countries transition to low-carbon growth by supporting companies that are scaling up the use of clean technology and renewable energy sources.

China WindPower makes wind turbine towers, then designs, constructs, and maintains wind farms for

itself and other developers. It's already developed 12 midsize wind farms in China with large state-owned enterprises, and is now exploring opportunities for "South-South" investment in India and Africa.

In China, IFC is helping the company build a 201-megawatt plant in Gansu, a poor province whose Gobi Desert locations are favorable to wind projects. The new plant will allow China to avoid hundreds of thousands of tons of carbon-dioxide emissions, create jobs, and promote energy efficiency.

Projects like this are critical. China is the world's fastest-growing wind market, but also the largest emitter of greenhouse gases. China's wind-power capacity has doubled every year for the past four years and shows no sign of stopping—the country is committed to getting 15 percent of its power from renewable sources by 2020.

To fund China WindPower's Xiehe plant, IFC is providing a \$45 million loan, and mobilized \$95 million more

from commercial banks. This marks China's first wind-power deal financed entirely through an international bank syndication. We've also taken a \$10 million equity stake in the company to help it look for business outside China, where it can help other countries go green.

The investment is just part of our work in this area. In FY11, IFC invested \$1.7 billion for our own account in climate-friendly projects. By FY13, at least 20 percent of our commitments will be in such projects, up from about 14 percent now.

To help the private sector better understand the risks involved with climate change, IFC is conducting research on its economic impact. A series of recently published climate risk studies provides insight into the implications of climate change for business—how it may affect companies' financial, economic, environmental, and social performance. We also worked with the consulting firm Mercer on a report that shows how uncertainty around international climate policy will be a significant risk for institutional investors over the next two decades.

China WindPower's Tai Pu Si Qi wind farm in Inner Mongolia.



ADDRESSING GLOBAL WARMING IN DEVELOPING COUNTRIES COULD REACH

\$275

BILLION A YEAR



DELIVERING
HIGH-QUALITY
HEALTH CARE TO
THE POOR

IFC's first health-sector public-private partnership in India is lowering medical costs.



Medical problems that should be routine can turn catastrophic when families don't have access to hospitals with modern technology. IFC is finding novel ways to make sure the poor get the care they need, and learning from our experience so productive projects can be duplicated elsewhere.

We helped Andhra Pradesh, a state on India's southeastern coast, boost access to advanced diagnostics by developing a unique public-private partnership to upgrade radiology services at four teaching hospitals. A consortium of Wipro-GE Healthcare and Medall Healthcare will refurbish and build facilities, install equipment, and offer services. Scans provided by the consortium will cost around half the market rate—huge savings on a service that was previously unattainable for most people in the region.

The initiative, IFC's first health-sector public-private partnership in India, is structured to maximize development impact by fusing the private sector's expertise with public policy objectives. And it shows how PPPs can be effective beyond their traditional use in infrastructure projects. IFC's role included the formulation of a comprehensive framework to provide direction for future PPPs, strengthening the delivery of health care services to low- and middle-income groups.

Thanks to the initiative—supported by the Dutch Technical Assistance Trust Fund—underprivileged patients in Kakinada, Kurnool, Vishakhapatnam, and Warangal will get advanced radiology services at no additional cost. We expect the initiative to serve 100,000 people a year, around 85 percent of whom live below the poverty line.

But it's not only the patients who will benefit. Medical colleges will use the facilities to train doctors with state-of-the-art technology and techniques, helping Andhra Pradesh address its shortage of specialists, and putting it in a better position to retain skilled doctors.

The private sector has a significant role to play in health care in developing countries. In Sub-Saharan Africa, for example, private health care providers are often the only option for people living in rural areas and urban slums. Yet oversight of these providers is minimal, according to *Healthy*



100,000

PEOPLE A YEAR EXPECTED TO BE SERVED

85%

OF WHOM LIVE BELOW THE POVERTY LINE

Partnerships, a report published in June by IFC and the World Bank.

We help governments forge partnerships with the private sector that can foster better funding of health care for the poor and promote more effective regulation. *Healthy Partnerships*, the first systematic assessment of the relationship between the public and private health sectors in 45 African countries, found that the region's health care goals can be attained faster through the power of public-private partnerships.



Left and above At the Kurnool Medical College training hospital, patients can get advanced radiology services at no additional cost.



STIMULATING TRADE FLOWS IN TOUGH MARKETS

IFC guarantees support trade that might not otherwise happen.

“When you are in Africa, no one wants to work with you without a confirmed letter of credit.”

Ashu Gulati,
Group Finance
Director at
Synarge Group



When companies trade, they grow. And when they grow, they hire people.

But for small enterprises in the world’s poorest markets, joining the global trading system is easier said than done. Too often, large financial institutions are hesitant to enter into relationships with little-known companies and local banks in developing countries, a reluctance that dampens trade volume.

“When you are in Africa, no one wants to work with you without a confirmed letter of credit,” says Ashu Gulati, Group Finance Director at Synarge Group, an auto-parts importer in Dar es Salaam, Tanzania.

We are helping change that dynamic. By issuing credit guarantees where others won’t, IFC is providing essential liquidity for global trade flows. It’s a short-term, relatively low-risk endeavor that has a large development impact. And it supports transactions that typically wouldn’t be possible without an IFC guarantee.

Ask Safepak, a Kenyan company that manufactures plastic bottles for around 500 small and medium businesses and large multinationals. We’ve issued 57 guarantees totaling over \$10 million for letters of credit to Safepak, facilitating imports of PET resin and heavy equipment. The company credits IFC’s guarantees for

its impressive growth: CEO Tushar Shah says that over the past seven years, revenues have surged from \$5 million to \$40 million, while staffing has grown from 80 employees to 450.

Since its creation almost six years ago, our Global Trade Finance Program has helped many companies such as Safepak—particularly in IDA countries—serve SMEs. The results are significant. More than 9,600 guarantees with a median value of about \$270,000 have been issued since 2005—without a single loss.

Equally important, the program has led the way for deeper IFC engagement in post-conflict and severely challenged countries, including Haiti, Rwanda, and Sierra Leone. Our Global Trade Liquidity Program, set up in the wake of the financial crisis, has a similar track record. It has supported more than \$11 billion in trade without loss since 2009.

IFC’s role is expected to increase further as the world adjusts to new capital requirements that make it more difficult—and more expensive—for businesses in lower-income countries to access trade finance. That’s one reason we’re launching new short-term finance initiatives, including the Global Trade Supplier Finance Program and the Global Warehouse Finance Program, and working on a framework to measure the development impact of trade finance.



INDIA'S RURAL WOMEN ENTREPRENEURS GET A BOOST

Access to finance makes it possible for women-oriented businesses to thrive.

60,000
WOMEN HAVE
ACCESS TO
FINANCE, THANKS
TO IFC
AND UTKARSH



Life changed for Phool Pati Devi when she took her first loan, for a little over \$200, from Utkarsh Micro Finance, a start-up based in India's low-income state of Uttar Pradesh.

For 15 years she had struggled, earning a meager income selling food off a cart she pushed through her village. But when Utkarsh came on the scene in 2010, she achieved her dream—opening a small grocery store in her home, leaving the cart aside.

The store's sales have been brisk, allowing Phool to send her children to a better school and put \$50 in the family savings account each month. Now she is planning her next investment: a refrigerated unit for cold drinks.

Phool Pati is one of nearly 60,000 women in rural parts of northern India who now have access to finance and increased credit thanks to a partnership between IFC and Utkarsh, which means “progress” in the local language. These small loans make it possible for women borrowers to start or expand their businesses. And there's room to grow: the microfinance institution aims to reach 500,000 women over the next five years.

IFC's \$550,000 investment has helped Utkarsh expand access to financial services for women entrepreneurs in rural parts of India, while

advisory services have helped establish a credit and risk-management system and strengthen monitoring. With IFC's help, the company is instituting practices that avoid over-indebtedness, encourage better credit appraisal policies, and promote transparent pricing.

“Very few bankers and private players want to take risks, especially in those markets that have typically not benefited from mainstream growth in the past,” said Govind Singh, Utkarsh Managing Director and CEO. “IFC's support is helping us reach out to women who need access to financial services and have not been served traditionally.”

IFC is also supporting women's access to financial services through a partnership with the Self-Employed Women's Association of India. We recently provided funding to Shree Mahila SEWA Sahakari Bank, an all-women's cooperative bank founded in 1974 with the specific goal to provide credit for self-employed women.

SEWA Bank is pursuing a new business model, by making access to savings, pensions, and insurance—in addition to credit—available to the 1.3 million women who comprise the parent organization's membership. With IFC's assistance, SEWA intends to secure a national banking license and expand into previously under-served rural areas.



Above Phool Pati Devi and her family at her grocery store in Uttar Pradesh, India.



WINTEL



NOCE

U I L E

IFC's advice and ideas shape policy in emerging markets.

We guide countries to a position where they can attract—and retain—the capital that creates jobs and improves lives. We use our influence with companies and governments to bolster corporate governance and raise performance standards, essential ingredients for a vibrant private sector. And we take advantage of our vast network of partners in the financial sector to ensure that the small businesses that employ hundreds of millions of people can access the investment they need.

Simply put, IFC's work helps shape the policy agenda. Other development finance institutions are adopting our system for evaluating corporate governance risks, a shift with potentially far-reaching implications for emerging markets. The Group of 20 has sought our leadership on new approaches to finance for small and medium enterprises, a unique opportunity to give more people an entry into the global economy.



IFC AND THE G-20: FINDING SOLUTIONS TO A KEY CHALLENGE

We are helping set the global agenda on finance for small and medium enterprises.

“Who puts all these pieces of the puzzle together?”

It is an essential question for policymakers and institutions grappling with the challenges of development. It was posed in 2010 by H.R.H. Princess Máxima of the Netherlands, UN Secretary General Ban Ki-moon’s Special Advocate for Inclusive Finance for Development. “A puzzle-maker is needed to ensure that all the different efforts talk to each other, and to help us identify remaining information gaps,” she said.

Heads of state from the G-20—the world’s foremost international economic policy coordination body—have asked IFC to take on this role to enhance access to finance for small and medium enterprises. The group cited IFC’s decades of experience as an international agenda-setter on SME finance development. That experience gives us a vast body of practical knowledge we can share, drawn from our extensive invest-

ment, advisory, policy, and research work in every region, and long-standing client relationships and partnerships with financial institutions, donor agencies, and others.

In Pittsburgh, the G-20 leaders launched a new Financial Inclusion Initiative, vowing to expand the world’s best work on SME finance as part of a broader mandate. To do so, they sought IFC’s support, in close collaboration with the World Bank, on three central tasks:

- **Advising the Financial Inclusion Experts Group**, a new high-level body that was tasked with sharing knowledge of successful models of financial services delivery for the poor and scaling up access to finance for SMEs. Our advice led to the creation of a new Global Partnership on Financial Inclusion.
- **Producing *Scaling up SME Access to Financial Services in the Developing World***, a comprehensive report summarizing the SME finance gap



“A puzzle-maker is needed to ensure that all the different efforts talk to each other, and to help us identify remaining information gaps.”

H.R.H. Princess Máxima of the Netherlands





and its challenges, with summaries of 164 effective responses from governments, development finance institutions, and the private sector.

- **Supporting the SME Finance Challenge**, a global competition to produce innovative private sector proposals to strengthen SMEs, achieving large-scale results by making the most of limited amounts of public funding.

To help bring the benefits of financial inclusion to millions, IFC is working with Canada and other partners to facilitate the creation of an SME Finance Innovation Fund to implement winning proposals from the SME Finance Challenge by November.

Workers at Corporacion Mandrinka, an SME in Mexico City supported by IFC client Banorte.





PROMOTING GLOBAL STANDARDS FOR CORPORATE GOVERNANCE

We are working with other institutions to raise the bar for corporate governance.

30

DFIs ARE CONSIDERING STANDARDS BASED ON IFC'S CORPORATE GOVERNANCE METHODOLOGY



In an era of rapid globalization, the fate of entire economies can depend on how individual businesses are governed.

Well-run companies are better able to attract capital, respond to competitive challenges, and build conditions necessary for long-term success. They safeguard themselves—through sound corporate governance—against the perils of mismanagement and corruption. In doing so, they also help bolster national economies.

IFC has played an important role in promoting good corporate governance in developing countries for decades. Our broad experience spurs investors to look to us for leadership. Today, we are also working with leading development finance institutions to develop a common framework to improve the governance of companies we work with.

In FY11, a working group representing more than 30 development finance institutions agreed to adopt a set of standards based in part on IFC's

Corporate Governance Methodology—a system for evaluating corporate governance risks and opportunities that is recognized as the most advanced of its kind. DFIs plan to use these guidelines to assess the quality of corporate governance at companies they invest in. They also will urge global financial institutions to consider these guidelines for their own investments in developing countries.

The working group included IFC, the Black Sea Trade & Development Bank, the Latin American development bank CAF, CDC of the U.K., the European Bank for Reconstruction and Development, the Islamic Development Bank, the Dutch development bank FMO, and the German development bank DEG. Some of the banks, such as FMO, have already begun to implement the new guidelines. Others are expected to adopt them later in 2011.

IFC and our partners in this initiative believe our expertise as providers of financing and advisory services allows us to play an important role in improving corporate governance. Adoption of a common approach by DFIs sets a standard for due diligence and helps establish common expectations among our clients, raising the bar for corporate governance in emerging markets.



ALLEVIATING UNCERTAINTY IN CARBON MARKETS

Our Post-2012 Carbon Facility can help ensure the continuation of climate-friendly projects.

BY FY13, AT LEAST

20%

OF IFC'S
INVESTMENTS
WILL BE CLIMATE-
FRIENDLY



The lack of a global climate agreement could harm the environment—but it's already hurting markets. Countries and companies need certainty to make investment decisions. Without a global framework, financing for climate-friendly projects is jeopardized and uncertainty prevails in carbon markets.

To mitigate these risks and promote low-carbon growth, IFC launched the Post-2012 Carbon Facility in February 2011. The fund closed, fully subscribed, in June 2011. It will purchase Certified Emission Reductions—or CERs, a type of carbon credit governed under the Kyoto Protocol—through 2020, long after the first commitment period for the protocol expires in 2012.

Without a new international framework, the market for carbon credits is uncertain. As a result, funding for carbon-reduction projects in emerging markets has been, and will continue to be, limited.

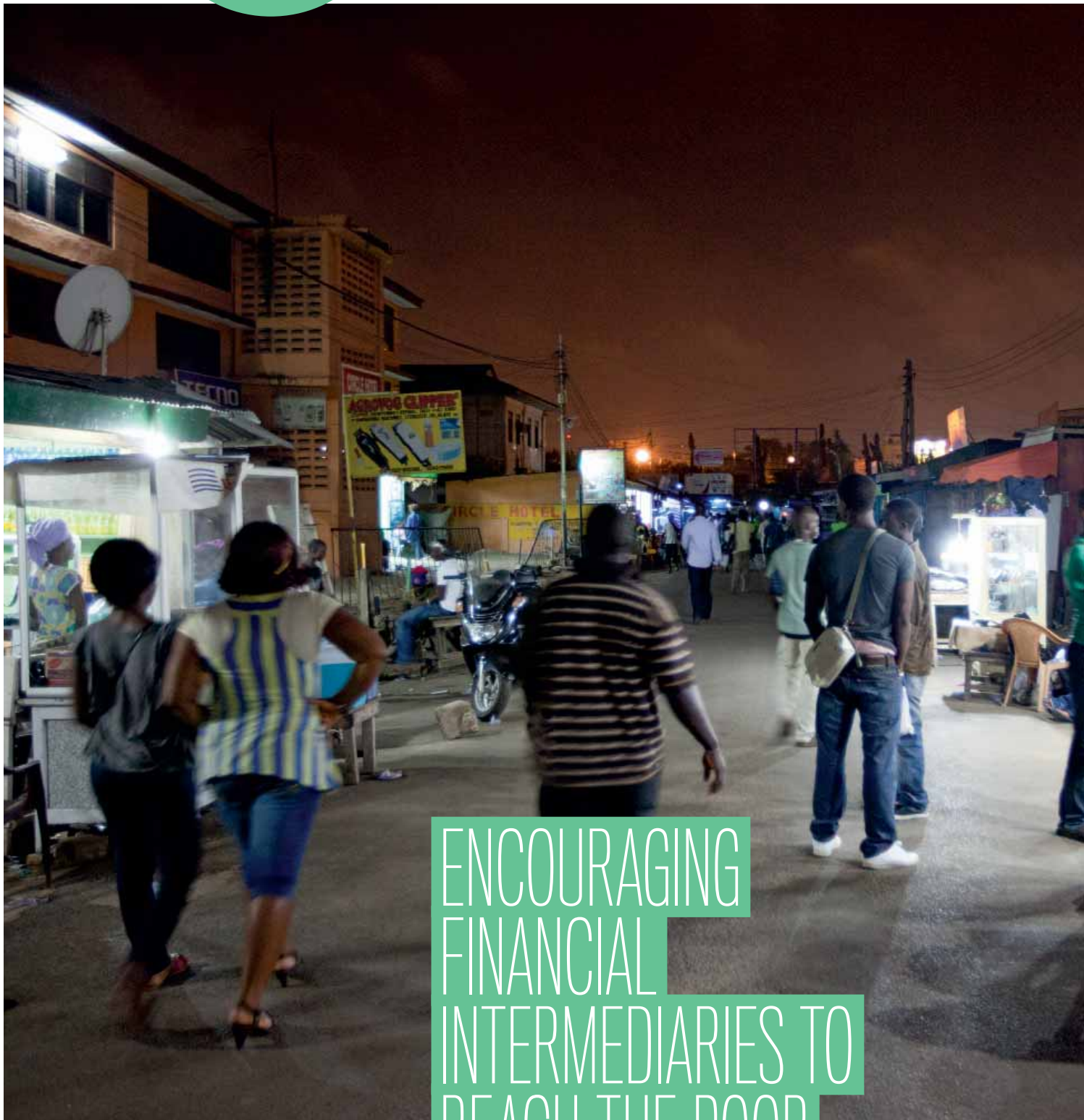
The IFC facility can help address some of this uncertainty by purchas-

ing carbon credits directly from companies with projects that reduce greenhouse emissions. This will provide a much-needed revenue stream that will enable the continuation of climate-friendly projects.

IFC has committed €15 million for our account to the fund, and we have mobilized an additional €135 million from European energy groups. These forward-looking investors see a significant business opportunity in post-2012 emissions reductions.

As part of the World Bank Group, IFC has also partnered with the Carbon Disclosure Project—the world's largest database of corporate climate change information—in which member organizations voluntarily disclose emissions information to attract funding from potential investors.

Reducing the effects of climate change on developing countries is a top priority for us. At the same time, the largest growth in demand for energy is coming from the world's fastest-developing countries. That's why we aim to make at least 20 percent of our investment commitments climate-friendly by FY13, an increase from the current level of about 14 percent.



ENCOURAGING
FINANCIAL
INTERMEDIARIES TO
REACH THE POOR

IFC can reach the poor quickly and sustainably through a network of financial institutions.



In developing countries, about 400 million businesses lack the credit they need to grow. These enterprises typically employ fewer than 250 people, yet they account for nearly half the jobs created in the developing world.

In all, their unmet financing needs total more than \$2 trillion—an amount equal to the gross domestic product of some of the world’s wealthiest countries. It is a sum far beyond the capacity of any one institution to provide. It’s a challenge that can be met only by a wide network of financial institutions.

IFC plays a critical role here. In the six decades since our founding, we have built one of the largest networks of financial intermediaries operating in developing countries. We work with more than 750 financial institutions that command more than 30,000 distribution points in nearly every corner of the developing world.

This is a powerful network for reaching the poor quickly and sustainably. We make the most of it—to provide financing to micro, small, and medium enterprises, to support women entrepreneurs, to encourage climate-friendly investments, to promote responsible finance, and to broadly improve social and environmental standards in developing countries.

In FY11, nearly half of our investments in financial intermediaries went to the poorest countries served by the International Development Association. Working with such institutions has helped us improve access to credit for micro, small, and medium enterprises. In calendar year 2010, financial intermediary clients for which we have data provided nearly 10 million loans totaling more than \$140 billion to such enterprises. It has also allowed us to help local banks improve their capacity to serve the poor and the vulnerable—for example, by advising them on diversifying their financial products.

We want financial institutions to act responsibly when we invest in them. We require them to comply with our Performance Standards (see page 72) on environmental and social assessments and management systems, and on labor and working conditions. We instruct them to observe IFC’s Exclusion List, which prohibits



OUR FINANCIAL-INTERMEDIARY CLIENTS GRANTED

10

MILLION LOANS TO MSMEs IN 2010

them from investing in projects that we ourselves would not invest in (see page 100). We have also updated our Sustainability Framework (see page 96) in a way that requires these institutions to rate their own portfolio risks more clearly, and have actively engaged with civil society groups on these issues.

Over the past few decades, financial intermediaries in emerging markets have provided access to finance to hundreds of millions of people. But much more needs to be done to close the credit gap. We believe there is no more efficient way to do so than to harness the power of our network of trusted partners to help the poor and the vulnerable.



Above and right
An IFC trade-finance guarantee helped secure the financing necessary for a new transformer that will help ease power shortages in Accra, Ghana.



PAVING THE WAY FOR INVESTMENT IN CONFLICT-AFFECTED COUNTRIES

Investment sparks growth and increases the incentive for peace.

Conflict creates economic instability, which in turn can spur further conflict. For developing countries emerging from war, it can be a self-reinforcing cycle.

IFC helps such countries attract investment, reduce barriers to entry for businesses, and expand credit for small and medium enterprises—all of which can spark economic growth, thereby increasing the incentive for peace.

Post-conflict development is a priority for us. As the 2011 World Development Report noted, about 1.5 billion people live in countries afflicted by repeated cycles of political and criminal violence. Not one low-income country coping with such challenges has managed to achieve even a single Millennium Development Goal.

South Sudan—a country where millions have been affected by violence—is trying to end that cycle. Since its recent declaration of independence

from the North, it has taken important steps toward political stability. Economic development must come next, and quickly. Over the past six years, IFC and its partners—including Denmark, Ireland, the Netherlands, Norway, and the United States—have committed \$9 million to help South Sudan craft legislation on regulatory and business reform.

As a result of reform efforts, including the establishment of a new business registry, more than 11,000 businesses have been registered in the country since 2006. According to the World Bank Group's *Doing Business in Juba 2011* report, business start-up time is now 15 days—close to the average for the major developed countries.

The work we do can be transformative for entrepreneurs such as Peter Atem, a former soldier whose company became one of the first beneficiaries of the new business registry. Atem's company has built more infrastructure in South Sudan than

any other local enterprise, handling over \$8 million in contracts for roads, bridges, water lines, schools, and government buildings.

We are quick to assist countries emerging from conflict. This year, within months of the end of hostilities in Côte d'Ivoire, we invested \$1 million in Advans Côte d'Ivoire to help the microfinance institution expand lending.

Typically, our involvement begins with advisory services—especially in the area of investment climate, which helps rebuild and open up markets.

This year, an independent evaluation of our investment-climate work in Burkina Faso, Liberia, Rwanda, and Sierra Leone—all of which have a recent history of conflict—found that reforms we helped implement led to the establishment of nearly 12,000 businesses, generated private-sector investments of as much as \$90 million, and created more than 50,000 jobs.

In addition, our joint work with the World Bank helped result in a breakthrough for the 16 countries that make up the Organization for the Harmonization of Business Law in Africa, several of which are conflict-affected. We helped OHADA harmonize key commercial laws for the first time. That will help these countries attract investment and open up opportunities for local entrepreneurs.



