



their/our story

CHAPTER FOUR:

how we work

IFC's achievements in creating opportunity flow from our commitment to people—to our clients, to our partners, and to the nearly 3,500 men and women who comprise our organization. That is reflected in a corporate culture dedicated to excellence, commitment, integrity, and teamwork and focused on delivering results in a time of rapid change.

We strive for best practice in every aspect of our operations—in our governance, our accountability to stakeholders, and our focus on sustainable development. In keeping with our commitment to go wherever we are needed most, we now have more than half of our staff based in developing countries. Our staff reflects the diversity of the countries we serve.

Nearly two thirds of full-time IFC staff members are from developing countries.

We maximize our development impact by working in partnership with a wide array of entities—donor governments, charitable foundations, development finance institutions, and nongovernmental organizations.

*IFC culture, product lines, and staff—
based in 102 cities in 86 countries.*

OUR PEOPLE

DELIVERING TO CLIENTS IN CHALLENGING TIMES

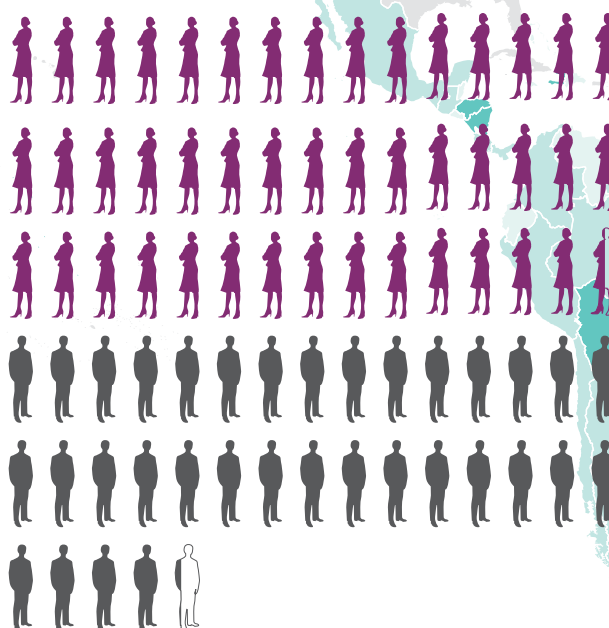
Throughout the financial crisis, IFC's staff has focused on supporting our clients in a challenging environment and developing products to reduce the economic impact of the crisis on the private sector in developing countries.

Our people are deeply committed to IFC's mission of creating opportunity for people to escape poverty. IFC staff offer clients a powerful combination of global expertise and local know-how that allows us to respond rapidly to changing needs.

♂ = 20 MEN
♀ = 20 WOMEN

HEADQUARTERS STAFF

1,575 TOTAL
891 WOMEN
684 MEN



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

WHO WE ARE

IFC'S EMPLOYEES ARE BASED IN

102 CITIES

IN
86 COUNTRIES

INCLUDING

41 OF THE POOREST COUNTRIES

(THOSE SERVED BY IDA)
OUR STAFF REPRESENTS

135 COUNTRIES

INCLUDING

53 IDA NATIONALITIES

Today, 54 percent of our staff is based in the field, up from 43 percent in FY04.

We are diverse. Our diversity enriches our perspectives, allows for fresh ideas, and helps us respond more effectively to clients and stakeholders. Employees from developing countries represent 63 percent of all staff and 54 percent of those at officer level and higher.

WHERE WE WORK

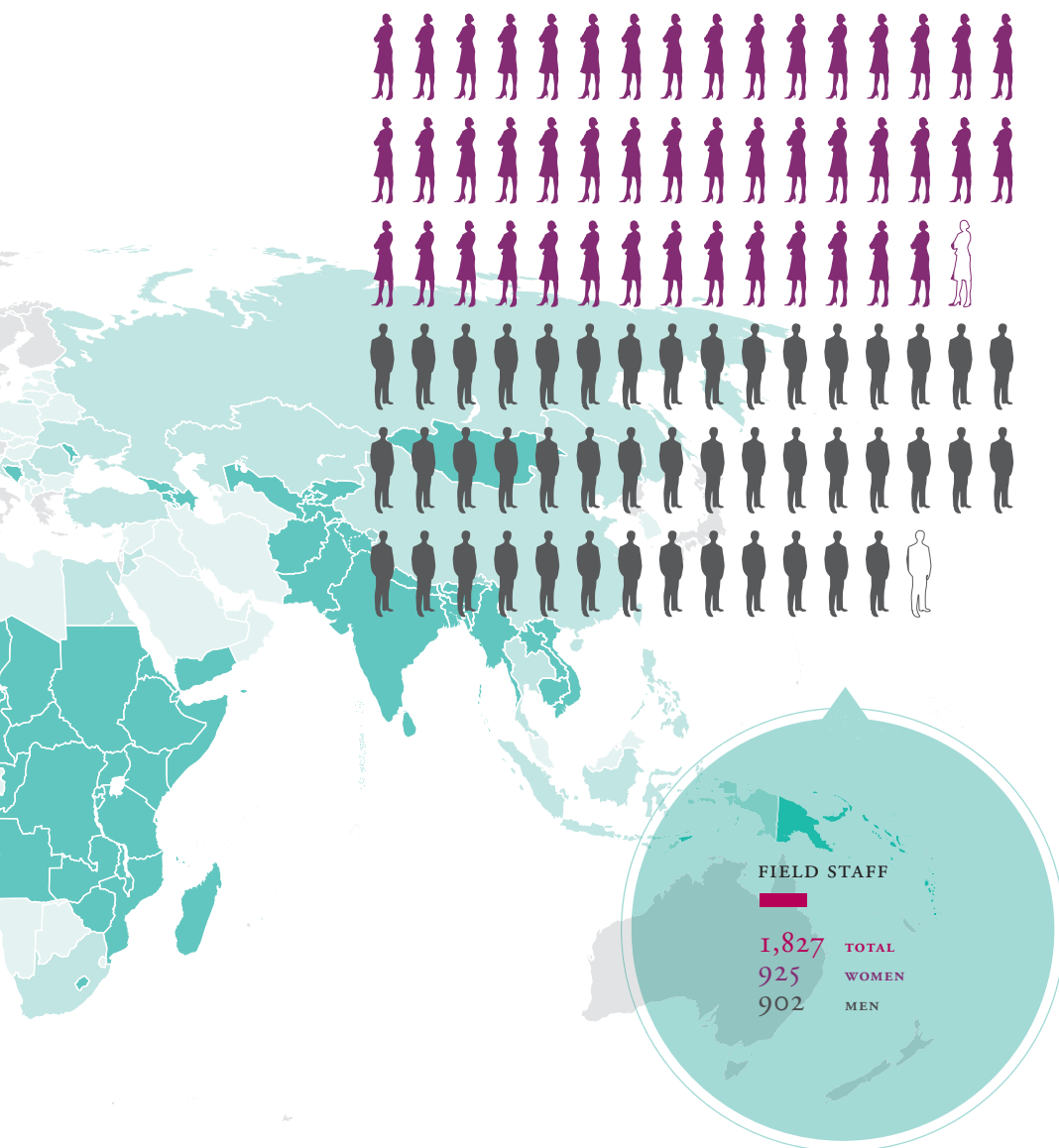
	FY04	FY09
Field Offices	963 (43%)	1,827 (54%)
Washington	1,291 (57%)	1,575 (46%)
Total	2,254	3,402

