INFRASTRUCTURE

How the Private Sector Helps
INTRODUCTION
Message from the Executive Vice President and CEO

Infrastructure is an essential foundation of development. Effective, well-regulated systems for the provision of power, transport, water, and the fast-converging world of telecom, media, and technology lie at base of successful economies the world over. There is almost no way to overestimate their impact in raising incomes and improving living standards—whether measured through their contribution to private sector growth, job creation, trade and investment, food security, or other important indicators.

And while often primarily the domain of government, infrastructure is also an area where the private sector can make a vital impact, providing essential services to large numbers of users, efficiently, affordably, and profitably.

Time and again, I have seen cases where private investors have brought in the capital, technology, and management expertise needed to improve the performance of high-priority infrastructure assets—giving large numbers of people their first access to electrical power, clean water, or improved transportation and communication. Incorporating high standards of environmental and social sustainability, such projects can make a great impact without depleting the fragile ecosystems on which we all depend.

The demand for such projects, and the financing needed to make them a reality, is enormous. No one institution can begin to meet it alone. Partnerships are essential, and while IFC makes infrastructure one of its highest priorities, with a special focus on Africa, we do so with a commitment to working closely with the World Bank, other international finance institutions, and a broad range of donors, partners, and clients.

Much of our emphasis is on structuring and introducing public-private partnerships (PPPs) to improve the delivery of basic services. As projects are structured, financed, and implemented, we also study the core principles and lessons learned, then share them widely for broader impact.

The stories in this collection provide clear evidence of the importance well-designed private participation in infrastructure has in meeting IFC’s overarching goal: Creating opportunity where it’s needed most. Let us all work together so that in the near future, there will be many more such stories to tell.

Publisher’s note: This is IFC’s focus: private infrastructure projects whose innovative, high-impact business models can be scaled up for wider replication. Bringing together three distinct businesses—investment services, advisory services, and asset management—we help the infrastructure industry address some of today’s greatest development challenges:

- Climate Change: Investing more than $1.6 billion in renewable energy and energy efficiency projects
- Water: Hosting the Water Resources Group, (see pp. 36-37) a new collaborative effort that helps countries use private sector thinking to find the best solutions to their water needs.
- Food Security: Supporting a wide range of projects to reduce losses and increase efficiency in the food supply chain—managing the private sector window of the G20’s Global Agriculture and Food Security Program, for example, and helping India’s Punjab state government attract $8 million in private investment for new state-of-the-art, long-term wheat storage silos.
- Fragility and Conflict: Helping Liberia and Haiti (see pp. 16-17), Iraq (pp. 28-29), the West Bank and Gaza (pp. 44-45) and others attract private capital and expertise for their infrastructure needs.
- Base of the Pyramid: Expanding low-cost private infrastructure businesses that especially target the poorest consumers, such as Afribridge’s remote telecom access service (see pp. 46-47).
Even as crews put the finishing touches on newly built roads, ports, and power stations across Africa, the continent’s people and its growing economies are demanding more. Thanks to a combination of factors, including better governance, soaring commodity prices, and increased foreign investment, especially from China, India, and other emerging powers, Africa has chalked up a decade of unprecedented growth: its GDP figures are now the envy of many in the developed world.

Africa’s continued reform programs and IFC’s strategy are coming together at an unprecedented scale in 2012, when IFC will for the first time invest and mobilize more than $1 billion in private infrastructure in Africa—up from just $200 million five years ago, making IFC a leading investor in the sector.

But more still must be done. Africa’s recent rise is highlighting—even deepening—long-standing structural problems, with infrastructure growth failing to keep pace. The reality in many African cities is congested roads, a lack of clean water, and frequent power outages. Most of Africa’s population has no access to electricity at all.

Overcoming the obstacles is one of the keys to helping the private sector reach its potential in creating jobs, raising incomes, and improving lives. The World Bank estimates that $93 billion in annual investment is necessary for the region to meet the U.N. Millennium Development Goals—an amount that is more than double the current rate of spending.

IFC’s Strategy

While most of that amount must come from government coffers, the private sector has an essential role to play. Helping fix Africa’s infrastructure woes is a major pillar of IFC’s strategy on the continent, where our goal is to improve the efficiency, affordability, reach, and quality of basic infrastructure services through a combination of investments and advisory solutions.

IFC develops greenfield projects and improves existing infrastructure installations. We provide equity and quasi-equity, finance corporate loans, and arrange public-private partnerships, acquisition finance, and refinancing. Our focus is on the building blocks of any modern economy: ports, railways, telecom, and power, including renewable power.

In the power sector, where IFC is concentrating resources, African infrastructure commitments for fiscal 2000-12 total 19 projects and $523 million. An increasing focus of our work is helping rebuild infrastructure in Africa’s post-conflict countries, where demand is often the greatest, but resources are the scarcest.

LEADING THE WAY

A shortage of funding sinks some development in Africa; a more serious hurdle is a lack of know-how to develop and guide infrastructure projects so governments can benefit from private sector expertise, management, and finance. This is where IFC is leading the way.

Developing deals requires time, effort, experience, and the ability to strike the right balance between private and public interests. IFC has successfully counseled African governments, including local municipalities, on ways to engage the private sector in essential public services, and on how to restructure state-owned enterprises.

IFC’s PPP support between fiscal years 2008 and 2011 is expected to facilitate more than $4 billion in private financing for infrastructure and health, and to provide improved services to approximately 19 million people.

Recent, successful projects highlight the various ways IFC is helping Africa build its infrastructure. In Senegal, for example, IFC supported private sector involvement in the Dakar Toll Road, which will greatly improve transport and trade in and around Senegal’s capital. In Togo, our investment and advisory support is helping Togolese power company ContourGlobal Togo S.A. develop, build, and operate a 100-megawatt thermal power plant in the capital, Lome.