11,000

BUSINESSES HAVE BEEN REGISTERED IN SOUTH SUDAN SINCE 2006



Right Peter Atem, director of the construction company Rhino Stars, has built roads, schools, and government buildings in South Sudan.



PROMOTING ENVIRONMENTAL AND SOCIAL BEST PRACTICES

Private enterprises are increasingly adopting IFC's environmental and social standards.

IFC's development impact is greatest when our clients operate sustainable businesses. Our Sustainability Framework helps them do just that. It promotes sound environmental and social practices, broadens our development impact, and encourages transparency and accountability.

This year—after an 18-month consultation process with stakeholders—we updated the Sustainability Framework to reflect the rapid evolution in best practices for sustainability and risk mitigation. The update addresses challenging issues such as supply-chain management, climate change, and business and human rights. Key changes include:

- Reducing the threshold for clients to report greenhouse emissions—from the equivalent of 100,000 tons of carbon dioxide per year to just 25,000 tons. This will allow IFC to better understand the footprint of our portfolio and expand the scope of our energy-efficiency analysis.

- Addressing human trafficking and forced evictions, and allowing communities' continued access to cultural heritage sites on purchased land.
- Ensuring more robust consultations for projects with potentially adverse effects on indigenous peoples through the principle of "Free, Prior, and Informed Consent."
- Expanding requirements for clients with regard to sensitive habitats.
- Increasing transparency—namely, through our Access to Information Policy (see page 100) as regards the environmental and social performance and development impact of IFC's projects and investments, including with financial intermediaries and in advisory services.

The Sustainability Framework's influence extends beyond IFC. Our Performance Standards (see page 72), which define clients' responsibilities for managing environmental and social risks, are the basis for the Equator Principles, a voluntary

risk-management framework used by 71 financial institutions worldwide.

Increasingly, companies are incorporating these standards into their policies and investors are viewing them as an indication of quality. In addition, 15 European development finance institutions and 32 export credit agencies from countries belonging to the Organisation for Economic Co-operation and Development refer to the Performance Standards in their operations. Governments now use IFC's Standards as a reference point in their policy guidance. Bangladesh, Canada, China, Norway, and Vietnam, to name a few, refer or plan to refer to IFC Standards in an effort to guide companies—particularly those in the financial and extractive sectors—toward sustainability.



15

EUROPEAN
DEVELOPMENT
FINANCE
INSTITUTIONS AND

32

EXPORT CREDIT
AGENCIES REFER
TO THE IFC
PERFORMANCE
STANDARDS IN
THEIR OPERATIONS

An aerial photograph of a city, likely in South Asia, taken at dusk. The sky is a mix of blue and purple. The city below is densely packed with buildings, many of which are made of brick or mud-brick. In the background, a large, prominent structure, possibly a fort or a palace, sits atop a hill. The text 'DEMO ATIO' is overlaid in large, white, sans-serif capital letters, with each letter separated by a thin vertical line. The text is positioned in the upper half of the image, with 'DEMO' on the top line and 'ATIO' on the bottom line.

DEMO ATIO

INSTR

N

Creating opportunity is contagious.

Our involvement in challenging markets encourages the private sector to follow our lead. By succeeding in places that have been neglected by traditional investors, IFC sets an important example—boosting access to finance in developing countries and making them more competitive and resilient in the face of crises. At the same time, our Advisory Services demonstrate that by improving the investment climate and shoring up domestic financial markets, poor countries can attract even more of the private sector capital they need, strengthening the case for sustainable business practices.

IFC's work shows how the private sector can catalyze South-South investment in countries struggling to break free from years of conflict. It shows how poor countries can harness the power of cutting-edge technologies, opening new markets along the way. It shows the capacity of women-owned businesses to propel growth and job creation and remake their communities. Most importantly, it shows that there is opportunity in the least developed markets—not just for IFC, but for all investors.

FACILITATING SOUTH-SOUTH INVESTMENT IN IRAQ

It's possible to finance infrastructure projects in Iraq, despite the challenging environment.

Countries emerging from years of conflict face enormous development challenges. The need for jobs, investment, and infrastructure is urgent.

IFC arranged a \$400 million, seven-year debt facility for Iraq's largest mobile phone operator, Zain Iraq, highlighting our unique ability to meet an array of development goals in the most challenging places.

The facility supports South-South investment, provides financial support for a war-torn country, mobilizes international capital, mitigates political risk, and enhances a long-term relationship with a strategic IFC partner. It does so while expanding telecommunications services and promoting job creation in a nation that has endured decades of conflict and is regarded by investors as highly risky.

Zain Iraq is a subsidiary of Kuwait-based Zain Group, a longtime IFC partner and a leading mobile telecommunications operator with 72.5 million subscribers across the Middle East, North Africa, and Sub-Saharan Africa. Zain Iraq's acquisition of Iraqna transformed it into Iraq's leading mobile operator.

The Zain Iraq facility is IFC's first investment in Iraqi infrastructure and our largest in

Iraq to date. The facility consists of an IFC loan of \$155 million, plus a \$50 million B-loan by Ahli United Bank and four syndicated parallel loans totaling \$195 million by other development financial institutions—\$245 million in total mobilization. This is the first time several of them have invested in Iraq in this way. Zain will use the funds to improve network coverage and capacity, cover license fees, and repay loans related to the acquisition of Iraqna.

IFC's support for the project, early and ahead of other lenders, sent a positive signal to potential investors that it is possible to finance infrastructure projects in Iraq despite the challenging environment. The project extends mobile phone coverage to poor and underserved areas of Iraq, boosts direct and indirect employment in a key non-oil sector, supports delivery of social services, and advances our strategy of supporting fragile and conflict-affected countries.

Zain Iraq has over 50 percent of Iraq's mobile phone market and expects to add more than 4 million Iraqi mobile phone users in the next five years, to bring its Iraq customer base close to 20 million.



ZAIN IRAQ HAS MORE THAN

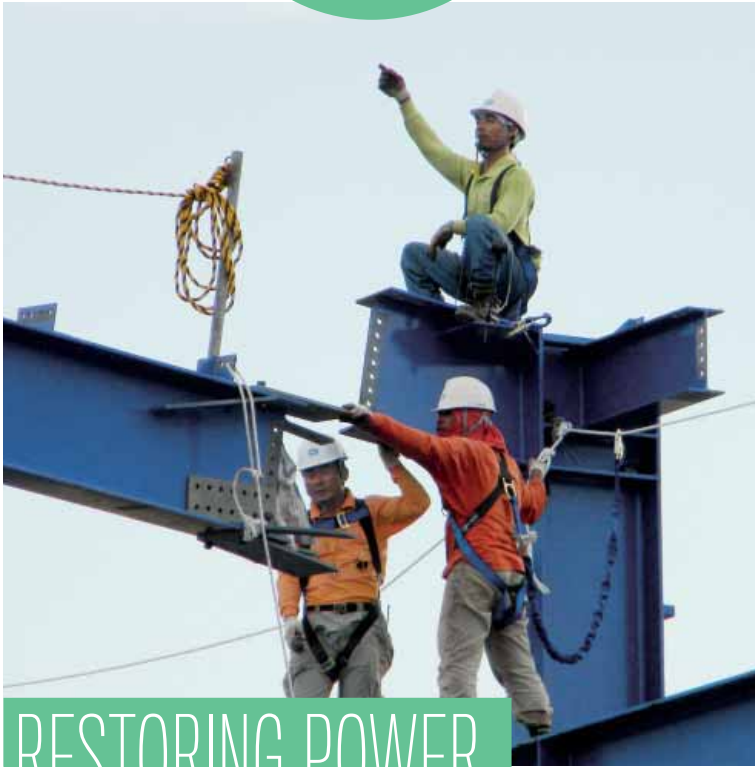
50%

OF IRAQ'S MOBILE PHONE MARKET



Zain Iraq expects to add more than 4 million mobile phone users in Iraq over the next five years.





RESTORING POWER, SETTING AN EXAMPLE

We're helping E-Power increase access to electricity in post-earthquake Haiti.

Even before the 2010 earthquake, only 25 percent of Haiti's population had access to electricity, with the best-served areas rarely receiving more than eight hours a day. Restoring basic public services is the first step toward restarting growth.

To mitigate acute power shortages and support a nascent industry, IFC led the financing of the construction of a 30-megawatt power plant outside the nation's capital. Inaugurated in January 2011, the new plant, E-Power, immediately increased the energy supply capacity in the Port-au-Prince metropolitan area by approximately 35 percent.

The facility uses a cleaner technology and produces electricity at a lower cost than existing thermal plants—15 to 17 cents per kilowatt hour as compared to 22 to 26 cents for other installations in the country. That should reduce energy costs and improve air quality in the city by reducing the need for personal

generators that burn diesel fuel. In a full production year, this will save the Haitian government \$20 million.

Beyond these immediate benefits, the initiative is also intended to demonstrate that successful development projects are possible—and, indeed, necessary—in fragile post-disaster situations. The large influx of foreign aid was needed and encouraging; but it's also important to spark domestic private enterprise and promote reconstruction-linked investment opportunities.

IFC responded swiftly to Haiti's earthquake by investing \$15 million in projects focused on job creation in the garment, finance, mining, and hospitality sectors. IFC's portfolio of investments amounts to \$47.7 million for seven operations in the country. Through IFC advisory services, we also structured a public-private partnership that generated the largest foreign direct investment since the earthquake: \$100 million from



35%

INCREASE IN
ENERGY CAPACITY
IN PORT-AU-
PRINCE AREA

Vietnam's Viettel to Haiti's TELECO to upgrade communications systems.

IFC's combined investment and advisory projects are supporting the creation of 5,000 new jobs in Haiti, and safeguarding 5,000 existing jobs. Through Advisory Services, IFC has also trained more than 1,500 managers of small and medium enterprises across Haiti, improving their growth capacity and potential to create jobs.

The E-Power plant is majority-owned by local investors and will produce electricity for the state-owned utility company under a 15-year purchase agreement. IFC provided \$17 million in debt financing, and mobilized \$12 million from the Netherlands FMO and \$28 million from local banks and investors. The total project cost was \$57 million.

Above Workers complete the last stage of construction at the E-Power facility in Port-au-Prince.





CHAMPIONING MARKET-OPENING TECHNOLOGIES

Cell-phone alerts give farmers crucial information on their crops.

Left An Esoko client uses her phone to sell corn, rice, and soybeans at the Nima Market in Accra, Ghana.

Accurate, timely information helps small farmers boost their incomes and improve food security.

Just ask Susogn Poatab, a small-holder farmer in Chamba, Ghana. Once unable to get information on prices outside his local market, Poatab now receives text messages that show where he can get the most money for his yams. The SMS price alerts from Esoko, a Ghanaian firm whose products allow different parties in the agricultural value chain to exchange real-time market information, are making a difference.

Without them, Poatab would not have known that his harvest of 100 tubers was worth nearly three times more in the community of Ejura than in his local market. The profit covered the salaries of five laborers working on his farm.

IFC is helping bring that technology to more farmers in the world's poorest countries. We invested \$1.25 million in Esoko, whose system stabilizes input prices, making food more secure.

Just by glancing at their mobile phones, farmers can tell the demand and prices for crops, and the location of seeds and fertilizers. Businesses can use the same system to see how their products are used and market themselves to new customers. For associations and governments, bulk text messaging can transmit information to thousands of people.

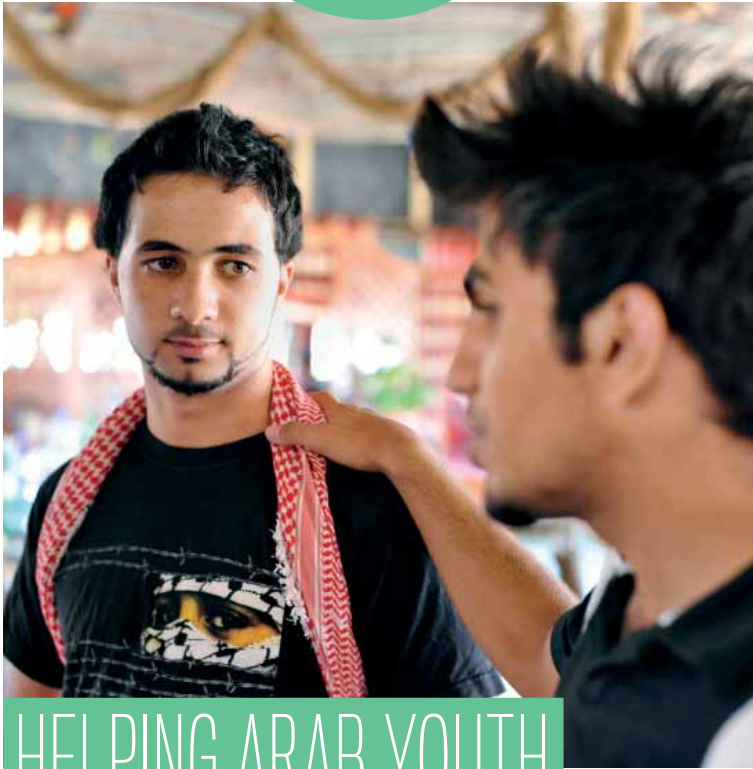
The smooth flow of information is essential for well-functioning markets, making countries more resilient in the face of crises and more open to investment and giving the poor a better shot at prosperity. IFC invested in Esoko, alongside the Soros Economic Development Fund, because we believe rapid growth in the use of mobile phones in Africa provides an opportunity to address development challenges with innovative technology. We can also set an example that inspires investors who aren't typically interested in developing markets.



IFC INVESTED

\$1.25

MILLION IN ESOKO



HELPING ARAB YOUTH REALIZE THEIR POTENTIAL

We're mobilizing investment and expertise to create opportunity in the Middle East.

The Middle East and North Africa have the highest rates of youth unemployment in the world—over 25 percent. Two-thirds of the region's people are younger than 30, implying an enormous need for job creation. Over the next generation, the workforce will need to accommodate an additional 55 million people.

Clearly, the status quo is not sustainable. Young people across the region are demanding change and calling for better job opportunities, as recent events have shown.

IFC and the Islamic Development Bank are seizing this historic opportunity to invest in Arab youth, by launching a program that over five years could mobilize up to \$2 billion to promote Education for Employment, or e4e. Through a combination of investment and advisory services, the initiative will support vocational education, training, work-readiness programs, and university education throughout the region.

To better understand the needs of both students and employers, and to craft education programs that better meet those needs, IFC also funded a 3,000-person survey across nine countries in the region.

As we discovered, a majority of employers in five MENA countries think that recent graduates lack the appropriate skills for their workplace. In a separate World Bank study, 80 percent of Algerian firms reported recruiting problems because of a lack of qualified labor. At the same time, a university education does not guarantee a job—in some countries, the unemployment rate is *higher* for university graduates than other young people.

In other words, there is a serious disparity between the education provided in existing institutions and the skills demanded by businesses. By fostering collaboration between employers and educators and providing targeted training, the e4e initiative is attempting to shrink the skills gap.



“Governments must create an enabling environment for the private sector. The private sector must bridge gaps between schools and job markets.”

Queen Rania of Jordan

Governments in the region have traditionally provided the funding for education, but e4e will also encourage greater roles for private institutions and student self-financing. Across the region, only 15 to 20 percent of students receive private post-secondary education, yet 36 percent of students answered that they would pay for post-secondary education if it helped them get a job.

In the words of Queen Rania of Jordan, Honorary Chairwoman of the e4e initiative: “Governments must create an enabling environment for the private sector. The private sector must bridge gaps between schools and job markets.” To read the full e4e report, please visit: www.e4earabyouth.com.



MOBILIZING CAPITAL TO AVOID ENERGY SHORTAGES

IFC's biggest-ever syndication deal is helping Turkey meet its growing energy needs.

TURKEY EXPECTS
DEMAND FOR
POWER TO
INCREASE

80%



Turkey's power sector needs private investment.

Without it, the country's energy supply will be less secure, and the threat of electricity shortages more intense. Over the next five years, Turkey is expected to need around \$2 billion from the private sector to meet the growing demand for efficient and sustainable energy.

By mobilizing capital, we're doing our part—ensuring that Turkey can expand its generation capacity and develop environmentally friendly projects, and giving the private sector comfort to deal with commercial risks and regulatory uncertainty. In FY11, we arranged our biggest syndication ever—a €700 million financing package—for Enerjisa Enerji Uretim to build a series of power plants in Turkey with total capacity of 1 gigawatt.

The loan package, IFC's second with Enerjisa, underscores the value of our work with partners in the financial sector to bring capital where it is needed most. Arranged in coordination with UniCredit Corporate and Investment Banking and WestLB, the funds will support the construction of a large natural-gas-fired thermal power plant in Bandirma, two hydroelectric plants in Yamanli and Dogancay, and one wind-power plant in Mersin.

It's the largest-ever capital expansion program by the private sector in the Turkish electricity sector.

With Turkey's demand for electricity expected to grow by 8 percent per year over the next decade, the Enerjisa plants will provide needed relief to the country's power sector. But the benefits will extend beyond narrowing the gap between supply and demand. The demonstration effect of the project will instill confidence in lenders and developers, supporting the government's effort to attract private sector investment. Through its hydro and wind plants, the project will also help reduce the carbon intensity of Turkey's power sector.

By working with Enerjisa, a joint venture between Turkish financial conglomerate H.O. Sabanci Holding and Austrian utility Verbund AG, IFC is supporting the government of Turkey's effort to reform the electricity sector and ensuring the implementation of best-practice environmental and social standards.



IMPACT



CT

Creating opportunity for people to escape poverty and improve their lives.

It's the reason IFC came into being, and it's what motivates us to this day.

Achieving an impact requires a careful balance between initiatives that directly address the needs of the poor and projects that promote more broad-based growth. We focus our investments and advice on the poorest countries and regions because that's where we can have the biggest impact. The results are impressive—more jobs, higher incomes, safer food and water, and better access to finance.

In an era of tight budgets, we're putting even more emphasis on development impact, selecting projects that allow us to extend our reach into areas where we are needed most. We also are ramping up our effort to count the beneficiaries of our work—particularly the poor and the vulnerable.



CREATING OPPORTUNITY AT THE BASE OF THE ECONOMIC PYRAMID

Inclusive business models provide benefits to underserved populations.

Arrive in Papua New Guinea's lush tropical hinterland and you'll find trading posts, market vendors, and handicraft stalls. But you'll be hard-pressed to spot a bank branch anywhere in the villages dotting the landscape.

Just 10 percent of Papua New Guineans have access to banking services. In all of the Pacific island nations, more than three-quarters of the population never sees a teller or has the opportunity to keep money in a bank account.

With investment and advice, IFC looks to support inclusive businesses—firms that offer goods and services to the poor and help raise their economic standing. Enabling people to save money, transfer funds, take out loans, and grow their businesses by investing is a good way to do just that.

A recent surge in gold, copper, and gas development has fueled a boom in Papua New Guinea. But to realize

opportunities for many, IFC is helping the country's transformation by supporting firms that target customers and suppliers at the base of the economic pyramid.

To that end, IFC and Bank South Pacific Rural agreed to provide banking services to individuals and tiny businesses in Papua New Guinea's highlands by helping set up electronic terminals in local shops. The terminals enable people to deposit and transfer funds in even the remotest corners of the country.

IFC investments are supporting this emerging business at the base of the pyramid. About 150 IFC clients are currently using inclusive business models to provide direct benefits to the underserved population at the base of the pyramid, creating high development impact in financially sustainable and scalable ways.

IFC launched a dedicated Inclusive Business Group to create the tools, resources, and events that will help



JUST

10%

OF PAPUA NEW GUINEANS HAVE ACCESS TO BANKING SERVICES

With IFC's support, Bank South Pacific Rural is providing financial services to the underserved in Papua New Guinea's Western Highlands region.



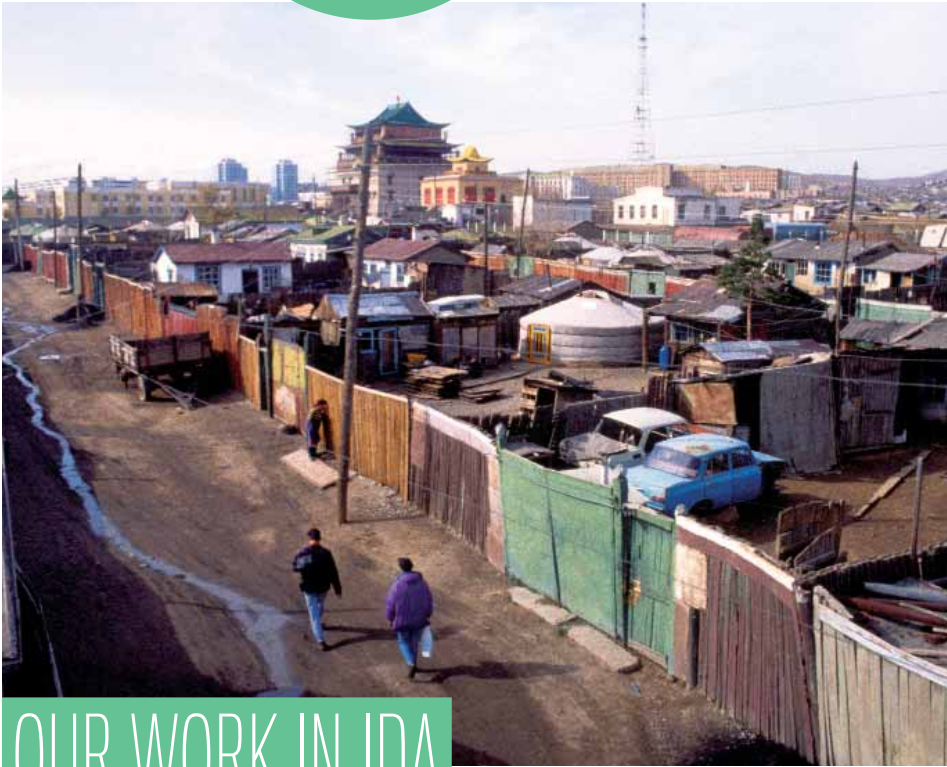


investment and advisory staff develop new ways to support IFC clients entering the base of the pyramid.

Ecom Agroindustrial Corporation Ltd., one of the world's biggest coffee traders, is one. We're working with Ecom to create benefits for the firm and its suppliers.

The collaboration led to the launch of Vietnam's first training center for coffee farmers. Over three years, it will build the skills of 4,000 small-scale farmers in sustainable agriculture, helping them meet international certification standards, improve the sustainability and productivity of their crops, and increase their earnings, as they will be able to charge more for the certified coffee beans.





OUR WORK IN IDA COUNTRIES

We invested in 251 projects in 56 of the world's poorest countries in FY11.

IFC HAS CONTRIBUTED

\$1.9

BILLION TO IDA'S GENERAL FUND



About 2.5 billion people—half the population of the developing world—live in the 79 countries eligible to borrow from the International Development Association, the World Bank Group's Fund for the Poorest. Here, where most people live on less than \$2 a day, the need to create opportunity is greatest.

But investing in these countries can be difficult. Corruption, lax regulation, and weak institutions often frustrate development efforts. Government resources are often inadequate to people's needs, making private investment critical.

The reach and decentralization of IFC offices make us an important contributor to development in IDA countries. IFC employees are based in 48 IDA countries. In FY11, IFC invested in 251 projects in 56 IDA countries.

IDA countries are priorities for IFC. Since fiscal year 2000, our investments in these countries have grown tenfold, totaling \$4.9 billion in FY11 alone. Nearly half of our investment projects and 66 percent of our advisory project expenditures were in IDA countries last year. In addition, IFC has contributed \$1.9 billion to the association's general fund.