NATIONAL ORIGINS (FULL-TIME STAFF)

	FY04	FY09
Developed Countries	963 (43%)	1,252 (37%)
Developing Countries	1,291 (57%)	2,150 (63%)
Total	2,254	3,402

NATIONAL ORIGINS (OFFICER LEVEL & UP)

	FY04	FY09
Developed Countries	647 (53%)	919 (46%)
Developing Countries	584 (47%)	1,072 (54%)
Total	1,231	1,991



GENDER DISTRIBUTION (FULL-TIME STAFF)

	FY04	FY09
Men	1,121 (50%)	1,586 (47%)
Women	1,133 (50%)	1,816 (53%)
Total	2,254	3,402

GENDER DISTRIBUTION (OFFICER LEVEL & UP)

	FY04	FY09
Men	844 (69%)	1,211 (61%)
Women	387 (31%)	780 (39%)
Total	1,231	1,991

BENEFITS PROGRAMS

IFC provides a competitive package of benefits, including medical insurance and a retirement plan. Washington-based employees are covered by Aetna, contracted through an open procurement process. Other staff members are covered by La Garantie Médicale et Chirurgicale, an international health care provider. Medical insurance costs are shared—75 percent is paid by IFC and 25 percent by the insured.

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

FOCUS ON PRIORITIES

After a period of high growth in staffing (a 58 percent increase from FY03 to FY08), IFC is now focusing on integrating recently hired staff, strengthening core skills, and providing professional development opportunities globally. Recruitment is targeted toward priority operational areas, including new investment initiatives and support for small and medium enterprises. We are also going deeper into IDA countries, where we now have 663 staff members, or 36 percent of all field-based employees.

To build a cohesive corporate culture across a widely dispersed work force, new employees attend induction training to understand who we are, what we do, and how we work. Ongoing training programs include credit review, core skills, and leadership development. In FY09, course attendance doubled overall. Now, more than 70 percent of corporate-sponsored training is held in the field, and e-learning courses are available on demand anywhere in the world.

In addition, we have introduced infrastructure and tools to more effectively share critical knowledge and best practices across regions. To continue to develop our highly skilled work force, IFC has introduced a global career framework, which provides a corporate approach to career management and guides staff toward professional opportunities that contribute to IFC's mandate.

STAFF TRAINING PARTICIPATION FY09

	COMPLETIONS	HOURS
Core Skills	19,148	96,107
Credit	685	41,178
Leadership	690	13,564
Total	20,523	150,848

GLOBAL PRESENCE — GROWTH IN NUMBER OF IFC FIELD OFFICES

	FY04	FY09
Total IFC Field Offices	87	101
Offices with IBRD	41	62
Offices with Advisory and Investment Services	20	60

INTEGRATING INVESTMENT AND ADVISORY SERVICES

IFC's Advisory Services operations have significantly increased since FY06. Today, Advisory Services staff represent 34 percent of IFC's work force. Advisory programs have grown in the field, close to our clients, with more than 80 percent of our advisory staff based outside Washington, D.C., and 34 percent in IDA countries. In the most challenging environments, such as IDA countries, post-conflict countries, and frontier regions, demand is often highest for Advisory Services, because markets are not yet developed enough to absorb investment. IFC's combination of investment and advice represents an attractive proposition for our clients. Accordingly, further integration of investment and advisory operations has become a strategic priority.

GOVERNANCE



From left to right: (standing) Toga McIntosh, Sun Vithespongse, Abdulhamid Alkhalifa (Alt.), Dante Contreras, Rudolf Treffers, Eli Whitney Debevoise, Svein Aass, Louis Philippe Ong Seng, Pulok Chatterji, Samy Watson, Merza Hasan, Konstantin Franz Huber, Toru Shikibu, Michel Mordasini, Sid Ahmed Dib, Ambroise Fayolle, José Rojas; (seated) Carolina Renteria Rodriguez, James Hagan, Jiayi Zou, Alexey Kvasov, Susanna Moorehead, Michael Hofmann, Giovanni Majnoni. Not pictured: Abdulrahman Almofadhi.

IFC is an international organization established in 1956. We are part of the World Bank Group, which also includes the International Bank for Reconstruction and Development and the International Development Association (which together constitute the World Bank), the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes. IFC is a legal entity separate and distinct from the other Bank Group institutions, with separate Articles of Agreement, share capital, financial structure, management, and staff. Membership in IFC is open only to member countries of the World Bank. As of June 30, 2009, IFC's entire share capital was held by 182 member countries.

Member countries guide IFC's programs and activities. Each country appoints one governor and one alternate. Corporate powers are vested in the Board of Governors, which delegates most powers to a board of 24 directors. Voting power on issues brought before them is weighted according to the share capital each director represents. The directors meet regularly at World Bank Group headquarters in Washington, D.C., where they review and decide on investments and provide overall strategic guidance to IFC management.

Robert B. Zoellick is President of IFC and the other World Bank Group institutions; he also serves as Chairman of the Boards. Lars H. Thunell is IFC's Executive Vice President and Chief Executive Officer and oversees IFC's overall strategy and operations.

STAFF SALARY STRUCTURE* (WASHINGTON D.C., AS OF JUNE 30, 2009)

GRADE	REPRESENTATIVE JOB TITLES	MINIMUM \$	MARKET REFERENCE \$	MAXIMUM \$	STAFF AT GRADE LEVEL (%)	AVERAGE SALARY / GRADE	AVERAGE BENEFITS**
GA	Office Assistant	23,760	30,880	40,130	0.1%	33,568	15,696
GB	Team Assistant, Information Technician	30,110	39,150	54,810	1.1%	40,251	18,822
GC	Program Assistant, Information Assistant	37,670	48,980	68,580	10.7%	51,062	23,876
GD	Senior Program Assistant, Information Specialist, Budget Assistant	42,610	55,390	77,550	8.5%	62,416	29,186
GE	Analyst	57,040	74,140	103,790	10.0%	72,609	33,952
GF	Professional	76,420	99,340	139,080	18.3%	93,442	43,694
GG	Senior Professional	102,140	132,790	185,900	30.9%	129,091	60,363
GH	Manager, Lead Professional	142,250	184,950	239,000	17.1%	178,244	83,347
GI	Director, Senior Advisor	188,000	248,900	282,000	2.9%	232,820	108,866
GJ	Vice President	256,760	287,570	322,000	0.4%	287,652	134,506
GK	Managing Director, Executive Vice President	282,010	319,810	351,740	0.1%	336,267	126,822

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

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

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

ACCOUNTABILITY

Three independent units oversee IFC and increase our accountability.