These and many other projects underscore the strides Africa is making, but it will take time and sustained investment for the continent to build a solid infrastructure foundation. Political risks, corruption, and regulatory interference remain formidable obstacles, but economists and analysts are pointing to the outlines of a virtuous circle: as Africa grows, it is attracting increased investment and expertise to fund and drive future expansion.
**Africa**

**Power**

**Côte d’Ivoire**

*Azito Energie S.A.*: A privately owned 300 MW gas-fired power plant providing a third of the country’s power; operating successfully since 2000 despite long periods of instability in Côte d’Ivoire.

**IFC Role:** Arranging financing in 1999 for this $223 million plant, Africa’s first major power project to attract loans from international commercial banks as well as from IFC and our partner institutions; IFC is also arranging additional financing for Azito’s upcoming expansion.

**Transport**

**Kenya**

*Kenya Airways*: Africa’s first successful airline privatization, improving transportation across the continent ever since the Kenyan government sold a controlling stake to KLM for $70 million in 1995.

**IFC Role:** Advising the Kenyan government in the privatization. IFC approached a total of 154 airlines, resulting in four major international carriers showing serious interest: British Airways, KLM, Lufthansa, and South African Airways. The government awarded the privatization to KLM through a process of sequential negotiations.

**Telecom-Media-Technology**

**Multiple Countries**

*Bharti Airtel Ltd*: India’s largest mobile phone company; its $10.7 billion acquisition of the African assets of Kuwait’s Zain in 2010 was the world’s largest South-South investment transaction to date. Since that time, Airtel has added 10 million subscribers in Africa, giving it a total of 50 million in Burkina Faso, Chad, the Republic of Congo, the Democratic Republic of Congo, Ghana, Gabon, Kenya, Madagascar, Malawi, Niger, Nigeria, Seychelles, Sierra Leone, Tanzania, Uganda, and Zambia.

**IFC Role:** Repeated early investment and ongoing support for Celtel, the precursor firm that Sudanese-born entrepreneur Mo Ibrahim built and then sold to Zain in 2005. IFC then provided additional financing to several of the country affiliates following their acquisition by Zain, and continues the relationship with them today under new-owner Airtel’s control.
Large numbers of people throughout the developing world lack access to the essential needs that infrastructure provides: electrical power; safe, reliable transportation; modern telecommunications; and clean water. These obstacles hinder improvements in living standards and block the private sector growth needed to create jobs and reduce poverty.

Public sector efforts to reduce the infrastructure deficit are critical, but can be limited. The private sector brings much-needed capital, efficiency, and expertise to help fill these gaps. Its entrepreneurial approach leads to profitable, high-impact projects that increase affordable access and improve the quality and reliability of infrastructure services while adhering to high social and environmental standards. It is essential work, but it can also be difficult and time-consuming, especially in the poorest countries. IFC supports every stage of the process, delivering landmark projects with high direct and indirect impact on the poor. Working in collaboration with the World Bank Group, we are leveraging partnerships with other international financial institutions and donors to ensure a coherent approach to infrastructure development.

Infrastructure is core business for us—we now have a $7.5 billion committed portfolio in the sector, and provide additional support through extensive resource mobilization, knowledge-sharing, and advisory work on PPPs.

Regulatory Reform
- Working with the World Bank and others to introduce competition in key sectors
- Strengthening utilities’ performance through private management contracts

Concessioning and Structuring
- Setting the conditions to attract private investment
- Advising governments on PPPs

Project Preparation
- Creating the $100 million IFC InfraVentures fund that helps cover essential early-stage costs of frontier market projects we may later finance
- Participating in multidonor collaborations such as the Private Sector Infrastructure Development Group (PIDG) and the Infrastructure Development Collaboration Partnership Fund (DevCo)

Investment
- Financing projects through debt, equity, and mobilization of resources from other sources, including IFC Asset Management Company
- Obtaining concessional financing from multidonor sources for projects addressing climate change; often matched by IFC resources, these can take the form of softer loans, guarantees, equity, and grants

Monitoring
- Assessing projects’ consistency with IFC’s Performance Standards on environmental and social issues
- Tracking projects’ results and sharing the lessons learned with others for wider replication and impact
Once almost entirely cut off from the outside world, Bhutan is rapidly modernizing. Its people are increasingly leaving the countryside for jobs in the two largest cities, Thimphu and Phuntsholing, whose small, state-owned bus systems are stretched thin, unable to meet the rising commuter demand. Aging buses, long wait times, and inadequate bus stop facilities give people little incentive to use the system. More and more use personal cars or taxis, worsening traffic and pollution. In response, the government is exploring a bid process to invite private sector participation in its two largest cities’ public urban transport systems. IFC is advising it in determining an appropriate type of clean, efficient mass public transport system reducing car use and mitigating congestion.

The assignment emerged from a recent IFC workshop in Thimphu. It shared learning from our more than 20 years of advising governments on the formation of PPPs that bring the public and private sectors together to improve public infrastructure and services. In this time we have worked on more than 300 projects involving the private provision of public services in 95 countries. PPP transactions implemented with IFC’s support since 2008 are expected to enable $7.5 billion in private investment.

PHOTOS: Private investment could improve Bhutan’s old-style urban bus systems—an idea emerging from a December 2010 IFC workshop in the remote country’s capital, Thimphu.
More than 1.3 billion people worldwide are still not connected to electricity, almost all of them in developing countries. The challenges are greatest in Africa, where more than 75 percent of the population—about 550 million people—are without electricity, deprived of the most basic economic opportunities needed to build a better life.

The private sector has a critical role to play, not only in bringing people their first power connections, but in helping already-connected businesses gain steadier, more reliable sources of electricity through grid expansion. Overcoming power shortages is vital to increasing their productivity and growth, allowing them to create jobs and fight poverty.

Climate change is an essential concern in addressing these challenges. More than 75 percent of the energy consumed today comes from burning fossil fuels, which produces the greenhouse gases that cause climate change. Greater commercial use of renewable energy and energy efficiency measures are essential steps in moving to a low-carbon world, and are a key part of IFC’s strategy in the sector. Since 2007, we have increased our investment in renewable energy and energy efficiency projects more than fivefold, from $440 million to more than $2 billion a year.

