

CREATING OPPORTUNITY IFC ANNUAL REPORT 2008



CREATING OPPORTUNITY

2008 ANNUAL REPORT



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DOING OUR PART FOR AN INCLUSIVE AND SUSTAINABLE WORLD

ABOUT THIS REPORT

The IFC Annual Report continues an approach we pioneered last year, combining information on our investments and advisory services, sustainability, development effectiveness, and donor partnerships. The report covers fiscal 2008 (July 1, 2007, through June 30, 2008) and discusses the year's new business as well as the performance and development results of our portfolio.

Our goal is to provide a full picture of what IFC does and how we are performing. We seek to enhance our accountability and to articulate our vision, core corporate values, purpose, and the way we work for a wide range of stakeholders: client companies, governments, partners, local communities affected by our activities, advocacy organizations, investors, and our staff.

The report's Web site, www.ifc.org/annualreport, provides several components of our reporting: the fiscal 2008 Financial Statements and Management's Discussion and Analysis; listings of FY08 investments and advisory projects; IFC's active investment portfolio as of June 30, 2008; an index of IFC information related to Global Reporting Initiative indicators; and further information on our development results, environmental footprint, and performance standards. It supplements the Board of Directors information that appears on p. 112 with full listings of our Board of Governors and our Board of Directors and their voting power. The site also provides downloadable PDFs of all materials in this volume and translations as they become available.

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, 2008, IFC expanded its sustainable development impact through private sector investments and advisory services.

CREATING OPPORTUNITY

2008 ANNUAL REPORT



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IFC

**International
Finance Corporation**
World Bank Group

VISION



PURPOSE



IFC'S VISION is that people should have
the opportunity to escape poverty
and improve their lives



IFC'S PURPOSE is to:

Promote open and competitive markets in developing countries

Support companies and other private sector partners

Generate productive jobs and deliver basic services

Create opportunity for people to escape poverty and improve their lives

A large crowd of people, mostly men, are gathered in what appears to be a stock exchange or a public display area. They are looking towards the right side of the frame. Overlaid on the image are numerous red and green digital characters, including numbers and Chinese text, which represent stock prices and company names. The overall atmosphere is one of intense activity and focus.

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DOING OUR PART...

IFC makes a unique contribution to development in emerging markets



Global experience and local knowledge of the private sector • The support of 179 member countries • A coordinated approach across the World Bank Group • A long-term commitment to the clients and markets we serve • An unparalleled network of partners in development

...FOR AN INCLUSIVE AND SUSTAINABLE WORLD

IFC invests, mobilizes capital, and advises
to help the private sector make a difference



Reaching people in the poorest countries • Extending
the benefits of growth to less developed regions and
industries • Finding solutions that serve more people
and safeguard the environment • Helping companies
raise standards and benefit local communities



SOLUTIONS



PEOPLE

CREATING OPPORTUNITY FOR PEOPLE

IFC works with clients and partners to
improve the lives of people in poorer countries



Creating jobs • Delivering basic services such
as clean water and electricity • Improving
the availability of high-quality health care •
Expanding access to basic education

CREATING OPPORTUNITY

DOING OUR PART FOR AN INCLUSIVE AND SUSTAINABLE WORLD



MESSAGE FROM THE PRESIDENT

2008 has been an important year for the World Bank Group – a year of challenges and opportunities. IFC has played a critical role in addressing both. I am pleased to introduce a report that captures IFC's achievements and outlines the work ahead.

This year, the Bank Group has developed six strategic priorities to focus our attention, emphasizing the poorest countries, particularly those in Africa; fragile and post-conflict states; middle-income countries; global and regional public goods; expanding opportunity for the Arab world; and knowledge and learning.

IFC is carrying out these initiatives with energy, commitment, and creativity. To catalyze investment in Africa and other frontier markets, IFC is working to make it easier for sovereign wealth funds to invest equity in these markets. To ease the food crisis, IFC has invested in agribusiness companies, helping them expand production and mitigate risks. To help firms move to cleaner and more efficient technologies, IFC has developed an innovative carbon delivery guarantee that helps companies in developing countries sell carbon credits to buyers in the developed world. To address the growing needs for infrastructure in developing countries, IFC is scaling up investments in transportation, power, and utility projects, and applying best-practice approaches to environmental and social issues.

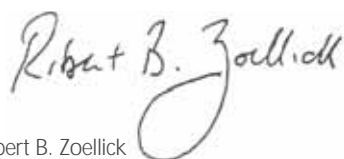
I have seen first-hand how the Bank Group can tackle pressing development challenges in the poorest countries by bringing to bear its multiple areas of expertise, products, and services. During a trip to Mozambique this year, I visited the Southern Africa Regional Gas project, which is financed by IBRD, IFC, and MIGA. The project is enabling the country to monetize its natural gas resources by linking up with the South African export market. IFC and IDA, moreover, have cooperated on a groundbreaking risk-sharing initiative in Madagascar that is increasing the availability of loans for small and medium enterprises. Increasing this kind of cooperation will allow us to reach further with a blend of services.

IFC's investments and advice are an essential part of the Bank Group's help to middle-income countries. Despite overall progress, these countries are still the home to many poor people, and their companies and markets still face capital constraints. Governments also need help to bring in more investment and share the benefits of growth with more people and places. IFC gets involved where it can make a difference, not only bringing in private capital but also helping private enterprises meet global corporate governance standards, safeguard the environment, and integrate local communities into their supply chains through linkages programs with large companies. In addition, IFC clients are promoting development across national boundaries, in the form of South-South investments.

The contribution to private sector development is far-reaching. In Liberia and other post-conflict countries, IFC is working on facilitating business-climate reforms and strengthening the financial sector. In Africa, IFC is working with its partners to mobilize up to \$1 billion to support the development of a socially responsible private health sector. In the Middle East, IFC is helping local banks make student loans more widely available. IFC's global trade finance initiative has been lending critical support to trade flows with the emerging markets and has served as a stabilizing presence in times of credit or liquidity constraints. IFC also has recognized the enormous economic and social potential represented by women entrepreneurs in developing countries, and its gender program has introduced successful initiatives to promote women-owned businesses.

IFC is well suited to the tasks ahead. It has the right mix of capital and expertise. There is strong demand for its services throughout the developing world: private initiative is increasingly recognized as an effective and innovative engine of economic growth. When supported by sound public policies, it has unparalleled power to boost local economies, create jobs, and unearth opportunities that create pathways to inclusive and sustainable development. IFC, with its unique private sector experience and know-how, has the innovative spirit and results-oriented culture that are needed to make a difference.

I want to thank the dedicated and highly accomplished staff at IFC for their commitment to transforming us into a more dynamic, flexible, and innovative institution. Whenever I attend a briefing at IFC, I leave with optimism about the ingenuity and drive of the IFC staff to empower the private sector in developing countries to improve lives and livelihoods. The accomplishments and spirit of IFC are also a testament to the strong and effective leadership of Lars Thunell, who guides an excellent team with judgment, experience, and a drive for results. I also thank our Board of Directors, the Governors, and our many contributors and partners, without whom we could not be successful.



Robert B. Zoellick
President, World Bank Group





MESSAGE FROM THE CEO

Helping Clients Succeed in a Changing World

The world around us is changing, and so is IFC.

In a time of uncertainty in world markets, we have stepped up investments and advisory services in the least developed economies and sectors, and we continue to strengthen the foundation for sustainable private sector development across the globe. Our effort to respond swiftly to clients' needs, bringing unparalleled expertise to foster private entrepreneurship, is making a difference: we are creating new opportunities for people to break free from poverty and improve their lives.

Recent events in global markets underscore the importance of the work we do. Consider the effects of food and oil prices on the billion people who still live in extreme poverty. For the first time in more than three decades, prices for both oil and food have reached record levels—and this is reversing years of progress against poverty and hunger. The cost of food may push more than 100 million people, nearly a third of them in Africa, back into poverty. The rise is exacerbating children's malnutrition even in the faster-growing emerging economies. The global credit crunch, meanwhile, poses a challenge for private enterprises in most emerging markets. Yet much can be done. As these and other economic challenges have emerged, so have new opportunities for IFC to do our part for an inclusive and sustainable world.

IFC is uniquely positioned to make a difference for the many people at the base of the global economic pyramid. We are the largest multilateral financial institution investing in private enterprises in emerging markets, with activities in 130 countries. We combine financing that helps local businesses grow quickly and sustainably with advice that helps them innovate, raise standards, mitigate risk, and share knowledge across industries and regions. Our affiliation with the World Bank Group gives us additional leverage in terms of skills and experience. We call this unparalleled

set of comparative advantages our "additionality." It is the main reason our clients choose to work with us.

Our success, reflected in strong development outcomes and financial performance of our portfolio, is allowing us to do more to create opportunity where it is most urgently needed. The Independent Evaluation Group, an independent unit within the Bank Group, has found that IFC's profitability goes hand-in-hand with healthy development outcomes. IFC net income in the 2008 fiscal year was a robust \$1.5 billion. This financial strength allows us to increase our activities in fragile economies and conflict-affected countries, and to extend our reach to smaller businesses as well.

IFC's activities this year demonstrate our growing role. Our new investments totaled \$16.2 billion, a 34 percent increase over the previous year. This includes \$11.4 billion in new commitments for our own account and \$4.8 billion in funding that we mobilized for clients. In Sub-Saharan Africa, we significantly expanded the number of countries where we do business, from 17 to 25. We have pledged \$1.75 billion to the three-year funding cycle of the International Development Association—the Bank Group's lead agency for assisting the poorest countries. In middle-income countries, where more than half the world's poor people live, we have sharpened our focus to ensure that our activities address global challenges such as climate change while at the same time helping areas and groups that are most in need.

We are achieving results. In calendar year 2007, IFC's clients generated power for nearly 147 million customers in developing countries and distributed water to 18 million. Clients carried more than 153 million railway passengers and established some 50 million new phone connections. Our investments provided more than 700,000 jobs in manufacturing and service sectors, and they helped spur more than \$47 billion in local purchases of goods and services.



We have strengthened the managerial capabilities of small and midsize firms in a number of countries, training more than 20,000 entrepreneurs—many of them women—through the IFC Business Edge program. We helped increase the availability of credit, assisting in providing nearly 7 million microfinance loans and more than 500,000 housing finance loans. Through our clients we reach more micro-entrepreneurs than any other development finance institution. Our work in oil, gas, mining, and chemicals helped generate more than \$9 billion in revenues for governments—funds that can be used to help reduce poverty.

These results reflect our ability to adapt to changes in clients' needs and in global economic conditions. Over the last few years, we have decentralized more of our operations, moving more key staff to the field, so that they are closer to clients. To provide the integrated solutions that clients need, we have significantly stepped up our advisory services business. To ensure the greatest overall impact, we have increased cooperation with colleagues across the World Bank Group and with many other partners who share our commitment to the development of emerging markets.

We are helping clients turn longer-term challenges into opportunities for growth that improves lives. Emerging economies have an opportunity, for example, to balance the need for jobs and basic services with a sound approach to climate change. IFC's financing and technical expertise are helping clients find the right mix of energy sources and make the best use of new technologies. We are designing innovative business models and financial instruments that can deliver cleaner energy and help protect the environment. To help developing countries produce more food, we are also working on several fronts, investing to expand the supply of high-quality water, helping remove local constraints on agricultural lending and land use, building farmers' capacity, and finding new ways to insure crops.

IFC has a central role in implementing the World Bank Group's strategy. In conflict-affected countries, we have helped create jobs by steering foreign investment to small local firms. We are developing ways to help sovereign wealth funds from developed

and emerging countries make equity investments in Sub-Saharan Africa and other frontier markets. We are helping raise standards and reform regulations to ensure that development is both environmentally and socially sustainable.

IFC's adaptability reflects a determination to measure our performance, learning what works and where we need to improve. Our Development Outcome Tracking System allows us to make changes during the life of an investment or advisory project. Our overall strategy has taken on many recommendations from IFC's Independent Evaluation Group, which called on us to adopt tailored country-specific strategies and collaborate more intensively across the World Bank Group. The expertise and versatility of our staff also play an indispensable role in our ability to meet clients' rapidly changing needs. Our employees' dedication to sustainable development is the cornerstone of our success—in 2008 and always. I am proud to be part of such a diverse and talented team, and I thank our staff for achieving another year of strong results.

Strong and sustainable economic growth depends, ultimately, on the ability of governments and private enterprises to harness productive capacities throughout a society. It involves creating jobs and entrepreneurship opportunities for women, for people in rural areas, and for groups on the economic and social margins. This means reaching communities—even in countries that are making rapid economic progress—that prosperity has bypassed. And it means giving the billion people who still live in severe poverty a chance at a better life.

Creating opportunity for people is at the core of our business. At IFC we will continue to do our part—and seek ways to expand our contribution—for an inclusive and sustainable world.

Much more remains to be done.

Lars H. Thunell
IFC Executive Vice President and CEO

OUR MANAGEMENT GROUP

IFC's strategy and policies are shaped by a team of executives who bring a rich diversity of knowledge, skills, experience, and cultural perspectives to our work. The Management Group—consisting of our chief executive and vice presidents—leads the way in managing IFC's growth and ensuring that we maximize our development impact while responding swiftly to clients' needs. It is working to expand our capacity to serve the poorest countries and regions by decentralizing operations, empowering IFC staff, and making our business processes more efficient. This year, a member of the group became the first vice president to be based outside our Washington, D.C., headquarters. Our top executives are also helping foster a corporate culture that will reinforce IFC's ability to serve clients, adapt to their changing needs, and increase our contribution to the sustainable development of emerging markets.



Dorothy Berry

VICE PRESIDENT, HUMAN RESOURCES,
COMMUNICATIONS, AND ADMINISTRATION



Farida Khambata

VICE PRESIDENT, ASIA, LATIN AMERICA,
AND GLOBAL MANUFACTURING



Michel Maila

VICE PRESIDENT,
RISK MANAGEMENT

**Declan Duff**

VICE PRESIDENT, REAL SECTORS AND
EUROPE AND CENTRAL ASIA

**Krystallina Georgieva**

VICE PRESIDENT AND CORPORATE
SECRETARY

**Rashad Kaldany**

VICE PRESIDENT, MIDDLE EAST, NORTH AFRICA,
AND GLOBAL INFRASTRUCTURE

**Michael Klein**

VICE PRESIDENT, FINANCIAL AND
PRIVATE SECTOR DEVELOPMENT,
AND IFC CHIEF ECONOMIST

**Rachel Kyte**

VICE PRESIDENT, BUSINESS
ADVISORY SERVICES

**Jyrki Koskela**

VICE PRESIDENT, EUROPE, CENTRAL ASIA,
AND GLOBAL FINANCIAL MARKETS

**Jennifer Sullivan**

GENERAL COUNSEL

**Nina Shapiro**

VICE PRESIDENT, FINANCE
AND TREASURER

**Thierry Tanoh**

VICE PRESIDENT, SUB-SAHARAN AFRICA
AND WESTERN EUROPE

CREATING OPPORTUNITY

In developing and transition countries around the world, as many as 2.6 billion people live on less than \$2 a day. Economic growth at the national level, often strong in recent years, has barely altered the circumstances they face. Most of these people have no bank accounts, and many lack telephones. Access to clean water, electricity, and basic health care remains unattainable for many.

Their plight illustrates the uneven progress of the global drive to reduce poverty. Regional disparities abound: the number of impoverished people has dropped sharply in East Asia but climbed in Sub-Saharan Africa. Even in the more prosperous middle-income countries, more than a billion people still live on the economic fringes, struggling for basic necessities.

IFC aims to help people at the bottom of the economic pyramid. We recognize that they constitute an important, often untapped market and that a strong, sustainable private sector can play a critical role in improving their lives. Our investments and advice also help tackle the social and environmental problems that impose a particularly high burden on the poor. IFC's activities are guided by five strategic principles...





1 STRATEGIC PILLARS

Strengthening the Focus on Frontier Markets

IFC goes where we are needed most, reaching the underserved wherever they are—in the poorest countries, in the poorer regions of middle-income countries, and in industry sectors that have the broadest potential to spur development and improve lives. Our priorities in these areas—the frontier markets—include strengthening *small and medium enterprises*; intensifying our effort to promote *agribusiness*; devising innovative solutions to revive the private sector in *conflict-affected countries*; and stepping up our *collaboration with other World Bank Group entities* to serve the poorest countries.



2 STRATEGIC PILLARS

Building Enduring Partnerships with Emerging Market Players

IFC's experience has shown that we achieve better development outcomes when we form long-term relationships with our clients. These partnerships allow us to guide our clients' development and extend the benefits of economic growth by helping them invest in other developing countries. They also allow us to help raise standards and strengthen the overall business climate. Our priorities in this arena include *financing South-South investment*, which increases the flow of capital, skills, and technology across the developing world; helping our clients in *integrating smaller local businesses into supply chains*; and *improving corporate governance and tackling HIV/AIDS and other challenges* to development.



IFC CLIENT LEADERSHIP AWARD

Each year IFC presents an award to recognize a highly successful corporate client that, in line with our vision and purpose, has made a significant contribution to sustainable development. This year's recipient, CPFL Energia, is Brazil's largest private electricity company. Since it became an IFC client in 2003, CPFL has brought electricity to a million new customers and created more than 7,000 jobs, while making exemplary efforts to reduce energy losses and mitigate climate change. In 2007, it spent \$36 million on reforestation and other environmental programs. The energy efficiency of its small hydroelectric plants is allowing it to sell a growing number of carbon credits. CPFL's corporate governance practices are among the best in Latin America. Its achievements have been accompanied by consistent financial success, with earnings rising more than 20 percent a year. IFC's financing helped CPFL restructure and prepare for an initial public offering in 2004. Its success has helped attract investment to the power sector in Brazil, a country that as recently as 2001 had needed to ration electricity.





3 STRATEGIC PILLARS

Addressing Climate Change and Ensuring Environmental and Social Sustainability

The least developed countries face long-term obstacles to sustained prosperity. Climate change poses a particularly high risk for their people, many of whom depend on agriculture, forestry, and fisheries for their livelihoods and have a limited or unreliable water supply. Social inequities also limit many people's economic potential. IFC priorities for addressing these challenges include *developing new business models and financing instruments for clean energy; setting and improving environmental and social standards* for the private sector; and *promoting economic inclusion* by increasing opportunities for women entrepreneurs, people in rural areas, and disadvantaged groups.

IFC'S CLIMATE CHANGE STRATEGY

Tackling climate change is a priority for IFC; our efforts complement and support the World Bank Group's overall strategy. We are helping direct private investment to opportunities in emerging markets and are developing sound business models for clients. We also are working with donors to provide seed funding for innovations in clean energy.

In FY08, we significantly expanded this focus, supporting 44 investments that involve energy efficiency and renewable energy. Together these mobilized an overall investment above \$10 billion. IFC directly provided \$1.4 billion, 60 percent of it for hydroelectric projects. In keeping with the Bank Group's pledge to increase funding for clean energy by 20 percent annually, IFC's investments in this area grew by 64 percent in FY08.

We launched the carbon delivery guarantee, a new product that allows companies producing and selling carbon credits to access more buyers by mitigating risk (see p. 37). With resources provided by the Global Environment Facility and other donors, we oversee a diverse portfolio of more than \$200 million that is helping make climate-friendly innovations commercially viable by reducing costs and removing barriers to market development.

IFC requires clients to inform us when their carbon emissions exceed 100,000 tons a year, and this leads to productive discussions on how they can improve energy efficiency and adopt cleaner technologies. We are also helping identify sector-based opportunities for climate-friendly investment, beginning with a study in China.



4 STRATEGIC PILLARS

Promoting Private Sector Growth in Infrastructure, Health, and Education

Economic growth is easier to achieve when people's basic needs—energy, transportation, housing, access to clean water—are met. It occurs faster when people have good access to education and health care. But governments in many developing countries invest far less than they need to in infrastructure, education, and health care, while private investors could do more to help fill the gap. IFC helps increase access to basic services by *financing landmark infrastructure projects; expanding investment and advisory services in the health and education sectors; and collaborating across the World Bank Group to maximize our development impact.*

5 STRATEGIC PILLARS

Developing Local Financial Markets

A shortage of sophisticated financial services presents a key obstacle to people and private enterprises in many developing countries. Businesses, both large and small, are often denied loans because they are considered a poor credit risk. IFC has made it a priority to broaden access to finance and deepen capital markets by expanding the availability of *microfinance and credit for small and medium enterprises*; introducing new products that help lower financial risks, especially through *local currency financing*; and *mobilizing finance from international banks and other investors*.



DOING OUR PART:

IFC'S CONTRIBUTION TO THE WORLD BANK GROUP'S PRIORITIES

The vision of the World Bank Group is to contribute to an inclusive and sustainable globalization—to overcome poverty, enhance growth while caring for the environment, and create individual opportunity. At IFC we are doing our part on all six of these themes, each of which has an important private sector component.

The Poorest Countries

Helping overcome poverty and spur sustainable growth in the poorest countries, especially in Africa. IFC investments and advisory work in countries served by IDA now account for 40 percent of our projects. We aim to increase the proportion to 50 percent over the next three years.

Fragility and Conflict

Addressing the special challenges of countries that are emerging from conflict or seeking to avoid the breakdown of the state. IFC has 250 ongoing investment and advisory projects in 36 conflict-affected countries, including Afghanistan, Liberia, and Sierra Leone. We have nearly 200 staff based in 21 of these countries.

Middle-Income Countries

Building a competitive menu of development solutions for middle-income countries, involving customized services as well as finance. IFC's advice is strengthening the business climate in many middle-income countries, and we have initiated innovative projects involving housing finance and public-private partnerships.

Global Public Goods

Playing a more active role with regional and global public goods on issues crossing national borders, including climate change, HIV/AIDS, malaria, and aid for trade. IFC is defining standards in the world financial community as banks continue to adopt and apply the Equator Principles, a set of guidelines promoting social and environmental sustainability in project finance.

The Arab World

Supporting those who are advancing development and opportunity in the Arab world. IFC's investments in the Middle East and North Africa have more than doubled over the last two years, and we are helping to modernize infrastructure and expand affordable housing across the region.

Knowledge and Learning

Fostering a knowledge and learning agenda across the World Bank Group to support its role as a brain trust of applied development experience. IFC's system for monitoring and evaluation is helping set best practice standards for assessing the results of private sector engagement in emerging markets.



WHERE WE WORK

IFC helps the private sector do its part to create opportunity and improve lives in emerging markets around the world.

- **In the poorest countries**, we work with a wide array of partners to provide the advisory services and financing that allow private enterprises to develop and grow.
- **In middle-income countries**, where the majority of the world's poor people live, we help the private sector extend its reach to people and regions that have not yet shared in the benefits of economic growth.
- **In all developing markets** we help companies and financial institutions raise operating standards, improve their sustainability, and become more globally competitive.

DEEPENING IFC'S PARTNERSHIP WITH IDA

IFC has stepped up cooperation with the International Development Association, the World Bank Group's lead agency for assisting the world's poorest countries, which together with the International Bank for Reconstruction and Development forms the World Bank. During FY08 we began a net transfer of \$1.75 billion to IDA's current three-year funding cycle; IFC's funding matches IBRD's contribution for the first time. Our greater stake in IDA reflects growing awareness of the role the private sector plays in helping the poorest countries reduce poverty and improve people's lives—and recognition that IFC is uniquely positioned to galvanize private investors in these markets. While IDA will continue to focus primarily on public sector projects, a new IDA/IFC Secretariat has been created to pursue opportunities for increasing joint Bank Group efforts that support private sector development in the countries IDA serves.

Joint projects typically involve an IDA credit or guarantee, alongside an investment or advisory services from IFC, in the context of a shared strategy. So far, 10 projects have been identified for focused support from a pipeline of potential collaboration. These include the financial sector throughout Africa; rural electrification in India; access to energy in Liberia, Rwanda, Senegal, and Zambia; hydropower in the Lao PDR; and infrastructure in the Pacific islands. IFC has already collaborated with IDA in a number of ways, notably to support micro, small, and medium enterprises in Sub-Saharan Africa.

For more about IDA, visit www.worldbank.org/ida.



CONNECTING MORE PEOPLE TO A GROWING ECONOMY

Brazil's economy is thriving, but the benefits have yet to reach many parts of the country. In the northeastern state of Ceara, one of Brazil's poorest, fewer than seven in 100 people had fixed-line telephones until recently in the small towns of Aracati, Quixada, Quixeramobim, and Russas. Service was simply too expensive. IFC is helping change that. In 2008, we financed the expansion of Ruralfone Inc., which focuses on markets that others have considered unprofitable: towns and villages of fewer than 30,000 people. Using wireless technology, Ruralfone provides fixed-line service at one of the world's lowest rates—as little as \$2 a month. In the four towns it serves so far, this has sharply increased the percentage of people with fixed lines. IFC's investment of up to \$6 million is expected to help Ruralfone expand service to 10 more towns in Ceara over the next year.

IFC AT A GLANCE

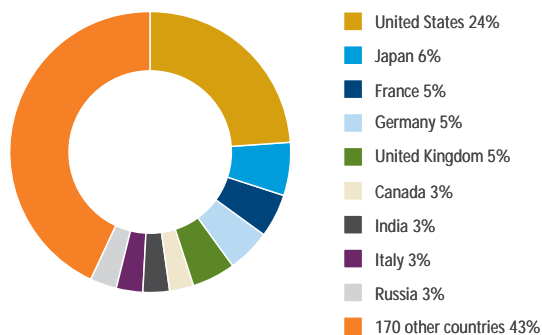
This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgement on the legal status of any territory, or any endorsement or acceptance of such boundaries.

● IDA ● Middle-income countries with frontier regions ● Other client countries

IFC fosters sustainable private sector growth in developing countries.

• OUR MEMBER COUNTRIES

STRONG SHAREHOLDER SUPPORT



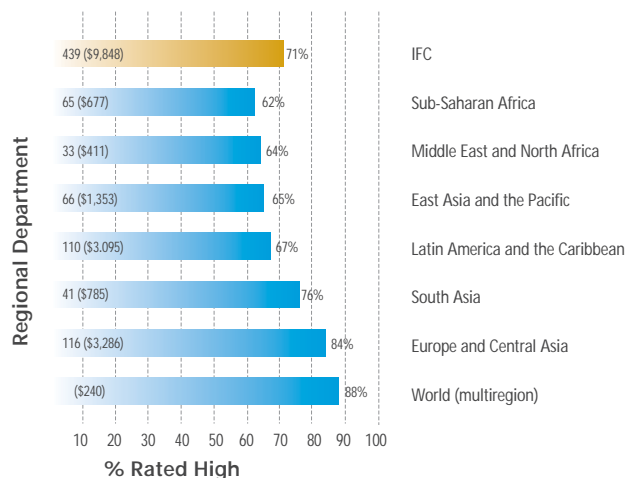
LARGEST COUNTRY EXPOSURES (JUNE 30, 2008)

Global Rank	Country	Portfolio (\$ millions)	Percent
1	India	2,876	9
2	Russian Federation	2,718	8
3	Brazil	2,487	8
4	China	2,150	7
5	Turkey	1,806	6
6	Mexico	1,000	3
7	Argentina	998	3
8	Philippines	898	3
9	Colombia	877	3
10	Indonesia	830	3

IFC AT A GLANCE

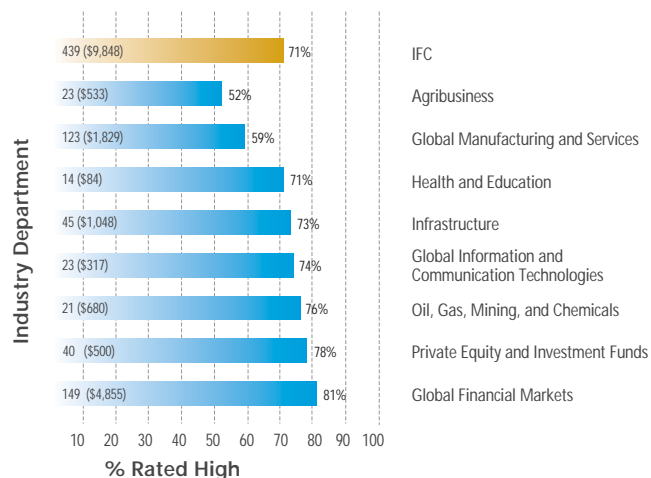
• OUR DEVELOPMENT RESULTS

DEVELOPMENT RESULTS BY REGION



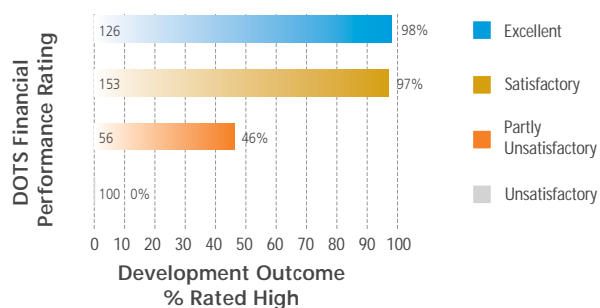
DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004.
Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

DEVELOPMENT RESULTS BY INDUSTRY



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004.
Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

FINANCIAL PERFORMANCE AND DEVELOPMENT OUTCOME



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004.
Bars include the number of projects with this financial performance rating.

FY08 Investments in Energy Efficiency and Renewable Energy: \$1.4 billion

• SUSTAINABILITY

FY08 COMMITMENTS BY ENVIRONMENTAL AND SOCIAL CATEGORY

Category*	Commitments (\$ millions)
A	\$814
B	\$4,904
C	\$1,841
FI	\$3,642
N**	\$197

*See category descriptions on p. 38.

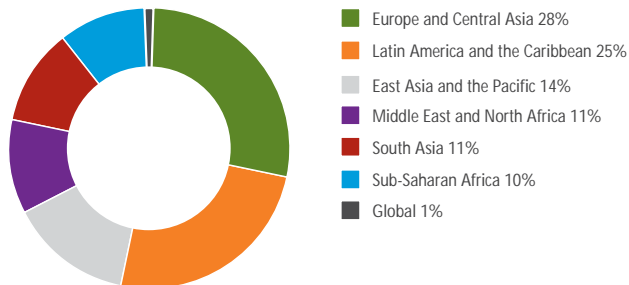
**N refers to increased commitments on existing projects or swaps and rights issues

Visit www.ifc.org/annualreport for more information on sustainability, including a Global Reporting Initiative index.

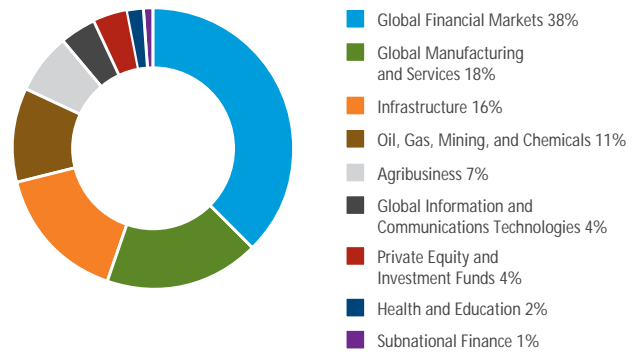
• INVESTMENT PORTFOLIO

For IFC's own account as of June 30, 2008: \$32.4 billion

COMMITTED PORTFOLIO BY REGION



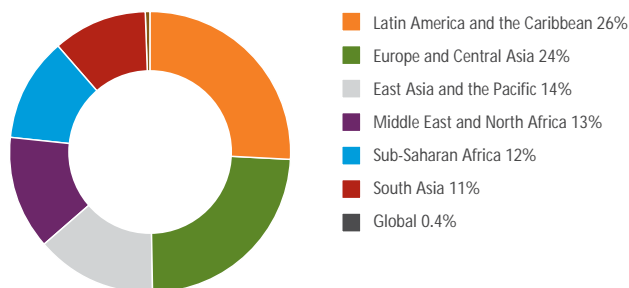
COMMITTED PORTFOLIO BY INDUSTRY



• FY08 INVESTMENTS

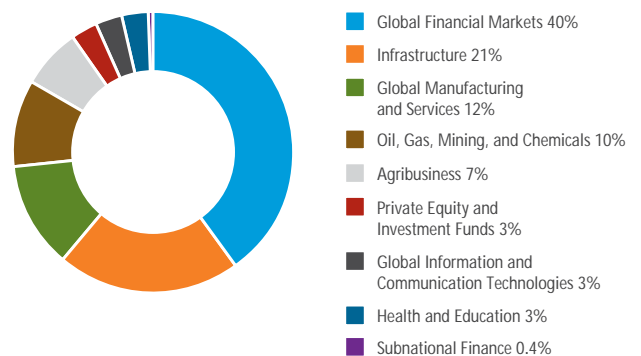
For IFC's own account as of June 30, 2008: \$11.4 billion

INVESTMENTS BY REGION

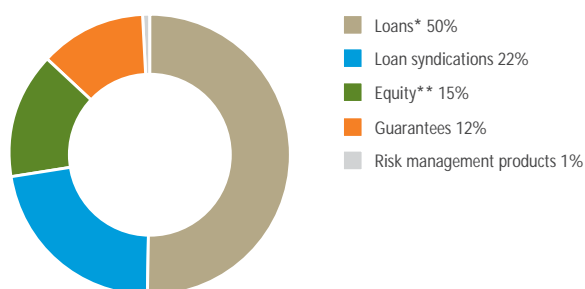


Some amounts include regional shares of investments that are officially classified as global projects. See regional sections for details.

INVESTMENTS BY INDUSTRY



INVESTMENTS BY PRODUCT



* Includes loan-type, quasi-equity products

** Includes equity-type, quasi-equity products

IFC also mobilized \$4.8 billion in FY08 through syndications, structured and securitized products, sales of IFC loans, and parallel loans.

IFC AT A GLANCE

• IFC INVESTMENT OPERATIONS AND RESOURCES

\$ millions

	FY04	FY05	FY06	FY07	FY08
Investment commitments					
Number of projects [†]	217	236	284	299	372
Number of countries	64	67	66	69	85
Total commitments signed	5,632	6,449	8,275	9,995	14,649
For IFC's own account	4,753	5,373	6,703	8,220	11,399
Syndication mobilization [‡]	879	1,076	1,572	1,775	3,250
Structured finance mobilization*	480	1,049	1,245	2,083	1,403
Investment disbursements					
Total financing disbursed	4,115	4,011	5,739	7,456	9,921
For IFC's own account	3,152	3,456	4,428	5,841	7,539
Syndication mobilization [‡]	964	555	1,311	1,615	2,382
Committed portfolio**					
Number of firms	1,333	1,313	1,368	1,410	1,490
Total committed portfolio	23,460	24,536	26,706	30,954	39,923
For IFC's own account	17,913	19,253	21,627	25,411	32,366
Syndication mobilization [‡]	5,546	5,283	5,079	5,543	7,525

[†]Includes first commitment to projects in the fiscal year. Projects involving financing to more than one company are counted as one commitment.

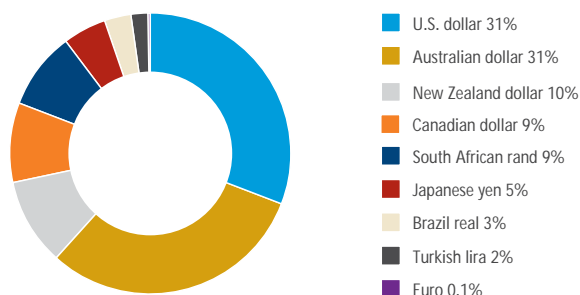
[‡]Includes syndicated loans and guarantees. For FY08 only, commitments and portfolio include participation sales for IFC's own account.

*This financing is not included on IFC's balance sheet.

**Total committed portfolio and syndication mobilization include securitized loans.

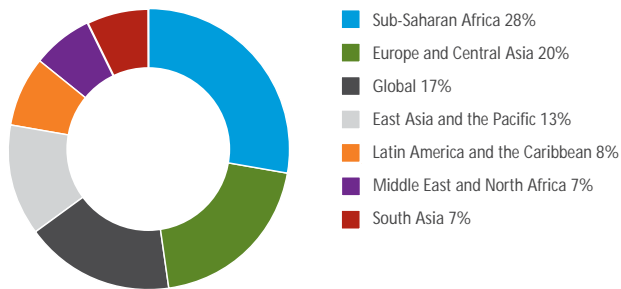
IFC's FY08 Financial Statements and Management's Discussion and Analysis are published online at www.ifc.org/annualreport.