On many projects, we've partnered with the World Bank to bring



complementary skills to clients in IDA countries. In FY11, we launched seven joint investment projects with the World Bank and 105 joint advisory projects.

As we expand our work, we are also broadening the range of IDA countries in which we operate.

We strive to find opportunities in unfamiliar markets, like Mongolia, which are too often overlooked by international investors. Our \$2 million investment in the country's leading dairy processor, Suu JSC, will expand economic opportunities, diversify an economy that has historically relied on natural resources, and bolster food safety. The funds will help Suu install new equipment to test milk quality and expand its network of raw milk herders from 2,500 to around 4,000.

Above Our \$2 million investment in Mongolia's leading dairy processor will help expand economic opportunities.



EASING THE THREAT OF VOLATILE FOOD PRICES

We're giving farmers new tools to mitigate price risk.



HEDGING TOOL WILL PROVIDE

\$4

BILLION IN PRICE PROTECTION FOR FARMERS

In developing countries, the consequences of soaring food prices are devastating. Millions are hungry, malnourished, or forced to spend an increasing share of their income feeding their families. That hardship can destabilize economies and trigger social unrest.

IFC's response to the food crisis, which began in 2008, targets every link in the agribusiness supply chain—from increasing land productivity and investing in logistics infrastructure to improving water efficiency and increasing economies of scale. We're also developing financial instruments to help the food sector cope with volatile prices.

Price volatility makes it harder for farmers and agribusiness intermediaries to address the needs of a hungry—and rapidly growing—global population and head off potential crises. Risk-management

products, such as futures and options, simply aren't available or are too costly for most of the developing world's farmers.

By giving growers new tools to mitigate price risk, IFC is improving access to finance and opening the way for much-needed agricultural investment. The world needs a lot of it: the Food and Agriculture Organization estimates that agricultural investment needs will rise 50 percent to \$83 billion a year by 2050.

We're partnering with JPMorgan Chase to overcome the market constraints that keep banks from underwriting more price-hedging products, an approach we believe will result in an increased use of swaps and forward contracts for corn, wheat, and other commodities. Under a \$200 million project, IFC will cover a portion of the credit risk assumed by JPMorgan Chase in hedging instruments.

The project will make more capital available for farmers and ease banks' country risk and capital constraints, allowing them to meet heavy demand for agricultural-commodity price hedges in emerging markets. Combined, the product will provide up to \$4 billion in price protection for farmers, producers, and consumers. It will also demonstrate the role the private sector can play in addressing the food crisis.

Over the past four years, the World Bank Group has increased its annual agriculture investment from \$4.1 billion to \$5.6 billion, more than a third of which comes from IFC. We are also managing the private sector window of the Global Agriculture and Food Security Program, a Group of 20 effort designed to channel donor funding to public and private initiatives that improve governance, productivity, and competitiveness in agribusiness in developing countries.

But we must do more to address food security. Our work with JPMorgan Chase builds on our strategy to expand our impact in agribusiness through wholesaling operations with financial intermediaries, and with large-scale, efficient producers that can influence supply chains.

From Farm to Factory to Fork

IFC provides investment and advisory services to the agribusiness sector—across the value chain, directly to companies and indirectly through intermediaries.

Direct Financing and Advice

Inputs

Jain Irrigation (India): \$45 million loan and \$14 million equity and advisory services to India's largest provider of micro-irrigation systems to increase efficient water delivery and reach more than 2,000 farmers.

Farm Production

Wadi (Egypt): \$40 million in loans to expand poultry operations, feed-milling and pelleting capacity, plant olive groves and grape farms, as well as to establish a celpad plant and expand the company's glass containers capacity. Advisory services to improve business practices, such as corporate governance.

Sourcing

Salala Rubber (Liberia): \$10 million loan to finance rehabilitation of post-conflict rubber plantations and further exports of semi-processed natural rubber to tire manufacturers worldwide.

Processing

Masan Food (Vietnam): A local currency loan equivalent to \$40 million to expand and upgrade Masan Food's noodle business and develop new ready-to-eat meals affordable by low-income consumers.

Trade Distribution

Export Trading Group (East and Southern Africa): Risk guarantee on \$40 million of the \$120 million syndicated loans to one of Africa's largest integrated agricultural supply chain operators to help it finance trade of agricultural commodities in Kenya, Malawi, Tanzania, Uganda, Zambia, and other African countries.

Wholesale/Retail

ADA Ticaret (Azerbaijan): \$18 million loan and equity to support direct purchase from suppliers and wholesalers, efficient handling, storage, and distribution by the state-of-the-art grocery retail chain.

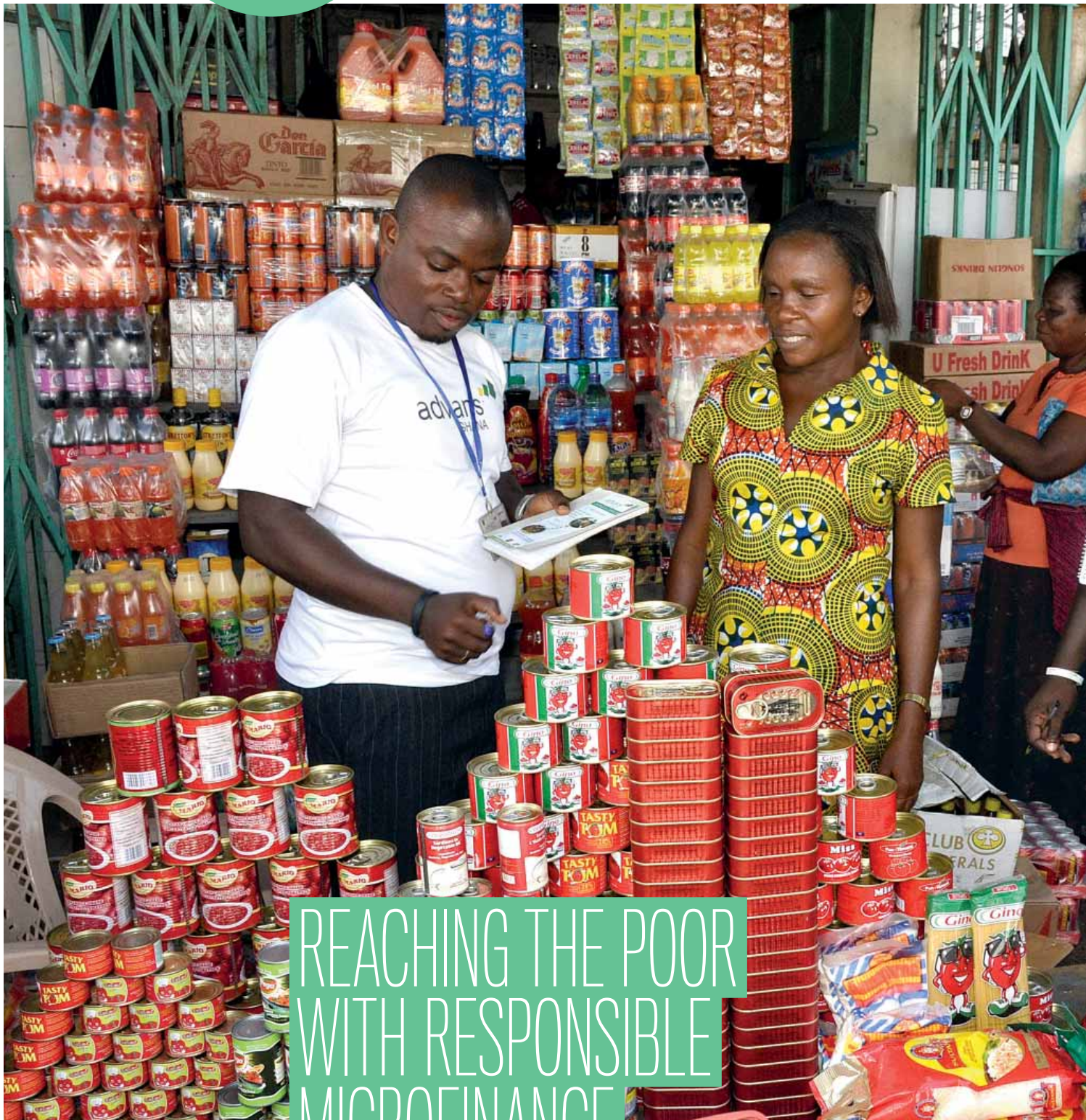
Infrastructure/Logistics

Snowman Frozen Foods Limited (India): \$5 million equity to expand temperature-controlled transportation and storage infrastructure.

Indirect Financing and Advice

Pre-Harvest Finance

Ecom (Latin America, West Africa, Asia): \$80 million corporate loan facility to a commodity trader for onlending to farmers for capital expenditures and crop financing and advice to improve supply-chain standards, social and environmental practices, and key performance indicators of coffee suppliers.



REACHING THE POOR WITH RESPONSIBLE MICROFINANCE

We act on many fronts to ensure fairness in microfinance.



IFC has played a leading role in establishing and maintaining inclusive financial systems.

Partnering with more than 220 financial institutions that serve micro, small, and medium enterprises in 80 countries, we supported a combined outstanding portfolio of 8 million microloans worth \$12.6 billion in 2010. In some regions that lack financial services altogether, we have supported the creation of new microfinance institutions.

In Latin America and the Caribbean, 43 IFC financial intermediaries provided 2.9 million microloans, with a value of \$5.2 billion in 2010. We're also helping microfinance institutions broaden the mix of financial services they offer, including deposits and insurance. In Sub-Saharan Africa, our local-currency funding has allowed the Advans Group to expand credit to thousands of microentrepreneurs in Cameroon and Ghana. In the Pacific, IFC launched the \$11.3 million Pacific Microfinance Initiative to tailor lending products to hard-to-reach communities.

We are not blind to the limitations of microcredit. Because of its rapid growth, the industry has, at times, let down the very clients it sought to lift up. Last year a crisis unfolded in India—frantic growth in microfinance contributed to increased competition, rising indebtedness, and, ultimately, default. IFC responded by engaging with industry, policymakers, think tanks, banks, and others to promote the development of codes of conduct, credit bureaus, social performance tracking, and consumer protection.

Nearly 3 billion people have no access to formal financial services. Microfinance provides the best framework in which to address that problem. As the Consultative Group to Assist the Poor noted recently: "The microcredit movement made a critical contribution in proving that it is possible to deliver financial services



IFC SUPPORTED

\$12.6

BILLION IN MICROLOANS IN 2010

to poor people at scale, and in a sustainable way."

Recognizing that the poor are especially vulnerable to unfair banking practices, IFC will continue to act on a number of fronts to ensure fairness in microfinance.

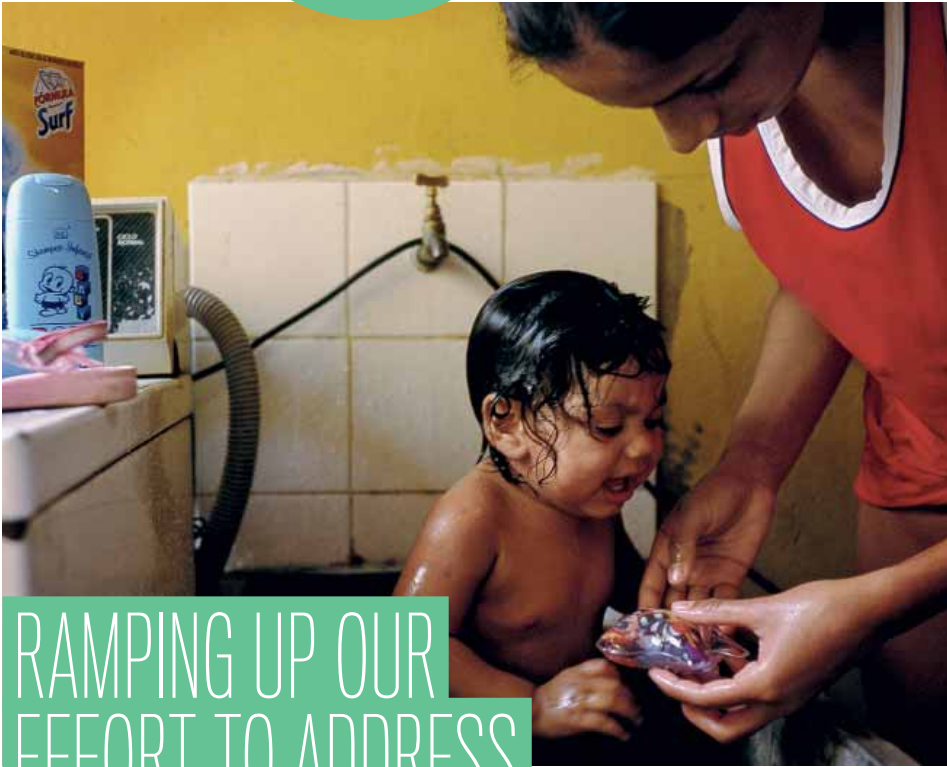
Domestic regulation and legal structures must also be in place. The absence of a credit bureau, for example, can also contribute to microcredit crises—banks can't tell which borrowers have loans from multiple providers.

Through our Global Credit Bureau Program, IFC has created or improved credit bureaus in more than 14 countries and advocated for relevant laws in more than 30. We also take an active role in advising microfinance institutions.

Though short-term studies of microfinance outcomes may provide differing results, increasing the capital available to low-income entrepreneurs will, with the proper care, support long-term development. Microloans have allowed millions of people worldwide to signal their desire for opportunity and advancement—a signal IFC cannot ignore.

Left A microloan from an IFC client helped Bernice Akrong expand her shop in the Ashiaman suburb of Accra, Ghana.





RAMPING UP OUR EFFORT TO ADDRESS WATER SCARCITY

By 2013, we aim to provide access to water for 100 million people.

OUR SUPPORT OF CASAN HELPS ENSURE WATER AND SANITATION SERVICES FOR

2.3

MILLION PEOPLE



Brazil possesses 14 percent of the world's freshwater supply—and just 3 percent of the world's population. Yet despite nature's goodwill, millions of the country's poor have no access to clean water. As Brazil's economy expands, so does the demand for water in irrigation and as a coolant in energy production, diverting even more from household use.

The water crisis is only expected to get worse. "Charting our Water Future," a study undertaken by IFC and its partners, anticipates a shortage of 2.6 billion cubic meters for Brazil by the year 2030—an ironic predicament for the country of the Amazon.

Brazil is an extreme example of a broader phenomenon. As the world's population increases, so does demand for water-intensive agricultural and energy production. Water is the common denominator for those industries most basic to human welfare. But it need not be their limiting factor.

We can't create new sources of freshwater, but we can make treatment and supply more efficient. IFC is taking a step in this direction by extending the equivalent of \$22 million in Brazilian reais to Companhia Catarinense de Água e Saneamento. CASAN provides water and sanitation services for 2.3 million people in southern Brazil, where between 23 and

40 percent of the water produced is lost currently because of poor technology and simple measurement errors.

CASAN believes it can address this problem while making its own operations more cost-effective. With help from IFC, the company intends to replace 300,000 outdated water meters and update the customer database by conducting household inspections. The latter step will enable CASAN to identify low-income residents who are often eligible for state water subsidies.

IFC and CASAN are hoping to demonstrate—to other utility companies, as well as other lenders—that in some cases environmental, development, and financial interests can converge.

In partnership with the World Bank, IFC has developed a financing program for well-run local governments and public entities—like CASAN—that do not require sovereign guarantees. The potential impact at the local level is greater because these programs avoid national-level bureaucracy.

The CASAN project fits within IFC's broader goals for water security. By 2013, through our clients, we hope to provide access to water for 100 million people, to save or treat 20 billion cubic meters of water per year, and to invest \$1 billion per year in water security projects.



3

PART 3

MEASURING UP

Priorities, Scorecard, Lessons

How IFC's unique combination of investment and advice maximizes our development impact.

Strategic Priorities

IFC strives to deliver what cannot be obtained elsewhere. We offer clients a unique combination of investment and advice designed to promote sustainable private sector development in emerging markets. We call that special edge our “additionality.” Using it to maximize our development impact is a cornerstone of our strategy. Our activities are guided by five strategic priorities that allow us to help where we are most needed, and where our assistance can do the most good.

Focus Areas

1

STRENGTHENING THE FOCUS ON FRONTIER MARKETS

IDA countries, fragile and conflict-affected situations, and frontier regions of middle-income countries

2

ADDRESSING CLIMATE CHANGE AND ENSURING ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

Developing new business models and financing instruments, setting and raising standards

3

ADDRESSING CONSTRAINTS TO PRIVATE SECTOR GROWTH IN INFRASTRUCTURE, HEALTH, EDUCATION, AND THE FOOD-SUPPLY CHAIN

Increasing access to basic services and strengthening the agribusiness value chain

4

DEVELOPING LOCAL FINANCIAL MARKETS

Building institutions, mobilizing resources, and introducing innovative financial products

5

BUILDING LONG-TERM CLIENT RELATIONSHIPS IN EMERGING MARKETS

Using the full range of our products and services to guide clients' development and assist cross-border growth

The Scorecard

IFC's Performance on Strategic Priorities

Indicator	Performance	
	FY11	FY10
DEVELOPMENT RESULTS		
Investment Projects Rated High (DOTS Score) ¹	67%	71%
Advisory Projects Rated High ²	67%	63%
FOCUS AREAS		
FRONTIER MARKETS		
Number of Investment Projects in IDA Countries	251	255
Commitments in IDA Countries (millions)	\$4,867	\$4,881
Advisory Services Expenditures in IDA Countries (millions) ³	\$ 107	\$ 95
Commitments in Sub-Saharan Africa (millions)	\$2,150	\$2,428
Commitments in Middle East and North Africa (millions)	\$1,603	\$1,572
CLIENT PARTNERSHIPS		
Number of South-South Investment Projects	32	71
Commitments in South-South Investment Projects (millions)	\$1,034	\$1,654
CLIMATE CHANGE		
Commitments in Energy Efficiency and Renewable Energy (millions)	\$1,671	\$1,644
INFRASTRUCTURE, HEALTH, EDUCATION, FOOD		
Commitments in Infrastructure, Health and Education, and Food ⁴ (millions)	\$2,200	\$3,173
LOCAL FINANCIAL MARKETS		
Commitments in Financial Markets (millions) ⁵	\$8,176	\$6,654
Commitments in Micro, Small, and Medium Enterprises Sector (millions) ⁶	\$6,020	\$5,279

1 DOTS scores: Percentage of client companies with development outcomes rated high as of June 30 of the respective year, for a rolling average of six years of approvals (2002–2007 for FY11).

2 For Advisory Services, development effectiveness ratings are for calendar years 2010 and 2009 (FY11=CY10; FY10=CY09).

3 FY10 and FY11 figures reflect improved methodology for measuring Advisory Services expenditures in IDA countries, incorporating regional projects.

4 Commitments of IFC's Infrastructure, Communications and Information Technologies, Subnational Finance, Health & Education, and Agribusiness departments (not the entire food-supply chain).

5 Commitments of IFC's Financial Markets department.

6 Includes direct MSME borrowers, financial institutions with MSMEs accounting for more than 50% of their business clients, and any other investments that specifically target MSMEs as primary beneficiaries.

Creating Opportunity Where It's Needed Most

Who Benefits?

IFC and our clients make a wide range of contributions in developing countries. Our clients' success can have ripple effects across an economy, giving the poor a chance to better their lives.

Through the clients we invest in, IFC creates opportunities for workers and their families, local communities, suppliers, investors, and the customers who buy what they produce. Our clients generate significant tax revenues for national and local governments—resources available for assisting the poor. They can use IFC's support to expand or upgrade their facilities, improve environmental performance, strengthen corporate governance, and improve their management systems and adherence to industry standards.

We provide advisory services to both firms and governments. Most of our advisory work with firms is provided alongside our investment services, to maximize impact. Our work with government clients ranges from supporting reforms to their investment climates to helping design and implement public-private partnerships for infrastructure and other basic services.

EMPLOYMENT



In 2010, IFC's investment clients provided 2.4 million jobs, including about 890,000 through investments in private equity and investment funds, about 366,000 in agribusiness, about 356,000 in manufacturing and services, and about 302,000 in consumer and social services.

- IFC invested in a private equity fund whose investee companies provided direct jobs to more than 93,000 people in 2010.
- In India, IFC invested in a tea production company that provided employment for almost 32,000 people in 2010.
- In Turkey, IFC invested in a glass producer that employed more than 17,000 people, 30 percent of whom were locally recruited and trained.
- In Burkina Faso, Liberia, Rwanda, and Sierra Leone, our advisory work to help governments improve their investment climate was estimated to have helped create more than 50,000 jobs.

CUSTOMERS



In 2010, IFC's investment clients:

- Provided 9.7 million loans totaling \$140 billion to micro, small, and medium enterprises—of which about 8 million loans involved microfinance.
- Provided basic utilities to over 111 million customers. This included water distribution to 20 million people, power generation and distribution to about 74 million, and gas distribution to more than 17 million.
- Provided almost 180 million phone connections.
- Provided health services to 7.5 million patients and education to 1 million students. IFC's investment in a private hospital group in the Middle East and North Africa allowed the group to treat more than 1 million patients in 2010.

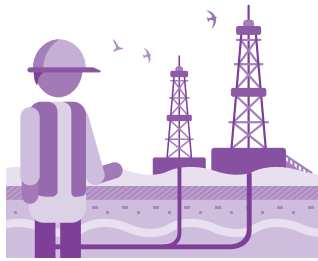
LOCAL COMMUNITIES



IFC's policies, processes, and performance standards help our clients enhance their positive impact on local communities while avoiding or mitigating negative effects.

- Last year, our investment clients spent more than \$156 million on community development programs, and our advisory services provided training to 330,000 people as part of our efforts to help firms improve the quality and impact of their community spending.

SUPPLIERS



In 2010, IFC's investment clients generated billions of dollars for domestic suppliers. Those clients purchased \$21.5 billion from suppliers in the manufacturing sector and \$8.8 billion in the consumer and social services sector. Agribusiness investment clients reached 2.5 million farmers.

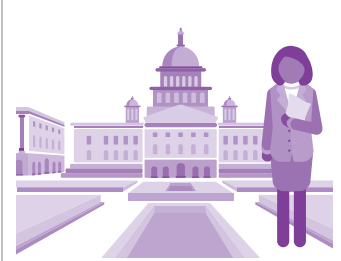
- IFC's investment in a Mexican limestone processor is helping expand production of a raw material for basic industry and for the construction sector. The company purchased more than \$100 million from national suppliers in 2010.
- In China, IFC's investment in a grain processing company reached 430,000 farmers last year.
- Training provided to farmers and small and medium enterprises in 18 countries enabled them to increase their annual sales by nearly \$200 million.

ENVIRONMENT



Many IFC investment and advisory projects are helping address climate change and advancing environmental and social sustainability. In 2010, IFC advisory services reached 200 entities through cleaner production audits and broader workshops, and facilitated around \$40 million in financing for cleaner production in Russia alone.

GOVERNMENT



Last year, IFC's investment clients contributed more than \$20 billion to government revenues. This includes about \$8.2 billion from the infrastructure sector; \$5 billion from the oil, gas, and mining sector; and \$2.5 billion from the manufacturing sector.

- One of Nigeria's leading telecommunications service providers—an IFC client—contributed \$682 million in payments to the government last year.
- A Brazilian energy company supported by IFC contributed \$3.7 billion in taxes to the government in 2010 alone. Around half of IFC's advisory projects focus on serving government clients.
- Last year, we helped governments in 30 countries design and implement more than 60 regulatory reforms to improve their investment climates.
- In Haiti, Jamaica, Maldives, the Philippines, and Sierra Leone, we helped governments to design and implement public-private partnerships for infrastructure that also generated \$1.6 billion in fiscal savings to governments.