RELIABLE ELECTRIC POWER:

- FUELS INDUSTRY AND SERVICES—CREATING JOBS AND BOOSTING ECONOMIC GROWTH
- LIGHTS SCHOOLS, HOSPITALS AND HEALTH CLINICS
- IMPROVES HOUSEHOLD AND URBAN SAFETY
- HELP FARMERS GROW, PROCESS, AND STORE FOOD

.... More than 1.3 billion people worldwide are still not connected to electricity, including nearly 75 percent of Africans.
Cameroon is making great progress in the power sector, with 49 percent of its people having access to electricity today—nearly twice the average for sub-Saharan Africa. In large part, this noteworthy achievement is the result of more than a decade of sustained private sector involvement. It began in 2001, when IFC advised the government on a privatization process that led to one of the world’s largest power companies, AES Corporation of the U.S., acquiring control of national utility Sonel for $70 million and making a long-term commitment to its improvement.

With less than a third of Cameroon’s people having access to electricity at the time, the new AES Sonel launched one of Africa’s largest private infrastructure projects: an initial five-year $340 million upgrade program financed by IFC and a syndicate of development finance institutions. Overall, AES Sonel has now invested more than $1 billion since the privatization, connecting close to 340,000 people to its system. It has also repaired transmission lines, replaced malfunctioning meters, and reduced the illegal connections that allow people to use power without paying for it. Much has been accomplished. But more must still be done.

Demand for power is growing at an average rate of 9 percent a year, often leading to shortages. Surveys show that local businesses still see the unreliability of electricity supply as one of their biggest problems, holding back national GDP growth. With commercial lending hard to come by, development partners must craft innovative solutions to attract the large amounts of financing needed to increase supply. In 2011 IFC helped finance the country’s first independent power project (IPP), the 86 MW Dibamba plant near Douala. Later that year it was followed by our financing for the 216 MW Kribi project, the first commercial use of Cameroon’s substantial offshore natural gas reserves.

Like Dibamba, Kribi is a PPP linking AES and the government. In addition to providing €60 million ($86 million) in direct financing to the €263 million ($360 million) project, IFC coordinated a larger loan package for Kribi from partner institutions, and worked with the World Bank on an International Development Association (IDA) partial risk guarantee to facilitate Cameroon’s first long-term, local currency loan for infrastructure. A local bank syndicate led by Standard Chartered Bank is providing the equivalent of €60 million, keeping the country’s power sector moving ahead and serving as an example for others in Africa to follow.
The lights are burning bright again in Liberia, where 14 years of civil war devastated nearly all infrastructure. Particularly hard hit by the fighting, which ended in 2003, was the power sector overseen by the state-owned Liberia Electricity Corporation (LEC). Liberia’s power stations were destroyed, with practically every piece of LEC’s equipment—from generators to cables—picked clean by looters and sold for scrap.

In 2006 Liberia’s government launched an ambitious plan to reconnect homes and businesses to a reliable power supply. In 2007 it sought IFC’s advice on increasing private sector participation in the sector, which needed massive investment and skills transfer to re-emerge. The result: an IFC-facilitated PPP between LEC and Canada’s Manitoba Hydro International (MHI). The 2010 agreement calls for MHI to manage LEC for five years, totally rebuilding its capacity to run a modern power system.

The European Union, Norway, USAID, and the World Bank are all giving nearly $80 million in grants for systems expansion.

Marsia Thorpe and her four children share a single room in Monrovia. Before being connected to the national grid, they paid about $3 a day for power from costlier sources. Thanks to MHI’s work with LEC, they pay far less. “My children can enjoy studying under light,” Marsia said. “Electricity has really improved our lives and I have bought a freezer to sell ice and cold water, which helps pay my electricity bill and the children’s school fees.”

Plans call for 33,000 new connections in Monrovia, many for low-income families. So far 5,600 homes and businesses are already connected, and LEC’s overall performance has improved.

Global Partnership on Output-Based Aid (GPOBA) is providing a grant of $10 million to supplement capital allocations from other donors, including IFC. GPOBA will pay LEC a subsidy of $595 for each connection made, raising the electricity access rate in Liberia’s capital from 0.6 percent to 8 percent.

Helping fragile countries rebuild is a priority for IFC. In Haiti, the devastation came not from war but from natural disaster. There, our client E-Power has expanded electricity generation in capital city Port-au-Prince by 35 percent since the January 2010 earthquake that killed more than 200,000 people.

An advisor in Liberia, IFC acted as financier in Haiti, lending $17 million for its own account and mobilizing $12 million more from Dutch partner FMO. The tactics were different, but the results were the same—helping the private sector turn on the lights.

Innovative approaches bring results—in challenging frontier markets.
Within 10 years, India expects to build more than 20,000 MW of grid-connected solar projects—one of the world’s highest totals, reducing its reliance on coal. Meeting this ambitious pledge will require an estimated investment of $60 billion, and cannot be done without the private sector. It comes amid a growing global move toward utility-scale solar projects that IFC is helping bring to emerging markets. Rapid cost decreases are making solar competitive with other sources of power, opening major opportunities for green entrepreneurs.

We support high-impact clients who help the industry mature, using IFC investment and advice to transfer the knowledge and technology needed to develop viable new business models. They represent a new wave of solar pioneers in India—currently the world’s second most attractive market for solar after the US, according to Ernst and Young’s renewable index.

In 2010, when it was still at the pre-revenue stage, we took a $10 million stake in Azure Power Private Ltd., developer of the country’s first utility-scale solar plant—a 2 MW plant generating power for 32 villages in Punjab. Now one of India’s largest players in grid-connected solar, Azure recently opened a 5 MW plant in the low-income desert state of Rajasthan, part of the 100 MW of solar capacity it plans to install nationwide by 2014.

Our involvement in the utility-scale solar industry began in 2004, when an IFC-managed $4 million Global Environment Facility grant helped private Philippine utility CEPALCO open what was then the developing world’s largest grid-connected plant. Another breakthrough came with the 5 MW Sivaganga plant in Tamil Nadu that local client Moser Baer Clean Energy Limited developed with our financing in 2010.

