

INCREASING IMPACT THE YEAR IN REVIEW 2006

A large, stylized '50' in a light cream color with a subtle gradient, set against a dark blue background. The '0' is a thick ring. Below the '50', the word 'YEARS' is written in a smaller, all-caps, serif font, also in a light cream color. A thin horizontal line passes through the middle of the '50' and the word 'YEARS'.

1956 CELEBRATING 50 YEARS OF IMPROVING LIVES BY FOSTERING PRIVATE SECTOR DEVELOPMENT WORLDWIDE 2006

The International Finance Corporation, the private sector arm of the World Bank Group, is the largest multilateral provider of financing for private enterprise in developing countries. IFC finances private sector investments, mobilizes capital in international financial markets, facilitates trade, helps clients improve social and environmental sustainability, and provides technical assistance and advice to governments and businesses. From its founding in 1956 through FY06, IFC has committed more than \$56 billion of its own funds for private sector investments in the developing world and mobilized an additional \$25 billion in syndications for 3,531 companies in 140 developing countries. With the support of funding from donors, it has also provided more than \$1 billion in technical assistance and advisory services. For more information, visit www.ifc.org.



ELENA CHUZHAKOVA

INTERNATIONAL FINANCE CORPORATION 2006 ANNUAL REPORT

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IFC AT A GLANCE

CATALYST FOR DEVELOPMENT AND PRIVATE SECTOR FINANCING

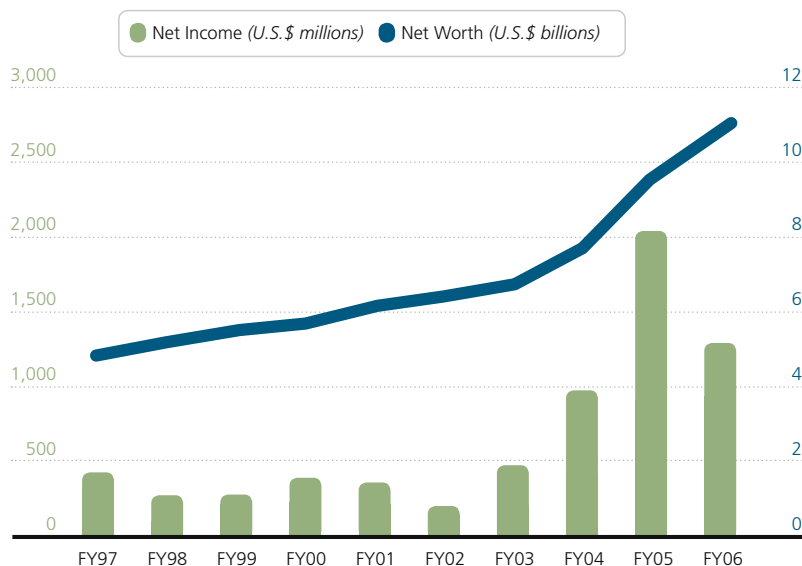
IFC invests only in developing countries, stimulating investment and helping create conditions that are conducive to the flow of private capital. We are a global institution, and our investments and projects are well diversified. Our financial results reflect the success and growth of enterprises in emerging markets around the world.

IFC'S MISSION

IFC promotes sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives.

IFC'S NET INCOME AND NET WORTH

IFC has made a profit every year for 50 years, demonstrating the reward potential of emerging market investments.



FINANCIALLY STRONG

The Corporation has AAA/Aaa ratings from Standard & Poor's and Moody's. These ratings have been reaffirmed every year since 1989 and carry a stable outlook.

Moody's Rating Aaa

(October 2005)

S&P Rating AAA

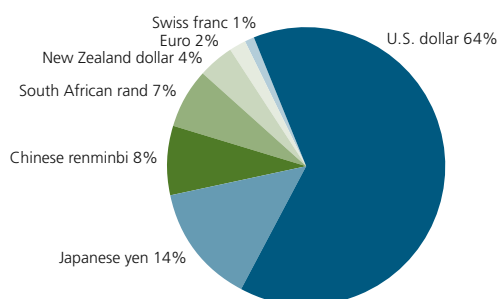
(September 2005)

Outlook: Stable

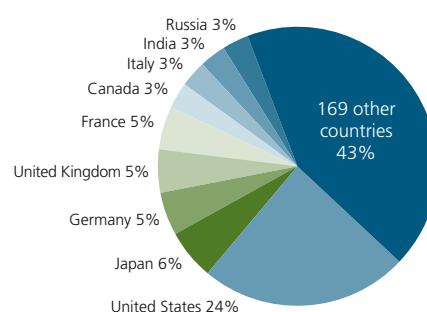
IFC raises from international markets the funds necessary for loans to clients in emerging markets. It also issues bonds in local currency markets to stimulate capital market development in developing countries.

IFC is directly owned by 178 member countries, with voting power based on contributions to paid-in capital.

Borrowed \$1.8 Billion in 7 Currencies in FY06



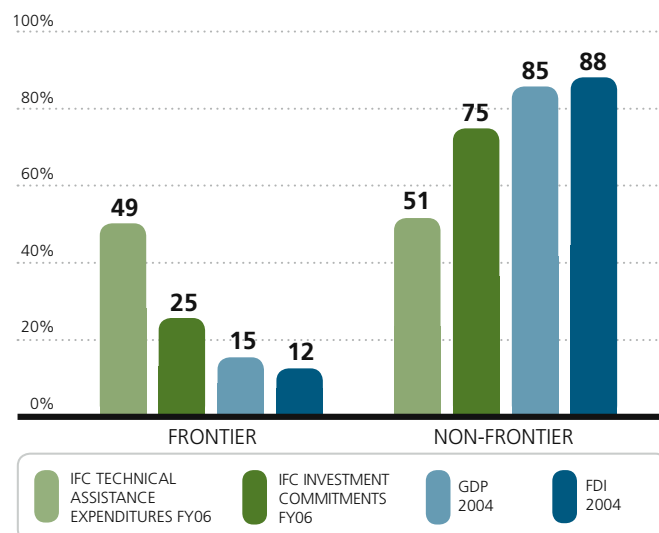
Strong Shareholder Support



IFC CONCENTRATES MUCH OF ITS INVESTMENTS AND TECHNICAL ASSISTANCE IN FRONTIER COUNTRIES

As investment in emerging markets has risen, IFC has adapted its strategy to focus more and more on frontier countries. IFC's investments are now more concentrated in these low-income or high-risk countries than those of other investors. The share of IFC's investments in these countries is about twice their share of overall foreign direct investment.

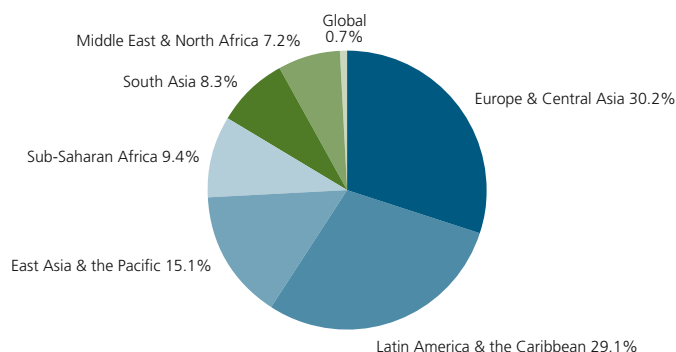
To help improve the often challenging investment climate in frontier countries, IFC provides technical assistance and advisory services (TAAS) to address obstacles to private investment and assist private companies. The share of IFC's TAAS in frontier countries is about four times as great as their share of foreign direct investment.



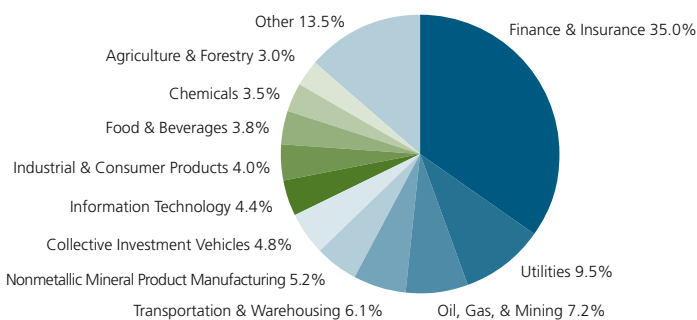
INVESTING IN PRIVATE SECTOR DEVELOPMENT: COMMITTED PORTFOLIO

For IFC's own account as of June 30, 2006: \$21.6 billion

By Region*



By Sector



Largest Country Exposures**

COUNTRY	U.S.\$ MILLIONS	PERCENT OF GLOBAL PORTFOLIO
Russian Federation	1,974	9%
Brazil	1,505	7%
China	1,498	7%
India	1,261	6%
Turkey	1,197	6%
Mexico	1,093	5%
Argentina	810	4%
Indonesia	606	3%
Nigeria	544	3%
Ukraine	533	2%

Our loan and equity portfolio includes 1,368 companies in 112 countries.

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

** Excludes individual country shares of regional and global projects.

IFC AT A GLANCE

In our 50th year, we made investment commitments of \$6.7 billion for our own account in 66 countries.

IFC INVESTMENT OPERATIONS AND RESOURCES, FY02 TO FY06

(U.S.\$ millions)

	FY06	FY05	FY04	FY03	FY02
INVESTMENT COMMITMENTS					
Number of projects ¹	284	236	217	204	203
Number of countries	66	67	64	64	76
Total commitments signed	\$ 8,275	\$ 6,449	\$ 5,632	\$ 5,037	\$ 3,494
For IFC's own account	6,703	5,373	4,753	3,856	2,957
Held for others ³	1,572	1,076	879	1,181	518
INVESTMENT DISBURSEMENTS					
Total financing disbursed	\$ 5,739	\$ 4,011	\$ 4,115	\$ 4,468	\$ 2,072
For IFC's own account	4,428	3,456	3,152	2,959	1,498
Held for others	1,311	555	964	1,509	574
COMMITTED PORTFOLIO²					
Number of firms	1,368	1,313	1,333	1,378	1,402
Total committed portfolio ³	\$26,706	\$24,536	\$23,460	\$23,379	\$21,569
For IFC's own account	21,627	19,253	17,913	16,777	15,049
Held for others ³	5,079	5,283	5,546	6,602	6,519

¹ Includes first commitment to projects in the fiscal year. Projects involving financing to more than one company are counted as one commitment.

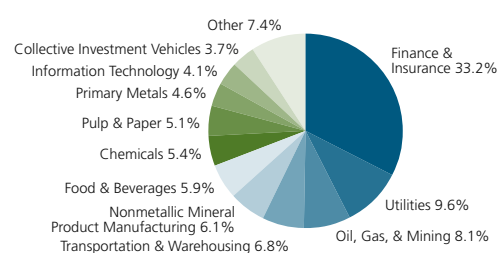
² Includes loan guarantees and risk management products.

³ Total committed portfolio and held for others include securitized loans.

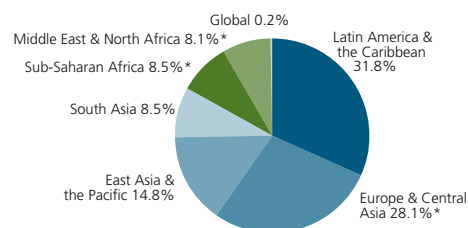
INVESTMENT PROJECTS FOR FY06

Total of \$8.3 billion committed for IFC's own account and mobilized through syndicated loans.

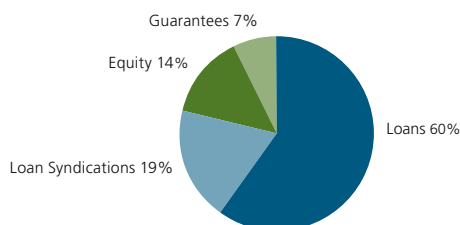
By Industry



By Region*



By Product



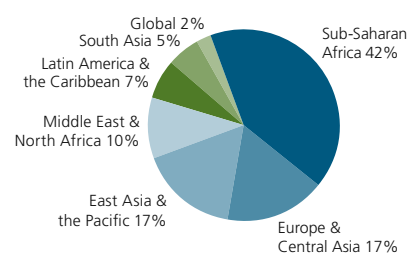
* Some amounts include regional shares of investments that are officially classified as global projects. See regional sections for details.

IFC also provided technical assistance to businesses and governments in over 80 countries. About 40 percent of project funding approved this year was for work in Sub-Saharan Africa.

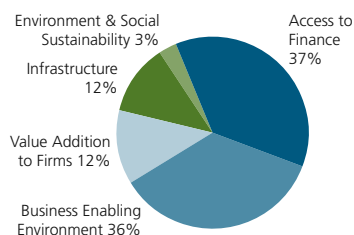
TECHNICAL ASSISTANCE AND ADVISORY SERVICE PROJECTS FOR FY06

About \$200 million in funding approved.*

By Region



By Project Type



*The data presented is unaudited and is based on technical assistance and advisory service projects approved in IFC's corporate system between July 1, 2005 and June 30, 2006. Some projects approved in FY06 have not been processed and are not included here, but this does not materially affect the business line and regional distributions.

BALANCE SHEET HIGHLIGHTS

(U.S. \$ millions)

	FY06	FY05	FY04	FY03	FY02
ASSETS					
Liquid assets, excluding derivatives	\$20,594	\$22,781	\$18,397	\$17,004	\$16,924
Net loans and equity investments	12,731	11,489	10,279	9,377	7,963
Derivative assets	1,128	1,516	1,092	1,734	1,077
Receivables and other assets	3,967	3,774	2,593	3,428	1,775
Total assets	38,420	39,560	32,361	31,543	27,739
LIABILITIES					
Borrowings outstanding	\$14,967	\$15,359	\$16,254	\$17,315	\$16,581
Derivative liabilities	1,288	2,332	1,549	1,264	1,576
Payables and other liabilities	11,089	12,071	6,776	6,175	3,278
Total liabilities	27,344	29,762	24,579	24,754	21,435
CAPITAL					
Capital stock	\$ 2,364	\$ 2,364	\$ 2,361	\$ 2,360	\$ 2,360
Retained earnings	8,711	7,433	5,418	4,425	3,938
Other	1	1	3	4	6
Total capital	11,076	9,798	7,782	6,789	6,304

INCOME STATEMENT HIGHLIGHTS

(U.S. \$ millions)

	FY06	FY05	FY04	FY03	FY02
Interest and financial fees from loans	\$ 807	\$ 660	\$ 518	\$ 477	\$ 547
Income from liquid asset trading activities	444	358	177	475	524
Charges on borrowings	(603)	(309)	\$(141)	\$(226)	(438)
Income from equity investments	1,228	1,365	658	145	160
Release of/provision for losses on loans and guarantees	(15)	261	103	(48)	(389)
Net other expense	(362)	(344)	(304)	(295)	(243)
Expenditures for TAAS*	(55)	(38)	(29)	—	—
Expenditures for performance-based grants	(35)	—	—	—	—
Operating income	\$1,409	\$1,953	\$ 982	\$ 528	\$ 161
Net gains/losses on non-trading financial instruments	(131)	62	11	(41)	54
Net income	\$1,278	\$2,015	\$ 993	\$ 487	\$ 215

*Technical assistance and advisory services.



(left to right)

(standing) Gino Alzetta, Zou Jiayi, Marcel Massé, Paulo F. Gomes, Jakub Karnowski, Jaime Quijandria, Mulu Ketsela, Dhanendra Kumar, Yoshio Okubo, Sid Ahmed Dib, Pierre Duquesne, Joong-Kyung Choi, Jennifer Dorn, Herwidayatmo, Mahdy Ismail Aljazzaf, Abdulrahman M. Almofadhi, Biagio Bossone; (seated) Otaviano Canuto, Thorsteinn Ingolfsson, Eckhard Deutscher, Alexey Kvasov, Jan Willem van der Kaaij, Tom Scholar. Not pictured: Luis Marti.

DIRECTORS AND ALTERNATES

DIRECTORS

Mahdy Ismail Aljazzaf
Abdulrahman M. Almofadhi
Gino Alzetta
Biagio Bossone
Otaviano Canuto
Joong-Kyung Choi
Eckhard Deutscher
Sid Ahmed Dib
Pierre Duquesne
Paulo F. Gomes
Herwidayatmo
Thorsteinn Ingolfsson
Dhanendra Kumar
Alexey Kvasov
Luis Marti
Marcel Massé
Jaime Quijandria
Tom Scholar
Mathias Sinamenye
Jan Willem van der Kaaij
Pietro Veglio
Zou Jiayi
(vacant)
(vacant)

ALTERNATES

Mohamed Kamel Amr
Abdulhamid Alkhalifa
Melih Nemli
Nuno Mota Pinto
Jeremias N. Paul, Jr.
Terry O'Brien
Walter Hermann
Shuja Shah
Alexis Kohler
Louis Philippe Ong Seng
Nursiah Arshad
Svein Aass
Zakin Ahmed Khan
Eugene Miagkov
Jorge Familiar
Gobind Ganga
Alieto Guadagni
Caroline Sergeant
Mulu Ketsela
Anca Ciobanu
Jakub Karnowski
Yang Jinlin
Jennifer Dorn
Toshio Oya

BOARD OF DIRECTORS: PERSPECTIVE AND OVERSIGHT FOR IFC

This year the Board of Directors approved a number of investments and maintained close oversight of the development and implementation of IFC's strategy. The Board reviewed country-specific operations and discussed 17 joint World Bank–IFC–MIGA country assistance strategies and related products.

Directors reaffirmed their support for IFC's five strategic priorities and for an increase in activities to expand IFC's development impact. Specific issues that Directors discussed with IFC management include the Corporation's new policy and performance standards on social and environmental sustainability and disclosure. In keeping with its oversight responsibility, the Board discussed the annual evaluation of IFC operations and the IFC management response. The Board appreciated the continued positive dialogue between IFC management and the Independent Evaluation Group.

With respect to the Corporation's performance, the Board welcomed IFC's achievements in FY06. These include strong financial results; significant expansion of activity in frontier markets, particularly in Africa; and important strides in measuring development impact of investments and technical assistance.

LETTER TO THE BOARD OF GOVERNORS

The Board of Directors of the International Finance Corporation has had this annual report prepared in accordance with the Corporation's bylaws. Paul D. Wolfowitz, president of IFC and chairman of the Board of Directors, has submitted this report with the accompanying audited financial statements to the Board of Governors.

The Directors are pleased to report that for the fiscal year ended June 30, 2006, IFC expanded its sustainable development impact through private sector project financing operations and advisory activities.



KATHERINE LAMBERT

(left to right)

Paul Wolfowitz
President, World Bank Group

Lars Thunell
Executive Vice President, IFC

MESSAGE FROM THE PRESIDENT

In the last 25 years, the most successful quarter-century in the global fight against poverty, half a billion people have escaped poverty in China, India, and other successful developing countries. Most of that success can be attributed to reforms that have made it possible for private businesses to grow and create jobs. This past year, as I traveled to five continents, I saw many compelling examples of the importance of the private sector's role in offering opportunity for poor people to transform their lives and to give their children a better future.

In Monterrey, Mexico, I met one of more than 4,000 families that have been able to buy new, affordable homes in a community developed by Homex, a company IFC invested in through a private equity fund. Before moving to the Real de San Jose community, which has good schools and recreation and health facilities, the eight members of the Ruiz family had lived without running water and other basic infrastructure.

In Tanzania, I saw firsthand at a bed net factory just how the private sector, through a public-private partnership, is helping governments deliver services to the poor. Because they are especially susceptible to malaria, all pregnant women in Tanzania are entitled to receive

a voucher that can be redeemed from a retailer for a bed net. It was very moving to talk to a mother of five children, all of whom have malaria, who now has a bed net for the first time.

The basic structure of financing for developing countries has been transformed over the past 20 years, and private capital flows have become the most powerful force for development. For every dollar of official development assistance to developing countries, there is now more than \$4 in cross-border private investment from rich to poor countries. Today the private sector accounts for 90 percent of jobs in the developing world, and ultimately, it will be these jobs that offer the most promising path out of poverty.

IFC's investments leverage private sector money for creative, innovative projects with sustainable economic benefit. By taking the long view and providing patient capital, IFC's projects have a direct impact on the creation of jobs and income levels. Countless families are lifted out of poverty this way, one by one. And each new job, each new opportunity, gives each generation a chance to do better than the last.

One of the most important actions that we can take—and that we are taking—is to help governments identify

regulations that get in the way of private business. The *Doing Business* report, a joint IFC/World Bank publication that measures how government regulations affect, and often limit, economic growth has quickly become a standard tool for governments, policymakers, researchers, and investors seeking to assess a country's business environment. In a number of countries, the findings from *Doing Business* have already become a starting point for economic reform.

Successful development is a team effort, requiring the joint participation of many people and institutions. For 50 years, the dedicated men and women of IFC have led the way in demonstrating the power of private enterprise to improve people's lives, balancing profitability with tangible development impact, and I thank them for their tireless efforts. I also thank our shareholder and donor nations, who have embraced IFC's mission and supported its efforts to provide critical financing and develop entrepreneurship throughout the world.

Paul Wolfowitz
June 30, 2006

MESSAGE FROM THE EXECUTIVE VICE PRESIDENT

STRONG GROWTH, IMPRESSIVE DEVELOPMENT IMPACT

As the global leader in private sector development, IFC is successfully expanding its operations and increasing its ability to catalyze sustainable private sector investments in emerging and developing markets. This year, investments for our own account grew by nearly 25 percent, and staff increased by a quarter. We are also raising our activity in high-risk and low-income areas, where our help is needed most, and providing better measurement of the development impact of our activities.

IFC's 50th anniversary this year is more than a historical milestone; it represents a critical step in IFC's evolution. In 2005, our Board of Directors agreed to a long-term scaling-up strategy for the institution: 50 percent growth in our investment commitments over three years, coupled with significant growth in technical assistance. As demonstrated throughout this year's report, the Corporation is ahead of schedule in implementing this strategy:

- Investment commitments for IFC's own account, \$6.7 billion this year, increased from \$5.4 billion in FY05.
- Activities in areas of high developmental impact, such as investments in low-income or high-risk countries and regions, were \$1.5 billion, well above

our \$1.3 billion last fiscal year.

- Our investment commitments in Sub-Saharan Africa increased to \$700 million, an increase of nearly 60 percent over last year.
- Investments benefiting small and medium enterprises have roughly tripled during the past three years, exceeding \$1 billion for FY06.
- In the critical areas of infrastructure and private sector health and education, our investments increased by more than 50 percent.

While the Corporation's performance has exceeded our targets, the quality of IFC's investments and their contribution to sustainable development are just as important. Investment quality, as measured by the decrease in total

reserves for loan losses, improved in FY06 for the third successive year, while nonperforming loans fell. IFC's projects also generally reap economic benefits that surpass their financial rates of return.

The Corporation is delivering concrete development results. Projects we have invested in provided health care to 2.4 million patients and education services to 320,000 students last year. Our investments in telecommunications have helped 80 million people gain access to phone service since 1996. Oil, gas, and mining companies IFC has invested in contributed \$4.4 billion to government revenues in developing nations last year. These companies have also created 50,000 jobs.



JONATHAN HILL

IFC Executive Vice President Lars Thunell meets children in China's Yongshou County whose families are becoming more productive suppliers to North Andre Apple Concentrate Juice Company through technical assistance tied to an IFC investment.

IFC made important strides in technical assistance and advisory activities by restructuring these activities into five strategic business lines, allowing us to focus on our strengths, improve project quality, and increase knowledge sharing. We also put in place new development impact monitoring systems for both our investments and our technical assistance activities. We continued to improve cooperation with other members of the World Bank Group at the strategic level through transactions such as public-private partnerships and subnational finance and through technical assistance programs in such areas as investment climate reform.

Our Board of Directors reaffirmed the five pillars of IFC's strategy: strengthening the focus on frontier markets; building long-term relationships with emerging global companies based in developing countries; leading through environmental and social sustainability; addressing the constraints to private

sector growth in infrastructure, health, and education; and developing local financial markets through innovative products and institution-building.