Lessons Learned

As a learning institution, we constantly assess our strengths and weaknesses—and put the findings into practice. It makes our investments, advice, and mobilization more effective.

Working with the Compliance Advisor/Ombudsman and the Independent Evaluation Group, IFC addresses the concerns of people affected by our work and gauges our performance. We evaluate the “cross-cutting” effects a single project can have on multiple industries and regions. Applied routinely, this approach builds credibility and trust, and enhances our accountability with stakeholders.

STRENGTHEN OUR FOCUS ON POVERTY



IFC’s purpose is to give people the opportunity to escape poverty and improve their lives. Faster economic growth helps. But the pattern of growth is crucial too. Growth must benefit everyone—not just a lucky few.

This year a report from the Independent Evaluation Group (see page 92) shed new light on the issue. It found that IFC’s approach to fighting poverty has evolved in the right direction—with a growing emphasis on supporting private sector growth that can benefit the poor and the vulnerable.

But we can do more. IEG urged us to strengthen our focus on poverty, saying more of our projects should have explicit objectives regarding poverty alleviation or growth that benefits the poor. It said that we should broaden the universe of poor countries in which we invest, building upon the significant expansion of IFC investments in the poorest countries in recent years. It recommended that we expand our investments in agribusiness, health, education, and infrastructure—sectors that are better at promoting inclusive growth.

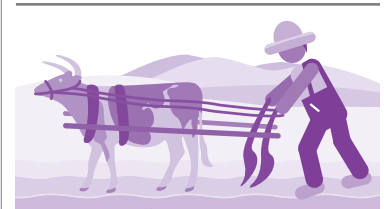
Poverty is a challenge of enormous scale and complexity, and IFC has spent decades thinking about the best way to harness the power of the private sector to alleviate it. Our approach, as a result, is to be selective—intervening wherever we think we can make the greatest difference, and wherever we think we can introduce innovations that open up markets and strengthen industries with

the greatest capacity to serve neglected populations.

The IEG report was timely, because its broad recommendations coincided with our own recognition that it’s possible in many instances to achieve both broad-based growth and inclusiveness. Our strategy emphasizes that approach. For example, we have an Inclusive Business Group within IFC that is designed to support companies that provide goods, services, and jobs to people at the base of the economic pyramid (see page 50).

As we strengthen our focus on inclusive growth, we are also redoubling our effort to measure the impact of our projects on poverty alleviation and inclusion—so we can use that information to drive IFC’s strategy. We have introduced the IFC Development Goals (see page 79) to measure who benefits—and in what scale—from our activities. We believe our projects make a significant contribution to the fight against poverty. We aim to find better ways to quantify that contribution.

ADDRESS THE DILEMMAS OF PRIVATIZATION



Private sector investment sometimes triggers a strong reaction from groups worried about its impact on basic human needs and indigenous cultures. The potential for conflict between civil society, developers, and governments is most intense when the private sector invests in areas that are typically seen as public services—water, power, and transportation

projects—or finances large-scale agriculture ventures that may displace poor farmers.

Questions about the benefits of private sector development and fears of a potential “land grab” have intensified with recent surges in food prices and mounting demand for bio-fuels. The Organisation for Economic Co-operation and Development expects private sector investment in agriculture to continue rising rapidly, posing dilemmas for the rural populations that make up most of the world’s poor.

Over the years, IFC has been a leader in addressing those concerns—most significantly through our Performance Standards and the development of the Equator Principles (see page 72).

That work continues today. Working with our colleagues in the World Bank Group and the Compliance Advisor/Ombudsman, IFC is finding ways to navigate the conflicts that may arise with privatization and working to reduce the dangers of land grabs. We follow the World Bank Group’s Principles for Responsible Agro-Investment, which focus on respect for land and resource rights, food security, transparency, consultation, and sustainability.

And we’re learning from CAO’s experience, which tells us that project developers and governments can be better prepared if they anticipate the possibility of conflict between diverse stakeholders. Effective grievance mechanisms, especially when implemented early in the design of a project, can help address conflict.

Moreover, CAO has found that governments are willing to participate in alternative dispute resolution and other problem-solving processes when they are given incentives and assurances. Offers of dialogue, inclusion, participation, and collaboration are not enough to defuse conflict.

WE CONSULTED
NEARLY

350

STAKEHOLDERS
DURING OUR
PALM OIL REVIEW.

WE INVESTED

\$4.9

BILLION IN THE
POOREST
COUNTRIES
IN FY11.

We work to ensure that our projects have tangible benefits for local communities and stakeholders. We are committed to supporting initiatives that do just that.

IMPROVE STANDARDS FOR THE PALM OIL SECTOR



In many developing countries, palm oil is an essential driver of economic growth and job creation. It is the leading cooking oil in the developing world, and an ingredient in packaged products—from ice cream to detergents and cosmetics. Around 6 million people work in the sector worldwide, most of them small farmers.

But there are environmental and social costs associated with palm oil production, including deforestation, biodiversity loss, and increased carbon emissions that occur when tropical forests are cleared and peatlands are drained. So when an audit by the World Bank Group’s Compliance Advisor/Ombudsman identified deficiencies in the way we applied our Performance Standards to assess investments in a large palm oil trader and refinery, we took a deeper look at the sector to ensure that we are supporting development in a way that preserves natural resources and respects indigenous communities. As a sign of our commitment, we didn’t make any new investments in the sector while we developed a strategic approach to guide our engagement in the sector.

Beginning in November 2009, we spent more than a year consulting with stakeholders and experts around the

world, discussing key issues facing the palm oil sector and the role of the World Bank Group. The talks were extensive. All told, we met face-to-face with almost 350 stakeholders from 30 countries, a group that included representatives of the private sector, governments, civil society organizations, indigenous groups, smallholders, donors, and others. We also held “e-consultations” with 282 people from 51 countries and convened a global multi-stakeholders’ meeting in Frankfurt, Germany, with 59 participants from 14 countries.

The feedback we received from stakeholders during the 18-month review—all of which is catalogued on our website—shaped a new strategic framework to guide our decision making on the selection, design, and implementation of palm oil projects. IFC and the World Bank will work together to identify opportunities to strengthen government policies and regulations, and promote best practices in the private sector. Under the new framework, we also will give priority to palm oil projects that boost smallholders, benefit rural communities, make use of already degraded lands, and focus on improving productivity of existing plantations.

More information on IFC and palm oil is available at www.ifc.org/palmoilstrategy.

4

PART 4

OUR BUSINESS &
EXPERTISE***Investment Services, Advisory Services,
IFC Asset Management Company***

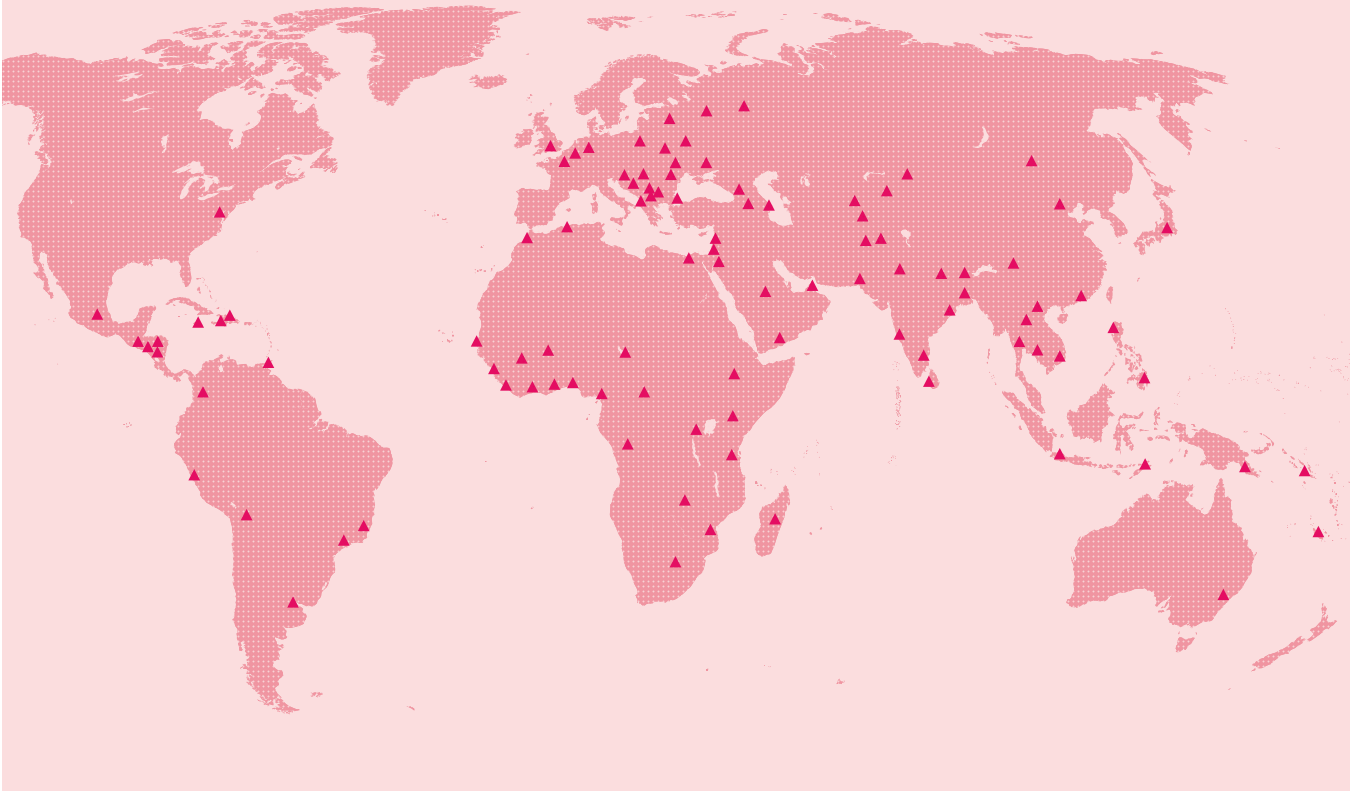
As the largest global development
finance institution focused on the
private sector, IFC operates in more
than 100 developing countries.

Where We Work

Our experience—in every region of the world, and in nearly every industry—allows us to provide a unique set of advantages to our clients.

We are able to apply lessons learned in one region to solve problems in another. We help local companies make better use of their own knowledge, by matching it to opportunities in other developing countries.

IFC Country Office Locations



As of June 30, 2011

Our Three Businesses

IFC's three businesses—Investment Services, Advisory Services, and IFC Asset Management Company—are mutually reinforcing, delivering global expertise to clients in developing countries. They give us a special advantage in helping the private sector create opportunity in these countries—our investment and advice can be tailored to a client's specific needs, and in innovative ways that add value.

Our product menu is as varied as our clients' needs. We provide both immediate and long-term financing, and we combine it with advice that helps companies grow quickly and sustainably—by innovating, raising standards, mitigating risk, strengthening the investment climate, and sharing expertise across industries and regions.

Our three businesses also allow us to mobilize resources from our many partners, expanding the pool of capital and expertise available to improve lives in developing countries. As a result, low-income families are gaining better access to schools and hospitals. Residents of remote villages are gaining connections to urgently needed water and power sources. And small farmers are improving their ability to sell their goods by tapping into the global supply chain.

IFC INVESTMENT SERVICES

Our investment services provide a critical reminder that private investors can advance development in emerging economies, help reduce poverty, and make a profit at the same time.

Our broad suite of financial products and services can ease poverty and spur long-term growth by promoting sustainable enterprises, encouraging entrepreneurship, and mobilizing resources that wouldn't otherwise be available. Our financing products are tailored to meet the needs of each project. We provide growth capital, but the bulk of the funding comes from private sector owners, who also bear leadership and management responsibility.

In FY11, we invested \$12.2 billion in 518 projects, of which \$4.9 billion went to projects in IDA countries. We also mobilized an additional \$6.5 billion to support the private sector in developing countries.

PRODUCT LINES

LOANS

IFC finances projects and companies through loans from our own account, typically for seven to 12 years. We also make loans to intermediary banks, leasing companies, and other financial institutions for on-lending.

While IFC loans traditionally have been denominated in the currencies of major industrial nations, we have made it a priority to structure local currency products. IFC has provided financing in more than 45 local currencies, including Colombian pesos, Indonesian rupiahs, Kazakhstani tenge, Moroccan dirhams, Peruvian nuevos soles, Philippine pesos, Rwandan francs, and Zambian kwacha.

In FY11, we made commitments for nearly \$5 billion in new loans.

EQUITY

Equity investments provide developmental support and long-term growth capital that private enterprises need. They also provide opportunities to support corporate governance and enhance social responsibility.

We invest directly in companies' equity, and also through private equity funds. In FY11, equity investments accounted for nearly \$2 billion of the commitments we made for our own account.

IFC generally invests between 5 and 20 percent of a company's equity. We encourage the companies we invest in to broaden share ownership through public listings, thereby deepening local capital markets. We also invest through profit-participating loans, convertible loans, and preferred shares.

TRADE FINANCE

The IFC Global Trade Finance Program guarantees trade-related payment obligations of approved financial institutions. The program extends and complements the capacity of banks to deliver trade finance by providing risk mitigation on a per-transaction basis for over 200 banks across more than 80 countries.

In FY11, IFC issued over 3,100 guarantees totaling \$4.6 billion. More than half of the volume of guarantees issued went to IDA countries.

Separately, our Global Trade Liquidity Program, an award-winning crisis-response initiative, has provided liquidity for trade in developing countries. It has supported more than \$15 billion in trade since it was established in 2009.

SYNDICATIONS

IFC's Syndicated Loan Program, the oldest and largest syndicated lending program among multilateral development banks, is an important tool for mobilizing capital to serve development needs. Since its establishment in 1957, the program has mobilized over \$38 billion from more than 550 financial institutions for projects in more than 100 emerging markets.

In FY11, IFC syndicated a record \$4.7 billion in loans—more than twice as much as in the previous year. This included B-loans, parallel loans, and A-loan participation sales. About 29 percent of this amount was in IDA countries and frontier regions, and 67 percent was in the infrastructure sector. Through existing and new products, we expanded our investor base to include international commercial banks, local and regional banks in emerging markets, funds, insurance companies, and development finance institutions.

IFC ISSUED MORE THAN

3,100

TRADE-FINANCE GUARANTEES IN FY11.

IFC SYNDICATED A RECORD

\$4.7

BILLION IN LOANS IN FY11.

STRUCTURED FINANCE

IFC uses structured and securitized products to provide cost-effective forms of financing that would not otherwise be readily available to clients. Products include partial credit guarantees, structured liquidity facilities, portfolio risk transfer, securitizations, and Islamic finance. We use our expertise in structuring—along with our international triple-A credit rating—to help clients diversify funding, extend maturities, and obtain financing in their currency of choice.

CLIENT RISK-MANAGEMENT SERVICES

IFC provides derivative products to our clients to allow them to hedge their interest rate, currency, or commodity-price exposures. IFC mediates between clients in developing countries and derivatives market makers in order to provide clients with full market access to risk-management products.

TREASURY SERVICES

IFC funds lending by issuing bonds in international capital markets. We are often the first multilateral institution to issue bonds in the local currencies of emerging markets. Most of IFC's lending is denominated in U.S. dollars, but we borrow in a variety of currencies to diversify access to funding, reduce borrowing costs, and help develop local capital markets. IFC's borrowings have continued to keep pace with our lending. New borrowings in the international markets totaled \$9.8 billion in FY11.

LIQUIDITY MANAGEMENT

Liquid assets on IFC's balance sheet totaled \$24.5 billion as of June 30, 2011, compared with \$21 billion a

year earlier. Most liquid assets are held in U.S. dollars. The exposure arising from assets denominated in currencies other than U.S. dollars is hedged into U.S. dollars to manage currency risk. The level of these assets is determined with a view to ensure sufficient resources to meet commitments even during times of market stress.

FY11 BORROWING ON INTERNATIONAL MARKETS

Currency	Amount (USD equivalent)	Percent
U.S. dollar	5,780,537,791	59.0%
Australian dollar	1,943,565,660	19.8%
Turkish lira	497,982,830	5.1%
South African rand	451,624,765	4.6%
Brazilian real	406,278,029	4.2%
British pound	313,000,000	3.2%
Other	403,788,344	4.1%

IFC ADVISORY SERVICES

Private sector development requires more than just finance. Experience shows the powerful role advisory services can play in unlocking investment and helping businesses expand and create jobs.

To help the private sector in emerging markets, IFC provides advice, problem solving, and training to companies, industries, and governments. Our experience shows that companies need more than financial investment to thrive—they need a regulatory environment that enables entrepreneurship, and advice on business best practices. Our work includes advising national and local governments on how to improve their investment climate and strengthen basic infrastructure. Governments account for around half of our advisory projects. We also help investment clients improve corporate governance and become more sustainable.

We offer advice through nearly 1,100 Advisory Services staff in 85 offices across 73 countries. Funding comes from donor partners, IFC, and client contributions. In FY11, Advisory Services project expenditures totaled \$206.7 million. In all, about two-thirds of project expenditures attributable to clients in individual countries went to IDA countries.

BUSINESS LINES

ACCESS TO FINANCE

IFC helps to increase the availability and affordability of financial services for individuals and micro, small, and medium enterprises. Our priorities are to help our clients provide broad-based financial services to individuals (such as credit, savings, payments, and insurance products) and to promote growth and employment generation by supporting sustainable lending to SMEs. We also help build the necessary financial infrastructure, such as credit bureaus and collateral registries. At the end of FY11, we had an active portfolio of 244 access-to-finance projects in 67 countries, valued at almost \$294 million. Our FY11 project expenditures totaled \$63.3 million. In all, 67 percent of project expenditures attributable to clients in individual countries went to IDA countries and 10 percent to fragile and conflict-affected countries.

INVESTMENT CLIMATE

We help governments implement reforms that improve the business environment and help encourage and retain investment, thereby fostering competitive markets, growth, and job creation. Our priorities are to design and encourage regulatory reforms that support business and trade-friendly environments while also helping resolve legal and policy weaknesses that inhibit investment. At the end of FY11, IFC had an active portfolio of 132 investment-climate projects in 57 countries, valued at about \$204 million. Our project expenditures totaled \$55.9 million. In all, 79 percent of project expenditures attributable to clients in individual countries went to IDA countries and 25 percent to fragile and conflict-affected countries.

1,100

ADVISORY SERVICES STAFF WORK IN 73 COUNTRIES.

2/3

OF ADVISORY SERVICES PROJECT EXPENDITURES WERE IN IDA COUNTRIES.

PUBLIC-PRIVATE PARTNERSHIPS

We help governments design and implement public-private partnerships in infrastructure and other basic public services. Our advice helps governments achieve long-term economic growth and better living standards by harnessing the potential of the private sector to increase access to public services such as electricity, water, health, and education while enhancing their quality and efficiency. At the end of FY11, we had an active portfolio of 67 projects in 41 countries, valued at about \$91 million. Our project expenditures totaled \$27.8 million. In all, half of project expenditures attributable to individual countries went to IDA countries, and 16 percent to fragile and conflict-affected countries.

SUSTAINABLE BUSINESS

We support the development of markets that are inclusive, sustainable, and efficient. Building on IFC's environmental and social performance standards, we promote sustainable business practices in such sectors as agribusiness; infrastructure; oil, gas, and mining; and manufacturing and services. Our programs promote good corporate governance practices, build the capacity of small firms and small-scale farmers, advance women entrepreneurs, and engage the private sector in climate-change solutions. At the end of FY11, we had an active portfolio of 199 projects in 70 countries, valued at \$231.6 million. Our project expenditures totaled \$59.8 million. In all, 56 percent of project expenditures attributable to clients in individual countries went to IDA countries and 11 percent to fragile and conflict-affected countries.

IFC ASSET MANAGEMENT COMPANY

IFC Asset Management Company, a wholly owned subsidiary of IFC, mobilizes and manages third-party funds for investment in developing and frontier markets. It was created in 2009 to expand the supply of long-term capital to these markets, enhancing IFC's development goals as well as investing profitably for others.

AMC invests alongside IFC, and all AMC investments adopt IFC's Performance Standards. It raises funds targeted at large institutional investors who are looking to increase their exposure to emerging markets and who are interested in accessing IFC's transaction pipeline, investment approach, and track record of superior returns. The average internal rate of return on IFC's equity investments over the past 20 years has exceeded 20 percent a year.

AMC helps IFC achieve one of its core development mandates—mobilizing additional capital resources for investment in productive private enterprise in developing countries. It also enhances IFC's development impact by increasing both the size and number of investments IFC can transact.

As of June 30, 2011, AMC had approximately \$4.1 billion in assets

under management. It manages funds on behalf of a wide variety of institutional investors, including sovereign funds, pension funds, and development finance institutions.

AMC FUNDS

IFC CAPITALIZATION FUND

The \$3 billion IFC Capitalization Fund consists of an equity fund of about \$1.3 billion and a subordinated debt fund of about \$1.7 billion. Launched in 2009, the capitalization fund helps strengthen systemically important banks in emerging markets, bolstering their ability to cope with financial and economic downturns. The fund is jointly supported by a \$2 billion investment from the Japan Bank for International Cooperation and a \$1 billion investment from IFC. From its inception through the end of FY11, the fund made investment commitments totaling \$960.1 million in nine commercial banks in Bahrain, Honduras, Malawi, Papua New Guinea, Paraguay, the Philippines, Serbia, Vietnam, and in one regional African bank.

IFC AFRICAN, LATIN AMERICAN, AND CARIBBEAN FUND

The \$1 billion IFC ALAC Fund was launched in 2010 and has commitments from IFC, the Dutch pension fund manager PGGM, Korea Investment Corporation, State Oil Fund of the Republic of Azerbaijan, United Nations Joint Staff Pension Fund, the Abu Dhabi Investment Authority, and a Saudi government fund. The fund co-invests with IFC in equity investments across a range of sectors in Sub-Saharan Africa and Latin America and the Caribbean. From its inception through the end of FY11, the fund made investment commitments totaling \$172.4 million in Brazil, Mexico,

AMC HAD

\$4.1

BILLION IN ASSETS
AT THE END OF
FY11.

IFC'S EQUITY
INVESTMENTS
HAVE GENERATED A

20%

INTERNAL RATE OF
RETURN.

Nigeria, Trinidad and Tobago, and in two regional African companies—one in cement and one in banking.

THE AFRICA CAPITALIZATION FUND

The Africa Capitalization Fund was established in FY11 to invest in systemically important commercial banking institutions in northern and Sub-Saharan Africa. As of the end of FY11, it had made one investment commitment, in Malawi.

Our Industry Expertise

IFC's leadership role in sustainable private sector development reflects a special advantage—the depth and breadth of expertise we have acquired over more than 50 years of helping emerging-market firms succeed and grow.

We leverage our global industry knowledge to tackle the biggest development challenges of the coming years—including climate change, unemployment, and food and water security.

AGRIBUSINESS AND FORESTRY



Agribusiness is a strategic priority for IFC because of the sector's broad development impact and strong role in poverty reduction. The agricultural sector often accounts for half of GDP and employment in many developing countries.

IFC helps the private sector address higher demand and escalating food prices in an environmentally sustainable and socially inclusive way. We support global initiatives for sustainable production of agricultural commodities. To help clients finance inventories, seeds, fertilizers, chemicals, and fuel for farmers, IFC offers working-capital facilities. To facilitate trade and lower costs, we pursue investments in infrastructure such as warehouses and cold-storage facilities. We work to bring land into sustainable production, improve productivity by transferring technologies, and make the best use of resources.