COMPENSATION

IFC's compensation guidelines are part of the World Bank Group's framework. The international competitiveness of compensation is essential to our capacity to attract and retain highly qualified, diverse staff in jobs subject to international recruitment. The salary structure of the World Bank Group for staff recruited in Washington is determined with reference to the U.S. market, which historically has been globally competitive. This competitiveness is reviewed every four years. Salaries for staff hired in offices and countries outside the United States are based on local competitiveness, determined by independent local market surveys.

Based on the World Bank Group's status as a multilateral organization, staff salaries are determined on a net-of-tax basis.

EXECUTIVE COMPENSATION

The salary of the President of the World Bank Group is determined by the Board of Directors. The salary structure for IFC's Executive Vice President and CEO is determined by positioning a midpoint between the salary structure of staff at the highest level, as determined annually by independent U.S. compensation market surveys, and the salary of the World Bank Group President. The compensation of our executive leadership is transparent. The President, Robert Zoellick, receives a salary of \$441,980 net of taxes; and IFC's Executive Vice President and CEO, Lars Thunell, receives a salary of \$347,050 net of taxes. There are no executive incentive compensation packages.

INCENTIVE PROGRAMS

Human resource considerations are an integral part of IFC's strategy and business planning, and the main driver of strategy implementation. Human resource plans play a prominent role in IFC's deliberations throughout the planning cycle, including the use of incentives.

IFC's variable pay and retention programs were suspended this year in response to the change in market conditions and for IFC's own financial prudence. Once the business climate and IFC's financial results have improved, IFC will review the suspensions and also introduce program improvements. Recognition of outstanding work by individuals and teams remains important to IFC and to our high-performance culture.

COMPLIANCE ADVISOR/OMBUDSMAN

The Compliance Advisor/Ombudsman is an independent recourse mechanism for projects financed by IFC and the Multilateral Investment Guarantee Agency reporting directly to the President of the World Bank Group. Its mandate is to help IFC and MIGA address complaints by people affected by projects in a manner that is fair, objective, and constructive, and to enhance the social and environmental outcomes of projects in which these organizations play a role.

The CAO has three distinct roles. As Ombudsman, the office responds to complaints, working to identify the causes of conflict and helping stakeholders resolve concerns through assisted negotiation. In its role to ensure compliance with policies, guidelines, procedures, and systems, the CAO conducts audits of IFC's and MIGA's social and environmental performance, particularly in relation to sensitive projects. CAO audits are independent of, but complementary to, internal assurance efforts.

In its advisory role, the office provides independent advice to the President and management of IFC and MIGA on broader social and environmental issues aimed at improving institutional effectiveness in a systemic way. The CAO does not give project-specific advice. In FY09, CAO advisory work led to a pilot initiative to measure development results at the project level by IFC's Development Effectiveness Unit. IFC's Peru office adopted guidelines on participatory monitoring for its mining portfolio. Currently, the CAO is contributing to IFC's review of the Performance Standards and Disclosure Policy (see page 111).

The CAO has expanded its outreach to IFC staff to increase understanding of its processes and lessons learned, and to civil society and other stakeholders to raise awareness about accountability and recourse at IFC.

During FY09, the CAO responded to 16 eligible complaints about 14 IFC projects in nine countries.

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

INDEPENDENT EVALUATION GROUP

IFC strives to learn from experience. The Independent Evaluation Group has evaluated IFC operations since 1996. IEG reports to our Board of Directors through the World Bank Group Director-General, Evaluation. Last year, IEG independently evaluated the performance of 62 IFC investment operations and evaluated 58 advisory projects. IEG also produced eight country, sector, thematic, and corporate evaluation reports that identified strengths and weaknesses with our operations and recommended ways to improve our effectiveness. Of particular interest was IEG's timely report on the lessons learned from past financial crises and their relevance to the current global economic crisis.

The latest IEG flagship report, the Independent Evaluation of IFC's Development Effectiveness 2009, focused on IFC's Advisory Services. IEG made several recommendations, including that we develop an overall strategy for Advisory Services for enhanced sustainability and impact, pursue more programmatic interventions, build client commitment through greater cash contributions to projects, and improve performance measurement and knowledge management. IFC and IEG track recommendations to ensure their compliance, and status is reported to IFC's Board of Directors.

Although IEG is independent, it encourages learning through self-evaluation. IEG works closely with IFC staff to ensure that they understand and correctly apply best-practice solutions to improve the development effectiveness of private sector investment and advisory projects.

IEG participates in IFC's training programs in Washington, D.C., and the field to raise awareness of the importance of development effectiveness by sharing evaluation findings and lessons learned. Beginning in FY06, under its new disclosure policy, IEG has disclosed its reports and findings to the public and has expanded its communication activities to reach external stakeholders.

IEG's reports are available at www.ifc.org/IEG.

INTERNAL AUDITING DEPARTMENT

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

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

WORKING RESPONSIBLY

COMMITMENT TO TRANSPARENCY

As a global multilateral finance institution with operations in many regions and sectors, IFC has an impact on a diverse range of stakeholders. We believe that transparency and accountability are fundamental to fulfilling our development mandate and to strengthening public trust in IFC and our clients. IFC makes publicly available information concerning our investments and Advisory Services that enable our clients, partners, and stakeholders to better understand and engage in informed discussion about our activities.

We frequently solicit feedback to identify issues of importance to stakeholder groups. Feedback includes an annual client survey and ongoing engagement with stakeholders, including representatives of civil society, local communities affected by our projects, industry associations, governments, international finance institutions, and academia.

IFC'S DISCLOSURE PORTAL

IFC has developed an innovative, Internet-based Disclosure Portal to serve as a central location for corporate information, policies and standards, proposed investments, and stakeholder feedback. The portal offers the Disclosure Policy in six languages and links to IFC's performance standards and environmental and social impact policies.

In particular, the site links to a project database containing client information, summaries of proposed investments, environmental and social reviews and mitigation measures, and expected development impact. The database has been expanded to include IFC Advisory Services projects. The Disclosure Portal encourages stakeholder feedback, allowing users to ask questions or provide comments about specific projects. IFC attempts to provide an answer to all disclosure inquiries within 30 days, with an average response time of 21 days.

For members of the public who feel that an initial request for information has been unreasonably denied or that our policy has been incorrectly applied, we have established a complaints mechanism. Complaints are reviewed by the Disclosure Policy Advisor, who reports directly to IFC's Executive Vice President and CEO.

Implementation of the Disclosure Portal has given stakeholders greater access to information about IFC's investments, projects, and policies. It has also benefited IFC by allowing the Corporation to maintain an open dialogue with stakeholders and global constituents. IFC's Web disclosure portal was profiled in the *2008 Global Accountability Report* by British nongovernmental organization OneWorld Trust as an example of good practice in corporate transparency. For full information, see www.ifc.org/disclosure.

PROMOTING SUSTAINABILITY

At IFC, we strive to ensure that the way we manage our business is consistent with our corporate sustainability commitment and what we ask of our clients. In FY09, we committed to reducing electricity consumption in our largest office—our headquarters building in Washington, D.C.—by 10 percent over the next five years. Nearly half

of our total staff is based in Washington. IFC is also applying for Leadership in Energy and Environmental Design certification for the Washington office.