A $5 million-equivalent IFC local currency loan is also helping Mahindra Solar One build an initial 5 MW solar project, generating enough electricity to serve about 60,000 rural homes in Rajasthan. Launched in 2010, Mahindra Solar One is committed to being on the frontier of the local solar revolution, meeting rural electrification and other needs to help achieve inclusive, sustainable economic growth. Recently awarded another 30 MW project in the same state, the firm’s Rajasthan ventures are an early sign of large-scale solar’s commercial potential in addressing the enormous energy needs of India.
Few things are as powerful as the power of a good example. That is exactly what IFC is setting in Pakistan, helping its wind power pioneer seize first-mover advantage, making a business case for renewable energy that others can follow.

Our client is Zorlu Energy Group, a Turkish industry leader with project development and engineering/construction arms. In 2009 we financed its 135 MW Rotor Elektrik project, the largest commercial wind farm to date in Turkey—a country whose commercial wind industry is just beginning, but is expected to supply 10,000 MW by 2020.

While working on that high-profile project, Zorlu also began tapping Pakistan’s wind potential, self-financing an initial 6 MW project for a local utility. Soon the Turkish firm was ready to ramp up, negotiating a 20-year contract with the national grid for a new 50 MW plant on the same uninhabited site 100 km east of Karachi.

Plagued by chronic power shortages, Pakistan sorely needed to develop its wind—a free resource to offset costly foreign oil and the resulting greenhouse gas emissions. But while Zorlu’s project design was sound, financing proved hard to find. Foreign banks had little appetite for a first-of-its-kind project in a high-risk country.

Since 1994, IFC had financed eight thermal independent power projects in Pakistan, plus two more based on hydro. And we know wind, having backed similar projects in Mexico, Romania, and other countries in recent years. We provided a $38.1 million, 12-year loan that helped bring the project to financial close in October 2011, including additional loans from the Asian Development Bank, ECO Trade and Development Bank, and Pakistan’s Habib Bank. The project is due to open in 2013, using state-of-the-art wind turbines from the world leader, Vestas of Denmark.

Based on this good model, more than 10 other private sponsors are now developing their own 50 MW wind farms in Pakistan. By showing that renewable energy is good business, the project’s impact goes well beyond its own power output.
Small, privately owned run-of-river hydropower plants are a winner in Chile—fast to build, profitable to run, and free of the greenhouse gas emissions that cause climate change.

Powered by the natural force of water running downhill, they have no dams or reservoirs, making them a low-cost, clean energy solution with none of the environmental and social issues that can plague large hydro plants. Since 2008, Chile has added 20 independent, commercial “mini-hydis” together generating about 110 MW of power—the beginning of a new local industry with the potential for up to 12,000 MW more. But it wasn’t always the case. Someone always has to take the first step. In Chile, it was local entrepreneur Carl Weber.

He recalls his first visit to the Maule region in 2005. A friend had invited him to a site 300 km south of Santiago where Italian investors were considering leasing local farmers’ irrigation channel water rights for use in a very small new plant. Weber, a respected 15-year local hydro industry veteran, saw something others had overlooked—a lengthy natural crevasse nearby whose fast-falling water had high potential.

“I thought it was incredible that this water had been there for so many years and nobody had ever developed it,” Weber recalls. “I looked at it and saw it was double. I said, ‘Here is an opportunity.’”

He joined forces with the Italians to create Hidromaule S.A., a joint venture planning a 20 MW power station on this one waterway. The idea was sound. But it was untested, and local banks were not able to provide financing without extensive guarantees. Nothing could happen without a new financial backer willing to take the risk.

IFC believed in the man, and believed in his vision. Our $19.7 million financing package in 2007—$12 million of it mobilized from Norwegian bank DNB—allowed Hidromaule’s path-breaking plant to open in just 15 months, using a profitable business model that others would soon follow. A 2010 KPMG/Infrastructure Journal report listed Hidromaule among the world’s 100 most interesting projects, calling it “world-class.”

“Without IFC, none of this would have been possible,” Weber says.

Now our challenge is to build on the success, applying the lessons learned from Hidromaule to support other ‘firsts’ in the important field of renewable energy—in Chile, throughout Latin America, and around the world.
Growth and trade are highly intertwined—and highly dependent on transport. Without effective conveyance of people and goods, private sector development is severely limited. This makes the modernization of ports, airports, roads, railroads, and communications infrastructure essential to development. It has probably never been more so than today, as the world’s population begins rising from 7 billion to 9 billion, with most of the growth concentrated in developing countries. Those that have invested heavily in it are reaping the benefits; others that have not invested adequately are seeing their GDP growth slow down as a result.

Complementing the World Bank’s major role with governments in this area, IFC’s investment and advisory services support well-regulated, affordably priced private infrastructure projects that bring benefits to all. Whether done on an ownership or concession basis, they provide key building blocks of a healthy, growing business community—reduced transport costs, inventories, and crop losses, and increased labor productivity. These measures greatly improve the private sector’s ability to do business within a country.

A reduction in trade has a particularly devastating effect on the poor, who are most susceptible to supply shortages and remain most vulnerable to the collapse of industry value chains upon which they rely for employment. Improving the physical infrastructure supporting trade paves the way for progress.

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MODERN TRANSPORT INFRASTRUCTURE:

- **Cuts Costs by Reducing Travel Time, Promoting Growth and Development**
- **Connects Countries to Global Markets**
- **Helps Farmers Get Their Crops to Buyers in Good Condition**
- **Connects Communities to Markets and to Each Other, Making Growing Cities More Livable**

…. A billion people worldwide still lack access to all-weather roads, and more than half of all firms in developing countries identify poor transport as a major business constraint.
Brazil is booming, exporting soybeans, sugar, and beef to help feed the world, and a host of other commodities whose production keeps the economy strong.

The strong economy also fuels growth in imports. But it has only scratched the surface, and it needs improved infrastructure to reach its full potential in international trade.

Outdated ports are one of the biggest problems, delaying shipments in and out and increasing logistics costs.