IFC helps companies set benchmarks for responsible production, in line with industry best practices. In areas such as sequestering carbon, managing watersheds, preserving biodiversity, and producing renewable energy, IFC can help generate new income through our environmental services.

FINANCIAL MARKETS



Sound financial markets are vital to development—they ensure efficient resource allocation, create jobs, and spur economic growth.

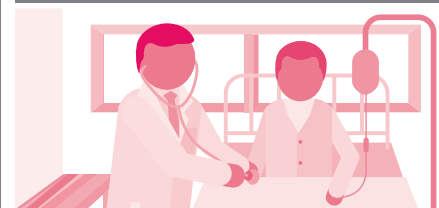
At IFC, investments in this sector account for a significant share of our new commitments—more than 25 percent in FY11.

We focus on small and medium enterprises, microfinance, trade, and climate change, among others. IFC is a leading investor in microfinance. We create innovative products to help the poor and address important development challenges—such as tools to help farmers hedge commodity price risks (see page 53).

We are rebuilding our investments in housing finance and are supporting the development of capital markets in light of the global financial crisis. The crisis underscored the need for IFC in financial markets. Small and medium enterprises, which account for more than half of employment worldwide, saw lines of credit reduced or eliminated. Investors shied away from capital markets. IFC stepped in to fill the gap.

To maximize our impact, we work with financial intermediaries to extend financial products and best practices to more businesses and microfinance entrepreneurs than we could on our own (see page 36).

CONSUMER AND SOCIAL SERVICES



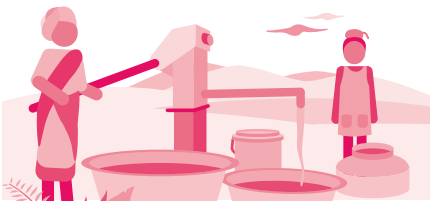
IFC is the world's largest multilateral investor in private health care and education in emerging markets. We invest in these sectors because they are fundamental to human and economic development—health care plays a key role in improving the quality of life, while education is a powerful instrument for reducing poverty and growing human capital.

We work to increase access to high-quality health and education while also helping strengthen job-creating sectors such as tourism, retail, and property. We help improve standards of quality and efficiency, facilitate

the exchange of best practices, and create jobs for skilled professionals. IFC also works closely with the World Bank and developing-country governments to tailor strategies for countries that lack adequate resources.

We focus on helping partner companies increase development impact. In addition to making direct investments in socially responsible companies, our role includes sharing industry knowledge and expertise, funding smaller companies, raising medical and education standards, and helping clients expand services to lower-income groups.

INFRASTRUCTURE



About 2.5 billion people lack proper sanitation facilities in developing countries. At least 1.6 billion have no electricity. And 884 million can't get clean water.

IFC helps increase access to power, transport, and water by financing infrastructure projects and advising client governments on public-private partnerships.

We add value by devising innovative projects and public-private partnerships in difficult markets. We mitigate risk and leverage specialized financial structuring. A significant part of our advisory work is supported by other parts of the World Bank Group and donor partners.

MANUFACTURING



The manufacturing sector plays a vital role in creating opportunity and reducing poverty in

developing countries. IFC's manufacturing clients tend to create or maintain more employment than those in any other sector.

We have increased our activities in the sector, which includes construction materials, energy-efficient machinery, chemicals, and solar and wind power. We invest in companies that are developing new products and markets, and restructuring and modernizing to become internationally competitive.

We focus on clients that are, or can be, strong players in their local markets. In middle-income countries, we increasingly support local second-tier companies and cross-border investments. We aim to play a strong role in developing local companies in the poorest countries. As these industries represent some of the most carbon-intensive sectors, we are helping clients develop and undertake investments that help reduce carbon emissions and energy consumption.

OIL, GAS, AND MINING



IFC's mission in the oil, gas, and mining sector is to help developing countries realize sustainable economic benefits from natural resources. We provide financing and advice for private sector clients. We also help governments put in place regulatory frameworks and strengthen their capacity to manage these industries across the value chain—from resource extraction to revenue management and spending.

Fossil fuels such as natural gas play a role as a transition fuel to a less carbon-intensive economy. In addition to fossil fuels, our energy investments support a mix of traditional and alternative energy sources, including wind, solar, and thermal energy.

We support private sector investment in extractive industries by working to ensure that communities enjoy concrete benefits

such as jobs, improved infrastructure, and economic opportunities. We also help develop capacity among small and local companies, engage with communities to improve projects' long-term development benefits, and foster transparency and good governance to combat corruption.

TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY



Modern information and communication technologies make it easier for the poor to obtain access to services and resources. They expand opportunity and make markets and institutions more efficient.

IFC works to extend the availability of such technologies to promote sustainable economic growth and good governance, enhance social inclusion, and reduce poverty. We channel investments toward private companies that build modern communications infrastructure and information-technology businesses, and develop climate-friendly technologies.

IFC has the ability to raise additional funds through its syndications and guarantee program. We typically bring co-investors into projects, providing comfort and encouraging other private investors to enter markets often considered too risky.

Standard Setting

IFC PERFORMANCE STANDARDS

Since they became effective in 2006, IFC's Performance Standards have become globally recognized as a leading benchmark for environmental and social risk management in the private sector. They are often prerequisites for companies to raise funds, particularly from international markets.

The Equator Principles, a voluntary environmental and social risk-management framework developed by private sector banks based on IFC's Performance Standards, are now used by 72 financial institutions worldwide. In addition, 32 Export Credit Agencies from the Organisation for Economic Co-operation and Development rely on the Performance Standards as a benchmark. European Development Finance Institutions use the Performance Standards in their operations, and in 2008 the European Bank for Reconstruction and Development modeled its own Performance Requirements on IFC's Performance Standards. In addition, several private sector companies and business associations use IFC's Performance Standards as a benchmark for environmental and social-risk management.

Our Performance Standards define our clients' roles and responsibilities for managing their projects, and the requirements for receiving and retaining IFC support. They are designed to help clients avoid, mitigate, and manage environmental and social risk as a way of doing business sustainably. All IFC investments are assessed for consistency with the applicable Performance Standards. Clients indicate that our expertise in these areas is an important reason for choosing to work with IFC.

We have eight performance standards. More information on each is available at <http://www.ifc.org/performancestandards>. These standards are part of IFC's Sustainability Framework (see page 96), which has been updated following extensive consultations with IFC's clients, affected communities, the financial sector, multi and bilateral financial institutions, trade unions, civil society organizations, think tanks, United Nations agencies, and governments.

Our Performance Standards

1

ASSESSMENT AND MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS AND IMPACTS

2

LABOR AND WORKING CONDITIONS

3

RESOURCE EFFICIENCY AND POLLUTION PREVENTION

4

COMMUNITY HEALTH, SAFETY, AND SECURITY

5

LAND ACQUISITION AND INVOLUNTARY RESETTLEMENT

6

BIODIVERSITY CONSERVATION AND SUSTAINABLE MANAGEMENT OF LIVING NATURAL RESOURCES

7

INDIGENOUS PEOPLES

8

CULTURAL HERITAGE

AGRICULTURAL COMMODITY ROUNDTABLES

Global agricultural production already consumes vast quantities of the world's fresh-water. As it expands, it also poses a risk to forests and biodiversity.

This change in land use exacerbates climate change. It could result in new patterns of rainfall and increase uncertainties about agricultural productivity, hampering food security.

To strengthen food security, agricultural production needs to become more productive, efficient, and sustainable. IFC is helping build global consensus on sustainable production. We do so by supporting agricultural commodity roundtables, which include key players in the agricultural supply chain, banks, and civil society groups. They work together to define principles of sustainable production for a variety of commodities.

The first of these, the Roundtable for Sustainable Palm Oil, was established in 2004. Through collaboration by the Indonesia Palm Oil Producers Association, Unilever, HSBC, WWF, Oxfam, IFC, and many others, the first certified sustainable palm oil became available in November 2009. Since then, more than 4 million metric tons have been certified.

With financial support from the Global Environment Facility and other donors, IFC is active in several such initiatives, including the Roundtable for Responsible Soy and the Union for Ethical BioTrade.

CORPORATE GOVERNANCE

Good corporate governance helps our clients perform better.

It strengthens their decision making, encourages effective succession planning, and improves their chances for long-term prosperity—regardless of the type of company and its sources of finance. It also increases their access to capital, enhances their value in the market, and contributes broadly to sustainable economic development.

Improving corporate governance—among our clients and across the private sector in developing countries—is a priority for IFC. We provide advice on improving board practices, strengthening shareholder rights, and enhancing risk management and corporate disclosure. We also advise regulators, stock markets, and others with an interest in improving corporate governance.

Our experience allows IFC to tailor global principles to the realities of the private sector in developing countries. As a result, development banks and other investors working in emerging markets now look to IFC for leadership on corporate governance.

We provide this in a variety of ways—including through the IFC Corporate Governance Methodology, a system for evaluating risks and opportunities that is recognized as the most advanced of its kind among development finance institutions. This methodology is the basis for a common approach to corporate governance now being contemplated by leading DFIs (see page 34).

Through the Global Corporate Governance Forum, a multidonor trust-fund facility, IFC also drives the corporate governance agenda among policymakers, regulators, leading corporate directors' organizations, and the business media. We bring together international portfolio investors and prominent business leaders to discuss what governance changes are needed to attract more capital.

Within IFC, we train our investment officers to identify five areas of risk and opportunity—the commitment of a client's leadership to strong corporate governance, the structure and function of its Board of Directors

with respect to oversight and strategy, the quality of its risk-management framework, the extent of its transparency and disclosure, and its treatment of minority shareholders, such as IFC.

Mobilization and Partnerships

THE POWER OF MOBILIZATION

In poor countries, the private sector needs far more than IFC alone can provide. That's why mobilization is a central aspect of our strategy. By mobilizing money from other investors, we can more effectively spur the private sector and conserve our own capital.

In FY11, we did more of it than ever, working with banks, international financial institutions, sovereign funds, foundations, and other partners to mobilize \$6.5 billion for development. That's more than twice the amount we mobilized in FY06. It allowed us to save \$1.3 billion in capital.

Every dollar that IFC invested in FY11 leveraged more than 50 cents from others, money that was channeled into developing countries to boost inclusive and sustainable growth. Those funds also help IFC by giving us the breathing room to maintain a disciplined budget and work within our capital constraints.

There are a number of ways we can bring third-party resources to bear. Traditionally, it has happened through our syndicated lending program, an avenue for investors to join IFC through B-loans, parallel loans, or A-loan participations. For local and regional banks in developing countries, our syndications are increasingly seen as a way to venture into new markets. That opens up new funds for IFC clients.

We also link up with other international financial institutions through the IFI Cooperation Program, and we've spearheaded a Master Cooperation Agreement that provides a framework for IFIs to co-finance projects efficiently.

Syndications, however, are by no means the only way to co-invest with IFC. IFC Asset Management Company is our latest innovation in mobilization. The subsidiary, launched in FY09, lets investors benefit from our expertise,

while delivering equity returns and development impact. It's essential to our purpose and it's essential for private sector development.

FORMING PRODUCTIVE PARTNERSHIPS

IFC works with governments, businesses, other multilateral organizations, and foundations to foster innovative donor partnerships to reduce poverty and improve lives.

Our approach to donor relations emphasizes the power of long-term partnerships, maintains a focus on results measurement and efficiency, and provides appropriate visibility for donor partners.

Our donor partners are vital in helping us deliver greater development impact. The financial support they provide not only leverages IFC's own contributions to Advisory Services but also enhances the impact of IFC's investment operations through strengthened collaboration and shared mutual priorities.

IFC's partnership with our donors often extends beyond a funding relationship to one that is based on mutual understanding and knowledge sharing. We foster this by convening donors around thematic issues such as climate change and food security. In so doing, we strive to be thought leaders and to stimulate coordinated action.

During FY11, IFC and our donor partners worked together to address the highest-priority challenges on the development agenda, including employment, food security, climate change, infrastructure, and fragile and conflict-affected countries. In a time of limited resources and global financial strains, such partnerships are essential for maximizing our development impact. IFC makes it a priority to convey to donors how their funds are used and what results are achieved through their contributions.

EVERY DOLLAR
IFC INVESTED
LEVERAGED
MORE THAN

50¢

FROM OTHERS.

IN FY11, WE
MOBILIZED

\$6.5

BILLION FOR
DEVELOPMENT.

WORKING WITH THE DONOR COMMUNITY

Nineteen donor governments and several institutional and private partners made new commitments to IFC in FY11, providing \$203.7 million for IFC's Advisory Services.

During FY11, with generous support from the Austrian Federal Ministry of Finance and the Development Bank of Austria, OeEB, IFC advanced private sector development in Central and Eastern Europe and Sub-Saharan Africa. Our partnership was strengthened this year on the investment side through the signing of a Master Cooperation Agreement with the OeEB. In addition, the Republic of Korea became a new IFC donor.

IFC has launched various projects with Austrian support to improve access to finance, enhance food security, address crises, and strengthen the business environment throughout Central and Eastern Europe. In FY11, Austria contributed over \$20 million to IFC. In addition, Austria is one of the strongest sponsors of the Foreign Investment Advisory Services program, with key investment climate operations conducted from IFC's Vienna office.

Our relationship with Canada also has grown. In FY11, Canada pledged funding to support IFC programs. These programs are expected to provide innovative approaches to mitigate climate change, increase access to finance for small and medium enterprises, raise agricultural productivity, and reduce vulnerability to food shocks.

IFC's relationship with the Islamic Development Bank has deepened over the past several years, moving from general collaboration in the Middle East and North Africa toward more focused initiatives, such as the Arab Financing Facility for Infrastructure initiative and Education for Employment.

In FY11, IFC and the Islamic Development Bank conducted a

study on the relationship between education and employment in MENA. This study, known as Education for Employment, or e4e, examined skills training and labor-market needs and made recommendations for addressing the gap between them.

With a commitment to reducing poverty and making an impact on the livelihoods of people in developing countries, IFC and the Gates Foundation are working together to seek creative solutions in agribusiness, private health care, water and hygiene, and access to finance.

In FY11, the Gates Foundation contributed to an analysis of payments in selected health programs in India. The ensuing report, issued in July 2011, identified ways to improve the efficiency and transparency of payment systems, and provided recommendations to the government for outsourcing health-benefit payments in the state of Bihar.

PRINCIPLES OF PARTNERSHIP

IFC's Key Principles of Partnerships detail how we engage with our donor partners and how we ensure that the partnerships are complementary and mutually reinforcing:

- IFC and donor partners pool their respective resources to achieve a common goal of promoting sustainable private sector development in emerging markets.
- IFC and donor partners create opportunities to share knowledge and views about the strategies and approaches to be adopted in advisory services managed by IFC. The opportunities for strategic consultations are multiple, sometimes formalized in agreement, sometimes ad hoc based on ongoing interactions.
- IFC provides donor partners with regular operational and financial updates that allow the donors to

**DONOR
COMMITMENTS TO
IFC ADVISORY
SERVICES TOTALED
ABOUT**

\$204

MILLION.

**COMMITMENTS
FROM
GOVERNMENTS
INCREASED**

12.7%

IN FY11.

DONOR FINANCIAL COMMITMENTS TO IFC ADVISORY SERVICES (US\$ MILLION EQUIVALENT)

	FY11	FY10
Governments		
Australia	8.02	8.84
Austria	22.98	10.08
Canada	33.27	12.63
Denmark	4.47	0.39
Finland	2.27	5.44
France	0.20	2.92
Germany	0.00	0.04
Iceland	0.00	0.20
Ireland	1.07	1.00
Italy	10.00	0.00
Japan	8.95	9.19
Republic of Korea	2.00	0.00
Luxembourg	2.21	2.25
Netherlands	25.62	25.61
New Zealand	0.00	0.58
Norway	6.08	10.86
South Africa	0.78	0.71
Spain	2.68	0.00
Sweden	10.59	1.62
Switzerland	7.15	15.33
United Kingdom	16.20	42.52
United States	6.83	1.85
Total	171.36	152.05
Institutional and Private Donors		
CIF	5.87	4.94
European Commission	10.32	2.25
Gates Foundation	0.33	8.00
GEF	2.99	12.30
Islamic Development Bank	3.00	0.00
TMEA	9.42	0.00
UN Agencies	0.05	0.05
Various Private Donors	0.37	1.60
Total	32.34	29.14
Summary		
Governments	171.36	152.05
Institutional/ Multilateral Partners	31.64	19.54
Private Partners/ Foundations	0.70	9.60
Total	203.71	181.19

understand how IFC is spending their funding, to assess project progress, and to provide timely feedback.

Stakeholders in the countries of our donor partners and clients are interested in the effects and efficiencies of advisory programs managed by IFC. We are therefore enhancing results measurement, knowledge sharing and dissemination, and donor partner visibility.

WORKING WITH OTHER INTERNATIONAL FINANCE INSTITUTIONS

As demand for IFC's services intensifies and the fiscal constraints on our shareholders and clients mount, effective partnerships with other development institutions are more important than ever.

We are teaming up with a host of multilateral and bilateral private sector development institutions, pooling resources to expand our reach and maximize the impact of our investments and advisory services. Through collaboration, we can share knowledge and design more efficient programs to confront the thorniest development issues. Our partners, in turn, benefit from IFC's leadership position—we account for about 30 percent of the financing committed by development finance institutions to the private sector in developing countries.

Collaboration has been critical in our response to the global economic crisis, allowing us to swiftly launch new initiatives to boost trade finance, recapitalize banks, and spur infrastructure investment. Under the Caribbean Joint Action Plan, IFC and five leading development finance institutions committed more than \$960 million in the past year to sustainable private and public sector projects in the region, surpassing a three-year pledge.

In the Middle East and North Africa, we are working with several

IFIs to address some of the region's biggest challenges. We and the Islamic Development Bank are engaging the private sector to create new opportunities for employment-based education through the Education for Employment initiative (see page 46).

IFC is also leading an initiative to enhance SME access to finance on a sustainable basis in collaboration with IBRD, the German development bank KfW, and the European Investment Bank.

More broadly, IFC and other development institutions participate together on individual projects, provide joint financing, and cooperate on best practices and standards. Through the Master Cooperation Agreement, we have expanded our formal co-financing arrangements with development finance institutions. The agreement, which details how IFIs work together to co-finance projects led by IFC, helps increase commercial finance in times of scarcity.

This year, OPIC, the U.S. government's development finance institution, adopted the Master Cooperation Agreement, making it easier for us to collaborate on private sector investments in emerging markets, particularly in the poorest countries. So far, 11 development finance institutions have signed the agreement, providing over \$1.5 billion in parallel loans to IFC's clients.

IFC senior management also meets periodically with counterparts from over 20 other private sector development institutions to review the progress of joint initiatives. More than 15 working groups have been created to share best practices and harmonize our approach to corporate governance, offshore financial centers, and development results.

WE ACCOUNT FOR

30%

OF FINANCING COMMITTED TO THE PRIVATE SECTOR IN DEVELOPING COUNTRIES BY DFIs.

11

DFIs HAVE SIGNED IFC'S MASTER COOPERATION AGREEMENT.

5

PART 5

HOW WE WORK

Our People & Practices

Our 3,438 employees around the world enhance IFC's impact by delivering innovative solutions to the toughest challenges.

IFC's commitment to alleviating poverty and creating opportunity for the developing world's most vulnerable people is reflected in our corporate culture.

As the need grows for the private sector to take a greater role in spurring development, we think we can do more. To achieve greater development impact, we are adapting, leveraging our strengths, and sharpening our focus on efficiency under a comprehensive change program. We are working more closely with clients and partners, crafting new development goals, and finding new ways to mobilize capital.

Our history shows we learn from experience and take on new challenges. And our staff is better positioned than ever to maximize IFC's development impact. More than half of us are based in developing countries, close to the clients and communities we serve. We are also more diverse than ever—66 percent of our staff is from developing countries.

THE IFC WAY



A strong corporate culture is central to any organization's ability to succeed and adapt to new challenges. The IFC Way is a way of being, defining, and solidifying IFC's culture and brand, and a process that engages staff at all levels and in all regions to inform management decision making. It includes our vision, our core corporate values, our purpose, and the way we work.

OUR VISION

That people should have the opportunity to escape poverty and improve their lives.

OUR VALUES

Excellence, commitment, integrity, and teamwork.

OUR PURPOSE

To create opportunity for people to escape poverty and improve their lives by catalyzing the means for inclusive and sustainable growth, through:

- Mobilizing other sources of finance for private enterprise development.

- Promoting open and competitive markets in developing countries.
- Supporting companies and other private sector partners where there is a gap.
- Helping generate productive jobs and deliver essential services to the poor and vulnerable.

To achieve our purpose, IFC offers development-impact solutions through firm-level interventions (direct investments, advisory services, and the IFC Asset Management Company); by promoting global collective action; by strengthening governance and standard-setting; and through business-enabling-environment work.

THE WAY WE WORK

- We help our clients succeed in a changing world
- Good business is sustainable, and sustainability is good business
- One IFC, one team, one goal
- Diversity creates value
- Creating opportunity requires partnership
- Global knowledge, local know-how
- Innovation is worth the risk
- We learn from experience
- Work smart and have fun
- No frontier is too far or too difficult

The IFC Development Goals

Results matter.

It's no longer enough to trust that economic growth alone will roll back poverty and inequality. In a time of scarce resources across the globe, governments, philanthropic organizations, and development institutions rightfully insist that their funds be used wisely. They want evidence that the poor in developing countries are actually getting what they need most—opportunities to improve their lives.

IFC has long been a standard-setter in measuring development results. We were the first global development bank to report on development results for our entire portfolio. Our stakeholders—including the governments of our 182 member countries—expect continued leadership from us.

So this year, we took an important step forward. Inspired by the Millennium Development Goals, we began testing a concept of IFC Development Goals, which should allow us to integrate results measurement with business strategy. These goals measure the expected contribution of IFC's projects at the time of an investment commitment or an Advisory Services agreement. Regular monitoring will help ensure that the promises implicit in the goals are kept over time. We will also use the information to find ways to use our investments and advisory services more effectively.

This is a pioneering approach—and it is challenging. But we are proceeding with care, to ensure that the goals impose no unreasonable burdens on ourselves or our clients, and that they allow IFC to address the needs of all our client countries, including smaller economies. The first two years will be a period of testing, and we have just completed the first. We identified six preliminary goals—each covering high-priority areas for IFC—and we set clear targets for FY11.

We consider each goal to be representative of IFC's underlying strategy. Even so, the goals cannot capture the full spectrum of IFC's contribution to poverty reduction—and therefore cannot be the sole driver of our development impact strategy. We will consider the goals alongside other indicators of IFC's development impact.

In FY11, our focus was on learning and improving the design of the IFC Development Goals rather than on achieving numerical targets. We explored whether we had set the right goals and numerical targets. We sought extensive feedback from staff across the institution to ensure that the goals become useful tools and a component of IFC's strategy-making process.

We asked our clients to make specific commitments to help IFC expand our development reach. Through the IFC Development Goals, we will track their performance—and ours—in each of the six priority areas. In FY11, we fully achieved our commitment targets for health and education, microfinance loans, and infrastructure.

We plan another full year of implementation testing in FY12. Lessons learned in FY11, together with feedback received from IFC staff, will be used to adjust goals and targets for the coming year. We also plan to solicit feedback from external stakeholders in the fall of 2011. In FY13, we plan to roll out the goals in full.