In FY09, IFC launched an innovative awareness-raising program to share simple ways IFC staff can use resources more efficiently while at work and therefore help reduce the environmental impacts—and costs—of IFC's business operations. Staff volunteers, known as Footprint Champions, connect with employees individually to discuss a variety of specific steps and answer questions. Piloted in IFC's Washington office, the program will be launched in all country offices in FY2010, once lessons learned from the initial effort have been integrated.

IFC's annual Footprint Challenge offers financial awards to IFC staff for implementation of innovative approaches that reduce IFC's environmental footprint and help local communities. Proposals are submitted from all over the world and are judged by a senior staff panel on such merits as viability, ease of replication, and creativity.

In 2009, staff from IFC's Human Resources Department won an award for their proposal to develop an e-learning module on effective Web conferencing in order to decrease travel for meetings. Employees from the Dhaka office won for their initiative to build on a Bangladeshi tradition of traveling drama shows called *jatras* to educate university students on climate change and the role of young people in the climate crisis.

IFC continues to be carbon-neutral for all our global business operations. A newly instituted carbon-data management system allows country offices to track energy use and carbon data in real time, enabling managers to develop reduction strategies locally. Our methodology for calculating IFC's annual greenhouse emissions is detailed in the World Bank Group's Greenhouse Gas Emissions Inventory Management Plan (IMP), which is available at www.ifc.org/footprint.

In 2008, carbon emissions from IFC's global internal business operations totaled 37,454 metric tons of carbon dioxide equivalent. To offset the carbon footprint of our global business operations, IFC purchased carbon credits from the Brazilian Ceramics Manufacturers Fuel-Switching Project. Under the project, small ceramics producers in the north and northeast of Brazil are replacing native wood or fossil fuel as the fuel they use for their fire kilns with renewable biomass such as açai pits and rice and coconut husks. The project was developed by the Social Carbon Company, a partnership between emission trading experts CantorCO2e and the developers of the Social Carbon Methodology, founders of the Instituto Ecológica of Brazil, a nongovernmental organization specializing in climate-change research and mitigation through projects for conservation, environmental preservation, and sustainable development.

The fuel-switching project has both environmental and social impacts. It helps to reduce deforestation in the Amazon, benefits the actors involved with the projects, and provides support for small ceramics producers through the sale of carbon offsets and assistance with biomass sourcing and handling, and adjustments in equipment and manufacturing processes. Voluntary Carbon Units are issued under the Voluntary Carbon Standard and registered with Markit Environmental Registry, which is a financial market infrastructure platform for environmental commodities.

how we work

CAIRO

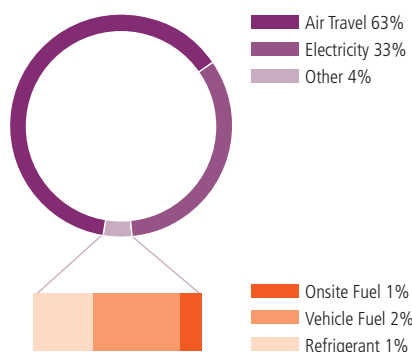
Recycled Paper Never Looked So Good

Beautiful note cards, fancy gift bags, unique stationery—this is the second life of the used paper from the IFC Cairo office. The office has partnered with the Association for the Protection of the Environment, a nongovernmental organization that works with a group of 250 young women who recycle the paper into handicrafts and sell them at markets and shops—entrepreneurship and environmentalism at its best.

The Cairo office also recently helped launch a paper waste collection that includes all the tenant firms in the office towers. The waste is donated to Resala, a nonprofit that manages projects to help those in need in Egypt and promotes volunteerism. Resala sells the wastepaper to generate income to fund its projects.

IFC's offices for the Middle East and North Africa were the first to take a regional approach to reducing their environmental footprint. Initiatives have included installing energy efficient water faucets that will help reduce water consumption significantly, replacing disposable items with china and glass for meetings in all regional offices, and raising awareness among staff about how to reduce their footprint at home through the distribution of reusable bags and a guide on how to be "greener" at home.

FY08 CARBON EMISSIONS INVENTORY FOR IFC'S GLOBAL INTERNAL BUSINESS OPERATIONS



The total emissions—including carbon dioxide, methane, and nitrous oxide—are expressed in metric tons of carbon dioxide equivalent (tCO₂e).
Note: For full information on our footprint activities, including the IMP and IFC's FY09 carbon emissions inventory (once completed), please visit www.ifc.org/footprint.

IFC'S APPROACH TO SUSTAINABILITY

IFC's approach to sustainability is founded on the belief that sound economic growth, driven by private sector development, is crucial to poverty reduction. In our investments, operations, and Advisory Services across the globe, we consider four dimensions of sustainability—financial, economic, environmental, and social:

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

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

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

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

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

TAKING RISKS—AND MANAGING THEM

The current financial crisis has highlighted the critical importance of ensuring proactive risk-management practices. In light of the enhanced financial risk, IFC is focusing more on portfolio and risk management while playing a countercyclical role in support of the private sector in our client countries. This strengthened approach during a period of financial uncertainty allows IFC to take smarter risks when markets have become more challenging. In an ongoing effort to reach out to our clients, we continue to grow and decentralize our risk-management functions, with more of our operations and risk controls moving closer to our clients.

IFC is managing risks to protect our capacity to lend to and invest in both IDA country borrowers and those in middle-income countries who are returning to IFC because private lenders are pulling back from riskier markets. Details of our risk enterprise management focus areas are discussed in the Management's Discussion and Analysis, online at: www.ifc.org/annualreport.

IFC has been calculating an environmental and social risk rating for its investments since 2000. We rate investments that have some degree of risk, as reflected by their environmental and social categorization as A, B, or FI. The rating is given and updated, usually once a year, by our environmental and social specialists, based on reports provided

by clients and site visits. The frequency of visits depends on an investment's risk rating and its performance against agreed action-plan items.

To further strengthen IFC's environmental and social risk management, during the year we focused on reducing the environmental and social "knowledge gap" in IFC's portfolio. The gap refers to the percentage of companies in IFC's portfolio for which we have not received updated information on environmental and social performance within the last two years. The knowledge gap was reduced from 12.5 percent in FY08 to 6.4 percent in FY09.

IFC AND ANTICORRUPTION

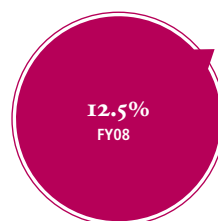
Corruption is among the greatest obstacles to economic and social development. Its effects are especially severe on the poor, who are hardest hit by economic decline, most reliant on the provision of public services, and least capable of paying the extra costs associated with bribery, fraud, and other forms of corruption. Corruption also significantly adds to the cost of doing business in many developing countries.

Countering corruption is therefore aligned with IFC's mission to promote sustainable private sector investment in developing countries, thus helping to reduce poverty and improve people's lives. Several types of IFC engagements—for example, those that enhance openness and competition and promote better corporate governance systems—can be effective tools in combating corruption.