Despite its many other successes, Brazil ranks near the bottom in the World Economic Forum’s global competitiveness rankings for port infrastructure, hard-pressed to serve today’s 100,000-ton mega-freighters. The bottlenecks affect everyone: exporters and importers, workers and consumers, and government authorities who need tax revenues to meet public needs.

To break the logjam, two of the world’s leading container terminal operators (Terminal Investment Ltd. and APM Terminals) are working together to expand the country’s largest port, Santos, located 60 km from economic capital São Paulo.

A joint venture called Brasil Terminal Portuário (BTP) is building a new world-class port on the site of a former garbage dump. IFC’s largest-ever syndicated loan in Latin America is helping make it a reality. When fully developed in early 2013, the new port will increase the container capacity of São Paulo’s Santos port by 40 percent, install high-tech cargo systems to increase efficiency, and create 1,500 permanent jobs.

With Brazilian banks unable to provide the $679 million required in long term project finance, the sponsors turned to IFC, which provided its own $97 million 10-year loan and mobilized another $582 million at identical terms from a syndicate of six European lenders: BNP Paribas and Crédit Agricole of France, DNB of Norway, ING Capital of the Netherlands, KfW Ipex of Germany, and Banco Santander of Spain.

The syndication structure allows the banks to share in IFC’s preferred creditor status, reducing their provisioning requirements and thus giving them a more efficient way to use their capital, which allows them to lend longer-term for the project than would otherwise be possible.
The war-torn countries that do the most to revive their economies—creating jobs and improving lives through private sector–led growth—have the best chance of avoiding renewed conflict, research shows.

It is a point well understood by Samier and Sarmad Shimire, two Iraqi brothers in their early 20s who are among more than 100 new local workers that our client Gulftainer Co. has hired since 2010 to upgrade the port of Umm Qasr.

Previously casual laborers for various companies operating in the port and assistants at their family’s auto repair business, they are now building extensive new skills through Gulftainer’s comprehensive training programs. “Our past roles allowed us to get some experience of operating plant equipment, but we had never received any formal training,” Samir and Sarmad say. “That was one reason we desperately wanted to be part of the Gulftainer activities in Iraq—because of the company’s reputation for investing not only in infrastructure and equipment, but also people.”

A small fishing village until 1958, Umm Qasr became Iraq’s only deepwater port when its new facilities opened in 1968. It remains so today, the principal shipping gateway in this large country with a small coastline rebounding from years of turmoil.

Located near the mythical home of Sindbad the Sailor—whose seven legendary voyages were forever chronicled in the 1001 Arabian Nights—the port has deteriorated badly since its peak years. Congestion and delays made it one of the world’s costliest places to handle cargo in 2009, the IFC/World Bank Doing Business indicators showed. As a result, it is estimated that in 2011 only approximately a third of import-dependent Iraq’s goods entered through its own ports. Most buyers resort to trucking their goods in from ports in Kuwait, Turkey, and Jordan instead.

Seeking improvement, in 2010 the Iraqi government awarded Gulftainer a 10-year contract to upgrade Umm Qasr. Based in Sharjah, United Arab Emirates, the firm is known as a highly efficient provider of port infrastructure and logistics services. Its quick-turnaround Khorfakkan facility is a favorite with international freighters, earning “Shipping Port of the Year” honors at the annual Supply Chain and Transport Awards in Dubai.

Providing the financing needed to fund such a significant infrastructure investment, in 2010 IFC extended a $45 million loan whose 10-year maturity helps Gulftainer adopt the long-term approach necessary for such types of projects. This enabled Gulftainer to bring in new equipment and management that have resulted in the offloading and loading rates of containers to rise from the previous very low levels to those now reaching international standards, benefiting shipping lines and enabling goods to be quickly trucked to Basra, Baghdad, and other cities on highways being repaired with a $135 million IDA loan from the World Bank. Improving the supply of food and manufactured goods, the World Bank Group’s financing helps put Iraq on the road to recovery.
Kenya/Uganda
Railways
A Turnaround Story

Good ports and good trains: They make a powerful combination.

Efficiently moving large volumes of goods to and from the coast, typically faster and with lower environmental impact than trucks, rail lines help countries trade—not just with the outside world, but with each other as well. When privately owned and well managed, as in Latin America, they are a win-win-win: good for business, good for development, and good for the environment.

This is the new trend at the historic 2,352-km line connecting Kenya and Uganda, Rift Valley Railways. Teaming with IFC, new private owners bought control of this troubled asset in 2010 and are investing more than $300 million to bring it back to life. A Brazilian firm that operates some of Latin America’s best-managed railroads now provides technical support.

Just by introducing experienced senior management, improvements have already been made: key turnaround times for railcars between East Africa’s biggest port, Mombasa, and Nairobi have improved by as much as 30 percent. Similar improvements have been seen between Mombasa and Kampala. These faster cycle times have helped the line increase its volume of cargo by 8 percent. The daily frequency of passenger trains is also up from 8 to 16 trips a day, with accidents per million rail kilometers down by 44 percent.

Begun in Mombasa in 1896 as a colonial civil works project, the line reached Nairobi just three years later, then went on to Kampala in 1936, opening East Africa to the world. But it crumbled under government ownership in the 1980s and 1990s. Today the region’s truck-dominated transport prices are sky-high, although studies show an efficient rail network could bring them down by as much as 35 percent.

IFC advised the Kenyan government on the line’s privatization in 2005, then provided debt financing to the South African–led consortium that won the bidding a year later. When that group ran into financial problems, we learned and moved on, always supporting the project’s business potential. In time a new owner stepped forward in the form of Africa Railways Ltd. (ARL), a platform company created by the $4.2 billion Egyptian-headquartered private equity house Citadel Capital SAE and two local partners, IFC, the IFC African, Latin American and Caribbean Fund managed by IFC Asset Management Company, LLC, and our European development finance institution partners all invested alongside Citadel.