• FY08 BORROWING ON INTERNATIONAL MARKETS

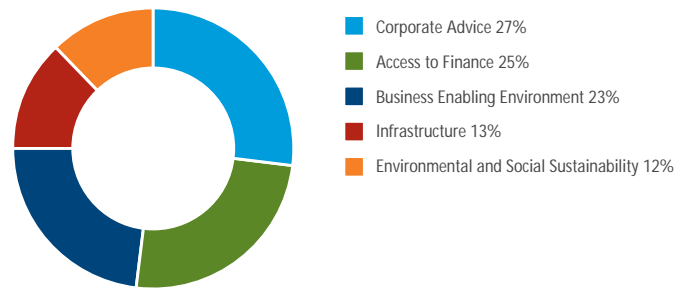


• FY08 ADVISORY SERVICES

EXPENDITURES BY REGION

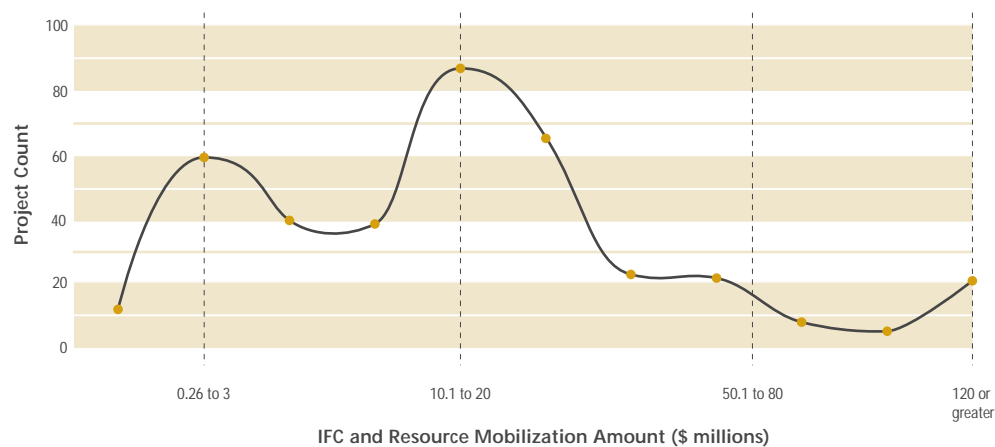


EXPENDITURES BY BUSINESS LINE



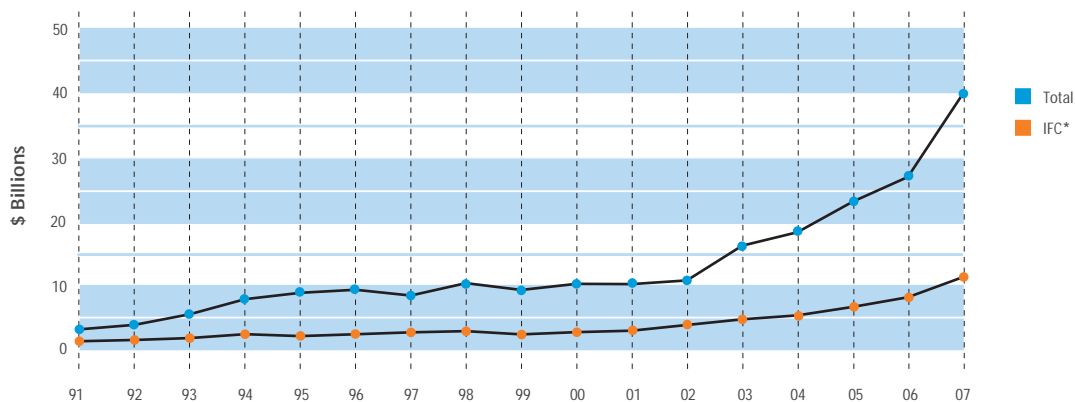
• FY08 INVESTMENTS BY SIZE

IFC'S ACCOUNT AND RESOURCE MOBILIZATION



• PRIVATE SECTOR INVESTMENT VOLUMES

FOR IFC AND OTHER MULTILATERALS



*IFC's data is by fiscal year; other institutions' data is by calendar year. For example, IFC's FY08 financing is compared to others' for calendar year 2007.

WHAT WE DO:

IFC'S OPERATIONS AND RESULTS

IFC provides a unique combination of investment and advisory services to promote the sustainable growth of private enterprises in emerging markets.



In developing countries, the essential ingredients for private entrepreneurship are often missing. Commercial banks are unable to provide long-term financing to local businesses. Financing dries up entirely in times of national crisis. Businesses lack crucial technical know-how.

IFC delivers what cannot be obtained elsewhere. We offer clients a unique package of products and services aimed at helping local businesses grow quickly and sustainably. We call that special edge our “additionality.” It is both the foundation of our decision-making and a key reason that clients choose to work with us.

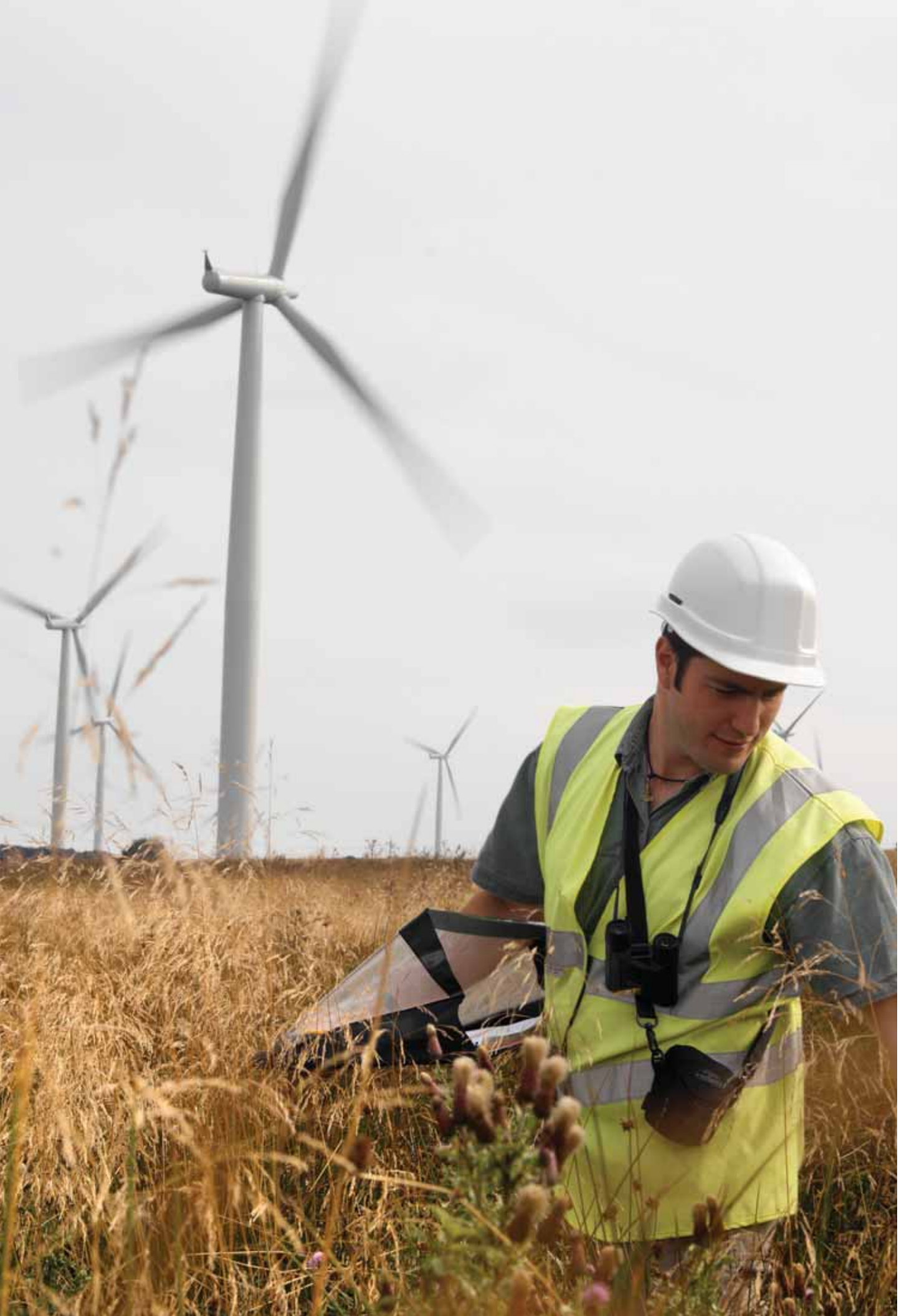
We provide local currency loans at maturities that otherwise would be unavailable. We provide long-term financing, including equity, even in crisis situations. We make additional funds available by arranging loan syndications and structured finance transactions.

We transfer global expertise to our clients, providing advice that makes them more competitive and steadily improves their business practices. We help create a friendly climate for entrepreneurship by working with the World Bank to advise governments on regulatory reforms.

Our distinguishing trait, ultimately, is the way we measure our own performance—by the tangible ways we improve the lives of people in our client countries.







IMPROVING LIVES

IFC stimulates economic growth where it is most urgently needed. In places where the poor might otherwise be left behind, we play a catalytic role. We spur entrepreneurship. We help our clients create jobs. We help ensure that development is not accompanied by high environmental and social costs.

Silvia Baños is a woman of modest means. When she looks at her teenage son, she sees the future. “The only inheritance I can leave him is his career,” she says. “That’s why I do all I can for him to finish his professional studies.” In Mexico, people with university degrees usually earn at least twice as much as those without. But few can afford higher education. Only 2 percent of potential university students in Mexico have access to student loans. IFC is helping change that. Today Baños’ son, Guillermo, is studying communications at one of the country’s top private universities, Universidad Tecnológica de México. He attends classes on loans he received from FINEM, a privately owned student loan institution that obtained its early financing from IFC. Our loan is helping finance the education of more than 1,400 students.



PHOTO: Guillermo Baños applies for a loan that allows him to study at a top private university.

FINANCIAL RESULTS

IFC is the largest provider of multilateral financing for the private sector in the developing world. Our financial performance for FY08 continued its recent strong trend despite the downturn in global markets. Operating income was \$1.4 billion in FY08, a decline of \$1.2 billion when compared with \$2.6 billion in FY07 (as restated). Operating income comprises net income before net unrealized gains and losses on other nontrading financial instruments accounted for at fair value.

In FY08, we committed \$11.4 billion for our own account and mobilized an additional \$4.8 billion. The total project cost for these investments was \$43 billion. Altogether, we supported 372 investments in 85 countries. We also approved 299 new advisory projects in 75 countries. Total expenditures for advisory services were \$269 million (\$123 million from IFC and \$146 million from donors), a 37 percent increase from FY07. IDA projects account for 45 percent of FY08 investments and more than 55 percent of new advisory projects.

There was strong growth across all our product lines. On the balance sheet, the disbursed loan portfolio increased 21 percent to our largest-ever volume of \$15.3 billion. The equity portfolio grew by \$1.3 billion to \$11.0 billion (measured at fair value), and the fair value of IFC's holdings of debt securities amounted to \$1.6 billion at June 30, 2008 (up from \$0.7 billion at the end of FY07). Guarantees signed at June 30, 2008, totaled \$1.9 billion (compared to \$1.4 billion at the end of FY07).

IFC's net worth consists of retained earnings, accumulated other comprehensive income, and paid-in capital. Our paid-in capital remains \$2.4 billion, while net income of \$1.5 billion this year increased retained earnings to \$13.2 billion, of which \$0.8 billion has been designated for specific Board-approved purposes. Accumulated other comprehensive income was \$2.7 billion at June 30, 2008. IFC's net worth at the end of FY08 was \$18.3 billion.

Overall, our operating return on average net worth was 9.7 percent in FY08, compared to 21.0 percent in FY07. Net income for FY08, including gains and losses on nontrading financial instruments, was \$1.5 billion, compared with \$2.5 billion for FY07 (as restated). The main factors in the lower net volume were lower realized capital gains on equity sales, lower income for liquid asset trading activities, and a higher grant to IDA.

IFC's liquid asset portfolios, net of derivatives and securities lending activities, increased by \$1.3 billion in FY08 to \$14.6 billion. Income from liquid assets, net of allocated funding costs, amounted to \$222 million, including \$2 million of spread income from market-funded liquid assets, as compared to \$320 million and \$14 million, respectively, in FY07.

Administrative expenses on the financial statements rose 14 percent to \$549 million in FY08, compared to an increase of 11 percent to \$482 million in FY07.

The equity investment portfolio continued to contribute most to IFC's profitability. IFC's move to measure more of its balance sheet at fair value beginning in FY08 has made our earnings more volatile, particularly in the current market environment.

IFC'S FINANCIAL PERFORMANCE HIGHLIGHTS (\$ MILLIONS)

	2007	2008
CLIENT SERVICES—OPERATING INCOME	2,269	1,216
Loans and guarantees	235	163
Equity investments	2,200	1,532
Debt securities	6	129
Expenditures for advisory services	(96)	(123)
Expenditures for performance-based grants	-	(27)
Grants to IDA	(150)	(500)
Corporate charges and other	74	43
IFC TREASURY SERVICES—OPERATING INCOME	320	222
IFC OPERATING INCOME	2,589	1,438

Further details on IFC's financial results can be found in IFC's FY08 Financial Statements and Management's Discussion and Analysis, which are published online; visit www.ifc.org/annualreport.

INVESTMENT COMMITMENTS

New investment commitments for IFC's own account amounted to \$11.4 billion. This represents an increase of 39 percent compared to \$8.2 billion in FY07. IFC also mobilized \$4.8 billion.

The largest share of commitments for IFC's own account went to Latin America and the Caribbean (26 percent) and Europe and Central Asia (24 percent). The business sectors with the highest volume of new commitments were global financial markets with 40 percent, followed by infrastructure with 21 percent.

Disbursements for IFC's own account in FY08 were \$7.7 billion, up from \$5.8 billion in FY07. Loan disbursements were \$5.1 billion, and equity disbursements were \$1.6 billion. IFC also invested \$1.0 billion in debt securities of our client companies.

LOCAL CURRENCY FINANCING

IFC uses local currency financing to help clients mitigate foreign exchange risk and to develop local capital markets. Including equity, IFC provided about a third of our financing and investment in local currency during FY08. Using market-based instruments, IFC provides local currency debt financing in several forms: loans, risk management swaps that allow clients to hedge foreign currency liabilities back into local currency, and credit enhancement structures that enable clients to borrow in local currency from other sources.

IFC has committed more than \$5 billion equivalent in local currency using derivatives, for 170 investments in 23 currencies. This form of financing uses long-term derivatives markets, and IFC works closely with market counterparts and government regulators to extend the availability and liquidity of these markets. In FY08, IFC committed its first local currency loans in Argentina, Costa Rica, Ghana, Guatemala, Kenya, and Zambia, and we were particularly active in providing financing in Brazilian reais, Russian rubles, and South African rand.

IFC is at the forefront of domestic capital market development. Through participation in the structuring and credit enhancement of transactions, IFC has helped introduce new asset classes. Transactions have not only enabled IFC's clients to secure attractive long-term local currency financing, but have also been catalysts in expanding numerous domestic markets. Since 2001, IFC has completed 79 domestic market structured transactions in 25 currencies for an exposure of \$1.04 billion equivalent; we have assisted in mobilizing more than \$4.5 billion equivalent.

INVESTMENT PORTFOLIO

IFC's committed portfolio, including off-balance sheet guarantees and risk management products, increased by 28 percent to \$32.4 billion on June 30, 2008, from \$25.4 billion at the end of FY07. In addition, we managed \$7.5 billion in syndications. At the end of FY08, the committed portfolio included investments in 1,490 companies in 122 countries.

The net increase in the committed portfolio was \$6.8 billion after taking into account new commitments, repayments, sales, cancellations, prepayments, write-offs, and translation adjustments. Loan principal repayments and prepayments totaled nearly \$2.7 billion, and \$463 million in equity investments and debt securities were sold or redeemed.

The total disbursed investment portfolio stood at \$21.1 billion at the end of FY08, compared with \$16.2 billion at the end of FY07. The disbursed loan portfolio grew by 21 percent, while the disbursed equity portfolio grew by 46 percent.



PRODUCT LINES

LOANS

IFC finances projects and companies through loans for our own account, generally for seven to 12 years, though some loans have been extended for tenors as long as 20 years. We also make loans to intermediary banks, leasing companies, and other financial institutions for on-lending, particularly to smaller businesses.

In FY08, we made commitments for \$7.37 billion in new loans. Income from loans and guarantees amounted to \$1.1 billion in FY08, virtually unchanged from FY07. Total reserves against losses on loans decreased to \$848 million at the end of FY08, representing 5.5 percent of the disbursed loan portfolio, down from 6.5 percent at the end of FY07.

EQUITY INVESTMENTS

Equity investments provide the long-term developmental support that entrepreneurs and private enterprises most need, with deliberate assumption of risk as well as participation in gains. These investments also provide opportunities to support reforms, particularly in corporate governance.

IFC risks its own capital by buying shares in companies, other project entities, financial institutions, and portfolio or private equity funds. This is a strategic and expanding part of our portfolio. The equity portfolio grew by \$1.3 billion in FY08 (measured at fair value). Equity investments also contribute a significant share of IFC's net income.

We generally subscribe to between five and 20 percent of a company's equity. We are long-term investors and usually exit by selling shares in a trade sale or, if liquidity permits, in a capital market following a public offering. We also invest in quasi-equity instruments, which may have loan, debt, or equity investment characteristics. Our equity and quasi-equity investments are funded from IFC's retained earnings.

Income from our equity investment portfolio declined to \$1.7 billion in FY08, from \$2.3 billion in FY07. As of June 30, 2008, the estimated fair value of the equity portfolio was \$11.0 billion, compared to IFC's original cost less impairment of \$4.3 billion. Capital gains realized on equity sales were \$1.4 billion in FY08, down from \$1.9 billion in FY07.

SYNDICATIONS

IFC's syndicated loan program, the oldest among multilateral development banks, helps increase the flow of private capital to borrowers in emerging markets and creates valuable banking relationships for our clients. Borrowers benefit from longer maturities and from IFC's preferred credit status with regulators, rating agencies, and Basel II. The program grew significantly in FY08, achieving its highest volume ever, with \$3.3 billion in new loans signed (compared with \$1.8 billion in FY07), comprising 29 syndicated loans, one parallel loan, and participation sales of four loans for IFC's own account—a total of 34 transactions with 47 financial institutions.

Amid global financial instability sparked by the U.S. sub-prime crisis, syndicated loans are important in helping IFC fulfill its countercyclical role. During FY08, IFC syndicated more than \$1.03 billion in credit facilities for bank borrowers in Latin America and Russia, helping maintain their liquidity and enabling continued growth. To compensate for lower appetite among traditional European and North American participants, we have expanded our base to include leading banks from emerging economies. In FY08, 34 percent of participants in IFC syndications were from emerging markets. IFC also adapted the syndications program to enable the sale of existing loan exposure for our own account.

STRUCTURED AND SECURITIZED PRODUCTS

IFC uses structured and securitized products to provide clients with cost-effective forms of financing that would not otherwise be readily accessible. Products include partial credit guarantees, structured liquidity facilities, portfolio risk transfer, securitizations, and Islamic finance. We use our expertise in structuring and our international triple-A credit rating to help clients diversify funding, extend maturities, and obtain financing in their currency of choice. Through such transactions we mobilized a total of \$1.9 billion for clients in FY08, including \$459 million from our own account. Half of transactions were for clients in Africa and the Middle East, with 70 percent of the total in local currency.

We worked in new markets, including Bangladesh, Lebanon, Rwanda, Tunisia, the United Arab Emirates, and the West Bank and Gaza, as well as with repeat and new clients in established markets. IFC has evolved as a leading innovator, meeting client needs and promoting development of domestic credit markets. Through these products, IFC provides financing in underserved markets and priority sectors and mobilizes long-term local currency financing. This year in the Middle East, for example, we created a novel risk-sharing facility that expanded SMEs' access to finance and supported the sector's recovery from the conflict in Lebanon, helped students access loans through an innovative risk-sharing facility in the West Bank and Gaza, and merged Islamic and modern finance to achieve the first Sharia-compliant securitization of mortgages in the Persian Gulf region.

TRADE FINANCE

The IFC Global Trade Finance Program extends and complements banks' capacity to deliver trade financing by providing risk mitigation in challenging markets. During FY08, IFC issued over \$1.4 billion in guarantees to support more than 2,000 individual trade transactions. We have issued \$2.5 billion worth of guarantees for more than 3,000 individual transactions since the program began in 2005. We now provide risk coverage for 122 banks across 61 countries and territories, including Burundi, Gambia, Nepal, Nicaragua, Tajikistan, and the West Bank and Gaza. IDA countries—most of them in Africa—accounted for 51 percent of the total volume of guarantees issued in FY08. Trade involving small businesses represented 70 percent. IFC also offers support to client banks through training and advisory services. In FY08, over 500 bankers from 148 banks attended training, and seven banks received specialized advisory services. The agriculture sector is a focus going forward, through products such as commodities pre-export finance and import finance for agricultural products. In FY08, 28 percent of the guarantees issued supported this critical sector.



IFC'S CARBON DELIVERY GUARANTEE: A NEW PRODUCT FOR CLIMATE-FRIENDLY INVESTMENT

IFC helps companies maximize their potential for clean energy, including by generating and selling carbon credits. The Clean Development Mechanism of the Kyoto Protocol allows companies to sell these credits, known as certified emission reductions, in global commodity markets when they reduce their output of environmentally harmful substances. One of IFC's innovative products is the carbon delivery guarantee, which helps sellers access a wide range of potential buyers by mitigating country and project risk. Through this new financial product, IFC acts as an intermediary by facilitating delivery of carbon credits from companies in developing countries to buyers in the developed world. For sellers, IFC attempts to achieve an attractive and transparent price; for buyers, we eliminate the risk of not receiving the promised carbon credits.

During FY08, IFC signed innovative carbon delivery guarantee agreements with two chemicals companies: Rain CII Carbon in India, the largest producer of calcined coke in the world, and South Africa's Omnia, one of the country's leading fertilizer producers. The investments underlying these transactions will reduce greenhouse emissions equivalent to 12.5 million tonnes of carbon dioxide over the estimated life of the assets.

ADVISORY SERVICES

IFC provides advice to governments, private companies, and industry sectors on how to grow businesses sustainably as well as to create a positive investment climate. Advisory work complements IFC's investment operations and plays a key role in markets with nascent investment opportunities. This work, funded in partnership with governments and other donors and through client contributions, is the lead instrument for IFC operations in many countries, especially those that are emerging from conflict. IFC provides advisory and investment services sequentially or in combination, depending on the needs of a country or client.

We have organized our advisory work in five business lines that correspond with our operational strategy: business enabling environment, access to finance, corporate advice, environmental and social sustainability, and infrastructure (see p. 90 for more information on the business lines).

IFC's experience has shown that combining advisory work with investments enhances both profitability and development impact. Hence we increasingly provide integrated solutions for clients; about 27 percent of advisory services were aligned with IFC investments.

In FY08, our project implementation expenditures for advisory services were \$152 million in 97 countries. The largest shares of advisory activity went to Sub-Saharan Africa (28 percent) and Europe and Central Asia (20 percent). The most active business lines were corporate advice (27 percent) and access to finance (25 percent).

Donor governments provide the largest share of contributions, but IFC's contribution has increased, using part of our retained earnings, as has fee income from clients. We have established pricing guidelines for our advisory work based on two guiding principles. First, where possible, all clients should make some contribution, to demonstrate commitment. Second, cost-sharing is determined according to the nature of the product or service—the extent to which a public good, with benefits beyond the individual client, is being created.

FUNDING FOR ADVISORY SERVICES (\$ MILLIONS)

Source	FY07	%	FY08	%
IFC	95.6	50%	123.1	46%
Donor and other*	94.9	50%	145.6	54%
Total	190.5	100%	268.7	100%

* Other includes client fees and investment income

OPERATIONS

IFC PERFORMANCE STANDARDS

Our performance standards have rapidly become a globally recognized best practice for environmental and social risk management. (See p. 107 for details of their adoption by financial institutions.) Applying the standards since April 2006 has not significantly increased IFC's cost of doing business or the time we need to process investments. Clients indicate that the strong environmental and social risk framework provides a reason to engage with IFC, and in certain markets it gives IFC a clear competitive advantage. In a survey we conducted 18 months after the standards were implemented, 72 percent of clients that IFC had asked to meet requirements of the standards indicated that the cost in meeting them would not impact their decision to return to IFC for financing.

During FY08, 282 investments approved by IFC's Board applied the performance standards as an initial screen. Of these, 143 in the real sector were deemed to involve potential significant adverse impacts, or limited impacts, resulting in the in-depth application of some or all of the performance standards. An additional 29 investments were considered to involve minimal or no impacts. Our 110 investments with financial intermediaries were processed under a new procedure designed to enable IFC to determine the appropriate standard, local law, or exclusion requirements in an institution's operations, depending on the riskiness of its portfolio. See also "Engaging with Stakeholders" (p. 116).

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 impacts; includes certain financial intermediary investments
FI	Investments in financial intermediaries that have no adverse social or environmental impacts but that may finance subprojects with potential impacts

IFC PERFORMANCE STANDARDS**1. Social and Environmental Assessment and Management**

System Underscores the importance of conducting integrated assessment and effective community engagement, and of managing social and environmental performance throughout the life of an investment.

2. Labor and Working Conditions Ensures that the pursuit of economic growth through job creation and income generation is balanced with protection of workers' basic rights.**3. Pollution Prevention and Abatement** Mitigates the higher levels of air, water, and land pollution that increased industrial activity and urbanization often generate.**4. Community Health, Safety, and Security** Minimizes risks and impacts on the health, safety, and security of local communities as a result of project activities.**5. Land Acquisition and Involuntary Resettlement** Protects and improves the livelihoods of displaced persons when resettlement is unavoidable. Covers consequences from loss of shelter, income, or livelihoods due to project-related land acquisition.**6. Biodiversity Conservation and Sustainable Natural Resource Management** Protects biodiversity and promotes sustainable management and use of natural resources.**7. Indigenous Peoples** Ensures that the development process fosters full respect for indigenous peoples.**8. Cultural Heritage** Protects cultural heritage from adverse impacts of project activities and supports its preservation.

For more information, see <http://www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards>

PORTFOLIO MANAGEMENT

IFC monitors compliance with investment agreements, visits sites to check on project status, and helps find solutions where concerns arise. To strengthen supervision, we have portfolio management units in all investment departments. This helps identify concerns and address them early on. An investment credit risk-rating system also supports this process. We ensure that banks participating in IFC loans are kept informed of project developments, consulting them or seeking their consent when needed.

We continuously track our portfolio's development results, including financial, economic, and environmental and social performance.

IFC has been calculating an environmental and social risk rating (ESRR) for applicable investments since 2000. The rating is given and updated, typically once a year, by our environmental and social specialists and is based on reports provided by clients and on-site visits. The frequency of visits depends on an investment's risk rating and how it performs.

With the launch of new performance standards in 2006, IFC introduced a methodology that allows us to disaggregate data on performance and risk components for all investments following the standards. We give an ESRR to investments that have some degree of risk (as reflected by their categorization as A, B, or FI) and that have passed their first reporting period. IFC has environmental and social risk knowledge on 82 percent of the portfolio, including investments with no expected risk (category C) and investments that have not passed their first reporting milestone (normally after 14 months). We do not update ESRRs on investments that have no remaining IFC funding.

Research at IFC since 2003 finds that there is a positive and significant correlation between environment and social risk and credit risk in IFC's investments. Our most recent research, in 2006, indicated that around 85 percent of loan investments with an ESRR of 4 (high risk) also carry a high credit risk rating. In the case of equity investments, research has shown that IFC investments that are assessed to have less environmental and social risk also yield significantly higher rates of return on investment.

TREASURY SERVICES

IFC funds its lending by issuing bonds in international capital markets and has been the first multilateral institution to issue bonds in the local currencies of many 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 develop local capital markets. Because most loans IFC makes are denominated in U.S. dollars on a floating-rate basis, most borrowings were swapped into floating-rate U.S. dollars. IFC's borrowings continued to keep pace with our lending. New borrowings in the international markets totaled \$5.99 billion equivalent in FY08.

Liquidity Management

Liquid assets on the balance sheet totaled \$14.6 billion on June 30, 2008, compared with \$13.3 billion a year earlier. Most liquid assets are held in U.S. dollars, with small euro and Japanese yen balances. The level of these assets is determined with a view to ensuring sufficient resources to meet commitments even during times of market stress.

CAPITAL ADEQUACY AND FINANCIAL CAPACITY

All of IFC's operations require that we maintain our capital adequacy and financial capacity.

Our capital adequacy ratio at the end of FY08, which includes paid-in capital, retained earnings (adjusted for some accounting items that do not count as available capital), and general reserves compared with risk-weighted assets, both on- and off-balance sheet, stood at 48 percent. This is well above the policy minimum of 30 percent, defined under the capital adequacy framework adopted by the Board of Directors in May 1994. IFC's leverage ratio—outstanding borrowings and guarantees measured in relation to the sum of subscribed capital and retained earnings—was 1.4 to 1, well within the limit of 4 to 1 prescribed by our financial policies.

IFC's paid-in capital, retained earnings, and general loan loss reserves constitute our financial capacity. This financial capital serves to support the 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 market downturns, while retaining capacity to preserve our triple-A rating and play a countercyclical role.

IFC's current and projected capacity over the medium term is considered adequate for these purposes.

TAKING RISKS—AND MANAGING THEM

As part of our strategy to increase IFC's impact on development, we are looking more closely and comprehensively than ever at the risks we can afford to take in support of the private sector in our client countries. This holistic approach should allow us to do more when markets are favorable, as they have generally been in the last several years, and as we continue implementing our plans to grow and decentralize, with more of our operations close to clients. Risk management also allows us to guard against downturns, so that we can continue our work and provide financing in markets that are experiencing crises. IFC is managing risks to protect our capacity to lend and invest, both to IDA country borrowers and those in middle-income countries who are returning to IFC as private lenders pull back from riskier markets. Details of our risk management are discussed in the Management's Discussion and Analysis, online at www.ifc.org/annualreport.

ASSESSING THE RISKS OF CLIMATE CHANGE

Climate change presents challenges to IFC, both to understand the vulnerability of our own investment portfolio and to help companies in developing countries adapt. Investments potentially at risk include hydropower stations and companies that rely on agricultural and timber supplies, making them particularly exposed to rising temperatures, changes in the timing and amount of rainfall, and the impact of severe storms.

To enhance our understanding and contribute to broader knowledge in the development community, IFC is working with selected clients in Asia and Sub-Saharan Africa to examine in depth the possible impact of climate change on their operations and explore strategies to adapt. We will look at risks to IFC during the expected time an investment is on our books, as well as risks to the client over the life of a project.

We will assess the availability of data for climate modeling, the applicability of climate models for a particular location, and the relevance of specific climate variables. We aim to assess the potential impact of climate change on financial returns and to identify options for adaptation, such as new insurance products, that could help reduce the most significant risks.

DEVELOPMENT RESULTS

IFC's Development Outcome Tracking System—known as DOTS—measures the development effectiveness of our investment and advisory work.

Beginning with last year's report, IFC is the first multilateral development bank to report on current development results for its entire portfolio and to have an external firm review the application of its methodology and reported results, as part of assurance for nonfinancial aspects of our reporting. This year, we are also reporting on changes to development results for investments as compared to last year, and, for advisory services, on the results of in-depth evaluations. During FY08 we also launched a development results portal (www.ifc.org/results) to supplement information in the printed report.

IFC's evaluation framework for investments aligns with good practice standards for private sector evaluation agreed among multilateral development banks.

HOW WE MEASURE RESULTS

DOTS allows for real-time tracking of results throughout the project cycle. Staff identify clear, standardized, and monitorable indicators, with baselines and targets, at the outset of a project. They then track progress throughout supervision, which allows for contemporaneous feedback into operations. For investments, the overall development outcome is a synthesis of four performance areas that are informed by achievement of industry-specific indicators. For advisory services, it is a synthesis of the overall strategic relevance, effectiveness (as measured by project outputs, outcomes, and impacts), and efficiency of the advisory operation. To obtain a high development outcome rating, a project must make a positive contribution to the host country's development.

This report provides the percentage of investments that have achieved a high rating—in the top half of the rating scale—for IFC overall and for specific departments. We describe departmental performance, compared with the IFC average, as follows:

Strong 10% or more above
Above average 5 - 10% above
Solid within 5% of the average
Moderate 5 - 10% below
Weak 10% or more below

DEVELOPMENT OUTCOME: INVESTMENTS

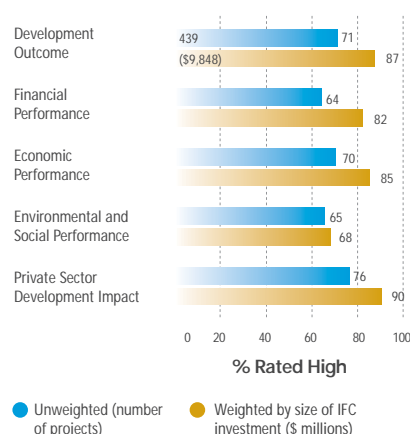
Performance area	General indicators and benchmarks	Examples of specific indicators assessed against targets
Economic performance	Returns to society, e.g. economic returns at or above 10%	Numbers for connections to basic services, loans to small enterprises, people employed, tax payments
Financial performance	Returns to financiers, e.g. financial returns at or above weighted average cost of capital	Return on invested capital, return on equity, project cost implemented on time and on budget
Environmental and social performance	Project meets IFC's performance standards	Improvements in environmental and social management, effluent or emission levels, community development outlays
Private sector development impact	Project contributes to improvement for the private sector beyond the project company	Number of companies replicating innovations by IFC's client company; changes in laws, regulations, or corporate governance

For advisory projects, we report on the percentage of projects that have received a high rating—in the top half of the rating scale (highly successful, successful, or mostly successful) for IFC overall and for the five advisory business lines.

DEVELOPMENT OUTCOME: ADVISORY OPERATIONS

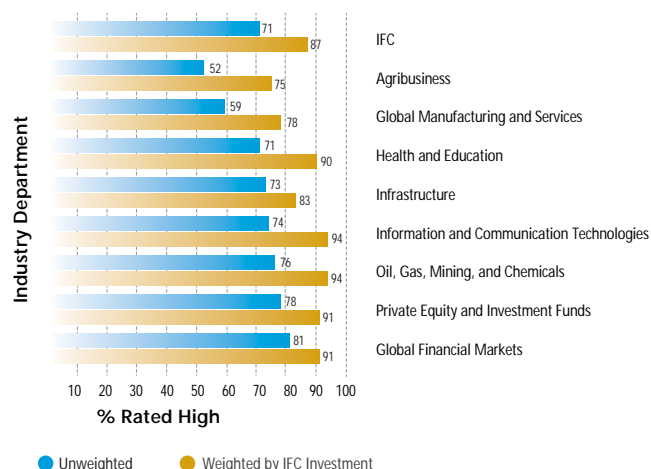
Performance area	General indicators and benchmarks	Examples of specific indicators assessed against targets
Strategic relevance	Potential impact on local, regional, national economy	Client contributions, alignment with country strategy
Efficiency	Returns on investment in advisory operation	Cost-benefit ratios, project implemented on time and 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

IFC'S DEVELOPMENT RESULTS FOR INVESTMENTS

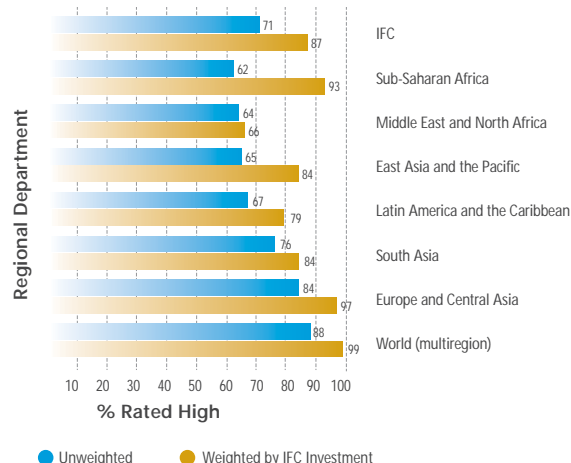


DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004
 Bars at the top include the number of rated projects for the unweighted series, and total IFC investment rated (\$ millions) for the weighted series

IFC'S DEVELOPMENT RESULTS BY INDUSTRY



IFC'S DEVELOPMENT RESULTS BY REGION



INVESTMENT RESULTS

IFC's development results improved substantially compared to last year, with the percentage of investments with high development outcomes rising from 63 to 71 percent this year. This improvement is evident in all regions and nearly all industries, and in part it reflects improving economic conditions and investment climates.