IFC's Investment Guidelines and Practices contain processes and procedures aimed at mitigating the risk of corruption in our projects. IFC's due diligence aims to ensure the integrity of our potential partners and prevent unethical or illegal practices such as fraud and corruption in our projects. We make careful inquiries into the background and integrity of potential partners and their stakeholders—including sponsors, management, and shareholders or owners, relying on intelligence on the ground as well as on other sources such as publicly available databases.

IFC's anticorruption stance is incorporated into the legal documentation governing our investments. Acts of fraud or corruption by a client in an IFC project give IFC the right to cancel disbursements or terminate a facility. Sanctions are also a possibility for persons or entities found—under the World Bank Group's sanctions process—to have engaged in corrupt, fraudulent, coercive, collusive, or obstructive practices in connection with an IFC project. Sanctions include publication of the person's name on a public Web site and may include debarment (ineligibility to participate in World Bank Group financing).

ENVIRONMENTAL AND SOCIAL "KNOWLEDGE GAP" IN IFC'S PORTFOLIO



BANGLADESH

IFC Helps Empower Women Through Jobs

Nasima Khatun (pictured at right) has become a believer—in her own ability to work, earn a living, and contribute significantly to her family's well-being.

The 30-year-old mother of two started at PRAN Group, the leading agro-processing company in Bangladesh, as a day laborer eight years ago. With hard work, she was hired full-time and worked her way up to the position of line supervisor in the tomato-processing division at PRAN's plant in Natore, 250 kilometers northwest of Dhaka.

IFC is providing a \$15 million loan to PRAN Group to help the company modernize and expand support to local suppliers and small farmers while creating additional jobs.

"Before working here, I did not know that women too could work and earn a living," Khatun says. "I have now become smarter and have learnt a lot about women's empowerment and about life."

PRAN makes high-quality, low-cost, processed and packaged food readily available to the lower- and middle-income population of Bangladesh and other countries. PRAN Group is one of the most popular and recognizable brands in the country, with products in six categories: snacks, confectionery, juices and other beverages, condiments, dairy products, and premium rice.

Khatun's family is enjoying the rewards of her diligence. Her younger sister was able to stay in school and eventually also get a job at PRAN, where Khatun's husband, other sister, and brother-in-law now work as well. Khatun's aging father no longer needs to pull a rickshaw to contribute to the family income, and his health care needs are being met. The nine-member family was able to move out of a temporary dwelling into a proper brick house.

Despite Bangladesh's increasingly urban population, processed and packaged food is not easily available to a large part of the population. Local food processors are scarce, which means perishable agricultural products are wasted and opportunities to create jobs are lost. The IFC investment in PRAN is its first in Bangladesh's strategically and economically important agribusiness sector.



The Equator Principles and China

China achieved a major breakthrough in “green” banking late last year when one of its leading commercial banks adopted the Equator Principles, a set of voluntary project-financing guidelines based on IFC’s social and environmental standards.

IFC client Industrial Bank became the first financial institution in China to adopt the principles, advancing the country’s “green banking” campaign to promote innovative products to support energy efficiency for small and medium enterprises. The move confirmed the bank’s commitment to sustainability and leadership in corporate social responsibility.



The principles identify standards for financing projects of \$10 million or more. Across the globe, 69 financial institutions have adopted the Equator Principles, including 16 in emerging markets. In addition, 32 export credit agencies from the member countries of the Organization for Economic Cooperation and Development and 16 European development finance institutions benchmark their private sector projects against the Equator Principles.

Financial institutions that adhere to the Equator Principles supplement IFC investments in many developing countries. In FY09, 27 such institutions provided 78 percent of new syndications in IFC investments. Each year, IFC holds a Community of Learning Event for Equator institutions, export credit agencies, and other bilateral and multilateral financial institutions.

Industrial Bank’s adoption of the principles lends support to China’s Green Credit Policy, which helps improve compliance with the country’s environmental regulations by restricting companies’ access to commercial credit if they bypass mandatory environmental assessments or fail pollution checks. IFC is working with the Chinese government and banks to introduce good environmental and social standards and practices, and to support sustainability in China’s financial sector.

PERFORMANCE STANDARDS

IFC’s Environmental and Social Performance Standards, adopted in 2006, are more business-friendly than the previous policies, in that they set clear requirements and goals rather than prescribe “to do” lists. The standards now include comprehensive labor considerations and requirements ensuring the safety of communities. Several of these requirements were not explicitly covered under the previous framework.

The new standards were welcomed by the major financial institutions doing project finance and were incorporated into project-finance guidelines known as the Equator Principles (see sidebar at right). In the three years since the new standards were launched, our environmental and social experts and our investment officers, as well as our clients and other stakeholders, such as nongovernmental organizations, have been identifying what works well and what may need to be revised.

At the same time, the context in which the standards are applied has evolved. Climate change and water issues have risen to the top of the international agenda. Businesses have done much work on human rights issues. And most important, the current financial crisis is exacerbating labor issues, such as job cuts. The Performance Standards may therefore need to be updated. IFC will begin conducting consultations with stakeholders in FY10 as part of a review of the standards to be completed the following year. In addition, IFC’s Compliance Advisor/Ombudsman is carrying out an independent review of our application of the Performance Standards, focusing on the policy areas with the most direct impact on project-affected communities.

During FY09, over 250 investments approved by IFC’s Board applied the Performance Standards as an initial screening. Of these, three in the real sector were deemed to involve potentially significant adverse impacts, and 126 were category B, or had limited impacts, resulting in the in-depth application of some or all of the standards. An additional 38 investments were considered to involve minimal or no impacts. Our 85 investments with financial intermediaries were processed under a new procedure designed to enable IFC to manage environmental and social risk in such operations based on a three-tiered, risk-based approach: exclusion list, national law, and the Performance Standards.

For more information on IFC’s Policy and Performance Standards, please visit <http://www.ifc.org/ifcext/sustainability.nsf/Content/EnvSocStandards>.

PRODUCT LINES

LOANS

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

While IFC loans have traditionally been made in the currencies of major industrial nations, IFC has made it a high priority to structure local currency products. At the end of FY09, IFC's disbursed loan portfolio included loans denominated in local currencies such as Brazilian reais, Chinese renminbi, Indian rupees, Indonesian rupiah, Mexican pesos, Russian rubles, and South African rand.

In FY09, we made commitments for \$5.96 billion in new loans. Loans comprised 75 percent of the disbursed investment portfolio as of June 30, 2009.



EQUITY INVESTMENTS

Equity investments provide both developmental support and long-term capital that entrepreneurs and private enterprises most need. These investments also provide opportunities to support reforms, particularly in corporate governance, and enhance social responsibility.

We risk our capital by buying shares in companies as well as through private equity funds. This is an important part of our portfolio, and totaled \$8.5 billion at the end of FY09 (measured at fair value).

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

Equity investments accounted for 18 percent of IFC's disbursed investment portfolio.