ARL has begun investing in new equipment and brought in experts from Brazil’s América Latina Logística to build a safer, faster railroad. These upgrades should help not just Kenya and Uganda, but also landlocked countries like Rwanda, Burundi, and South Sudan that in time could access the line as well.
Any country that aims to be globally competitive needs good highway infrastructure. Complementing railways in moving goods, well-designed roads let trucks rumble from the interior to coastal ports with minimal loss of time. But while often seen as government’s domain, they can also be profitable businesses bringing benefits to all.

The Colombian government had this in mind when it asked IFC to help structure an ambitious $2.7 billion project to build and expand the Ruta del Sol highway.

The 1,071-km road connects capital city Bogota with Cali, Medellin, other major cities, and the Caribbean coast. Traversing the country’s mountainous terrain, it will reduce travel time by about four hours for trucks and three hours for cars. It will also increase road safety and cut transport costs.

Following failed attempts to concession the first part of the road in the early 1990s, Colombian authorities brought IFC in as transaction adviser in 2007, seeking our help in devising a new concession structure that could be a model for future road concessions. As a result, the project was divided into three concessions, facilitating financing and avoiding single-operator risk. It became Latin America’s single largest PPP road project, mobilizing $1.9 billion in private sector debt and equity alongside the $800 million in government funding and toll revenues that will be collected over a period of several years.

Private operators are now in place for each of the road’s three legs, having won the bids with prices that were well below the government’s maximum and subsequently reaching financial closure:

• Consorcio Vial Helios, led by Grupo Solarte and ConConcreto (Colombia) with Iecsa S.A. (Argentina)
• Concesionaria Ruta del Sol SAS, led by Constructora Norberto Odebrecht (Brazil) and Corficolombiana (Colombia)
• Yuma Concesionaria S.A. PSF, led by Impregilo (Italy) and Bancolombia and Proteccion (Colombia)

The Public-Private Infrastructure Advisory Facility (PPIAF) and the IFC-U.S. Department of the Treasury Trust Fund provided funding for the project, whose Sector 2 was named Transportation Deal of the Year by Project Finance magazine in 2010 and helped IFC win Best Multilateral Development Bank honors from Latin Finance in 2011. Building on the momentum, IFC is now advising Colombia’s on up to $20 billion in new toll road concessions expected to close over the next six years.
Water

Today's rising populations and growing economies are demanding more and more water. But supply is limited, putting serious pressure on already-strained resources—a dangerous trend that will only intensify in the coming decades.

If today's collision course continues, a third of the world's population will face serious water scarcity by 2030. It is an issue with major implications for political stability and the future of industries whose value chains are vulnerable to water shortages. Today's "business-as-usual" strategies will not be enough to close the water gap. In many cases, they have serious risks of fossil reserves being depleted, water reserved for environmental needs being drained, and some demand simply going unmet. This makes improving the efficiency of water use—and pricing it right—an urgent global priority.

Working alongside government, civil society, and other stakeholders, the private sector can provide complementary knowledge, experience, insights, and convening power to address critical issues of water resource management. Within its larger global infrastructure practice, IFC helps shape thinking in this area and extend the reach of clients with cutting-edge models of profitable and sustainable water resource management. The focus is on expanding the impact of their proven approaches to:

- Building agricultural productivity with micro-irrigation, improved drainage, and other technologies
- Increasing efficiency in industrial and municipal water treatment and supply systems, generating cost savings that free up fresh water for other uses
- Investing in sustainable water business opportunities through financial intermediaries, a growing business in the larger field of sustainable finance

Using water efficiently can help businesses reduce costs, increasing their effective use of a scarce resource. This includes well-managed use of waste water, which is essential for health and environmental protection.

… More than a billion people worldwide do not have access to clean water, and nearly 3 billion don’t have access to sanitation
Experts agree: left unaddressed, a world water crisis looms. It could turn very real within 20 years, affecting many countries. Or it could be avoided.

The global business community is acutely aware of the scenarios, and is working with IFC to help countries come together to choose the best course of preventive action.

“If we continue overusing this valuable and scarce resource the way we do, a major food crisis will become inevitable,” warns Peter Brabeck-Letmathe, chairman of the world’s biggest food and beverage company, Nestle, and chairman of the 2030 Water Resources Group (WRG).

Like others, he knows solutions are possible, but they must go beyond any one sector, requiring new collaboration between multiple players.

“To make a difference on the water challenges we all face, governments, civil society, and businesses must work together as never before,” agrees Coca-Cola Company CEO Muhtar Kent.

The two joined IFC CEO and Executive Vice President Lars Thunell and others in January at the annual World Economic Forum (WEF) in Davos, Switzerland to launch the WRG. A neutral, multi-stakeholder body, it is helping governments conserve their water resources in ways that will support both development and growth over the long term. Operating since 2008 as an informal thought-leader partnership with McKinsey and Co., SAB Miller, WEF, and others, the group has now been formalized and based at IFC headquarters in Washington, D.C.

Water resources are fast being depleted through reckless overconsumption. This is in part because the three key user groups—agricultural, industrial, and residential—rarely interact. Political leaders often cannot get enough information to see the issue holistically, understand the extent of their problem, and choose the best policy response.

In response, the WRG has applied McKinsey’s highly regarded earlier microeconomic tool that helps policymakers choose the best ways to cut greenhouse gas emissions. A new version identifying integrated, workable solutions in water is now being applied in China, India, Jordan, Mexico, Mongolia, and South Africa.

Clear, measurable objectives are emerging that help these countries—and in time, others—set measurable objectives for success over the next two years, and acceleration from there. IFC is just one of several partner organizations whose financial support and technical expertise will help craft much-needed responses that will benefit all sides.
Water scarcity is a growing concern globally, but nowhere more than in the Middle East and North Africa. Its rising populations and growing economies compete for minimal supply. With less than 1 percent of the world’s renewable fresh water, the region’s per capita water availability could fall by half within 40 years, the World Bank projects.

A major challenge? Yes, but also an opportunity for the region’s forward-looking infrastructure firms. IFC investment and advisory services help them be part of the solution, especially in the industrial and residential water segments.