At the same time, we have set higher sights for IFC. We extended our growth

beyond environmental, social, and corporate governance

- Improving client satisfaction through further decentralization of our operations and improvements in our work processes

IFC staff can look back over our history and see countless examples where they have been able to harness the power of private enterprise to improve people's lives.

strategy by a year, to fiscal year 2009. Six key corporate goals were established:

- Improving the Corporation's development impact by increasing our focus on Africa and the Middle East, enhancing our technical assistance, and supporting investment climate reforms
- Cooperating across the World Bank Group more effectively
- Extending our leadership role

- Continuing the Corporation's sound financial performance, with a greater focus on risk management
- Attracting, training, and retaining a diverse, talented staff and rigorously measuring their performance

IFC's long-term strategy provides a strong foundation for the years ahead. Still, there is always room for improvement. In January and

February of this year, IFC's management undertook a wide-ranging review of the Corporation's direction, considering the external environment, the changing needs of our clients, and IFC's role as a member of the World Bank Group.

countries, to helping privatize and restructure entire economic sectors.

In the past few months alone, IFC continued to pioneer with the issuance of the first-ever bond by a multilateral institution in China. The

combines commercial discipline and development impact, that combines the time-tested wisdom of an experienced investor with the willingness to pioneer new development solutions, and that combines tangible, measurable progress with that most intangible of qualities, leadership.

The success we see today is not necessarily the result of recently adopted policies. In many cases, it results from the hard work and difficult decisions made five, 10, or even 20 years ago. Working with such a talented and dedicated staff gives me great pride. I look forward to leading this institution into its second half-century and to building on our admirable track record of expanding private sector opportunities throughout the developing world.

2.4 million patients received health care and 320,000 students received education services last year from companies IFC financed. Our investments in telecommunications firms have helped 80 million people gain access to phone service since 1996.

Our results make this 50th anniversary year a cause for celebration. IFC staff can look back over our history and see countless examples where they have been able to harness the power of private enterprise to improve people's lives, from helping grow enterprises in developing countries that have become engines of job creation, to encouraging private equity investors to enter those

Corporation also introduced a new generation of environmental and social performance standards, helped create a sustainability index in Brazil, and began a pilot initiative in the Democratic Republic of Congo, a post conflict nation in the heart of Africa.

The challenge for IFC is to carry its proud legacy and important role into the future. This is a role that



Lars H. Thunell
Executive Vice President
June 30, 2006

**IFC'S
MANAGEMENT
GROUP**



Lars Thunell
Executive Vice President



Dorothy Berry
*Vice President
Human Resources and
Administration*



Declan Duff
*Vice President
Industries**



Javed Hamid
*Senior Advisor**



Farida Khambata
*Vice President
Asia and Latin America**



Michael Klein
*Vice President
Private Sector Development
and IFC Chief Economist*



Edward Nassim
*Vice President
Europe, Africa, and the
Middle East**



W. Paatii Ofosu-Amaah
*Vice President and
Corporate Secretary*



Nina Shapiro
*Vice President
Finance and Treasurer*



Jennifer Sullivan
General Counsel

PHOTOS: KATHERINE LAMBERT

**Titles effective as of July 1, 2006.*



Producing insecticide-treated bed nets in Tanzania. Bed nets help stop the spread of malaria.

ISSA MICHLI

INCREASING IMPACT

IFC is the largest multilateral provider of financing—loans, equity, risk management, and structured finance products—in the developing world. At its founding in 1956, IFC was the first institution of its kind, operating on commercial principles yet wholly owned by its member countries (31 then, 178 today). By the mid-1950s, World Bank lending to governments had helped strengthen the public sector in many essential ways. But the private sector deserved a similar focus because it offered a strong potential to create jobs, build skills, and raise living standards.

supporting our private sector clients while remaining fully accountable to our shareholders. Given the immense need for private sector development, we also work in partnership with other development, nonprofit, financial, and private sector institutions.

Over the past 50 years, we have committed \$56 billion of our own funds and arranged over \$25 billion in syndications for 3,531 companies in 140 developing countries. IFC has been at the forefront of domestic capital market development, helping introduce new asset classes by structuring collective

to sustainability we help these projects increase their positive impact on the environment and local communities.

Over the past 20 years, we have provided over \$1 billion worth of technical assistance and advisory projects—funded primarily through the generosity of donor nations—and we now employ more than 800 staff members for technical assistance.

Today we are building on our solid track record of investments and private sector advisory work to increase our impact. IFC has set ambitious growth goals, focusing on progress in key areas:

- Strengthening our focus on countries and regions where needs are greatest
- Building long-term partnerships with emerging global players
- Ensuring environmental and social sustainability
- Promoting private sector growth in key sectors, including infrastructure
- Supporting the development of local financial markets

To manage this expansion of our scope and capabilities successfully, we are adding staff in our field offices. This allows us to be closer to our clients in the markets where IFC financing, expertise, and innovation are most needed.

We invest in projects that become cornerstones of job creation and macroeconomic growth.

This has been IFC's challenge for the last half century. We work shoulder-to-shoulder with outside investors, putting our money at risk alongside theirs to support promising business projects that might otherwise go unfinanced. To ensure market discipline, we work with clients on market terms. We earn a profit while contributing to sustainable development,

investment vehicles for emerging markets, expanding the availability of trade and housing finance, disbursing local currency loans, and becoming the first multilateral to issue bonds in many markets. We regularly invest in major projects that become cornerstones of job creation and macroeconomic growth in developing countries, and through our commitment

IFC'S DEVELOPMENT PARTNERS

IFC is the world's largest private sector development corporation, but our impact draws on our collaboration with key partners, including regional development banks, the development aid arms of many of our member country governments, and the full range of international financial institutions.

For example, staff from our multidonor facility, the Private Enterprise Partnership for Africa, are implementing technical assistance programs for the African Development Bank. These efforts target small businesses and female entrepreneurs throughout Sub-Saharan Africa. We also invest in projects across the region in cooperation with other bilateral and multilateral institutions. They include the European Investment Bank and the private sector development entities of individual countries, such as Proparco of France.

For larger, more complex investment transactions, we take a structured approach to coordinating with other institutions, such as the European Bank for Reconstruction and Development. For many projects, we actively compete with other financial institutions.

We also work with foundations and charitable organizations on a variety of initiatives, focusing on partnerships related to environmental sustainability, health and education, rural development, and social entrepreneurship. We are developing opportunities for foundations to use our extensive network of on-the-ground technical assistance providers to help implement and monitor projects.

The collaboration of our donor partners is integral to our success, and we are grateful for their support. Donor funds supported programs in more than 80 countries this fiscal year, making it possible to help developing countries attract private sector investment and build strong enterprises that drive growth, create jobs, and free people from poverty.

Given the immense need for private sector development, we work in partnership with other development, nonprofit, financial, and private sector institutions.



COURTESY OF CHINESE INTERNATIONAL



MICHAEL HIGGINS

INVESTMENTS IN FRONTIER MARKETS UP 20 PERCENT

Investment projects in frontier countries—typically those with low per capita income, severe economic challenges, or political instability—represented more than a quarter of IFC's commitments this year, although projects are typically smaller in the least-developed economies. We made \$1.5 billion in commitments in frontier markets during FY06, a 20 percent increase over the previous year.

IFC has substantially increased its investments and technical assistance in Africa and the Middle East. Our focus is

on financial market development and on improving governance and the investment climate, in an effort to maximize impact in these countries. In countries with more developed financial markets, IFC focuses on underserved niches, such as microfinance and financing for small and medium enterprises.

As a result of our expanded capabilities in Sub-Saharan Africa, commitments there grew to \$700 million in FY06 from only \$140 million three years before. Much of our activity in the

region has been in trade, housing, and small business finance.

In the Middle East and North Africa, historically a region where IFC's operations have not expanded rapidly, commitments more than doubled this year. This investment growth was accompanied by enhanced capacity to deliver technical assistance in the region, with a 50 percent increase in the number of staff for these projects. This work included a substantial expansion in corporate governance projects.

STRENGTHENING OUR FOCUS WHERE NEEDS ARE GREATEST

	FY06	FY05
Commitments in Sub-Saharan Africa	\$700 million	\$445 million
Commitments in micro, small, and medium enterprises*	\$ 1.6 billion	\$ 1.1 billion
Total commitments in frontier countries**	\$ 1.5 billion	\$ 1.3 billion

* These commitments include: direct MSME borrowers; financial institutions with MSMEs as more than 50 percent of their business clients; and any other investments that explicitly target MSMEs as primary beneficiaries.

** Frontier countries are low-income (World Bank income category) or highest-risk (Institutional Investor rating of 30 or less) countries. Twenty percent increase in commitments in frontier countries is based on unrounded numbers. Actual commitments were \$1,536 million and \$1,277 million for FY06 and FY05, respectively.

FOSTERING PRIVATE ENTERPRISE IN DIFFICULT ENVIRONMENTS

IFC in the 1990s: Investing in Mozambique

IFC often serves as a catalyst, mobilizing new private capital for countries that investors would otherwise consider too risky, as our early investment in Mozal, an aluminum smelter in Mozambique, illustrates. IFC support of \$110 million in financing for the first phase in 1997 was crucial to the \$1.3 billion project, the first major foreign investment in Mozambique. The resulting business has created well-paying jobs and encouraged others to invest in a poor country still recovering from a devastating civil war.

Mozal, which was IFC's largest single investment up to that time, has had a positive impact on Mozambique's economy. By 2001, it generated 55 percent of the country's exports and accounted for about 8 percent of its GDP. During a second phase of the project in 2001, IFC provided an additional \$25 million. We also supported Mozal's HIV/AIDS programs and helped the company expand its sourcing from small local businesses.

We continue to invest in difficult environments today, in places such as Afghanistan, the Democratic Republic of Congo, and Iraq, where the need for private sector development is greatest but financing is scarcest.



ANTOINETTE COURCELLE LABROSSE

INVESTMENT CLIMATE INITIATIVES

In general, IFC faces two obstacles to expanding our impact: the investment climate and the absorptive capacity of markets. We are addressing these

For example, IFC launched the Private Enterprise Partnership for Africa this year. The partnership is designed to coordinate investment climate initiatives in Sub-Saharan Africa and

alternative forms of financing for small businesses.

PEP Africa is based on our successful Private Enterprise Partnership in the former Soviet Union, which has been working since 2000 with donor support to strengthen financial sectors, introduce international standards of corporate governance, simplify business regulations, and link small businesses into supply chains of large enterprises. IFC has mobilized \$915 million in investment, helping create over 30,000 new jobs and 160 new businesses in 10 countries. Lessons learned here have influenced our approach to technical assistance across the globe, including our commitment to integrating technical assistance and investment work to achieve broad and lasting economic development.

IFC's investment commitments to firms in the Middle East and North Africa more than doubled this year. Our commitments in Sub-Saharan Africa increased nearly 60 percent.

impediments by increasing our advisory role with governments that seek to establish a more robust private sector. Efforts include greater collaboration with the World Bank, as well as technical assistance and advice on privatization.

integrate technical assistance with our investment operations. It concentrates on streamlining business start-up procedures and tax regimes, improving private sector property rights and access to finance, and developing



COURTESY OF AGD

GROWTH IN INVESTMENTS AND TECHNICAL ASSISTANCE
FOR EMERGING GLOBAL COMPANIES

IFC’s global presence and expertise allow us to support companies in emerging markets that want to invest in other developing nations—one of the fastest-growing segments of foreign direct investment. In addition to providing financing to companies as they grow, we can help clients improve their business practices and raise their environmental, social, and corporate governance standards. In fact, our involvement in such investments has grown steadily for the past three years, reaching \$673 million in FY06. More than 63 percent of these south-south projects were with repeat clients,

including our support for a new cellular telephone network in Afghanistan.

Investments like these are made possible, in part, by moving more IFC staff and resources to local field offices, where they are closer to and more engaged with new and long-standing clients. In fact, the most recent annual survey of our clients indicates that the prospect of long-term partnership remains one of the top reasons clients come to and stay with IFC.

We have the greatest impact when we help clients with value-added services, such as our support to increase the sustainability of their businesses, in

addition to providing innovative financial products. IFC’s ability to help companies adapt and prosper in changing environments is another important advantage that clients cite.

CORPORATE GOVERNANCE

Corporate governance assessments are an essential part of IFC’s efforts to help emerging firms achieve best practices and grow. They also provide long-term protection for our interests and those of other minority shareholders in equity investments.

Corporate governance is an essential tool for companies seeking to

BUILDING LONG-TERM PARTNERSHIPS

	FY06	FY05
Domestic sponsors as percentage of total number of commitments	63%	66%
South-south commitments*	\$673 million	\$484 million

* Investment commitments for companies based in emerging markets that are investing in other developing nations.

ARGENTINA'S AGD RECEIVES IFC CLIENT LEADERSHIP AWARD

Each year IFC presents a Client Leadership Award to recognize a highly successful corporate client who, in line with IFC's mission, has made a significant contribution to sustainable development. This year's award goes to Aceitera General Deheza, a leading agribusiness group in Argentina and an IFC client since 1986.

AGD is the country's largest family-owned exporter of oilseeds and related products; in its 2006 fiscal year it had revenues exceeding \$1.6 billion and more than 2,250 employees. It is one of the most profitable companies in its sector and has remained successful despite a challenging investment climate and severe economic crisis. Primarily because of AGD, a large network of farmers and intermediaries in rural areas continues to grow and prosper.

AGD has also increased its global competitiveness, aided by IFC loans and equity investments. This includes a \$100 million long-term financing



package in 2001–2002, when Argentine companies could not access normal trade financing lines. IFC also invested in projects sponsored by AGD and its partners to improve the country's export infrastructure and develop the oilseed processing industry. By improving the railway system, building a state-of-the-art port, and increasing inland storage capacity, AGD has reduced transportation and handling costs, benefiting the entire supply chain.

AGD is a good corporate citizen in the city of General Deheza, the site of its main plant. It provides support

to local schools and collaborates with organizations that provide general health services, social assistance to senior citizens, and care for disabled children. The company provides ongoing training to staff and secures medical insurance for all employees and their dependents.

The success of AGD shows the difference a single company can make, not just in building a business but in supporting a community, a sector, even a country—and in opening markets. IFC is proud to be AGD's partner for the long term.

avoid corrupt business practices. IFC's technical assistance to companies from more than 80 countries on board practices, shareholder rights, internal control environments, transparency, and disclosure has made us a leader on corporate governance in emerging markets. In the past decade, IFC has shared its expertise through major projects in Azerbaijan, China, Georgia, Russia, and Ukraine. We have also sponsored corporate governance forums in East Asia and Latin America. Our corporate governance materials are used in 75 law and business schools

worldwide, where they educate the next generation of businesspeople about the value of strong corporate governance.

In addition to this private sector assistance, IFC advises governments, regulators, stock markets, and institutes

of directors on corporate governance. We substantially expanded our support for such programs this year in the Middle East, doubling our staff for these efforts and launching new initiatives in Egypt (see page 76) and Pakistan.

IFC supports companies in emerging markets that want to invest in other developing nations—one of the fastest-growing segments of foreign direct investment.



IFC technical assistance benefits furniture producers using sustainable wood sources in Java, Indonesia.

AGUS DIALANI

NEW GENERATION OF SUSTAINABILITY STANDARDS INTRODUCED

IFC has established a leading role in several areas of sustainability, in particular through our environmental and social standards, which we have recently strengthened (see page 31). Sustainability underlies the efforts of companies and financial institutions to build better businesses, as well as IFC's ability to support long-term development impact. Other international financiers have followed our lead by adopting the Equator Principles, which have been revised based on IFC's standards. These banks together supply more than 80 percent of all project finance lending in developing countries, and they will apply the revised principles to privately financed projects in all industry sectors

with a capital cost of \$10 million or more. This makes the Equator Principles—and by extension IFC—the de facto global standard for environmental and social performance in project finance. IFC, in partnership with the Equator banks, also promotes adoption of the principles by other institutions, including bilateral and multilateral agencies.

EXTRACTIVE INDUSTRIES

Demand for IFC's financing and social and environmental expertise has intensified in extractive industries as high prices for oil and minerals have led to increased investments. Our combined commitments and syndications in this sector more than doubled this year, to

\$671 million from \$314 million in FY05, with marked growth in financing for small and local investors. At the same time, IFC's investments in renewable and natural gas energy projects increased. We are making considerable progress in extending our leadership position in the sustainable development of extractive industries, where governance issues are of utmost importance. The World Bank Group is working with 20 countries to implement the Extractive Industries Transparency Initiative, supporting improved governance in resource-rich countries through the full publication and verification of company payments and government revenues from the oil, gas, and mining industries.

LEADING THROUGH SUSTAINABILITY

	FY06	FY05
IFC commitments in sustainable energy*	\$393 million	\$221 million
Total investment in sustainable energy leveraged by IFC's commitments	\$ 1.8 billion	\$832 million

* Estimated portion of IFC's investments that correspond to the percentage of total project cost represented by renewable energy or energy-efficient project components.

SUSTAINABLE DEVELOPMENT IN EXTRACTIVE INDUSTRIES

Engaging, empowering, and building the capacity of local communities is critical not only for the success of investments in extractive industries but also for sustainable development beyond the life of the well, pipeline, or mine.

IFC has committed \$10 million to improve the long-term development impact of extractive industry projects on local communities. The Community Development Facility's initiatives include capacity building for stakeholders, community foundations, and those involved in local and regional governance; development of local

suppliers and small businesses; and programs on the environment, gender, and HIV/AIDS.

In Guatemala, for example, the program is funding a community-based monitoring committee, representing a broad array of stakeholders, to monitor the environmental impact of the Marlin mine. This effort is expected to serve as a model for constructive dialogue between local communities and the extractive industries throughout Guatemala. Recently, the program was awarded a prize by the Latin American Mining Organization as the region's most



These small business owners received microfinancing through a community project supported by the Marlin Mine in San Miguel, Guatemala.

innovative effort to integrate a mining operation with its local communities.

Knowing what governments receive, and what companies pay, is a critical first step to holding decision-makers accountable for the use of those revenues. Our investments in this sector reflect our support for greater transparency and sustainability.

- During fiscal year 2006, IFC committed to acquire a 5 percent equity stake in

accepted the principles of the Extractive Industries Transparency Initiative in 2005 and published an unaudited account of government revenues from the mining sector in March 2006.

- To support sustainable extractive projects, we committed \$6 million this year to the Asian Lion Fund, which will make early-stage equity and equity-

will facilitate compliance as projects move into the construction and production phases.

EMPOWERING WOMEN ENTREPRENEURS

IFC integrates gender issues throughout its operations and helps leverage the untapped potential of women in emerging markets. Our Gender Entrepreneurship Markets initiative focuses on expanding access to finance for women, adding value to IFC investment projects, and undertaking assessments at the request of governments to address gender-specific barriers to women's full participation in private sector development, with primary emphasis on Africa and the Middle East. This year, for example, we provided a \$15 million line of credit and technical assistance to help Access Bank in Nigeria deliver financing to female entrepreneurs.

To improve the long-term development impact of oil, gas, and mining projects, we committed \$10 million for environmental, social, and community programs.

Simfer in Guinea, a subsidiary of Rio Tinto, which has committed to full local disclosure of all payments made to governments. IFC's financing will support a feasibility study on mining of high-grade iron ore in eastern Guinea. Guinea's government formally

related investments in small to medium mining and exploration projects in Africa and Asia. The fund will ensure that companies in its portfolio comply with IFC's environmental and social policies and performance standards. Early-stage adoption of these standards



IFC's advisory services helped Samoa's government find a new private sector partner to continue the operations of a publicly owned airline.

TIM WARD

DEMAND FOR PUBLIC-PRIVATE PARTNERSHIP ADVICE GROWING RAPIDLY

As a private sector development institution and a member of the World Bank Group, IFC has a unique capacity to structure private participation in infrastructure projects in a way that balances commercial viability with the public good. Demand for IFC's advisory support has grown 150 percent in the past three years, with the number of advisory mandates rising to 30 at the end of FY06 from 12 three years before. This activity is most concentrated in Africa and the Middle East.

Such mandates, which often follow sector reform work by the World Bank, typically lay the groundwork for subsequent private investments. IFC's advisory teams work to help structure projects with a public component. Recent work includes a cross-border railway concession in Kenya and Uganda, where IFC has advised on the tender and bidding process, while World Bank lending is supporting resettlement and restructuring of the railway's workforce. We also advised

the Philippine government this year on privatization of the off-grid power supply and the governments of Cameroon and Samoa on the partial sale of state-owned airlines.

INFRASTRUCTURE INVESTMENTS

Infrastructure improvements are a critical need in the developing world. Millions of lives are threatened every day by lack of clean water or safe sanitation. Untold numbers of businesses suffer because they lack reliable power for industrial

ADDRESSING CONSTRAINTS TO PRIVATE SECTOR GROWTH IN INFRASTRUCTURE, HEALTH, AND EDUCATION

	FY06	FY05
Commitments in information and communication technologies	\$366 million	\$200 million
Commitments in infrastructure	\$955 million	\$599 million
Commitments in health and education	\$126 million	\$ 81 million
Commitments in subnational projects	\$ 52 million	—
Number of advisory mandates to increase private sector participation in public infrastructure services	30	25

INFORMATION TECHNOLOGY FOR NIGERIAN UNIVERSITIES

IFC's support has helped SocketWorks Limited offer services the private sector was unable to provide. This includes automating administrative processes at 10 Nigerian universities and providing 150,000 university students with access to online study tools, including offshore libraries. With the help of a local currency loan equivalent to \$2.5 million and continued technical assistance from IFC, SocketWorks is expanding to another 14 universities in Nigeria, doubling the number of students it will serve, and is planning to expand to other parts of Africa.

Because SocketWorks signs long-term agreements with universities, usually for a period of 10 years, it needed longer-term financing than is generally available to private sector companies in

Nigeria. The company agrees to equip and maintain an IT facility at a university with essential infrastructure, such as power generators, air conditioning, electrical wiring, equipment, and software for the period of the agreement. It provides computers equipped with SocketWorks' CollegePortal technology to the university's staff and faculty, delivers software training, and enters the university's data into its databases. When students pay their tuition via Nigeria's banking system, the amount includes about \$20 toward SocketWorks' services.

IFC has been providing technical assistance to SocketWorks since 2003. Besides strengthening management capacity and improving corporate



COURTESY OF SOCKETWORKS

governance, this is helping the company expand its product offerings and take its business model to other parts of Africa. The firm recently established a 51 percent-owned subsidiary in Sierra Leone.

processes or the infrastructure necessary to get goods to markets.

IFC's commitments for infrastructure increased more than 50 percent in FY06, compared with the previous year. Totaling \$955 million, they represent almost 15 percent of total commitments this year. This growth reflects our efforts to engage earlier with infrastructure companies that are exploring project opportunities.

SUBNATIONAL FINANCING

Greater decentralization of government services in our member countries has given the World Bank Group a new opportunity to help at the municipal, state, and provincial levels. IFC's Municipal Fund, established in 2003, is the first phase of the World Bank Group's response to the demand for lending to local governments without a sovereign guarantee. During FY06, IFC

committed \$52 million for subnational projects in such countries as Guatemala, Mexico, and South Africa. Because IFC's Municipal Fund projects have had a significant development impact, we are increasing support in this area and pursuing additional opportunities.

HEALTH AND EDUCATION

The Corporation's commitments to health and education projects rose more than 50 percent over the past fiscal year, to \$126 million. In these sectors, IFC continues to build on its experience with financing for capital expenditures on hospitals, schools, and universities, as well as technology-assisted education services. We seek to support institutions that introduce market innovations, demonstrate best practices, and are aligned with public sector objectives.

IFC is exploring innovative ways to promote student financing initiatives and

is supporting private companies that work directly with public institutions to provide much-needed services. Ongoing projects include the private provision of distance education technology to make medical training available to nurses in public hospitals throughout China.

IFC seeks to use its experience in private health and education—unique among bilateral and multilateral development institutions—to establish itself as a center for networking and information among private institutions and investors worldwide. This year, IFC and China's finance ministry organized a conference on public-private partnerships in education and a workshop on technical and vocational education and training. We also held our second International Forum for Investment in Private Higher Education, with representatives of 135 institutions from 30 countries attending.



TOREK FARHADI

DEVELOPING LOCAL FINANCIAL MARKETS INCREASES ACCESS TO FINANCE

Development of well-functioning financial markets is essential for successful, sustainable economic growth, and IFC's financial sector investments, up 13 percent to \$2.5 billion in FY06, represent the largest component of our portfolio. Banks are some of our most important partners in all regions, but central to IFC's developmental mission is a full range of financial institutions: leasing companies, stock markets, credit rating agencies, venture capital funds, and microfinance institutions.