Results weighted by IFC's investment volume were even stronger, with the percentage of projects with high development results increasing from 81 percent in FY07 to 87 percent in FY08. Weighted results are higher in all regions and industries, but particularly in Sub-Saharan Africa, East Asia and the Pacific, agribusiness, information and communication technologies, and manufacturing and services. This indicates that, on average, larger investments and companies perform better. This is due in part to a higher risk profile for small businesses and investments, and in part to the fact that larger companies have economies of scale, often with better management and corporate governance, and thus find it easier to overcome difficult business environments.

Our analysis finds that economic conditions and the investment climate in our client countries are major contributors to strong or weak results. Notably, IFC investments approved in the late 1990s in Latin America—including some early ones in this year's cohort—were affected by the 2001 Argentine crisis, whereas more recent results from the region look much stronger. IFC has also achieved strong results in Europe and Central Asia, where several countries were among the strongest reformers in recent years, according to IFC and the World Bank's annual Doing Business report, which compares the ease of doing business in 178 economies worldwide. Conversely, moderate results in Africa and the Middle East, particularly in small-scale manufacturing and services, are attributable in part to poor investment climates. In response, IFC has adjusted its strategy, substantially increasing advisory services to help improve business environments.

DEVELOPMENT REACH BY IFC'S CLIENT COMPANIES

Investments	CY 2006 Portfolio	CY 2007 Portfolio
Employment Provided*	694,380	1,918,040
Microfinance loans		
Number	4.3 million	7.0 million
Amount	\$5.0 billion	\$7.9 billion
SME loans		
Number	0.7 million	1.0 million
Amount	\$52 billion	\$86 billion
Customers reached with services:		
Water distribution	15.5 million	18.2 million
Power distribution	9.5 million	11.4 million
Gas distribution	10.6 million	8.2 million
Phone connections	121.4 million	138.0 million
Patients reached	5.7 million**	5.5 million**
Students reached	353,000	675,500
Local purchases of goods and services*	\$29.1 billion	\$54.3 billion
Contribution to government revenues or savings	\$14.4 billion	\$17.3 billion

* Selected departments only

**Includes just over one million patients in a hospital chain in India, in which IFC has a 1.3% equity stake. Some CY06 data have been revised.

Data for 2007 (but not 2006) includes employment by companies in health and education (47,315) and supported through funds (601,774), and contribution to government revenues or savings by companies supported through agribusiness (\$747 million) and information and communication technologies (\$ 955 million).

WHAT DOTS COVERS

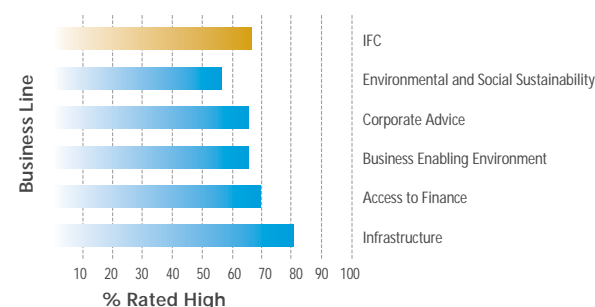
IFC's Development Outcome Tracking System covers all active projects in our portfolio, for both investments and advisory services. The process starts by setting initial objectives, using standard indicators by industry or business line, and tracking achievements throughout the project cycle until closure.

- For **investments**, DOTS covers all 1,272 companies in supervision, and this report focuses on 439 investments approved between 1999 and 2004 that are mature enough to be rated. Every year the cohort of investments we report on shifts by one year. Newer investments are not mature enough to be evaluated, whereas older ones are less relevant for today's operations and may already have 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**, this report focuses on projects for which completion reports were prepared between June 2007 and June 2008. We also address results from supervision reports of current projects. The periods for which these results are reported differ by business line and specific area.

ADVISORY RESULTS

Overall, 67 percent of advisory projects had high development results in FY08; these results are pending further validation by the Independent Evaluation Group. The recently completed advisory services client survey showed that 77 percent were satisfied with the quality of advisory services provided by IFC, with the satisfaction levels even higher (88 percent) among clients who paid for these services.

IFC'S DEVELOPMENT RESULTS FOR ADVISORY SERVICES



RESULTS: AN INTEGRATED VIEW

Going forward, IFC's results reporting will help stakeholders understand how our investments and advisory work fit together. In infrastructure, for example, IFC makes direct investments and advises governments on private sector participation in infrastructure services. Our FY08 investments and advisory projects will combine to mobilize over \$2 billion, reach 61 million customers, and provide revenues or savings of \$16.5 billion for host governments. IFC's active infrastructure portfolio in CY07 mobilized private investments of \$10 billion, which reached 431 million customers, and contributed \$5.4 billion to government revenues or savings.

LEARNING AND USING RESULTS

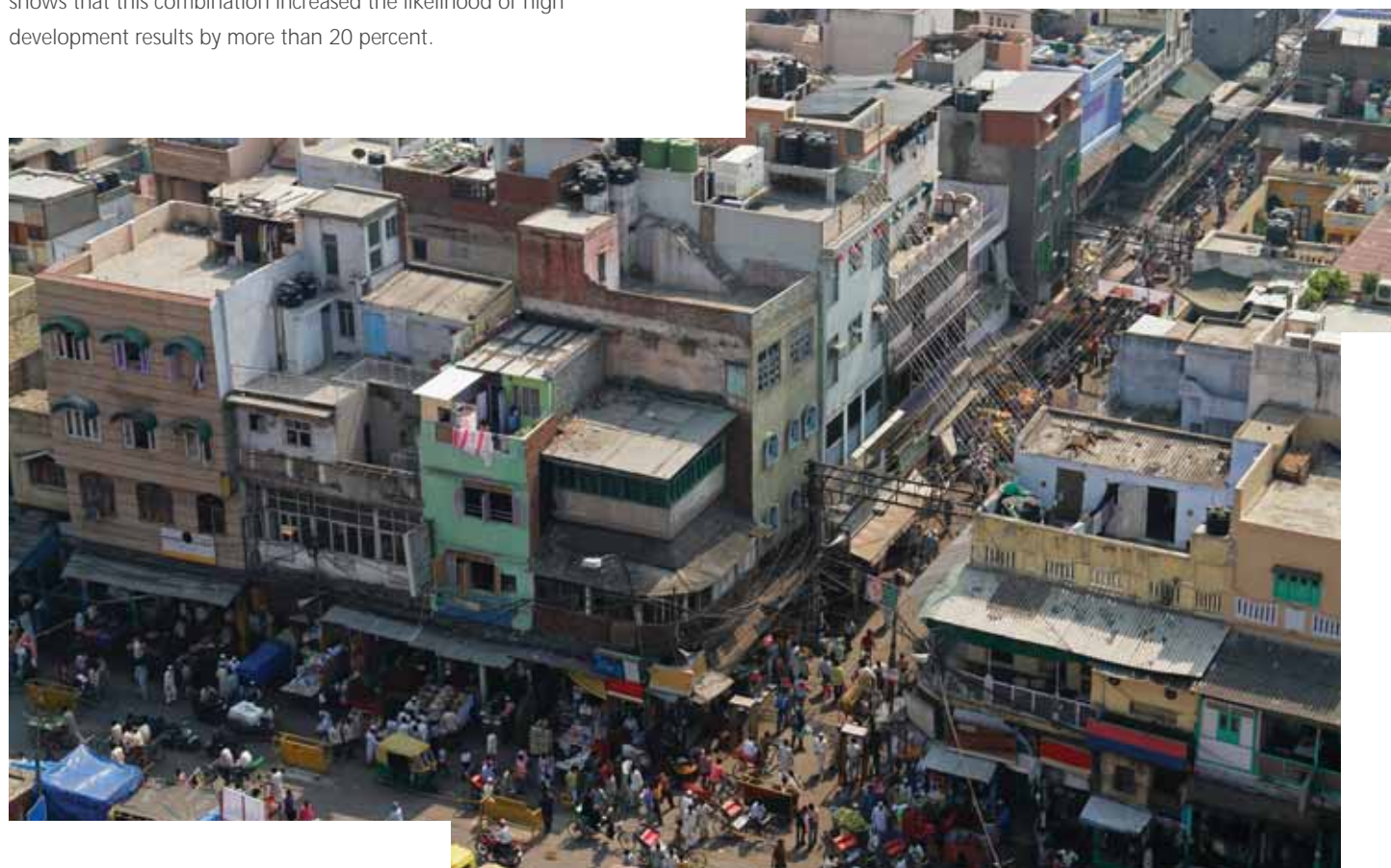
IFC uses development results to inform our strategy, operations, and incentives at all levels. At the strategic level, results are incorporated in departmental and corporate strategy sessions; results are also reviewed and discussed at the portfolio level. Teams responsible for an individual investment or advisory project are also required to specify in project documents how lessons learned are being applied.

Assisting SMEs

IFC has revamped its approach. We focus on providing support to SMEs through financial intermediaries, which proves much more effective. In Sub-Saharan Africa, we used to reach about 50 enterprises through direct investments, at considerable cost to IFC; last year, by comparison, financial intermediaries IFC had invested in provided over 220,000 loans to micro, small, and medium enterprises. Following a review and cleanup of the portfolio, our financial markets investments in Africa now have strong development results. These now frequently combine investments with advisory services, and a recent IEG evaluation of financial intermediaries supporting SMEs in frontier markets shows that this combination increased the likelihood of high development results by more than 20 percent.

Reaching underserved groups in IDA countries and frontier regions

To work in the places where IFC is needed most and to improve our results, we increasingly direct investments and advisory services toward IDA countries and frontier regions—the poorer, less developed areas of middle-income countries. IFC today has a much higher share of portfolio in IDA countries, especially among newer investments, than do foreign investors in general. Our investments need partners—other investors typically put up at least \$3 for every \$1 from IFC—and this can pose a challenge in difficult environments. IFC's advisory services are even more heavily concentrated in IDA countries, as they are often needed as a first step that improves the likelihood of success when investing in these environments. Our advice often focuses on addressing gaps in access to infrastructure or financial services in IDA countries, and on helping investment clients there incorporate local SMEs in their supply chain. IFC also tracks investments in frontier regions, where our investments are increasing as well.



IFC's countercyclical role

When country conditions deteriorate, IFC needs to be ready to step in. Our analysis shows that during country crises, when foreign investors tend to withdraw, IFC increases its exposure. We continue to support strong projects and sponsors that would ordinarily have access to financing, but who suddenly find themselves without it. IFC has had strong results in Russia and Turkey, for example, where we were able to play this countercyclical role.

AFTER A CRISIS, IFC INVESTS AND GETS BETTER RESULTS

17 country crises between 1994 and 2001

- IFC increased exposure: 12 countries (71%)
Foreign investors increased exposure: 5 countries (29%)
- IFC's development results for investments approved:
 - three years before a crisis: 41% rated high
 - during crisis year: 45% rated high
 - three years after a crisis: 67% high

ENHANCING RESULTS MEASUREMENT

Adjusting development results for risk

IFC seeks to move into countries, regions, and sectors where we are needed most, often where risk is highest and prospects for success are lowest. We are considering how best to adjust our results to reflect the inherent risk when comparing results; this will help ensure that weaker prospects for high development results are not a disincentive to engage in more difficult areas where IFC is most needed.

Harmonizing results measurement within and beyond IFC

► **Within IFC,** we have made much progress in standardizing the measurement framework and the indicators to compare and aggregate results across projects. Doing this across sectors remains a challenge. We are studying how we can further harmonize results indicators between investments and advisory services to present a full picture of IFC's results. During FY09 we plan to introduce a new system, DOTS-2, that will cover both investments and advisory services.

► **Beyond IFC:** Our results measurement framework has been considered best practice among multilateral development banks. During FY08, IFC has shared our experience with the broader development community. For example, we organized results measurement conferences to exchange views with foundations and donors. We also responded to the task of developing private sector indicators for how institutions manage for development results; the indicators were published in the March 2008 COMPAS report (online at http://www.ifc.org/ifcext/devresultsinvestments.nsf/Content/Our_peers).

In-depth evaluations to assess impacts

Assessing long-term impacts from IFC's activities, including their impact on poverty, is difficult for both investments and advisory services. For example, at the time an advisory project closes, its impact has often not yet materialized.

To provide more in-depth assessment for advisory services, in FY08 IFC completed 20 external evaluations. We started 23 experimental or quantitative evaluations, eight of which were completed this year. For example, a quasi-experimental evaluation showed that IFC's advisory services on privatization of dialysis in Romania resulted in 29 million euros of private sector investment to upgrade public health infrastructure between 2005 and 2008, while the quality of service for patients improved markedly.

For investments, IFC is also launching several case studies to understand our clients' development impact in more depth. We are working in collaboration with clients and will report these findings publicly.

PROJECT-LEVEL REPORTING

There is growing interest in project-level reporting on the development results of IFC-financed investments. External interest is driven by a number of factors, including a desire to understand project sponsor performance against development outcome targets, particularly for more high-profile investments where sponsors, and IFC for its part, may have committed to outcomes of importance to local communities. IFC senior management has also expressed interest in better understanding issues and options around such reporting.

During FY09, parallel to a three-year independent review of the sustainability and disclosure policies, IFC will carefully review how we and our clients report project-level results information. Any change in policy will reflect consultation with clients as well as external stakeholders, our Board of Directors, colleagues from across the World Bank Group, and other multilateral institutions.

CONNECTING THE DOTS

WHO BENEFITS FROM IFC PROJECTS AND HOW

IFC-supported firms make a wide range of contributions in developing countries. Their growth and success benefit employees and their families, local communities, suppliers and other business partners, and the customers who buy what they produce. These firms also generate significant tax revenues for national and local governments. In many cases they are using IFC's funding and advice to upgrade environmental performance, strengthen corporate governance, and improve their management systems and adherence to industry standards. Often these firms help broadly stimulate the private sector, benefiting competitors and new entrants as well.

For most IFC investments (84 percent), benefits to society exceeded profits to the financiers. In fact, we analyzed a representative sample of 63 projects, and for every dollar of project costs (in total \$7.75 billion, of which IFC had financed 13 percent), our clients generated almost a full extra dollar (about 88 cents) in value added over and above the costs—and these benefits were evenly split between investors and other stakeholders. We hope that the projects IFC approved this fiscal year—with total project costs of \$43 billion—will show similarly strong results.



Employees

Last year, IFC's clients provided hundreds of thousands of jobs. This includes 700,000 in manufacturing and services, 380,000 in agribusiness, and 120,000 in oil, gas, mining, and chemicals.

- ▶ IFC's investment in one of the first private cement plants in a North African country resulted—directly and indirectly—in the creation of over 2,000 jobs.
- ▶ Support for an Eastern European beverage manufacturer resulted in a near doubling of its workforce: from 4,000 in 2004 to 7,000 in 2006.

Customers

In 2007, IFC's clients:

- ▶ Had a portfolio of 8 million loans to micro, small, and medium enterprises totaling \$94 billion. Of these, about 7 million loans were for microfinance.
- ▶ Provided basic utilities to over 184 million customers; this includes water distribution to 18 million people, power generation and distribution to 158 million, and gas distribution to 8 million.
- ▶ Provided 50.6 million new phone connections.
- ▶ Provided health services to 5.5 million patients and education to 675,500 students.
- ▶ IFC's investment in a private Asian university helped 700 students graduate, 270 of them last year. About 70 percent had jobs within three months, 20 percent continued their education, and 4 percent started their own business.

Environment

Many of IFC's clients are helping address climate change and advancing environmental and social sustainability.

- ▶ IFC recently helped a Latin American ceramic tile company modernize its plant. Harmful emissions have been reduced, improving air quality and lowering energy costs by 22 percent; the company also plans to use fully treated wastewater for its manufacturing.
- ▶ IFC helped a North African company become the world's first carbon black manufacturer to obtain ISO 14001 certification for environmental management.

Local Communities

Local communities can be affected positively or negatively by projects, and IFC's policies, processes, and performance standards require our clients to avoid or mitigate potential negative impacts and to help them enhance positive ones. Many of IFC's clients have active programs to support the surrounding community. For example, last year our clients in oil, gas, mining and chemicals alone spent \$115 million on community development programs.

- ▶ A South Asian oil and gas client spent \$1.16 million on community development programs, partnering with IFC to fund a local economic development program that includes skills training, local supplier development, and health components.

Suppliers

In 2007, IFC's clients generated millions of dollars for local suppliers; this includes \$47.2 billion in manufacturing and services and \$7.1 billion in oil, gas, and mining. Agribusiness clients reached 806,000 farmers.

- ▶ An agribusiness client engaged 180 Eastern European farms to supply apples.

Government

Last year, IFC's clients generated billions of dollars in government revenues; this includes \$9.2 billion from oil, gas, mining, and chemicals activities; \$2.2 billion from manufacturing and services; and \$4.0 billion from infrastructure.

- ▶ A telecommunications client in Eastern Europe has paid its host government over \$10 million in taxes and telecommunication fees since 2006.

Private Sector

IFC's activities help companies and other private sector partners in developing countries address the constraints to private sector growth.

- ▶ IFC's investment in a global bank's foray into finance targeted to sustainability in Latin America resulted in three other local banks undertaking similar credit activities in the region last year.
- ▶ IFC's investment in a private equity fund in Asia has helped spur its outstanding performance; since 2005, the fund manager has been able to raise three subsequent funds totaling over \$2 billion, with very high participation from commercial investors.

Financiers

Profits are essential for private companies to be sustainable and to attract more investment—in the company itself and through demonstration effects in other companies.

- ▶ IFC helped transform a leading Middle Eastern pharmaceutical client into a global company, with profit margins multiplying to five times the industry average.

REGIONAL OPERATIONS AND RESULTS

IFC's global expertise allows us to strengthen private enterprises and improve the climate for entrepreneurship in emerging markets, focusing where the needs are most pressing.



IFC provides investment and advisory services to clients in 130 countries, including a growing number of the least developed countries in Sub-Saharan Africa. More than 40 percent of our projects are in the poorest countries—those served by the World Bank's International Development Association. We also operate in middle-income countries, aiming to reach many of their people who still live on the economic margins.

We have transformed IFC to meet our clients' changing needs, moving a growing number of staff to field offices nearer our clients. More than half our staff are based in field offices in 81 countries, up from 41 percent five years ago. We pursue opportunities where we can make the biggest difference, including in higher-risk emerging markets. Our approach has helped us achieve strong development results as well as profitability—income that lets us reinvest where the needs are greatest.

In fiscal 2008, Latin America and the Caribbean accounted for the largest share of IFC commitments for our own account—26 percent. Our advisory services also continued to grow throughout the developing regions, with the largest project expenditures going to Europe and Central Asia and to Sub-Saharan Africa.







DEEPER INTO THE FRONTIER

Economic growth over the last decade has reduced the number of people living in poverty. But progress has been uneven. To address these problems, IFC has expanded operations in the poorest countries while also working to spur development in the poorest regions of middle-income countries, where more than half of the world's poor still live.

MAKING A DIFFERENCE

Jusueva Patiyla is a woman with a mission: keeping her country's memories alive. She is the great-granddaughter of Kurmanjan Datka, a central figure in Kyrgyz history, and is preserving local traditions through the Kurmanjan Datka museum and other culturally based businesses she owns. A schoolteacher in Soviet times, she is a businesswoman today, reflecting the progress of the new Kyrgyz economy.

None of this would be possible without the loans she received from IFC's local microfinance client, Bai Tushum. IFC has been helping Bai Tushum adopt a new business



strategy, broaden its product range, and prepare to take customer deposits. With our help, its roster of borrowers has risen from 5,000 to more than 13,000, and it will soon have the full-scale banking license it needs to become a much bigger player in one of Central Asia's poorest countries.

PHOTO: Micro loans from an IFC client have turned Jusueva Patiyla, a former schoolteacher, into a businesswoman.

SUB-SAHARAN AFRICA

A new chapter in Africa's development is being written. Fewer conflicts, expanding trade, and growing investments are helping reduce poverty and raise living standards. Pockets of conflict and instability remain, but peaceful resolution of disputes and sound macroeconomic policies are emerging. The result is strong growth—6.1 percent in 2007—with manageable levels of inflation and progress on budget deficits and foreign debt payments across the region. Many nations have begun to make slow, steady progress toward a better investment climate. Nonetheless, the region remains a challenge for IFC, requiring a focused strategy and devotion of significant resources. IFC has made that commitment, and we have begun to achieve significant results.

IFC STRATEGY

IFC has three strategic priorities in the region: to accelerate and deepen our support to SMEs, as they comprise the vast majority of Africa's private sector; to catalyze large investment projects through proactive efforts that bring them to closure; and to bolster reforms of the investment climate that promote continued growth in overall private investment. In implementing these priorities, we pay particular attention to regional projects that support cross-border trade and infrastructure, and to the needs of Africa's more challenging investment environments, such as conflict-affected states. We have expanded our staff in Africa and will decentralize decision-making further. The greater field presence is key to increasing IFC's impact and to improving responsiveness to clients. A key part of this three-part focus on SMEs, proactive project development, and investment climate reform is our advisory services, which we continue to expand in collaboration with key partners. We are working more with the World Bank and MIGA in sectors where public policy and private investment overlap, such as in infrastructure, extractive industries, and investment climate reform. The needs of clients continue to drive innovation in IFC products and services, for example in local currency finance, and in our approaches in conflict-affected countries.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$1.38 billion for 55 projects in 25 countries in FY08, and we mobilized an additional \$37 million through structured and securitized products. By number of projects, 88 percent of new investments are IDA projects, and 13 percent are in conflict-affected countries. Our trade finance products have become an important entry point for reaching new markets, including Liberia, Sierra Leone, and eight other countries. IFC supported leading financial services and retail companies that are expanding in subregions of Africa; we also helped strengthen regional communications with the East Africa cable (see p. 75). With rapid growth in investments, our portfolio expanded to \$3.25 billion, up from \$2.71 billion last year. We also continue to increase our advisory work, with 191 programs underway in 30 countries, significantly ahead of our targets. The largest concentrations are in access to finance (25 percent), often linked closely to investments in financial institutions, and corporate advice (32 percent). IFC sponsored the first Africa Reformers' Club awards to recognize five countries that are leading global reformers as tracked by *Doing Business*. In Liberia, IFC and FIAS helped the government design and implement 21 reforms, among the first results the new government can show in its commitment to support private investment. Major partners in IFC's advisory services are the Netherlands, Switzerland, the African Development Bank, Sweden, Norway, Denmark, France, Japan, and the United Kingdom, along with companies that are direct beneficiaries.

DEVELOPMENT RESULTS

IFC's investments clients provided financing for 222,000 MSMEs with a total volume of \$2.4 billion this year. New telephone connections were added for 6.9 million customers, and \$2.6 billion was raised in government payments. Development results were moderate compared to IFC's average, driven largely by smaller manufacturing investments that have suffered in difficult business environments. When weighted by investment size, however, Africa outperformed IFC's average. Both the financial sector, with almost half of recent investments, and infrastructure, responsible for a substantial portion of IFC's growth, have strong development results. Advisory services implemented by our regional facility, launched in 2005, are generating results: these include 15 laws or regulations changed to improve the business environment; new access to clean water in rural areas for more than 2 million people; 32,000 more Africans employed; new skills for over 4,500 employees of small firms; a \$34.1 million increase in MSME revenues; and \$47.3 million in MSME access to finance tied to IFC investments.

SUSTAINABILITY

IFC's leadership on sustainability faces a challenging environment in Africa, where sustainability is often a focus only for large international firms; IFC has faced resistance from smaller firms and businesses that are outside of global supply chains. Still, we have been able to build awareness in the private sector about potential benefits from sustainable practices. IFC is helping firms improve environmental and social performance, engage more with stakeholders, educate employees on key human and labor rights issues, pursue community development plans, and link smaller businesses into their supply chains. Our regional Lighting Africa program encourages businesses to design and manufacture low-cost lighting sources for rural areas that have no access to electricity. IFC completed its first carbon finance operation in Africa, working with a fertilizer producer to reduce harmful emissions. Supported by advisory services, our cleaner production initiative encourages better techniques and equipment that reduce waste and costs. A new program encourages energy efficiency, especially in the mining sector.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC has exceeded its recent targets for growth in investments and advisory services in Africa. Yet enormous needs demand that we continue this growth. Challenges include improving service to clients, increasing the quality of our investments, and building long-term relationships. IFC is committed to achieving a bigger impact in conflict-affected countries and smaller markets where we have not yet been able to see substantial results. We are exploring new models for public-private partnerships in infrastructure, which have not yet achieved their potential to mobilize new investment. We are developing a strategy to respond to climate change that will provide new products and services to clients. High food prices pose severe hardships on food-importing countries and have fomented political instability, but they also present opportunities to increase food production and make it more efficient. To help address these needs, IFC plans to scale up support to food producers, processors, and the logistics and infrastructure firms they depend on.

ANGOLA • BENIN • BOTSWANA • BURKINA FASO • BURUNDI • CAMEROON • CAPE VERDE • CENTRAL AFRICAN REPUBLIC • CHAD • COMOROS • DEMOCRATIC REPUBLIC OF CONGO • REPUBLIC OF CONGO • CÔTE D'IVOIRE • DJIBOUTI • EQUATORIAL GUINEA • ERITREA • ETHIOPIA • GABON • THE GAMBIA • GHANA • GUINEA • GUINEA-BISSAU • KENYA • LESOTHO • LIBERIA • MADAGASCAR • MALAWI • MALI • MAURITANIA • MAURITIUS • MOZAMBIQUE • NAMIBIA • NIGER • NIGERIA • RWANDA • SENEGAL • SEYCHELLES • SIERRA LEONE • SOMALIA • SOUTH AFRICA • SUDAN • SWAZILAND • TANZANIA • TOGO • UGANDA • ZAMBIA • ZIMBABWE

IDA COUNTRY MIDDLE-INCOME COUNTRY WITH FRONTIER REGIONS OTHER CLIENT COUNTRY

MAKING A DIFFERENCE

ADDRESSING THE AGRICULTURAL CHALLENGE

Soaring global food prices and demand for staples are putting pressure on farmers and other producers. IFC is helping improve the efficiency and development impact of agribusiness enterprises. IFC aims to sharply increase our investments to \$400 million in the next two to three years, up from less than \$10 million last year. We made significant progress in FY08, committing \$72.5 million in new investments in Ghana, Kenya, Tanzania, and Uganda. To help countries address food prices, IFC will scale up investment and advisory support to agribusiness operations in Africa and elsewhere. IFC aims to finance new investments as well as the expanding working capital requirements of firms; to develop new financial instruments that facilitate commodities trade; and to address such fundamental constraints as land titling, supply chains, and infrastructure. We are also working with stakeholders to improve the sector's competitiveness and seeking further opportunities to engage with agribusiness multinationals.

HELPING CONFLICT-AFFECTED BUSINESSES THRIVE AGAIN

IFC is increasing our presence to help rebuild the private sector in Africa's conflict-affected countries. In the Democratic Republic of Congo, we are supporting new mining projects and working with the government to improve the investment climate. In Liberia, we have provided trade finance and advised the government on attracting private investment to rebuild the electricity network. With IFC's help, the government passed a package of 21 reforms to ease business registration, import-export operations, and land development. In Sierra Leone, we are helping the government improve the investment climate, strengthen the domestic financial sector, and finance telecommunications. In the Central African Republic, IFC invested in Capital Financial Holdings, which includes support for a local bank, and we began an advisory program on investment climate reform. We expect to do more with local banks in these countries, including through our global trade finance program. IFC is increasing local staff presence in each of these countries.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08
MSME loans (number of loans)	173,960	222,830	166,730
MSME loans (volume in \$ million)	2,610	2,440	1,310
Power generated (millions of customers)	5.9	13.1	9.4
New phone connections (millions of customers)	10.6	6.9	1.0
Employment	32,460	120,140	8,520
Local purchase of goods and services (\$ million)	541.4	1,074.7	25.1
Payments to government (\$ million)	1,453	2,563	208

Reach data for select industries; indicator definitions and reporting periods vary somewhat across industries. Some data from previous years have been revised.

PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07*	FY08*
Financing committed for IFC's account	\$1,379	\$1,380
Loans	\$823	\$541
Equity	\$160	\$202
Guarantees and risk management	\$397	\$638
Loan syndications signed	\$261	\$0
Total commitments signed	\$1,640	\$1,380
Committed portfolio for IFC's account	\$2,712	\$3,252
Committed portfolio held for others (loan and guarantee participations)	\$386	\$326
Total committed portfolio	\$3,098	\$3,578

*Includes regional shares of selected investments that are officially classified as global projects.

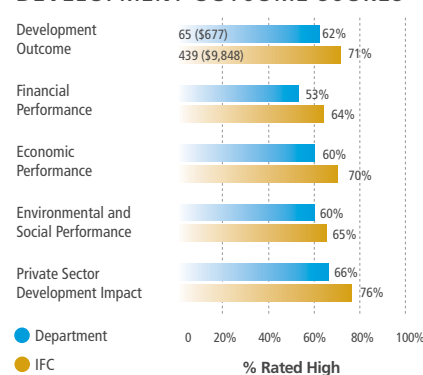
COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	30	38*	52	55**
Number of countries	14	11	17	25
Financing for IFC's own account	\$445	\$700	\$1,379	\$1,380
Syndications	\$0	\$0	\$261	\$0

* Includes Veolia AMI

** Includes ECOM WC-IDA and Mixta Africa

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

IFC'S LARGEST COUNTRY EXPOSURES (June 30, 2008)

Based on IFC's account, excluding individual country shares of regional and global projects.

Country	Portfolio (\$ millions)	Development Score*
Nigeria		
FY08	\$587	44%
FY07	\$684	50%
South Africa		
FY08	\$535	55%
FY07	\$349	45%
Kenya		
FY08	\$193	86%
FY07	\$185	86%

* Percent of tracked companies with high development results.

EAST ASIA AND THE PACIFIC

Developing countries in East Asia and the Pacific grew by an average of 10 percent in 2007, consolidating the region's role as an anchor for economic growth. The benefits have not been fully shared, however, and over half a billion people still live on less than \$2 a day. Poorer countries and lagging regions of larger countries, some affected by recent conflict, need a sustained commitment to upgrade infrastructure and create an enabling environment for a growing private sector. With two of the world's top three countries for greenhouse gas emissions—China and Indonesia—the region is contributing to climate change pressures that have consequences for the planet as a whole. During the fiscal year, the region faced many challenges, including macroeconomic instability, particularly in Vietnam, and a devastating earthquake in China.

IFC STRATEGY

IFC is focusing advisory and investment services to help IDA countries and frontier regions that have not participated in the region's growth, and we are working to address climate change. To broaden our impact in frontier markets and small states, we are strengthening our investment teams in the Pacific island and Mekong countries, as well as Mongolia. We are working to improve the investment climate, promote reform, and support private investment through innovative financing structures. In frontier regions of China and Indonesia, which have 80 percent of the region's poor people, IFC is using advisory services to stimulate investment in agribusiness and financing for rural areas and microenterprises. To help reduce climate pressures, we are focusing business development and product innovation work on environmental sustainability.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$1.63 billion for 60 projects in eight countries in FY08, and we mobilized an additional \$230 million through syndications and structured and securitized products. By number of projects, 50 percent of new investments are IDA projects, and 22 percent are in frontier regions of middle-income countries. More than 48 percent were with new clients, and 27 percent focused on SMEs. A growing number of investments (22 percent) have a significant climate change component. Our committed portfolio in the region reached \$4.67 billion, with the largest concentrations in the financial sector, infrastructure, and manufacturing. Our committed portfolio in the region reached \$4.67 billion, with the largest concentrations in the financial sector, infrastructure, and manufacturing. IFC had more than 130 active advisory projects, with a total value of \$150 million. Major partners in regional advisory work include Australia, Canada, Finland, Japan, the Netherlands, New Zealand, and the United Kingdom.

DEVELOPMENT RESULTS

In 2007, IFC's clients had 1.2 million MSME loans outstanding worth \$17 billion, generated power for 13 million customers, distributed water to nearly 6 million customers, and provided 5 million new phone connections. IFC investments achieved moderate development results and a significant improvement over the previous year. The improvement was driven mainly by strong performance of infrastructure, financial markets, and health and education investments. Manufacturing investments had weaker performance, mirroring the pattern in other regions. Compared with FY07, performance improved substantially in Cambodia, China, and Indonesia, even as IFC focused increasingly on the most difficult frontier markets. Advisory work in supply-chain development is supporting livelihoods for thousands of small farmers in rural China and conflict-affected communities of Mindanao in the Philippines. Our work on secured transactions in China, coupled with the creation of the country's first movable assets registry, resulted in \$270 billion in assets being formally registered.

SUSTAINABILITY

By focusing on energy efficiency, renewable energy, clean technology, carbon finance, and sustainable forestry management, IFC is using investment and advisory services to help the private sector address climate change. This was the focus of much of the \$200 million in manufacturing and services investments during FY08. We are helping clients save energy and money in their production process, for example by generating electricity from waste heat, biomass, and other renewable sources. IFC energy investments and planned projects include wind, coal bed methane, and hydroelectric power. By supporting leading wood products companies, we are promoting the sustainable sourcing of wood and helping lower the region's greenhouse gas emissions from deforestation. In January 2008, IFC signed an agreement with China's Ministry of Environmental Protection to introduce our environmental and social performance standards and expertise in sustainable finance. IFC is the first organization to help China develop and strengthen its Green Credit Policy, which aims to improve compliance with environmental regulations. IFC also continued to support responsible management practices in Indonesia's palm oil sector.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

To address the region's challenges, IFC is more active in IDA countries and in sectors that have traditionally had the highest development impact here—infrastructure and financial markets. We have tripled our infrastructure commitments over FY07, particularly through climate change-related investments in China and a power sector privatization program in the Philippines. We also expanded our advice to governments on public-private partnerships for infrastructure, with new mandates signed in Indonesia, Vanuatu, and Vietnam. Financial markets represented half of IFC investments in IDA countries during FY08. We helped Vietnam cope with the impact of macroeconomic volatility and supported the recovery of Sichuan through efforts to restart financing (see box, p. 123). We financed the first private telecommunications operator in the Pacific and launched an initiative to increase our investment presence in the region. We also supported a major conference on microfinance in Mongolia that highlighted mobile banking and other emerging technologies. Going forward, IFC is building momentum to help IDA countries participate more fully in the region's dynamic growth.

CAMBODIA • CHINA • FIJI • INDONESIA • KIRIBATI • REPUBLIC OF KOREA • LAO PEOPLE'S DEMOCRATIC REPUBLIC • MALAYSIA • MARSHALL ISLANDS • FEDERATED STATES OF MICRONESIA • MONGOLIA • MYANMAR • PALAU • PAPUA NEW GUINEA • PHILIPPINES • SAMOA • SOLOMON ISLANDS • THAILAND • TIMOR-LESTE • TONGA • VANUATU • VIETNAM

IDA COUNTRY MIDDLE-INCOME COUNTRY WITH FRONTIER REGIONS OTHER CLIENT COUNTRY

MAKING A DIFFERENCE

IMPROVING THE BUSINESS ENABLING ENVIRONMENT

Improving the business climate is a major thrust of IFC's advisory work in East Asia and the Pacific. Working with FIAS and the World Bank, IFC has an active portfolio of more than 30 projects in the region. Our strategy involves working with client governments to address impediments highlighted in the World Bank Group's annual *Doing Business* survey; this includes developing a better regulatory framework and marketing their improved business environment to potential investors. During FY08, IFC worked in Indonesia, the Lao PDR, Timor-Leste, Tonga, and Vietnam to highlight how specific reforms at the national level could improve the business climate. IFC and the World Bank jointly launched a Pacific regional program that will help Papua New Guinea, the Solomon Islands, Tonga, and Vanuatu.

These initiatives are expected to help improve the countries' *Doing Business* indicators. At the subnational level, IFC and China's Academy of Social Sciences recently launched the first *Doing Business* report covering 30 Chinese cities. In the Philippines a similar benchmarking review covered 21 major business centers.

FINANCING ENERGY EFFICIENCY IN CHINA AND BEYOND

The innovative IFC China Utility-Based Energy Efficiency Finance program expanded in FY08; IFC is combining a risk-sharing facility with advisory assistance to build Chinese banks' capacity to finance energy efficiency investment. We provided Industrial Bank in China with \$100 million to help it extend 1.5 billion renminbi (\$210 million) in energy efficiency loans. Projects these loans support are expected to reduce carbon emissions by 5 million tons a year, the equivalent of replacing ten 100-megawatt coal-fired power plants in China. To date, IFC's partner banks have made 57 loans totaling \$180 million under the program; most go to SMEs that are implementing energy efficiency projects. IFC has launched similar models in Indonesia, the Philippines, and Vietnam.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08
MSME loans (number of loans)	310,940	1,231,560	1,856,750
MSME loans (volume in \$ million)	12,842	17,030	4,870
Power generated (millions of customers)	18.5	13.4	9.9
Water distribution (millions of customers)	5.1	5.9	-
Patients reached	800,930	1,268,490	485,500
New phone connections (millions of customers)	10.0	5.2	0.18
Employment	97,209	484,370	16,000
Local purchase of goods and services (\$ million)	3,540	3,647	930
Payments to government (\$ million)	443	451	1,214

Reach data for select industries; indicator definitions and reporting periods vary somewhat across industries. Some data from previous years have been revised.

PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07*	FY08*
Financing committed for IFC's account	\$944	\$1,634
Loans	\$654	\$1,134
Equity	\$220	\$287
Guarantees and risk management	\$70	\$212
Loan syndications signed	\$128	\$59
Total commitments signed	\$1,072	\$1,693
Committed portfolio for IFC's account	\$3,579	\$4,671
Committed portfolio held for others (loan and guarantee participations)	\$599	\$519
Total committed portfolio	\$4,178	\$5,190

*Includes regional shares of selected investments that are officially classified as global projects.

COMMITMENTS

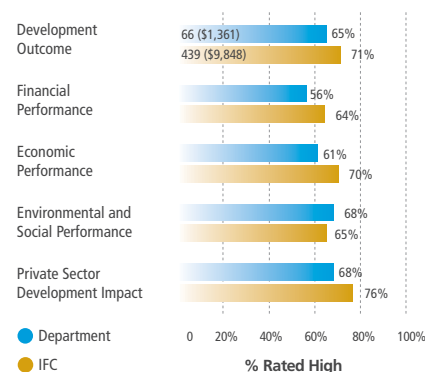
(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	40	41*	38**	60***
Number of countries	11	5	8	8
Financing for IFC's own account	\$740	\$982	\$944	\$1,634
Syndications	\$72	\$243	\$128	\$59

* Includes Soco Facility and Avenue Asia

** Includes Italcementi

*** Includes ECOM WC-IDA and Aloe 2

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

IFC'S LARGEST COUNTRY EXPOSURES (June 30, 2008)

Based on IFC's account, excluding individual country shares of regional and global projects.

Country	Portfolio (\$ millions)	Development Score*
China		
FY08	\$2,150	62%
FY07	\$1,680	43%
Philippines		
FY08	\$898	45%
FY07	\$411	53%
Indonesia		
FY08	\$830	83%
FY07	\$743	60%

* Percent of tracked companies with high development results.

SOUTH ASIA

South Asia is home to more poor people than any other region: more than a billion people here live on less than \$2 a day. While economic growth has been strong, averaging 8.1 percent a year across the region over the last three years, inequality has been rising. India, in particular, presents a complex challenge. Large sections of the population, particularly in rural areas, remain untouched by the benefits of growth; 31 of India's 35 states and territories have incomes comparable to those of IDA countries. To distribute benefits more evenly, the region's infrastructure development and rural growth—including job creation—are urgent priorities. Climate change, which disproportionately affects the poor, is a particularly pressing challenge.

IFC STRATEGY

IFC's three key priorities for the region are to promote economic inclusion by increasing access to infrastructure and financial services and by supporting growth in rural areas and lagging regions; to mitigate and adapt to climate change; and to encourage regional economic integration. We deliver on these priorities with a coordinated program of investment and advisory projects. To enhance economic inclusion, our rural growth strategy encourages investment in agribusiness and rural finance and infrastructure. We work with financial intermediaries to help smaller companies access finance and provide long-term sustainable finance for infrastructure projects. Through advisory services we partner with client companies to enhance local economic linkages, HIV/AIDS prevention programs, and corporate governance. We work with clients on cleaner production, energy efficiency, and carbon finance and promote clean energy by investing in hydropower and wind projects and cleaner coal technologies. We also work with national and subnational governments to improve the investment climate for all investors.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$1.26 billion for 37 projects in five countries in FY08, and we mobilized an additional \$28 million through structured and secure ties products. All of these investments are IDA projects. We invested \$590 million of this (47 percent) in infrastructure, including \$460 million in power and \$130 million in logistics and transportation, with a further \$200 million in telecommunications. On a portfolio basis, \$2.9 billion of our regional investments are in India, with significant amounts in Sri Lanka (\$209 million) and Bangladesh (\$157 million). Our advisory work focused on infrastructure, value addition to firms, access to finance, and environmental and social sustainability. With donors, IFC set up facilities to strengthen the investment climate in Bangladesh (see p. 105) and to develop public-private partnerships for infrastructure, which complement our main regional advisory effort. In FY08 we launched 27 new advisory projects, and our active portfolio is 82 projects valued at \$57 million. Major partners in regional advisory work include the United Kingdom, Canada, the European Commission, the Netherlands, and Norway.

DEVELOPMENT RESULTS

IFC activities have produced tangible development results: our clients have provided jobs, higher wages and tax revenues, and better supply-chain linkages. In 2007, they had loans of \$5.4 billion with MSMEs and generated power for 32 million customers. South Asia's development outcomes have been above average relative to IFC. Telecommunications has had particularly strong results, as this sector provides a vital part of the region's infrastructure backbone. IFC's advisory partnerships with 18

financial institutions have helped over 15,000 SMEs access finance. Our advice has introduced efficiencies that save steel mills \$2.5 million a year, supported productivity improvements in the garment industry, and helped some 19,000 poultry farms in Bangladesh raise incomes by \$1.3 million.

SUSTAINABILITY

The region faces serious challenges related to sustainability; the most urgent relate to climate change. In addition to financing a growing portfolio of renewable energy and clean technology investments, we help generate energy efficiency revenue streams for clients through innovative carbon finance products. IFC also provides reimbursable grants to clients in energy-intensive sectors (pulp and paper, cement) to help them reduce energy and water consumption. In India, we are funding private sector-led projects that demonstrate the sustainability and scalability of renewable, off-grid power generation. We worked with India's Bureau of Energy Efficiency and the Alliance to Save Energy on a guide for building local capacity to develop, finance, and implement energy efficiency projects. Going forward, we will expand our work beyond climate change mitigation, to support adaptation efforts by private companies and national and subnational governments. To support rural development, IFC has partnered with Cairn India in a remote part of Rajasthan on vocational skills development, a dairy project to enhance household incomes, and a child and maternal health awareness initiative.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

In FY08, South Asia was a pilot region for IFC's decentralization, we moved decision-making closer to our clients and invested significantly in expanding our local presence. This has helped enhance our work in infrastructure, energy efficiency, carbon finance, and rural development across the region. Significant challenges remain. We will continue to address the infrastructure deficit through direct investment and advisory work. To help address India's enormous energy deficit, for example, IFC's financing to Tata Mundra will add about 4 percent to generation capacity and provide affordable power by introducing a highly efficient technology that is less carbon-intensive per unit of electricity produced. In the rural sector, we will significantly increase our investment and advisory work in agribusiness, rural infrastructure, and rural finance. IFC has also committed more resources in Bhutan and Nepal to build a strong pipeline of investment and advisory work. While over 25 percent of our investment projects in India contribute to economic development in the lagging states, we plan to increase our work further in these poorer areas. We are also substantially scaling up our advisory work in India, with a focus on the critical issues of rural growth, climate change and lagging states.

BANGLADESH • BHUTAN • INDIA • MALDIVES • NEPAL • SRI LANKA

IDA COUNTRIES

MAKING A DIFFERENCE

REACHING SMEs AND WOMEN BORROWERS THROUGH MICROLENDING

BRAC, based in Bangladesh, is the world's largest nongovernmental organization, with more than 100,000 employees. Its microfinance and development programs cover all 64 regions of Bangladesh. IFC is supporting BRAC's lending with local currency funding that will benefit smaller businesses. The country's fragmented and relatively small banking sector, whose total assets of \$30.5 billion are coupled with single-client exposure limits, hinders the ability of the local market to meet BRAC's growing needs. With IFC's guarantee, BRAC will be able to reduce its dependence on grants for growth and thus accelerate its outreach to the poor, particularly women borrowers. This is one of many activities that IFC and BRAC have pioneered together in Bangladesh during a long relationship: other ventures have included investments to support housing finance and SME lending.

INDIA: EXPANDING THE PRIVATE SECTOR'S REACH

India's growth has averaged 9.3 percent in the last three years, but progress has not yet touched many of the country's neediest people, on whom IFC increasingly focuses investments and advisory services. Many states are lagging behind, and throughout rural India people still face inadequate basic infrastructure, with little access to clean water, energy, telecommunications, transportation, health care, and education. Even in the country's cities, significant poverty remains, while services reach mainly people with higher incomes. Some 30 percent of India's households still lack access to electricity, and 20 percent have no sanitation facilities. India presents a significant share of global poverty: 80 percent of its 1.1 billion people live on less than \$2 a day, and 400 million on less than \$1 a day. It is a country where IFC and the private sector can make a very significant difference.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08
MSME loans (number of loans)	754,890	880,680	-
MSME loans (volume in \$ million)	4,806	5,407	8,218
Power generated (millions of customers)	27.4	31.5	17.7
Patients reached	1,489,460*	1,523,390*	120,000
New phone connections (millions of customers)	24.7	34.0	17.0
Employment	62,050	103,240	12,430
Local purchase of goods and services (\$ million)	2,573	5,037	54
Payments to government (\$ million)	476	1,180	1,757

Reach data for select industries; indicator definitions and reporting periods vary somewhat across industries. Some data from previous years have been revised.

* Includes just over 1 million patients in a hospital chain in India, in which IFC has a 1.3% equity stake.

PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07*	FY08*
Financing committed for IFC's account	\$1,073	\$1,264
Loans	\$885	\$850
Equity	\$170	\$330
Guarantees and risk management	\$19	\$84
Loan syndications signed	\$102	\$0
Total commitments signed	\$1,176	\$1,264
Committed portfolio for IFC's account	\$2,645	\$3,546
Committed portfolio held for others (loan and guarantee participations)	\$669	\$635
Total committed portfolio	\$3,314	\$4,180

*Includes regional shares of selected investments that are officially classified as global projects.

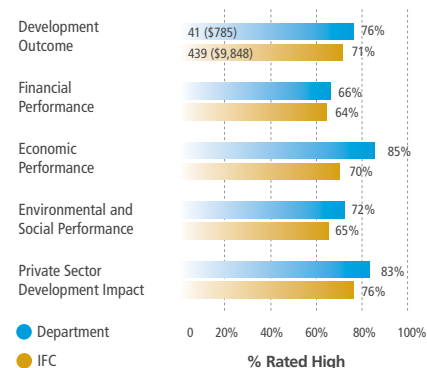
COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	20	25*	30**	37
Number of countries	2	3	3	5
Financing for IFC's own account	\$443	\$507	\$1,073	\$1,264
Syndications	\$200	\$200	\$102	\$0

* Includes Avenue Asia

** Includes Italcementi

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

IFC'S LARGEST COUNTRY EXPOSURES (June 30, 2008)

Based on IFC's account, excluding individual country shares of regional and global projects.

Country	Portfolio (\$ millions)	Development Score*
India		
FY08	\$2,876	72%
FY07	\$2,117	72%
Sri Lanka		
FY08	\$209	75%
FY07	\$57	67%
Bangladesh		
FY08	\$157	100%
FY07	\$147	71%

* Percent of tracked companies with high development results.

EUROPE AND CENTRAL ASIA

Europe and Central Asia remains one of the world's fastest-growing regions, with 8.2 percent GDP growth in 2007. Strong exports, closer integration with global markets, better access to credit, and high commodity prices are among the drivers. These same forces have made the region's countries vulnerable to recent turmoil in financial markets, and the global credit crunch increased demand for IFC financing across the region during FY08. The region also has rising inflation, fueled by higher global prices for food and energy and greater government spending. Challenges to private sector development include outdated infrastructure, persistent financial market weaknesses, cumbersome regulatory regimes, and weak institutions. Because the region accounts for a significant share of global carbon emissions, improving its energy efficiency is also a priority.

IFC STRATEGY

IFC is working to increase investments in the region's 13 IDA and conflict-affected countries by strengthening financial sectors, improving infrastructure through direct investments and public-private partnerships, and modernizing industries. Throughout the region we are supporting more local companies and helping financial institutions that serve MSMEs and low-income households. Donor-funded advisory services remain important to simplifying regulation and strengthening institutions and corporate legislation. In more mature markets, such as Russia and Turkey, we are supporting strong midsize companies, working more in less developed regions, offering new products to finance housing and energy efficiency, and encouraging South-South investments. In Russia, we plan to target real sector investments, and we are promoting cleaner production to help address climate change. Our approach in EU countries is selective: we invest only where IFC's development role is crucial.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$2.68 billion for 86 projects in 19 countries in FY08, and we mobilized an additional \$1.19 billion through syndications, structured and securitized products, sales of IFC loans, and parallel loans. By number of projects, 26 percent of new investments are IDA projects, and 16 percent are in frontier regions of middle-income countries. Half our portfolio is in the financial sector, with significant portions in manufacturing and services and in infrastructure. IFC increased advisory operations by 34 percent, to \$30 million in FY08, with a strong emphasis on IDA and conflict-affected countries (34 and 16 percent of expenditures, respectively). Our advisory services launched 40 new projects in 12 countries and three regional ones in Southeast Europe, with new donor commitments of \$24 million, including \$4 million from IFC. Activity in Azerbaijan and Central Asia rose from 18 to 30 percent of the total. In FY08, we completed 71 advisory projects, and we have an active portfolio of 131 projects valued at \$140 million, of which 31 percent are in IDA markets, focused on improving access to finance (28 percent of portfolio) and corporate advice (27 percent). Major partners include Austria, Canada, Italy, the Netherlands, Sweden, Switzerland, and the United States. Some 37 percent of FY08 advisory projects are linked to at least one investment project.

DEVELOPMENT RESULTS

In 2007, IFC's portfolio companies lent \$50 billion to 1.1 million MSMEs and purchased local goods and services worth \$29.4 billion. Development results have been strong, driven by investments in manufacturing and services and in financial markets, where microfinance lending grew an average of 30 percent a year. In both sectors, IFC addressed major weaknesses during the transition period and improved conditions for private sector development. The strongest investment performance came in countries where IFC has established long-term partnerships with local

companies, such as Russia and Turkey; weaker results reflect difficult business environments, where IFC is responding by increasing advisory services. IFC's advisory services contribution has been significant. We helped remove red tape, saving \$301 million in potential costs for businesses and releasing \$72 million through successful mediation. We also enabled more than \$3 billion in investment by local and foreign companies, and we have helped governments adopt 170 laws that improve the business environment.

SUSTAINABILITY

IFC has strengthened its advisory and investment programs that use or promote energy efficient technologies or mitigate climate change. We continue to promote sound corporate governance in the region, working with governments to strengthen legislation and advising companies and banks on best practices. We work with clients to implement higher social and environmental standards and help them engage with local communities through dialogue, public disclosure, and supply chain linkages; in Southeast Europe an advisory program is helping companies meet international industry standards and improve their competitiveness. We help agribusiness clients strengthen food safety standards and adopt efficient waste management practices. Across the region, we are bringing private investments into power, water, and waste management infrastructure. IFC cosponsored a major conference on housing finance in Turkey, and our CEO participated in panels on Russia's infrastructure needs and agribusiness potential at the St. Petersburg International Economic Forum.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC's portfolio in the region's financial institutions is \$2.8 billion, of which \$1.75 billion is in 89 institutions focusing on micro, small, and medium enterprises. This represents 43 percent of IFC's total global investments in the sector. We are doing more in IDA and conflict-affected countries, where the number of investments has risen steadily (20 in FY08, from 11 in FY05) and where we have provided 85 percent of our advisory services. Our new financing represents more business with new clients (60 percent of FY08 investments) and local companies (80 percent), with particular growth in Central Asia and the Caucasus and in regional infrastructure. IFC advisory services helped many countries improve their Doing Business ranking, grew leasing markets across the region, and enabled about \$70 million in SME loans. Advisory programs in infrastructure are expected to enable \$500 million in related investments, improving access to services for over 3 million people. Priorities include South-South investments, access to finance for MSMEs, more investments in agribusiness and infrastructure, and efforts to mitigate climate change and promote sustainable development.

ALBANIA • ARMENIA • AZERBAIJAN • BELARUS • BOSNIA AND HERZEGOVINA • BULGARIA • CROATIA • CZECH REPUBLIC • ESTONIA • GEORGIA • HUNGARY • KAZAKHSTAN • KYRGYZ REPUBLIC • LATVIA • LITHUANIA • FORMER YUGOSLAV REPUBLIC OF MACEDONIA • MOLDOVA • MONTENEGRO • POLAND • ROMANIA • RUSSIAN FEDERATION • SERBIA • SLOVAK REPUBLIC • SLOVENIA • TAJIKISTAN • TURKEY • TURKMENISTAN • UKRAINE • UZBEKISTAN

IDA COUNTRY MIDDLE-INCOME COUNTRY WITH FRONTIER REGIONS OTHER CLIENT COUNTRY

MAKING A DIFFERENCE

IFC SUPPORTS A STEEL PLANT'S ENERGY EFFICIENCY

The Industrial Union of Donbass, a Ukrainian steel company, plans to modernize its facilities to boost competitiveness and slash carbon and particulate emissions by 2011. IFC helped finance the first phase of this ambitious program in FY06, and in FY08 we provided a loan and syndication package to maximize the environmental benefits of the renovation. IFC has been committed to improving energy efficiency and environmental sustainability in Central and Eastern Europe since 1997. After pioneering investments in the region, we began providing credit to banks for energy efficiency lending and introduced programs to help companies assess modernization projects.

These and other initiatives—such as IFC's new cleaner production advisory program, which helps Russian companies minimize waste and raise productivity—are priorities for IFC as we continue to explore ways to mitigate climate change and promote sustainable development.

IFC HELPS SMALL ENTERPRISES REBUILD AND RAISE INCOMES

Central Asia's small businesses are its economic backbone. IFC is supporting the region's commercially viable microfinance operations, helping these local financial institutions improve services and increase lending to smaller businesses while expanding our reach and development impact. In the Kyrgyz Republic, we provided a \$1.2 million loan to one such client, Bai Tushum, which has transformed itself from a nonprofit fund into a leading microfinance institution, reaching about 13,000 clients. In Tajikistan, IFC portfolio company First Microfinance Bank is providing microcredits to smaller enterprises. Its loan portfolio has grown rapidly, and it is expected to help more than 110,000 people in the next five years. In Uzbekistan, IFC provided two credit lines and advisory services to Hamkorbank, the country's largest privately owned bank. We are helping broaden its funding base and supporting its lending to smaller enterprises. IFC's support to Hamkorbank is key to supporting small business growth, which in turn fosters creation of jobs and income in less developed regions.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08
MSME loans (number of loans)	871,230	1,113,150	674,800
MSME loans (volume in \$ million)	24,821	49,934	14,548
Power generated (millions of customers)	19.7	11.2	5.7
Patients reached	1,779,580	750,000	1,289,500
Students reached	12,200	11,750	-
New phone connections (millions of customers)	1.9	3.0	-
Employment	131,840	522,630	55,510
Local purchase of goods and services (\$ million)	8,363	29,419	698
Payments to government (\$ million)	2,096	3,660	1,616

Reach data for select industries; indicator definitions and reporting periods vary somewhat across industries. Some data from previous years have been revised.

PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07*	FY08*
Financing committed for IFC's account	\$1,785	\$2,680
Loans	\$1,164	\$1,925
Equity	\$513	\$682
Guarantees and risk management	\$109	\$73
Loan syndications signed	\$775	\$1,041
Total commitments signed	\$2,560	\$3,721
Committed portfolio for IFC's account	\$7,033	\$9,038
Committed portfolio held for others (loan and guarantee participations)	\$1,387	\$2,225
Total committed portfolio	\$8,420	\$11,263

*Includes regional shares of selected investments that are officially classified as global projects.

COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	67*	80**	67***	86****
Number of countries	15	17	15	19
Financing for IFC's own account	\$1,938	\$2,084	\$1,786	\$2,680
Syndications	\$419	\$241	\$775	\$1,041

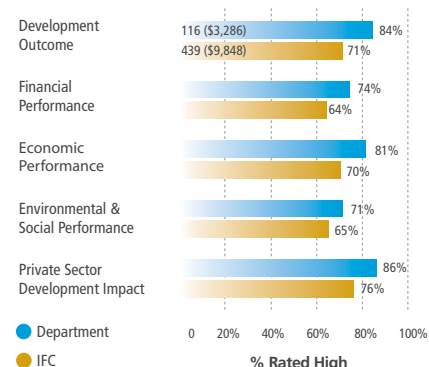
* Includes RI Facility, Arcelik, Melrose

** Includes EECFI

*** Includes Melrose II, Melrose II Expansion, and Italcementi

**** Includes Lydian Resources, Lydian International RI, Lydian RI, TAV Tunisia, and Melrose Resources

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

IFC'S LARGEST COUNTRY EXPOSURES (June 30, 2008)

Based on IFC's account, excluding individual country shares of regional and global projects.

Country	Portfolio (millions)	Development Score*
Russian Federation		
FY08	\$2,718	100%
FY07	\$2,238	89%
Turkey		
FY08	\$1,806	94%
FY07	\$1,342	76%
Ukraine		
FY08	\$651	100%
FY07	\$487	N/A

* Percent of tracked companies with high development results. N/A = Not available (less than 4 companies).



LATIN AMERICA AND THE CARIBBEAN

The region has grown, with low inflation, for a fifth consecutive year, although this growth has lagged behind that of other emerging market regions. The economy has been bolstered by sound macroeconomic policies, high prices for export commodities, and strong growth in trade. In many countries, domestic demand stimulates growth, and both investment and private credit have expanded. Despite macroeconomic stability, however, poverty and inequality persist, giving rise to social and political tensions in some countries. The region also lags behind other emerging regions in its competitiveness. Crucial reforms in the pension, labor, fiscal, infrastructure, and financial sectors are needed to sustain its growth.

IFC STRATEGY

IFC focuses on key development challenges facing the region. We work to improve the business environment, broaden and deepen access to finance, and encourage infrastructure development. We are increasing our focus on smaller countries, especially IDA countries; this includes a strategic approach in the Caribbean islands, which have some of the world's highest income inequality but also some comparative advantages that investment and advice can build upon. In middle-income countries, we are working to expand IFC's reach to underserved people at the bottom of the economic pyramid. We have developed an integrated approach of investment and advisory products to address development challenges. We support growing companies in areas where the region has a comparative advantage, providing a combination of equity and debt to support them as they grow. Going forward, IFC will focus on addressing key product needs, such as equity and local currency financing, while continuing to support our clients' sustainability and innovating in advisory services.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$2.94 billion for 81 projects in 16 countries in FY08, and we mobilized an additional \$2.43 billion through syndications, structured and securitized products, and sales of IFC loans. Investments are increasing, particularly in Central America and the Andean region. We have stepped up efforts to reach the poorest: 15 percent of new investments are IDA projects, and 14 percent are in frontier regions of middle-income countries. The main concentration is in financial markets, infrastructure, and extractive industries; and a significant share of IFC's agribusiness portfolio is located in the region. Our portfolio continues to be diversified across countries and sectors. Our advisory services have an active portfolio of 94 projects, valued at \$59 million. Based on value, 20 percent of our advisory projects are in IDA countries, with emphasis on improving the business environment and infrastructure. Major partners in regional advisory work include Canada, the Netherlands, Switzerland, the United Kingdom, and the United States. In FY08, 33 advisory projects were directly linked to IFC investments.

DEVELOPMENT RESULTS

IFC's investments have contributed to higher employment, greater access to finance, and better infrastructure. In 2007, our clients provided more than half a million jobs, and many of them substantially increased their employment compared to 2006. They also provided power for over 57 million people, reaching one of every 10 people in the region. Our microfinance clients provided 3.7 million loans, a 37 percent rise from 2006. We are also strengthening our focus on IDA countries: IFC committed \$165 million through 10 investments in FY08, more than tripling the FY07 amount.

Overall the region's investments have had solid development results. IFC has also increased advisory services, particularly in IDA countries: we have completed municipal simplification projects in 18 municipalities (up from one in FY05), with 16 of these in Bolivia, Honduras, and Nicaragua. These efforts are encouraging registration of new small businesses, creating opportunities and reducing the informal sector in some of the region's poorest countries.

SUSTAINABILITY

Latin American banks were among the first from developing countries to adopt the Equator Principles, and IFC is also helping clients address sustainability issues. For example, we have provided Brazil's Banco Real a \$200 million credit line for on-lending to support environmental, supply chain, and corporate governance lending. We are encouraging sustainable practices—for example, through advice to Petrotesting in Colombia and Shatin in Brazil that is helping them adopt a strategic approach to sustainability and their reporting on community engagement. We are also developing partnerships with NGOs and supporting new markets in energy efficiency lending. IFC is launching the Brazilian Amazon Initiative, a program for sustainability-driven private sector investments and advisory services in agribusiness, forestry, sustainable financing, and biodiversity-related products that aims to develop sector benchmarks and environmental standards. This year, we provided \$378 million in clean energy financing through five investments, including two in Central America. In Chile, IFC is helping expand the sustainable energy sector, with emphasis on renewables; here we invested in a start-up hydropower plant that will reduce emissions by displacing thermal power generation.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC focuses on making markets work for all people in such areas as infrastructure; agribusiness; and access to finance, housing, and technology. In infrastructure, we provided \$508 million through 12 investments; we also signed several advisory mandates in the Caribbean. In agribusiness, we support companies in subsectors where the region has a competitive advantage; this year we provided \$258 million through 10 investments. About 25 percent of new investments will help finance micro, small, and medium enterprises. In addition to our focus on IDA countries, we are reaching underserved people in middle-income countries; examples include Vinte in Mexico (see p. 87) and Ruralphone in Brazil (see p. 24). We will continue expanding our presence in the Caribbean and Central America, emphasizing priority sectors and incorporating advisory services as added value to our clients and ways of strengthening our development impact.

ANTIGUA AND BARBUDA • ARGENTINA • THE BAHAMAS • BARBADOS • BELIZE • BOLIVIA • BRAZIL • CHILE • COLOMBIA • COSTA RICA • DOMINICA • DOMINICAN REPUBLIC • ECUADOR • EL SALVADOR • GRENADA • GUATEMALA • GUYANA • HAITI • HONDURAS • JAMAICA • MEXICO • NICARAGUA • PANAMA • PARAGUAY • PERU • SAINT KITTS AND NEVIS • SAINT LUCIA • TRINIDAD AND TOBAGO • URUGUAY • VENEZUELA

IDA COUNTRY MIDDLE-INCOME COUNTRY WITH FRONTIER REGIONS OTHER CLIENT COUNTRY

MAKING A DIFFERENCE

HONDURAS: INTEGRATED SOLUTIONS IN AN IDA COUNTRY

IFC's strategy in Honduras is to create synergies between our investment products and advisory services. We are improving the business environment: we helped the municipality of Tegucigalpa reduce the number of days it takes to obtain an operating license from 30 to one, resulting in a 40 percent rise in licenses for new businesses last year. IFC is also promoting access to finance for micro, small, and medium enterprises—only 1 percent of them have access to commercial banks, though they account for 25 percent of the country's GDP. In FY08, we sought to fill this gap by financing and helping create Bancovelo, a major new microfinance institution, as well as providing \$20 million to Banco Ficohsa's microfinance activities. In the next five years, Bancovelo is expected to reach 22,000 microentrepreneurs—60 percent of them women—while Ficohsa aims to disburse 1,300 loans for MSMEs and provide up to 30,000 housing loans to low- and middle-income families.

ACCESS TO FINANCE: SUPPORTING MORE INCLUSIVE GROWTH

Expanding access to financial services for smaller businesses and low-income households is a focus of IFC's advisory services and investments throughout the region. In FY08, we signed 15 advisory projects in MSME finance, for a total of \$5.2 million in more than 10 countries, including Haiti, Honduras, Nicaragua, and St. Lucia. We started five low-income housing advisory projects with financial institutions in Honduras, Nicaragua, and Peru. To improve financial infrastructure, IFC provided advice on credit bureaus to 18 countries in the region, with a focus on IDA countries. We also provided more than \$500 million in direct financing through 14 investments that will expand access to finance. In Peru, for example, our \$13 million guarantee to a microfinance institution will enable it to offer more than 100,000 loans and other financial products to low-income customers.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08
MSME loans (number of loans)	2,714,560	3,711,940	229,380
MSME loans (volume in \$ million)	9,653	15,475	11,892
Power generated (millions of customers)	35.6	57.7	0.4
Patients reached	1,430,110	912,000	437,100
New phone connections (millions of customers)	3.9	1.4	0.6
Employment	287,910	587,880	86,900
Local purchase of goods and services (\$ million)	13,360	14,275	911
Payments to government (\$ million)	9,326	8,507	*13,166

Reach data for select industries: indicator definitions and reporting periods vary somewhat across industries. Some data from previous years have been revised.

* Expected payments to government revenues capture payments from 2008-2015 and include \$11.3 billion by one large client.

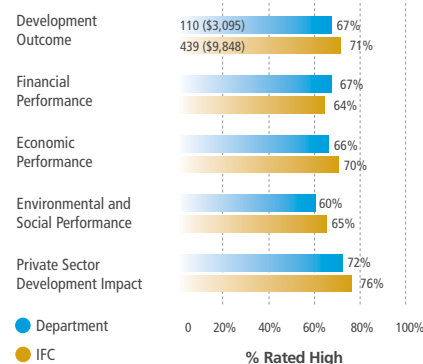
PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07	FY08
Financing committed for IFC's account	\$1,781	\$2,943
Loans	\$1,229	\$2,050
Equity	\$295	\$378
Guarantees and risk management	\$256	\$515
Loan syndications signed	\$299	\$1,619
Total commitments signed	\$2,080	\$4,562
Committed portfolio for IFC's account	\$6,780	\$8,234
Committed portfolio held for others (loan and guarantee participations)	\$2,005	\$3,086
Total committed portfolio	\$8,785	\$11,320

COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	54	69	68	81
Number of countries	17	18	14	16
Financing for IFC's own account	\$1,398	\$1,747	\$1,781	\$2,943
Syndications	\$385	\$888	\$299	\$1,619

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

IFC'S LARGEST COUNTRY EXPOSURES (June 30, 2008)

Based on IFC's account, excluding individual country shares of regional and global projects.

Country	Portfolio (\$ millions)	Development Score*
Brazil		
FY08	\$2,487	71%
FY07	\$1,618	58%
Mexico		
FY08	\$1,000	64%
FY07	\$1,228	69%
Argentina		
FY08	\$998	29%
FY07	\$768	8%

* Percent of tracked companies with high development results.

MIDDLE EAST AND NORTH AFRICA

The region's economies continue to perform relatively well amid the global financial turmoil and economic slowdown. GDP growth estimates for 2008 remain at about 6 percent. Liquidity also remains satisfactory. While inflationary pressures have emerged in the region along with the increase in world prices for food and other commodities, most countries have maintained macroeconomic stability. Despite overall strong performance, however, many countries face challenges of high unemployment (especially among youth), conflict and political instability, limited access to finance (especially for poor people, women entrepreneurs, and smaller businesses), inadequate physical and financial infrastructure, and weak legal and regulatory frameworks for private sector development.

IFC STRATEGY

IFC focuses on providing long-term finance to the private sector in ways that benefit underserved communities. Our priorities are in areas with high development impact and where IFC can make the greatest contribution, including access to finance for the underserved, especially MSMEs and mortgage and student borrowers; investments in infrastructure; and opportunities in IDA, conflict-affected, and resource-poor middle-income countries. IFC will pursue these objectives by combining investment and advisory services and facilitating South-South investments.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$1.44 billion for 50 projects in 12 countries in FY08, and we mobilized an additional \$819 million through syndications and structured and securitized products. By number of projects, 32 percent of new investments are IDA projects, and 14 percent are in conflict-affected countries. New sponsors accounted for 78 percent and South-South investments for 32 percent of total projects. Our portfolio is spread across the region, with the biggest concentration in the financial and infrastructure sectors. In advisory services, we have been active in 14 of the region's 19 countries in FY08; we approved 32 new projects, 34 percent of them in IDA and 13 percent in conflict-affected countries. Total expenditure for advisory services in FY08 was over \$22 million: 47 percent were related to access to finance and corporate advice; 26 percent focused on the business enabling environment; and 25 percent on infrastructure, including public-private partnerships. Major partners include Canada, France, the Islamic Development Bank, Japan, Kuwait, the Netherlands, the United Kingdom, and the United States.

DEVELOPMENT RESULTS

IFC's activities have generated tangible results, increasing employment, mobilizing additional financing, and assisting smaller businesses. In 2007, our clients had 852,000 loans outstanding to MSMEs and generated \$787 million in government revenues. Compared to the IFC average, development results have been weak. In the West Bank and Gaza and neighboring Jordan, political instability affected the performance of some investments. Our portfolio fared best in infrastructure, funds, and telecommunications, while operations in some small nonbank financial institutions and particularly small manufacturing businesses showed weak results. The performance of our two largest exposure countries—Pakistan and Egypt—has generally been above IFC's average. To date, advisory services have facilitated an estimated \$1.5 billion in infrastructure investment and helped generate government revenues of nearly \$1.3 billion through public-private partnerships and privatizations. Using a variety of programs, we have helped underserved groups access financing of about \$3.8 billion, which includes 1.6 million microfinance loans. Advisory services

were instrumental in reducing the time to start a business by half in two countries; across the region we have helped reform or amend 28 laws, regulations, and codes and 109 procedures and policies. Some 41,000 participants have been trained in SME management skills.

SUSTAINABILITY

IFC is promoting environmental and social sustainability best practices through our investment-related advisory work; activities include developing the policy framework for mining industries in Egypt and Yemen; strengthening food quality standards for raisins and pomegranates in Afghanistan and olive oil in the West Bank and Gaza; and improving labor standards in Jordan's apparel industry, in collaboration with the ILO. In Saudi Arabia, IFC has advised on the introduction of private sector participation for a new desalination plant to supply potable water to the King Abdulaziz International Airport and its facilities. This project will significantly lower the cost of water and introduce international best practices in plant operations, leading to a larger, more sustainable water supply. IFC continues to promote women's entrepreneurship to create jobs and raise the rate of women's participation in the region's labor force. We are also working to build the capacity of business-women's associations and research centers in Tunisia and the United Arab Emirates.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC has substantially increased investment and advisory services in the region in the last four years, reaching many new clients. This outreach is improving the business environment and helping many companies become more competitive. Going forward, we will increase our focus on infrastructure, including public-private partnerships; increase access to finance for underserved groups; support development of smaller businesses; and help improve corporate governance and sustainability across the region. Assisting the private sector in IDA countries and those affected by conflict will remain a priority, and we will continue to tailor approaches to the specific market conditions of our client countries.

AFGHANISTAN • ALGERIA • BAHRAIN • **ARAB REPUBLIC OF EGYPT** • ISLAMIC REPUBLIC OF IRAN • IRAQ • JORDAN • KUWAIT • LEBANON • LIBYAN ARAB JAMAHIRIYA • MOROCCO • OMAN • **PAKISTAN** • SAUDI ARABIA • SYRIAN ARAB REPUBLIC • TUNISIA • UNITED ARAB EMIRATES • WEST BANK AND GAZA • **REPUBLIC OF YEMEN** IDA COUNTRY MIDDLE-INCOME COUNTRY WITH FRONTIER REGIONS OTHER CLIENT COUNTRY

MAKING A DIFFERENCE

REBUILDING THE PRIVATE SECTOR IN THE WEST BANK AND GAZA

Reviving the private sector is critical to jump-starting the economy and creating opportunities for many unemployed youth in the West Bank and Gaza. IFC is helping local banks expand access to finance for underserved segments of the economy. We are supporting trade finance operations with two local banks, Al Rafah Microfinance Bank and Bank of Palestine. This year we signed an agreement to establish a long-term housing finance facility in a unique partnership with the Palestinian Investment Fund, the U.S. Overseas Private Investment Corporation, the Bank of Palestine, the U.K. Department for International Development, the Palestine Mortgage and Housing Corporation, and the World Bank. IFC is taking an equity stake in the new housing finance company that will be created, and both IFC and the World Bank will provide advisory services to help ensure the initiative's success. The effort is expected to finance affordable housing for 30,000 middle- and low-income families. Another landmark initiative is the first student loan program in the West Bank and Gaza, which IFC is introducing along with the Bank of Palestine and the Palestine Education Fund. The new facility will disburse up to \$10 million in loans, funding higher education for about 8,000 students a year.