With only a third of its population connected to a sewer system, Egypt is among those sorely needing a new approach. Now it has one: its first-ever wastewater treatment PPP, a $130 million plant bringing water and sanitation to up to 2.9 million people in the fast-growing city of New Cairo under an efficient, profitable model emphasizing sustainability.

Sponsor Orasqualia, a 55/45 joint venture of Egypt’s Orascom Construction Industries and Spain’s Aqualia, won the project in a 2009 government tender carried out with IFC’s advice. The 20-year concession model we helped design enabled the project to attract a record 15-year, Egyptian £536 million ($91 million) debt package from local banks, earning regional PPP Water Deal of the Year 2010 honors from Project Finance magazine. Nearly complete despite the recent upheaval in Egypt, this viable new concept can now be applied elsewhere.

We also help rising stars in the region’s water industry bring their expertise to new markets. In 2007 IFC took a 7.37 percent equity stake in Dubai-based Metito, the leader and provider of choice for total, intelligent water management solutions in the emerging markets, which had many good ideas for meeting the world’s growing demand for efficient water and wastewater services. We encouraged it to create Metito Utilities, a new unit to help investors better understand that side of its work, then provided this new entity with a $20 million loan. As Metito Utilities grew, IFC took a fresh $20 million equity stake in 2010.

Metito Group owns an impressive projects portfolio that includes the design and building of 30 municipal water and wastewater treatment projects serving more than 12 million inhabitants in Egypt, Libya, Sudan, Tunisia, Algeria, Morocco, and Mauritania. This cements Metito’s positioning as a true global player with local presence in 22 countries and a world-class quality service refined over fifty years of operational experience. Metito now treats 15 times more water than when IFC first invested in 2007, and is now expanding its existing operations in China, India, and Indonesia while venturing into other parts of Africa.
Water is one of the world’s most precious resources, and needs to be treated that way—conserved, not wasted. When managed as the valuable asset it is, monitored closely, and used in optimal ways, it can be the core of profitable, standalone businesses improving millions of lives. This is especially true in Central and Eastern Europe, where long-established utilities built during the Communist era originally paid little attention to water resource management, but have had to undergo extensive upgrades to comply with the demanding standards of the European Union. In the process, good business models are emerging that can now be spread to non-EU members: Ukraine, Russia, and beyond.

This has been IFC’s experience working in the region with the world’s largest private water company, Veolia Water of France. In 2000 IFC advised the Bucharest municipal government on privatizing its troubled water utility RGAB, which was losing nearly half its output through ill-functioning distribution systems. Under the fair and transparent bidding IFC oversaw, Veolia subsidiary Apa Nova won rights to the utility under a 25-year concession and quickly began turning it around. A 2011 independent evaluation found that the new operators had improved service considerably while keeping price increases 33 percent lower than would have been expected under a standard public sector model.

Veolia later grouped several of its other regional operations into a new unit called Veolia Voda, including water PPPs in Prague, Budapest, and other cities that had shown equally strong results. But it faced several risks in taking its expertise farther east, and needed a World Bank Group partner who could help in the more weakly regulated former Soviet markets that had not yet attracted significant foreign investment in water. IFC took a €100 million ($140.3 million) equity stake in Veolia Voda in 2009, funding that has since supported its subsequent acquisition of a controlling stake in the municipal water concession in Sofia, Bulgaria. In time Veolia Voda will be looking for opportunities in Russia and Ukraine, large countries in great need of more efficient water resource management. Much of this comes from their wasteful, old-style district heating systems that use large amounts of water to steam-heat apartment blocks. Another Veolia affiliate, Dalkia, has achieved 70 percent reductions in water losses in Vilnius, Lithuania’s district heating systems. To help Dalkia spread its valuable expertise farther into the former Soviet republics, IFC has invested up to €100 million ($122.9 million) in the firm. These are our two largest infrastructure equity investments to date.

Veolia’s track record—from Prague to Sofia, and beyond.

Veolia’s track record—from Prague to Sofia, and beyond.
Developments in Telecom and Information Technology and the Internet are Changing the Way People Do Business and Communicate by:

- Hastening the Pace of Economic Growth and Development
- Connecting People to Key Services and Markets
- Allowing Families and Friends to Stay in Touch
- Transforming Lives—Today There Are More Than 80 Mobile Phones Per 100 People in Developing Countries.

The communications revolution defines our times. But too many people are still cut off from its life-changing effects. Africa, for example, is due to reach 735 million mobile connections by the end of 2012, standing as the world’s second-largest mobile market. Driven by the private sector, this breakthrough enables users to not just make calls, but receive price information for their goods and services, transfer money by mobile banking—even obtain health information that saves lives.

Yet in the 25 largest African mobile markets, 36 percent of the population still has no access to mobile services.

In broadband, the access issues are even starker. Globally, only about 21 percent of the population in the developing world use the Internet today, compared with almost 70 percent in developed countries, according to International Telecommunication Union estimates. The UN agency sees a new digital divide unfolding between those with high-speed/capacity/quality access—as in many high-income countries—and the many low-income countries with lower speed/capacity/quality access.

Improved mobile and broadband access is one of the most fundamental enablers of private sector growth and job creation today, especially in the emerging markets. It creates great business opportunities and brings great impacts on human lives, quickly increasing the inclusion of people once cut off from economic growth. IFC investment and advisory services help fast-growing solution providers fill critical gaps in telecom, media, and technology in challenging local environments—taking risks, sharing knowledge, and moving goalposts in one of today’s most important industries.

Developments in telecom and information technology and the internet are changing the way people do business and communicate by:

- Hastening the pace of economic growth and development
- Connecting people to key services and markets
- Allowing families and friends to stay in touch
- Transforming lives—today there are more than 80 mobile phones per 100 people in developing countries.

…. But access to broadband Internet remains a challenge. Only 8 percent of Africans have broadband access today.
Bringing new mobile phone service to nearly 500,000 people in just over two years is no small feat—especially when they live in one of the world’s most difficult places.

But that’s what happened in the West Bank, showing just how much the private sector can bring to development when the conditions are right.