FINANCIAL SECTOR TECHNICAL ASSISTANCE

At the end of FY06, IFC's financial sector technical assistance activities included 133 projects. Our work in this area includes technical help for financial institutions and assistance in improving financial infrastructure, such as market development for bonds and securities. For example, a successful project to increase access to finance in Indonesia this year helped more than 150 small and medium enterprises obtain the equivalent of \$10.5 million in

new loans from local banks. IFC also helps build the financial infrastructure necessary for expanding access to finance through both direct investments and technical assistance. This year we helped develop credit bureaus in 38 countries worldwide through the donor-funded Global Credit Bureau Program.

SUPPORT FOR FINANCIAL INTERMEDIARIES

In emerging markets and frontier countries, the banking sector generally

SUPPORT FOR LOCAL FINANCIAL MARKETS

	FY06	FY05
Total financial sector commitments	\$ 2.5 billion	\$ 2.2 billion
Commitments in housing finance	\$586 million	\$565 million
Commitments in local currency	\$ 1.3 billion	\$820 million
Number of technical assistance and advisory services in financial sector	133	135

NEW SOURCE OF PRIVATE CAPITAL

IFC IN THE 1980s: THE EMERGING MARKET GROWTH FUND

In the 1980s, while trying to interest investors in a “Third World Investment Fund,” IFC coined the phrase “emerging markets,” and the term’s broad acceptance has paralleled the growth of a new asset class. At the time, many investors viewed the infant stock markets of the developing world as highly speculative, given these markets’ weak trading infrastructure and poor regulation. In 1984, IFC organized and co-underwrote a \$60 million single-country fund for

Korean equities, which was brought to market despite skepticism from Wall Street. A smaller fund for Thailand soon followed, along with ongoing IFC technical support to help build stock markets throughout the developing world. Teaming up with a respected asset management company, the Capital Group, IFC then put its own money at risk in a global fund. This helped bring an early set of pension funds and insurance companies into a globally diversified

\$50 million vehicle, the Emerging Market Growth Fund.

Together, these steps helped give rise to a new industry, one that 20 years later invests more than \$60 billion a year in stocks and bonds from developing countries. In the process, this massive source of new private capital has strengthened companies in the developing world, lifted them onto the international financial stage, and helped create jobs and reduce poverty.

constitutes the bulk of the formal financial system. IFC works to strengthen banks by providing them with adequate capitalization, sufficient management capabilities and infrastructure, and strong corporate governance practices. We invest in banks in developing member countries that are financially and commercially sound as well as environmentally and socially sustainable.

Microfinance programs can play a key role in stimulating business activity, especially in areas where there is little or no access to formal credit institutions. To reach the largest number of micro and small enterprises, we provide support to microfinance institutions and encourage commercial banks to develop lending services for small businesses. At the end of FY06, investments to support financing for micro, small, and medium businesses represented 60 percent of IFC’s financial markets commitments. Microfinance commitments increased during the year to \$132 million. As of December 31,

2005, microfinance institutions supported by IFC had outstanding portfolios of about 2.5 million loans totaling \$4.1 billion. Our microfinance investments typically combine financing with technical assistance.

and derivative-based local currency products. Local currency financing helps domestic borrowers match assets and liabilities and eliminates the risk associated with borrowing in a foreign currency. We offer local

IFC’s microfinance portfolio includes 74 institutions. 2.5 million borrowers have outstanding loans averaging \$1,600 from these lenders.

Overall commitments targeting small and medium enterprises rose to \$1.4 billion by the end of FY06.

LOCAL CURRENCY FINANCING

About 20 percent of our commitments this year were in local currencies. We promote local currency financing through structured finance products

currency loans and hedges in any currency for which we can hedge local currency loan flows back into U.S. dollars. To expand our ability to offer this financing, we are developing derivative-based products for local currencies in Sub-Saharan Africa and are seeking approval to provide these products in China, Pakistan, and Ukraine.



In Beijing this year, IFC issued the first-ever panda bond by a multilateral institution, supporting the development of China's capital markets.

REPORT ON OPERATIONS

IFC is the largest provider of multilateral financing for private sector projects in the developing world. In FY06, we committed \$6.7 billion in funds from our own account and mobilized an additional \$1.6 billion through syndications and \$1.3 billion through structured finance. Based on the total costs of the private sector projects we helped finance this year, each \$1 in IFC commitments for our own account resulted in an additional \$2.88 in funding from other sources.

Altogether, we supported 284 investment projects in 66 countries. We also approved over 400 new technical assistance programs, primarily to strengthen the technical expertise of firms and improve the environment for and sustainability of private sector operations.

IFC has been consistently profitable since 1956. Businesses must create profits to generate jobs and wealth, and IFC's financial results reflect the success

and growth of enterprises in emerging markets around the world.

Our operations contribute to economic, financial, environmental, and social sustainability in emerging markets. This year nearly a quarter of our commitments were in low-income or high-risk countries, demonstrating the viability of private enterprise even in difficult environments.

We also introduced new programs and products to meet the needs of businesses and entrepreneurs, made important strides toward measuring our success in enhancing development, and introduced new standards that require our client companies to adopt social and environmental risk management as an integral part of their operations.

IFC'S FINANCIAL PERFORMANCE HIGHLIGHTS

(U.S.\$ millions)

	FY06	FY05
Client services—operating income	\$1,231	\$1,759
Loan—operating income	106	323
Equity/quasi-equity—operating income	1,318	1,425
Non-investment advisory services	(16)	(8)
Expenditures for technical assistance and performance-based grants	(90)	(38)
Corporate charges and other	(88)	57
IFC treasury services—operating income	178	194
IFC operating income	1,409	1,953

OVERVIEW OF FINANCIAL RESULTS

IFC's performance for FY06 continued its recent strong trend. Income after expenditures for technical assistance and performance-based grants (operating income) was \$1.4 billion in FY06, a decrease of \$544 million when compared with FY05's record results. Operating income comprises revenue from client services operations (primarily corporate and project finance) and income from treasury services, after administrative expenses. Overall, our operating return on average net worth was 13.7 percent in FY06, compared to 22.6 percent in FY05.

Net income reported for FY06, including losses on non-trading financial instruments, was \$1.3 billion, compared with \$2 billion for FY05. While income and fees from loans, capital gains, and dividends from equity investments all increased in FY06, net income declined.

Businesses must create profits to generate jobs and wealth, and IFC's financial results reflect the success and growth of enterprises in emerging markets around the world.

This was because of relatively small loan loss provisioning in FY06 as compared with FY05, and nonrecurring income in FY05 from changes in the carrying value of equity investments.

IFC's liquid asset portfolios outperformed their respective benchmarks and earned a positive return for the year. Income from liquid assets, net of allocated funding cost, amounted to \$178 million, including \$92 million of spread income from market-funded liquid

assets, as compared to \$194 million and \$124 million, respectively, in FY05.

New investment commitments for IFC's account amounted to \$6.7 billion in FY06, including \$588 million in signed guarantees. This represents an increase of 25 percent compared to \$5.4 billion in FY05, when new investment commitments for IFC rose 13 percent from \$4.8 billion. IFC also mobilized an additional \$2.8 billion through loan participations and structured finance in FY06. The disbursed outstanding investment portfolio stood at \$13.4 billion on June 30, 2006, compared with \$12.3 billion on June 30, 2005. To achieve this operational growth, the Corporation's regular administrative expenses increased as well. Actual regular administrative expenses rose 17 percent to \$472 million in FY06 compared to an increase of 15 percent to \$404 million in FY05.

INVESTMENT ACTIVITY

INVESTMENT AND PORTFOLIO ACTIVITY

IFC's committed portfolio, including off-balance sheet guarantees and risk management products, increased by 11.9 percent to \$21.6 billion on June 30, 2006, from \$19.3 billion at the end of FY05. Nearly 76 percent of the committed portfolio was in loans amounting to \$16.4 billion, and 18 percent was in equity investments amounting to \$3.9 billion. Guarantee

products of \$1.2 billion accounted for 5 percent of the committed portfolio, and risk management products of \$159 million accounted for almost 1 percent. In addition, IFC held and managed for participants \$5.1 billion in loans it had syndicated. At the end of FY06, the committed portfolio included loan and equity investments, risk management products, and guarantees in 1,368 companies in 112 countries. Nearly a quarter of these investments were for projects in low-income or high-risk frontier countries.

The net increase in committed portfolio was \$2.3 billion after taking into account new commitments, repayments, sales, cancellations, prepayments, write-offs, and translation adjustments. Loan principal repayments and prepayments totaled nearly \$2.8 billion, and \$539 million in equity investments were sold or redeemed.

The total disbursed portfolio for IFC's own account increased to \$13.4 billion at the end of FY06, from \$12.3 billion at the end of FY05. During the fiscal year, the disbursed loan portfolio grew by 9 percent, while the disbursed equity portfolio grew by 10.2 percent.

COMMITMENTS AND DISBURSEMENTS

New commitments for IFC's own account were concentrated in Europe and Central Asia (31 percent), Latin America and the Caribbean (26 percent), and East Asia and the Pacific (15 percent). Our commitments in Sub-Saharan Africa and in the Middle East and North Africa together represented 20 percent of total FY06 commitments, up from 14 percent in FY05. South Asian commitments represented 8 percent of this year's total.

The business sectors with the highest volume of new commitments were finance and insurance with 38 percent, followed by utilities with 8 percent.

Disbursements for IFC's own account in FY06 were \$4.4 billion, up from \$3.5 billion in FY05. Loan disbursements were \$3.7 billion, and equity disbursements were \$711 million. IFC also disbursed \$1.3 billion on behalf of financial institutions participating in its syndicated loans.

Through structured finance transactions, we mobilized \$1.3 billion this year with commitments of \$327 million.

LOANS AND INTERMEDIARY SERVICES

We finance projects and companies through loans for our own account, generally for seven to 12 years, though some loans have been extended for as long as 20 years. We also make loans to intermediary banks, leasing companies, and other financial institutions for further on-lending, for example, to small and medium enterprises. IFC extends loans in both major and local currencies, depending on the needs of our clients, and we hedge against currency risk by using swap-based instruments.

In FY06, we made commitments for \$5 billion in new loans. Interest and financial fees from loans (including guarantee fees) increased 22 percent in FY06 to \$807 million, from \$660 million in FY05.

Total reserves against losses on loan investments decreased to \$898 million in FY06, representing 8.3 percent of the disbursed loan

portfolio, down from 9.9 percent in FY05. The decrease was due to a \$210 million reduction in specific loan loss reserves, after write-offs of \$111 million, and a \$120 million increase in general loan loss reserves.

SYNDICATED LOANS

IFC's syndicated loan program helps commercial banks and other financial institutions participate in private sector projects in developing countries. These

loans are a key part of our efforts to mobilize additional financing and increase development impact. IFC is the lender of record for syndicated loans; the other financial institutions share fully in the commercial credit risk of projects while benefiting from IFC's preferred creditor status.

New syndicated loans, \$1.6 billion this fiscal year, increased nearly 50 percent from the previous fiscal year. About half were for projects in Latin America and the Caribbean, with the remainder in Asia and Europe. Projects in the general manufacturing, infrastructure, and oil and gas sectors accounted for approximately three quarters of FY06 syndications.

EQUITY AND QUASI-EQUITY

IFC risks its own capital by buying shares in project companies, other project entities, financial institutions, and portfolio or private equity funds.

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

We generally subscribe to between 5 and 20 percent of a company's equity. We are long-term investors and usually exit by selling shares, either 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 either debt or equity characteristics. Our equity and quasi-equity investments are funded from IFC's retained earnings.

Income from our equity investment portfolio decreased 9 percent in FY06 to \$1.2 billion. Capital gains realized on equity sales were \$928 million in FY06, up from \$723 million in FY05.

We changed our process of estimating impairment on equity investments in FY05 to a methodology based largely on fair value estimates. Equity investment impairment write-downs totaled \$57 million in FY06.

STRUCTURED FINANCE

Structured finance products provide IFC's clients with cost-effective forms of financing that would not otherwise be readily accessible. Products IFC offers include partial credit guarantees, structured liquidity facilities, portfolio risk transfer, and participation in securitizations. These products allow IFC to use its AAA/Aaa credit rating to help clients diversify their funding sources, extend maturities, and obtain financing in their currency of choice.

In FY06, we continued to strengthen our presence in emerging markets, providing innovative structured finance

solutions to new and established clients, with a focus on transactions in local currencies. Important transactions this year included partial credit guarantees for municipalities in Guatemala, Russia, and South Africa. IFC provided innovative products that allowed each client to pursue infrastructure projects and contribute to the development of their respective local capital markets. We also offered structured risk sharing facilities on portfolios of local currency loans to microfinance institutions and small and medium enterprises in the Balkans, Madagascar, and Morocco.

We structured the first-ever mortgage-backed securitization in Mexican pesos, for a portfolio of residential mortgages aggregated by GMAC Financiera. In Russia, we credit-enhanced the first market-placed consumer loan securitization, which was issued by Russian Standard Bank. In Saudi Arabia, IFC also credit-enhanced the first true-sale securitization in the Gulf Cooperation Council countries; this was backed by residential mortgages originated by Kingdom Installment Company.

Other transactions in FY06 included risk-sharing structures that allowed us to mobilize local currency financing for clients in Brazil, China, Colombia, Hungary, and Peru.

LIQUIDITY MANAGEMENT

Liquid assets on the balance sheet totaled \$12.7 billion on June 30, 2006, compared with \$13.3 billion a year earlier. The majority of liquid assets are held in U.S. dollars, with small euro and Japanese yen balances held to support operational disbursements. Total liquid assets held are determined by the pace of new borrowings and disbursements within ranges consistent with IFC's AAA/Aaa credit ratings.

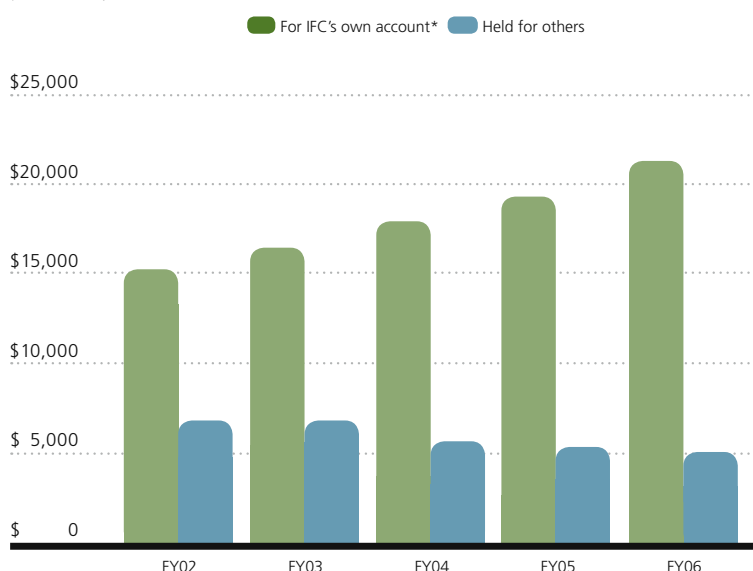
BREAKDOWN OF IFC PORTFOLIO

As of June 30, 2006 (U.S. \$ millions)

	2006	2005
Committed loans and equity	\$20,318	\$18,108
Loans	16,407	14,781
Equity	3,912	3,327
Off-balance-sheet exposure (on risk management and guarantee products)	1,309	1,146
Total committed portfolio for IFC's own account	21,627	19,253
Total committed portfolio held for participants	5,079	5,283
Total disbursed portfolio	13,408	12,276
Total undisbursed portfolio	6,911	5,832

IFC COMMITTED PORTFOLIO, FY02 TO FY06

(U.S. \$ millions)



*Totals for IFC's own account include risk management and guarantees.



COURTESY OF AGD

CAPITAL AND RETAINED EARNINGS

IFC's net worth consists of retained earnings and paid-in capital. Our paid-in capital remains at \$2.4 billion, while net income of \$1.3 billion this year increased retained earnings to \$8.7 billion. The Corporation's net worth at the end of FY06 was \$11.1 billion.

IFC's capital adequacy ratio at the end of FY06, which includes paid-in capital, retained earnings (adjusted for 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 54 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 1.5 to 1, well within the limit of 4.0 to 1 prescribed by the Corporation's financial policies.

IFC's paid-in capital, retained earnings, and general loan loss reserves constitute its 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

member 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. Since fiscal year 2004, IFC has allowed for allocations from retained earnings for technical assistance programs; these are an increasing function of realized income.

FUNDING MANAGEMENT

IFC funds its lending activities by issuing bonds in international capital markets and has been the first multilateral, or among the first, to issue bonds in the local currencies of many emerging markets.

Most of the Corporation's investments are denominated in U.S. dollars, but IFC borrows 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 of our borrowings were swapped into floating-rate U.S. dollars. New borrowings in the international markets totaled \$1.8 billion equivalent in FY06. We borrowed \$1 billion through a global U.S. dollar borrowing. The

balance was borrowed in a variety of other markets. See page 2 for a breakdown of IFC's FY06 borrowing by currency.

In October 2005, IFC launched a bond issue in the Chinese domestic market. The 1.13 billion renminbi (\$140 million equivalent) 10-year bonds were placed with institutional investors in the national interbank market. This bond issue represents an important step for China's capital markets, facilitating expansion of the country's bond market and increasing access to capital for private companies.

About \$55 million of our FY06 disbursements for technical assistance and advisory services was expensed from IFC's retained earnings through the Funding Mechanism for Technical Assistance and Advisory Services. Our donor partners provided additional funding. Pending Board approval, we plan to designate \$230 million of retained earnings from FY06 for technical assistance and advisory work.

RISK MANAGEMENT

Our exposure to the 10 largest countries in our portfolio declined to 52 percent on June 30, 2006, from 57.4 percent at the end of FY00. IFC reviews exposures annually and, if necessary, sets additional controls if risks appear to be

concentrating. Guidelines for maximum exposure levels trigger reviews based on risk and absorptive capacity. Guidelines also influence sector exposures, obligor limits, and product limits.

Because IFC operates in high-risk environments, the Corporation's effectiveness and capacity to deliver sound development outcomes depend on its ability to manage various types

management, a separate vice presidency for risk management was established, apart from portfolio operations, effective July 1, 2006.

The Corporation has traditionally prepared one set of financial statements and footnotes, complying with both generally accepted accounting principles in the U.S. and International Financial Reporting Standards. More information

portfolio manager. This structure helps identify problems and address them early on. An investment credit risk-rating system also supports this process. IFC ensures that banks participating in IFC loans are kept regularly informed of project developments, as part of close and continuing consultation.

Operational departments evaluate projects when difficulties arise. For projects with severe problems, our Special Operations Department determines appropriate remedial action. It seeks to negotiate agreements with all creditors and shareholders to share the burden of restructuring so that problems can be worked out while the project continues to operate. In exceptional cases, when the parties reach an impasse, IFC takes all necessary and appropriate measures to protect its interests.

IFC manages financial risks and exposures for its investment portfolio through market-based risk management instruments, tools, and strategies. These include instruments to perform hedging transactions on the IFC loan and equity portfolio as well as equity buyback strategies. All transactions and strategies share the goal of protecting the portfolio against downside risk.

IFC management determines specific reserves against loan losses on the basis of portfolio reviews and recommendations by the portfolio management units in the investment departments. The entire loan portfolio is reviewed quarterly. Management determines general

Euromoney magazine named IFC the Best Sovereign Supranational Agency Borrower in 2006 because of our pioneering work developing local bond markets.

of risks, including social, environmental, and corporate governance dimensions. Sustainable, long-term portfolio growth, increased transaction volume, and greater emphasis on operating in frontier countries and sectors all require a sharp focus on managing the risks posed by the changing profile of our operations.

Over the past few years, IFC has introduced a number of measures to improve our management of financial, operational, and enterprise risks. IFC has initiated a further review of its practices to enhance risk and control functions and to support the further decentralization of operations. The goal is a structure and processes that balance flexibility with control and allow adaptation to changing business conditions. To further consolidate risk

about specific financial and portfolio policies is included in Volume 2. Recently, it has not been possible to satisfy the requirements of both U.S. GAAP and IFRS through one set of financial statements, primarily due to differences in accounting rules for derivatives and hedging. IFC plans to resume presentation of its financial statements using IFRS in fiscal year 2008.

PORTFOLIO MANAGEMENT

As part of its supervision efforts, IFC closely monitors compliance with investment agreements, visits sites to check on project status, and helps find solutions to problem projects. To strengthen portfolio supervision, we have portfolio management units in all investment departments, each under a

reserves using a Monte Carlo-based simulation technique. The Corporation's external auditors closely examine the recommendations, policies, and methods for determining the reserves against losses.

TECHNICAL ASSISTANCE AND ADVISORY SERVICES

IFC provides technical assistance and advisory services for the same reason as investment products: to promote sustainable private sector enterprises in developing countries. Through this work, IFC contributes to development where opportunities for investments may be limited. We are also uniquely placed to pioneer new business models that address social and environmental needs.

Our expenditures for technical assistance and advisory service work increased by more than 23 percent in FY06 to \$134 million. Most of this work is in low-income or high-risk countries. About 40 percent of funding approved

this year was for projects in Sub-Saharan Africa. We also focus on key business lines where we have a competitive advantage. Over 70 percent of approved funding was for projects advancing access to finance and improvements in investment climates.

This year, we restructured our assistance and advisory practices into five business lines that correspond with our operational strategy. This alignment provides greater focus to our technical assistance activities. It will leverage our existing knowledge and capacity and will improve our ability to replicate successful programs.

MEASURING IFC'S CONTRIBUTION TO DEVELOPMENT

Monitoring and evaluating development results are a critical part of IFC's processes. The independent evaluation system for our investment operations has been ranked best among multilateral development banks dealing with private sector

operations.* Corporate, departmental, and individual goals and incentives are aligned with achievement of positive development results. To further incorporate measurement of development results into IFC's work, this year we introduced a new development outcome tracking system for investment operations. For each project, staff identify development result indicators during the project approval process. We then track achievement of these results, as well as financial, economic, environmental, and social performance, throughout the project cycle. In FY06, we trained over 1,200 staff in development results measurement and completed initial assessments of the development results of 1,100 projects in our investment portfolio.

We have implemented a similar approach for our technical assistance and advisory services, monitoring the development impact of all active projects. For a more rigorous assessment of impacts, we have designed experimental and control groups to measure success.

IFC'S TECHNICAL ASSISTANCE AND ADVISORY SERVICES

BUSINESS ENABLING ENVIRONMENT	VALUE ADDITION TO FIRMS	ENVIRONMENTAL AND SOCIAL SUSTAINABILITY	INFRASTRUCTURE	ACCESS TO FINANCE
<ul style="list-style-type: none"> Diagnostic Policy and legislation Cross-border Subnational Industry-specific Dispute resolution Business advocacy 	<ul style="list-style-type: none"> Corporate governance Entrepreneurship Business service providers Small business linkages (supply chain) HIV/AIDS Gender Direct assistance to small and medium enterprises Grassroots organizations 	<ul style="list-style-type: none"> Sustainable energy Biodiversity Cleaner technologies and production Sustainable investing Social responsibility 	<ul style="list-style-type: none"> Health and education Infrastructure 	<ul style="list-style-type: none"> Banking Nonbank financial institutions Housing and property finance Securities markets Microfinance Trade finance Credit bureau Insurance Municipal finance Sustainable finance

At a conference held this fiscal year, we shared key findings and lessons from these activities with staff, donors, and external evaluation experts.

IFC is committed to reporting on the development effectiveness of its activities. We will begin publishing development results annually, starting with our FY07 annual report.

NEW POLICIES ON ENVIRONMENTAL AND SOCIAL SUSTAINABILITY AND DISCLOSURE

This year, IFC completed a rigorous update of the policies and performance standards that we use to ensure social and environmental sustainability in all



COURTESY OF KARSTEN FARMS

- IFC's new sustainability policy defines the Corporation's responsibility for supporting project performance in partnership with clients.

requirements for community engagement and consultation, biodiversity protection, community and worker grievance mechanisms, use of security forces, and greenhouse gas monitoring. They add new requirements for community health, safety, and security; labor conditions; pollution prevention and abatement; integrated social and environmental assessments; and management systems.

IFC's new disclosure policy expands our responsibility to disclose corporate information to the public. It clarifies the balance between IFC's disclosure as a publicly owned institution working in the private sector and the business confidentiality of its client companies. The policy improves IFC's disclosure process and expands the types of information disclosed.