SYNDICATIONS

IFC's "B loan" program, the oldest syndicated lending program among multilateral development banks, is an important tool for mobilizing capital to serve development needs. Since its establishment in 1957, the program has mobilized over \$32 billion from more than 560 financial institutions for projects in more than 100 countries. In FY09, IFC mobilized \$2.2 billion through B loans (\$1.86 billion) and parallel loans (\$374.4 million) for our clients. As of June 30, 2009, IFC's committed syndicated loan portfolio totaled about \$8 billion. In addition, IFC syndicates parallel loans.

NEW INITIATIVES

In FY09, IFC launched a series of initiatives to respond to the global financial crisis, focusing on improving access to liquidity for trade, infrastructure, and microfinance. In addition, these initiatives aim to improve solvency for financial and real-sector clients. To expand IFC's impact, the initiatives include specific focus on resource mobilization from IFC partners—including governments, regional development banks, and the private sector. Through these initiatives, IFC mobilized \$1.56 billion from its partner countries and regional development banks.

STRUCTURED AND SECURITIZED FINANCE

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

Through structured and securitized products, IFC mobilized a total of \$169 million for clients in FY09.

TRADE FINANCE

The IFC Global Trade Finance Program guarantees trade-related payment obligations of approved financial institutions in emerging markets. The program extends and complements the capacity of banks to deliver trade finance by providing risk mitigation on a per-transaction basis for 154 banks across more than 70 countries—including Bolivia, Burkina Faso, Georgia, Mali, Paraguay, Rwanda, Sierra Leone, and the West Bank and Gaza. In December 2008, the program's ceiling was raised to \$3 billion from \$1.5 billion as part of IFC's crisis-response program.

Since the trade program began in 2005, IFC has issued over 3,200 guarantees totaling \$4.8 billion. In FY09, IFC issued over 1,800 guarantees totaling \$2.4 billion. Over 70 percent of the guarantees supported trade with small and medium businesses. During FY09, more than 50 percent of the volume of guarantees issued was for IDA countries. Approximately 35 percent of the volume of guarantees issued supported the agricultural sector, a strategically important sector for IFC.

In FY09, IFC's overall trade finance product line also expanded to include the Global Trade Liquidity Program. GTLP, a crisis-response initiative, provides funded trade finance support to global and regional banks. In FY09, IFC committed a total of \$500 million in GTLP for its own account.

IFC also offers support for client banks through training and Advisory Services. Since June 2006, more than 1,425 bankers, importers, and exporters from over 50 countries have benefited from 68 trade-related training courses and on-site Advisory Services. In FY09, training courses were held in the Democratic Republic of Congo, Jordan, Kenya, Mongolia, Nigeria, Vietnam, and Zambia.

TREASURY SERVICES

IFC funds lending by issuing bonds in international capital markets. We are often the first multilateral institution to issue bonds in the local currencies of emerging markets. Most of IFC's lending is denominated in U.S. dollars, but we borrow in a variety of currencies to diversify access to funding, reduce borrowing costs, and help develop local capital markets.

IFC's borrowings have continued to keep pace with our lending. New borrowings in the international markets totaled \$9.1 billion equivalent in FY09.

LIQUIDITY MANAGEMENT

Liquid assets on IFC's balance sheet totaled \$17.9 billion on June 30, 2009, compared with \$14.6 billion a year earlier. Most liquid assets are held in U.S. dollars, although IFC also holds small amounts in euros and yen. The level of these assets is determined with a view to ensure sufficient resources to meet commitments even during times of market stress.

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IFC provides long-term finance to the private sector—both debt and equity, which is what businesses will need to grow as current debts come due.

PORTFOLIO MANAGEMENT

Portfolio management plays a key role in ensuring that IFC investments result in successful, environmentally sustainable private sector enterprises. In the current uncertain economic environment, the role of portfolio management is even more important. Since the current crisis began, IFC portfolio staffers have worked proactively with client companies to assess vulnerabilities and risk exposures both for clients and for IFC. Additional resources have been allocated to portfolio processes, and more staff members have been active in portfolio work. We have conducted portfolio stress testing and have continued to review and adjust our product mix to maximize development impact as well as financial returns.

On an ongoing basis, IFC monitors compliance with investment agreements, visits sites to check on project status, and helps identify solutions to address potential problem projects. We also track the development outcomes of projects with respect to environmental and social performance. These supervision processes are performed by portfolio units largely based in field offices. IFC management oversees supervision by reviewing the entire investment portfolio on a quarterly basis. The portfolio management process is supported by a credit rating system. Banks participating in IFC loans are kept regularly informed of project developments. IFC consults or seeks their consent as appropriate.

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

Investments are required to comply with IFC's Performance Standards, which are among the strongest and most comprehensive environmental and social risk-management frameworks for financial institutions. IFC monitors the related performance and risks of investments, and where problems occur, specialists help clients find solutions and mitigate impacts on the environment and affected communities. Development results are monitored through IFC's Development Outcome Tracking System, a leading system in the development business.

CAPITAL ADEQUACY AND FINANCIAL CAPACITY

We assess our capital adequacy by measuring our growth needs and the risk profile of current and projected investments against the established minimum capital adequacy for these needs.

The minimum capital requirement is determined using IFC's Capital, Pricing, and Risk (CAPRI) economic capital approach, which differentiates assets based on statistical measures of risk. According to CAPRI, IFC needs to maintain a minimum level of total available resources (including paid-in capital, retained earnings net of designations and certain unrealized gains, and total loan loss reserves) equal to total potential losses for all on- and off-balance-sheet exposures estimated at levels IFC believes to be consistent with maintaining a triple-A rating.

Our economic capital-based method of calculating capital adequacy, taking into account our unique mandate of private sector development and our countercyclical nature, is in line with industry best practices and is configured to provide adequate capital backing for a triple-A rating. Even with the more demanding capital adequacy that a triple-A rating requires, we have historically exceeded our minimum capital requirements by a wide margin.

As of the end of FY09, the minimum resources required were \$10.9 billion, while total resources available were \$14.8 billion. IFC's leverage ratio was 2.1 to 1, well within the limit of 4 to 1 prescribed by our financial policies.

IFC's paid-in capital, retained earnings net of designations and certain unrealized gains, and total loan-loss reserves constitute our total resources available. This financial capacity serves to support existing business, accommodate medium-term growth opportunities and strategic plans, and provide a buffer to withstand shocks or crises in some client countries or more general global market downturns, while retaining the capacity to preserve our triple-A rating and play a countercyclical role.

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

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

In FY09, we teamed up with a range of partners to tackle the highest-priority challenges on the development agenda—including the food crisis, climate change, and aid to fragile and conflict-affected countries.