Our Six Preliminary Goals

Goal	FY11 Reach Targets	FY11 Reach Commitments Obtained	Percent Of Targets Achieved
AGRIBUSINESS			
Increase or improve sustainable farming opportunities	Benefit 62,000 people	1.1 million people	1,787%*
HEALTH & EDUCATION			
Improve health and education services	Benefit 1.69 million people	2 million people	121%
ACCESS TO FINANCE			
a. Increase access to financial services for microfinance clients	Benefit 16.9 million people	22.9 million people	136%
b. Increase access to financial services for SME clients	Benefit 600,000 clients	437,532 clients	73%
INFRASTRUCTURE			
Increase or improve infrastructure services	Benefit 32.8 million people	40.3 million people	123%
MICRO, SMALL, MEDIUM ENTERPRISES			
Help MSMEs to increase their revenues	Increase revenues by \$7.46 billion	\$2.4 billion	32%
CLIMATE CHANGE			
Increase climate-positive investments	Make 14% of IFC's investments climate-positive	13.7% of investments climate-positive	98%

*Number reflects change in IFC agribusiness strategy that was approved after FY11 target was set.

How We Measure Development Results

Development effectiveness is the guiding principle of IFC's work.

Through our Development Outcome Tracking System, which measures the development effectiveness of our investment and advisory work, we have established ourselves as a leader in development results measurement. DOTS gives IFC a key competitive advantage, because it is critical to understanding how well our strategy is working and whether we are reaching the people and industries that most need our help.

IFC was the first multilateral development bank to report on development results for its entire portfolio, and to have an external firm review the application of methodology and reported results. In FY09, an evaluation of our results-measurement systems by the Independent Evaluation Group found that these systems provide current, unbiased assessments of the development results of IFC investments. It noted that IFC also introduced mechanisms to link incentives to project results through performance awards. "In so doing," the IEG report said, "IFC has been at the forefront of performance measurement related to private sector development among multilateral development banks."

Our evaluation framework for investments reflects the Good Practice Standards for the evaluation of private sector investment operations agreed on by multilateral development banks that comprise the Evaluation Cooperation Group. This year, the group commissioned a benchmarking exercise that found IFC has adopted 93 percent of the standards—more than any other multilateral development bank.

Since 2008, IFC has been reporting on changes in development results for investments compared with the previous year and, for Advisory Services, on the results of in-depth evaluations. We also launched a development results portal (www.ifc.org/results) to supplement information in the printed report. In FY10, we launched DOTS 2, which has improved the way we capture and track development results, fully integrating our system with IFC's investment project cycle and other information systems.

We constantly share our experience with the broader development community, including other multilateral development banks, foundations, and donors. We have fostered the improvement and harmonization of development results measurement among multilateral development banks through the Common Performance Assessment System, a self-assessment exercise led by a different multilateral development bank each year. The World Bank Group—with IFC coordinating inputs relating to private sector operations—led this exercise for the past two years.

WHAT DOTS COVERS

DOTS covers all active projects in IFC's portfolio, for both Investment and Advisory Services.

For Investment Services, DOTS covers—after certain exclusions—1,232 companies under supervision. This report focuses on the 582 out of about 700 investments approved between 2002 and 2007 that are mature enough to be rated. Every year the group of investments we report on shifts by one year. Newer investments are not mature enough to be evaluated, while older ones are less relevant for today's operations and have often already closed. We also address the current reach of all active investments in IFC's portfolio. Reach indicators measure the number of people reached by goods and services provided by IFC clients, or the dollar benefit to particular stakeholders affected by the activities of IFC clients.

For Advisory Services, DOTS covers all projects that are active, completed, or on hold, dating back to FY06. At the end of FY11, the supervision portfolio included 642 active projects. This report highlights results achieved as of December 31, 2010, for all projects that were active during the calendar year, as well as the results of 364 projects for which project completion reports were done between calendar year 2008 and calendar year 2010 and for which

How DOTS Works

DOTS allows for real-time tracking of development results throughout the project cycle. At the outset of a project, IFC staff members identify clear, standardized, and verifiable indicators, with baselines and targets. They track progress throughout supervision, which allows for real-time feedback into operations, until project closure.

For Investment Services, the overall development outcome score is a synthesis of four performance categories that are informed by standardized industry-specific indicators. To obtain a positive rating, a project must make a contribution to the host country's development. For Advisory Services, the rating is a synthesis of the overall strategic relevance, effectiveness (as measured by project outputs, outcomes, and impacts), and efficiency of the services.

This report provides the DOTS score—the percentage of projects that have achieved a high rating (in the top half of the rating scale)—for IFC overall and by region and industry group. Data for total development reach are provided by IFC's active portfolio clients, and presented regardless of IFC's investment size. Given that IFC is always a minority investor, these results cannot be attributed solely to IFC, and we have created specific rules to be applied in measuring and reporting development achievements based on the relative magnitude of our investments. These rules, designed to capture the extent to which incremental changes in the reach of a client company should be attributed to IFC, are being monitored in department scorecards this year, in conjunction with the piloting of the IFC Development Goals.

development effectiveness could be assessed.

Some types of projects are not tracked by DOTS. The most typical exclusions are projects at early stages of the project cycle, projects that are expansions of existing ones, projects that are split into several investments, small projects that form parts of larger programs, and certain financial products such as rights issues and some swaps. Historically, we have not tracked trade finance projects, and have focused instead on tracking performance indicators for our overall trade finance program. Because of the growing importance of trade finance in our work, however, we expect to begin tracking trade finance projects in FY12.

INVESTMENT RESULTS

IFC's overall development outcome rating for FY11 was 67 percent, four percentage points lower than FY10. Even so, our performance exceeded our long-term target of 65 percent.

We provide development outcome scores for three overarching industry groups: Infrastructure and Natural Resources; Financial Markets; and Manufacturing, Agribusiness, and Services. Ratings are also given to sub-groups and regions.

Among the three overarching industry groups, Infrastructure and Natural Resources showed a slight improvement over last year. Financial Markets

and Manufacturing, Agribusiness, and Services registered slight declines.

Several macro-level trends contributed to lower development results over the past year, most significantly the events in the Middle East and North Africa, and the economic challenges from the European debt crises.

These trends affected industry results in the following ways:

- The Financial Markets industry group declined six percentage points to 67 percent, as client banks faced nonperforming loans and increased selectivity in lending procedures. The Funds sector was also affected by the financial crisis, as portfolio companies faced difficulties.

- Manufacturing, Agribusiness, and Services decreased to 63 percent in FY11 from 67 percent the year before. Deteriorating results for projects related to non-metallic mineral products contributed to the weaker performance of the manufacturing sector, which dropped to 59 percent. In the Consumer and Social Services sub-group, weaker performance of new projects in health care and wholesale and retail trade drove the declining score. The sub-group score for Agribusiness and Forestry fell three percentage points to 70 percent, primarily because of deterioration in the pulp and paper sub-sectors.

- In the Infrastructure and Natural Resources group, intense market competition and challenging regulatory environments contributed to the lower score of the Telecommunications and Information Technologies sub-group, which fell to 64 percent from 70 percent.

Results for several regions were also negatively affected:

- In the Middle East and North Africa, political turmoil and the economic crisis played an important role in the decline of development outcome scores, which fell to 56 percent

from 70 percent in FY10. Political disturbances led to disruption of financial flows, severely affecting clients in the financial sector.

- In South Asia, poor financial performance of new investments in the sub-groups of Manufacturing, Agribusiness and Forestry, and Consumer and Social Services drove down the score to 72 percent from 79 percent in FY10. South Asian clients saw cost pressures on key inputs resulting in lower-than-expected margins. Further, growth of some companies via acquisitions led to an adverse impact on their balance sheets that was magnified by the financial crisis.
- In Sub-Saharan Africa and Latin America and the Caribbean, results deteriorated slightly. The score for Sub-Saharan Africa fell to 63 percent from 66 percent. In Africa, new Telecom and IT investments were affected by an unstable environment and market competition. Performance in Latin America slipped to 74 percent from 77 percent, mostly because of the heavy impact of the global crisis on Mexico, which recovered slowly. Mexico's housing, hospitality, and consumer goods industries were especially hard hit by the crisis. This was reflected in the poor performance of new investments in the real sector.
- The development results score for Eastern Europe and Central Asia, which had declined in FY10 to 66 percent as a result of the crisis, declined further to 60 percent in FY11. This was caused mostly by the effect of the European debt crisis on the peripheral southern European countries, where the financial markets, manufacturing, and consumer and social services sectors were especially affected. In addition, Central Asian projects have had relatively low development results to date, as the majority of projects are in IDA and post-conflict countries and were carried out at a time when IFC had limited implementing and supervisory capacity on the ground. On the other hand, Eastern Europe saw a post-crisis rebound in economic activity; improvements were recorded in the financial markets and the Manufacturing, Agribusiness and Services sectors.

However, there were positive developments on a number of fronts:

- Infrastructure and Natural Resources consolidated last year's good performance, with 75 percent of projects rated high. The DOTS score of the Infrastructure industry group sector rose to 77 percent, recovering from last year's drop. The improvement primarily reflected stronger performance of investment projects in the Transportation and Sub-National Finance sub-group, mainly in Eastern Europe. The Oil, Gas, and Mining sub-group continued to have strong development impact, with a DOTS score of 83 percent—notably above the IFC average.
- At the regional level, the positive performance of Manufacturing, Agribusiness, and Services in Sub-Saharan Africa was particularly noteworthy. Growing consumer demand spurred by economic growth and careful selection of projects drove the FY11 DOTS score of the region up 21 percentage points to 71 percent. It should be noted, however, that the small number of projects amplifies this effect. In Africa generally, newer investments in Manufacturing and in Consumer and Social Services performed well, thanks to strong economic growth and careful selection of projects.
- The DOTS score for East Asia improved across all industry groups to 76 percent, an increase of four percentage points over FY10 and a 12-point increase over FY09. Better selection of projects in the Financial Markets and Infrastructure sectors contributed to higher performance among newer investments, especially in China and the Philippines.

How Our Clients Expand Job Opportunities

IFC clients provided 2.4 million jobs in 2010, more than at any time since we began tracking the number four years ago. Our data suggest that a majority of clients—66 percent—either added jobs or kept their payrolls stable from 2008 to 2010.

The largest increase came in East Asia and the Pacific, which added 67,000 jobs. IFC clients in Europe and Central Asia added 61,000 jobs, while clients in the Consumer and Social Services sector added over 50,000.

The number of women employed by IFC client companies also increased between 2008 and 2010. Data from 615 clients across all regions and industry sectors show that those clients employed over 630,000 women in 2010, or 31 percent of their workforce. Clients for whom we have three years of data—293 in all—added nearly 35,000 jobs for women, representing a net 14 percent increase in female employment.

Evidence from case studies suggests that IFC investments have an additional, indirect effect on job creation, which extends well beyond the 2.4 million jobs directly provided by clients. For example, a case study found that when IFC invested in an agricultural producer, that company ramped up business with growers, suppliers, distributors, and transporters. The case study suggested that IFC's investment in Egypt's Wadi Group helped create 88 direct jobs and five times as many indirect jobs.

ADVISORY SERVICES RESULTS

IFC's Advisory Services development-effectiveness results registered their best-ever performance in 2010. Sixty-seven percent of advisory projects that closed during the year and could be assessed for development effectiveness were rated high at the end of the year.

IFC's system for measuring development effectiveness for Advisory Services was established in September 2007. In each Annual Report since then, we have reported results for the previous fiscal year. This year, for the first time, we are reporting results by calendar year. That provides more recent results and also aligns the Advisory Services reporting system with that of Investment Services.

To provide historical context for our results, we are comparing our 2010 performance with the rolling average of our performance over the calendar years 2008 through 2010. When compared with that average, Advisory Services results in 2010 were better in every business line and every region except for Sub-Saharan Africa.

The 2010 results represented an increase of four percentage points over the rolling average of 63 percent. They are based on a review of 179 completion reports filed between January 1 and December 31, 2010. Of those, 139 could be assessed for development effectiveness. The rolling average is based on a review of 507 completion reports filed between January 1, 2008, and December 31, 2010. Of those, 364 could be assessed for development effectiveness.

Projects that could not be assessed for development effectiveness were excluded

from the analysis, because they were non-client facing projects or their outcome and impact results had not been achieved by the review dates. Grassroots Business Initiative projects are also excluded from the review, as these projects are now managed by the Grassroots Business Fund, a separate entity from IFC.

These results reflect real changes on the ground for our clients. Through our Investment Climate business line, we supported 72 reforms in 44 countries from July 2009 through June 2010—many of them to simplify regulation and generate investment. Projects in our Public-Private Partnerships business line helped our government clients sign 15 contracts with private operators. These transactions are expected to improve access to infrastructure and health services for over 12 million people, mobilize \$1.6 billion in private investment, and yield \$1.6 billion in fiscal benefits to governments.

The Access to Finance business line helped our financial intermediary clients to provide 3.4 million microfinance loans, 1.9 million housing loans, and 700,000 loans to small and medium enterprises while helping support the creation of four new credit bureaus. Many of these results reflect work conducted in conjunction with IFC Investment Services.

Our Sustainable Business line helped our clients attract \$288 million in additional financing and generate \$419 million in revenues by supporting over 9,000 farmers, micro, small, and medium entrepreneurs, and other organizations.

Joint Investment and Advisory Projects Yield Better Results

IFC increasingly has combined advisory and investment products to deliver better services for our clients and improve development results.

A study we completed this year showed that linked advisory and investment operations had a significantly higher probability—between 13 and 15 percent—of achieving high development results than standalone advisory or investment operations. Linking investment with advice delivered benefits for riskier operations, such as those in more challenging environments, for small and medium operations, and those with medium to high credit risk at the onset of a project.

We also found that advisory and investment operations that were designed simultaneously with shared objectives yielded better results. That's because such joint operations provide an effective mechanism to strengthen client commitment and capacity, to help improve project design and project supervision, and to manage local stakeholder relationships.

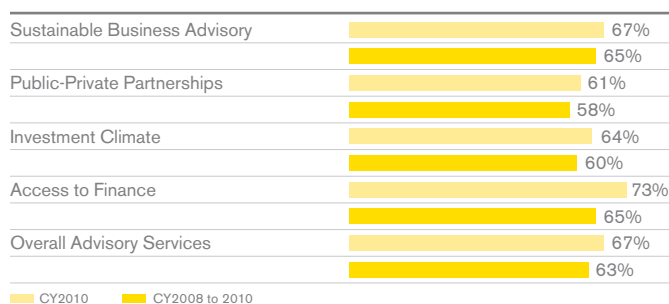
DEVELOPMENT OUTCOME: INVESTMENTS

Performance Category	General Indicators and Benchmarks	Examples of Specific Indicators Assessed Against Targets
Financial Performance	Returns to financiers, e.g., financial returns at or above weighted-average cost of capital	Return on invested capital, return on equity, project implemented on time and on budget
Economic Performance	Returns to society, e.g., economic returns at or above 10 percent	Number of connections to basic services, loans to small enterprises, people employed, tax payments
Environmental and Social Performance	Project meets IFC's Performance Standards	Improvements in environmental and social management, effluent or emission levels, community development programs
Private Sector Development Impact	Project contributes to improvement for the private sector beyond the project company	Demonstration effects (other firms replicating a new approach, product, or service), linkages to other private companies, corporate governance improvements

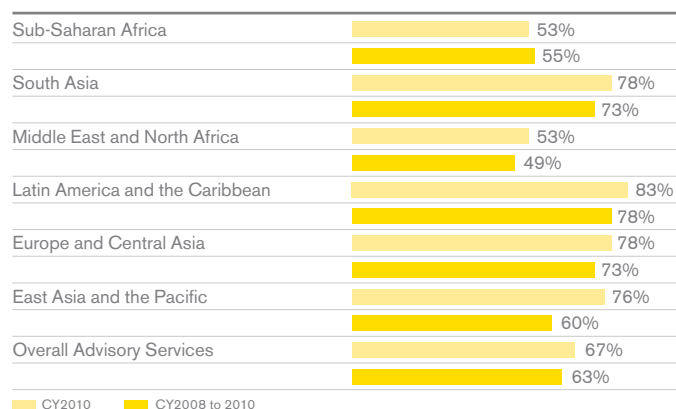
DEVELOPMENT OUTCOME: ADVISORY SERVICES

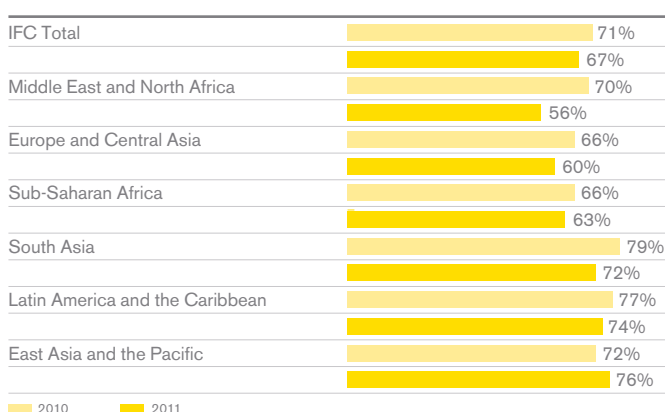
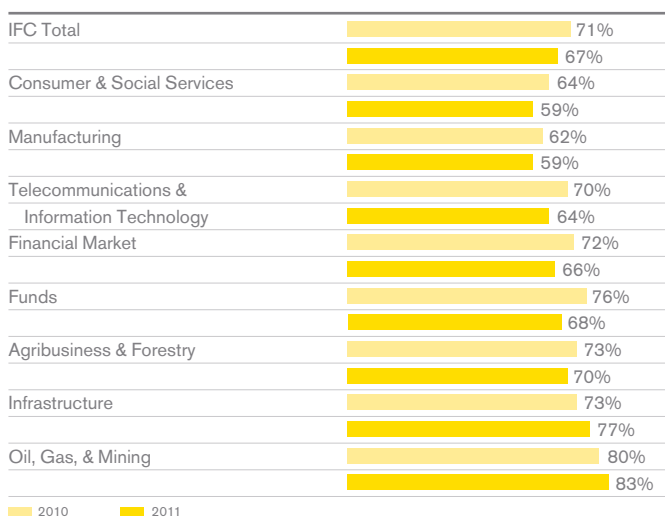
Performance Category	General Indicators and Benchmarks	Examples of Specific Indicators Assessed Against Targets
Strategic Relevance	Potential impact on local, regional, national economy	Client contributions, alignment with country strategy
Efficiency	Returns on investment in advisory operations	Cost-benefit ratios, project implemented on time and on budget
Effectiveness	Project contributes to improvement for the client, the beneficiaries, and the broader private sector	Improvements in operations, investments enabled, jobs created, increase in revenues for beneficiaries, cost savings from policy reforms

DEVELOPMENT RESULTS BY ADVISORY SERVICES BUSINESS LINE % Rated High

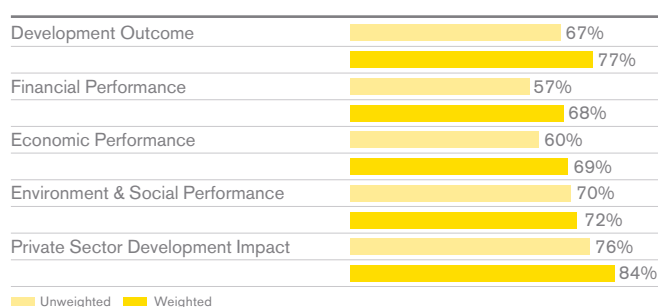


ADVISORY SERVICES DEVELOPMENT RESULTS BY REGION % Rated High



DEVELOPMENT OUTCOME BY REGION, FY11 VS. FY10 % Rated High

DEVELOPMENT OUTCOME BY INDUSTRY, FY11 VS. FY10 % Rated High


FY10 data have been recalculated following an internal reorganization that resulted in the creation of new industry categories and the elimination of others.

DEVELOPMENT OUTCOME BY PERFORMANCE AREA, FY11 % Rated High

DEVELOPMENT REACH BY IFC'S INVESTMENT CLIENTS

	Portfolio CY09	Portfolio CY10	New Business Expectations FY11 ⁴
Investments			
Employment (millions of jobs)	2.2	2.4	0.2
Microfinance loans¹			
Number (million)	8.5	8.0	24.7 ⁵
Amount (\$ billions)	10.79	12.62	13.73 ⁵
SME loans¹			
Number (million)	1.5	1.7	1.0
Amount (\$ billions)	101.32	127.82	49.12
Customers reached with services (millions)			
Power generation ²	57.4	41.9	12.8
Power distribution	29.4	32.0	0.3
Water distribution ³	26.6	20.1	0.4 ⁶
Gas distribution	15.7	17.2	NA
Phone connections	169.3	179.7	7.4
Patients reached	7.6	7.5	2.6
Students reached	1.4	1.0	0.5
Farmers reached	2.1	2.5	1.2
Payments to suppliers and governments			
Domestic purchases of goods and services (\$ billions)	38.02	39.51	7.47
Contribution to government revenues or savings (\$ billions)	20.08	20.28	6.44

¹ In many cases, results also reflect contributions from IFC Advisory Services.

² IFC has revised its methodology for estimating residential power customers served. Estimates for past years have been revised accordingly.

³ CY09 water figure has been corrected. It included 7 million customers of sewage services.

⁴ New Business figures for all reach indicators other than infrastructure or telecom are reported as targets and not increments.

⁵ For FY11, expected Microfinance reach includes one project in South Asia that accounts for 12 million loans and \$4.2 billion of outstanding portfolio, by March 2016.

⁶ In FY11, in addition to water distributed, we also expect to reach 1.6 million sewerage and wastewater customers.

A Comprehensive Change Initiative

Confronting the world's most difficult development challenges—hunger, joblessness, conflict, and climate change—requires the private sector to be more engaged than ever. It also requires IFC to adapt to the rapidly changing needs of our clients.

These clients and partners, totaling just over 2,700, are dispersed among more than 100 developing countries in nearly every time zone. They need quick decisions from us, and a deeper understanding of local needs and conditions. We are evolving to better serve our clients' changing needs and extend our reach to those that need us most—in smaller and poorer countries.

In FY11, we initiated a comprehensive change strategy to strengthen IFC's ability to deliver greater development impact while remaining financially robust.

The strategy builds on the significant benefits brought on by decentralization at IFC, which allowed us to more than double the number of investment projects in IDA countries, and produced a steep increase in new investments.

We began by moving IFC decision-making authority closer to those clients. In September 2010, we opened an Operations Center in Istanbul, Turkey, from which we serve clients in the Middle East and North Africa, Southern Europe, and Central Asia. We shifted more industry expertise and support functions from our headquarters in Washington, D.C., to local offices around the world. Now we are strengthening our Knowledge Management infrastructure to ensure that our global expertise continues to grow. Our client surveys show that IFC's global expertise is a key competitive advantage.

We expect our new strategy to improve our effectiveness in several specific areas we are monitoring—including the time it takes to process an investment, the satisfaction of our clients, and the development-impact ratings of our projects.

So far, we have achieved progress on several fronts:

- *To speed up investment processing times*, we have nearly doubled the number of IFC managers with decision-making authority to approve certain types of projects, and reduced paperwork and duplication in investment processes.
- *To streamline our interaction with our clients*, we have identified about 650 IFC senior staff who will serve as relationship managers for all our clients and partners.
- *To focus on areas in which we can provide the greatest value*, we consolidated our five Advisory Services business lines into four (see page 68).

- *To make more effective use of the skills of our staff*, we introduced a new performance-management framework, strengthened our leadership-development programs, and greatly increased the number of participants in them.