Our new environmental and social standards are stronger, better, and more comprehensive than those of any other international finance institution working with the private sector.

our investments. The new policies also resulted in an expanded commitment by IFC to disclose information to the public.

Updating our policies and standards gave us an opportunity to advance our own practices and provide greater clarity for an increasing number of interested stakeholders. It included our widest public consultation ever, to ensure that we responded to evolving expectations of the private sector's role in sustainability. The new standards reinforce our conviction that active management of social and environmental risks is an integral part of responsible investment and promotes the commercial success of our clients' enterprises. The revised framework consists of three parts:

- Environmental and social performance standards define our client companies' roles and responsibilities for managing their projects, as well as requirements for receiving and retaining IFC support. The standards include requirements to disclose information as an integral part of engaging with communities affected by projects.
- IFC's disclosure policy defines the Corporation's obligation to disclose information about its activities.

The new policies and performance standards are among the strongest environmental and social standards in the world. The standards strengthen



An IFC social and resettlement monitoring panel meets with members of a local community affected by the BTC Pipeline in Turkey.

INVESTING AND WORKING RESPONSIBLY

IFC is committed to promoting sustainable private sector development projects that are economically beneficial, financially and commercially sound, and environmentally and socially sustainable. We believe that sound economic growth is key to poverty reduction, that it is grounded in the development of entrepreneurship and successful private investment, and that an environment conducive to business is needed for such investments to thrive and contribute to improving people's lives. IFC screens projects to ensure not only that they are financially sound, but also that they meet IFC's stringent environmental and social performance standards, do not depend on subsidies or other distortions, and more generally benefit the host economy.

We see sustainability as an opportunity to drive innovation in new areas and to add value to our clients by helping them improve their business performance. Our advisory work includes a broad spectrum of approaches to catalyze change, including guidance to companies on corporate governance, HIV/AIDS, and gender issues. We also offer extensive

support on community development, energy efficiency, and clean production and have a network of development facilities to assist small businesses in all emerging markets. All serve as a means of promoting sustainable private sector development—locally, regionally, and globally.

INVESTING RESPONSIBLY

IFC invests in enterprises majority-owned by the private sector in most developing countries of the world and operates on a fully commercial basis, sharing the same risks as other investors. We have to profit from our investments to remain financially sustainable as a development finance institution. Our equity and quasi-equity investments are funded from our capital and retained earnings, while for lending operations we carry out public borrowings or private placements in international financial markets. Our profits increase our capital and our ability to channel funds into higher-risk development projects and initiatives that promote sustainability.

IFC's exclusion list prohibits the financing of projects involving certain activities, production, or trade in specific

goods. The list includes weapons and munitions; tobacco; radioactive materials; chemicals subject to international phaseouts or bans; ozone-depleting substances subject to international phaseout; gambling; wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species; logging activities in primary tropical forests; and some types of drift net fishing.

To ensure that our investments are environmentally and socially sustainable, we updated our performance standards this year. Please see page 31 for more information.

FINANCING SUSTAINABLE ENERGY

IFC is developing new business models that stimulate private sector investment in sustainable energy. This is part of our effort to increase investments in renewable energy and energy efficiency and to help new products, including low-cost, clean energy alternatives, enter the marketplace. We expect to increase substantially our contribution to the overall World Bank Group target of 20 percent growth in this portfolio between fiscal years 2005 and 2009.

IFC is also playing an important role in the World Bank Group's effort to establish a framework for international financial institutions to accelerate investments in low-carbon energy systems and to increase climate change-related technical assistance to developing countries.

We invested in 21 projects with energy efficiency or renewable energy components this fiscal year, including a wind project in Brazil and our first investments for small hydropower projects in China and India. We lent \$22 million for Yunnan Zhongda Yanjin Power Generation Co. Ltd. to build three small run-of-river hydropower stations in China with a total installed capacity of 78 megawatts. India Hydropower Development Company received \$15 million for construction and acquisition of six small hydropower stations. IFC provided \$160 million in financing for the 155-megawatt La Higuera hydropower project in the Tinguiririca Valley in Chile. The financing package included a \$35 million senior loan, a \$115 million syndicated loan for the account of participant banks, and a \$10 million subordinated loan.

We also provide innovative mechanisms for energy efficiency. IFC introduced the China Utility-Based Energy Efficiency Finance Program this year, with support from Finland's government. Under this program, we provide partial risk sharing to commercial and industrial customers in China to support bank financing of energy equipment. Utilities working with us, including IFC client Xinao Gas, will provide these customers with cleaner energy.



PRANAB GHOSH

RIO DO FOGO WIND PROJECT

We supported the construction, operation, and maintenance of a 49.3-megawatt wind power park in Rio do Fogo in northeast Brazil with an equity investment of \$5.5 million in Energias Renovaveis do Brasil Ltda (Enerbrasil) this year. Enerbrasil is a wholly owned Brazilian subsidiary of Iberdrola Energias Renovables, a leading renewable energy utility with about 3,600 megawatts of wind projects under management worldwide. Scheduled to begin operating in June 2006, the Rio do Fogo wind farm is expected to be Brazil's first large-scale wind power project to enter commercial operation.

Enerbrasil will sell all its output to Centrais Eletricas Brasileiras, Brazil's state-controlled electricity utility, under a 20-year power purchase agreement. Brazil has been a leading user of renewable energy resources, including hydroelectricity and alcohol-based vehicle fuels.

To stimulate greater use of electricity generated from nontraditional renewable energy resources such as wind, biomass, and small hydropower projects, Brazil launched a national program that supports such projects through sales contracts with the utility at higher tariffs than would otherwise be available in the market.

CARBON FINANCE

Capitalizing on our ability to assess and manage long-term project and credit risk in emerging markets, IFC launched a new product to guarantee delivery of carbon credits from projects in developing countries to companies and financial institutions in industrialized countries. Through credit enhancement, IFC will be able to help projects obtain a premium price for credits in the global carbon market, while eliminating delivery risk for carbon credit buyers.

We also have about \$150 million under management in partnership with the government of the Netherlands through which we purchase emission reduction credits from projects eligible under the Kyoto Protocol's Clean Development and Joint Implementation mechanisms. In FY06, we concluded emission reduction agreements with three firms. EcoPower operates small run-of-river hydropower plants in Sri Lanka; Van der Wiel Stortgas recovers and flares methane gas from a landfill in Argentina; and Enercon India owns and operates wind farms.

LISTENING TO OUR CLIENTS

IFC conducts an annual survey to obtain client companies' views on their experience of working with us. Each year, we send the survey to about a quarter of the clients in our portfolio. We survey most clients twice over the life of a project or corporate investment, thus obtaining feedback at different phases of a project that can help improve our client service. The survey is anonymous so that clients can provide honest feedback.

Client satisfaction with our overall service was 79 percent in 2005. Repeat clients, even more than first-time clients, appreciated our value-added services, such as environmental, social, and

corporate governance advisory work. Although clients expressed increased satisfaction with IFC's responsiveness, half the respondents thought that IFC procedures were inefficient, and a majority reported that IFC is risk-averse.

WORKING RESPONSIBLY

Practicing sustainability in our headquarters in Washington, D.C., and in our field offices is an important part of living our mission and being consistent with what we ask of our clients. This



A rainwater collector well system developed as part of a technical assistance program in Rajasthan, India, will reduce the distance local women will have to walk for water.



CULTURAL OUTREACH

IFC supports local communities where we work. In 1997, IFC moved into its new headquarters building in Washington, D.C., on a site that formerly housed a theater. IFC replaced this cultural outlet with a regular performing arts program that is free and open to the public, reaching about 2,000 members of the community each year. We host international musicians, dancers, theater, and film, using the performances as a starting point for educational workshops, lectures, and discussions. We also partner with other organizations to use performing arts to raise awareness of social issues.

means improving our environmental and social footprint, which encompasses the direct impacts from the operation of our buildings and daily work habits, as well as the relationship between IFC and the local communities in which we work and live.

Based on guidelines from the Global Reporting Initiative, recommendations by our own environmental experts, and an independent review conducted in 2002, we identified priority areas for the short and medium term that reflect the most significant impacts of our offices. These priority areas, which we actively managed, include: energy use, procurement, waste, paper consumption, electronics use, community outreach, diversity, and staff awareness and engagement. More information is available in the Corporation's *Sustainability Report*, available at www.ifc.org/sustainability.

LISTENING TO OUR STAFF

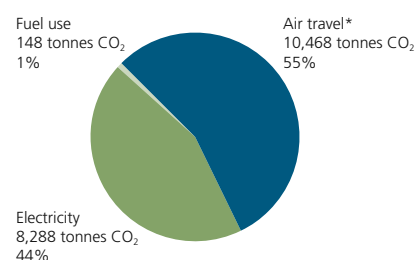
The World Bank Group conducts an anonymous staff survey every two years, from which IFC staff responses are tabulated separately. The survey seeks feedback on service to clients, teamwork, integrity, learning and development, and work-life issues.

The 2005 survey showed that 84 percent of staff believe IFC has well-

defined goals. Up to half felt more could be done to encourage interdepartmental cooperation and strengthen the link between headquarters and field offices, and a quarter indicated that improvements in internal procedures would enhance their ability to serve clients. Compared with the previous survey, the Corporation's recognition of staff contributions was seen as the area of greatest improvement.

CARBON EMISSIONS FOR FY06

For headquarters facility and travel of Washington-based staff.



*Air travel emissions are based on the number of miles flown by World Bank Group staff. IFC's share is based on its percentage of total staff.

IFC GOES CARBON NEUTRAL

On June 5, 2006, World Environment Day, the World Bank Group became carbon neutral. This means that greenhouse gas emissions from its Washington, D.C., offices, its spring and annual meetings, staff commuting, and all operational travel from headquarters are now offset by investments in renewable energy and energy efficiency and through the purchase of verified emissions reductions from projects in developing countries.

The vast majority of IFC's carbon emissions derive from air travel and electricity use. Since December 2004, IFC has been purchasing green, renewable power for all its electricity in Washington. The headquarters building was designed to be energy efficient, and it received the Energy Star Label in 2005 and several previous years, ranking it in the top 25 percent of energy efficient buildings in the United States. For remaining emissions, IFC and the World Bank have purchased carbon-offset credits—specifically, verified emissions reductions from projects by the Forestry Agency in Moldova and Precious Woods in Costa Rica. IFC chose these offsets in recognition of the role of forests in countering desertification—the theme of this year's World Environment Day.

IFC'S GOVERNANCE

IFC coordinates its activities with the other institutions of the World Bank Group but is legally and financially independent. Our 178 member countries provide IFC's share capital and collectively determine our policies through a Board of Governors and a 24-member Board of Directors.

Voting power is weighted according to the share capital each director represents. The five countries with the largest voting power are the United States (23.66 percent), Japan (5.87 percent), Germany (5.36 percent), France (5.04 percent), and the United Kingdom (5.04 percent). Voting, however, is rarely used as a means of reaching decisions. IFC's Board emphasizes rigorous discussion as a means of reaching consensus.

IFC's Board of Directors meets regularly at headquarters in Washington, D.C., where it reviews and decides on investment projects and provides overall strategic guidance to IFC management. IFC agreed to begin disclosing minutes of formal Board meetings to the public in 2006. Directors also serve on one or more standing committees that help the Board fulfill its oversight responsibilities by examining policies and procedures in depth.

- The Audit Committee advises on financial and risk management, corporate governance, and oversight issues.
- The Budget Committee considers business processes, administrative policies, standards, and budget issues that have a significant impact on the cost-effectiveness of Bank Group operations.
- The Committee on Development Effectiveness focuses on operations and policy evaluation and development effectiveness with a view to monitoring progress on poverty reduction.

- The Personnel Committee advises on compensation and other significant personnel policies.

other time in our history. The majority of these placements were in field offices around the world as part of our

Our growth and decentralization provide an opportunity to strengthen workforce diversity as well as our talent pool.

- The Committee on Governance and Executive Directors' Administrative Matters handles additional responsibilities of the Board.

ORGANIZATION AND STAFFING

A new management structure, announced this year and effective at the beginning of FY07, adds two new vice presidents for IFC regions. To maintain the Corporation's financial strength while allowing for risks, the new structure separates the responsibility for risk management from investment operations.

IFC's workforce is expected to grow by up to 50 percent over the next three years, compared with a 35 percent growth rate over the past five years. As part of the Board-approved growth strategy, we hired more professionals in FY06 than at any

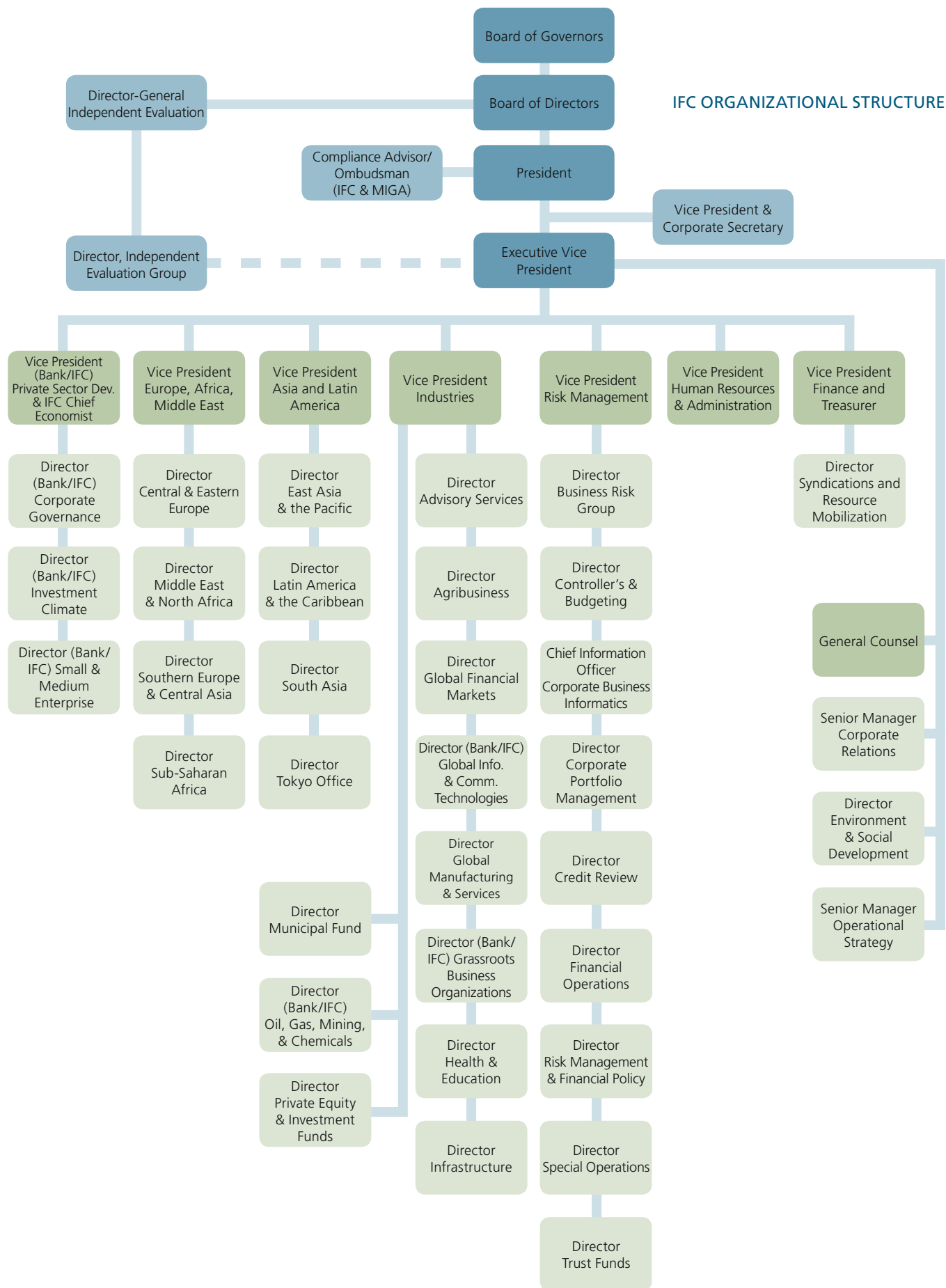
move toward greater decentralization. Today, 47 percent of our staff work in field offices, and 53 percent are based at our Washington, D.C., headquarters. This represents a significant shift: In 2001 only 32 percent of employees worked in field offices.

Our growth and decentralization provide an opportunity to strengthen workforce diversity as well as our talent pool. IFC has made progress on key diversity issues in recent years by increasing the representation of women and people from developing countries and by raising staff awareness of this issue. Going forward, issues of diversity and inclusion will receive greater attention, with a particular focus on women in senior positions, wider representation of nationalities, and recruitment of staff from more diverse educational backgrounds.



Children at a community center built and run by Lafarge Surma Cement in Bangladesh.

COLIN J. WARREN



MONITORING PERFORMANCE

IFC tracks clients’ compliance with commitments made in their investment agreements, such as reporting on environmental and social performance as stipulated prior to disbursement and submission of annual reports on financial, environmental, and social performance. The revision of IFC’s environmental and social policy and performance standards and the introduction of improved management systems will allow us to track and support sustainability throughout the investment cycle.

ACCOUNTABILITY

Two independent units work to ensure IFC’s accountability to shareholders, as

well as the Corporation’s accessibility to affected and concerned stakeholders: the Compliance Advisor/Ombudsman and the Independent Evaluation Group (previously the Operations Evaluation Group).

COMPLIANCE ADVISOR/OMBUDSMAN

The Compliance Advisor/Ombudsman is an independent post reporting directly to the president of the World Bank Group, with a mandate to help IFC address complaints from people affected by private sector development projects; to do so in a manner that is fair, objective, and constructive; and to enhance social and environmental outcomes. The CAO’s office has three distinct functions: ensuring compliance, advising World

Bank Group management, and promoting resolution of disputes.

Compliance audits are independent assessments of the application of relevant policies, standards, procedures, and guidelines. The focus is on the role of IFC, but the actions of a client company may also be considered, as well as the influence of other parties or factors on ensuring or hindering compliance. The CAO provides independent, timely, and objective advice to the president of the World Bank Group and the management of IFC and MIGA. This advice relates only to broader environmental and social policies, guidelines, procedures, resources, and systems.

The CAO also promotes resolution of complaints raised by affected communities about the social and environmental effects of IFC projects. The ombudsman’s primary function is to convene project stakeholders—including community members, IFC, client companies, and other relevant parties—in collaborative approaches to problem-solving.

In FY06, the CAO received five complaints on four different projects that IFC financed or considered financing.

INDEPENDENT EVALUATION
GROUP FOR IFC

The Independent Evaluation Group, an independent unit within the World Bank Group, reports directly to the Bank Group’s Boards. Formerly the Operations Evaluation Group, IEG adopted its new name following Board approval of a mandate to foster independence of the evaluation function across the World Bank Group. The World Bank, IFC, and MIGA each have a separate IEG unit under the director general of evaluation, and a number of evaluations are joint efforts. IEG-IFC also cochairs the

COMPLIANCE ADVISOR/OMBUDSMAN ACTIVITIES DURING 2005 AND 2006
COMPLIANCE AUDITS
Brazil: Amaggi Soybean Investment
Democratic Republic of Congo: Dikulushi Copper and Silver Mine
Uruguay: Orion and Celulosas de M’Bopicia Pulp Mill Projects
ADVISORY PROJECT
CAO Comments on Draft IFC Policy and Performance Standards and Draft Policy on Disclosure Information
OMBUDSMAN INTERVENTIONS
Botswana: Kalahari Diamond Mine
Chile: Panguel Hydroelectric Project
Georgia: Baku-Tbilisi-Ceyhan Export Pipeline
Guatemala: Marlin Gold and Silver Mine
India: Allain Duhangan Hydroelectric Project
Kazakhstan: Karachaganak Oil and Gas Condensate Field
Peru: Antamina Copper, Zinc, Silver, and Molybdenum Mine
Peru: Yanacocha Gold Mine
Uruguay: Orion and Celulosas de M’Bopicia Pulp Mill Projects
Details on these activities can be found on the CAO Web site, www.cao-ombudsman.org .

Multilateral Development Bank Evaluation Cooperation Group's working group on private sector evaluation, which is harmonizing evaluation policies, standards, and measurement for development impact reporting among multilateral development banks with private sector operations.

IEG evaluations are distributed within IFC, and recommendations from major IEG reports and their implementation are tracked and reported to IFC's Board of Directors. A new disclosure policy that went into effect in May 2006 allows for public disclosure of all IEG evaluation

documents distributed to IFC's Board. The new policy addresses public demand for greater disclosure and transparency by multilateral institutions and will significantly expand the amount of IEG information that is publicly available.

INDEPENDENT REVIEW OF IFC'S PROJECT OUTCOMES

Each year, using corporate guidelines developed jointly by IEG and IFC management, IFC's investment staff execute project self-evaluations for a representative, randomly selected sample of investments approved about five years

earlier that have reached early operating maturity. Staff research and analyze results and rate each project on nine indicators, using a four-point scale. IEG then independently reviews each report and the associated project files and verifies each rating (or rerates it, as appropriate) to ensure that evaluation standards are applied consistently throughout IFC. IEG synthesizes its findings with those of the previous two years in its Annual Review.

This year, IEG presented development and investment results from 210 randomly selected operations evaluated between 2002 and 2004, or 53 percent of all investments that were approved between 1997 and 1999. It also examined, with an eye toward future results, how effectively IFC is managing four key drivers of project outcomes: work quality, risk intensity, strategic choices, and business climate. In addition, the report assessed whether IFC is addressing the unique challenges of doing business in Sub-Saharan Africa in the context of the proposed scaling up of its operations there (see page 47).

Overall, IEG found that positive development and investment outcomes tend to occur together in the projects IFC chooses to support. IFC achieved high development and high investment outcomes in 47 percent of projects (55 percent by volume), indicating that at the individual project level, they made a satisfactory or better contribution both to development in a country and to IFC's profitability and financial capacity for future development. Among the 210 operations evaluated, 59 percent achieved high development outcomes, while 55 percent achieved high investment outcomes (see figure 1).

FIGURE 1: LITTLE TRADE-OFF BETWEEN DEVELOPMENT AND INVESTMENT OUTCOMES

79 percent of operations (by number) had either high-high or low-low outcomes (squares 1 and 4). In the projects that IFC chose to support, there was thus little trade-off between development impacts and investment results measured by outcome criteria. Marginally more operations achieved good development outcomes (59 percent) than good investment outcomes (55 percent), a pattern consistent with the data in previous Annual Reviews.

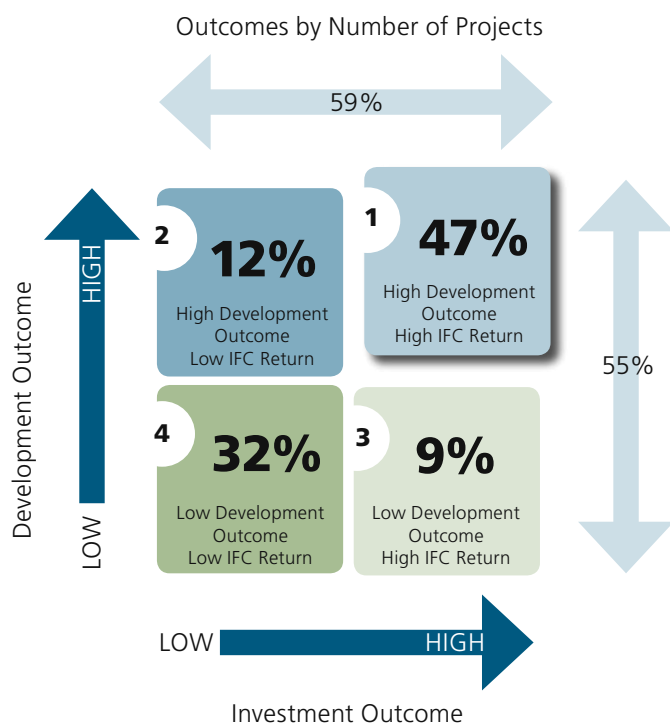
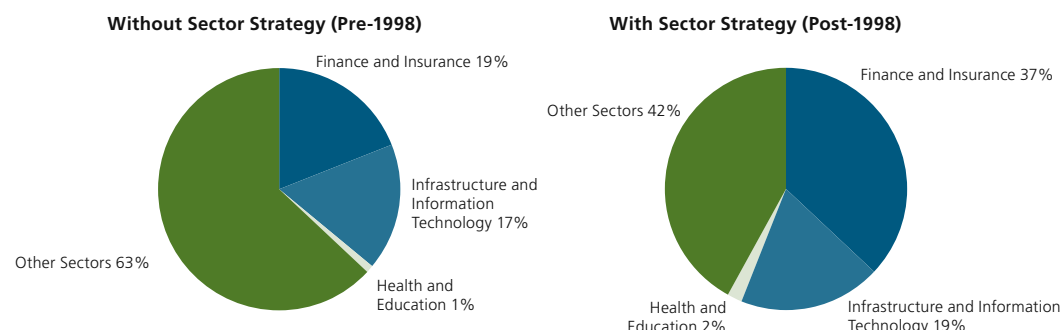


FIGURE 2: IFC HAS INCREASED ITS COMMITMENTS IN STRATEGIC SECTORS SINCE 1998



Mixed outcomes (boxes 2 and 3 in figure 1) occurred in 21 percent of projects and mainly reflected financing instrument choice. Projects with high development outcomes but low investment outcomes involved mostly equity financing, while projects with low development outcomes but high IFC investment outcomes involved mainly secured senior loans. High investment/high development outcomes were also characterized by instrument choice and higher IFC work quality ratings. In 65 percent of projects with high investment and high development outcomes, IFC provided only a loan for its own account. In the overall sample, loan-only investments were made in about half of all cases.