LINKING ADVISORY AND INVESTMENT WORK IN JORDAN

Infrastructure is a key sector in the region's development. We advise governments on structuring innovative public-private partnerships in critical sectors. In other cases, we provide financing to innovative infrastructure transactions that commercial banks consider too risky to fund without IFC's involvement. For example, our integrated investment and advisory services contributed to the largest private investment in Jordan's history—the \$1 billion upgrade of the Queen Alia International Airport. IFC advised the government on a competitive bidding process, and the bid was awarded to Airports International Group, a consortium based in Abu Dhabi. Some six months later, IFC helped provide a \$120 million, 18-year loan and mobilized \$160 million through a syndication that attracted six European and Middle Eastern banks. The Islamic Development Bank and the World Bank also provided significant funding.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08
MSME loans (number of loans)	206,860	851,710	1,088,950
MSME loans (volume in \$ million)	2,397	3,612	4,334
Power generated (millions of customers)	16.6	19.9	2.5
Employment	64,180	63,360	15,850
Local purchase of goods and services (\$ million)	474	602	29
Payments to government (\$ million)	561	787	1,039

Reach data for select industries; indicator definitions and reporting periods vary somewhat across industries. Some data from previous years have been revised.

PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07*	FY08*
Financing committed for IFC's account	\$1,217	\$1,442
Loans	\$879	\$818
Equity	\$205	\$267
Guarantees and risk management	\$134	\$358
Loan syndications signed	\$210	\$531
Total commitments signed	\$1,427	\$1,973
Committed portfolio for IFC's account	\$2,477	\$3,452
Committed portfolio held for others (loan and guarantee participations)	\$497	\$734
Total committed portfolio	\$2,974	\$4,186

*Includes regional shares of selected investments that are officially classified as global projects.

COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	21*	29**	40***	50****
Number of countries	8	12	12	12
Financing for IFC's own account	\$315	\$668	\$1,217	\$1,442
Syndications	\$0	\$0	\$210	\$531

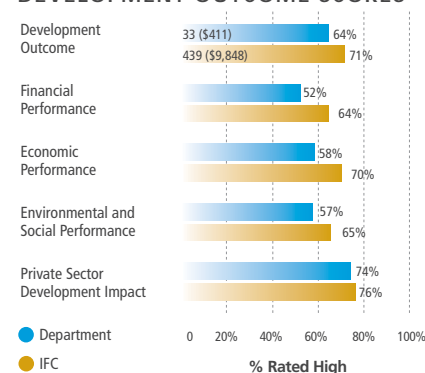
* Includes BAPTF and Melrose

** Includes Soco Facility and Viola AMI

*** Includes Melrose II and Melrose II Expansion and Italcementi

**** Includes MelroseResources

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

IFC'S LARGEST COUNTRY EXPOSURES (June 30, 2008)

Based on IFC's account, excluding individual country shares of regional and global projects.

Country	Portfolio (\$ millions)	Development Score*
Pakistan		
FY08	\$665	71%
FY07	\$522	75%
Egypt		
FY08	\$499	67%
FY07	\$517	75%
Tunisia		
FY08	\$304	N/A
FY07	\$58	N/A

* Percent of tracked companies with high development results. N/A = Not available (less than 4 companies).

INDUSTRY OPERATIONS AND RESULTS

IFC gives clients a special edge, providing comprehensive and sustainable solutions to the challenges private enterprises face in developing countries.



We provide global expertise across the spectrum of economic activities that make for a robust private sector—from agribusiness to finance; from manufacturing and services to information technology; and from health and education to infrastructure. We help our clients raise their standards to become more competitive and sustainable.

In fiscal year 2008, IFC's industry operations allowed us to play a role in alleviating the global food crisis—we helped many agribusiness firms get food to world markets. We are leading the way in encouraging sovereign wealth funds to invest directly in Sub-Saharan Africa. Amid the global credit crunch, we improved prospects for private enterprises in developing countries by increasing the amount of local currency financing we provide.

Our investments in global financial markets totaled \$4.6 billion in FY08, accounting for 40 percent of our activities. IFC investments in infrastructure reached \$2.4 billion, increasing substantially to 21 percent from 11 percent the year before.







GLOBAL FINANCIAL
MARKETSBUILDING
THE
FOUNDATION

Building financial markets is a priority for IFC. We help smaller businesses get financing. We provide local currency financing that helps clients mitigate foreign exchange risk. We help develop new markets for business leases, home mortgages, and student loans. We broaden access to credit for people who most need it.

Muhamad Nasir leads a farmers' group in a remote area of Indonesia. Until recently, the group found it nearly impossible to obtain affordable credit. Indonesian farmers need land certificates to use their property as collateral for loans, but most small farmers cannot afford the certificates. As a result, Nasir says, "We used to depend on credit provided by loan sharks." IFC stepped in to help by signing a credit agreement with Bank Sulsel, which purchases land certificates on behalf of farmers from the National Land Agency. Once a farmer has repaid the loan, Bank Sulsel gives him the certificate. Since 2005, IFC has facilitated loans of 2.2 billion rupiah for Nasir and other farmers.

"When our credit proposal finally got approval from the bank, I felt like a sick person who instantly got healed," Nasir says. "With the credit, I can buy more fertilizer and more seed. It makes my production increase from four or five tons to six or seven tons a year."

PHOTO: IFC's help has allowed Muhamad Nasir to obtain affordable loans to buy fertilizer and seed.



GLOBAL FINANCIAL MARKETS

Financial market development is critical to reducing poverty and improving lives. Sound and efficient financial markets can ensure that resources are allocated where they are most productive, creating jobs and spurring economic growth. IFC places a priority on investment in the financial sector because it underpins development in all other sectors; it accounts for about 40 percent of IFC's new commitments and investments each year. In FY08, financial market instability and higher interest rates slowed global growth and lessened access to finance. Tightening credit conditions also present challenges in many markets in which IFC operates. The effect of the credit crunch is being closely monitored, and the financial markets strategy may be adjusted to address related challenges.

IFC STRATEGY

IFC focuses on the financial sector of underserved frontier markets, including IDA countries and poorer regions of middle-income countries. Our strategy is to identify needs and opportunities so that we offer clients the right mix of investment and advisory services. IFC products help extend access to finance, including through microfinance, SME banking, leasing, housing, and trade finance; we also help build institutions and capacity in financial and insurance markets. IFC has launched a wholesaling approach that allows us to deliver products and services through a global network of financial institutions to clients in sectors including agribusiness, infrastructure, and health and education. This enables us to reach smaller businesses we would not typically finance directly and offer client financial institutions a broader range of products. We are also working on products that will help financial institutions and their clients address climate change risks and tap into business opportunities. The Financial Markets Department has decentralized to become more client-oriented, with more than half of staff now based in field offices.

NEW BUSINESS AND PORTFOLIO

In FY08, our commitments reached \$4.60 billion for 154 projects spanning 65 countries. We mobilized an additional \$2.4 billion through syndications, structured and securitized products, and sales of IFC loans, and a further \$1.8 billion through the Global Trade Finance Program (see trade finance, p. 37). By number of projects, 52 percent of new investments are IDA projects, and 6 percent are in frontier regions of middle-income countries. Our investments rose 75 percent in Sub-Saharan Africa, reaching \$887 million, and 21 percent in the Middle East and North Africa, to \$609 million. Our investments benefiting micro, small, and medium enterprises hit a record \$2.3 billion; of this, microfinance commitments were \$316 million in 37 investments, up from \$196 million in FY07. Our microfinance portfolio totals \$848 million invested in 91 microfinance providers, making IFC the leading international investor in them. Our new wholesaling approach led to \$34 million invested in agribusiness, infrastructure, and education. Around 50 percent of FY08 transactions were with new clients. Our committed portfolio is over \$12 billion, with 468 clients in 97 countries worldwide. Over half IFC's financial markets investments now have an advisory component; see also the Access to Finance advisory business line, p. 95.

DEVELOPMENT RESULTS

IFC's investments reached many smaller businesses, and we worked to ensure that microfinance reaches people and places most in need, including in IDA and conflict-affected countries. As of 2007 our clients had provided 1 million SME loans worth \$86 billion and 7 million microloans worth \$7.9 billion. Our clients' housing finance portfolio was \$14.3 billion. Trade finance is also significantly broadening IFC's

reach (see p. 37). The financial markets sector continued to achieve strong development results. Performance was best in Africa, demonstrating the potential for impact in some of the least developed markets. The Middle East and North Africa region had the biggest improvement over FY07, with a diversified portfolio in commercial banking, housing finance, microfinance, and financial infrastructure. East Asia had relatively weaker results, due mainly to certain developmentally underperforming projects in China's nonbank sector. (For advisory results, see the Access to Finance advisory business line, p. 95.)

SUSTAINABILITY

IFC is developing innovative financing products that can advance sustainability and help mitigate climate change. The focus includes energy efficiency, renewable energy, cleaner production, sustainable supply chains, sustainable construction, and corporate governance. In FY08, we increased our investments to promote sustainability, reaching over \$500 million in 11 projects, including over \$300 million for investments related to climate change. With the Financial Times, IFC continues to sponsor the Sustainable Banking Awards, which have helped establish sustainability as a business objective for the broader banking community, including in emerging markets. In their third year, the awards received 182 entries, up from 90 in 2006, and had 128 banks from 54 countries competing. Brazil's Banco Real was named Sustainable Bank of the Year.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC made strong progress in expanding our financial markets business, investing over \$1 billion in 29 IDA countries through products including housing, trade, and MSME finance. Addressing constraints to financial sector development and helping reduce poverty through such programs remain a top priority going forward. We will also increase our activities in the agricultural sector, using our wholesaling approach, trade finance, and insurance products. We are working with a partner company on the Global Index Reinsurance Facility, which will establish index-based insurance against weather and other catastrophe risks in developing countries, particularly benefiting farmers. IFC will also establish a program offering short-term debt products; this will provide much-needed liquidity to markets affected by the tightening of global credit markets and help further expand IFC's activities in conflict-affected and IDA countries. We will continue to establish and strengthen standards in financial services, with initiatives including a tool to help banks benchmark their SME banking business, and an effort to promote global standards for responsible microfinance lending.

EXPANDING ACCESS TO AFFORDABLE HOUSING

Affordable housing is a key to improving people's lives: IFC continues to invest more and expand our advisory services in housing finance, while developing innovative financial products. In the Middle East, we have helped develop Sharia-compliant housing finance, are helping set up a mortgage lender in the West Bank and Gaza (see p. 63), and have pioneered housing microfinance in Afghanistan and Tunisia. We provided housing finance training in Pakistan and have efforts underway in Egypt, Iraq, and the West Bank and Gaza. In Ghana, IFC invested in four banks as part of a larger program to boost the country's residential mortgage lending—an approach we are now introducing in other IDA countries across Africa. The banks in Ghana are using the IFC Mortgage Toolkit, which offers guidance on introducing mortgage products; this product is also helping banks in Albania, Egypt, Mexico, Peru, and Uganda. IFC is facilitating knowledge-sharing across the housing finance industry; initiatives include a Web portal we launched with the Wharton Business School as well as the Global Housing Finance Conference, which we held with the World Bank this year to highlight key issues in the sector. IFC's main challenges are to continue addressing demand in client countries and to keep expanding our reach in markets with limited access to housing finance.

HELPING BANKS PROMOTE RENEWABLE ENERGY AND ENERGY EFFICIENCY

IFC is working with the Global Environment Facility and donor countries to help local financial institutions finance renewable energy and energy efficiency. In China, we are setting up risk-sharing facilities with commercial banks that support energy efficiency equipment loans, mostly to smaller businesses. We have also supported sustainable energy financing in Russia. In Latin America, this year we supported banks with sustainability credit lines of \$300 million, which helps them provide loans to clients, usually small and medium enterprises, for environmental projects or corporate governance initiatives.

IFC's clients also increasingly see the business value of managing social and environmental risk. For example, Banque Marocaine du Commerce Extérieur, the second-largest private sector commercial bank in Morocco, is one of the first banking groups in its region to begin developing a social and environmental management system.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08***
SME loans (amount / number of loans)*	\$52,180 million/ 0.72 million	\$86,000 million/ 1.02 million	\$41,430 million/ 0.89 million
Microfinance loans (amount / number of loans)*	\$4,950 million/ 4.31 million	\$7,890 million/ 6.99 million	\$4,240 million/ 3.13 million
Housing finance loans (amount / number of loans)**	n.a.	\$14,320 million/ .51 million	\$2,970 million/ 69,340

* Portfolio reach figures represent SME and microfinance sub-loans issued by IFC portfolio clients in CY06 and 07. 178 and 197 clients were required to report their end-of-year SME and microfinance portfolios in 2006 and 2007, respectively. 140 and 163 clients did so as of June 30, 2007 and 2008, respectively. The missing data were extrapolated.

** Portfolio reach figures represent housing subloans issued by IFC portfolio clients in CY07. 32 housing clients reported their end-of-year housing portfolios for 2007, and for an additional 11 housing clients, the data were extrapolated.

*** For FY08 New Business Expectations, dollar amounts represent the expected outstanding portfolio by the end of CY12, and the number of loans represents the number of expected new loans to be disbursed during CY08-12 by IFC clients with whom IFC committed SME/microfinance/housing related projects in FY08.

Global Trade Finance Program Indicators	FY 2006	FY 2007	FY08
Guarantees (amount / number of guarantees)	\$267 million/ 320	\$767 million/ 564	\$1,429 million/ 1,008
SME (by number of guarantees)	81%	71%	75%
Africa (by amount)	70%	49%	41%
South-South (by number of guarantees)	38%	36%	34%
TOTAL TRADE SUPPORTED	\$395 million	\$1,160 million	\$1,880 million

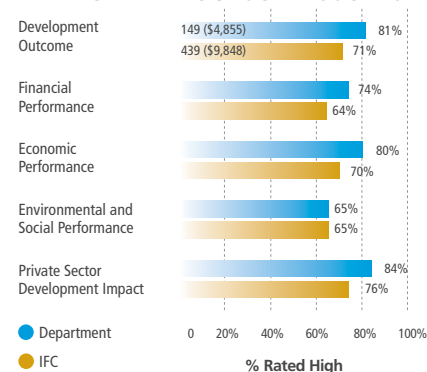
PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07	FY08
Financing committed for IFC's account	\$3,374	\$4,605
Loans	\$1,818	\$1,978
Equity	\$679	\$890
Guarantees and risk management	\$877	\$1,737
Loan syndications signed	\$113	\$1,034
Total commitments signed	\$3,487	\$5,639
Committed portfolio for IFC's account	\$9,448	\$12,216
Committed portfolio held for others (loan and guarantee participations)	\$404	\$1,358
Total committed portfolio	\$9,852	\$13,574

COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	93	117	129	154
Number of countries	48	49	56	65
Financing for IFC's own account	\$2,183	\$2,468	\$3,374	\$4,605
Syndications	\$28	\$219	\$113	\$1,034

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

PRIVATE EQUITY AND INVESTMENT FUNDS

Private equity has become a recognized asset class among private sector companies, institutional investors, and capital markets focusing on developing countries. Fund managers add value to portfolio companies in far-reaching ways, such as improved technology and operations, up-to-date accounting methods and systems, better and more frequent reporting, and better corporate governance. All of these value additions translate into stronger, faster-growing companies that are able to generate more and better jobs, pay more taxes, and be better corporate citizens. Private equity funds also play an important role in deepening capital markets, as they provide otherwise unavailable risk financing and often enable companies to broaden their shareholder base and even list on local stock exchanges.

IFC STRATEGY

IFC is placing more emphasis on IDA countries and on emerging local fund managers, resulting in more development impact. This focus moves our development results from pure job creation to a catalytic and market development role. We are increasingly venturing into economies where private equity is in its infancy and working with credible and qualified but less experienced managers who often focus on small and medium businesses. This allows us to go where we can have the greatest development impact. Fund investments advance IFC's strategic priorities, such as IDA coverage, support to smaller businesses, climate change initiatives, rural reach, and frontier investments and infrastructure. Although private equity fund-raising continues to increase in developed markets, it remains limited in emerging markets such as Africa, the Middle East, and Latin America. Local first-time fund managers also find it difficult to attract institutional investors to their funds.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$394 million for 23 projects in FY08. Including a large share of investments classified as regional, 60 percent are IDA projects; 23 percent of country-specific funds are in IDA countries. SME-focused private equity funds accounted for 74 percent of this year's investments; other sector priorities included infrastructure and agribusiness. About 75 percent of investments are managed by emerging managers based in client countries. The portfolio grew to \$1.35 billion in a total of 147 investments. The global credit crunch has had only a limited effect on IFC's fund valuations, because few of our funds depend on leverage for their return, focusing instead on the growth of companies they invest in through capacity expansion as well as operational and management improvements.

DEVELOPMENT RESULTS

Since 2000, IFC-supported funds have provided capital and management expertise to about 500 companies, and they are expected to support an additional 200 companies by the end of these funds' lives. Over half of these companies have been SMEs; about 25 percent have been located in IDA countries. Fund investments have created 162,000 jobs, and employment growth has been significantly higher than the national average employment growth rates. These funds have mobilized \$18.7 billion of equity and quasi-equity for emerging markets. IFC's more structured, centralized approach since 2000, helped by better market conditions, has improved long-term development outcomes of our funds portfolio. Last year, investments had above average results.

The successful implementation of our clients' growth strategies, helping small and midsize companies grow faster and more consistently, has significantly boosted job creation. The quality of fund managers and their strategies are more important drivers than region- or country-specific factors. IFC supports many first-time and emerging managers, at greater risk; and the overall success of these managers has strengthened our development results.

SUSTAINABILITY

IFC increasingly focuses on actions to mitigate climate change, and we are developing strategies for private equity funds. As private sources are expected to finance more than 80 percent of climate-friendly development, private equity fund investments play an important role in helping companies address climate change. Specialized funds invest in companies that focus on climate change mitigation, clean and renewable energy, energy efficiency, environmental improvements, and water and wastewater, contributing to a lower-carbon economy. IFC has committed to invest in two such funds—Aloe Environment Fund II in Asia and Evolution One in southern Africa—and we are working to identify new funds.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

We are now able to work increasingly in poorer countries, and with less experienced fund managers, as we help develop the private equity sector. The challenge and business opportunity for IFC is to work with emerging fund managers in new markets and help them bring their funds in line with international standards. Shifting the portfolio to newer managers has increased demand for our advice in such areas as basic fund structuring and terms, and we are helping funds develop social and environmental risk management systems to meet IFC's standards. Grooming capable new fund managers means incorporating good corporate governance: aligning investor and manager interests, establishing mechanisms to resolve potential conflicts of interest, and ensuring that investors avoid getting involved in day-to-day fund management. IFC also promotes networking between emerging fund managers and investors. Going forward, we will focus on increasing the potential of our investments through joint venture funds that respond to the need for bankable projects in some regions and that cater to the real sector's needs in developing countries. We are rapidly building up our investments in SME and small business funds, especially in IDA countries.

IFC AND FUND MANAGER PARTNER TO EXPAND FINANCIAL SERVICES IN AFRICA

In Africa, IFC's financial markets group invested in Letshego, a consumer finance company in Botswana, along with the PAIP Pan-African fund. At the time of investment in 2004, Letshego operated only in Botswana. IFC invested a combination of equity and debt in the company that has enabled it to expand access to finance to over 100,000 low- and middle-income borrowers in several other countries, including Tanzania, Uganda, and Zambia. With the guidance of IFC and the PAIP fund manager, Letshego has established successful subsidiaries in six African countries. IFC's long-term partnership with the fund manager has enabled both parties to support Letshego from its start-up stage to its current status as a regional financial services provider that is a role model for other consumer lending entities in the Sub-Saharan region. Letshego has also drawn upon IFC's financial expertise in developing new product lines for clients.

IFC GLOBAL PRIVATE EQUITY CONFERENCE

Each year, IFC organizes the Global Private Equity Conference in partnership with the Emerging Markets Private Equity Association. The premier conference in its industry, the event convenes participants from around the world to discuss trends, share best practice in private equity investing and fundraising, and network with peers. This year's 10th annual conference attracted more than 600 practitioners. The 2008 theme, "Creating Opportunities and Building Value," examined the global economic impact of private equity, how Asia is driving the growth of other markets, and which frontier markets are attracting the most interest. Sessions also looked at trends in such fast-growing sectors as clean technology and infrastructure.

DEVELOPMENT REACH

Indicator	Portfolio* CY06	Portfolio* CY07	New Business Expectations FY08**
New jobs	60,580	162,100	33,600
Number of SMEs reached	164	255	90
Number of emerging managers	52***	61	22
Number of supported investee companies****	329***	498	212
Number of investee companies with frontier exposure/IDA	66	112	107
Number of high-growth investee companies (>20% growth / + growth)	89	223*****	115

* Calculations are based on new business committed between 2000 and the respective year, and not on the total portfolio of projects.

** FY08 expectations are projected for 2013.

*** Data have been revised.

**** Number of active investees is 397.

***** 60% of investees have shown positive growth - sample is out of 374 companies.

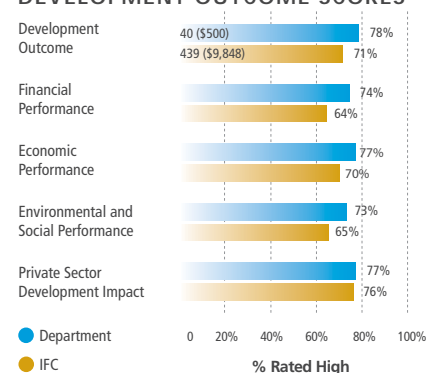
PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07	FY08
Financing committed for IFC's account	\$250	\$394
Loans	\$0	\$0
Equity	\$250	\$394
Guarantees and risk management	\$0	\$0
Loan syndications signed	\$0	\$0
Total commitments signed	\$250	\$394
Committed portfolio for IFC's account	\$1,071	\$1,350
Committed portfolio held for others (loan and guarantee participations)	\$0	\$0
Total committed portfolio	\$1,071	\$1,350

COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	12	15	14	23
Number of countries	7	6	7	9
Financing for IFC's own account	\$181	\$273	\$250	\$394
Syndications	\$0	\$0	\$0	\$0

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).



GLOBAL INFRASTRUCTURE

CLOSING THE INVESTMENT GAP

IFC is addressing a big gap in financing for critical infrastructure. We committed more than \$2 billion to infrastructure projects in the past fiscal year. We also advise governments, including municipalities, on ways to bring private sector participation into essential public services such as roads and water treatment plants.

Cell phones are nearly everywhere in South Africa. But barely one in four people has a bank account—an obstacle to the country's economic growth that IFC is helping remove. We are helping expand the activities

of WIZZIT a cell phone–based banking facility that allows South Africans to open bank accounts by using their cell phones. We took a 10 percent stake in the company. “At any single point in time, it is estimated that there is 12

billion rand under mattresses in this country,” says Brian Richardson, WIZZIT's chief executive. “If we could take just a small portion of that into the formal banking system, the impact on the economy is enormous.” WIZZIT also is creating jobs. It has hired about 2,000 previously unemployed people—known as WIZZkids—who have the local knowledge and contacts to sign up potential customers across the country.

PHOTO: IFC client Wizzit Bank is enabling people who lack bank accounts to use cell phones for banking services.



GLOBAL INFORMATION AND COMMUNICATION TECHNOLOGIES

Information and communication technologies are critical catalysts of development. They help communities and local businesses access information and services and facilitate rural and local market integration with the global economy. There is growing evidence that these technologies contribute to economic growth and poverty reduction. A study on the impact of mobile phones in developing countries has shown that a 10 percent increase in telephone usage can lead to a direct GDP gain of 0.6 percent and a larger indirect gain. As the biggest global platform, with over 3.5 billion users, mobile phones also offer unprecedented opportunities for extending health, education, financial, and other basic services to underserved people. Investments in mobile telephony over the last decade have been significant, with 75 percent of the world's people now covered, although much remains to be done to extend access to rural and less developed areas.

IFC STRATEGY

IFC focuses on improving access to information infrastructure and services, as well as using ICT to expand the delivery of public and private services and promote innovation in industry and grassroots entrepreneurship. Access to these services is fundamental to expanding the reach of development. IFC prioritizes investments in frontier and conflict-affected markets where potential for impact is greatest. In middle-income countries, we now focus on rural access and the Internet's underlying infrastructure—backbone and wireless broadband technologies—as new sources of growth and development. IFC helps introduce industry best practices, and we work with other financiers to invest in viable business models that can be replicated across markets. We make venture capital investments in IT products, services, and infrastructure companies and are facilitating innovative IT-enabled solutions that extend services to poorer people in remote areas. Global Information and Communication Technologies is a joint IFC–World Bank department: where possible, IFC draws on World Bank expertise in policy and regulatory matters to implement sector reforms, share cross-border experience, build the capacity of public sector officials, and promote public-private partnerships.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$366 million for 18 projects in FY08. By number of projects, 54 percent of new investments are IDA projects, 17 percent are in frontier regions of middle-income countries, and 11 percent are in conflict-affected countries. Over the next five years, we expect that these new commitments will give nearly 19 million people telephone connections, create 4,300 new highly skilled jobs, and contribute \$1.1 billion in fiscal revenues and license, spectrum, and numbering fees. Our portfolio, with outstanding commitments of \$1.14 billion, has been healthy, with no nonperforming loans, an average net spread of 2.6 percent, and strong rates of return in telecommunications, IT, and media. Some 27 percent of the new investments have an advisory component.

DEVELOPMENT RESULTS

IFC's investments in this sector have led to tangible development results. Mobile telephone investments have helped drive strong performance—our clients have added connections for more than 182 million customers since 1996, often in the

most challenging markets, and have also helped extend financial services to over a million people. Since 2000, our client companies in the IT and media sectors have provided 45,000 jobs, most of them highly skilled and well-paid. Overall, the sector's development results were solid. Although early-stage IT projects are considered relatively risky due to the uncertainty of the underlying business models and market uptake, we are encouraged by the results, which are steadily improving. Advisory activities are underway in the sector, but are too new for IFC to report on their results.

SUSTAINABILITY

Environmental and social risks from the information and communication technology sector are limited. The technologies themselves help lower these risks by reducing the need to travel and by providing information and communications services to underprivileged people. Any risks associated with IFC's specific investments can be avoided or mitigated by following generally recognized performance standards, guidelines, and design criteria. IFC helps clients meet these standards when the client does not already have an adequate environmental management system in place; this year the East Africa cable is a key example.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

There are enormous opportunities for businesses in developing countries to use ICT as a springboard to introduce new services and move beyond established business models. Hence we are continuing our focus on extending access, in particular to IDA and conflict-affected countries and to frontier and rural areas. It will be critical to address market gaps by replicating successful models for public-private initiatives, and to support the application of technologies that can expand the delivery of services in health, education, and other key areas. As we are starting to see the benefits of our long-term commitment to investing in ICT, we will also continue to strengthen our relationships with specialized sectors across the World Bank Group and with global strategic sponsors and investors, helping transfer successful models across emerging markets. About 10 percent of clients are prepaying our loans, a good indicator that we can move toward riskier investments in less developed markets, where we can make the biggest difference.

CONNECTING EASTERN AFRICA

As part of IFC's strategy to extend access to broadband Internet services, we helped develop and finance a landmark fiber-optic cable that will connect 21 East African countries to each other and the rest of the world with high-quality Internet and international communications services. Widely considered a model for cooperation among IFC, the World Bank, and five other major development finance institutions, the project raised a total of \$70.7 million in long-term financing, including \$18.2 million from IFC. Donors paid special attention to environmental and social due diligence, seeking to avoid new rights of way and impacts on sensitive terrestrial landing points. The process took over a year to complete and engaged local consulting firms. The integrated corporate environmental and social management system will be consistent in all eight landing-party countries and could serve as a benchmark for backbone network development. The cable is expected to reduce the cost of broadband services from one of the world's highest rates. It is also expected to stimulate the development of new knowledge-based industries, call centers, and similar ventures. Educational and health activities in the region will also benefit from low-cost Internet access.

TECHNOLOGY EXPANDS ACCESS TO FINANCIAL SERVICES

India's vast rural population is mostly beyond the reach of commercial banking networks. Informal money lenders control up to 75 percent of loans to farmers and charge interest rates as high as 90 percent. IFC is helping to bring affordable banking services to this market. We are a founding investor in Financial Information Network & Operations, a financial services provider that now has more than a million customers in India's rural and semi-urban areas. FINO provides a smart card with fingerprint data and other personal information that allows customers to conduct fraud-proof financial transactions. FINO's technology also allows customers to pay for hospital treatment or handle insurance claims.

IFC's early experiences with mobile banking also promise far-reaching development impact; WIZZIT in South Africa (p. 73) is a good example. We continue to invest in pilots and share best practice from across the globe. With partners we cosponsored the inaugural Mobile Money Summit in May 2008, convening nearly 500 representatives from the financial, telecommunication, and regulatory sectors in 67 countries.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08*
IT and media employment	53,100	66,500	-
New IT and media employment **	9,920	17,800	4,310
Total phone connections (million)	121.4	138.0	-
New phone connections (million) **	52.7	50.6	18.8
New internet connections (million)	-	-	2.0
Payments to government (\$ million)	n.a.	955	1,100

* FY08 expectations are projected for end 2012.

** Between 2005 and 2006 for CY06, and between 2006 and 2007 for CY07.

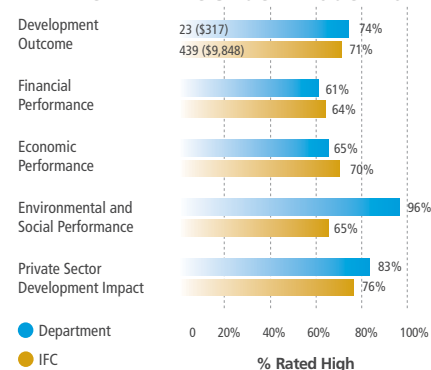
PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07	FY08
Financing committed for IFC's account	\$399	\$366
Loans	\$376	\$293
Equity	\$22	\$72
Guarantees and risk management	\$0	\$0
Loan syndications signed	\$449	\$0
Total commitments signed	\$848	\$366
Committed portfolio for IFC's account	\$970	\$1,140
Committed portfolio held for others (loan and guarantee participations)	\$469	\$461
Total committed portfolio	\$1,439	\$1,601

COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	12	15	17	18
Number of countries	8	9	16	10
Financing for IFC's own account	\$200	\$366	\$399	\$366
Syndications	\$0	\$0	\$449	\$0

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

INFRASTRUCTURE

Infrastructure is basic to economic growth, better living standards, and broader development. Its catalytic role in poverty reduction has been widely recognized, yet it remains inadequate in many developing countries. Transport infrastructure (roads, ports, railways, airports) and services (shipping, airlines, logistics) are necessary for domestic and international trade. The World Bank estimates that infrastructure investment needs in developing countries amount to about \$400 billion a year, but only about half that amount is being spent. These figures are well beyond what the public sector alone can meet. Engagements in poorer countries also have long lead times and require time-intensive structuring. Infrastructure sectors also need efficient management, which is often lacking.

IFC STRATEGY

IFC is working to address the global infrastructure access gap by encouraging private sector investments, particularly in IDA countries and with regional emphasis on Africa, the Middle East, and Asia. We are collaborating across the World Bank Group and externally with financial institutions and donors to ensure that more than a third of all new IFC infrastructure investments are in IDA countries. More coordination between IFC and IDA will increase both the level of assistance and the impact of these investments. IFC will support national and regional infrastructure development and provide advisory services and financing. We are also working to implement IFC's climate change strategy across all infrastructure sectors.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$2.40 billion for 39 projects in FY08, and we mobilized an additional \$1.28 billion through syndications. By number of projects, 37 percent of new investments are IDA projects, and 10 percent are in frontier regions of middle-income countries, with a heavy concentration in Europe and Central Asia and South Asia. In line with our objective to promote responsible, carbon-neutral ways to increase energy access, IFC's infrastructure departments committed \$344 million in new renewable energy investments, a 74 percent increase from FY07. To help reduce India's large energy deficit, Tata Mundra, a coal-fired project, will generate 4,000 megawatts of affordable electricity using a highly efficient technology that is less carbon-intensive per unit of power produced. See also the Infrastructure advisory business line, p. 98.

DEVELOPMENT RESULTS

IFC client companies provided basic services—water, gas, and electricity—to 184 million customers last year, mostly in underserved areas, and transportation services for 470 million passengers. IFC's infrastructure investments have a long track record of strong development results. Recent performance has been solid, driven by our water and gas investments, mainly in Latin America and East Asia, followed by those in the power sector, while investments in transportation have had lower performance. In countries that have strong government policies to promote private sector engagement in infrastructure, as well as sound regulatory frameworks and stable economic conditions, results have been solid. Mixed or poor performance occurs where reforms are weak or reversed; where clients are unable to penetrate deeply

entrenched markets; and particularly in road and railroad investments affected by their relative higher exposure to national economic downturns. See also the advisory business line, p. 98.

SUSTAINABILITY

In developing countries, more than 1.7 billion people live without access to electricity, 1.1 billion lack clean drinking water, and 2.6 billion people need basic sanitation. IFC has sharpened its strategy within the electricity sector, aiming to maximize access to energy through private sector investment in power generation and transmission while supporting adoption of the cleanest technologies and fuels. We will increase investments in renewable energy by using commercial and concessionary funds, integrating carbon financing wherever possible, and financing highly efficient coal- and oil-fired generation where no other realistic options exist. IFC seeks to encourage private investment in the water sector by bringing together private sector partners, governments, and other multilateral institutions to address critical issues of access, scarcity, and quality. We are creating a pipeline of bankable transactions, providing innovative structures to address the financing gap that many clients face, and supporting clean production and efficient technologies. We are also working with partners in the agriculture, energy, and industrial sectors to explore opportunities that link the water sector to agricultural efficiency, pollution, and climate change. Projects such as Petstar—a waste management project in Mexico that has had significant environmental and social impact across its supply chain—demonstrate the unique value added by IFC's support.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC is decreasing emphasis on investments in middle-income countries, top-tier companies, and conventional projects. IFC continues to look for ways to unlock new markets and extend the pipeline of bankable projects, such as IFC InfraVentures. Public-private partnerships will continue to afford new opportunities in all infrastructure sectors—especially in IDA countries—where traditional concession or privatization approaches cannot be relied on. IFC will work with the World Bank, applying lessons learned to develop new partnerships, particularly in sectors where the public sector bears a significant risk as part of attracting private investment. We will also identify new approaches to help address climate change.

IFC INFRAVENTURES

IFC InfraVentures is a \$100 million fund through which we play a key role in the early development of private and public-private partnership infrastructure projects in the power, transport, and utilities sectors of IDA countries. IFC is engaging early with private infrastructure companies, working with project developers, and helping governments introduce private participation and structure partnerships. Our institutional recognition and standing as a member of the World Bank Group help us persuade governments, sponsors, and other sector players to move forward with investments in the most challenging markets. The fund is drawing on and coordinating a wide range of advisory and financial products and services from across the World Bank Group to support infrastructure development in IDA countries. The first investments include a geothermal plant in Djibouti, a hydropower plant in Nicaragua, a methane power plant in Rwanda, and a power transmission line in Tajikistan.

IFC AND METITO EXPAND WATER TREATMENT

The Middle East and North Africa region is experiencing a steadily growing demand for water supply and irrigation service, as well as greater pressure to address industrial and urban pollution. In response to this looming crisis, IFC has partnered with Metito, an international desalination, water, and wastewater-treatment specialist to increase its capital and finance its expanding activities in the region's water and wastewater infrastructure. IFC took a 7.4 percent equity stake and provided a \$20 million loan in a partnership that will enable Metito to undertake water treatment investments across the region. Planned projects are an important part of World Bank Group's Country Assistance Strategies for Egypt, Jordan, Lebanon, Morocco, Pakistan, and Tunisia.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08*
Power generated (millions of customers)	123.7	146.8	45.6
Power distribution (millions of customers)	9.5	11.3	1.8
Water distribution (millions of customers)	15.3	18.1	-
Airport passengers (million)	13.2	26.4	10.2
Roads - number of vehicles (million)	269.3	229.2	-
Transport and road customers (million)		3.8	
Airline passengers (million)	46.4	57.7	1.8
Cargo/grain ports (million tons)	15.6**	15.9	4.7
Container ports/moves (million)	4.9	6.6	2.5
Rail freight (million tons)	200.2	189.3	1.7
Railway passengers (million)	2.4	153.5	0.6
Payments to government (\$ million)	4,850	4,015	16,012***
Gas distribution (millions of customers)	10.6	8.2	-
Shipping (million tons of freight)	-	12.9	-
Wastewater treated (million m3 p.a.)	-	395.7	274.5

* Expectations projected for 2011. Payments to government for 2008-2015.