Until recently, the Palestinian territories lagged far behind their Middle Eastern peers in telecom access and affordability. Fixed-line access was minimal, and a single, monopoly provider dominated mobile, offering subpar service at a high price. People deserved better, but had nowhere to turn.

Everything changed when our client Wataniya Palestine came on the scene in 2009. Its entry came as the result of fair, transparent competitive bidding for a second nationwide mobile license. The winner was Wataniya Telecom, a respected regional player majority-owned by Qtel of Qatar with operations in five countries.

But that was just the beginning. The road ahead would prove challenging.

The local regulatory structure was highly complex, involving multiple Israeli and Palestinian players. Equipment shipments were often restricted. And Wataniya’s licensing terms required it to go public on the local stock exchange within two years. It was a daunting task.

Commercial banks found the launch too risky to support. But we believed in the company and its large expected value for local consumers. So we provided a $30 million early-stage loan in January 2009 to help it start operations later that year, introducing affordably priced service that quickly cut incumbent Jawwal’s hold on the market.

The innovative, low-cost service was an instant hit. As sales took off, Wataniya raised $75 million in an oversubscribed IPO on the Palestinian Stock Exchange supported by a new $3 million equity investment vote of confidence from IFC.

Today more than 460,000 local subscribers use Wataniya—calling business partners in areas blocked by checkpoints, and receiving health updates by text message. Consumer prices have decreased by 17 percent and network quality has improved as a result of its entry into the once-monopolized market.

Wataniya is a trusted brand, filling many long-standing gaps in the local communications scene. Now its impact must spread further, bringing competition in mobile to the 1.6 million residents of Gaza for the first time. IFC and Bank of Palestine are working together on a new $125 million financing package to help Wataniya do just that.
Mobile phones are wonderful things—for everyone except the 1.6 billion people living in rugged, rural areas where they don’t work.

Until now, mobile companies have always reached a point in a country’s geography where it is simply not commercially viable to operate. They consider the distances are too great, and populations too small, to justify the costs of installing the necessary equipment. People are cut off from the communications revolution as a result.

An obstacle for many, it is also an opportunity for inclusive business entrepreneurs. IFC specializes in backing these emerging leaders whose innovative commercial models bring affordable, life-improving solutions to the large base-of-the-pyramid market.

“Remote communities are not lost causes,” says Mike Fitzgerald, CEO of Altobridge, an Irish technology firm. “On the contrary, there is now substantial evidence and proven case studies throughout Africa, Asia and the Middle East dispelling the myth that remote communities cannot deliver highly attractive returns on investment.”

His firm’s core product is the “lite site” base station it sells mobile carriers in developing countries for $50,000, or about 20 percent of the cost of conventional systems that are prohibitively expensive in ultra-rural areas. Run with proprietary software and low-cost solar panels, Altobridge systems let clients reach communities of 3,000 or less profitably.

One of Indonesia’s largest carriers, Indosat, used Altobridge’s system to find new subscribers in Mambi, a remote village on Sulawesi 15 hours by car from the nearest airport. Until recently, its residents had almost no communications options, having to travel three hours to make a call—or five hours to the nearest hospital. But now the hospital can text them health updates, and they can make calls on their Indosat phones to improve the efficiency of their small, family-owned businesses.

First launched in Malaysia in 2007, Altobridge has sold more than 1,000 of its systems, impacting Mongolia, Niger, and numerous other countries as well as Indonesia. It sees rural Africa becoming its biggest market.

IFC made an early-stage $5 million equity investment in Altobridge last year alongside Silicon Valley giant Intel’s venture capital arm. A few months later the World Economic Forum named Altobridge a 2011 Technology Pioneer—one of 25 global firms it felt had the potential to transform business and society, just like a previous winner named Twitter.
Renewable energy’s benefits are twofold—able to meet the basic needs of many, while also addressing important impacts of climate change. This makes it especially important in India, where almost 44 percent of the more than 1 billion people lack access to energy. The need for phone connections in rural and remote areas is equally compelling.

Installing new solar power infrastructure for telecom towers helps provide energy access in off-grid areas to power the world’s fastest growing mobile phone network. And this is exactly what Indian power solution company Applied Solar Technologies has done in the low-income states of Bihar and Uttar Pradesh.

Applied Solar provides off-grid solar power to telecom towers that mostly rely on diesel-based generation for 100 percent of their power requirements. The company builds and operates these solar installations and takes over the power supply management of each site. By using a combination of solar photovoltaic, battery backup, and diesel generators, this hybrid energy solution balances energy used from different sources through a controller. With this optimal use, consumers get reduced diesel consumption, increased battery life including minimal diesel generator maintenance and lower replacement costs, resulting in substantial savings.

For a typical tower, total energy-related expenses come down by about 10 percent to 20 percent per month. Energy costs constitute a major share of total expenses for telecom tower companies in India, which are under tremendous pressure to reduce costs due to low telecom prices and revenues.

IFC’s early-stage, almost $19 million equity and debt investment in Applied Solar (including a repeat equity round) is helping the company reach 8,000 telecom tower sites by 2016 and expand to the states of Madhya Pradesh, Orissa, and Rajasthan.

Applied Solar founders Vinod K. Agarwal and Kapil Kathpalia believe IFC’s role has been central in encouraging their company to adopt high environmental and social standards. Dr. Agarwal feels IFC plays a larger role in providing off-grid energy access in rural and remote areas through unconventional means. This project is expected to help avoid greenhouse gas emissions by over 160,000 tons annually by 2016. For a country with 300,000 telecom towers—and growing—the future for Applied Solar is bright.
IFC has offices in more than 80 countries around the world.

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Infrastructure

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CONTACT US
OUR VISION
That people should have the opportunity to escape poverty and improve their lives.

OUR VALUES
• Excellence
• Commitment
• Integrity
• Teamwork
• Diversity

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

• Mobilizing other sources of finance for private enterprise development
• Promoting open and competitive markets in developing countries
• Supporting companies and other private sector partners where there is a gap
• Helping generate productive jobs and deliver essential services to the poor and vulnerable

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

Creating Opportunity Where It’s Needed Most

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