Low investment/low development outcomes were more likely to reflect poor work quality ratings or be projects in environments with high or increasing business climate risk. Only a quarter of equity investments had satisfactory or excellent investment outcomes. This is not surprising given the high-risk nature of equity investments. IFC's investment success rate is similar to the typical venture-capital type of return pattern, where a few projects drive overall success. Generally, a project's financial performance is a strong determinant of

its wider development impact. IEG's Annual Review confirmed the importance of the four key drivers within IFC's core business model:

- IFC's work quality, especially in the screening, appraisal, and structuring of projects and investments
- The level of a project's intrinsic risk intensity at approval, along with the financial risk in IFC's associated instrument choice
- IFC's strategic choices of a sector, thematic, or country focus
- Changes in business climate quality between approval and evaluation

Where key drivers of results can be controlled, IFC is generally managing them well. IFC has made positive progress in the first three areas, reflecting the results of a number of work quality initiatives implemented since 1998 and the pursuit of a more targeted corporate strategy.

Work quality has improved substantially in recent years. The upward trend largely reflects improved supervision and administration, an indication that several IFC quality improvement steps—including strengthened environmental procedures in 1998, the establishment of portfolio units in 1999, and the introduction of IFC's sustainability initiative in 2001—are

having a positive impact during the operational phase of evaluated projects.

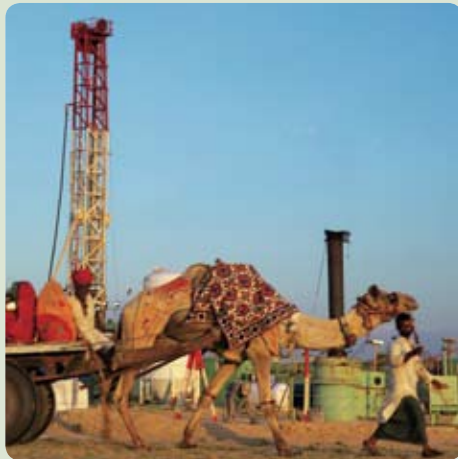
Risk intensity has been reduced. IFC put in place more intensive credit review procedures, more realistic debt service coverage ratios, and more use of quasi-equity instruments in commitments approved between 2002 and 2004. This also suggests improvement in IFC appraisal and structuring quality and the potential for better outcome quality from more recently approved projects.

Better overall outcomes were found for investments in IFC's strategic sectors than for those in nonstrategic sectors. IFC has increased its share of commitments in strategic sectors since 1998 (see figure 2). Overall, the evaluated investment operations in the strategic sectors yielded higher average development and investment outcome success rates than operations in nonstrategic sectors.

IFC's frontier strategy, a focus on activity in high-risk or low-income countries that began in 1998, has led IFC to increase its investments in areas where it has the most potential to make a difference. Because of this strategy, business climate risk is rising in IFC's portfolio, and effective management of this risk will be critical.



REPORT ON REGIONS





Sub-Saharan Africa

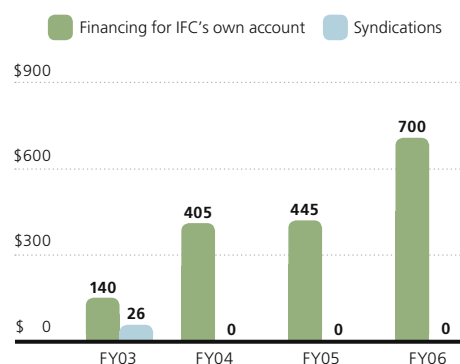
ANGOLA BENIN BOTSWANA BURKINA FASO BURUNDI CAMEROON CAPE VERDE CENTRAL AFRICAN REPUBLIC CHAD
COMOROS DEMOCRATIC REPUBLIC OF CONGO REPUBLIC OF CONGO CÔTE D'IVOIRE DJIBOUTI EQUATORIAL GUINEA ERITREA
ETHIOPIA GABON THE GAMBIA GHANA GUINEA GUINEA-BISSAU KENYA LESOTHO LIBERIA MADAGASCAR MALAWI
MALI MAURITANIA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

IFC'S STRATEGY FOR SUB-SAHARAN AFRICA

- Increase investment commitments to about \$900 million by FY09
- Improve the investment climate; enhance support for small and medium enterprises; and proactively develop large investment projects
- Increase emphasis on cross-border activities, with specific attention to the development of financial and physical infrastructure, trade finance, small business competitiveness, and support for global expansion of emerging enterprises
- Significantly increase IFC's reach and sustained impact in frontier countries by integrating technical assistance and investment operations

COMMITMENTS

(U.S.\$ millions)



OVERVIEW OF IFC ACTIVITY

	FY06	FY05
Total number of investment projects	38	30
Total expenditures for technical assistance and advisory service projects (U.S.\$ millions)	\$27	\$26

IFC STAFF AND CONSULTANTS

	Headquarters	Field Offices
As of June 30, 2006	5	237

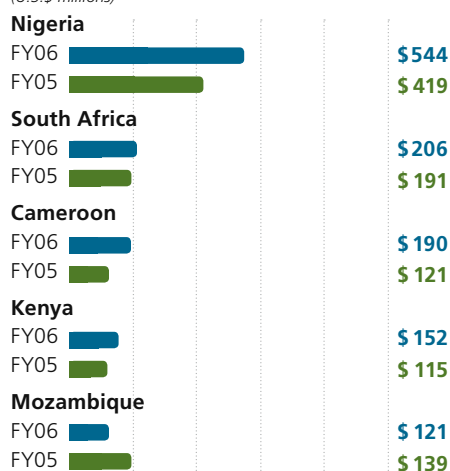
PROJECT FINANCING AND PORTFOLIO

(U.S.\$ millions)

	FY06*	FY05**
Financing committed for IFC's account	\$ 700	\$ 445
Loans***	393	357
Equity***	72	36
Guarantees and risk management	235	52
Loan syndications signed	0	0
TOTAL COMMITMENTS SIGNED	700	445
Committed portfolio for IFC's account	2,033	1,698
Committed portfolio held for others (loan and guarantee participations)	168	194
TOTAL COMMITTED PORTFOLIO	2,201	1,892

IFC'S LARGEST COUNTRY EXPOSURES

Committed portfolio for IFC's own account as of June 30, 2006.
(U.S.\$ millions)



* Includes regional shares of Veolia Water AMI investments, which is officially classified as a global project. Committed portfolio for IFC's account includes regional share of BAPTF, which is officially classified as a global project.

** Includes regional share of BAPTF investment, which is officially classified as a global project.

*** Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.



ASHETU FATIMA KOLO

Advanced Bio-Extracts Limited works with farmers in Kenya, Tanzania, and Uganda to supply critical active ingredients to the pharmaceutical industry.

IMPROVING THE CLIMATE FOR PRIVATE INVESTMENT

The Sub-Saharan region has seen six consecutive years of GDP growth, including economic expansion of 4.6 percent in calendar year 2005. National and international efforts to increase foreign direct investment have met with some success, with investment in natural resources particularly strong. As a result of high prices for minerals and oil and a rise in profitability for investments in the extractive and natural resource sectors, resource-rich nations have dominated the region's recent economic growth. Macroeconomic management in several large countries has steadily improved, and, notwithstanding some continuing problem spots, there is greater political stability, with fewer conflicts across the region. Intraregional investments, led by South African firms, have increased, as have investments by firms based in developing countries outside of Africa.

Economic expansion, along with the region's growing appreciation of private

sector investment and better integration of IFC's investments and technical assistance, has led to a substantial increase in our business in Sub-Saharan Africa. Commitments in the region totaled \$700 million during the fiscal year, an increase of nearly 60 percent from the previous year, and were concentrated in financial market and infrastructure projects. IFC's total portfolio in the region surpassed \$2 billion this year for the first time.

In late 2005, IFC launched the Private Enterprise Partnership for Africa, or PEP Africa, as its primary vehicle for promoting sustainable private sector growth. In response to the challenges of the regional investment climate, PEP Africa is collaborating with the World Bank and African governments to streamline business start-up procedures and tax systems, as well as to improve private sector property rights and women's access to finance.

IMPROVING ACCESS TO FINANCE

In Africa, 80 percent of firms are small, and gaining access to financing is an even greater challenge for private companies here than in other emerging regions. To bridge this gap, IFC and the International Development Association, the World Bank's concessionary lending arm, are working together to strengthen local environments for financial markets by enhancing the ability of financial institutions to lend profitably to small businesses and developing innovative ways to supply risk capital. The IDA-IFC SME program is being piloted in 10 African countries: Burkina Faso, Ghana, Kenya, Madagascar, Mali, Mozambique, Nigeria, Rwanda, Tanzania, and Uganda. The program offers technical assistance, capacity building, output-based grants, and assistance with regulatory reform. Financial products available include performance-based lending, microfinance, and local currency

portfolio guarantee products. This program complements IFC initiatives for trade and housing finance, the pilot SME Solution Centers we have set up in Madagascar and Kenya, and our initiative for small and medium enterprises in Mozambique.

About half of IFC's Sub-Saharan investments are in financial sector projects, and we also support financial sector development with technical assistance. Because some African countries lack property rights, and local borrowers cannot arrange financing without

collateral, IFC is increasing its investments in leasing projects as well as its support to private banks that provide alternative means of financing. Commitments this year included financing for credit lines and microfinance facilities for small businesses in Kenya, Nigeria, and Uganda.

IFC's Global Trade Finance Program aims to increase developing countries' share of worldwide trade and promote trade to and from emerging markets.

INFRASTRUCTURE INVESTMENTS

During FY06, IFC committed \$185 million to projects in the power, water and sanitation, and transportation sectors. To expand the number of viable infrastructure projects in Africa, IFC has increased its collaboration with other members of the World Bank Group. IFC



RAJESH BEHAL

GRAPE GROWER EXPANDS BEYOND SOUTH AFRICAN BASE

IFC made a rand-denominated loan equivalent to \$7.24 million this fiscal year to Karsten Farms, a leading South African exporter of table grapes. The firm is using the loan to expand its operations in South Africa and establish grape farming operations in Egypt. This reflects a trend in foreign direct investment by emerging market firms, known as south-south investment. African companies investing

in other countries across the region gain by diversifying their risk exposure and developing experience in other markets. IFC's investment in Karsten also supports the continued growth of a successful firm, allowing it to increase capacity, diversify its production base, and work toward year-round operation.

In addition to providing financing, IFC will help the company implement community programs for HIV/AIDS, adult literacy, skills training, and health care. Karsten is the technical partner in

a black economic empowerment project, the Thandi program, which is a joint effort between IFC and Capespan, South Africa's premier fruit exporter, to help black South African farmers. Working with a farm involved in the program, Karsten is sharing its technical skills and marketing experience with small farmers, upgrading the quality of grapes for export, and training other Africans in international standards for quality control and handling of fruit.

provided advice and technical assistance on the bidding process for the railway network linking Kenya and Uganda, and we are working with the World Bank's partial risk guarantee department to finance the new concession. Our support includes a PEP Africa program that maximizes economic links to the Kenyan economy. IFC and the World Bank have also worked together to provide financing combined with technical and policy advice for infrastructure projects in Cameroon, Côte d'Ivoire, Ghana, Rwanda, Senegal, and Uganda.

POWER GENERATION IN SENEGAL

IFC played a key role in developing and financing a 67.5-megawatt independent power project in Senegal that will provide much-needed capacity to the country's electricity sector. IDA provided a partial-risk guarantee to help a local commercial bank provide local currency financing for the project.

IFC's commitment for €17 million, part of a package of loans from a number of development banks, will be used to build a privately run, heavy fuel oil-fired diesel power generation plant outside of Dakar. Intended to provide baseload capacity, the plant is more cost-effective than other power generation options. Power from the plant will be purchased by Société Nationale d'Electricité du Sénégal (Senelec), the state electric utility, under a 15-year agreement, and a private sector partner will be selected through a bidding process.

FOSTERING GROWTH IN TRADE FINANCE

IFC's Global Trade Finance Program aims to increase the developing countries' share of worldwide trade and promote trade to and from emerging markets. Through the program, we offer confirming banks partial or full guarantees against underlying trade transactions and cover the payment risk of participating issuing banks.

In the first nine months of the program's operation, IFC issued more than 380 guarantees for a volume of \$317 million. From high-tech products to agricultural goods, the program supports trade through a network of issuing banks and confirming banks in more than 40 countries. The average guarantee is for less than \$1 million, and about 80 percent of transactions this year were in Sub-Saharan Africa. Deals in Africa included:



IFC provided a partial trade finance guarantee for a \$1 million export of palm oil.

- A \$370,000 export of steel products from South Africa to Kenya, where IFC's support accommodated a small-value transaction that was important in promoting trade between two African markets at a time when the confirming bank could not accommodate the credit exposure on the issuing bank.
- IFC's \$9.8 million three-year guarantee for the sale of buses from Brazil to Nigeria provided scarce longer-term financing for private

sector investment in that country's urban transportation.

IFC's guarantee coverage of bank risk allows recipients to expand their trade finance transactions within an extensive network of countries and banks and enhance service to their clients. IFC hopes to increase trade financing in other African countries with high export potential, including Angola, Cameroon, Ethiopia, Rwanda, Senegal, and Sudan.

We provided \$89 million in financing to AES Sonel, Cameroon's electricity utility, to improve the reliability of electricity supply and connect new customers.

Our largest infrastructure commitment to date in Africa is for a financing package for AES Sonel, Cameroon's integrated electricity utility. As part of a package of loans from several development finance institutions, this will be used to improve the reliability of electricity supply and connect new customers over the next five years. IFC worked closely with the World Bank, which is engaged in further discussions on infrastructure with Cameroon's government. IFC and IDA are also working with Ghana's government to encourage private investment in the power sector.

IFC made its first investment in water and sanitation in Africa with a €65 million financing package to Veolia Water AML, a company established to pursue water and sanitation projects in Africa. It is part of the Veolia Environnement Group, a world leader in environmental



AES Sonel plant in Cameroon.

services that operates public services in both industrialized and developing countries. IFC's investment will support improvements in water and sanitation services across the continent.

In the transportation sector, we made our first commitment for a logistics project in Africa, providing a loan for the equivalent of \$1.3 million to 3T-Cameroon,

a freight-hauling company. The money helped finance the expansion of the company's truck fleets, the purchase of tracking and monitoring equipment, and the development and construction of storage depots. Also in Cameroon, IFC advised the government on the selection of SN Brussels as manager and partial owner of Cameroon Airlines.

INVESTING IN POST CONFLICT REGIONS: DEMOCRATIC REPUBLIC OF CONGO

Following IFC Executive Vice President Lars Thunell's visit to the Democratic Republic of Congo in February 2006, IFC and the World Bank launched a pilot post conflict initiative to maximize opportunities for private sector investment and technical assistance following the country's political transition. The first phase involves an intensive effort by six IFC teams—coordinating with the World Bank, MIGA, and DRC authorities—to assess opportunities and challenges for private enterprise in telecommunications, infrastructure, mining, financial markets,

and general manufacturing. Short-, medium-, and long-term initiatives were readied for implementation following the country's elections.

Joint IFC–World Bank teams have found potential for private sector investments in power, telecommunications, engineering and construction, and financial markets, as well as for advisory services and technical assistance in a number of areas, including infrastructure, investment climate, and entrepreneurship. We anticipate that lessons learned from our work in the DRC will provide the foundation for a comprehensive World Bank Group approach to reconstruction and engagement in post conflict countries.

IFC has worked with the World Bank to establish new investment and mining

codes in the DRC, and IFC committed financing for the country's first project to be governed by the new mining code. We exercised our option to become a shareholder in Kingamyambo Musonoi Tailings SARL, investing \$5.5 million for a 7.5 percent equity stake. The investment will support a feasibility study for the treatment of waste byproducts from mining activities. We are also considering providing KMT with additional debt and equity financing for the construction of its \$400 million copper- and cobalt-mining operation, which is expected to open in 2007. By investing in the early stages of the project's implementation, IFC has a role in environmental and social impact assessments and in plans for community engagement.

IEG ASSESSMENT OF IFC'S ACTIVITIES IN AFRICA FROM 1990 TO 2005

This year, as the Corporation seeks to expand its activities in Sub-Saharan Africa, the Independent Evaluation Group assessed IFC's management of the unique challenges in the region. Business climate risk remains a major barrier to private investment in much of Africa. Except for a few countries, Africa has the world's highest-risk investment environment. IFC's strategies in Africa since 1994 have repeatedly targeted business climate improvement as a key

priority for the region, along with the development of small enterprises, which are the mainstay of African economies.

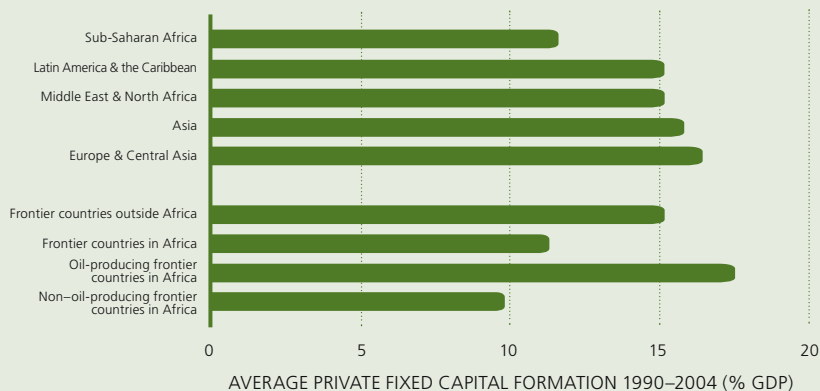
However, IFC's investment opportunities and commitment levels in many parts of the region have remained constrained by the poor business climate and a relative lack of viable investment projects with good private sector sponsors. As the figure below illustrates, weak business climates have severely curtailed investment in the region, especially in non-oil-producing, frontier Africa.

A few African countries have, however, improved investment climates in the last few years, and their levels of

private investment have also increased. IFC's operations have also changed in Sub-Saharan Africa in recent years. Since 1995, IFC has established a stronger regional presence, with a hub office in Johannesburg supporting six smaller offices. Programs to support small businesses have been restructured, and the Private Enterprise Partnership for Africa has been launched. IFC's African portfolio was unprofitable from 1990 to 2003, but there has been a significant turnaround in the past few years. This is important because financially successful enterprises are the most likely to have a wider development impact.

For the evaluated projects in Africa that achieved high development outcomes, IEG estimated that each \$1 of investment provided \$1.50 of net economic benefits in present-value terms. In contrast, projects with low development outcomes provided a net economic benefit of only \$0.10 per \$1 invested. Overall, the development success rate was 48 percent of projects by number and 64 percent of investments by volume. IFC's proposed scaling-up in Africa will be more effective if it is able to match higher volumes with better-quality outcomes.

PRIVATE INVESTMENT IN AFRICA VS. REST OF WORLD, 1990 TO 2004



SOURCE: WORLD BANK STATISTICS DATABASE



RICHARD LORD



East Asia and the Pacific

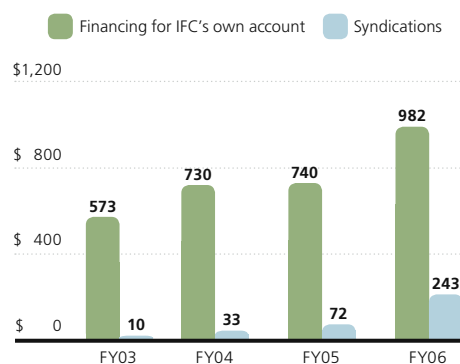
CAMBODIA CHINA FIJI INDONESIA KIRIBATI REPUBLIC OF KOREA LAO PEOPLE'S DEMOCRATIC REPUBLIC
MALAYSIA MARSHALL ISLANDS FEDERATED STATES OF MICRONESIA MONGOLIA MYANMAR PALAU PAPUA NEW GUINEA
PHILIPPINES SAMOA SOLOMON ISLANDS THAILAND TIMOR-LESTE TONGA VANUATU VIETNAM

IFC'S STRATEGY FOR EAST ASIA AND THE PACIFIC

- Strengthen financial institutions in the region, deepen capital markets, and expand access to finance for small and medium enterprises
- Support Chinese domestic companies seeking to adopt international standards in governance, environmental, and social practices
- Assist in developing nonbank financial institutions and capital markets and improve access to finance for underserved markets
- Create model infrastructure projects to meet Indonesia's significant infrastructure needs
- Develop financial markets and invest in infrastructure in the region's low-income and high-risk countries, with focus on the needs of small and medium enterprises

COMMITMENTS

(U.S. \$ millions)



OVERVIEW OF IFC ACTIVITY

	FY06	FY05
Total number of investment projects	41	40
Total expenditures for technical assistance and advisory service projects (U.S. \$ millions)	\$26	\$24

IFC STAFF AND CONSULTANTS

	Headquarters	Field Offices
As of June 30, 2006	6	344

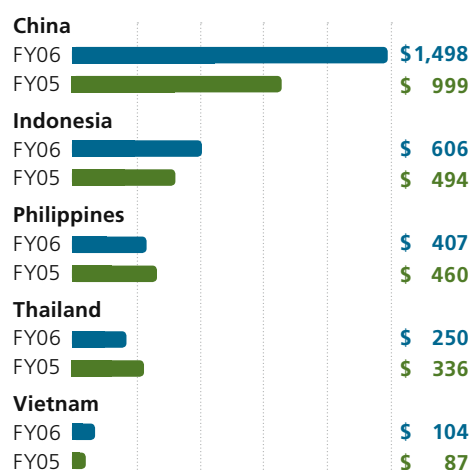
PROJECT FINANCING AND PORTFOLIO

(U.S. \$ millions)

	FY06*	FY05
Financing committed for IFC's account	\$ 982	\$ 740
Loans**	624	520
Equity**	310	195
Guarantees and risk management	48	25
Loan syndications signed	243	72
TOTAL COMMITMENTS SIGNED	1,225	811
Committed portfolio for IFC's account	3,253	2,920
Committed portfolio held for others (loan and guarantee participations)	689	821
TOTAL COMMITTED PORTFOLIO	3,942	3,741

IFC'S LARGEST COUNTRY EXPOSURES

Committed portfolio for IFC's own account as of June 30, 2006.
(U.S. \$ millions)



* Includes regional shares of Soco Facility and Avenue Asia investments, which are officially classified as global projects.

** Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.



IFC is helping the Bat Trang Ceramics Association in Vietnam increase sales and export its products.

BALANCING SUSTAINABLE PRIVATE SECTOR DEVELOPMENT WITH RAPID GROWTH

East Asia and the Pacific continues to be the world's fastest-growing region, with GDP growth of about 6.8 percent in calendar year 2005, down slightly from 7.5 percent in 2004. Economic growth accelerated in Cambodia, Indonesia, and Vietnam and continued at very high rates in China, whereas it slowed in Malaysia, the Philippines, Thailand, and the smaller economies in the Pacific region. While higher oil prices have moderated growth, consumer and business confidence in the region has remained strong, and private consumption and investment growth have gained momentum. Intraregional trade continues to grow as Chinese companies become important investors both within and beyond the region.