- *To strengthen our focus on development impact*, we introduced the IFC Development Goals (see page 79).

An encompassing change program such as ours is a complex undertaking—and we intend to proceed thoughtfully and deliberately, testing each aspect of the program and making the modifications necessary to ensure broad success as we move forward.

OUR PERFORMANCE-MANAGEMENT FRAMEWORK

People are IFC's most important asset. As we decentralize our organization, we are intensifying our effort to build a global cadre of professionals who bring the full spectrum of global, local, and technical expertise to our clients.

In FY11, we strengthened our performance-management system by introducing a new objective-setting process that better aligns individual performance objectives with corporate priorities. We also improved the format in which staff members specify their objectives, making them more specific, measurable, and time-bound.

These enhancements partly reflected feedback from IFC's 2009 Staff Survey, in which staff members expressed a desire for better career-development support, and stronger linkages between corporate and individual performance objectives.

Our Staff

IFC's employees are diverse. And they are our most important asset. Representing more than 140 countries, our staff brings innovative solutions and global best practices to local clients.

We work in 102 offices in 92 countries. More than half of us—55 percent—are based in field offices, an increasing percentage that reflects our commitment to decentralization. Most IFC staff also hail from developing countries, 66 percent in all, a diversity that enriches our perspective and underscores our focus on areas where private sector development can have the biggest impact.

WHERE WE WORK

Location	FY11	FY04
Washington, D.C.	1,536 (45%)	1,291 (57%)
Field Offices	1,902 (55%)	963 (43%)
Total IFC Staff	3,438	2,254

NATIONAL ORIGINS—ALL FULL-TIME STAFF

National Origins	FY11	FY04
Developed Countries	1,185 (34%)	963 (43%)
Developing Countries	2,253 (66%)	1,291 (57%)
Total	3,438	2,254

NATIONAL ORIGINS—ALL STAFF AT OFFICER LEVEL AND HIGHER

National Origins	FY11	FY04
Developed Countries	932 (43%)	647 (53%)
Developing Countries	1,261 (57%)	584 (47%)
Total	2,193	1,231

GENDER—ALL FULL-TIME STAFF

Gender	FY11	FY04
Male Staff	1,631 (47%)	1,121 (50%)
Female Staff	1,807 (53%)	1,133 (50%)
Total	3,438	2,254

GENDER—ALL STAFF AT OFFICER LEVEL AND HIGHER

Gender	FY11	FY04
Male Staff	1,303 (59%)	844 (69%)
Female Staff	890 (41%)	387 (31%)
Total	2,193	1,231

WE WORK IN

102

OFFICES IN

92

COUNTRIES

66%

OF IFC STAFF HAIL FROM DEVELOPING COUNTRIES

55%

ARE BASED IN FIELD OFFICES

COMPENSATION

IFC's compensation guidelines are part of the World Bank Group's framework. The international competitiveness of compensation is essential to our capacity to attract and retain a highly qualified, diverse staff. The salary structure of the World Bank Group for staff recruited in Washington, D.C., is determined with reference to the U.S. market, which historically has been globally competitive. Salaries for staff hired in countries outside the United States are based on local competitiveness, determined by independent local market surveys. Based on the World Bank Group's status as a multilateral organization, staff salaries are determined on a net-of-tax basis.

VARIABLE PAY PROGRAMS

IFC's variable pay programs consist of several components, including recognition, annual, and long-term performance awards that support IFC's high-performance culture. These awards are designed to encourage teamwork, reward top performance, and support IFC's strategic priorities.

BENEFITS PROGRAMS

IFC provides a competitive package of benefits, including medical insurance and a retirement plan. Employees based in Washington, D.C., are covered by Aetna, contracted through an open procurement process. Other staff members are covered

by Vanbreda, an international health care provider. Medical insurance costs are shared—75 percent is paid by IFC and 25 percent by the insured.

IFC's pension is part of the World Bank Group plan, based on two benefit components: first, years of service, salary, and retirement age; second, a cash savings plan, which includes a mandatory contribution of 5 percent of salary, to which IFC adds 10 percent annually. Legacy pension benefits from earlier World Bank Group pension plans include termination grants and additional cash payouts.

STAFF SALARY STRUCTURE* (WASHINGTON, D.C.)

During the period July 1, 2010, to June 30, 2011, the salary structure (net of tax) and average salaries and benefits for World Bank Group staff were as follows.

Grade	Representative Job Titles	Market			Staff at Grade Level (%)	Average Salary/Grade (\$)	Average Benefits (\$)**
		Minimum (\$)	Reference (\$)	Maximum (\$)			
GA	Office Assistant	24,700	32,100	41,720	0.0	35,476	18,837
GB	Team Assistant, Information Technician	31,690	41,200	57,680	0.6	42,363	22,495
GC	Program Assistant, Information Assistant	39,140	50,900	71,260	10.1	53,020	28,154
GD	Senior Program Assistant, Information Specialist, Budget Assistant	45,470	59,100	82,750	8.1	65,098	34,567
GE	Analyst	59,700	77,600	108,630	9.5	75,445	40,061
GF	Professional	79,000	102,700	143,790	19.0	97,035	51,526
GG	Senior Professional	106,460	138,400	193,750	31.8	133,718	71,004
GH	Manager, Lead Professional	146,980	191,100	246,950	17.5	185,140	98,309
GI	Director, Senior Advisor	195,530	255,800	293,300	2.9	242,597	128,819
GJ	Vice President	261,640	293,030	328,120	0.4	292,586	155,363
GK	Managing Director, Executive Vice President	287,370	325,890	358,420	0.1	353,077	165,583

Note: Because World Bank Group staff, other than U.S. citizens, usually are not required to pay income taxes on their World Bank Group compensation, the salaries are set on a net-of-tax basis, which is generally equivalent to the after-tax take-home pay of the employees of the comparator organizations and firms from which WBG salaries are derived. Only a relatively small minority of staff will reach the upper third of the salary range.

* These figures do not apply to the U.S. Executive Director and Alternate Executive Director, who are subject to U.S. congressional salary caps.

** Includes medical, life, and disability insurance; accrued termination benefits; and other nonsalary benefits.

Our Governance

The World Bank Group is a vital source of financial and technical assistance to developing countries. Established in 1944, its mission is to fight poverty with passion and professionalism, for lasting results.

IFC is one of five members of the Bank Group, though it is a separate legal entity with separate Articles of Agreement, share capital, financial structure, management, and staff. Membership in IFC is open only to member countries of the World Bank. As of June 30, 2011, IFC's share capital of about \$2.4 billion was held by 182 member countries. These countries guide IFC's programs and activities.

IFC works with the private sector to create opportunity where it's needed most. Since our founding in 1956, we have committed more than \$111 billion of our own funds for private sector investments in developing countries, and we have mobilized billions more from others.

In working toward a world free of poverty, we collaborate closely with other members of the Bank Group, including:

- *The International Bank for Reconstruction and Development*, which lends to governments of middle-income and creditworthy low-income countries.
- *The International Development Association*, which provides interest-free loans—called credits—to governments of the poorest countries.
- *The Multilateral Investment Guarantee Agency*, which provides guarantees against losses caused by noncommercial risks to investors in developing countries.
- *The International Centre for Settlement of Investment Disputes*, which provides international facilities for conciliation and arbitration of investment disputes.

OUR BOARD

Each of our member countries appoints one governor and one alternate. Corporate powers are vested in the Board of Governors, which delegates most powers to a board of 25 directors. Voting power on issues brought before them is weighted according to the share capital each director represents.

The directors meet regularly at World Bank Group headquarters in Washington, D.C., where they review and decide on investments and provide overall strategic guidance to IFC management. Robert B. Zoellick is President of IFC and the other World Bank Group institutions; he also

serves as Chairman of the Boards. Lars H. Thunell is IFC's Executive Vice President and Chief Executive Officer, and oversees IFC's overall strategy and operations.

EXECUTIVE COMPENSATION

The salary of the President of the World Bank Group is determined by the Board of Directors. The salary structure for IFC's Executive Vice President and CEO is determined by positioning a midpoint between the salary structure of staff at the highest level, as determined annually by independent U.S. compensation market surveys, and the salary of the World Bank Group President. The compensation of our executive leadership is transparent. IFC's Executive Vice President and CEO, Lars Thunell, receives a salary of \$358,420, net of taxes. There are no executive incentive compensation packages.



Standing from left to right: Susanna Moorehead, United Kingdom; Konstantin Huber, Austria; Piero Cipollone, Italy; Felix Alberto Camarasa, Argentina; Abdulrahman M. Almofadhi, Saudi Arabia; Merza H. Hasan, Kuwait; Shaolin Yang, China; Pulok Chatterji, India; Jorg Frieden, Switzerland; Ian H. Solomon, United States; Jim Hagan, Australia; Dyg Sadiyah Binti Abg Bohan (alternate), Malaysia; Nobumitsu Hayashi, Japan; Rudolf Treffers, Netherlands; Ingrid G. Hoven, Germany; Rogerio Studart, Brazil; Ambroise Fayolle, France.

Seated from left to right: Eugene Miagkov (alternate), Russia; Anna Brandt, Sweden; Hassan Ahmed Taha, Sudan; Agapito Mendes Dias, São Tomé and Príncipe; Marie-Lucie Morin, Canada; Javed Talat, Pakistan; Marta Garcia-Jauregui, Spain; Renosi Mokate, South Africa.

EXECUTIVE DIRECTORS	(ALTERNATE)
Abdulrahman M. Almofadhi	(Ibrahim Alturki)
Anna Brandt	(Jens Haarlov)
Felix Alberto Camarasa	(Varinia Cecilia Daza Foronda)
Pulok Chatterji	(Kazi M. Aminul Islam)
Piero Cipollone	(Nuno Mota Pinto)
Agapito Mendes Dias	(Mohamed Siekiah Kayad)
Ambroise Fayolle	(Anne Touret-Blondy)
Jorg Frieden	(Michal Krupinski)
Marta Garcia-Jauregui	(Juan Jose Bravo Moises)
Vadim Grishin	(Eugene Miagkov)
Jim Hagan	(In Kang Cho)
Merza H. Hasan	(Ayman Alkaffas)
Nobumitsu Hayashi	(Yasuo Takamura)
Ingrid G. Hoven	(Ruediger Von Kleist)
Konstantin Huber	(Gino Alzetta)
Hekinus Manao	(Dyg Sadiyah Binti Abg Bohan)
Renosi Mokate	(Mansur Muhtar)
Susanna Moorehead	(Stewart James)
Marie-Lucie Morin	(Kelvin Dalrymple)
Ian H. Solomon	(vacant)
Rogerio Studart	(Vishnu Dhanpul)
Hassan Ahmed Taha	(Denny Kalyalya)
Javed Talat	(Sid Ahmed Dib)
Rudolf Treffers	(Tamara Solyanyk)
Shaolin Yang	(Ciyong Zou)

OUR MEMBER COUNTRIES—STRONG SHAREHOLDER SUPPORT

Capital Stock by Country

Grand Total	100.00%	<div style="width: 100%;"></div>
United States	24.03%	<div style="width: 24.03%;"></div>
Japan	5.96%	<div style="width: 5.96%;"></div>
Germany	5.44%	<div style="width: 5.44%;"></div>
France	5.11%	<div style="width: 5.11%;"></div>
United Kingdom	5.11%	<div style="width: 5.11%;"></div>
Canada	3.43%	<div style="width: 3.43%;"></div>
India	3.43%	<div style="width: 3.43%;"></div>
Italy	3.43%	<div style="width: 3.43%;"></div>
Russian Federation	3.43%	<div style="width: 3.43%;"></div>
Netherlands	2.37%	<div style="width: 2.37%;"></div>
172 Other Countries	38.26%	<div style="width: 38.26%;"></div>

Accountability

INDEPENDENT EVALUATION GROUP

The Independent Evaluation Group contributes to IFC's learning agenda and is a vital part of its accountability structure.

IEG is an independent unit within the World Bank Group. It evaluates IFC's work in private sector development, reporting directly to IFC's Board of Directors. IFC's management cannot alter IEG findings or prevent their release. This independence allows IEG to strengthen accountability and make recommendations based on lessons of experience.

In 2010, IEG realigned the responsibilities of its department for private sector evaluation to cover the operations of the World Bank and the Multilateral Investment Guarantee Agency, in addition to those of IFC.

For the first time, IEG evaluated the relevance and effectiveness of IFC's poverty focus and identified gaps and opportunities for addressing poverty and distributional issues in IFC's strategies, operational projects, and results (see page 62). Among IEG's findings was that IFC is on the right track in its poverty focus, including its priorities on frontier areas and strategic sectors such as infrastructure, agribusiness, health and education, and financial markets.

However, the group recommended that IFC reduce its concentration to just a few countries and products. Other major IEG evaluations this year covered the World Bank Group's activities in agriculture and agribusiness, its response to the global economic crisis, and its safeguards and sustainability policies. IEG also produces an annual report on World Bank Group results and performance, which includes the performance of a representative sample of IFC investment and advisory projects. For IFC, IEG found that 73 percent of investment projects achieved mostly successful—or better—development outcomes, on a three-year rolling-average basis. IEG found that 64 percent of advisory projects evaluated in FY08–10 had successful development effectiveness ratings. Among the business lines, Access to Finance had the highest proportion of successful projects and Infrastructure the lowest.

In 2010, the World Bank Group Board expressed its interest in strengthening follow-up to IEG's recommendations and asked IEG to lead a reform process to reduce ambiguity and make its recommendations specific. IFC is working with IEG in this process, which will also provide more systematic feedback to management and IEG on implementation and

SINCE FY2000,
CAO HAS
HELPED RESOLVE

82

COMPLAINTS
RELATED TO

55

DIFFERENT IFC
PROJECTS IN

29

COUNTRIES.

inform the Board of the status of implementation. IEG's reports and information on its methodology are available at www.ifc.org/ieg.

OFFICE OF THE COMPLIANCE ADVISOR/ OMBUDSMAN

The Office of the Compliance Advisor/Ombudsman is the independent accountability mechanism for IFC and the Multilateral Investment Guarantee Agency. Reporting directly to the World Bank Group President, CAO responds to complaints from people affected by IFC and MIGA projects, with the goal of enhancing social and environmental outcomes and strengthening the public accountability of IFC and MIGA.

Since CAO was established in FY2000, the office has helped address 82 complaints related to 55 different IFC projects in 29 countries. Most important, CAO has enabled IFC as an institution to respond quickly and effectively to citizens' concerns and ensure that their voices are heard and acted upon. CAO has also been a source of advice on systemic issues to the President and IFC senior management.

In its Ombudsman role, CAO has pioneered professional dispute resolution in the private sector at a time when many judicial systems around

the world are starting to develop alternative avenues to traditional litigation. CAO's work has also focused on building frameworks where many IFC clients and communities can jointly make decisions to resolve their concerns in a practical and effective way.

CAO's compliance work has provided independent oversight that helps IFC's management to address critical performance issues, and ensures that IFC consistently meets its standards and honors its commitments. CAO's audit of IFC's investments in the palm oil sector in Indonesia led to a global consultation that gathered recommendations from multiple stakeholders to inform IFC's strategy for the sector (see page 63). This year, CAO launched a compliance review of IFC's social and environmental assurance for its financial sector portfolio. This work will help ensure that the business activities IFC supports through the financial sector are aligned with IFC's values of being socially and environmentally sound.

In FY11, CAO worked on 24 cases related to 29 different IFC projects in 16 countries. Of these, 11 were new complaints accepted by CAO, and 13 were carried over from previous years. CAO closed five cases, after facilitating settlement, and released three compliance appraisals and one audit

of IFC. More information is available at www.cao-ombudsman.org.

IN FY11, CAO
WORKED ON

24

CASES
RELATED TO IFC
PROJECTS IN

16

COUNTRIES.

INTERNAL AUDITING

The Internal Auditing Department helps the World Bank Group achieve its mission by providing objective assurance and advice to add value; enhance risk management, control, and governance; and improve accountability for results. The department conducts its work in all organizational activities (including trust-funded operations) in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

Auditing work primarily focuses on determining whether the Bank Group's risk management, control, and governance processes provide reasonable assurance that significant financial, managerial, and operating information is accurate, reliable, and timely; resources are acquired economically and used efficiently; assets are safeguarded; the organization's actions are in compliance with policies, procedures, contracts, and applicable laws and regulations; and business objectives are achieved.

Managing Risks

PORTFOLIO MANAGEMENT

Portfolio management plays a key role in ensuring that IFC investments result in successful, environmentally sustainable private sector enterprises.

Before making any investment, IFC carries out broad due diligence, including integrity due diligence on the sponsors and principals, to ensure that the project meets all IFC standards with regard to society and the environment, combating money laundering and the financing of terrorism, anticorruption, corporate governance, and tax transparency. IFC also applies heightened scrutiny to projects involving offshore financial centers, in order to assess the legitimacy of the proposed structures. Such broad due diligence has long been standard for IFC projects.

IFC monitors compliance with investment agreements, visits sites to check on project status, and helps identify solutions to address potentially problematic projects. We also track the development outcomes of projects with respect to environmental and social performance. These supervision processes are performed by portfolio units largely based in field offices. IFC management oversees supervision by reviewing the entire investment portfolio on a quarterly basis. The portfolio management process is supported by a credit-risk rating system. Banks participating in

IFC loans are kept regularly informed of project developments. IFC consults or seeks their consent as appropriate.

When financial difficulties arise, IFC management determines specific reserves against loan losses on the basis of portfolio reviews and recommendations by portfolio management units and in accordance with policies and methods approved by IFC's external auditors. For projects with severe problems, the Special Operations Department determines the appropriate remedial actions. It seeks to negotiate agreements with all creditors and shareholders to share the burden of restructuring so problems can be worked out while the project continues to operate. In exceptional cases, when the parties reach an impasse, IFC takes all necessary and appropriate measures to protect our interests.

CAPITAL ADEQUACY AND FINANCIAL CAPACITY

We assess our capital adequacy by measuring our growth needs and the risk profile of current and projected investments against the established minimum capital adequacy for these needs. The minimum capital requirement is determined using IFC's risk-based economic capital approach, which differentiates the capital required for assets based on statistical measures of risk.

IFC'S DEBT-TO-EQUITY RATIO WAS

2.6:1

WELL WITHIN THE LIMIT OF

4:1

PRESCRIBED BY OUR FINANCIAL POLICIES.

Under our economic capital framework, IFC must maintain a minimum level of total available resources (including paid-in capital, retained earnings net of designations, and certain unrealized gains and total loan loss reserves) equal to total potential losses for all on- and off-balance-sheet exposures estimated at levels IFC believes to be consistent with maintaining a triple-A rating.

Our method of calculating capital adequacy is in line with industry best practices and is configured to provide adequate capital backing for a triple-A rating.

IFC's capital adequacy thresholds are more demanding than a triple-A rating requires. Yet we have historically exceeded our minimum capital requirements by a wide margin.

As of the end of FY11, the total resources required amounted to \$14.4 billion, while total resources available stood at \$17.9 billion. IFC's debt-to-equity ratio was 2.6:1, well within the limit of 4:1 prescribed by our financial policies.

IFC's paid-in capital, retained earnings net of designations and certain unrealized gains, and total loan-loss reserves constitute our total resources available. This financial capacity serves to support existing business, accommodate medium-term growth opportunities and strategic plans, and provide a buffer to withstand shocks or crises in some client

countries or more general global market downturns, while retaining the capacity to preserve our triple-A rating and play a countercyclical role.

IFC AND CORPORATE INTEGRITY

When companies operate with demonstrable integrity and with good governance, they are generally seen as posing fewer risks to their stakeholders.

Companies that address governance and integrity issues in their operations contribute to increased and fair competition, leading to open and transparent markets. Open and transparent markets in turn contribute to sustainable development and inclusive growth.

Promoting corporate integrity is an important element of IFC's effort to promote sustainable private sector development. Strong corporate integrity and good governance by our clients can lead to long-term profitability of investments, which in turn can increase IFC's opportunities for a favorable exit of our equity investments. Working to ensure corporate integrity through the application of internal procedures also helps us manage financial and reputational risks.

Corruption undermines public trust in open markets and the rule of law, and adds to the cost of doing business in most developing nations. IFC's initiatives to enhance openness and competition, and to promote stronger

corporate governance and integrity systems, have proven to be effective tools in combating corruption.

IFC's due-diligence processes and procedures are the first line of defense against corruption in our projects. We continue to improve our information-gathering and analytical capabilities—among other things, by adopting a more comprehensive database for inquiring into the background of potential partners and their stakeholders.

Our anticorruption stance is incorporated into the legal framework governing our investments. Under the World Bank Group sanctions process, persons or entities found to have engaged in corrupt, fraudulent, coercive, collusive, or obstructive practices in an IFC project can have their names published on a public website, and may be debarred from World Bank Group financing.

The World Bank Group's investigative unit, the Integrity Vice Presidency, is responsible for investigating allegations of fraud and corruption in IFC projects. The Vice Presidency's annual report can be found on the World Bank's website. A list of debarred firms is also available on the World Bank's website.

IFC participates in the cross-debarment agreement between the World Bank Group and other leading multilateral banks. Under the agreement, entities sanctioned by one

participating development bank may be cross-debarred by the others for the same misconduct. The accord helps ensure a level playing field for all firms competing for multilateral development bank projects.



Working Responsibly

IFC'S APPROACH TO SUSTAINABILITY

IFC believes that sound economic growth, driven by private sector development, is crucial to poverty reduction. In our investments, operations, and advisory services across the globe, we consider four dimensions of sustainability—financial, economic, environmental, and social.

The financial sustainability of IFC and our clients ensures that together we can make a long-term contribution to development.

The economic sustainability of the projects and companies IFC finances means they are contributing to host economies.

Environmental sustainability in our clients' operations and supply chains helps protect and conserve natural resources, mitigate environmental degradation, and address the global challenge of climate change.

Social sustainability is supported through improved living and working standards, poverty reduction, concern for the welfare of communities, and respect for key human rights.

IFC is committed to ensuring that the benefits of economic development are shared with those who are poor or vulnerable, and that development takes place in an environmentally sustainable manner. We also see sustainability as an opportunity to transform markets, drive innovation, and add value to our clients by helping them improve their business performance.

IFC'S SUSTAINABILITY FRAMEWORK AND POLICY REVIEW

IFC's Sustainability Framework reflects our longstanding commitment to sustainable development. It applies to all of our investments and underpins our approach to environmental and social risk management.

It is made up of the Policy on Environmental and Social Sustainability, which defines our responsibility in supporting project performance in partnership with clients, the IFC Performance Standards (see page 72), and the Access to Information Policy. Taken together, these three documents help protect people and the environment and promote

IFC's Sustainability Framework



transparency and accountability. They contribute to our development impact. They provide guidance to help clients avoid and mitigate environmental and social risks and impacts—as a way of doing business sustainably.

This year, after an extensive 18-month global consultation with hundreds of stakeholders, we launched our revised Sustainability Framework. The revised framework strengthens IFC's commitment to critical issues such as climate change, gender, business and human rights, and client capacity-building. Environmental and social categorization has been amended to more effectively align with the World Bank and other development financial institutions and to better capture the wide range of risks in financial intermediary operations.

Based on our experience, we have also provided better guidance to our clients on the application of the Performance Standards to different types of projects and business activities. The new Access to Information Policy represents a major shift from the 2006 Policy on Disclosure of Information and aligns IFC with the World Bank's Access to Information Policy (see page 100).

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

As part of our commitment to sustainability, IFC works with clients to avoid, minimize, or compensate for the environmental and social risks and effects of their projects. We monitor clients' environmental and social performance throughout the life of IFC's investment and help identify opportunities to improve it.