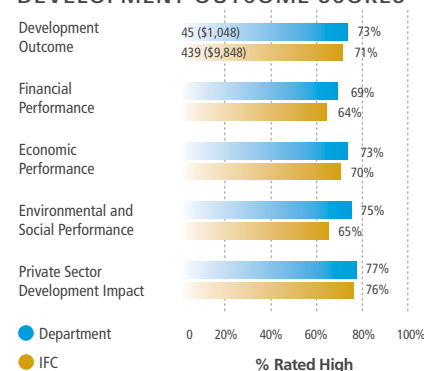
** Data have been revised.

*** Expected payments to government revenues capture payments 2008-2015 and include \$11.3 billion by one large Latin American client.

PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07	FY08
Financing committed for IFC's account	\$936	\$2,404
Loans	\$789	\$2,143
Equity	\$134	\$248
Guarantees and risk management	\$13	\$13
Loan syndications signed	\$50	\$1,279
Total commitments signed	\$985	\$3,683
Committed portfolio for IFC's account	\$3,727	\$5,314
Committed portfolio held for others (loan and guarantee participations)	\$1,332	\$1,989
Total committed portfolio	\$5,059	\$7,304

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	23	35	29	39
Number of countries	15	19	16	20
Financing for IFC's own account	\$598	\$955	\$936	\$2,404
Syndications	\$156	\$383	\$50	\$1,279

OIL, GAS, MINING, AND CHEMICALS

High commodity prices are substantially increasing revenue, through taxes and profit shares, for governments in mineral-rich developing countries; these funds offer them the opportunity for greater spending on development. The key is the management of these flows, to ensure that the revenues are well spent for the benefit of local communities. For poorer developing countries that are not commodity exporters, on the other hand, the current high oil prices are an added cost that could slow their growth and may also have more direct poverty impacts. Concerns about climate change have also deepened, presenting challenges to improve the efficiency of energy use in production and processing.

IFC STRATEGY

IFC builds partnerships with investors that are committed to sustainable development of the oil, gas, mining, and chemicals sectors. We continue to seek innovative approaches that broaden and deepen the development impact of our investments, and we help smaller and local companies expand into IDA countries and underserved regions across the globe. Oil, Gas, Mining, and Chemicals is a joint IFC-World Bank department, and in partnering with the World Bank, we aim to address broad sector issues, such as governance and transparency, as well as climate change and energy security.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$1.09 billion for 31 projects in FY08, and we mobilized an additional \$480 million through syndications. By number of projects, 28 percent of new investments are IDA projects, and 25 percent are in frontier regions of middle-income countries. Companies that have commenced or scaled up their operations during this fiscal year will benefit host countries and communities in a variety of ways, including through the payment of \$1.2 billion in government revenue and the procurement of \$650 million in goods and services from domestic suppliers. Our portfolio, with outstanding commitments of \$3.48 billion, continues to perform well. IFC's extractives-related advisory services increased this year, with one-third of all new extractives investments expected to have an advisory component.

DEVELOPMENT RESULTS

In 2007, companies in our portfolio generated \$9.2 billion in revenue to national and local governments, and they provided 119,000 direct and indirect jobs. They also spent \$115 million on community development programs and purchased \$7 billion in local goods and services domestically. IFC investments in the oil, gas, mining, and chemicals sectors demonstrate solid development results. High commodity prices and sustained profitability in the chemicals sector largely explain these results, along with the solid environmental and social performance of portfolio companies.

SUSTAINABILITY

IFC continues to focus on sustainable outcomes for its activities, both at the project and sector levels. We work with investors to ensure that projects are implemented in line with IFC's environment and social safeguard policy and performance standards. In some cases, we work with smaller companies to strengthen their environment and social management capacity, so that their operations—whether IFC remains involved or not—can meet high standards and community expectations. We also work with investors to widen the positive development impacts of companies' operations, for example through programs to increase the role of local enterprises, including small businesses, in the supply chain. We are working to change the way community development projects are implemented, with more participation from stakeholders and more use of local counterparts. IFC has programs in Colombia, Peru, and South Africa that seek to increase governance capacity and accountability at the local level so that investments make a lasting development contribution. With the World Bank, we have also supported efforts to enhance sector governance at the national level, including global initiatives that promote transparency, small-scale mining, and reduction in gas flaring.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

Looking forward, IFC will continue to address the challenge of ensuring that communities and countries achieve the greatest possible development benefits from their oil, gas, mining, and chemicals investments. We will support the renewed effort by the World Bank, in partnership with governments and others, to address governance issues related to sustainable development of extractive industries along the whole value chain. We also remain committed to scaling up activities that can help address concerns about climate change and that contribute to development and poverty reduction in our client countries. The focus includes gas development and more efficient production, use, and transformation of energy and chemicals.

EXTRACTIVE INDUSTRY REVENUES: ENSURING BENEFITS FOR DEVELOPMENT

Many of the world's poorest people—including across much of Sub-Saharan Africa—live in countries that are rich in oil, gas, and minerals. Revenues from extracting these resources can be a powerful tool to improve lives—if carefully managed. The President of the World Bank Group recently announced a new initiative to help countries harness opportunities from the boom in commodity prices. The World Bank Group aims to work with governments, development institutions, and others to address issues across the entire chain from extraction and processing to the distribution of government revenues, helping ensure that these activities promote sustainable growth and reduce poverty. IFC will play an active role to advance this initiative. We already require our extractive industry clients to publicly disclose payments to governments, and we ensure that local communities benefit from resource extraction.

COMMUNITY DEVELOPMENT AROUND EXTRACTIVES PROJECTS

Last year, IFC launched CommDev, a program that engages and empowers local communities and governments around our investments in extractive industries. CommDev agreed to finance 10 projects, four of them in Africa. This year, CommDev launched its online information clearinghouse, a repository of knowledge, case studies, tools, and research collected from its network of internal and external community development practitioners. IFC is building the interactive platform that will be used for creating a network of practitioners to share their ideas, approaches, issues, and successes. With nearly 1,500 resources available, the clearinghouse should establish a more sustainable foundation for long-term socioeconomic development in communities affected by extractive industries.

DEVELOPMENT REACH

Indicator	Portfolio CY06**	Portfolio CY07	New Business Expectations FY08*
Employment	87,770	119,340	14,690
Payments to government (\$ million)	8,420	9,250	1,160
Local purchase of goods and services (\$ million)	4,525	7,140	650
Outlays for community development programs (\$ million)	127.4	115.4	5.4

* FY08 expectations are projected for calendar year 2008.

** Data have been revised.

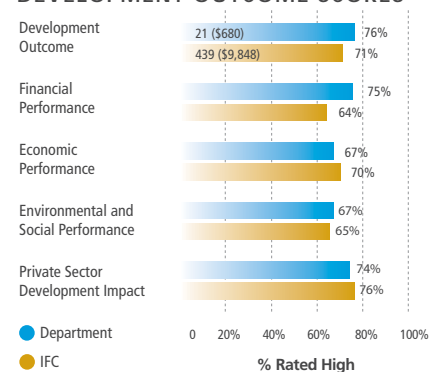
PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07	FY08
Financing committed for IFC's account	\$985	\$1,085
Loans	\$802	\$823
Equity	\$183	\$184
Guarantees and risk management	\$0	\$78
Loan syndications signed	\$481	\$480
Total commitments signed	\$1,465	\$1,565
Committed portfolio for IFC's account	\$2,675	\$3,478
Committed portfolio held for others (loan and guarantee participations)	\$1,192	\$1,501
Total committed portfolio	\$3,867	\$4,980

COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	22	24	22	31
Number of countries	12	16	14	15
Financing for IFC's own account	\$478	\$788	\$984	\$1,085
Syndications	\$205	\$347	\$481	\$480

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

SUBNATIONAL FINANCE

In many developing countries, local and regional authorities are being entrusted to provide more infrastructure services, including water and sanitation, waste disposal, energy, and transportation. As local governments become more self-reliant, they increasingly seek financing from commercial sources. Likewise, nationally owned enterprises that deliver key infrastructure services are increasingly expected to operate commercially, at arm's length from government regulators, and to raise financing on their own credit. As part of the World Bank Group's strategy for middle-income countries, IFC and IBRD in FY07 launched a joint subnational finance initiative to help local governments and public utilities improve their creditworthiness and access financing for essential infrastructure.

IFC STRATEGY

Subnational Finance is a joint IFC-World Bank department that combines IFC's private sector approach with IBRD's public sector experience. Using a wide variety of financial products, including loans, equity, credit guarantees and risk-sharing facilities, we encourage local investors to finance subnational projects, fostering the development of local capital markets in the process. We also work with nationally owned enterprises that provide essential infrastructure services in natural-monopoly sectors where public investment complements the role of the private sector. Although the program focuses on middle-income countries, it can also support responsible borrowings by viable subnational entities in IDA countries and frontier regions of middle-income countries. To improve the project preparation and implementation capacity of local governments, advisory services are being provided through a multidonor grant facility.

NEW BUSINESS AND PORTFOLIO

The ramp-up of the subnational investment program has been slow amid the challenges of tailoring our strategy and products to comply with the regulatory context of each country and to cope with capacity constraints of public sector clients. Investment commitments were \$49 million for two projects in FY08, one of which has an advisory component; and we mobilized an additional \$21 million through structured and securitized products. Our committed portfolio comprises eight investments totaling \$200 million. Over the next five years, we expect to make investments that will help subnational clients improve the quality of their infrastructure services, benefiting several million individuals. The portfolio is diversified across regions and infrastructure sectors. Investments include a risk-sharing facility in Guatemala for a transport project, equity in a geothermal power company in the Philippines, and a risk-sharing facility in the energy efficiency sector in Hungary.

DEVELOPMENT RESULTS

Subnational finance is a relatively new line of business for IFC; most operations are not yet sufficiently mature to evaluate results fully. The Bus Rapid Transit system in Guatemala City has reduced commuting times and increased the availability and safety of public transportation, benefiting about 150,000 passengers per day. The

road program funded by our local currency loan to Russia's Chuvash Republic is also well advanced; the 167 kilometers of rural roads already built or rehabilitated provide all-weather access to markets and services for over 40,000 people in rural areas. In South Africa, IFC's guarantee of the first local bond issue by the city of Johannesburg facilitated the municipality's access to capital markets, allowing it to finance capital expenditures for investments in the water and wastewater sector.

SUSTAINABILITY

Many of the subnational projects we finance produce environmental and social benefits. For example, a \$20 million risk-sharing facility enabled four Moroccan financial institutions to provide a loan for a sewer and sewage treatment project to RADEEJ, a municipal utility in El Jadida, Morocco. The investment will bring El Jadida to national wastewater management standards and is expected to reduce health hazards from the discharge of untreated sewage and the associated pollution of local beaches. In addition to raising living standards, it is expected to foster the development of tourism and other local industries.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

The Bank Group's subnational financing has developed a strong pipeline. So far, more than 3 million people have benefited from better public services as a result of our investments. We have identified the most promising countries and segments, and in the next few years will concentrate resources in these areas, with departmental or dedicated regional staff in a few key countries. IFC joined the World Bank and the U.K. Department for International Development in 2007 in creating a multidonor advisory grant program that helps subnational entities improve their financial management and prepare for future commercial borrowing. The advisory effort has mobilized \$20 million and committed \$6.1 million for 26 advisory projects.

SUPPORTING GOOD MUNICIPAL MANAGEMENT IN KAMCHATKA

The municipality of Petropavlovsk-Kamchatsky, the capital of a remote Russian province, has been improving its management and fiscal responsibility. But its large infrastructure needs cannot be addressed without long-term borrowing, and the tenor of financing available from local banks is limited to 12 or 18 months. IFC has provided the municipality an eight-year ruble loan that will enable it to accelerate its capital expenditures program. Parallel advisory support from IFC will further improve financial management systems, helping the municipality adopt modern practices for road maintenance planning. About 20 percent of local roads will be rehabilitated and resurfaced, benefiting some 200,000 people.

MOBILIZING LOCAL CURRENCY FINANCING FOR SEWER PROJECT IN MOROCCO

IFC helped the municipal utility in El Jadida, Morocco, mobilize long-term local currency financing for a \$70 million sewerage project. IFC's \$20 million risk-sharing will help the utility rehabilitate and extend its infrastructure as well as build new wastewater treatment and discharge facilities. A first of its kind in the Middle East and North Africa, IFC's investment supports a broader strategy of the World Bank Group to assist the Moroccan authorities in their effort to foster the disciplined transition of creditworthy municipalities and their enterprises to market-based financing without sovereign guarantees. The investment is expected to benefit 40,000 people by 2014.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08*
Power customers (number of customers)	-	50,000	-
Water and sewerage (number of customers)	238,000	115,000**	40,000
Transport and road (number of customers)		190,000	150,000

* FY08 expectations are projected for end 2013.

** Data have been revised and do not yet reflect reach by one large client.

PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07	FY08
Financing committed for IFC's account	\$75	\$49
Loans	\$50	\$29
Equity	\$25	\$0
Guarantees and risk management	\$0	\$21
Loan syndications signed	\$0	\$0
Total commitments signed	\$75	\$49
Committed portfolio for IFC's account	\$148	\$200
Committed portfolio held for others (loan and guarantee participations)	\$0	\$0
Total committed portfolio	\$148	\$200

COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	0	4	2	2
Number of countries	0	4	2	2
Financing for IFC's own account	\$0	\$52	\$75	\$49
Syndications	\$0	\$0	\$0	\$0



GLOBAL MANUFACTURING FOSTERING PROSPERITY

In a time of global economic uncertainty, IFC is supporting manufacturing and services clients by helping organize cross-border investment and trade between businesses in developing countries. We have also worked to alleviate the food crisis by providing capital to agribusiness clients. And we are expanding our operations in health and education.

China's rapid economic growth has made it one of the world's largest consumers of paper and forestry products. But it faces shortages of wood, prompting some manufacturers to rely on unsustainably logged imports and pollution-causing nonwood fibers. IFC is helping alleviate the shortages and ensure environmentally sustainable development by assisting Stora Enso, which is implementing a tree-planting project in Guangxi Province, one of China's poorest regions. Over the last few years, we have provided \$300 million in financing to Stora to help expand tree plantations in China. The effort has generated 28,000 jobs, with annual pay about 80 percent higher than the regional average. The plantation in Guangxi also helps address concerns about greenhouse gas emissions by sequestering more than 2 million tons of carbon dioxide a year.



PHOTO: To alleviate China's wood shortage, IFC is helping our client Stora Enso finance tree-planting projects.

AGRIBUSINESS

Agribusiness comprises many functions in the food supply chain for domestic and international markets: production, marketing, logistics, processing, and distribution. Most of the world's poor live in rural areas and are directly involved in agriculture, which accounts for 34 percent of GDP and employs 64 percent of workers, on average, in the least developed countries. The demand for food and agricultural products in developing countries is increasing along with population growth and better living standards, even as high energy prices drive up the demand for biomass and biofuel feedstocks. Food price increases in 2007 and 2008 underline the magnitude of the challenge for agribusiness to satisfy an increasing demand for food while safeguarding natural resources.

IFC STRATEGY

IFC has made agribusiness a priority because of its potential for broad development impact and its importance to the social fabric of developing countries. We combine investments and advisory services to help the sector address higher demand and escalating food prices in an environmentally sustainable and socially inclusive way. We also support global initiatives for sustainable production of agricultural commodities. The food crisis is putting pressure on the global supply chain and threatening progress in reducing poverty. In the immediate term, IFC is investing in firms that can help increase production in middle-income countries with strong agribusiness potential: Argentina, Brazil, Kazakhstan, Russia, Ukraine, and Uruguay. IFC has offered working capital facilities to help clients prefinance inventories and farmers' inputs; we are also helping eliminate barriers to credit. In the medium term, we will scale up the financing of agribusiness and address critical constraints in Africa. We aim to bring unused land into production, improve productivity by transferring technologies from middle-income to poor countries, and make the best use of water and other resources. We will pursue investments, both private and with the public sector, in infrastructure (ports, warehouses, cold storage, telecommunications) that can facilitate trade and lower cost. For more impact on small farmers and rural enterprises, IFC will increase its wholesaling work through trading companies and financial intermediaries, including microfinance lenders, helping channel financing and advisory services effectively.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$762 million for 32 projects in FY08, and we mobilized an additional \$146 million through syndications and sales of IFC loans. By number of projects, 42 percent of new investments are IDA projects, and 20 percent are in frontier regions of middle-income countries. We expect that these commitments will support 96,400 jobs and reach more than 18,600 farmers and 13,380 MSMEs. Our portfolio, with outstanding commitments of \$2.19 billion, is performing well. Its performance is driven by our strict standards for selecting clients, a focus on sectors where countries have a competitive advantage, favorable commodity markets, and the growth and greater stability of emerging countries. Some 24 percent of FY08 investments are expected to have an advisory component.

DEVELOPMENT RESULTS

IFC investments show the potential that agribusiness offers for development: in 2007 our portfolio companies employed 380,000 workers, paid \$746 million in taxes, and reached 800,000 farmers and 100,000 MSMEs. Development results of our active projects were lower than the IFC average, in part because many well-performing

agribusiness projects have closed early. Larger investments tended to perform better, and if weighted by the size of IFC's investment, three-quarters had high development results. Our experience demonstrates better results with nonperishable products (beverages, grains, oilseeds, sugar) and with agribusiness infrastructure than with animal products or fresh produce. IFC's advisory services also help clients increase the development impact of their investments by setting standards of environmental and social sustainability, improving food safety and quality management systems, or extending the reach of their operations to smaller farmers and SMEs.

SUSTAINABILITY

Agribusiness companies increasingly recognize that the sector needs to preserve a healthy base of natural resources, many of which are at risk, while increasing supply to meet market demand. The sector also faces social challenges, including the need to improve labor practices. IFC seeks commercially viable solutions and helps companies set benchmarks of responsible production so that solutions become widely adopted. In such areas as sequestering carbon, managing watersheds, preserving biodiversity, and producing renewable energy resources, this work can also help generate new income through environmental services. At the global or regional level, IFC supports commodity roundtables for palm oil, soybeans, sugar, cotton, and beef to help define global standards of sustainability. IFC is working with clients to strengthen their supply chains with small farmers as well as apply appropriate environmental, social, and quality standards: examples include Bertin (see p. 106) and ECOM. This year we extended our partnership with ECOM through a new investment in IDA countries of Africa and Asia. This will replicate a successful program implemented in FY07 in Central America that combines financing for small coffee farmers with advice to achieve certification for sustainable production.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC has significantly scaled up agribusiness lending in recent years, and we have diversified the range of financial services we provide. IFC is also helping raise clients' awareness of environmental and social sustainability, and companies that aspire to a high level of social responsibility increasingly seek our assistance. We have started reaching greater numbers of small farmers and rural enterprises by increasing their access to services in tandem with local financial intermediaries, processors, and commodity traders. In view of the challenges faced by the industry, we will continue to scale up our financing of agribusiness, increasing the number of countries where we have investments as well as integrating advisory services with our investments.

REBUILDING THE ECONOMY IN LIBERIA

Experience in conflict-affected countries indicates that agricultural growth significantly contributes to early economic recovery, particularly in rural areas. In Liberia, IFC has been focusing on financial markets and agribusiness as key sectors to jump start economic growth following a decade of civil war. After many years of neglect and lack of investment, the Salala Rubber Corporation was acquired in 2007 by a group of investors. We are supporting their effort to rebuild the company's productive base through an accelerated program of planting; they are also restoring extensive but dilapidated social infrastructure that includes housing, clinics, and schools for the local population. The company is a major source of income and social stability for its 1,600 employees and many local farmers who supply wet rubber to its operations; in all, it supports about 30,000 people.

CONSERVING SCARCE WATER IN INDIA

Jain Irrigation Systems Ltd. is an integrated agribusiness player in India that has operations in micro irrigation systems, plastic pipes, dehydrated onions, and processed fruits. Partnership with such a company is an important step for IFC to expand our investment in efficient irrigation systems. India's agriculture has some of the world's least efficient water use, but this can be improved. The country's central and state governments have recognized the importance of adopting micro irrigation, particularly as climate change may affect water availability. Currently, less than 5 percent of India's irrigated land is under micro irrigation; the investment will allow Jain to irrigate an additional 1 million hectares of farmland in four years.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08*
Employment	138,900	379,540	96,400
Number of farmers	538,300	806,350	18,600
Number of MSMEs reached	57,000	104,360	13,380

* FY08 expectations projected through 2013

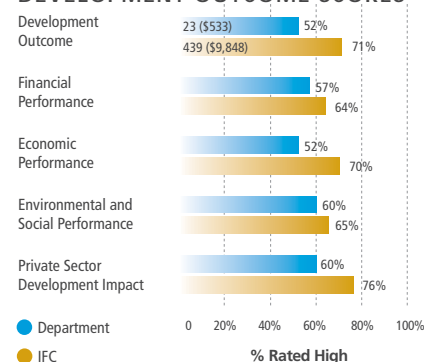
PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07	FY08
Financing committed for IFC's account	\$628	\$762
Loans	\$555	\$605
Equity	\$23	\$157
Guarantees and risk management	\$50	0
Loan syndications signed	\$188	\$136
Total commitments signed	\$816	\$898
Committed portfolio for IFC's account	\$1,698	\$2,188
Committed portfolio held for others (loan and guarantee participations)	\$444	\$505
Total committed portfolio	\$2,142	\$2,693

COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	17	22	23	32
Number of countries	13	13	15	20
Financing for IFC's own account	\$377	\$456	\$628	\$762
Syndications	\$53	\$219	\$188	\$136

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

GLOBAL MANUFACTURING AND SERVICES

Manufacturing and services account for 40 percent of developing countries' GDP and receive about 40 percent of total foreign direct investment. The sector is growing at about 9 percent a year, three times the rate in high-income countries. Driven by GDP and income growth, the demand for manufacturing and services in developing countries has risen significantly. Within this arena, IFC focuses on key industries that form the foundation of sustainable growth and that provide affordable goods and services to consumers, create jobs, contribute to government revenue, and stimulate the growth of local small and medium enterprises. These sectors include construction materials, retail, tourism, and property, which support infrastructure development; pharmaceuticals, as part of ensuring affordable health care; and forest products and energy-efficient machinery, to help address the impact of climate change.

IFC STRATEGY

IFC invests in companies that are developing new products and markets, restructuring and modernizing to become internationally competitive, and expanding and moving toward a regional or global presence. IFC focuses on clients that are, or have potential to be, strong players in their local markets. In middle-income countries, we increasingly support local second-tier companies and South-South investments. We also aim to play a strong role in developing local companies in IDA countries. Our emphasis on building local capacity, providing cutting-edge global expertise as well as financing, enables client companies to become more competitive and sustainable. Our focus is on building centers of excellence in the sectors in which we operate, so that IFC offers global sector knowledge and best practices to clients. 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.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$1.42 billion for 55 projects in 37 countries in FY08, and we mobilized an additional \$360 million through syndications, sales of IFC loans, and parallel loans. By number of projects, 39 percent of new investments are IDA projects, and 13 percent are in frontier regions of middle-income countries. About 69 percent of our commitments were in building materials, forestry products, and the retail, hotel, and property sectors. Over the next five years, we expect that these new commitments will support about 70,000 jobs, contribute \$810 million annually in tax revenues, and pay about \$2.1 billion annually for local purchases. Our portfolio, with outstanding commitments of \$5.81 billion in 420 investments, has been performing well. Some 20 percent of FY08 investments have an advisory component in such areas as corporate governance, cleaner production, business linkages, and HIV/AIDS. IFC's sector experts continued outreach at conferences on retail and tourism and at other industry-specific events; this year we also cosponsored a seminar with Greek firms seeking to invest in emerging markets.

DEVELOPMENT RESULTS

In 2007, IFC client companies provided 700,000 jobs with total wage payments of \$19.5 billion, paid \$2.2 billion in taxes to governments, and purchased \$47.2 billion in local goods and services. These results have increased compared to previous years, with 70 percent more jobs being created or preserved and more revenues being generated for governments. Manufacturing clients tend to create or maintain more employment and generate more local purchases than any other sector. While developmental reach is notable, overall development results are weak compared to

IFC's average. In the Middle East and North Africa, difficult country environments and weak sponsors contributed to low performance, while in Sub-Saharan Africa numerous underperforming small investments contributed to weaker results. Investments in Europe and Central Asia and in South Asia performed best. Advisory activities are underway in the sector—examples include a program with Serena Hotels in Kenya to educate staff on HIV/AIDS and other health issues, as well as those in the following section.

SUSTAINABILITY

IFC investments increasingly integrate cost-effective mitigation of greenhouse gas emissions with other environmental improvements. In Bulgaria, our cleaner production lending instrument will enable Drujba to use more recycled glass cullet in its bottle manufacturing. With float glass producer China Glass Holdings and Ukraine's Industrial Union of Donbass, a steelmaker, we are supporting installation of more efficient furnaces, better control of emissions, and power from recovery of furnace gas. Also in China, we are helping forestry client Stora Enso line up local small businesses to assist in planting, cultivation, and harvesting. IFC has worked with Nile Suez, a towel manufacturer in Egypt, to help ensure high standards for labor and working conditions at its subcontractors' manufacturing sites in South and East Asia. In the Kyrgyz Republic, we are helping Altyn Ajdar, a manufacturer of packaging and building materials, enhance its occupational health and safety practices.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC increasingly emphasizes investments in IDA countries, which represent 45 percent of our portfolio exclusive of regional projects, and in conflict-affected countries. We are helping local companies become competitive and adapt to changing local, regional, and global market dynamics. Our long-term partnerships with clients, often through South-South investments, allow us to develop tailored financing, provide technical and industry knowledge, and help improve environmental and social performance. Our ability to process small direct investments across IDA countries has been instrumental in reaching small entrepreneurs, and as demand for our services grows we will continue to broaden the scope and reach of this program. We will incorporate advisory services with our investments to maximize our contribution to developing manufacturing and service companies in our client countries and deepen our development impact.

IFC HELPS EXPAND AFFORDABLE HOUSING IN MEXICO

In Mexico, midsize homebuilders face constraints in accessing long-term working capital finance. This raises construction costs and home prices, making homes unattainable for many middle- and low-income families. IFC is helping change this situation by investing in Vinte, a progressive company that serves these housing markets. The investment will enable Vinte to build more homes at affordable prices, while educating buyers on ways to preserve clean, safe neighborhoods. Vinte's integrated, environmentally friendly approach to housing development includes an emphasis on community, amenities, and property maintenance.

BUILDING CEMENT CAPACITY IN AFRICA: A KEY TO INFRASTRUCTURE DEVELOPMENT

Sub-Saharan Africa's current capacity for cement production can meet only 70 percent of domestic demand, and consumption is projected to grow by more than half in the next five years. To help meet this demand, IFC is supporting new capacity in countries that have good growth prospects and where a supply gap is expected to continue. In Ethiopia, for example, IFC invested in Midroc Derba to finance the construction and operation of a cement plant with production capacity of 2.2 million tons a year, which will reduce an acute supply shortage and offer lower prices than imported cement. The plant is expected to create employment opportunities for over 400 people and play a key role in improving local infrastructure.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08*
Employment	414,600**	703,600	70,500
Net sales (\$ million)	62,600	114,500	22,150
Net income (\$ million)	3,300	5,600	2,230
Payments to government (\$ million)	1,100	2,240	810
Local purchase of goods and services (\$ million)	24,580	47,160	2,130

* FY08 expectations are projected for 2013

** Data have been revised

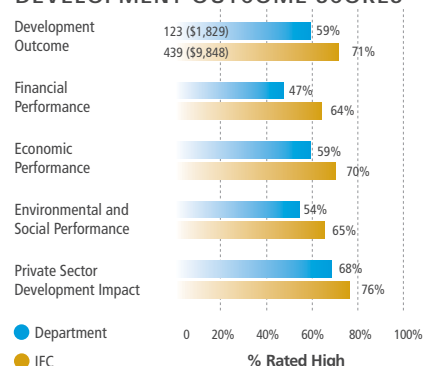
PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07	FY08
Financing committed for IFC's account	\$1,375	\$1,418
Loans	\$1,180	\$1,267
Equity	\$179	\$148
Guarantees and risk management	\$16	\$3
Loan syndications signed	\$495	\$305
Total commitments signed	\$1,870	\$1,723
Committed portfolio for IFC's account	\$5,210	\$5,811
Committed portfolio held for others (loan and guarantee participations)	\$1,696	\$1,689
Total committed portfolio	\$6,905	\$7,499

COMMITMENTS

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	48	44	46	55
Number of countries	24	22	26	37
Financing for IFC's own account	\$1,275	\$1,218	\$1,375	\$1,418
Syndications	\$635	\$404	\$495	\$305

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

HEALTH AND EDUCATION

The private health and education sectors continue to grow in most emerging markets, providing services to people from all income groups that complement those offered by public systems. Governments increasingly support private provision of health and education services along with improved regulations, better licensing and quality controls, and more reliance on public-private partnerships. Growth and change also stem from technological innovation, a more commercial focus in these sectors, and globalization, with more providers expanding operations across borders. Health and education are increasingly seen as productive economic sectors that provide jobs for skilled and unskilled workers, tax revenue for governments, and essential infrastructure to support economic development.

IFC STRATEGY

IFC focuses on supporting health and education institutions that have potential to deliver strong development impact. This year, we launched our health strategy for Sub-Saharan Africa, a joint initiative with the Bill and Melinda Gates Foundation and other partners to mobilize up to \$1 billion over the next five years for socially responsible health care (see p. 105). We are expanding our work in student finance, helping private banks lend to students. In IDA countries, we have the greatest reach through our wholesale operations, working through local financial institutions to reach numerous small institutions that cater to lower-income households. We also offer advisory services to improve the performance of lenders and borrowers. We seek to engage with the growing number of companies that operate networks of institutions, within and across countries. Such operations can deliver services to many individuals and introduce best practices and efficiencies to sectors.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached \$315 million for 20 projects in FY08, and we mobilized an additional \$49 million through syndications and structured and securitized products. By number of projects, 38 percent of new investments are IDA projects, and 5 percent are in frontier regions of middle-income countries. Many mark the first such investment of their kind in a country or region, including the first private hospital in Bosnia and the first private student loan program in Jordan. We expect that our new investments will reach 3.2 million patients and 78,100 students. More than 25 percent are expected to have an advisory services component. The portfolio is performing well, both for loans and equity. Nonperforming loans have declined substantially over the past three years and are now in line with IFC averages. The equity portfolio—benefiting from broadly positive markets, strong demand, and disciplined deal selection—has substantial unrealized capital gains. This year, we also held our third international education conference, bringing together people from 30 countries to discuss the latest trends in education provision and financing.

DEVELOPMENT RESULTS

IFC clients reached 5.5 million patients and 675,000 students and employed 47,000 people in 2007. Beyond what can be quantified, our investments provide vital social infrastructure that helps benefit the rest of the economy. The development results of the sector's investments continue to improve, and were solid this year. Although the

sample of our mature investments is relatively small, a trend toward a greater share of investments with high development results reflects IFC's growing experience through a team of investment officers and specialists dedicated to the social sectors. The improvement also reflects the better performance of a number of institutions hit several years ago by macroeconomic shocks. Since then, IFC has worked closely with clients to help them regain financial health. Our advisory services have also helped clients improve their overall operations.

SUSTAINABILITY

Investments in health and education institutions typically carry environmental and social risks related to the structures themselves. IFC's guidance helps clients meet international standards that serve as a model for other institutions. In addition, this year IFC made its first investment in a medical waste treatment company in China, which has broader implications for the sector overall. Most of China's existing incinerators for medical waste do not meet new national standards for pollution control and cannot cope with increasing demand for waste disposal in the country. Future investments in such subsectors will enable IFC to have a wider impact on public health and pollution control.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

Since establishing the Health and Education Department in 2001, IFC has worked to translate unique expertise into initiatives that have an impact beyond the support of an individual company. To effect change on a broader scale, we have launched the Africa health initiative, developed mechanisms to spur private student financing, and rolled out our wholesaling products. Going forward, IFC will expand these operations, particularly in IDA countries. We will also focus on other innovative means of financing and delivering services, including public-private partnerships, and continue to seek partnerships with other multilaterals, donors, and private operators to leverage our resources for greatest impact.

EGYPT AND YEMEN: MAGRABI EYE HOSPITALS

In Egypt and Yemen, demand for high-quality eye care services has been outstripping the supply. To ease the problem, IFC teamed up with Saudi Arabia's Magrabi Group, which runs a charitable foundation that provides free exams and free eye surgery to low-income people. Magrabi needed \$45 million to set up a new 30-bed, low-cost eye hospital in Yemen and to open several eye hospitals in Egypt. IFC provided the funds both to expand the availability of health care in those countries and to encourage other private sector companies in the region to invest in health care enterprises. Magrabi's new hospitals in Egypt and Yemen are expected to result in 500,000 more eye examinations and 50,000 eye operations a year. Collaborating with Magrabi and its Al-Noor Foundation helps maximize our development results: the foundation dispatches regular caravans to rural areas to screen patients and provide free medication and eyeglasses.

KENYA STUDENT LOANS

Many Kenyan students are eligible to attend university but cannot pay the full cost upfront. To make higher education more accessible, IFC has joined with Commercial Bank of Africa to establish affordable, commercially sustainable tuition fee financing, the country's first such program with a private commercial bank. IFC will share the risk in a portfolio of student loans. Commercial Bank of Africa will originate and administer the loans and manage the program. A partner university or third party, such as a donor or philanthropic organization, will contribute funds to cover initial losses on the portfolio, and IFC will provide a structure to reduce the remaining risk. Students attending Strathmore University will be the first to receive loans covering annual tuition fees, with repayments in a maximum of 12 monthly installments. Once the pilot risk-sharing facility is established, loans will be introduced that are repayable over longer periods and with payments deferred until the student enters the job market; this will help reach students who have excellent secondary examination results but whose families do not have the means to repay loans. The facility is expected to serve about 2,400 students and extend up to \$16.9 million in loans.

DEVELOPMENT REACH

Indicator	Portfolio CY06	Portfolio CY07	New Business Expectations FY08*
Number of patients reached (million)	5.7**	5.5**	3.2
Number of students reached***	353,000	675,500	78,100
Payments to government (\$ millions)	15.8**	44.8	26.3

* FY08 expectations are projected between 2010 and 2015.

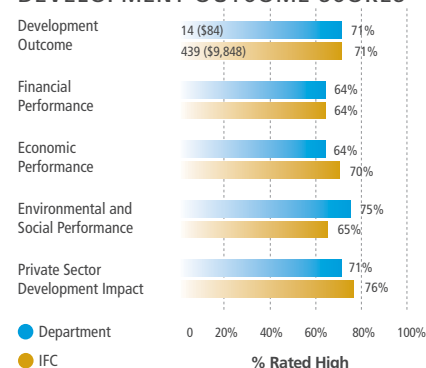
** Data have been revised, and includes just over 1 million patients in a hospital chain in India, in which IFC has a 1.3% equity stake.

*** Includes students reached with IT services in universities in Africa (255,000 in CY06, 350,000 in CY07).

PROJECT FINANCING AND PORTFOLIO

(\$ millions)	FY07	FY08
Financing committed for IFC's account	\$199	\$315
Loans	\$79	\$228
Equity	\$91	\$60
Guarantees and risk management	\$28	\$27
Loan syndications signed	\$0	\$17
Total commitments signed	\$199	\$332
Committed portfolio for IFC's account	\$466	\$668
Committed portfolio held for others (loan and guarantee participations)	\$6	\$22
Total committed portfolio	\$472	\$690

DEVELOPMENT OUTCOME SCORES



DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004. Bars at top include the number of projects rated and total IFC investment in them (in \$ millions).

COMMITMENTS (\$ MILLIONS)

(financing in \$ millions)	FY05	FY06	FY07	FY08
Number of projects	8	10	18	20
Number of countries	6	7	13	14
Financing for IFC's own account	\$81	\$126	\$199	\$315
Syndications	\$0	\$0	\$0	\$17

ADVISORY SERVICES

OPERATIONS AND RESULTS

IFC paves the way for sustainable development by advising businesses and governments on how to remove obstacles to private enterprise and improve business standards in emerging markets.

IFC's advisory operations constitute one of our fastest-growing businesses. In FY08, we approved 299 advisory services projects in 75 countries. This funding, in which IFC is joined by an array of donor partners, represents an increase of more than 50 percent over FY07.