Rapid growth is creating tensions regarding infrastructure, the environment, the social fabric, and financial systems. The sustainability of the region's economic growth will depend on deepening its financial

system, broadening the base of growth through small business development, meeting infrastructure needs, and managing the social and environmental consequences of high growth. IFC's strategy in East Asia and the Pacific is to develop solutions to these challenges through innovative combinations of financing, technical assistance, and public-private partnerships.

IFC's commitments in the region totaled \$982 million in FY06, compared with \$740 million in FY05, and included increased financing for agribusiness, information technology, and manufacturing projects. We opened two new technical assistance facilities this year, one in a rural and underdeveloped part of the Philippines and the other in an area of Indonesia recovering from the 2004 tsunami.

FINANCIAL SECTOR DEVELOPMENT

During the fiscal year, IFC continued to deepen and diversify the region's financial sector by introducing long-

term local currency financing, including local currency bonds, and investing in nonbank financial institutions. This year, IFC was the first multilateral issuer of a panda bond in the Chinese nongovernment domestic market, a transaction that marked the opening of the renminbi bond market to international financial institutions.

IFC's financial sector commitments in the region included a local currency loan of 1.3 trillion rupiahs, equivalent to about \$150 million, to Indonesia's PT Bank Danamon. This loan, our largest local currency facility globally and our largest transaction to date in Indonesia, will support expansion of the bank's microcredit unit.

SUPPORT FOR SMALL BUSINESSES AND REGIONAL FIRMS

As part of its development mandate, IFC supports the transformation of domestic companies into regional and global players. IFC provided a \$45 million loan

for expansion of production capacity to Indonesia's Centralpertiwi Bahari, a subsidiary of Charoeeon Pokhpand Group, the leading agribusiness group in Asia. This will help the company meet increasing demand for its exports, while creating 5,000 jobs in rural areas with limited economic activity. We also committed \$8 million for Paul Maitland International, an exporter of wood furniture in Vietnam. The investment, in addition to providing long-term financing, will help the company maintain its global competitiveness in certified wood products.

IFC's technical assistance for small and medium enterprises is particularly critical in the frontier regions of emerging economies. East Asia now hosts six private enterprise partnerships for technical assistance, including new initiatives in the Philippines and the Aceh province of Indonesia. All six facilities focus on investment climate issues, access to finance, and corporate governance. The new Private Enterprise Partnership for Aceh and Nias is revitalizing small

PROMOTING ACCESS TO CREDIT IN INDONESIA

Indonesian banks generally provide short-term loans for working capital to large businesses, rather than to the rapidly growing smaller firms that make a key contribution to economic growth. To combat financing obstacles for smaller firms, IFC's Program for Eastern Indonesia SME Assistance and its project partner, Swisscontact, have established new business centers, called Promoting Enterprise Access to Credit, to help small businesses get loans from local banks and provide training programs to business service providers. More than 150 Indonesian small and medium enterprises that are working with business centers have already obtained the equivalent of over \$10.5 million in new loans from local banks.

businesses in the agribusiness and fisheries sectors and improving access to finance for businesses devastated by the 2004 tsunami. IFC's Mekong Private Sector Development Facility collaborated this year with Gap Inc., the largest buyer of garments made in Cambodia, to provide training to more than 650 supervisors in garment factories.

In the tourism sector, MPDF provided technical assistance to

introduce Web portals and local booking offices, giving more than 400 smaller hotels and guesthouses in the Mekong region the opportunity to advertise and accept reservations online. This project has been spun off as a separate company, Worldhotel-link. Web sites previously established for Fiji, Samoa, and Vanuatu by Worldhotel-link will continue to be supported by the new company.



FARIDA LASIDA ADJI

IFC's Program for Eastern Indonesia SME Assistance works with local furniture manufacturers to improve quality and competitiveness.

SUSTAINABLE GROWTH FOR THE LONG TERM

Companies are recognizing the value of sustainable business practices in reducing long-term risks, particularly in East Asia and Pacific island economies, where development pressures on

food traceability and agricultural practices at the tens of thousands of farms in the company's supply chain. Employee health and safety and agrochemical use are concerns for the multinational companies that buy North Andre's juice.

A subsidiary of Charoeeon Pokhpand Group, the leading agribusiness group in Asia, plans to create 5,000 jobs in rural areas of Indonesia with a \$45 million IFC loan to expand production capacity.

natural resources are acute. IFC's work in this arena ranges from reducing the emissions of power generation facilities in China to ensuring reasonable housing and work opportunities for people in communities affected by development projects.

We provided technical assistance this year to North Andre, a major Chinese apple juice producer, to improve

Our private enterprise partnerships provide technical assistance for best practices of sustainability. In Indonesia, stable employment and sustainable livelihoods are being created through projects in the seaweed cultivation and forestry industries, and we are helping small businesses in nearby communities become part of the supply chain for a large natural gas project. IFC-PENSA helped an



IFC is supporting United Family Hospitals, an innovative private sector health care provider in China.

Indonesian acacia plantation gain membership in the World Wildlife Fund's Global Forest and Trade Network: this certification is a major milestone for plantation forestry in a country where natural forests continue to be lost to illegal logging. We are also working with the International Labour Organization in Southeast Asia to promote niche tourism initiatives and institutionalize factory compliance projects. In Vietnam, IFC completed an analysis of constraints facing women business owners and managers, then launched a sustainable finance program to improve their access to finance.

MODEL PUBLIC-PRIVATE PARTNERSHIP IN SAMOA

International transport links are critical to Samoa's economic development. IFC's advisory services provided a unique solution to meet the country's air transport needs by involving the private sector.

Samoa's government could not afford the subsidies required to continue operations of publicly owned Polynesian Airlines, and IFC helped devise a competitive process to select a new private sector partner. Australia's Virgin Blue emerged as the successful bidder with a proposal that will allow the Samoan government to develop tourism, guarantee air access to Samoa, and reduce its contributions to the airline. In other markets where it operates, Virgin Blue has increased tourist arrivals by over a third within the first three years of operations. The Samoan public-private partnership, which will be managed on a commercial, for-profit basis, is the first instance of a low-cost carrier participating in an airline privatization.

To help relieve water shortages, we provided financing for Dagang NewSpring to build a seawater desalination plant in Tianjin, China.

INFRASTRUCTURE AND HEALTH CARE

Infrastructure investments, a high priority for IFC in the region, are needed to maintain existing systems and support continued growth at rates that reduce poverty. We diversified into new infrastructure sectors in East Asia this year with loans for desalination and small hydropower development in China. IFC provided financing to Dagang NewSpring to build a seawater desalination plant in Tianjin, China. The plant will help relieve water shortages and alleviate pollution of surface and groundwater.

We lent \$22 million to Zhongda Yanjin Power Generation for three run-of-river power stations. This project, our first investment in Yunnan, one of China's less developed western provinces, will ease power shortages and reduce greenhouse

gas emissions by an estimated 8 million tons over 30 years. This project is expected to attract more investors to Yunnan and nearby provinces, where investment lags behind China's urbanized coast. We are also advising the Philippine government on the privatization of parts of the Small Power Utilities Group, which supplies electricity to rural areas off the power grid.

Our investments in China's high-growth technology sector totaled \$50 million this year for five projects. These included a \$15 million equity investment in ChinaSoft, a software solutions provider, which received a matching investment by Microsoft Corporation USA; a \$20 million equity participation in the SBCVC technology

fund; and a \$10 million investment in NeoPhotonics, which designs and produces components for fiber optic networks.

IFC provided an \$8 million loan to expand China's United Family Hospitals. The country is in the early stages of opening its health sector to private practitioners and foreign investors, and the project will increase access to high-quality health care. We also provided a \$4.6 million financing package for Shanghai Aerospace Computer System Engineering Co., Ltd., which provides high-quality, affordable medical education and training via satellite throughout China, allowing health care practitioners to satisfy continuing education requirements in remote areas.

SUPPORT FOR BUSINESS POLICY DEVELOPMENT IN VIETNAM

In December 2005, Vietnam's national assembly passed two key pieces of business legislation—the Investment Law and the Enterprise Law—to improve the investment climate for domestic and foreign businesses. IFC's Mekong Private Sector Development Facility provided comprehensive technical assistance to government drafting committees and the National Assembly during the law-making process, earning government praise for this support.

MPDF's assistance began with research and presentations for the two drafting committees; topics included best international practice for investment incentives, investor protection, corporate governance, and alternative approaches for legally establishing corporate groups. The facility's advocacy and communications campaign ensured that the issues were widely discussed in the media and among stakeholders to provide wide-ranging feedback on the draft laws.



A sustainable tourism technical assistance project develops export markets for handicraft producers.



LARRY JIANG

IFC's investment in Central Pertiwi Bahari is helping this Indonesian shrimp farm expand to new export markets.

LOCAL CURRENCY LOAN FACILITY BENEFITS SMALL INDONESIAN BUSINESSES

IFC provided its largest local currency loan, equivalent to \$150 million, this year to PT Bank Danamon. The bank is the leading lender for small and medium enterprises and consumer financing in the Indonesian market. IFC's financing, unavailable to the bank in the private market, will help the bank substantially increase its microfinance and small business lending. The structure of the local currency loan also demonstrates that IFC can offer the innovative, large-scale lending that East Asia requires.

Our support for Bank Danamon is part of a broader commitment to increase our activities in Indonesia and continue our support for small and medium enterprises. IFC's investment is expected to encourage other institutions to begin or increase lending to entrepreneurs and small and medium enterprises.

Local currency financing helps domestic borrowers match assets and liabilities and eliminates the risk associated with borrowing in a foreign currency.



South Asia

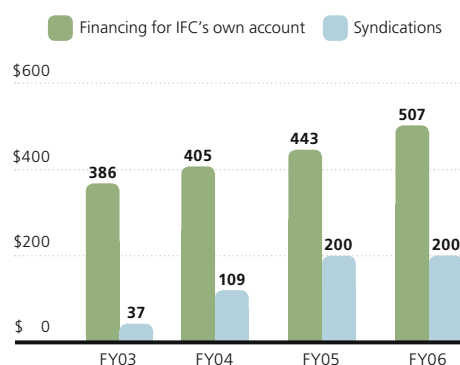
BANGLADESH BHUTAN INDIA MALDIVES NEPAL SRI LANKA

IFC'S STRATEGY FOR SOUTH ASIA

- Support regional integration into the global economy by supporting investments into and out of the region, sharing global best practices, and investing equity and debt in internationally competitive midsize companies
- Increase private investment in infrastructure through project finance, support for domestic financial institutions and infrastructure development companies, municipal finance transactions, and advisory work on specific projects
- Promote energy efficiency, cleaner production, and use of renewable energy in industry and infrastructure
- Promote development of small and medium enterprises, especially in frontier markets, in partnership with IFC investee companies, domestic financial institutions, governments, and business associations
- Build greater financial institution capacity, particularly in frontier countries, to expand financial services to underserved segments, including small and medium enterprises

COMMITMENTS

(U.S.\$ millions)



OVERVIEW OF IFC ACTIVITY

	FY06	FY05
Total number of investment projects	25	20
Total expenditures for technical assistance and advisory service projects (U.S.\$ millions)	\$12	\$6

IFC STAFF AND CONSULTANTS

	Headquarters	Field Offices
As of June 30, 2006	4	139

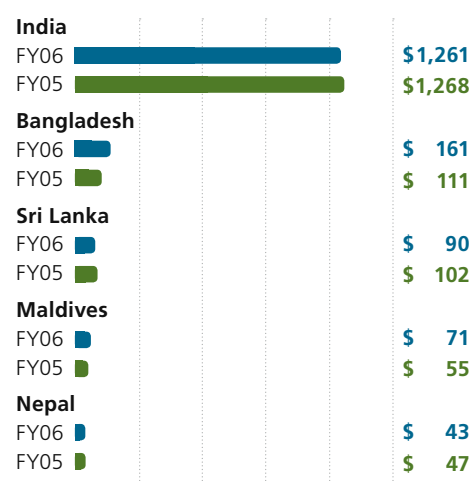
PROJECT FINANCING AND PORTFOLIO

(U.S.\$ millions)

	FY06*	FY05
Financing committed for IFC's account	\$ 507	\$ 443
Loans**	367	384
Equity**	130	57
Guarantees and risk management	10	2
Loan syndications signed	200	200
TOTAL COMMITMENTS SIGNED	707	643
Committed portfolio for IFC's account	1,800	1,634
Committed portfolio held for others (loan and guarantee participations)	584	416
TOTAL COMMITTED PORTFOLIO	2,384	2,050

IFC'S LARGEST COUNTRY EXPOSURES

Committed portfolio for IFC's own account as of June 30, 2006.
(U.S.\$ millions)



* Includes regional shares of Avenue Asia investments, which is officially classified as a global project.

** Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.



COURTESY OF CAIRN ENERGY

INCREASING ENTREPRENEURSHIP AND PRIVATE INVESTMENT IN INFRASTRUCTURE

One of the world's fastest-growing regions, South Asia witnessed another landmark year in 2005, with economic growth averaging 7.6 percent. Growth was strong in Bangladesh, Bhutan, India, and Sri Lanka, but comparatively weak in the Maldives and Nepal.

In this environment, IFC committed \$507 million for its own account and mobilized \$200 million in loan syndications in FY06. Our investments in South Asia this year were largely to support clients' expansion of capacity and the development of new products and services. Infrastructure development, where progress is critical to economic growth and quality of life, is also central to our investment strategy in the region.

Technical assistance for small business development is our main contribution to private sector development in areas where investment opportunities remain limited. IFC's technical assistance work in Bangladesh, Bhutan, and Sri Lanka

develops financial markets and, more generally, supports improvements in the investment climate.

IFC continues to support the development of small and medium enterprises in Bangladesh, Bhutan, Northeast India, Maldives, Nepal, and Sri Lanka through the SouthAsia Enterprise Development Facility. The SEDF program is laying the foundation for future investment opportunities by engaging with local banks to increase access to finance and working with governments to improve the business-enabling environment. SEDF works closely with the World Bank, leveraging its analytical work, including investment climate assessments. IFC opened two new offices this year, in Guwahati in northern India and in Sri Lanka, to respond more effectively to needs in low-income and high-risk regions.

While India's economic growth rates are impressive, improvement in the quality of life for the poor has been less

dramatic. IFC continues to focus on improving India's investment climate by supporting greater private participation in infrastructure development and government efforts to increase investment and rural productivity.

INVESTMENTS IN INFRASTRUCTURE

Substantial improvements in infrastructure are needed to sustain South Asia's growth. Severe bottlenecks, including in power, water, and transportation services, continue to impede economic competitiveness. To address infrastructure constraints, IFC made three investments in public-private partnerships in FY06, for a total of \$44 million.

We signed an agreement with the U.S.-based National Rural Electric Cooperative Association and the Power Finance Corporation, India's public financial institution for the power sector, to set up a public-private partnership for rural electricity distribution and provide advisory services

for pilot electrification programs. This alliance is an important step toward India's goal of achieving universal electrification by 2012. The rural distribution utilities the program establishes will be owned by community-based organizations and managed by private entities, with microlending and institutional support from nongovernmental organizations. The first project will be in West Bengal, where only 1 percent of the population currently receives electricity from the state utility.

IFC lent \$15 million to India Hydropower Development Company, a firm setting up six small and medium hydroelectric generation facilities in the states of Himachal Pradesh, Maharashtra, and Madhya Pradesh. IFC followed a prior investment in Infrastructure Development Finance Company Limited with both a syndicated loan of \$100 million and technical assistance to increase the company's capacity to advise state and municipal governments on developing



In Bhutan, we provide training to small business owners.

public-private infrastructure projects.

IFC also entered the Indian water sector for the first time, with \$25 million in financing for Chennai Water Desalination Limited, the country's first private project to supply desalinated water. This is also one of IFC's first investments in the desalination sector, which is growing globally.

In Sri Lanka, we helped Eco Power Private Limited, a developer and operator of small-scale hydropower generation

plants, sell carbon emission credits. The IFC-Netherlands Carbon Facility, our joint initiative with the Dutch government, signed an agreement in August 2005 worth \$4.5 million to purchase greenhouse gas emission reductions from Eco Power's renewable energy projects. Sales of these carbon credits will help the Netherlands comply with its commitments under the Clean Development Mechanism of the Kyoto Protocol.

SHARING STRATEGIES FOR EMERGING MARKET MULTINATIONALS

Investment flows between emerging markets rose threefold between 1995 and 2003, to \$46 billion, accounting for roughly 35 percent of total foreign direct investment in developing countries. IFC's commitments in support of such south-south investments have also grown rapidly, reaching \$673 million this year and including investment projects in every region.

To help emerging market companies learn from each other's experiences in cross-border investment, IFC organized a conference in Mumbai in November 2005 in conjunction with the *Financial Times*. Presentations by regional and global government and business leaders from Africa, Asia, Europe, the Middle East, and Latin America helped the 250 participants from 35 countries better understand investment trends and effective strategies for cross-border investing.

Employment for cane farmers in rural areas will increase with an expansion of sugar production capacity that IFC helped finance.

INCREASING CONNECTIVITY TO SPUR ECONOMIC GROWTH

A \$20 million loan to Wataniya Telecom Maldives Private Limited, a subsidiary of Kuwait-based Wataniya Telecom, will promote telecommunications competition in the Maldives and provide mobile coverage to underserved areas, including more than 100 islands. The company is building a nationwide mobile telecommunications network in the country and plans to set up a submarine fiber optic cable that will improve connections to the rest of the world.

Wataniya Telecom's project will provide mobile coverage to all inhabited islands as well as the Maldives' main fishing areas. Working closely with Horizon Fisheries, a local private company, Wataniya is helping boat captains use communications to improve how they match supply with demand at local processing plants.

FINANCING GROWTH IN EMERGING SECTORS

We continue to provide long-term debt and equity in India, making key investments this year in manufacturing, agribusiness, information technology, and financial services.

IFC provided a \$26.5 million combined loan and equity investment to JK Paper, one of the country's leading pulp and paper producers, increasing its ability to meet domestic demand and improve environmental systems. To support infrastructure development, we committed a combined loan and equity investment of \$20 million for PSL Limited, India's largest producer of large-diameter steel pipes. In the auto components industry, we provided financing for LGB and International Auto Limited to help those companies meet growing demand.

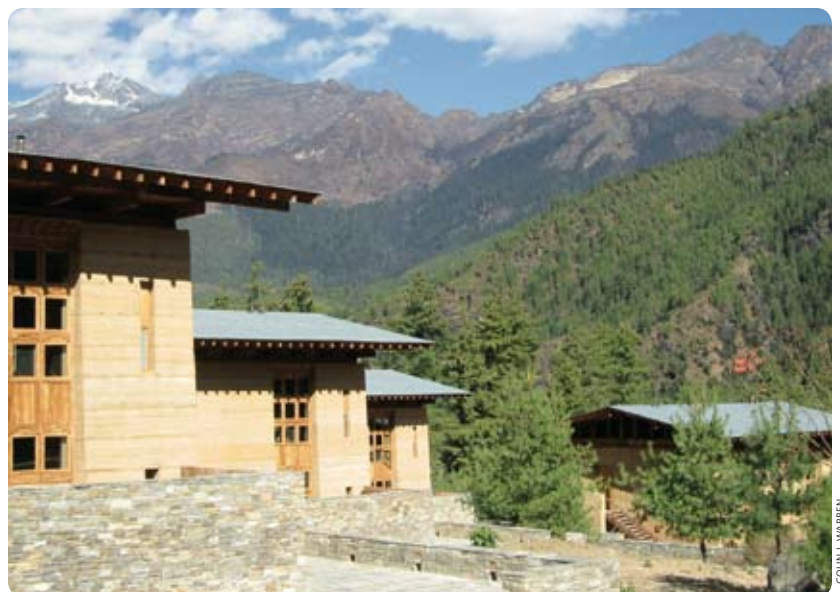
In the agribusiness sector, Ruchi Soya, an Indian producer of edible oils, is adding new facilities, training employees, and increasing its workforce with an investment from IFC. We also supported DSCL, a diversified Indian agribusiness and chemical company. Following a \$30 million investment in DSCL's chemical operations last year, IFC committed \$15 million in FY06 to

expand the company's sugar production capacity. This will lower unit production costs and increase employment for cane farmers in rural areas.

Technology accounts for 25 percent of exports and continues to be a key driver of economic growth. We responded to the need for early-stage financing in the Indian IT sector with a \$20 million equity investment in iLabs, an early-stage technology fund. We also made equity

investments in Indecomm, Nevis, and KPIT Cummins Infosystems.

To support development of oil and gas reserves in South Asia, IFC provided a second loan to Cairn Energy for \$150 million. Cairn is developing fields in India and Bangladesh, and our new investment will support work in an underdeveloped area of Rajasthan. The project offers a significant opportunity for communities near



IFC's first investment in Bhutan supported the tourism sector with financing for resort construction.

COLIN J. WARREN

the Rajasthani fields, and IFC is partnering with Cairn to support extensive community engagement and economic development programs.

private sector bank in southern India, supporting its efforts to expand nationally and helping meet its growing need for capital. IFC also made a

helping local importers gain better access to credit through a network of confirming banks worldwide.

We helped more than 2,000 of India's grassroots entrepreneurs and artisans find new jobs or increase their sales in FY06.

In the financial sector, IFC invests in, and provides technical assistance to, private financial institutions that expand services to underserved markets, including small businesses. We invested \$31.5 million in Federal Bank, a midsize

\$2 million equity investment in Lok Investments, a fund set up to invest in microfinance institutions around India (see box). Two banks in Bangladesh, Dhaka Bank and Eastern Bank, joined IFC's Global Trade Finance Program,

SUPPORT FOR ENTREPRENEURS AND GREATER COMPETITIVENESS

IFC's SouthAsia Enterprise Development Facility worked with the Bangladesh Knitware Manufacturers and Exporters Association this year to help local manufacturers expand their market share and their understanding of market channels and requirements. Changes in trade agreements on textiles, particularly the multifiber agreement, have created an increasingly competitive environment for the garment industry, which accounts for more than 75 percent of Bangladesh's export earnings and over 2 million jobs.

INNOVATIVE SOLUTIONS IN MICROFINANCE

Lok Investments will use \$2 million in IFC equity, in conjunction with equity provided by other institutions, to invest in up to 20 microfinance institutions across India. The company hopes to encourage local banks to increase their emphasis on microfinance by demonstrating the sector's profit potential. In addition to investments in nonbank finance companies, Lok plans to invest in service companies—independent, private limited companies that originate loans and manage cash flows between microfinance clients and partner banks in exchange for a set fee.

This innovative approach to developing microfinance has been successful in test cases by Indian banks. We expect that investments made by Lok Investments will result in microfinance loans to 1.5 million borrowers, primarily low-income people in rural areas.



Work on the expansion of Andhra Pradesh Paper Mills in India.

SEDF organized a trade mission to take knitwear manufacturers to the United States, helping them develop market contacts, sales opportunities, and marketing skills. SEDF is implementing a follow-up development program to enhance collaboration and competitiveness in the industry.

To promote entrepreneurship among India's youth, IFC's Grassroots Business Initiative is supporting the Bharatiya Yuva Shakti Trust, which provides mentoring and start-up capital to disadvantaged young people. IFC is helping BYST increase its reach to 90,000 youth entrepreneurs and 30,000 mentors throughout India during the next five years.

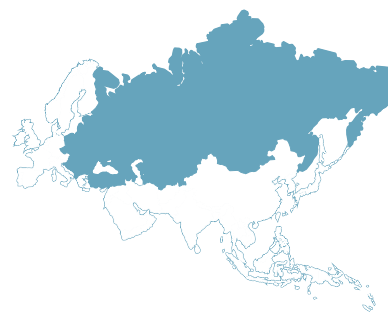
IFC has also contributed \$500,000 to an Entrepreneurship Growth Fund that will seek to address the "missing middle" among private enterprises—businesses not yet able to access commercial finance but with financing demands that exceed the capacity of microfinance institutions.



One of Cairn Energy's exploration rigs in Rajasthan, India.