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

DONORS	FY08	FY09
Governments	164.53	185.81
Institutional / Multilateral Partners	33.82	64.52
Private Partners / Foundations	12.37	0.71
Total	210.72	251.04

FINANCIAL COMMITMENTS TO IFC ADVISORY SERVICES BY INSTITUTIONAL AND PRIVATE DONORS (\$ MILLIONS EQUIVALENT)

DONORS	FY08	FY09
African Development Bank	0.53	0.00
Caribbean Development Bank	0.00	0.40
European Commission	15.23	31.13
Gain Foundation	1.0	0.00
Gates Foundation	3.30	0.00
GEF	16.00	32.94
IDA	1.00	0.00
Inter-American Development Bank	1.01	0.00
Islamic Development Bank	0.00	0.04
UN Agencies	0.05	0.02
Other Private Donors	8.07	0.71
Total	46.19	65.23

FINANCIAL COMMITMENTS TO IFC ADVISORY SERVICES BY COUNTRY* (\$ MILLIONS EQUIVALENT)

GOVERNMENTS	FY08	FY09
Australia	3.27	5.58
Austria	15.75	16.46
Belgium	1.47	0.00
Canada	2.16	17.66
Denmark	2.92	5.34
Finland	10.86	2.28
France	0.03	3.25
Germany	0.00	1.39
Iceland	0.55	0.00
Ireland	4.41	7.94
Italy	0.51	0.74
Japan	2.93	2.62
Luxembourg	1.93	1.90
Netherlands	22.68	44.75
New Zealand	1.23	4.00
Norway	10.28	15.44
Portugal	0.00	0.70
South Africa	0.62	0.00
Spain	1.47	6.79
Sweden	5.59	1.28
Switzerland	12.11	27.13
United Kingdom	57.55	19.24
United States	6.20	1.34
Total	164.53	185.81

*Unaudited figures

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IFC is a powerful mobilizer of third-party capital, not only through its syndicated loan program and structured finance but also through newer areas such as the crisis-response initiatives and IFC Asset Management Company.

PARTNERSHIPS — MAXIMIZING OUR IMPACT

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

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

WORKING WITH THE DONOR COMMUNITY

In a year of unprecedented challenges, IFC continued building strong partnerships with the donor community, enabling us to expand and enhance our Advisory Services worldwide. Our donor partners provided additional support to help us respond rapidly to the global financial crisis and focus on our key development priorities—conflict-affected states, health, education, energy, and climate change.

In FY09, our donor partners helped finance the expansion of IFC's advisory operations, making a record \$251 million in new commitments, up from \$210 million in FY08. The increase was mainly due to renewal and expansion of several regional and global programs and the start-up of new Advisory Services programs.

The IFC donor community currently consists of 32 donor governments and a number of multilateral, institutional, and private donors. IFC's major donor partners during FY09 were Australia, Austria, Canada, the European Commission, the Global Environment Facility, Ireland, the Netherlands, Norway, Switzerland, and the United Kingdom. We welcomed the return of Portugal as an active donor with its contribution to the Lusophone Advisory Services Trust Fund, which will support Portuguese-speaking countries.

In response to the crisis, we launched our Advisory Services crisis-response initiative, which is expected to raise up to \$40 million over three years. To date, Austria, Luxembourg, and the Netherlands have provided financial support for the initiative.

To address the issues of the environment, sustainable energy, and climate change, we have joined forces with Austria, Canada, Denmark, Japan, Luxembourg, the Netherlands, Norway, the United Kingdom, and other partners. The Netherlands added a \$20.3 million funding mechanism to support renewable energy projects in IDA countries, especially in Africa, over four years.

Another strategic priority of IFC is frontier markets, which include many nations affected by conflict. In FY09, IFC launched a multidonor \$25 million, five-year program for private sector development in Conflict-Affected States in Africa. Ireland, the Netherlands, Norway, and other donors supported this initiative (see page 43).

During the year, IFC developed the Global Index Insurance Facility, an innovative way to expand access to insurance against earthquakes, floods, droughts, and hurricanes in developing countries, particularly for farmers. The European Commission and the Netherlands were the first donors to the facility.

In FY09, IFC worked with donors in sharing approaches and methodologies to measuring results in Advisory Services. Some of the areas of collaboration include the adoption of standard indicators, the development of efficiency measures, and joint project and program evaluations.

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ADVANTAGE*

IFC has a strong global brand and convening power, which not only benefits clients but also enables IFC to continue as a leader among private sector multilateral development banks, which look to IFC to help develop their private sector business.

PARTNERSHIPS

IFC's Role in the Aid Architecture

The World Bank estimates that the international financing needs of developing countries total about \$959 billion for 2009, including current account balances and maturing debt. In recent years, most of the financing came from the private sector.

But private capital flows to emerging markets have declined sharply as a result of the global crisis. In response, several private-sector-oriented multilateral development banks are planning increases in financing volume. For example, the European Bank for Reconstruction and Development plans to increase its business volume by 20 percent to €7 billion (\$9.9 billion). Several MDBs are also considering capital increases to strengthen their ability to provide financing.

IFC is the premier multilateral bank focused on the private sector, accounting for about 30 percent of the financing committed by international financial institutions. We regularly work in partnership with other IFIs, many of which look to IFC's expertise to help develop their private sector business in both investment and Advisory Services. As demand grows for private sector financing, we are uniquely positioned to build on our global leadership role.

IFC is a global leader in such areas as environmental and social standards, investment climate work, corporate governance, supply-chain linkages, and privatization. We have a critical mass of activity, a track record of innovation, and economies of scale surpassing those of other institutions. Our emphasis on measuring development-effectiveness results also sets us apart.

PARTNERSHIPS

Principles of Partnerships

how we work

Through partnerships with donor and host-country governments, other development institutions, philanthropies, and clients, IFC seeks to achieve maximum development impact. These partnerships are especially important in a resource-constrained environment as the world grapples with the fallout from an unprecedented financial and economic crisis.

IFC formulated Key Principles of Partnerships to spell out how we engage with our donor partners and how we ensure that the partnerships are mutually complementary and strengthening:

- IFC and our donor partners pool their respective resources to achieve a common goal of promoting sustainable private sector development in emerging markets.
- IFC and our donor partners create opportunities to share knowledge and views about the strategies and approaches to be adopted in Advisory Services managed by IFC. The opportunities for strategic consultations are multiple, sometimes formalized in agreement, sometimes ad hoc based on ongoing interactions.
- IFC provides our donor partners with regular operational and financial updates that allow the donors to understand how IFC is spending their funding, assess project progress, and provide timely feedback.
- Beneficiaries, as well as other stakeholders in both donor partner and client countries, are interested in the impacts and efficiencies of Advisory Services programs managed by IFC. IFC is therefore enhancing results measurement, knowledge sharing and dissemination, and donor partner visibility.

Strengthening Private Health Care

People in Sub-Saharan Africa have the worst health, on average, in the world. IFC is introducing innovative approaches to help meet the challenges. We are investing \$20 million in the Health in Africa Fund, a private-equity fund designed to increase access to health-related goods and services for underserved Africans, especially the poor.

The fund is an initiative of IFC, the African Development Bank, DEG (the private-sector arm of German development agency KfW), and the Bill & Melinda Gates Foundation. Its initial target size of \$100 million is projected to increase to as much as \$300 million over five years.

The partners committed \$57 million at first closing. The fund will invest in African small and medium enterprises that provide socially responsible health services, such as clinics and laboratories; health-care financing, distribution, and retail enterprises; small pharmaceutical companies; health-related light manufacturing; and medical education. It is part of the IFC-World Bank Health in Africa Initiative, under which we intend to mobilize up to \$1 billion in investment and Advisory Services over five years.