IFC is addressing a strong appetite in developing countries for advice on how to build a robust private sector. Our advisory work is a unique competitive advantage for IFC—no other multilateral financial institution offers client companies such a range of financing and business advice. We also advise governments on how to spur development through partnerships between the public and private sectors.

IFC increasingly integrates advisory services with investments. The work includes advising national and local governments on how to improve the investment climate, strengthen basic infrastructure, and raise social and environmental standards. We also help investment clients sharpen their competitive edge, improve corporate governance, and become more sustainable.

In FY08, IFC had advisory projects in 29 conflict-affected countries. Because such countries often seem too risky for private investors, our advisory work plays an important role in laying the foundation for future investment.







AN INTEGRATED APPROACH

IFC paves the way for sustainable development by promoting a healthy business and regulatory environment. We advise clients on how to develop successful business models. We develop international standards for lowering the environmental and social costs of private sector growth. We improve access to finance in the poorest countries and help make financial services affordable.

MAKING A DIFFERENCE

Issac Murenzi, a 48-year-old farmer from Rwanda's Gitarama Province, knows the back-breaking pain involved in hauling 50-kilogram bags of freshly picked coffee beans. So he is delighted with the bicycle he obtained under an IFC-designed lease-to-own program. "The coffee bike has changed my life," says Murenzi. "It has helped us farmers transport our coffee on the same day, improving the quality of coffee we deliver. This in turn has increased our earnings." The specially fitted bicycles are able to carry up to 200 kilograms of coffee, about four times what even the strongest farmers can move on their backs. The bikes allow farmers to get their harvest to distant washing stations much faster, so that beans are fresher and obtain a higher price at market. IFC teamed up with Vision Finance, the financial arm of World Vision International, to expand and commercialize the coffee bike program. About 1,200 Rwandan farmers are using the bikes.



PHOTO: An IFC program is helping Rwandan farmers obtain bicycles that can haul 200 kilograms of coffee.

BUSINESS ENABLING ENVIRONMENT

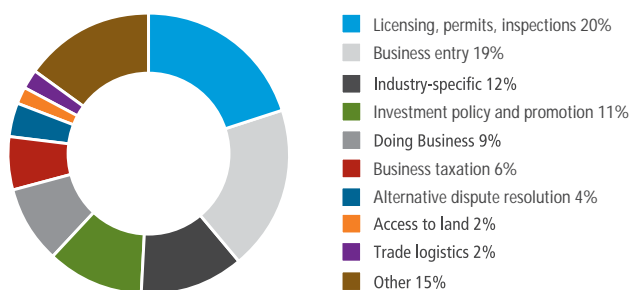
What We Do

IFC's advisory work is helping client countries create a more robust investment climate. We have organized our work around the following core products: simplifying regulatory barriers to business entry, operation, and taxation; rapid response to governments on reforms covered by the Doing Business report and benchmarking at the subnational level; alternative dispute resolution; and investment policy and promotion. During FY08, we were active in 65 countries through 224 advisory projects, with expenditures of \$35 million. Almost half our spending was in IDA countries, while 29 percent of our projects are in conflict-affected countries. We are also supporting reforms in specific sectors, such as agribusiness and tourism, and facilitating cross-border trade by addressing administrative barriers.

How We Do It

We have integrated business enabling environment programs that involve FIAS—the multidonor investment climate advisory service of the World Bank Group—with field-based teams in all IFC regional advisory services. Client demand, whether national or subnational, is generated through such vehicles as Doing Business, a joint IFC–World Bank initiative that has inspired more than 170 legal and regulatory reforms across 68 countries, as well as through investment climate assessments and other diagnostic work. We also exchange information with partner institutions on international good practices.

FY08 EXPENDITURES



RAMPING UP TAX REFORM

In Madagascar, our work in simplifying business taxation mechanisms has substantially streamlined the administrative hurdles that business face. The country has eliminated some taxes, including the professional tax and tourism-related fees, while merging others into a single income tax at a lower rate. In South Africa, FIAS helped the government continue reforms of the economic system. A cut in the corporate tax rate from 30 to 29 percent brought tax relief of \$255 million; secondary taxes on companies were lowered from 12.5 to 10 percent and are slated to be replaced with a dividend tax. We are also introducing wide-ranging programs to improve tax systems in Sierra Leone and Yemen, including their legal framework, administrative procedures, and capacity. Knowledge to strengthen the product is being shared by a group of staff from across the World Bank Group and from external partners including the IMF, OECD, and bilateral donors who have expertise in tax issues.

DEVELOPMENT RESULTS

Product	Time frame	Results
Business entry	2007	In Ecuador, average number of days to obtain a business license in municipalities helped by IFC was reduced by 93 percent
Investment policy and promotion	2007-2008	In Colombia, \$140 million in FDI (in hotels, call center, and manufacturing) facilitated through IFC-sponsored Bogota investment promotion agency
Public-private dialogue	2003-2007	\$310 million aggregate private sector savings from recommended changes in Cambodia, Lao PDR, and Vietnam
Alternative dispute resolution	2006-2008	2,030 mediations completed in Bosnia and Herzegovina and in Serbia; \$65 million released through mediation in Albania, Bosnia and Herzegovina, Pakistan, and Serbia

ACCESS TO FINANCE

What We Do

Over 3 billion people in developing countries have little or no access to financial services. IFC's access to finance advisory work helps increase the availability and affordability of financial services, focusing particularly on micro, small, and medium enterprise clients. At the end of June 2008, 235 projects and programs were active in 59 countries, with about 60 percent in IDA countries and 14 percent in conflict-affected countries. Altogether these projects represent \$37 million in expenses.

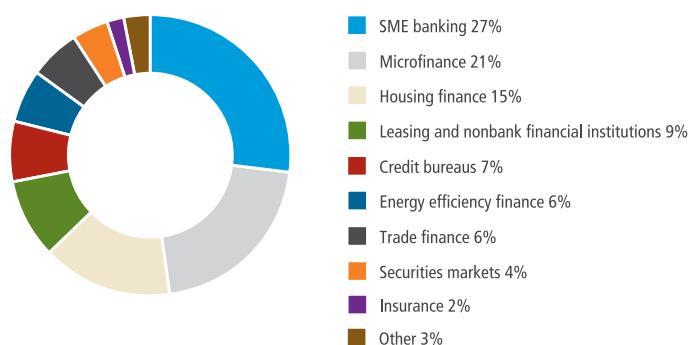
How We Do It

IFC delivers access to finance advisory services mainly through regional departments, with more than 120 dedicated staff. We also coordinate these services with the World Bank to deliver policy advice and joint interventions. IFC focuses in three key areas:

- ▶ Building bank and nonbank financial institutions, with emphasis on SME banking, microfinance, housing finance, leasing, trade finance, insurance, and energy efficiency finance.
- ▶ Improving financial infrastructure, such as credit bureaus and securities markets, as well as collateral registries, payment, and remittance systems.
- ▶ Improving the legal and regulatory framework to help develop the leasing, credit reporting, and housing markets.

IFC is also developing new products including mobile banking, sustainability finance, and index-based weather insurance for farmers.

FY08 EXPENDITURES



EXPANDING ACCESS TO FINANCE THROUGH CREDIT BUREAUS

Credit bureaus help small businesses get financing. They offer timely, credible, and objective information on borrowers, allowing financial institutions to reduce loan processing time and cost by 25 percent or more and cut default rates by 40 to 80 percent. These savings can mean lower interest rates, making credit more affordable and available to those in need. IFC has promoted credit bureau development in over 45 emerging markets, providing legal and regulatory advice, feasibility studies, direct assistance to credit bureaus, research, public awareness projects, and long-term coaching and advice. We have set up or significantly strengthened credit bureaus in 10 countries: Bosnia and Herzegovina, Bulgaria, Costa Rica, Guatemala, Honduras, Nicaragua, Pakistan, Panama, Romania, and South Africa. In 2007 alone, these bureaus received 34.7 million inquiries and supported an estimated \$17 billion in financing to retail and small borrowers.

DEVELOPMENT RESULTS

Product	Time frame	Results
SME banking	2008*	Helped clients mobilize \$24.6 billion in financing to 175,221 SMEs
Microfinance	2008*	Helped clients mobilize \$1.6 billion in financing to 2.1 million microfinance institutions
Housing finance	2008*	Helped clients mobilize \$2.5 billion in housing finance loans to 69,558 homeowners
Leasing	2008*	Helped clients mobilize \$1.7 billion in lease financing for 19,715 micro, small, and medium leasing enterprises
Credit bureaus	2008**	Helped create or significantly improve credit bureaus in 10 countries, resulting in 34.7 million credit inquiries and helping generate about \$17 billion in financing

* Portfolio outstanding reported by clients for 2007 calendar year

** Cumulative results as of 2008 fiscal year.

CORPORATE ADVICE

What We Do

IFC offers corporate advice to existing and potential investment clients. The business line consists of four major products:

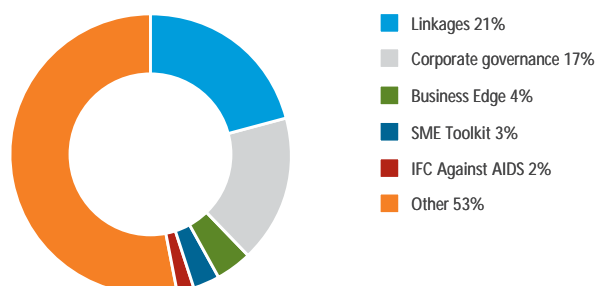
- **Linkages:** IFC helps large companies in extractive industries, telecoms, agribusiness, and manufacturing industries reach small businesses as suppliers of goods and services.
- **Corporate governance:** IFC helps strengthen board and management supervisory practices in corporates and banks.
- **HIV/AIDS and other diseases:** IFC offers mitigating plans against diseases that pose a risk to clients' business operations.
- **IFC Business Edge and IFC SME Toolkit:** IFC's training tools help SMEs improve their management practices, become more competitive, and gain access to finance.

Through 242 projects, IFC is reaching SMEs in 63 countries, including 36 IDA countries. Our expenditures in FY08 were \$41 million, with 47 percent of spending in IDA countries, and 17 percent in conflict-affected countries. We are working on a number of innovations, including measurement of the carbon footprint of supply chains, supply chain financing, and farmer finance in Africa.

How We Do It

IFC collaborates with global and local entities to broaden impact and ensure the sustainability of our engagements. We have joined with IBM and local partners, such as ICICI in India, to scale up the *IFC SME Toolkit*. IFC's SME management training solution—*IFC Business Edge*—builds the capacity of local trainers. We have set up the Linkages Business Roundtable in collaboration with Harvard's Kennedy School and the International Business Leaders Forum, facilitating the sharing of successful implementation models among corporates. IFC is working with the World Business Council for Sustainable Development on an impact measurement framework. This year about 30 development finance institutions joined with IFC to sign the Corporate Governance Approach Statement.

FY08 EXPENDITURES



GHANA'S COMMUNITIES BENEFIT FROM IFC'S PARTNERSHIP WITH NEWMONT MINING

In 2007, IFC joined our client, Newmont Mining, to launch a program that offers sustainable economic opportunities to communities affected by Newmont's operations in Ahafo, Ghana. As of June 2008, results include around 670 new supplier contracts worth \$6.5 million that have been awarded to 142 local MSMEs. Other income-generating opportunities have been identified and developed in egg production, vegetable farming, and pottery and brick production. Our efforts have strengthened the local business association and built the capacity of local trainers; and activities for women's economic participation, HIV/AIDS awareness, and other health-related education will soon be launched. While communities benefit from the supplier contracts, local governments report a 35 percent increase in their tax revenues from small businesses and an overall 20 percent increase in their revenue base over previous years. This program highlights the opportunities for communities when companies like Newmont join IFC in social and economic development programs.

DEVELOPMENT RESULTS

Product	Time frame	Results
Corporate governance	2000-2007	Reached over 8,500 companies and banks and clients raised \$2.7 billion in investment that they attribute to better corporate governance
IFC Against AIDS	2004-2007	Reached over 1.2 million people including 104,000 employees of IFC client companies in Africa and India
Linkages	2004-2007	Enabled small businesses to win contracts from IFC clients worth an estimated \$307 million

ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

What We Do

IFC focuses on sustainability to drive innovation, increase our development results, and add value to clients by helping them improve their business performance. Products include:

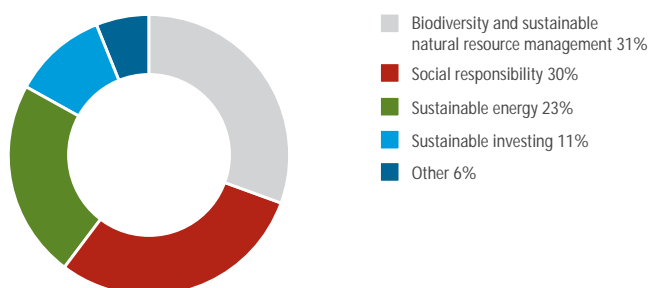
- ▶ **Biodiversity:** Helping businesses blend biodiversity protection with better overall management.
- ▶ **Carbon finance:** Delivering innovative financial products and helping partners meet their commitments to mitigate climate change.
- ▶ **Cleaner technologies:** Supporting environmentally friendly business initiatives that must overcome uncertainties associated with new markets and technologies.
- ▶ **Gender entrepreneurship:** Helping women increase their access to finance and reducing gender barriers in the business environment.
- ▶ **Social responsibility:** Supporting proactive management of social, environmental, and labor dimensions of a company's business practices.
- ▶ **Sustainable energy:** Transforming markets for clean energy through investments and capacity building.
- ▶ **Sustainable investing:** Increase the sustainability of emerging market investment, while helping investors capture the potential for superior long-term returns.

During FY08, IFC's business line portfolio totaled \$146 million, and we were active in 32 countries. Our activities included 50 projects in IDA countries and 18 projects in conflict-affected countries. Some 25 percent of our expenditures were in IDA countries and 16 percent in conflict-affected countries.

How We Do It

IFC believes sustainability is good business. We train financial institutions in structuring loan portfolios to achieve social and environmental benefits, and we work with consulting firms in clean production and energy efficiency. We promote preservation of biodiversity, particularly where it links to sustainable forestry, agriculture, and ecotourism. We are also promoting the adoption of labor standards (see p. 104). IFC's efforts include advice to firms, collaboration at the industry or sector level, support for research and assessments, and investments in firms that are applying innovative business models.

FY08 EXPENDITURES



ECO-ENTERPRISE FUND

IFC has worked since 2001 with the Eco-Enterprise Fund, which supports innovative, biodiversity-friendly business practices in Latin America and the Caribbean. IFC provides guidance and channels a Global Environmental Facility grant of \$1 million for advisory services that accompany a \$9 million investment from the Inter-American Development Bank. The effort has helped protect 65,000 hectares of land in vulnerable areas with fragile ecosystems, and more than 11,000 suppliers have increased their [economic benefits and livelihood]. Income generated by new business models and financial products supported by the fund totals more than \$150 million.

DEVELOPMENT RESULTS

Product	Time frame	Results
Biodiversity and sustainable natural resource management	2006-2007	Public-private partnership established for managing a national park in Indonesia generated \$427,000 for a conservation fund between May 2006 and December 2007 and is becoming financially self-sustainable; similar approaches have been used in Peru and Mongolia
Social responsibility	2006-2007	In partnership with ILO, IFC launched \$4.7 million Better Work Jordan program to improve labor conditions for 54,000 workers in the country's apparel industry and boost international competitiveness of the sector
Sustainable energy	2005-2007	A renewable energy law was enacted in Mongolia and the first 50-megawatt wind park was launched there
Sustainable investing	2006-2007	\$100 million in funds being managed in the Brazilian sustainability index

INFRASTRUCTURE

What We Do

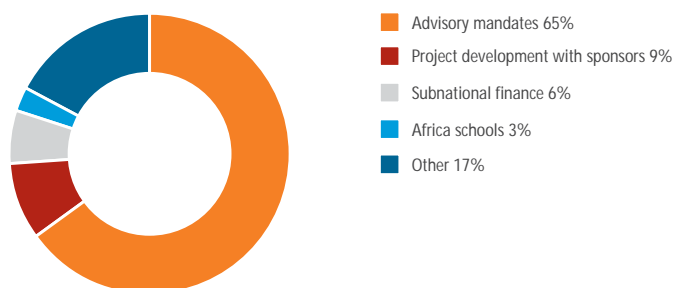
Infrastructure is essential to economic growth, better living standards, and broader development. Access to basic services, such as water, sanitation, and electricity, improves health and social welfare. It also underpins modern industry and commerce. IFC supports client countries' infrastructure development through advisory work as well as investments. Our advisory work seeks to increase private investment in infrastructure, help governments create public-private partnerships, and improve access to services, including health and education.

Product areas include:

- ▶ **Power:** We advise governments on design and implementation of projects, mobilizing private sector participation in electricity generation projects developed by independent power producers.
- ▶ **Water and municipal services:** We structure public-private partnerships in water, wastewater, and municipal services, designing concessions that help improve coverage, water quality, and customer service.
- ▶ **Transport:** We help governments structure and implement privatizations of state-owned assets in airlines, ports, railways, and urban transit. We have also undertaken concessions to rehabilitate, restructure, maintain, and operate assets such as roads and ports.
- ▶ **Social sectors:** We help governments develop and implement public-private partnerships for design, construction, financing, competitive tenders, or maintenance of educational and medical facilities.

During FY08, business line portfolio totaled \$121 million, and we were active in 40 countries. Our activities included 51 projects in IDA countries and 18 projects in conflict-affected countries. Some 50 percent of our expenditures were in IDA countries and 17 percent in conflict-affected countries.

FY08 EXPENDITURES



LESOTHO HOSPITAL GAINS FROM PUBLIC-PRIVATE PARTNERSHIP

Queen Elizabeth II Hospital in Maseru, Lesotho's only large hospital, has long needed an upgrade: staff and patients have faced shortages of hot water, medical supplies, and reliable equipment. The government, with limited resources to build a more modern facility, hired IFC to advise on design and implementation of a public-private partnership, drawing on our extensive experience with 100 such partnerships in more than 30 countries. In December 2007, the government announced that a regional consortium led by South Africa's Netcare had won the bidding to build and operate the new facility. The new National Referral Hospital will have 390 beds and provide much better services without increasing costs for patients. The consortium also will refurbish three semi-urban clinics that will serve as a regional health network.

How We Do It

IFC's most established advisory activity in infrastructure is our assistance to governments in structuring and implementing public-private partnerships. We have unique skills and experience, particularly in helping balance the needs of investors with public policy considerations. Our work is closely coordinated with other World Bank Group entities and partners such as the Private Infrastructure Development Group. We are undertaking more than 40 such mandates as of FY08. IFC's advisory work also supports broader access to health and education in Africa.

DEVELOPMENT RESULTS

Product	Time frame	Results
Advisory mandates and other projects	2000-2007	Helped mobilize \$10 billion in investment
		\$1.7 billion in concession fees and other fiscal benefits for governments
		Reached 6.4 million people with improved basic services



Infrastructure is a key area where IFC increasingly integrates investments and advisory services in our client countries. For an integrated view of this year's development results, see p. 43.

WORKING WITH PARTNERS

IFC's success in fostering private sector development reflects our many innovative partnerships with governments, foundations, and civil society.



IFC maximizes the results we can produce by collaborating with others who share our objectives. Collaboration helps us achieve what we could not on our own. It allows us to pool our resources and capitalize on the competitive advantages of each of our partners. It lets us share knowledge and helps improve the design and implementation of programs.

In FY08, we teamed with a range of partners to tackle the highest-priority challenges on the development agenda—including the food crisis, climate change, and aid to conflict-affected countries. Our donor partners helped finance the expansion of IFC's advisory operations, making a record \$211 million contribution.

Corporate philanthropies and foundations also increased their contributions to this work, accounting for 5 percent of all donor contributions to IFC's advisory work. And we continued to build our cooperation with financial institutions that have adopted the Equator Principles for sustainable development.





MAXIMIZING OUR IMPACT

IFC strives to obtain the best development outcomes by working in partnership with a wide array of entities—donor governments, charitable foundations, international organizations, nongovernmental organizations.

Pakistan's mountainous north is one of the world's more remote, inaccessible places, and a place where most people live in poverty. IFC, through a long-term partnership with the Aga Khan Development Network that spans many countries, is helping change the situation. Together we have helped create profitable, sustainable enterprises that are improving lives. We invested jointly in the First Microfinance Bank of Pakistan, which offers small loans, savings accounts, and other financial products that are helping more than 50,000 people across the country work their way out of poverty. IFC's funds have also helped the bank build capacity and upgrade its management information systems. Zubaida Khanum, a typical client in northern Pakistan, uses earnings from the small food business her FMB loan helped finance to provide her children with better clothes, education, and health care.



PHOTO: Micro loans from an IFC client have allowed Zubaida Khanum to run a small food business.

WORKING WITH PARTNERS

IFC's many partnerships extend our influence on private sector development, and working together also strengthens our partners' prospects for success in emerging markets. We make it clear to partners how their funds—and ours—are being invested, and we place a priority on tracking and learning from the development results of our engagements. Governments, foundations, and other donors and partners recognize the contribution that IFC makes to their own efforts—and the amount of collaborative work we do has increased as a result.

SETTING STANDARDS FOR SUSTAINABLE DEVELOPMENT

IFC plays a leading role in setting global standards for sustainable private sector development. This work extends far beyond our clients and involves many of our partners. We are working with participants at all levels of the global supply chain to achieve a broad consensus on standards that will advance social and environmental best practices. As commodity prices have soared, we have focused on raising standards for export sectors that pose the biggest social and environmental risks, including palm oil, soy, sugar, cocoa, and cotton. We have also joined forces with the International Labour Organization to improve labor standards and competitiveness across global supply chains. Our "Better Work" program with the ILO is being introduced in the apparel industries in Jordan, Lesotho, and Vietnam and is expected to benefit more than 800,000 workers. In addition, we are working to establish standards for microfinance lending. We are also helping develop a variety of innovative indexes—among other things, to measure the performance of emerging markets with respect to sustainable development and to promote gender-based business opportunities.

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

SUMMARY	FY07	FY08
Governments	75.71	164.53
Institutional/ Multilateral Partners	30.39	33.82
Private Partners/ Foundations	6.28	12.37
Total	112.38	210.72

WORKING WITH THE DONOR COMMUNITY

IFC continued strategic partnerships with the donor community this year, collaborating on shared priorities for development. Donor partners play a key role, allowing us to expand and improve our advisory work. Partnerships include cooperation through trust funds and joint projects; IFC also serves as an implementing agency to some of our partners.

In FY08, donor partners entrusted us with their highest contributions to IFC advisory services to date, with \$211 million—an increase of 87 percent from FY07. Some 78 percent came from donor governments, while foundations, institutional, and private partners contributed 22 percent. With this support, we were able to start work on 299 new projects. The largest share of donor contributions went to the South and East Asia regions, with a combined 36 percent of total funding to IFC.

Donor partners' continued support has allowed us to continue programs in several regions during FY08. Donors that initiated or intensified their cooperation with IFC this year include Austria, the European Commission, Finland, the Inter-American Development Bank, Norway, and the United States.

Three main challenges have marked the international development agenda this year: the food crisis, climate change, and aid to conflict-affected countries.

On the food crisis, IFC is working with the World Bank Group and the United Nations, focusing mainly on the agribusiness supply side. We also began a strategic dialogue with our donor partners, and will continue stepping up our collaboration.

To address climate change, we have joined with donor partners to catalyze the private sector. With our Nordic donor partners—Denmark, Finland, Iceland, Norway, and Sweden—we organized the first high-level, multistakeholder meeting on climate change in the region. We also organized a workshop with our Norwegian partners to scale up clean energy investments worldwide and discuss the role IFC could play.

For conflict-affected countries, IFC established a \$50 million global trust fund that will allow us to move swiftly to help with reconstruction. Efforts include rapid diagnostics and support for several priorities: a stronger investment climate; assistance to SMEs and related institutions; and more private sector participation in infrastructure. Ireland and Norway have already pledged their support to an additional trust fund aimed at helping conflict-affected countries in Sub-Saharan Africa.

GOVERNMENTS' FINANCIAL COMMITMENTS TO IFC ADVISORY SERVICES (US\$ MILLIONS EQUIVALENT)

Governments	FY07	FY08
Australia	11.37	3.27
Austria	3.35	15.75
Belgium	2.69	1.47
Canada	2.99	2.16
Denmark	2.77	2.92
Finland	4.77	10.86
France	1.29	0.03
Iceland	0.16	0.55
Ireland	2.45	4.41
Italy	0.00	0.51
Japan	2.62	2.93
Kuwait	2.00	0.00
Luxembourg	2.49	1.93
The Netherlands	15.24	22.68
New Zealand	0.31	1.23
Norway	5.14	10.28
Slovenia	0.30	0.00
South Africa	0.63	0.62
Spain	2.00	1.47
Sweden	1.69	5.59
Switzerland	7.48	12.11
United Kingdom	0.99	57.55
United States	0.51	6.20
Cape Verde*	0.57	0.00
Nigeria*	1.40	0.00
Rwanda*	0.50	0.00
Total	75.71	164.53

Unaudited figures.

*Client governments' commitments.

NOTE: This is a corrected version of a chart published in IFC's annual report on Oct. 1 2008. That chart contained erroneous data for Iceland and omitted data for Italy.

TACKLING THE INVESTMENT CLIMATE IN BANGLADESH

IFC, the U.K. Department for International Development, and the European Commission established a partnership in 2007 to strengthen the investment climate in Bangladesh. IFC serves as implementing agency for the Bangladesh Investment Climate Fund, jointly funded by DFID and the EC. This is the largest country program focusing on a single IFC advisory services business line—the business enabling environment. In FY08, the first projects got underway: already the fund has helped the government establish a commission to oversee regulatory reforms, develop an economic zones policy that promotes more private sector participation, and set up a private-public forum that makes recommendations for improving the country's business and investment climate.

WORKING WITH FOUNDATIONS

IFC's partnership with foundations, corporate philanthropies, and private donors is steadily increasing. In FY06, these partners contributed 2 percent of total donor contributions to IFC; in FY08, their share increased to 5 percent. To maximize the impact of this collaboration, we foster long-term strategic partnerships through dialogue, coordination, and knowledge-sharing.

During FY08, highlights of our joint work included:

- ▶ Working with Bill and Melinda Gates Foundation to study the current scope and future potential of private health care in Africa.
- ▶ Developing a training program and toolkit with the Reuters Foundation to help journalists in emerging markets report on corporate governance issues more effectively.
- ▶ Convening a meeting of foundation, academic, and IFC monitoring and evaluation practitioners, with the German Marshall Fund of the United States, to discuss innovations in results measurement.
- ▶ Cooperating with the Global Alliance for Improved Nutrition to provide financial and advisory support to companies seeking to improve infant nutrition in Latin America.
- ▶ Participating, with the BBVA Microfinance Foundation, in investments in emerging Latin American microfinance institutions to increase access to finance for the poor.

IFC AND THE GATES FOUNDATION: PARTNERS TO STRENGTHEN AFRICA'S PRIVATE HEALTH CARE

In FY08, IFC published *The Business of Health in Africa: Partnering with the Private Sector to Improve People's Lives*, a report that expects spending on health in Sub-Saharan Africa to double over the next decade. Partly financed by the Bill and Melinda Gates Foundation, the report finds that the private sector plays a significant role in health care for people in the region. The findings have encouraged IFC and our partners to mobilize up to \$1 billion over the next five years for investments and advisory services that will boost socially responsible health care in Africa. IFC's strategy for the sector includes an equity investment vehicle for health care entrepreneurs and businesses, partnership with local financial institutions to improve access to long-term debt for health care organizations, and advisory services to build the capacity of local financial intermediaries and health care companies. IFC will also expand our life sciences team in the region, support public-private partnerships for education of health care workers, and encourage the development of health insurance companies. To improve the business environment, we will work with governments to reform private health care regulation, expand public-private partnerships, and support country assessments. IFC will produce a biannual report on the region's investment climate for health care.

WORKING WITH NONGOVERNMENTAL ORGANIZATIONS

IFC engages with nongovernmental organizations in several ways. We maintain an ongoing dialogue on many aspects of our work, strategy, and policies, and we are collaborating on a variety of initiatives.

IFC convened a Labor Advisory Group in FY07, bringing together labor specialists from civil society, academia, trade unions, and the private sector to provide feedback on the implementation of our labor performance standard and other initiatives on labor rights. IFC also has an external advisory group for extractive industries, with representatives from civil society and industry who continue to provide perspectives on IFC and World Bank activities in this area.

With the World Bank, IFC is consulting stakeholder organizations to develop a new framework for civil society relations. The new IDA/IFC Secretariat has also begun a dialogue with civil society to seek input into the World Bank Group's strategy and work on private sector development in IDA countries.

In recent years, IFC has initiated strategic partnerships with NGOs at the operational level, producing better projects and greater development impact. Examples include collaboration with the WWF Global Forest Trade Network to promote sustainable forestry, joint work with the Rainforest Alliance to assist coffee growers in Central America and southern Mexico, and projects with Oxfam Hong Kong to develop sustainable tourism in Cambodia and the Lao PDR. IFC also works in partnership with WWF to promote better agricultural management practices: we participate in sustainability roundtables in a number of industries, such as palm oil, soybeans, and sugar cane.

PARTNERING WITH CIVIL SOCIETY IN BRAZIL

IFC is helping Brazil's beef industry grow while raising environmental and social standards. When we first considered supporting Bertin, the country's second-largest meat processor, some stakeholders worried that the company's expansion could aggravate deforestation, pollution, and agrarian violence in the Amazon region. IFC and Bertin held a year-long consultation with local people and built partnerships with NGOs to address concerns. Under the terms of IFC's loan, Bertin is ensuring that its beef does not come from recently deforested land. It has agreed to improve its wastewater treatment and obligates its suppliers not to buy from farmers convicted of wrongdoing in land acquisition. With IPAM and Aliança da Terra, IFC and Bertin have launched a project that promotes land titling. With the World Bank, we have helped set up a sustainable beef working group that brings together major Brazilian meat packers, NGOs, associations, and banks. We also participate in a forum that promotes cooperation for sustainable development of the Amazon. With IFC's help and the watchfulness of stakeholders, Bertin is becoming a standard-setter for sustainable development in the region.

Other highlights of our work in FY08:

- ▶ With the World Business Council for Sustainable Development, we developed a Measuring Impact Framework to assess the contribution of private businesses to economic and broader development goals in societies in which they operate.
- ▶ With the Global Reporting Initiative, we promoted a standardized approach to sustainability reporting in emerging markets to help companies improve performance.
- ▶ With the World Bank and ImagineNations Group, we launched the Global Public-Private Partnership for Youth Investment to help improve the lives of young people, especially adolescent girls and young women, through their economic advancement and social inclusion.
- ▶ We established IFC's Grassroots Business Initiative as an independent NGO and investment fund. With ongoing financial support from IFC and such other partners as the Omidyar Network and the Netherlands' FMO, it will continue to bring business know-how and risk capital to the grassroots business sector.
- ▶ We engaged with One World Trust on a profile of IFC in the forthcoming *Global Accountability Report*.

WORKING WITH FINANCIAL INSTITUTIONS

IFC continues to act as the key technical and strategic resource for financial institutions in developed and emerging markets. IFC is sharing experience and lessons learned in applying our performance standards, using our convening power to promote knowledge sharing across the global financial industry.

The Equator Principles: A Global Benchmark

In financial markets worldwide, IFC's performance standards have been catalyzing the swift convergence of environmental and social standards for cross-border investment. To date, 61 banks and financial institutions, including 11 from emerging markets, have adopted the Equator Principles, which were updated to refer to the new performance standards in 2006. The principles are estimated to cover nearly 90 percent of global cross-border project finance. During FY08, 29 of the Equator institutions provided 53 percent of new syndications in IFC investments. In addition, 32 export credit agencies from OECD countries and 15 European development finance institutions are benchmarking their private sector projects against the performance standards. Within the World Bank Group, MIGA has recently adopted the performance standards for its operations; and a number of other multilateral institutions are looking to achieve "Equator equivalence" in their policy updates. In May 2008, IFC convened the second Community of Learning Event for Equator Banks, export credit agencies, and other bilateral and multilateral financial institutions.

Tracking Greenhouse Gas Emissions

IFC is working to develop a methodology that can help us, and various stakeholders, better understand the implications of greenhouse gas emissions related to our investments. We will apply a widely used carbon accounting methodology for private business that was established by the World Business Council for Sustainable Development and the World Resources Institute. We will also build on the World Bank's experience and are working with other multilateral financial institutions to define approaches to carbon accounting that meet the financial sector's needs.

Subject to approval from our Board, IFC proposes to measure the emissions of our new real sector investments from the start of FY09, to be followed in subsequent years by our corporate lending and financial sector investments. Investments will be tracked annually; with the turnover in our portfolio, the approach should enable full coverage after about six years. We will share results and lessons learned with other multilateral institutions and partners that have adopted the Equator Principles. For more information on the footprint of IFC's portfolio, visit our climate change Web site, <http://www.ifc.org/ifcext/sustainability.nsf/Content/ClimateChange>.

GEMLOC: BUILDING BOND MARKETS IN DEVELOPING COUNTRIES

IFC has a key role in GEMLOC—the Global Emerging Markets Local Currency Bond Fund, which the World Bank Group initiated this year to help develop local currency bond markets so that they can attract more local and global institutional investors. The effort will establish local currency debt markets in developing countries as a separate asset class, measured against a new index of performance. In cooperation with the data and index provider Markit, IFC has developed a transparent index of emerging market local currency bonds. Launched in April 2008, the index offers investors transparent data on 20 countries, and will soon add more. Inclusion in it is based on market size and a set of criteria, developed by the ratings, research, risk, and policy advisory company CRISIL in collaboration with IFC, that assess the investment climate. The new index and underlying criteria set out guidelines countries can use to implement reforms that improve their index weight and attract additional investment; the program also offers advisory services to countries with a strong commitment to such reforms. A leading fixed-income investment manager, PIMCO, is also developing strategies to promote investment in these markets. The initiative responds to many governments' requests for help in strengthening bond markets as a way to support sustainable growth. It has a sunset provision of 10 years, when Bank Group involvement will cease and the private sector is expected to be fully engaged.

HOW WE WORK

IFC's accomplishments reflect the shared values of our staff worldwide—an emphasis on excellence, commitment, integrity, and teamwork helps us make a difference for the clients and countries we serve.

IFC delivers results for clients by pursuing best practice in every aspect of our operations—in our governance, our accountability to stakeholders, our focus on sustainable development, and our commitment to the people who comprise IFC. Our strong corporate culture—articulated this year as The IFC Way—is keeping us focused on results amid rapid changes.

Our organization is growing fast: about 40 percent of employees joined IFC less than two years ago. We have increasingly gone local, with most staff based in field offices, close to clients. As we have increased our activities in the poorest countries, and the number of IFC staff there has nearly doubled since 2003.

We work to ensure that development brings sustainable benefits to people in emerging markets. We reach out to our local communities and aim to model the high standards we ask of clients: IFC's own operations, for example, were carbon-neutral for the first time in fiscal 2008.







GLOBAL EXPERTISE, LOCAL INITIATIVE

IFC offers clients a powerful combination of global expertise and local savvy that allows us to respond rapidly to changing needs. More than half our staff are based in 100 field offices in 81 countries, including 39 of the world's poorest. Our employees reflect the rich diversity of the clients we serve.

MAKING A DIFFERENCE

Karla Quizon does not relish getting up before six on a Sunday morning to go and level ground on the outskirts of Cambodia's capital, Phnom Penh. But eight hours later, sweaty and bedraggled after laying the foundation for a new house, she feels a sense of satisfaction. Karla, an IFC program manager, joins a group of volunteers most weekends to help build housing for former garbage collectors, some of the city's poorest inhabitants. So far, Karla and the team, together with the future homeowners, have built 21 homes in a year. "Working for IFC, I get to make a difference in people's lives at a higher level, and this house-building effort allows me to make a difference at the grassroots," says Karla. "Learning to physically build a house—well, that's quite a skill."



PHOTO: IFC staffer Karla Quizon helps build housing for poor residents of Phnom Penh.