IFC AGAINST AIDS IN INDIA

The IFC Against AIDS program demonstrates that private enterprises can be partners with government, nongovernmental organizations, and international development agencies to curb the HIV/AIDS epidemic. This year, the program worked with four IFC client companies in India to launch or expand workplace and community awareness and HIV prevention programs. The Ambuja Cement Foundation, Apollo Tyres, Ballarpur Industries Limited, and Usha Martin worked with IFC to develop and expand programs, enhance their clinical capacity for addressing HIV/AIDS through treatment of sexually transmitted infections, and promote prevention and behavior change among long-distance truckers, migratory workers, and other at-risk populations that interact with their operations.



Europe and Central Asia

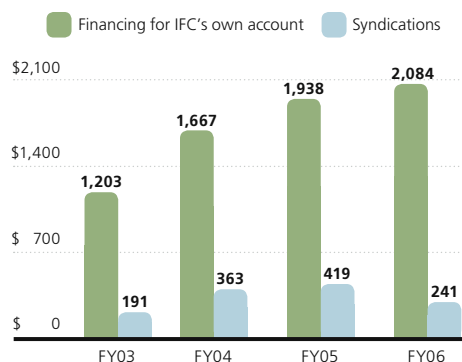
ALBANIA ARMENIA AZERBAIJAN BELARUS BOSNIA AND HERZEGOVINA BULGARIA CROATIA CZECH REPUBLIC ESTONIA
 GEORGIA HUNGARY KAZAKHSTAN KYRGYZ REPUBLIC LATVIA LITHUANIA FORMER YUGOSLAV REPUBLIC OF MACEDONIA
 MOLDOVA POLAND ROMANIA RUSSIAN FEDERATION SERBIA AND MONTENEGRO SLOVAK REPUBLIC SLOVENIA
 TAJIKISTAN TURKEY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

IFC'S STRATEGY FOR EUROPE AND CENTRAL ASIA

- Promote transparency and good corporate governance in environmentally and socially sustainable projects, with a focus on frontier markets
- Support investments to diversify economies and modernize industrial structures and infrastructure, accelerating the transition to market economies
- Develop financial markets, with a focus on access to finance for small and medium enterprises, institution building, and innovative financial products
- Catalyze intraregional investments and public-private partnerships in infrastructure and social sectors

COMMITMENTS

(U.S. \$ millions)



OVERVIEW OF IFC ACTIVITY

	FY06	FY05
Total number of investment projects	80	67
Total expenditures for technical assistance and advisory service projects (U.S.\$ millions)	\$32	\$38

IFC STAFF AND CONSULTANTS

	Headquarters	Field Offices
As of June 30, 2006	12	486

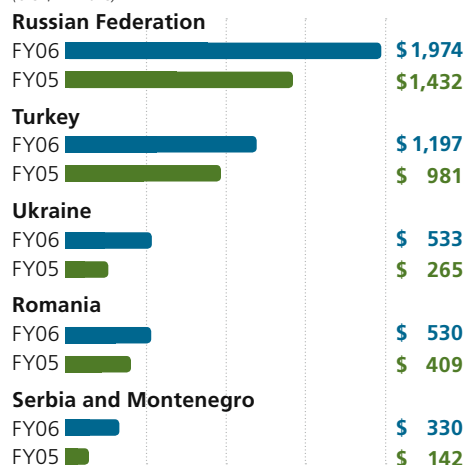
PROJECT FINANCING AND PORTFOLIO

(U.S. \$ millions)

	FY06*	FY05**
Financing committed for IFC's account	\$2,084	\$1,938
Loans***	1,710	1,751
Equity***	231	187
Guarantees and risk management	143	0
Loan syndications signed	241	419
TOTAL COMMITMENTS SIGNED	2,325	2,357
Committed portfolio for IFC's account	6,525	5,423
Committed portfolio held for others (loan and guarantee participations)	995	1,008
TOTAL COMMITTED PORTFOLIO	7,519	6,431

IFC'S LARGEST COUNTRY EXPOSURES

Committed portfolio for IFC's own account as of June 30, 2006.
 (U.S. \$ millions)



* Committed portfolio for IFC's account and held for others includes regional share of BTC Pipeline, which is officially classified as a global project.

** Includes regional share of Melrose Facility investment, which is officially classified as a global project. Committed portfolio for IFC's account and held for others includes regional share of BTC Pipeline, which is officially classified as a global project.

*** Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.



In Ukraine, IFC provided Sandora, a leading juice company, with financing for a new plant. We also provided technical assistance to local farmers to improve the company's supply of fruit and vegetables.

EXPANDING ACCESS TO FINANCE AND LOCAL MARKETS

Strong growth rates continued in the region in 2005, exceeding 5 percent in most countries. The Caucasus and the Baltics experienced particularly rapid increases in GDP, with Azerbaijan, Armenia, and Latvia all growing at double-digit rates. New EU members grew as a result of greater integration into global markets. In a number of resource-rich transition countries, such as Kazakhstan and Russia, robust growth rates were buoyed by high commodity prices. At the same time, several countries, including the Kyrgyz Republic, Poland, Romania, and Ukraine, saw a sharp slowdown in growth.

Our commitments in Europe and Central Asia this fiscal year were \$2.08 billion, with an additional \$241 million in syndications. The majority of this investment went to Russia, where IFC invested more than \$591 million for its own account and syndicated \$142 million for 27 projects, and to Turkey, where IFC invested \$513 million in 10 projects and

mobilized an additional \$50 million in syndicated loans.

In the Balkans, IFC operations continued to increase, particularly in Romania and Serbia and Montenegro. IFC's activity in Ukraine grew for a second consecutive year, and there were also significant increases in the Caucasus and the Balkans. In Central Asia, IFC investment operations remained constant, with a growing emphasis on micro and small businesses.

Technical assistance continued to play an important role in the former Soviet countries, with ongoing work to develop financial institutions, improve the business environment, and strengthen corporate governance practices. In the Balkans, IFC refocused its technical assistance on these areas as well as on promoting alternative mechanisms for dispute resolution, assisting companies in meeting EU standards, and promoting public-private partnerships in infrastructure.

SUPPORTING FINANCIAL MARKETS

Throughout the region, development of financial institutions remained a strong priority, accounting for half of our FY06 investment projects and much of our technical assistance.

In the region's smaller economies, we combine financing with expertise on best practices to help strengthen local banks. For example, in FY06, IFC worked in Armenia with Inecobank, in Azerbaijan with Azerigazbank and the Microfinance Bank of Azerbaijan, and in Georgia with TBC Bank and Mobiasbanca. We continue to take a similar approach in less developed regions of Russia, working this year with four banks outside of Moscow, two of which are new clients.

In Ukraine, we provided a subordinated loan to Aval Bank for on-lending to small businesses. In Southeast Europe, we supported lending for small businesses in Romania through financing for Banca Comerciala Romana, and in Serbia and Montenegro through a loan to Banca

Intesa. We cooperated with Kreditanstalt für Wiederaufbau, Germany's bilateral lending agency, to spur lending to micro and small businesses, committing \$37 million for the European Fund for Southeast Europe. In Bosnia and Herzegovina, IFC worked with MI-BOSPO, a microcredit organization that lends to low-income female entrepreneurs.

We committed \$82 million to private equity funds to strengthen businesses in the region. Our investments in the Emerging Europe Convergence Fund, the Marbleton Property Fund, and the Euroventures Ukraine Fund will support investments in infrastructure, real estate, and midsize private firms.

Other FY06 projects focused on leasing and housing finance. Our loan to UniBank, the first investment by an international financial institution in Azerbaijan's leasing sector, grew out of early advisory work that we conducted with the Swiss government to develop Azerbaijan's leasing industry. IFC has continued to support development of Russia's housing finance sector through advisory work for the Primary Mortgage Market Development Project and through financing for mortgage origination to Absolut Bank, Credit Bank of Moscow, and Delta Credit Bank. IFC promoted housing and small business finance

REGULATORY REFORM HELPS SMALL BUSINESSES IN UZBEKISTAN

In Uzbekistan, IFC advisory efforts have resulted in annual savings of \$33 million by small businesses. Consultations provided by IFC's in-country advisory team led to government adoption of seven presidential decrees that improve the country's business environment by streamlining taxation, inspections, permit issuance, and financial reporting procedures for small businesses.

Paperwork requirements for Uzbek entrepreneurs are now less onerous, and small businesses will be able to pay their taxes through a single payment equal to 13 percent of sales. Inspectors will no longer be able to shut down a business without turning to the court system nor be able to place exorbitant fines on firms for minor infractions or first offenses. The cancellation of mandatory permits for retail trade and 10 other commercial activities, which had been issued to 20 percent of Uzbek entrepreneurs on an annual basis, will help businesses by liberalizing market entry and expansion. IFC will continue to monitor the effect of these changes and the impact of its advisory assistance through annual surveys of Uzbek entrepreneurs.

through an investment (alongside an investment fund based in the region) in Bosnia and Herzegovina's Nova Banka, which operates in the underdeveloped Republic of Srpska.

We continued to provide technical assistance to foster the growth of credit information services for businesses in the region; this information will make lending less risky and costly for banks.

ADDRESSING INFRASTRUCTURE CONSTRAINTS

The private sector is helping increase access to markets by removing infrastructure impediments to business growth in Europe and Central Asia. IFC's Private Enterprise Partnership for Southeast Europe provides advisory services for structuring and implementing public-private partnerships in infrastructure. Since its start in October 2005, PEP-SE Infrastructure has been appointed by Serbia's government to serve as lead advisor in the restructuring of the national carrier, Jat Airways, and by Albania's government in furthering the country's public-private partnership agenda. The facility is also working on similar partnerships for water, sewer, and waste disposal services.

In Russia, IFC supported the expansion of Brunswick Rail Leasing and

To address the scarcity of financing for small and medium enterprises in Azerbaijan, we provided technical assistance and a \$3 million loan to develop the leasing industry.

the construction of six inland container terminals by Eurosib Group in various parts of the country. We also provided financing for Air Taxi, a Russian company establishing passenger airline shuttle services, and for Turkish client TAV Holdings' airport projects in Georgia.

INVESTMENTS WITH ENVIRONMENTAL IMPACT

Since 2001, IFC has helped banks finance energy efficiency improvements in many Eastern European countries. IFC provides banks and leasing companies with credit lines and credit enhancement packages, along with advice and training in structuring and marketing financial products for such improvements.

Despite very cold weather and rising energy costs last winter, many Hungarians actually paid less than before for home heating. Over the past two years, IFC has helped a local Hungarian bank finance energy-efficient home improvements, including better insulation, more efficient windows, and new thermostats.

This year, we also began working with Russian banks to finance energy efficiency projects for companies

upgrading outdated heating systems and antiquated production lines. Nearly half of Russia's industrial equipment is at least 20 years old, and energy consumption per unit of production is 10 times that of the wealthiest countries. In Rostov-on-Don in southern Russia, IFC provided a \$4 million ruble-indexed loan to CenterInvest Bank to finance several such projects, including new heating equipment for 400 homes. The equipment is expected to reduce home heating costs by 40 percent.

Other FY06 investments will have positive environmental impacts in Bulgaria and Romania. EPIQ NV, an electronics manufacturer and an IFC client since 2001, received a loan to expand and modernize its Bulgarian operations. Sensors the company produces for car makers will monitor the emission of polluting gases and improve fuel efficiency in diesel cars in Europe. A €14 million loan we made to CNFR Navrom Galati S.A., Romania's largest private river shipping company, will be used to upgrade its fleet of tugboats with engines that meet EU environmental requirements for emissions.



IFC is helping improve housing conditions in the Kyrgyz Republic through housing finance projects.

KYRGYZ MICROENTREPRENEURS BENEFIT FROM IFC FINANCING

IFC signed an agreement to provide a \$2.2 million financing package this year to Micro Credit Agency Bai Tushum Financial Foundation, one of the Kyrgyz Republic's leading microlending

institutions. IFC financing will be used to transform Bai Tushum from a not-for-profit entity into a more sustainable, commercially oriented financial institution, expanding its lending to farmers, private entrepreneurs, and small enterprises in remote regions. As a regulated microfinance company, Bai

Tushum will be able to provide a wide range of credit and savings products that are not widely available to local microentrepreneurs. An estimated 3,200 new Kyrgyz microentrepreneurs are expected to benefit, boosting private sector wealth and job creation.

Two large IFC investments in the steel sector are also expected to bring marked environmental improvements for the surrounding communities. A \$60 million loan to Russia's Vyksa Steel Works of OMK Group and a \$100 million loan to Ukraine's Industrial Union of Donbass will help finance extensive modernization programs, helping the companies phase out polluting open-hearth furnaces and meet international-level environmental standards.

OTHER ECONOMIC SECTORS

Access to local markets in the region is restricted by limited transport infrastructure as well as underdeveloped retail and logistics networks. IFC's commitments included an investment in Galnaftogaz to add to its growing system of petroleum filling stations in Ukraine. Also in Ukraine, we lent to Nova Liniya, a small home improvement company, to allow it to expand into provincial cities, and we helped the Biocon Group expand its pharmaceutical distribution and retail business. In Armenia, IFC supported more than 800 small retailers by providing financing to improve and expand the bazaar where they operate in Yerevan. In Russia, IFC provided financing for Trio, a modern distribution and warehouse center for frozen food products. Also in Russia, we supported Ramstore's expansion into the country's less-developed regions. With links to transport infrastructure and logistics in the Moscow region, Trio will set a new industry standard for high-quality handling of perishable products.

IFC's agribusiness investments in Europe will increase the market for primary food processors. In the Balkans, we helped Agrokor restructure two meat-processing plants that would not

otherwise be sustainable. We also provided \$10 million in financing for Rise, an integrated agribusiness company, to help increase farmers' access to key supplies and services in Moldova, Russia, and Ukraine. We also assisted Rise in revising its business plan and improving its corporate governance.

Construction growth across the region has increased the need for building materials, another sector we supported this year. IFC lent to Zeus Ceramica for a new ceramic tile plant in the Donetsk region of Ukraine. In Turkey, we lent to the Sanko Group to support its construction of a large greenfield cement plant.

IFC also made its first investment in Eastern Europe's oil refining sector, providing a loan and syndication for \$82 million for Petrotel-Lukoil's Romanian refinery. In addition to helping this Russian company expand operations into a nearby country, our investment will allow it to modernize and make environmental upgrades.

400 homes in southern Russia received new, energy-efficient heating equipment through an IFC ruble-indexed loan to CenterInvest Bank.

We provided a \$120 million loan to Avea, a Turkish mobile phone operator we have been advising for three years. This investment supports the liberalization of the telecom industry in Turkey and increases competition in the sector, which ultimately makes telecommunications services more affordable for consumers.



Petrotel-Lukoil's Romanian refinery will modernize and make environmental upgrades with \$82 million in financing arranged by IFC.

INVESTMENTS IN HEALTH AND EDUCATION IN TURKEY

IFC is expanding its support for private sector health and education projects in Turkey. We extended our first Turkish lira loan this year, for the equivalent of \$4.5 million, to Yuce, a primary and secondary school and IT training institute in Ankara. The loan will help Yuce meet the growing demand for vocational training in the IT sector and enhance its educational software products, which are widely used in both public and private schools. The ability to finance



Yuce School in Ankara, Turkey.

COURTESY OF YUCE SCHOOLS

projects with local currency is particularly important in social sectors, where most institutions have local currency revenues.

We also lent the equivalent of \$40 million for Acibadem Healthcare Group, which operates a network of

hospitals and ambulatory care facilities in Istanbul. The loan, IFC's second for the company's expansion, will allow Acibadem to expand in Istanbul and into smaller cities in Turkey where high-quality health care is less available.



High-quality fruit is essential to Sandora's business.

VLADIMIR ANDRIEVSKY

AGRIBUSINESS IN UKRAINE

Ukraine's leading producer of branded juice, Sandora, has received \$20 million in IFC loans to build a new bottling plant and improve product quality and distribution.

To support the company's need for a stable, high-quality supply of

fruit and vegetables, IFC's Private Enterprise Partnership is working with local producers to improve farm management and marketing practices. The project is supported by Swedish donor funding and includes legal assistance for farmers negotiating supply contracts. While Sandora and companies like it will gain access to

better produce, Ukrainian farmers will develop stronger business partnerships that improve employment stability in rural areas. For the 2006 growing season, Sandora has signed long-term supply contracts worth \$5.6 million with 25 farms. Together these farms employ more than 1,500 people.



Latin America and the Caribbean

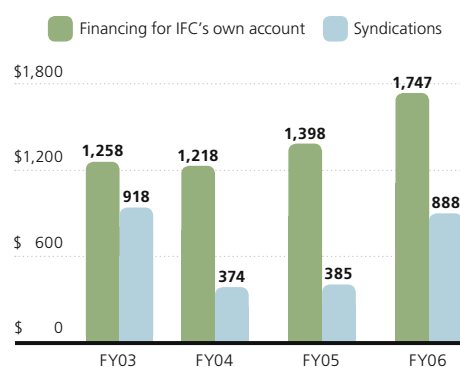
ANTIGUA AND BARBUDA ARGENTINA THE BAHAMAS BARBADOS BELIZE BOLIVIA BRAZIL CHILE COLOMBIA
COSTA RICA DOMINICA DOMINICAN REPUBLIC ECUADOR EL SALVADOR GRENADA GUATEMALA GUYANA
HAITI HONDURAS JAMAICA MEXICO NICARAGUA PANAMA PARAGUAY PERU ST. KITTS AND NEVIS
ST. LUCIA TRINIDAD AND TOBAGO URUGUAY VENEZUELA

IFC'S STRATEGY FOR LATIN AMERICA AND THE CARIBBEAN

- Improve the business enabling environment, helping small businesses join the formal economy
- Increase access to finance: reach microentrepreneurs, small businesses, and second-tier companies and provide long-term financing for corporations
- Strengthen infrastructure by increasing private sector participation and advising on reforms of the regulatory framework
- Promote sustainability through higher standards for corporate governance and environmental and social performance

COMMITMENTS

(U.S.\$ millions)



OVERVIEW OF IFC ACTIVITY

	FY06	FY05
Total number of investment projects	69	54
Total expenditures for technical assistance and advisory service projects (U.S.\$ millions)	\$13	\$5

IFC STAFF AND CONSULTANTS

	Headquarters	Field Offices
As of June 30, 2006	11	95

PROJECT FINANCING AND PORTFOLIO

(U.S.\$ millions)	FY06	FY05
Financing committed for IFC's account	\$1,747	\$1,398
Loans*	1,371	1,221
Equity*	265	75
Guarantees and risk management	111	103
Loan syndications signed	888	385
TOTAL COMMITMENTS SIGNED	2,635	1,783
Committed portfolio for IFC's account	6,299	6,124
Committed portfolio held for others (loan and guarantee participations)	2,328	2,179
TOTAL COMMITTED PORTFOLIO	8,627	8,304

IFC'S LARGEST COUNTRY EXPOSURES

Committed portfolio for IFC's own account as of June 30, 2006.
(U.S.\$ millions)



* Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.



ALEJANDRO PEREZ

IFC's Municipal Fund provided a partial credit guarantee for the purchase and operation of trains on São Paulo's new subway line.

SUPPORTING EMERGING INDUSTRY LEADERS THROUGH LONG-TERM PARTNERSHIPS

The Latin America and Caribbean region is experiencing its fourth consecutive year of growth, with economic expansion for 2006 expected to equal the 4 percent increase in 2005. But despite domestic economic policy improvements and high prices for the region's commodities, growth here has fallen behind that of other emerging markets. GDP per capita growth in the region, measured against the world average of the past 25 years, is lower than all other emerging market regions except Sub-Saharan Africa, a region that in fact outperformed Latin America and the Caribbean in 2005.

Persistent poverty and inequality are increasing the region's social and political tensions, with discontent among groups that do not perceive the benefits of economic growth evident in recent elections. Some of the new governments are seeking a larger state role in the economy, creating uncertainty for investors that could result in overall lower investment levels as well as higher

inefficiencies. This in turn could curb growth and efforts to reduce poverty. Still, most governments in Latin America and the Caribbean recognize that the private sector is an increasingly powerful force for development, and the private sector itself is more actively addressing inequality and encouraging entrepreneurship. Many investors in the region are identifying stakeholder engagement and sustainability as important strategies for establishing strong local ties, strengthening reputations, and improving bottom lines.

IFC's activities reflect this challenging environment. Through equity investments, loans, technical assistance, and advisory products, IFC is nurturing long-term partnerships with client companies, improving market accessibility for small businesses, and supporting the global expansion of leading companies in the region. In FY06, our commitments in Latin America and the Caribbean reached \$1.75 billion for 69 projects, and we raised an

additional \$888 million from commercial banks through syndicated loans.

IFC puts clients' needs first while striving for strong growth with developmental impact. At the regional and country level, our strategic focus in Latin America and the Caribbean is on improving the business environment, infrastructure, access to finance, and the sustainability of private sector activity. To be successful with our client companies, we provide creative solutions, efficient and effective financial services, global knowledge, and innovation.

FOSTERING ACCESS TO FINANCE

IFC committed a record \$635 million for the financial sector through 25 transactions in the region, including \$59 million in syndicated loans from participating banks. Over two-thirds of these projects were completed by our field offices, a testament to our placing more investment staff there. About 70 percent of our financial sector

commitments, or \$410 million, were local currency transactions, including innovative projects in Brazil, Colombia, and Peru. We developed a strong program with second-tier banks to make credit available to midsize enterprises.

Our financial sector commitments in the region included \$156 million in Colombia, \$130 million in Mexico, \$111 million in Brazil, and a substantially increased \$81 million for projects in the Caribbean. IFC committed \$208 million for micro, small, and medium enterprises, \$150 million for housing, and nearly \$120 million for general banking. Four trade financing lines led to 26 transactions totaling \$45 million, many of which supported smaller Brazilian exporters. We also invested \$183 million in equity and quasi-equity instruments for companies working in the region.

HOUSING AND TRADE FINANCE

IFC made several investments this year to increase access to housing and trade finance. We invested in Rio Bravo Securitizadora in Brazil to expand its lending for and securitization of residential real estate. Our financing consisted of a \$1.5 million equity investment and a warehousing credit line equivalent to \$22 million. In Colombia, we provided a financing package of up to the equivalent of \$61 million to Banco Davivienda, the country's leading mortgage originator, to diversify its funding sources and reduce maturity mismatches.

We are supporting small, export-oriented agribusinesses in 16 countries across Latin America with a \$30 million credit line to the Latin American Agribusiness Development Corporation, which enables capital investments in exporting farms and small and medium agribusinesses by providing long-term funding. To improve credit access for small businesses in the region, we provided financing to Banco Mercantil for trade finance aimed at small Bolivian importers. We also invested \$3 million in equity to create Solidus, an investment company that will make quasi-equity type investments in microfinance institutions throughout the region.

70 percent of our financial market commitments in Latin America and the Caribbean were local currency transactions.

INVESTMENTS IN INFRASTRUCTURE, HEALTH, AND EDUCATION

IFC committed \$407 million and mobilized an additional \$312 million for 14 infrastructure projects in the region this year. To maximize our impact, IFC and the World Bank are working together on public-private partnerships, with IFC providing advisory services, investments, and private sector perspectives in discussions with governments. Progress includes a new public-private partnership law in Brazil and an improved regulatory framework

for such partnerships in Mexico. In Guatemala, we provided assistance with municipal and subnational financing.

Our FY06 infrastructure investments included a \$62.5 million investment and a \$67.5 million syndication toward a 310-megawatt thermal power plant for reliable power generation in Ceara, one of Brazil's poorest states. The plant will be built and run by a special-purpose project company, Central Geradora Termoeletrica Fortaleza.

We provided financing for several airports and airline companies this year, including a financing package for the expansion of Jamaica's Sangster International Airport. We also made a loan for facility improvements at the Las Américas airport and for construction of the Samana airport, both in the Dominican Republic. To support the expansion of TAM Airlines in Brazil, we made a commitment for \$50 million in financing.

IFC invested in education projects across the region that expand access to high-quality, affordable education. We made a local currency loan equivalent to \$30 million for the construction of three new campuses by Universidad Tecnológica de México, the country's third-largest private university. IFC also provided the equivalent of \$5 million in local currency financing to Centro Español, a hospital in Tampico, for modernization and expansion. IFC's involvement will help

institutionalize more efficient accounting and financial management processes and help the hospital strengthen its management of water supply, medical waste, hygiene and infection control, and fire safety. In Brazil, we made a loan and equity investment in Fundo de Educação para o Brasil to support the expansion of Anhuera Educacional, a university that primarily serves low-income students.