When a project is proposed for financing, IFC conducts a social and environmental review as part of its overall due diligence. It takes into account the client's assessment of the project's impact as well as its commitment and capacity to manage it. The review also assesses whether the project meets IFC's Performance Standards (see page 72). Where there are gaps, we and the client agree on an Environmental and Social Action Plan to ensure the standards are met over time.

In accordance with IFC's Sustainability Framework, we rate investments that have some degree of risk, as reflected by their environmental and social categorization, as A, B, C, or FI. FI projects involve financial intermediaries. Following an update of the Sustainability Framework, we introduced sub-categories for FI projects to better indicate the level of risk within the portfolios of these financial institutions.

An environmental and social risk rating is given and updated, usually once a year, by our environmental and social specialists, and is based on reports provided by clients and site visits. We conduct site visits after IFC financing is committed and disbursed. The rating is an essential source of information for IFC management. It also enables our specialists to better prioritize their efforts during supervision. The frequency of visits depends on an investment's risk rating and its performance against the agreed environmental and social action plan.

To strengthen IFC's environmental and social risk management, we focus on reducing the environmental and social knowledge gap in IFC's portfolio by increasing our supervision of clients. The gap refers to the percentage of companies in IFC's portfolio for which we have not received updated information on environmental and social performance within the past two years. The knowledge gap was reduced from 4.4 percent in FY10 to 3.1 percent in FY11.

IFC INVESTMENT PROJECT CATEGORIES

A	Expected to have significant adverse social or environmental impacts that are diverse, irreversible, or unprecedented.
B	Expected to have limited adverse social or environmental impacts that can be readily addressed through mitigation measures.
C	Expected to have minimal or no adverse social or environmental impacts; includes certain financial intermediary investments.
FI	Investments in financial intermediaries whose portfolios entail the following sub-categories of risk: <ul style="list-style-type: none"> FI-1: Expected to include substantial exposure to business activities with potentially significant adverse social and environmental impacts that are diverse, irreversible, or unprecedented. FI-2: Expected to include exposure to business activities with limited adverse social or environmental impacts that can be readily addressed through mitigation measures. This sub-category may also include exposure to a very limited number of business activities with potentially significant adverse social and environmental impacts that are diverse, irreversible, or unprecedented. FI-3: Expected to include exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.

The Cycle of an IFC Investment Project

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



4

INVESTMENT REVIEW

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

5

NEGOTIATIONS

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

6

PUBLIC DISCLOSURE

Upon completion of due diligence on environmental and social matters, review summaries and action plans are issued. These documents describe key findings and list actions to be taken by the client to close any significant compliance gap. The documents, as well as a Summary of Proposed Investment, are posted on IFC's website before being submitted to the Board for review. The length of the disclosure period is determined by the category of the project.

10

PROJECT SUPERVISION AND DEVELOPMENT-OUTCOME TRACKING

We monitor our investments to ensure compliance with the conditions in the loan agreement. The company submits regular reports on financial, and social and environmental performance, as well as information on factors that might materially affect the enterprise. Project site visits are scheduled to verify that E&S requirements are met. Ongoing dialogue allows IFC to help clients solve issues and identify new opportunities. We also track the project's contribution to development against key indicators identified at the start of the investment cycle.

11

EVALUATION

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

12

CLOSING

We close our books on the project when the investment is repaid in full or when we exit by selling our equity stake. In some cases, we may decide to write off the debt. Our goal is to help the client develop practices and management systems that support a project's sustainability and that will continue long after our involvement has ended.

What We Don't Invest In

IFC does not finance projects with substantial activity in one or more of the following areas:

- Production or trade in any product or activity deemed illegal under host-country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone-depleting substances, polychlorinated biphenyls, wildlife, or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora.
- Production or trade in weapons and munitions.
- Production or trade in alcoholic beverages (excluding beer and wine).
- Production or trade in tobacco.
- Gambling, casinos, and equivalent enterprises.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which IFC considers the radioactive source to be negligible and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting in which the asbestos content is less than 20 percent.
- Drift-net fishing using nets in excess of 2.5 kilometers in length.

For more information about the IFC Exclusion List, or to learn more about the treatment of financial intermediaries, microfinance institutions, and trade finance projects, please visit <http://www.ifc.org/ifcext/disclosure.nsf/Content/IFCExclusionList>.

OUR FOOTPRINT COMMITMENT

At IFC, we operate our business in a way that aligns with what we ask of our clients on environmental and social sustainability. We strive to reduce the environmental impact of our day-to-day activities while working to benefit communities wherever we have offices. That is our footprint commitment.

An important part of that commitment is the efficient use of natural resources. Electricity use on average accounts for 35 percent of IFC's global greenhouse-gas emissions. In our headquarters this year, we reduced electricity consumption per workstation by an average of 7 percent to 5,934 kilowatt hours per workstation. We did so by adjusting thermostat settings, installing LED bulbs, and making other technology upgrades.

We are also working to reduce waste generated by our business operations. In our headquarters, we diverted 49 percent (or 440,507 pounds) of our waste from the landfill through a combination of recycling and composting and donation of unneeded office supplies to local charitable organizations.

More than half of IFC's global carbon footprint is from air travel. In FY11, we invested in three high-definition videoconferencing centers, as an alternative to air travel. These are located in Washington, D.C., Hong Kong, and Istanbul. More than 3,500 video conferences were held this year, up 27 percent from FY10. Eight percent of our training portfolio is now available online, up from just 1 percent in 2007. These tools allow us to carry out the vital functions of our business while avoiding the environmental impact of travel.

Since FY09, IFC has used a Web-based data management system to collect and calculate our global car-

bon emissions inventory from internal operations. In FY10, carbon emissions from IFC's global internal business operations totaled 43,378 metric tons of carbon dioxide equivalent. IFC has collected and reported data on our global carbon footprint since FY07.

IFC continues to be carbon-neutral for our global corporate operations. To offset our carbon footprint, IFC purchased carbon credits from the Danish Carbon Fund Lahore Compost project, an industrial composting facility. The facility will sequester methane emissions, create local jobs, and produce compost to address declining agricultural yields in local communities.

OUR NEW ACCESS TO INFORMATION POLICY

As a global, multilateral finance institution with operations in many regions and sectors, IFC affects a diverse range of stakeholders. Transparency and accountability are fundamental to fulfilling our development mandate. Transparent organizations are better able to manage reputational risks and are more likely to enjoy a robust license to operate. Feedback from stakeholders helps promote strong development outcomes.

IFC's new Access to Information Policy is the next step toward becoming an even more transparent organization. Approved by the Board in May, the new policy represents a major shift in policy and aligns IFC with the principles in the World Bank's Access to Information Policy. IFC will disclose more project-level environmental, social, and development-outcome information during all stages of our projects. The new environmental, social, and development impact disclosure requirements will also apply to investments made through financial intermediaries—an important and

growing area of IFC's portfolio. This policy shift will put a greater emphasis on results reporting, consistent with World Bank Group objectives.

IFC will continue to maintain provisions to protect commercially sensitive, deliberative, and confidential information. However, stakeholders may pursue an independent two-stage appeals mechanism to challenge a decision not to disclose particular information.

IFC believes that communication and reporting can also help improve business performance. Systematic performance and results reporting fosters a continuous feedback loop, which can improve IFC's project performance and outcomes. Greater transparency also promotes good governance.

The new Access to Information Policy will complement the stakeholder engagement requirements in IFC's Performance Standards. This new regime will allow IFC to more effectively and systematically communicate our development impact in the long term. We hope that over time the changes will result in better project outcomes, increased awareness on the part of affected communities, and stronger relationships with stakeholders.

For more information, see www.ifc.org/disclosure.

OUR ENGAGEMENT WITH CIVIL SOCIETY

IFC engages with civil society, including nongovernmental organizations, both institutionally and in project implementation. We maintain an ongoing dialogue about many aspects of our operations, strategy, and policies, and we collaborate on a variety of initiatives.

IFC works with the World Bank Group's Civil Society Team to reach out to civil society on a regular basis. The Compliance Advisor/Ombudsman, in collaboration with IFC project teams, also maintains close contact with local communities, civil society organizations, and other stakeholders through its work.









IFC has made concerted efforts to engage with civil society in the context of its policy reviews. During the course of the review of its Sustainability Framework, which began in 2009 and ended this year, we engaged with stakeholders, including civil society organizations in more than 16 countries. We also consulted with civil society on our work with financial institutions and to develop a strategy for engagement in the palm oil sector (see page 63).

These policy reviews represent one of the most concerted efforts to date to systematically engage with

civil society to gather input on IFC's operations, using a combination of Web tools—e-mail, blogs, live Web chats, and the Policy Review website—as well as teleconferences and face-to-face consultations.

FY10 CARBON EMISSIONS INVENTORY FOR IFC'S GLOBAL INTERNAL BUSINESS OPERATIONS

Metric Tons of Carbon Dioxide Equivalent

Total	43,378 (100%)	
Electricity	14,113 (32.5%)	
Air Travel	26,371 (60.8%)	
Onsite Fuel	625 (1.4%)	
Vehicle Fuel	629 (1.4%)	
Refrigerant	912 (2.1%)	
Steam	595 (1.4%)	
Chilled Water	132 (0.3%)	

IFC's FY10 carbon emissions totaled approximately 43,378 metric tons of carbon dioxide equivalent (TCO₂e), which includes emissions from carbon dioxide, methane, and nitrous oxide.

Independent Assurance Report on a Selection of Sustainable Development Information

Further to the request made by IFC, we performed a review on a selection of sustainable development information in the Annual Report for the financial year ending June 30, 2011, including quantitative indicators (“the Indicators”) and qualitative statements (“the Statements”). We selected statements that were deemed to be committing, of particular stakeholder interest, of potential reputation risk to IFC, together with statements on corporate responsibility management and performance. The Indicators and the Statements are related to the following material areas:

	Material Areas	Statements	Indicators																	
Environmental and social performance and impacts of IFC's activity	IFC's Sustainability Policy	"IFC's Sustainability Framework and Policy Review" (p. 96)																		
	Development effectiveness of investments and advisory services	"How We Measure Development Results" (p. 81) "What DOTS Covers" (p. 81) "Advisory Services Results" (p. 84)	Investment projects Rated High (p. 59): 67%; and detailed values by industry (p. 13 and p. 86), by region (p. 13 and p. 86), and by performance area (p. 86); and weighted and unweighted scores (p. 13) Advisory Projects Rated High (p. 59): 67%; and detailed values by business line (p. 85) and by region (p. 85)																	
	Climate change	"Alleviating Uncertainty in Carbon Markets" (p. 35)	Commitments in Energy Efficiency and Renewable Energy (p. 59): \$1,671 million																	
	Engagement in countries served by the International Development Association (IDA)	"Our Work in IDA Countries" (p. 52)																		
	Water security	"Ramping Up Our Effort to Address Water Scarcity" (p. 56)																		
	Financial inclusion	"Creating Opportunity at the Base of the Economic Pyramid" (p. 50) "Reaching the Poor with Responsible Microfinance" (p. 54)	Number and amounts of microfinance loans and SME loans (p. 86) <table border="1"> <thead> <tr> <th>Type of loans</th> <th>Number of loans (millions)</th> <th>Amount (\$ billions)</th> </tr> </thead> <tbody> <tr> <td>Microfinance</td> <td>8</td> <td>12.62</td> </tr> <tr> <td>SMEs</td> <td>1.7</td> <td>127.82</td> </tr> </tbody> </table>	Type of loans	Number of loans (millions)	Amount (\$ billions)	Microfinance	8	12.62	SMEs	1.7	127.82								
	Type of loans	Number of loans (millions)	Amount (\$ billions)																	
	Microfinance	8	12.62																	
	SMEs	1.7	127.82																	
	Partnerships	"Working with the Donor Community" (p. 74)																		
Environmental and social ratings	"IFC Performance Standards" (p. 72)	Commitments by Environmental and Social Category (p. 12): <table border="1"> <thead> <tr> <th>Category</th> <th>Commitments (\$ millions)</th> <th>Number of projects</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>554</td> <td>10</td> </tr> <tr> <td>B</td> <td>2,975</td> <td>133</td> </tr> <tr> <td>C</td> <td>5,445</td> <td>246</td> </tr> <tr> <td>FI</td> <td>3,212</td> <td>129</td> </tr> <tr> <td></td> <td>12,186</td> <td>518</td> </tr> </tbody> </table>	Category	Commitments (\$ millions)	Number of projects	A	554	10	B	2,975	133	C	5,445	246	FI	3,212	129		12,186	518
Category	Commitments (\$ millions)	Number of projects																		
A	554	10																		
B	2,975	133																		
C	5,445	246																		
FI	3,212	129																		
	12,186	518																		
Exemplary business behavior	Response to the financial crisis	"Stimulating Trade Flows in Tough Markets" (p. 28) "Financial Markets" (p. 70)																		
	Corporate footprint	"Our Footprint Commitment" (p. 100)	Carbon Emissions (p. 101): 43,378 tCO ₂ equivalent to financial year 2010																	
	Innovation	"Bringing the Internet to the 'Other 3 Billion'" (p. 22) "Promoting the Use of Clean Technology" (p. 25)																		
	Food security	"Easing the Threat of Volatile Food Prices" (p. 53)																		
	Corruption	"IFC and Corporate Integrity" (p. 95)																		
	Accountability		"Independent Evaluation Group" (p. 92)																	
			"Improve Standards for the Palm Oil Sector" (p. 63)																	

Our review aimed to provide limited assurance¹ that:

1. the Indicators were prepared in accordance with the reporting criteria applicable in 2011 (the "Reporting Criteria"), consisting in IFC instructions, procedures and guidelines specific for each indicator, a summary of which is provided in the Annual Report, for the indicators related to Commitments by Environmental and Social Category (p. 72) and Development effectiveness of investments and advisory services (p. 81) and on IFC's website; and

2. the Statements have been presented in accordance with "IFC's Policy on Disclosure of Information," which is available on IFC's website² and the principles of relevance, completeness, neutrality, clarity and reliability as defined by international standards.³

It is the responsibility of IFC to prepare the Indicators and Statements, to provide information on the Reporting Criteria and to compile the Annual Report.

It is our responsibility to express a conclusion on the Indicators and the Statements based on our review. Our review was conducted in accordance with ISAE 3000, International Standard on Assurance Engagements from IFAC.⁴ Our independence is defined by IFAC professional Code of Ethics.

NATURE AND SCOPE OF OUR REVIEW

We performed the following review to be able to express a conclusion:

- We assessed the Reporting Criteria, policies and principles, with respect to their relevance, their completeness, their neutrality, their clarity and their reliability.
- We reviewed the content of the Annual Report in order to identify key statements regarding the sustainability areas listed above.
- At corporate level, we conducted interviews with more than 30 persons responsible for reporting in order to assess the application of the Reporting Criteria or to substantiate the Statements.

- At corporate level, we implemented analytical procedures and verified, on a test basis, the calculations and the consolidation of the Indicators.
- We collected supporting documents for the Indicators or Statements, such as reports to the board of directors or other meetings, loan contracts, internal and external presentations and reports, studies or results of survey.
- We reviewed the presentation of the Information and the Indicators in the Annual Report and the associated notes on methodology.

LIMITATIONS OF OUR REVIEW

Our review was limited to the Statements and Indicators identified in the table above and did not cover other disclosures in the Annual Report.

Our tests were limited to document reviews and interviews at IFC's headquarters in Washington, D.C. We did not participate in any activities with external stakeholders, clients, or local IFC offices.

INFORMATION ABOUT THE REPORTING CRITERIA AND THE STATEMENT PREPARATION PROCESS

With regards to the Reporting Criteria and the Statement preparation policies and principles, we wish to make the following comments:

Relevance

IFC publishes an integrated Annual Report and involves stakeholders in an effort to identify materiality topics (p. 105), which are discussed throughout the Annual Report. IFC presents sustainability information on its own impact and the environmental and social risks, impacts and outcomes of projects financed directly or through financial intermediaries that is comparable to other multilateral development banks. A specific effort is made by IFC to assess its development results, notably through its Development Outcome Tracking System (DOTS).

Completeness

The Indicators reporting perimeters aim to cover all relevant IFC's activities. The perimeters actually covered by each indicator have been indicated in the comments next to the data in the Annual Report.

Neutrality and clarity

IFC provides information on the methodologies used to establish the Indicators in the comments next to the published data or in the related sections and is available on the IFC website (links listed p. 106).

Reliability

We would like to note that IFC has made progress in strengthening internal controls related to "Development effectiveness of advisory services" and "Carbon Footprint". However, we note that for the indicator related to "Investments in renewable energy and energy efficiency", IFC would benefit from further strengthening and formalizing the reporting tools and internal controls.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that:

- the Indicators were not established, in all material aspects, in accordance with the Reporting Criteria;
- the Statements were not presented, in all material aspects, in accordance with "IFC's Policy on Disclosure of Information" and the principles of relevance, completeness, neutrality, clarity and reliability as defined by international standards.

Paris-La Défense, France, August 11, 2011



The independent auditors
ERNST & YOUNG et Associés
Climate Change and Sustainability Services

Eric Mugnier
Partner

¹ A higher level of assurance would have required more extensive work.

² http://www.ifc.org/ifcext/disclosure.nsf/content/disclosure_policy.

³ ISAE 3000 from IFAC, Global Reporting Initiative (GRI), or AA1000 Accountability Standard.

⁴ ISAE 3000: "Assurance Engagement other than reviews of historical data," International Federation of Accountants, International Audit and Assurance Board, December 2003.

Stakeholder Review Panel Statement on 2011 Annual Report

This year, IFC convened its second stakeholder review panel on its Annual Report. In response to feedback from the previous panel, IFC expanded the panel's role and improved the process. As a result, the panel was better able to assess IFC's responsiveness to its feedback and to offer further suggestions about the report's structure, tone, and completeness. IFC is committed to continue improving the process based on feedback from this year's panel.

Overall, the panel recommended that IFC organize the report around key themes instead of seeking to report on all aspects of the business. It also encouraged IFC to continue to highlight lessons learned and identify areas in which it can expand its role or do a better job. Going forward, the panel suggested that IFC report on changes in material issues in successive Annual Reports—and highlight the progress in policy and in reporting that has resulted from stakeholder engagement over time.

One of this year's highlights, according to panel members, was the opportunity to engage directly with IFC staff members who lead work on two of the material issues identified. The panel deepened its understanding of IFC's innovative approaches on policy issues ranging from food security and land rights to the role of women as drivers of economic growth. In the longer term, the panel urged IFC to broaden the impact of its Performance Standards, particularly on Advisory Services projects, and increase the scope of its approach on gender.

PANELISTS

The panel consisted of the following experts:

- Aron Cramer, President and CEO, Business for Social Responsibility (BSR)
- Arvind Ganesan, Director, Business and Human Rights, Human Rights Watch
- Sabine Miltner, Group Sustainability Officer, Deutsche Bank Group
- Shalini Nataraj, Vice President, Programs, Global Fund for Women
- Ebele Okobi-Harris, Director, Business & Human Rights Program, Yahoo!
- Carol Peasley, President and CEO, Centre for Development and Population Activities (CEDPA)
- Ruth Rosenbaum, Executive Director, Center for Reflection, Education and Action (CREA)
- Kenneth Wilson, Executive Director, The Christensen Fund

STAKEHOLDER PANEL PROCESS

IFC retained a neutral facilitator to manage the process. The panel participated in a conference call at which members identified six material issues. They participated in an all-day meeting to review how IFC incorporated the material issues into the first draft of the report and to offer suggestions to improve the structure, content, and completeness of the report. Finally, the panel reviewed the near-final draft to assess how IFC responded to the feedback from the meeting. The panel was not asked to approve or endorse the 2011 Annual Report. It did, however, approve this statement. Most panel members opted to be recognized for their service through a modest honorarium. Beyond reimbursement of travel expenses, there were no other payments to panelists.

MATERIAL ISSUES

The panel identified the following six material issues:

- Food security and how it intersects with energy, water, and land rights
- Women as drivers of economic growth
- IFC's evolving role as a development bank and its relationship with IFIs and the private sector
- IFC's role in climate change and energy
- IFC's use of information technology as a strategy to support economic growth
- IFC's role in shaping policy for private sector development, and standard-setting to strengthen economic governance and accountability

FEEDBACK ON ANNUAL REPORT

Specific Panel Feedback	IFC's Response	Panel's Assessment of IFC's Response
Describe what makes this year unique or different.	Added a new "Key Events" section describing what was accomplished during the reporting year.	Improves report; should be a focus going forward.
Too many organizing principles—not clear which ones drove the structure and content of report; material issues should be one of the significant organizing principles.	Added new section—Looking at Our Work through Multiple Lenses—in introductory pages; it covers material issues and explains how the report is organized. All material issues were addressed in report.	New section is helpful; continue focus on organizational structure next year, and find stronger ways to anchor stories within that structure.
Strengthen discussion of gender to highlight innovative projects and how the focus on gender is being mainstreamed in IFC's work overall.	Text on gender was revised to emphasize how IFC supports women as drivers of economic growth in all aspects of its activities. Additional stories incorporated, focusing on the role of women.	Revisions and inclusion of stories strengthened gender in the report. Deepening approach next year would continue to illustrate IFC's commitment.
Expand discussion of IFC's Performance Standards in light of significant changes approved this year.	Updated Sustainability Framework discussed in three sections, including new text in the "Influence" section.	New section and text improved report. Providing additional context for changes would make discussion more complete.
Expand discussion of lessons IFC learned in FY11.	"Lessons Learned" section expanded.	Revisions strengthened report; going forward, embedding information about lessons throughout report would be beneficial.

Stay Connected

Web and Social Media Resources

IFC's website, www.ifc.org, provides comprehensive information on every aspect of our activities. It includes contact information for offices worldwide, news releases and feature stories, data on results measurement, disclosure documents for proposed investments, and key policies and guidelines affecting IFC and our client companies.

The online version of the IFC Annual Report 2011 provides downloadable PDFs of all materials in this volume and translations as they become available. It is available at www.ifc.org/annualreport. The website also provides more information on sustainability, including a Global Reporting Initiative index.

IFC also uses social media to communicate with a wide range of audiences. Through various social-media channels, we discuss IFC's strategic direction, engage with stakeholders and the public, share knowledge and ideas, and help identify solutions to key issues related to private sector development.

Facebook

www.facebook.com/IFCwbg

Twitter

www.twitter.com/IFC_org
#IFC and #IFCAR2011

Flickr

www.flickr.com/IFCphotos

LinkedIn

<http://on.ifc.org/ifcLinkedIn>

Scribd

www.scribd.com/IFCpublications

YouTube

www.youtube.com/IFCvideocasts

IFC website

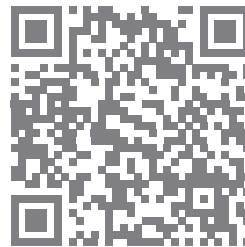
www.ifc.org

Social Media Index

www.ifc.org/SocialMediaIndex

Annual Report

www.ifc.org/AnnualReport



www.ifc.org/annualreport

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LETTER TO THE BOARD OF GOVERNORS

The Board of Directors of IFC has had this annual report prepared in accordance with the Corporation's by-laws. Robert B. Zoellick, President of IFC and Chairman of the Board of Directors, has submitted this report with the audited financial statements to the Board of Governors. The Directors are pleased to report that for the fiscal year ended June 30, 2011, IFC expanded its sustainable development impact through private sector investments and Advisory Services.

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2121 PENNSYLVANIA AVENUE, NW
WASHINGTON, DC 20433 USA
202 473 3800

WWW.IFC.ORG