FROM LEFT TO RIGHT: (standing) Gino Alzetta, Svein Aass, Giovanni Majnoni, Herman Wijffels, Alexey Kvasov, James Hagan, Sid Ahmed Dib, Michael Hofmann, Masato Kanda, Mohamed Kamel Amr, E. Whitney Debevoise, Ambroise Fayolle, Michel Mordasini, Samy Watson, Felix Alberto Camarasa; (seated) Dhanendra Kumar, Abdulrahman Almofadhi, Zou Jiayi, Mat Aron Deraman, Caroline Sergeant, Jorge Botero, Mulu Ketsela, Louis Phillippe Ong Seng

IFC BOARD OF DIRECTORS

This fiscal year the Board of Directors maintained close oversight of IFC's efforts to increase and measure its development impact. Directors reaffirmed their support for IFC's corporate strategy, including a focus on growth in response to demand, efforts to streamline procedures and move closer to clients, and an emphasis on portfolio and risk management amid changing market conditions. The Board approved a number of investments and joint World Bank–IFC–MIGA country assistance strategies and continued to encourage stronger collaboration, both across the World Bank Group and with partners and stakeholders.

Issues that Directors discussed with management included the net transfer to IDA, IFC's additionality, our ongoing decentralization, our role in Bank Group strategies to address climate change and the food crisis, and our experience with advisory services, both generally and with regard to SMEs and credit bureaus. Management also briefed the Board on our work in infrastructure, local currency financing, and information and communications technology. The Board continued to monitor new methods for measuring development outcomes of IFC's activities, as well as progress in implementing IFC's environmental and social performance standards.

Directors and Alternates as of June 30, 2008

DIRECTORS

Svein Aass
Abdulrahman M. Almofadhi
Gino Alzetta
Felix Alberto Camarasa
E. Whitney Debevoise
Mat Aron Deraman
Jorge Familiar
Ambroise Fayolle
Alex Gibbs
James Hagan
Merza H. Hasan
Michael Hofmann
Mulu Ketsela
Dhanendra Kumar
Alexey Kvasov
Giovanni Majnoni
Michel Mordasini
Louis Phillippe Ong Seng
Toru Shikibu
Rogerio Studart
Javed Talat
Samy Watson
Herman Wijffels
Zou Jiayi

ALTERNATES

Jens Haarlov
Abdulhamid Alkhalifa
Melih Nemli
Francisco Bernasconi
Ana Guevara
Chularat Suteethorn
Jose Alejandro Rojas Ramirez
Alexis Kohler
Caroline Sergeant
Do Hyeong Kim
Mohamed Kamel Amr
Ruediger Von Kleist
Mathias Sinamenye
Zakir Ahmed Khan
Eugene Miagkov
Nuno Mota Pinto
Jakub Karnowski
Agapito Mendes Dias
Masato Kanda
Jorge Humberto Botero
Sid Ahmed Dib
Ishmael Lightbourne
Claudiu Doltu
Yang Yingming

GOVERNANCE

IFC is an international organization established in 1956 to further economic growth in its developing member countries by promoting private sector development. It is part of the World Bank Group, which also includes the International Bank for Reconstruction and Development, the International Development Association, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes. IFC is a legal entity separate and distinct from the other Bank Group institutions, with its own 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, 2008, IFC's entire share capital was held by 179 member countries.

Member countries guide IFC's programs and activities; each appoints one governor and one alternate. Corporate powers are vested in the Board of Governors, which delegates most powers to a board of 24 directors, whose voting power on issues brought before them is weighted according to the share capital each director represents. 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 CEO and leads IFC's overall strategy and operations. The Management Group is responsible for much of IFC's key decision-making and strategic planning; it is headed by Mr. Thunell and includes the 10 IFC vice presidents.

INCENTIVE PROGRAMS

Human resource management is integral to IFC's strategy and business planning. In our efforts to build a performance-based culture and help IFC achieve sustainable, high-quality business results, IFC has implemented several incentive programs as part of an integrated performance management system. These incentives reinforce IFC's results measurement and accountability while ensuring recognition for high-performing staff.

IFC recognizes and rewards individuals and teams for superior performance during the annual review period or over the longer term. Performance metrics emphasize development effectiveness, financial performance, and productivity. Awards range from on-the-spot payments of up to \$400 for extraordinary efforts of short duration to as much as 15 percent of salary for superior annual performance. Staff in investment operations can, in addition, receive up to 20 percent of salary for outstanding long-term performance. (Percentages are based on a market reference point that aligns World Bank Group salary ranges with comparable salaries in the U.S. labor market.) Underscoring the importance of teamwork in achieving results, 55 percent of staff who receive awards do so as part of team recognitions. Most individual awards fall in a range of 5-10 percent of salary. The average individual award in FY08 was \$6,700. The Executive Vice President and CEO and the members of IFC's Management Group do not receive performance awards but are eligible for long-term performance awards for periods prior to joining the Management Group.

This year, IFC added the IDA Impact Award to recognize the success of investment and advisory project teams in IDA countries. A critical element of the new award is to ensure that project teams have an opportunity to present their experiences and lessons learned to IFC management and more broadly across IFC.

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 highly qualified, diverse staff in jobs subject to international recruitment. The salary structure of the World Bank Group for staff recruited in Washington is determined with reference to the U.S. market, which historically has been globally competitive. This competitiveness is reviewed every four years. Salaries for staff hired in offices and countries outside the United States are based on local competitiveness, as 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.

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. In fiscal 2008, the President, Robert B. Zoellick, received a salary of \$420,930 net of taxes; and IFC's Executive Vice President and CEO, Lars Thunell, received a salary of \$334,990 net of taxes. Both received additional cash benefits per the adjoining table. Benefits in cash and in kind apply equally and consistently to all staff, including members of the Management Group, and are determined by guidelines approved by the Board of Directors. There are no executive incentive compensation packages.

STAFF SALARY STRUCTURE (WASHINGTON, D.C.)

During the period July 1, 2007, to June 30, 2008, the salary structure (net of tax) and average salaries and benefits for World Bank Group staff was as follows:							
Grade	Representative job titles	Minimum (\$)	Market Reference (\$)	Maximum (\$)	Staff at grade level (%)	Average salary/grade	Average benefits **
GA	Office Assistant	23,760	30,880	40,130	0.1	28,158	14,761
GB	Team Assistant, Information Technician	29,620	38,510	53,910	1.1	39,207	20,596
GC	Program Assistant, Information Assistant	35,550	46,220	64,720	11.6	49,821	26,188
GD	Senior Program Assistant, Information Specialist, Budget Assistant	41,790	54,320	76,050	9.5	60,563	31,898
GE	Analyst	55,660	72,350	101,280	9.9	70,967	37,416
GF	Professional	74,750	97,170	136,040	18.0	91,250	48,165
GG	Senior Professional	99,020	128,730	180,220	29.6	125,937	66,581
GH	Manager, Lead Professional	136,270	177,170	239,000	16.9	172,926	91,973
GI	Director, Senior Advisor	188,000	245,000	282,000	2.8	226,384	120,211
GJ	Vice President	244,540	273,880	314,970	0.3	277,483	145,456
GK	Managing Director, Executive Vice President	268,580	304,580	334,990	0.1	317,652	149,597

Note: Because World Bank Group (WBG) staff, other than U.S. citizens, usually are not required to pay income taxes on their WBG 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 annual leave; medical, life and disability insurance; accrued termination benefits; and other nonsalary benefits.

EXECUTIVE MANAGEMENT: ANNUAL SALARIES (NET OF TAXES) (IN U.S. DOLLARS)

Name and position	Annual net salary ^a	Annual Bank Group contribution to pension plan ^b	Annual Bank Group contribution to other benefits ^c
Robert B. Zoellick, President ^d	420,930	87,133	182,687
Lars Thunell, Executive Vice President, IFC	334,990	69,343	74,033

a. Because World Bank Group staff, other than U.S. citizens, usually are not required to pay income taxes on their WBG compensation, the salaries are set on a net-of-tax basis.

b. Approximate WBG contribution made to the Staff Retirement Plan and deferred compensation plans from July 1, 2007, through July 1, 2008.

c. Other benefits include annual leave; medical, life and disability insurance; accrued termination benefits; and other nonsalary benefits.

d. Mr. Zoellick receives a supplemental allowance of \$75,350 to cover expenses as part of WBG contribution to other benefits. Because Mr. Zoellick is a U.S. citizen, his salary is taxable and he receives a tax allowance to cover the estimated taxes on his Bank salary and benefits. In addition to his pension, Mr. Zoellick receives a supplemental retirement benefit equal to 5 percent of annual salary.

ACCOUNTABILITY

Three independent units oversee IFC's accountability.

COMPLIANCE ADVISOR/OMBUDSMAN

Established in 1999, the Compliance Advisor/Ombudsman is the independent recourse mechanism for IFC and MIGA. It assists IFC in addressing complaints by those affected by IFC projects and helps enhance social and environmental outcomes on the ground.

The CAO has three roles. As Ombudsman, it works to resolve complaints from project-affected communities. CAO Compliance conducts audits of IFC and MIGA's adherence to social and environmental policies, guidelines, procedures, and systems. As Advisor, the CAO provides independent advice to the World Bank Group President and Board, with an emphasis on improving institutional performance on systemic issues identified in CAO cases.

The CAO works closely with IFC staff, clients, civil society, and other stakeholders to resolve issues of concern around IFC projects. The CAO also conducts outreach to raise awareness about accountability at IFC, participating in internal and external events worldwide.

During FY08, the CAO responded to 11 complaints relating to nine IFC projects and released three advisory reports intended as best practice guides for IFC management, industry, government, and civil society. These reports focused on local-level development results reporting, grievance mechanisms, and participatory water monitoring.

More information on the CAO is available at www.cao-ombudsman.org.

INTEGRITY AND CONFLICT RESOLUTION

IFC staff and the public have a number of mechanisms to address ethical issues, harassment, and other issues of conflict.

The World Bank Group's Conflict Resolution System offers staff ombudsman services, mediation, advice on ethics and business conduct, and an appeals committee and administrative tribunal.

The following telephone hotlines, available 24/7 with multilingual staff, are anonymous and toll-free.

- **The Ethics Helpline.** Calls can relate to issues of any scale, such as staff misconduct, discrimination, or conflicts of interest. See www.worldbank.org/ethics.
- **The Department of Institutional Integrity Hotline.** The department investigates allegations of fraud and corruption in World Bank Group operations and allegations of misconduct. See www.worldbank.org/integrity.

INDEPENDENT EVALUATION GROUP

IFC strives to learn from our experience. In that respect, we benefit from the efforts of the Independent Evaluation Group, which has evaluated IFC operations since 1996. IEG reports to our Board of Directors through the World Bank Group Director-General, Evaluation. Last year IEG independently evaluated the performance of 65 IFC investment operations and reviewed 130 advisory projects. IFC also produced eight evaluation reports that identified strengths and weaknesses with our operations and recommended ways to improve our effectiveness. The latest IEG flagship report, the *Independent Evaluation of IFC's Development Effectiveness*, focused on IFC's additionality, or the unique inputs—financial and nonfinancial—that IFC provides to advance developing country projects. IEG made several recommendations, including that we map out additionality in our strategies. IFC and IEG track recommendations to ensure their compliance, and progress is reported to IFC's Board of Directors.

Although IEG is independent, it encourages learning through self-evaluation. IEG worked closely with IFC staff to ensure that they understand and correctly apply evaluation methods for private sector investment and advisory projects. IEG participates in IFC's training programs in Washington and the field to raise awareness of evaluation findings and lessons learned. Beginning in 2008, under its new disclosure policy, IEG has disclosed its findings on IFC's projects to the public and has expanded its communication activities to reach external stakeholders. IEG's reports are available at www.ifc.org/IEG.

INTERNAL AUDITING DEPARTMENT

IAD provides objective assurance and advice to help the World Bank Group enhance risk management, control, and governance, as well as to improve accountability for results. Assurance services are generally initiated by IAD, while advisory services are generally initiated by internal client requests. Advisory services are conducted primarily to answer specific questions aimed at improving risk management, control, or governance processes. Typical advisory services include analyzing controls built into systems under development, providing recommendations for analyzing operations, assisting in fraud and corruption investigations, and raising awareness of internal control activities.

WORKING RESPONSIBLY

IFC is committed to working with clients and other stakeholders to achieve our shared goals of reducing poverty and improving lives through private sector development. We recognize that we need to be transparent in our operations and to set an example of good governance, with high standards for ourselves as well as for our clients. We have developed internal processes that help ensure transparency, accountability for decisions and impacts, support to people, and consistency with what we ask of clients. In FY08, for example, we launched *IFC's Role and Additionality: A Primer*, guidance that helps staff communicate the unique benefits and value addition that IFC's involvement brings to the client in a particular investment. We are also committed to continuous improvement through learning and knowledge-sharing.

IFC manages investments and advisory projects closely throughout their life cycle. This involves finding appropriate sponsors who will be partners with us; managing and mitigating risk; monitoring and measuring results; and ensuring accountability for decisions taken throughout the project cycle. We continue to move more decision-making authority to the field, allowing our regional offices to be more responsive to client needs and local conditions.

ENGAGING WITH STAKEHOLDERS

As a global multilateral finance institution with operations in many regions and sectors, IFC has an impact on a diverse range of stakeholders. In addition to client companies, our stakeholders range from communities and nongovernmental organizations at the project level, to governments and civil society at the global level. The extent to which we engage with particular groups varies depending on the issues at hand, the stakeholders most directly affected by our operations, and the opportunities offered by collaboration.

DISCLOSURE INQUIRIES IN FY08

Full disclosure	45
Partial disclosure	5
No disclosure	16
Total	66

Through investments and advisory services, we engage with clients, partners, and communities. We draw on feedback to identify issues of importance to stakeholder groups, and we frequently adapt our strategies and procedures in response. Feedback includes an annual client survey and ongoing engagement with stakeholders, including representatives of civil society, local communities affected by our projects, industry associations, governments, international finance institutions, and academia. During FY08 we worked with our nonfinancial assurance providers, Corporate Citizenship, to gather stakeholder feedback on IFC's 2007 Annual Report; this report addresses key findings from that effort.

IFC discloses information about investments prior to their approval as part of a commitment to transparency and accountability. Sharing information strengthens public trust in IFC and our clients. Following adoption of our updated Disclosure Policy in 2006, we have established a demand-driven system for disclosure inquiries, in addition to enhanced project disclosure for all proposed investments. We aim to provide all or part of any requested information within 30 days or explain why the request has been delayed or denied. For members of the public who feel that an initial request for information has been unreasonably denied or that our policy has been incorrectly applied, we have established a complaints mechanism. Complaints are reviewed by the Disclosure Policy Advisor, who reports directly to IFC's Executive Vice President and CEO. For full information, see www.ifc.org/disclosure.

CARING FOR THE ENVIRONMENT

At IFC we strive to ensure that our business operations are consistent with corporate commitment to sustainability. Our goal is to achieve best practices in how we manage IFC's own global footprint.

FY08 highlights include:

- Governing committee—oversight and accountability for our footprint strategy includes four directors and four vice presidents.
- Regional plans—one of our regions coordinated a footprint action plan with regional goals, leading the way for all regions in FY09.

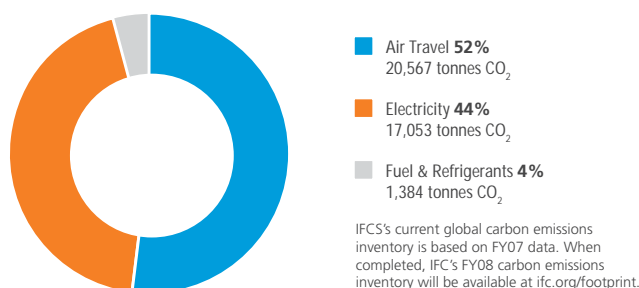
IFC achieved carbon neutrality for our global business operations for the first time this year (see box). We have progressed to a rigorous, corporate-wide greenhouse gas inventory, building on a pilot with country offices in FY07, and on annual inventory and offset for headquarters since FY06.

IFC's annual Footprint Program Awards recognize staff who generated and promoted innovative footprint ideas around the world in our offices and surrounding communities. This year, our Dhaka office won funds to initiate and lead a community-wide effort that addresses local waste management issues, air pollution, and energy conservation. At the staff level, a colleague from headquarters was recognized for coining a slogan for IFC's footprint efforts: "Our mission starts at home."

OFFSETTING IFC'S CARBON FOOTPRINT BENEFITS RURAL INDIA

To offset the carbon footprint of our global business operations, IFC has purchased carbon credits from the Andhyodaya Biogas Utilization Project, generating credits through small-scale biogas plants operated by 15,000 rural households in southern India. The project, which generates no smoke or soot, is operated by an Indian NGO that focuses on nonconventional energy promotion, environment sanitation, low-cost building technology, and assistance to farmers. This renewable energy project has a strong community benefit component, with a delivery model that expects to enhance the health, safety, and economic well-being of the communities in which Andhyodaya operates.

FY07 CARBON EMISSIONS INVENTORY FOR IFC'S GLOBAL INTERNAL BUSINESS OPERATIONS



For full information on our footprint activities, visit www.ifc.org/footprint.

IFC ADVISORY SERVICES CYCLE





COMMITMENT TO CONTINUOUS IMPROVEMENT

Our ability to learn and improve the way we work is crucial to our long-term success and lasting development impact. We constantly seek feedback from our clients and stakeholders, and we modify our approaches accordingly. Our decentralization initiative, for example, partly reflects suggestions offered in annual client surveys. We also develop and publish lessons from our investments and advisory projects, seeking to learn from experiences where things did not run smoothly. A key example is SmartLessons, a print and online series that allows staff to share lessons learned from investment and advisory work with colleagues across our operations. In addition, we have been responsive to recommendations from our Board, including its call for us to focus more of our efforts in fragile and conflict-affected countries, and to reports and recommendations from the Compliance Advisor/Ombudsman and the Independent Evaluation Group.

Preparation

Before we make an investment or launch a new initiative, we use lessons from previous projects and staff expertise to evaluate the proposed course of action. Peer review meetings, for instance, have become a formal part of our environmental and social review procedure, allowing our specialists to pool their knowledge. Similarly, formal decision points, such as the investment review meeting, allow senior staff to contribute insights based on a wide understanding of the organization's history in specific industries and regions.

Implementation

During implementation of an investment or advisory project, we monitor performance to make adjustments as well as transfer lessons from one project to another. Communities of practice are emerging as a useful tool for IFC staff to share information, transfer lessons, and replicate successful models across the World Bank Group.

Evaluation

IFC increasingly evaluates investments and advisory projects internally after completion to capture lessons. We have scaled up the exchange of lessons among our staff, with the long-term goal of making this knowledge available to our partners and the wider public. Lessons are also continuously developed and integrated into the training of new staff. Case studies used in training increasingly cover the aspects of doing business in a sustainable way.

SHARING KNOWLEDGE ON SUSTAINABILITY

The IFC Sustainability Knowledge Network facilitates the systematic application and communication of IFC's knowledge and industry best practice on sustainability and climate change, both within our organization and with clients and external stakeholders. It coordinates the work of over 200 practitioners across our investment and advisory operations, at headquarters and in the field, through learning events, collaborative online platforms, and best practice publications. The network is also developing communities of practice in specific areas, including sustainable energy and community development.

IFC INVESTMENT CYCLE



OUR PEOPLE

DEVELOPMENT IMPACT: WHY WE ARE HERE

The mission of the World Bank Group—working for a world free of poverty—is the main reason people join IFC. Our staff make a difference by promoting open and competitive markets and providing investment and advisory support to private sector clients.

IFC supports staff by helping improve their ability to assist clients, including by meeting our environmental, social, and corporate governance standards and identifying innovative opportunities. We reward staff based on the development results and financial performance of their projects.

Our good work can happen only with high-quality staff, who are driven by passion and a commitment to deliver on building the private sector and improving lives in our client countries.

WHO WE ARE

IFC staff are your neighbors. We are based in 100 cities in 81 countries, including 39 of the poorest countries—those served by IDA. We represent 135 countries, including 55 IDA nationalities. Today, 53 percent of our staff are based in the field, up from 41 percent in FY03.

Washington, D.C., vs. Field Staff (End of FY08)

Field Offices	Washington	Total
1,759	1,566	3,325
53%	47%	

We are diverse. Diversity enriches our perspectives, allows for fresh ideas, and helps us respond more effectively to clients and stakeholders. Over the last few years, IFC has increased staff representation from developing countries to 64 percent.

REGIONAL ORIGINS All Full-Time Staff

Developed (Part I) Countries	Developing (Part II) Countries	Of which IDA	Total
1,207	2,118	1,068	3,325
36%	64%	50%	

REGIONAL ORIGINS All Staff At Officer Level And Higher

Developed (Part I) Countries	Developing (Part II) Countries	Of which IDA	Total
868	992	510	1,860
47%	53%	51%	

GENDER DISTRIBUTION All Full-Time Staff

Women	Men	Total
1,768	1,557	3,325
53%	47%	

GENDER DISTRIBUTION All Staff At Officer Level And Higher

Women	Men	Total
722	1,138	1,860
39%	61%	

“Development impact is the key driver of our work. Every aspect of IFC, including our human resource practices, links to how we can increase our development impact.”

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

DECENTRALIZING TO SERVE OUR CLIENTS

IFC is moving closer to clients so that we can better serve their needs in a rapidly changing world.

Business opportunities are expanding fast in the low- and middle-income countries we serve, where 70 percent of our clients are now located. At the same time, our clients and other partners expect swift and nimble decision-making. IFC has recognized that we need to build more capacity in the field to be able to offer solutions for clients and ensure sustainable private sector development.

Today, more than half our staff are based in field offices, and our presence in the world's most fragile economies has doubled over the last seven years. Investment decisions are increasingly being made at the local level. In FY08 we began delegating authority for many project decisions to field staff in our Asia regional departments; building on this experience, we will roll out the approach to all IFC regions in FY09. The change is significant: last year, 37 percent of IFC commitments were led by investment officers in the field—up from 20 percent in 2006. Average processing time for an IFC transaction has been cut by a third since 2001.

As part of our decentralization, we aim to put the right people in the right place, making sure that knowledge and skills are deployed where they are most needed. Many senior employees have shifted to field offices, and we are working to make such moves attractive for staff with high potential. We are also hiring a growing number of our staff locally and improving their options to build a career at IFC. Both at headquarters and in the field, we are improving our methods for sharing knowledge and lessons learned.

Our decentralization is making IFC more efficient, helping us tailor approaches to the specific needs of countries and frontier markets, and increasing our ability to have a positive impact on the development of emerging economies.

SCALING UP IFC'S IMPACT

We are expanding our reach. IFC's staff increased by 58 percent—from 2,107 to 3,325—from FY03 to FY08. More than 53 percent of IFC staff are in the field. Investment staff, who represent 17 percent of IFC's workforce, have increased by 51 percent—from 380 to 575—since FY03. The number of field-based investment staff has nearly tripled in the past five years—from 111 to 294—with 51 percent of investment staff and 57 percent of managers in investment departments now field-based. The fastest-growing area of IFC's business—advisory services—has increased its staff from 544 in FY03 to 1,191 in FY08, and now accounts for 36 percent of the workforce. More than 80 percent of advisory staff—about 955—are field-based.

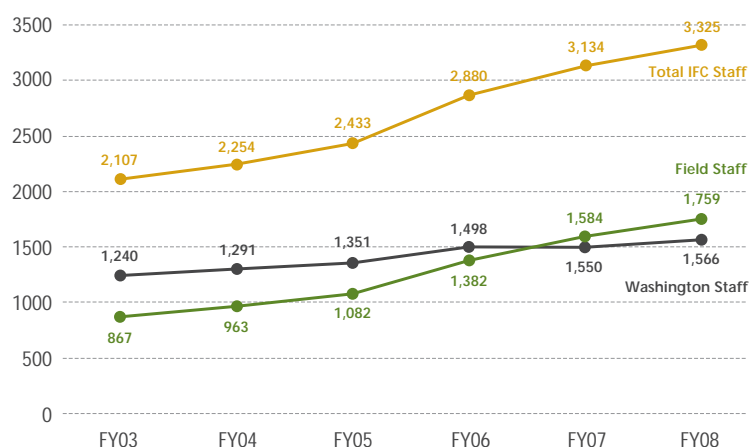
We are going deeper into IDA countries, where we have nearly doubled our staff—from 377 in FY03 to 678 in FY08.

As a result of FY07-08 recruitment efforts, IFC improved on the diversity of professional-level staff:

- ▶ Officer-level female staff increased from 41 to 44 percent
- ▶ Sub-Saharan African and Caribbean regional representation of staff on international contracts increased from 8 to 9 percent
- ▶ Staff representation from developing countries at officer level and higher rose from 48 to 49 percent

Retaining high-quality staff in the global marketplace is a challenge. Competition for skilled finance and investment talent in emerging markets is high, and compensation is rising in the private sector. Hence IFC's turnover of investment officers is now 9.7 percent a year, up from 6.4 percent in FY06. About 30 percent of staff hired between 1998 and 2003 have already left IFC.

WORKFORCE TRENDS SINCE FY03





An organization's corporate culture plays a central role in its ability to succeed. For IFC, which now has more than 3,000 employees in more than 80 countries, the need for shared objectives is especially important. In fiscal year 2008, we undertook the most extensive consultative process in our history in an effort to define our corporate culture, conducting 52 consultations in 31 countries over a 10-week period. About 45 percent of IFC staff participated, evenly distributed between headquarters and field offices. We also considered recommendations from the 2007 IFC staff survey. The result is The IFC Way, a four-part set of principles that will help us build a corporate culture to advance IFC's strategy for a more inclusive and sustainable world.

Our Vision

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

Our Purpose

To promote open and competitive markets in developing countries; to support companies and other private sector partners; to generate productive jobs and deliver basic services; and to create opportunity for people to escape poverty and improve their lives.

Our Core Corporate Values

Excellence, commitment, integrity, and teamwork.



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

Going forward, IFC management has committed to sustaining this focus on IFC's corporate culture and brand so that staff can serve clients better by attuning more closely to their needs, as well as work together more closely across geographical, sectoral, cultural, and professional borders.

INVESTING IN IFC STAFF

IFC provides a wide range of benefits and professional development opportunities. We strive to create an environment that helps staff perform their best.

Health Care

IFC provides staff with comprehensive medical insurance. Washington-based staff are covered by Aetna, contracted through an open procurement process. Other staff are covered by La Garantie Medicale et Chirurgicale, an international health care provider. Medical insurance costs are shared—75 percent paid by IFC and 25 percent by the insured.

Pension Management

IFC's pension is part of the World Bank Group plan, based on two benefit components—the first, years of service, salary, and retirement age; the 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.

Professional Development

IFC invests in its staff. All new staff attend mandatory courses on understanding who we are; what we do; and how we work. Other courses include credit review, core skills, and leadership development. Course offerings are increasing in the regions: in FY08, more than 60 percent of corporate-sponsored training was held in the field. E-learning courses are also available on demand anywhere in the world.

IFC PERFORMANCE STANDARDS HELP CLIENTS RECOVER FROM CHINA'S EARTHQUAKE

The earthquake that hit China's Sichuan Province in May 2008 resulted in 69,000 casualties, 5 million people homeless, and economic losses of \$86 billion. Within hours, IFC confirmed the safety of our colleagues and their families in Chengdu, 80 kilometers from the epicenter, and contacted clients to inquire about their staff and business operations. Two of these companies confirm that IFC's environmental and social standards helped them minimize losses and resume operations quickly. During project appraisal, IFC had advised Jiuda Salt, western China's largest salt producer, to buy earthquake insurance and set up business recovery and continuity plans. Company chairman Mr. Fu Gangyi notes that Jiuda Salt has been able to restart its business "much faster than enterprises of comparable size." Huarong Chemical, which produces chemicals for many industries, is based in Pengzhou, one of the worst-hit areas. IFC's advice on design and operation of the company's innovative plant, including input on emergency response planning, helped Huarong prevent leakage of hazardous chemicals. Mr. Liu Yonghao, president of its parent company, New Hope China, notes that by getting back to work in half the time of similar plants, Huarong could "produce disinfectant products that were badly needed in the relief and reconstruction effort."

STAFF PARTICIPATION IN TRAINING

Core Skills Areas	Completions	9,955
	Hours	72,462
Credit	Completions	567
	Hours	28,712
Leadership Development	Completions	183
	Hours	5,476
Total Course Completions		10,705
Total Hours of Learning		106,650



REACHING OUT TO LOCAL COMMUNITIES

IFC encourages staff to make a difference in their local communities. Staff are given time off each year for volunteer work. There is an annual Community Connections Campaign; this year, 46 percent of headquarters staff participated and raised \$172,092 for various charities. The World Bank Group matched this figure with an additional 50 percent.

IFC staff volunteer in their communities in several ways. This year, for example, staff in the Dhaka office used funds from an internal award to convene community members and address several key issues: waste management and air pollution; energy conservation; and reduction of greenhouse gas emissions. Staff stimulated community outreach activities through consultations, communications, and promotional activities. In Russia, A Chance to Work continues to gain momentum: this IFC program helps orphans gain job skills through paid internships with private companies. Today 30 private companies are participating, four of which have become donors to the effort as part of a commitment to corporate social responsibility. By the end of FY08, 240 of 300 interns had secured permanent jobs, and 51 had entered universities to continue their education.

...DOING OUR PART...

IFC is dedicated to creating opportunity where it is most needed. We know the task is formidable—helping the private sector reduce poverty and promote sustainable development in an era of rapid global change.

We achieved much this year, however, and are ready to do more.

We have enjoyed sharing with you, the reader, our vision, our purpose, and our work. We thank you for taking time to read our story—especially the impact we are having on people in emerging markets.

VISION PURPOSE DEVELOPMENT SOLUTIONS PEOPLE

DELIVERING RESULTS

IFC investments and advice last year touched the lives of people in measurable ways





What IFC's clients achieved:

- 700,000 manufacturing and services jobs provided
- 5.5 million patients cared for
- 7 million microfinance loans provided
- 396 million cubic meters of water treated
- 50 million telephone connections established
- 800,000 farmers assisted
- 154 million rail passengers carried



IFC ANNUAL REPORT 2008

EXTERNAL ASSURANCE STATEMENT AND COMMENTARY ON CERTAIN NONFINANCIAL ASPECTS OF THE REPORT

INTRODUCTION

IFC has commissioned Corporate Citizenship to provide IFC's management with external assurance and commentary on certain nonfinancial aspects of its 2008 Annual Report, specifically economic, social, and environmental sustainability and development effectiveness information contained in this report. IFC's management has prepared the report and is solely responsible for its content. Our objectives were to review specific aspects of its content and presentation, to conduct selected checks of underlying corporate records, and to provide this statement, for which we have sole responsibility, in accordance with the terms of reference with IFC. As part of our assignment, we have examined IFC's Development Outcome Tracking System (DOTS), which measures the development effectiveness of IFC's investments and advisory services. In addition, we have reviewed certain development results for investments published on IFC's report web site.

Corporate Citizenship is a specialist management consultancy advising organizations that seek to improve their economic, social and environmental performance around the world. A detailed note describing our relationship with IFC and the assurance process we have adopted appears in our full statement online at www.ifc.org/annualreport.

OUR OPINION

In our opinion, having reviewed relevant underlying IFC systems, the report provides a fair and balanced representation of the progress IFC is making in carrying out its stated commitments as set forth in the text sections on the five strategic pillars and "Where We Work" in the "Creating Opportunity" chapter. We have relied entirely on data and information provided by IFC and published on IFC's web site, except where we expressly state to the contrary in our note on the assurance process. Where we have identified material gaps in the completeness of available performance data and responsiveness to stakeholders, we note these below in the Commentary section.

In forming our opinion and making our comments, we have referred to the principles underlying the international assurance standard AA1000 (www.accountability21.net), notably those concerning materiality, completeness and responsiveness. We have also considered the reporting principles for defining content and the reporting principles for defining quality contained in Global Reporting Initiative's (GRI's) G3 sustainability reporting guidelines (www.globalreporting.org).

In reviewing DOTS, described on page 41, nothing came to our attention to suggest that IFC's methodology, which is consistent with the good practice standards for private sector evaluation agreed among multilateral development banks, had not been applied. Nor did it come to our attention that information had been materially misstated. Our methodology for testing DOTS is presented in our full statement online.

COMMENTARY

This is IFC's second Annual Report that combines information on its investments and advisory services, sustainability, development effectiveness and donor partnerships. We believe this approach to reporting performance to be a good reflection of IFC's commitment to integrate economic, social, and environmental considerations into its activities around the world. Having pioneered a new approach to its reporting last year, we believe that IFC's 2008 Annual Report has been refined on several fronts, marking a step forward from last year's report. IFC's report clearly articulates its activities to fulfill its mission through the overview of its operations, case studies, human interest stories, and discussion of its development results.

Non-financial reports, such as this one, should explain how an organization impacts society, taking account of the key economic, social and environmental concerns of its stakeholders. Reports should show how crucial decisions are made and differing interests reconciled. They should be both balanced and honest about shortcomings. Our commentary is designed to assist readers in understanding the extent to which this report measures up against that objective.

Tackling the world's development challenges in a sustainable manner often raises difficult dilemmas at both the policy and project level and requires balancing different stakeholder concerns. A report in line with best practice would illustrate the approach to and resolution of dilemmas and challenges and allow stakeholders to see values in action. While the report does address IFC's material operations, providing various levels of detail about different activities, it could do much more to explain to readers how policy dilemmas and project-level challenges have been managed and resolved, particularly with regard to potentially conflicting stakeholder interests.

One such specific challenge that IFC faces is the corruption found in some of the countries where it does business. IFC has enhanced practices related to its internal anti-corruption program and has an approach for considering corruption when evaluating potential investments. The report would be more complete if it discussed more fully these activities and other steps IFC is taking to combat corruption in relation to its activities, both internally and more widely in society.

Another major challenge is climate change, and we acknowledge the reference to IFC's climate change strategy in the report and the work done to measure its own direct environmental impacts including carbon emissions. We recommend incorporating into the report an emissions reduction component, covering targets for direct emissions. More challenging is to measure indirect emissions, where work has begun, but reporting is not planned. However, given the importance of the issue and IFC's leadership position, we recommend that IFC does report on the progress it is making on defining and measuring indirect emissions, describing its approach and providing even partial data when it becomes available.

We recognize IFC's efforts in the report to address key findings from stakeholder feedback, including feedback we gathered on IFC's Annual Report 2007. Responsiveness to stakeholder concerns would be further strengthened, if the report discussed the lessons learned from such engagement and how these lessons were applied to other projects.

We commend IFC on its continued efforts to openly assess, clearly quantify and systematically report the development effectiveness of its investments and advisory services and on the inclusion of additional information provided on the results measurement web site. With the implementation of DOTS-2 during FY09, we expect data scope and quality to improve further. The comparability of development results for investments across industries and regions would be further enhanced if development results reflected varying degrees of challenge and risk associated with different types of investments and recipient countries.

Reporting the development effectiveness of advisory services has been challenging for IFC, as the application of the monitoring and evaluation framework is still in its early stages. However, efforts to enhance consistent data capture exist, and we expect the streamlining of results indicators to enhance data quality and coverage.

Corporate Citizenship
www.corporate-citizenship.com
September 8, 2008

ACRONYMS

CAO	Compliance Advisor/Ombudsman	ICT.....	information and communication technology
CEO.....	Chief Executive Officer	IDA.....	International Development Association
CY.....	calendar year	IEG.....	Independent Evaluation Group
DFID	Department for International Development	IFC.....	International Finance Corporation
DOTS.....	Development Outcome Tracking System	ILO.....	International Labour Organization
EC	European Commission	IT	information technology
ESRR.....	environmental and social risk rating	MIGA.....	Multilateral Investment Guarantee Agency
EU	European Union	MSME.....	micro, small, and medium enterprise
FIAS.....	FIAS, the Investment Climate Advisory Service	NGO	nongovernmental organization
FY.....	fiscal year	OECD	Organisation for Economic Co-operation and Development
GDP.....	gross domestic product	SME.....	small and medium enterprise
GRI	Global Reporting Initiative	SPI	Summary of Proposed Investment
IAD	Internal Auditing Department		
IBRD	International Bank for Reconstruction and Development		
ICSID	International Centre for Settlement of Investment Disputes		

NOTES AND DEFINITIONS

The fiscal year at IFC runs from July 1 to June 30. Thus, FY08 began on July 1, 2007, and ended on June 30, 2008.

Investment amounts are given in U.S. dollars unless otherwise specified.

On-lending is the process of lending funds from IFC's own sources through intermediaries, such as local banks and microfinance institutions.

Loan participants and IFC fully share the commercial credit risks of projects, but because IFC is the lender of record, participants receive the same tax and country risk benefits that IFC derives from its special status as a multilateral financial institution.

Quasi-equity instruments incorporate both loan and equity features, which are designed to provide varying degrees of risk/return trade-offs that lie between those of straight loan and equity investments.

Rounding of numbers may cause totals to differ from the sum of individual figures in some tables.

The World Bank includes both IBRD and IDA. The World Bank Group includes IBRD, IDA, IFC, MIGA, and ICSID.

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