PROMOTING SUSTAINABILITY

IFC is leading a number of corporate governance initiatives, notably in Brazil and Peru, and providing technical assistance to clients to improve their access to markets. To support the expansion of a leader in environmental and social issues, we arranged a \$280 million financing package this year for Arcor, a family-owned company that produces candy in Argentina. The

company will use the financing to expand in several Latin American countries.

Our recent work to set environmental and social standards includes projects involving the mining sector in Guatemala, Guyana, and Peru, agribusiness in the Brazilian Amazon, and forestry in Chile and Nicaragua. Our goal in many of these efforts is to maximize the combined effectiveness of IFC's financial and technical assistance. In Guyana, for example, our \$4.6 million investment in Guyana Goldfields will support an ongoing exploration program and project feasibility studies. Because of our early involvement, we are working with the company on community and civil society partnerships, local economic development, and environmental management.

With our investment in the Fondo de Inversión Forestal Lignum, a Chilean private equity forestry fund, we are

enabling small and medium landowners to increase their current income through an innovative securitization of their landholdings. In high-risk and low-income countries, where IFC's investment opportunities are limited, we provide technical assistance to improve the sustainability of economic activity. In Nicaragua, for example, we are collaborating with the World Wildlife Federation on forestry initiatives.

IFC has also provided financial support for development of the Business Sustainability Index, which was recently launched by Bovespa for the Brazilian stock market. The index, the second of its kind in emerging markets, was developed by the Center for Sustainability Studies and includes 28 local companies listed on the São Paulo Stock Exchange. It tracks corporate governance and environmental and social performance in addition to



JOONI MARTTI/EEBRIKAINEN

IFC's financing for Tecon Salvador's cargo terminal in Brazil allowed the company to double its container-handling capacity.

PUBLIC-PRIVATE PARTNERSHIPS IN INFRASTRUCTURE

Starting in 2002, IFC provided advice to the Mexican government on public-private partnerships, an effort that recently led to successful bids for two projects, Leon Hospital and a road between Irapuato and La Piedad. In Brazil, IFC is advising the federal government on two initiatives, a road in Bahia and an irrigation project in Pontal in northeastern Brazil.

In Guatemala City, we are working with the World Bank to provide financing for construction of the Transmetro mass transport system. The subnational financing consists of a partial credit enhancement to Banco G&T Continental through a risk-sharing facility of up to the local currency equivalent of \$6.6 million. Altogether, this will help mobilize \$46.2 million for the urban transit system. The project is expected to benefit 180,000 people daily, including many who rely on public transportation to get to work.

financial results. The index was unveiled at an IFC-sponsored Conference on Sustainable Finance in Emerging Markets, held in São Paulo in December 2005.

STREAMLINING BUSINESS REGISTRATION

IFC and the World Bank's *Doing Business* reports have raised awareness of business and investment constraints across the region, and IFC is supporting reform agendas in Brazil, Colombia, Mexico, and Peru. Our Latin America and Caribbean facility works to simplify business registration, helping move small businesses into the formal economy.

In Peru, where more than 60 percent of businesses operate informally, we helped them enter the formal sector by reducing the time needed to start a business in the capital city, Lima, from

more than 60 days to two or less. We also trained municipal employees and upgraded municipalities' information technology infrastructure in a number of Bolivian cities. By improving the process for registering a business and reducing from six to two the average number of trips that entrepreneurs must make to municipal offices, Bolivia has seen more businesses come into the formal economy, increasing municipal revenue from business registration by 25 percent.

IFC helped improve access to phone service and supported the largest foreign investment in Haiti in 30 years with \$15 million in financing for telecom operator Digicel.

HELPING ADD VALUE TO PETROCHEMICAL PRODUCTS IN BRAZIL

Suzano Petroquímica, one of the largest petrochemical companies in Brazil, requested IFC's assistance to develop the capabilities of small companies around São Paulo that can transform its petrochemical products into value-added plastic products. Our assistance is expected to produce dual benefits. For Suzano, it will create additional demand and potentially higher margins. For Brazil, which is still principally an exporter of primary products, this is a chance to move up the value chain, create new investment opportunities and jobs, and retain more of the value-added within the country. This initiative is expected to support the development of a cluster of 20 to 30 small and medium plastic producers with about 1,200 employees.

We also committed \$60 million for Suzano this year. The firm will use the financing for an acquisition and for corporate restructuring.



A local artisan benefiting from IFC's Indigenous Enterprise Development Program.

MARISOL GARCIA-COMELLI



50 YEARS OF PRIVATE SECTOR SUPPORT IN LATIN AMERICA

IFC's first investment in 1956 was a \$2 million, 15-year loan to Siemens for manufacturing electricity-generating equipment in Brazil. A half-century later, we have invested and mobilized \$31 billion in Latin America and the Caribbean, including nearly \$600 million with 30 companies in the region's lowest-income countries, Bolivia and Haiti. In the course of our work, we have developed long-term partnerships to foster the growth of Latin American firms.

ARGENTINA

IFC has invested \$6 billion in 112 companies in Argentina, sometimes under a challenging investment climate. During the country's 2001 currency crisis, IFC remained committed to Argentina as the only international financial institution supporting the private sector. We continued to lend to clients such as Aceitera General Deheza, a major agribusiness group and an IFC client since 1986 (please see page 17).

BRAZIL

IFC's investments in Brazil have provided \$8 billion in financing to 167 companies. While Brazil's economy has seen ebbs and flows, IFC has innovated in times of crisis—for instance, reactivating \$800 million in trade financing in 2002. We have consistently supported new growth industries in Brazil, including the country's first petrochemical project in the 1970s, which was the first step in building an industry that is now Brazil's fifth-largest in terms of GDP. The sector is now in a second phase of consolidation to enhance its global competitiveness, and in FY06 we invested \$350 million in key petrochemical businesses.

MEXICO

We have also been active investors during periods of crisis in Mexico, playing a critical role in the reorganization and subsequent prosperity of a distressed company, Grupo Visa. Following the 1982 Mexican crisis, the company went through a financial restructuring with supervision

by IFC and the Visa Group. In 1988, IFC lent \$80 million to the firm, which helped catalyze an additional \$146 million in investments. The firm, which subsequently became FEMSA (Fomento Económico Mexicano, S.A.), has since grown into one of Latin America's largest consumer products companies, with sales of \$9.9 billion in 2005.

COLOMBIA

Since the early 1990s, IFC has played a key role in helping Colombia develop a more efficient capital market and a sound regulatory framework. In 2001, IFC, along with local financial partners, sponsored the country's first secondary mortgage company, Titularizadora de Colombia, with a \$40 million equity investment and a local currency guarantee facility of \$100 million. More recently, in March 2002, IFC launched a bond issue for 225 billion Colombian pesos, or about \$100 million. We were the first international institution to issue a bond in Colombian pesos.

PRIVATE SECTOR ACTIVITY IN HAITI

Despite the near collapse of the Haitian state in the 1990s, IFC has continued to be an active investor in the country. In 1998, IFC invested \$500,000 to create the first financial institution for microentrepreneurs in Haiti. MicroCredit National, IFC's first capital markets project in Haiti, has continued to operate on a commercial basis throughout the country's recent turbulent period.

This fiscal year, IFC provided \$15 million in financing for a telecom project in Haiti with a long-term partner in the region, Digicel. The project is the largest foreign investment in the country in the past 30 years and is expected to expand mobile phone penetration by more than 50 percent by 2007. We also launched an audit of Electricité de Haïti in cooperation with the World Bank and with financing from the Canadian Development Agency.



Middle East and North Africa

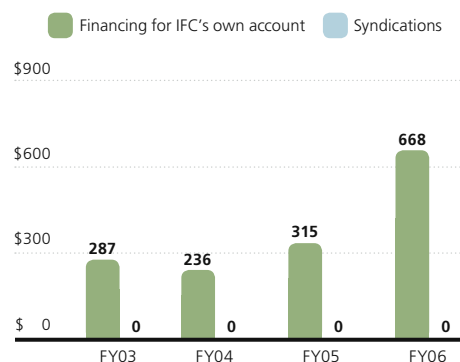
AFGHANISTAN ALGERIA BAHRAIN ARAB REPUBLIC OF EGYPT ISLAMIC REPUBLIC OF IRAN IRAQ JORDAN
KUWAIT LEBANON LIBYA MOROCCO OMAN PAKISTAN SAUDI ARABIA SYRIAN ARAB REPUBLIC TUNISIA
UNITED ARAB EMIRATES WEST BANK AND GAZA REPUBLIC OF YEMEN

IFC'S STRATEGY FOR THE MIDDLE EAST AND NORTH AFRICA

- Support economic reform through investment and advice on global best practices
- Focus investments in the financial, infrastructure, and small and medium enterprise sectors
- Provide targeted, high-impact technical assistance for the financial sector, small and medium enterprises, the business environment, public-private partnerships, and privatizations
- Promote intra- and interregional investments to accelerate economic integration and business expansion

COMMITMENTS

(U.S.\$ millions)



OVERVIEW OF IFC ACTIVITY

	FY06	FY05
Total number of investment projects	29	21
Total expenditures for technical assistance and advisory service projects (U.S.\$ millions)	\$20	\$5

IFC STAFF AND CONSULTANTS

	Headquarters	Field Offices
As of June 30, 2006	4	189

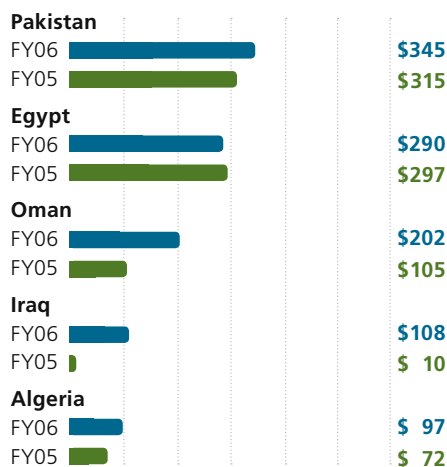
PROJECT FINANCING AND PORTFOLIO

(U.S.\$ millions)

	FY06*	FY05**
Financing committed for IFC's account	\$ 668	\$ 315
Loans***	504	257
Equity***	100	20
Guarantees and risk management	64	38
Loan syndications signed	0	0
TOTAL COMMITMENTS SIGNED	668	315
Committed portfolio for IFC's account	1,556	1,210
Committed portfolio held for others (loan and guarantee participations)	314	664
TOTAL COMMITTED PORTFOLIO	1,871	1,874

IFC'S LARGEST COUNTRY EXPOSURES

Committed portfolio for IFC's own account as of June 30, 2006.
(U.S.\$ millions)



* Includes regional shares of Soco Facility and Veolia AMI investments, which are officially classified as global projects. Committed portfolio for IFC's account includes regional share of BAPTFF, which is officially classified as a global project.

** Includes regional shares of BAPTFF and Melrose Facility investments, which are officially classified as global projects.

*** Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.



MICHAEL HIGGINS

PROMOTING GLOBAL EXPANSION OF EMERGING MARKET COMPANIES

GDP growth for the Middle East and North Africa, overall, was 5 percent in 2005, with stronger expansion in oil-exporting countries and comparatively weak growth in Iraq, Lebanon, Syria, the West Bank and Gaza, and Yemen. High unemployment rates in much of the region have spurred some countries, including Egypt and Pakistan, to embark on reform agendas that seek to attract private sector investment and increase jobs. In line with these reforms, IFC's investment and technical assistance activities are increasing across the region.

In FY06, our commitments in the region jumped more than 100 percent, for a total of \$668 million in 29 projects, compared with \$315 million for 21 projects during the previous year. To expand our portfolio, we have increased our business development efforts, hiring senior officers in Algeria, Egypt, Pakistan, and the United Arab Emirates. Our FY06 investments were spread across the region, in economic sectors

including infrastructure, manufacturing, oil and gas, and financial institutions, with the last category representing over 40 percent of IFC's regional commitments. Our technical assistance for client companies, government entities, and business associations, provided primarily by our private enterprise partnership facility, also increased substantially this year.

SUPPORT FOR FINANCIAL INSTITUTIONS AND FINANCIAL MARKETS

To support the privatization of Habib Bank Limited in Pakistan, IFC provided a \$50 million long-term loan to diversify the bank's funding and enable it to offer local businesses loans with longer maturities. This project is one of many involving a partnership between IFC and the Aga Khan Fund for Economic Development. IFC's technical assistance is helping strengthen the bank's operational capacity as it continues to restructure, modernize, and tailor its

lending to consumers and small and medium businesses. We are also providing advice to help the bank undertake socially and environmentally responsible financing.

Following an initial \$1 million equity investment in First Microfinance Bank of Afghanistan, in 2004, we provided the microfinance institution with a \$3.5 million standby credit facility this year. In addition to the credit line, we are working with other donors on a technical assistance package to help FMBA manage security, gender outreach, and staff training, as well as address infrastructure constraints.

In Morocco, we provided the Foundation for Local Development and Partnership with a comprehensive developmental financing and assistance package to complement its growth potential and expansion plans in the coming years. The client is a microfinance institution that provides credit facilities to microentrepreneurs, particularly

women, in urban and semiurban areas of the country. IFC extended a partial credit guarantee aimed at helping FONDEP access local currency financing from local commercial banks, as well as technical assistance aimed at developing its internal controls and risk management system. Our microfinance investments in the region also included a \$1 million equity investment in Pakistan's Tameer Microfinance Bank for up to 10 percent of the bank's initial capital. The bank plans to target low-income, self-employed individuals.

To support alternative forms of financing, we made investments in or offered technical assistance to leasing companies in Afghanistan, Egypt, Jordan, Oman, Pakistan, and Saudi Arabia. In housing finance, we provided precedent-setting support for mortgage-backed securities issued by Kingdom Installment Company in Saudi Arabia.

Paktel will use \$35 million in IFC financing to make cellular service available throughout Pakistan by 2007.

INVESTMENTS IN OTHER KEY SECTORS

Oil and gas dominate many of the region's economies, and our FY06 commitments included support for underserved aspects of these sectors. Red Med, a logistics company offering base camp support for oil and gas companies in Algeria, received a \$10 million IFC loan with an income participation feature. Also in Algeria, we invested \$24 million in Fertial, the country's first privatized fertilizer company, and we will help with technical assistance for farmers who use the company's fertilizer.

Infrastructure is a critical investment area as countries in the region increase

trade links with the global economy, and IFC continues to support private investments in transport and shipping. In Jordan, IFC committed a \$15 million loan to CTI Group, a shipping company specializing in the regional transport of cement. The company needs substantial investment to replace its aging fleet of specialized cement carriers with newer vessels, but it was unable to obtain long-term funding from local banks and had limited access to traditional ship financing. IFC's long-term funding is critical to CTI's fleet renewal and expansion plans and will facilitate the company's access to international shipping banks. IFC is also working

IFC FINANCES CELLULAR NETWORK IN AFGHANISTAN

To support the construction and nationwide operation of a GSM digital cellular network—one of the largest foreign investments in Afghanistan this year—IFC has signed an agreement for a \$40 million loan and an equity investment of up to \$5 million with Areeba Afghanistan. The country has one of the lowest telephone density rates in the world, with less than 0.5 fixed lines and four mobile lines per 100 people as of 2005. This is significantly less than the penetration rates found in other

countries nearby or with comparable economic environments. In addition to impeding economic activity, the lack of services hampers communication between the central government and regional authorities.

The project will increase the availability of reliable and affordable telecommunications services for consumers, businesses, and public agencies, and it will extend much-needed geographic coverage to rural and underserved areas in Afghanistan. By investing in Areeba, IFC is also supporting the Afghan government's agenda for liberalizing telecommunications and

spurring private sector involvement and competition.

Areeba Afghanistan is owned by Investcom, a mobile phone operator with a track record in frontier markets including Benin, Ghana, Guinea-Bissau, Liberia, Sudan, Syria, and Yemen. IFC's financing promotes capital flows between developing countries by helping Investcom, which was recently acquired by MTN, invest in underdeveloped markets.

Areeba won Afghanistan's third long-term operating license in September 2005 through a transparent and competitive award process. It expects to have 700,000 subscribers by 2009.

EGYPTIAN BANK PROFITS FROM MICROFINANCE LENDING

A pilot microfinance program IFC has supported in cooperation with Egypt's second-largest bank, Banque Misr, has been so successful that the bank is expanding the program. Because only about 12 percent of the smallest

businesses in the country have access to bank financing, this is a market segment with tremendous potential.

IFC first surveyed the microenterprise market, designed products, and put together a business plan. We then helped the bank draft a credit policy, procedures, and operating manuals for the microfinance operation, implement a loan-tracking

system, train loan officers, and organize workshops in target communities. Within a year of launching the program at five branches, the bank had grossed \$6 million from 13,000 microloans, with a repayment rate of nearly 100 percent. The success of this program has attracted interest in microfinance from other banks in Egypt and the Middle East.

with CTI on improving its corporate governance practices.

In Pakistan, we provided an \$8 million loan for container terminal berths at Karachi's port. The loan will be used by the Pakistan International Container Terminal to buy container-handling equipment, increase capacity, and improve service.

In the manufacturing sector, IFC provided \$133 million in loans for cement plants in Iraq and Yemen. We provided \$98 million, our largest investment ever in Iraq, for construction of a greenfield plant. The plant will be built and run by Orascom Construction Industries, an Egyptian firm.

Afghanistan has long been known for the quality of its fresh and dried fruits. Despite decades of political unrest that undermined investment, the country's raisin and pomegranate crops still have significant export potential. IFC is helping producers and traders improve outdated production and processing technologies, build their supply chains, and expand their knowledge of export markets. This effort should enhance product quality and export earnings.



An \$8 million IFC loan will help Pakistan International Container Terminal buy container-handling equipment and improve service at Karachi's port.

COURTESY OF PAKISTAN INTERNATIONAL CONTAINER TERMINAL

MEETING A NEED FOR LONG-TERM CAPITAL AND TECHNICAL ASSISTANCE IN ALGERIA

IFC made a \$10 million investment this year in an Algerian company, Red Med, to help the firm meet growing demand for local logistics services from foreign companies in the oil and gas sector. Algeria's hydrocarbon deposits are located in remote desert areas, where infrastructure is inadequate, making it difficult for foreign companies to operate. IFC's investment in Red Med, our first with a local Algerian firm, will support a four-year, \$32 million expansion of the company's core activities, including the acquisition of additional cranes, trucks, aircraft, and medical testing equipment.

Because Algeria's banking sector is dominated by state-owned banks with limited access to long-term funding resources, IFC's long-term financing is critical to the company's expansion plans. IFC is also helping Red Med with corporate governance practices, including revamping its holding structure. These steps will help Red Med access international capital markets in the future.

FOSTERING PRIVATE ENTERPRISE THROUGH TECHNICAL ASSISTANCE AND ADVISORY SERVICES

IFC's donor-funded facility, the Private Enterprise Partnership for the Middle East and North Africa, provides technical assistance to support the financial sector, small and medium enterprises, business environment reforms, and public-private partnerships for infrastructure projects. We are stepping up our corporate governance advisory work throughout the region, particularly in Egypt and Pakistan. In Egypt, we are also increasing the management capacity of small and medium enterprises through the Business Edge management training



IFC is advising Jordan's government on the privatization of Queen Alia International Airport.

program run by PEP-MENA. Program partners receive training and certification in marketing, human resources, finance, accounting, and methods for improving productivity, and PEP-MENA monitors their performance to maintain quality

standards. Since October 2004, we have certified 11 training partners, who in turn have trained more than 2,500 managers and owners of small enterprises. We are expanding the program to Jordan, Oman, the United Arab Emirates, and Yemen, as well as partnering with large corporations to provide management training to small enterprises in their supply chains.

IFC is the lead advisor to the Jordanian government's Executive Privatization Committee, which is mobilizing private sector participation to expand and rehabilitate Queen Alia International Airport. We are also providing advisory services to support the airport's privatization. Upgrading the airport will increase the competitiveness of Jordan's tourism industry.

In Afghanistan, IFC and Kabul University are developing a business skills training program for local entrepreneurs who need more expertise in marketing, accounting, and financial planning. The curriculum is available in two local languages, and 120 students and entrepreneurs have enrolled in the first pilot. We are also helping the university develop a strategy to offer the training on an ongoing basis.

Our microfinance investments included an equity investment in Pakistan's Tameer Microfinance Bank to support its lending to low-income microentrepreneurs.

STRENGTHENING CORPORATE GOVERNANCE

During FY06, IFC provided corporate governance training to more than 1,000 managers and directors from 200 companies in the Middle East and North Africa. We provided input on and helped establish four codes of corporate governance—two in Egypt and one each in Lebanon and the United Arab Emirates. We also raised awareness of good corporate governance among the press, providing training for journalists in Egypt and Pakistan.

IFC's PEP-MENA facility continues to support the Egyptian Institute of Directors, the first organization of its type in the region. To improve corporate governance in Egyptian corporations, PEP-MENA is working with the World Bank to build the institute's capacity to deliver programs, including the country's first certification program for board development.

ACRONYMS, NOTES, AND DEFINITIONS

ACRONYMS

CAO	Compliance Advisor/Ombudsman
FY	fiscal year
GDP	gross domestic product
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
MIGA	Multilateral Investment Guarantee Agency
MPDF	Mekong Private Sector Development Facility
PENSA	Program for Eastern Indonesia SME Assistance
PEP	Private Enterprise Partnership
PEP Africa	Private Enterprise Partnership for Africa
PEP-MENA	Private Enterprise Partnership for the Middle East and North Africa
PEP-SE	Private Enterprise Partnership for Southeast Europe
SEDF	SouthAsia Enterprise Development Facility
SME	small and medium enterprise

NOTES AND DEFINITIONS

The fiscal year at IFC runs from July 1 to June 30. Thus, FY06 began on July 1, 2005, and ended on June 30, 2006.

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.

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.

FOR FURTHER INFORMATION

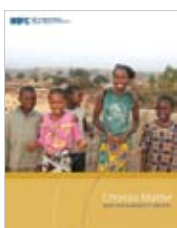
WEB SITE

The IFC Web site, www.ifc.org, contains comprehensive information on every aspect of the Corporation's activities. It includes project information, environmental and

social development policies, publications, contact details for IFC's country offices and facilities, and all products and services.

OTHER KEY PUBLICATIONS

SUSTAINABILITY REPORT



This report shows how IFC is using its unique position and resources to respond to global challenges, including climate change, poverty, corruption, HIV/AIDS, women's participation in private sector development, and the preservation of natural resources.

REPORT TO THE DONOR COMMUNITY



Our *2006 Report to the Donor Community* gives a comprehensive description of the main achievements of the partnerships between IFC and its donor countries in reducing poverty and in helping our clients achieve the Millennium Development Goals through technical assistance programs.

DOING BUSINESS



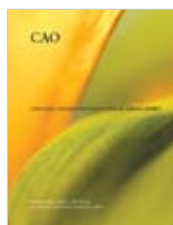
Doing Business is a series of annual reports from IFC and the World Bank investigating regulations that ease doing business and those that constrain it. The 2007 edition focuses on implementing reforms and compares indicators from 175 developing and industrialized countries. For more information, visit rru.worldbank.org/doingbusiness.

GOOD PRACTICE NOTES



This series of publications provides guidance and good practice examples to private sector clients on a variety of social and environmental topics, ranging from HIV/AIDS in the workplace to nondiscrimination and equal opportunity promotion.

CAO ANNUAL REPORT



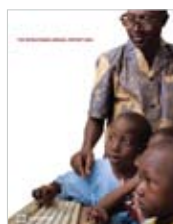
The *Compliance Advisor/Ombudsman Annual Report* highlights efforts of the CAO office to address complaints from people affected by projects and enhance the social and environmental outcomes of projects in which IFC and MIGA play a role. Further information can be found at www.cao-ombudsman.org.

IEG FINDINGS



The *Independent Evaluation Group Findings* is a publication series designed to help inform stakeholders of new evaluation findings and recommendations for IFC's investment and technical assistance projects. Further information about IEG is available at www.ifc.org/ieg.

WORLD BANK ANNUAL REPORT



This report highlights the achievements of the World Bank in its efforts to alleviate poverty worldwide and includes its financial statement. The World Bank's Web site is www.worldbank.org.

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