The fund was launched following publication of IFC's *2007 Business of Health in Africa* report, which focused on how to improve people's lives by partnering with the private sector. Besides the equity vehicle, we are improving access to long-term financing for smaller companies involved in health care through local financial intermediaries. And together with the World Bank and other partners, we are working with governments to help them better harness the private sector to achieve national health goals.

We are also producing our first biennial report on the region's health care investment climate as part of our strategy to improve the environment for private health care to flourish.

WORKING WITH FOUNDATIONS

IFC fosters strong partnerships with foundations, philanthropic organizations, and companies. Through these partnerships, we commission research and develop thoughtful leadership, organize events together on topics of common interest, and share risks. Foundations value working with IFC because of our global presence, our relationships with the private sector, our investment and Advisory Services, and our links to the World Bank Group.

In partnership with IFC, the Asia Foundation released two studies to help Cambodia cope with the current economic crisis. The studies found that by making it easier, cheaper, and more transparent to start and operate businesses, Cambodia could better compete in both the international and domestic markets.

IFC is joining forces with the Alliance for a Green Revolution in Africa to unlock credit and financing for small-scale farmers and agribusinesses across Sub-Saharan Africa. The partnership between IFC and AGRA will focus on developing market-based incentives and tools to increase agricultural productivity. The two institutions will work together to scale up AGRA's partnerships with investors and national commercial banks to make loans available to farmers and agribusinesses, such as smaller seed companies. IFC and AGRA aim to expand and finance agro-dealer networks to increase the availability of farm inputs and expertise in rural areas, as well as support financing along the fertilizer value chain, including regional procurement of fertilizer.

The Ewing Marion Kauffman Foundation, which promotes entrepreneurship, partnered with IFC and the World Bank to conduct studies on access to finance for women business owners. IFC, the World Bank Development Research Group, and the Kauffman Foundation produced the 2008 World Bank Group Entrepreneurship Survey, which measures entrepreneurial activity in over 100 developing and industrial countries around the world over an eight-year period from 2000 to 2007.

WORKING WITH CIVIL SOCIETY

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

IFC works with the World Bank Group's Civil Society Team to reach out to civil society on a regular basis. For example, senior IFC staffers have held roundtable meetings with civil society representatives to discuss the financial crisis and its effect on the poor. IFC also has several advisory groups that provide feedback and make recommendations on our strategies and policies in various areas. The Compliance Advisory/Ombudsman, in collaboration with IFC project teams, also maintains close contact with local communities, civil society organizations, and other stakeholders through its work.

The IFC Labor Advisory Group brings together labor specialists from civil society, academia, trade unions, and the private sector to provide feedback on the implementation of our labor performance standard and other initiatives on labor rights. IFC also has an external advisory group for extractive industries, with representatives from civil society and industry who provide perspectives on IFC and World Bank activities in that sector. In FY09, IFC established an external advisory group to provide advice regarding a review of our Performance Standards.

In recent years, IFC has initiated strategic partnerships with nongovernmental organizations at the operational level, improving projects and enhancing our development impact. Examples include collaboration with the World Wildlife Fund's Global Forest Trade Network to promote sustainable forestry, with the Rainforest Alliance to assist coffee growers in Central America and southern Mexico, and with Oxfam Hong Kong to develop sustainable tourism in Cambodia and the Lao People's Democratic Republic. IFC has also partnered with the World Wildlife Fund to promote better agricultural management practices in such industries as cotton, palm oil, soybeans, and sugar cane.

PARTNERSHIPS

Partnering with Civil Society for Sustainable Coffee Production

IFC helped thousands of small-scale coffee farmers in Central America to make more money through sustainable agricultural practices, working in collaboration with global commodities firm ECOM, food and beverage producer Nestlé, and the Rainforest Alliance, a nongovernmental organization focused on sustainable agriculture.



IFC provided a \$25 million loan to ECOM, which is channeling the funds into microcredit for coffee producers in Honduras and Nicaragua. IFC and Nestlé funded training to help the farmers plant new hybrid varieties that can give their coffee an edge in a crowded marketplace and improve their growing and harvesting methods.

The Rainforest Alliance certifies the coffee so that the farmers can demand a higher market price for a higher-quality product. The farmers benefit not only from efficiency gains that help them command a higher price, but also through the likelihood of a long-term business relationship with Nestlé.

The project taps into IFC's expertise in market building and supply-chain development to link producers, roasters, exporters, and consumers. It benefits all sides by helping to develop a higher-quality, more socially and environmentally friendly product. The result: higher productivity and more money for farmers, and more jobs for the workers they hire.

DEVELOPMENT RESULTS

OVERVIEW

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

Beginning with our 2007 Annual Report, IFC was the first multilateral development bank to report on development results for our entire portfolio and to have an external firm review the application of our methodology and reported results, as part of assurance for nonfinancial aspects of our reporting. Since 2008, we have been reporting on changes in development results for investments compared with the previous year and, for Advisory Services, on the results of in-depth evaluations. During FY08, we also launched a development results portal (www.ifc.org/results).

In FY09, in its Biennial Report on Operations Evaluation, IFC's Independent Evaluation Group evaluated IFC's systems and processes for monitoring and evaluating development results, including DOTS. The evaluation found that the tracking system provides current, unbiased assessments of the development performance of the entire active investment portfolio, and reliable information both before and after project evaluation.

The report also found that IFC's monitoring and evaluation data on development performance, including outcome tracking, are now being used to inform IFC strategy development, as well as progress with corporate initiatives such as decentralization. Of particular significance are the mechanisms introduced to link incentives to project results through performance awards. "In so doing," said the report, "IFC has been at the forefront of performance measurement related to private sector development among multilateral development banks."

IEG also produced another report focused on IFC's Advisory Services, the Independent Evaluation of IFC's Development Effectiveness 2009. See page 107.

IFC's evaluation framework for investments aligns with good practice standards for private sector evaluation agreed

on by multilateral development banks. The tracking system is built on this foundation.

HOW WE MEASURE RESULTS

DOTS allows for real-time tracking of results throughout the project cycle. Since 2005, for all new projects, IFC staff members identify clear, standardized, and verifiable indicators, with baselines and targets, at the outset of a project. They then track progress throughout supervision, which allows for contemporaneous feedback into operations. For projects older than 2005, and for pillars such as private sector development and, in some cases, environmental and social development, standards are sometimes less specific, and ratings are thus based on more qualitative judgment.

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

This report provides the DOTS score—the percentage of projects that have achieved a high rating (in the top half of the rating scale)—for IFC overall and by region and industry.

INVESTMENT RESULTS

IFC's development results were stable compared with last year—71 percent of our investments rated high. Beneath this surface stability, however, the development results of virtually all industries and regions changed, partly reflecting their different sensitivities to the effects of the current global crisis.

Among our industry departments, Agribusiness; Oil, Gas, Mining, and Chemicals; and Infrastructure had the strongest development results. Agribusiness' DOTS score rose by 28 percentage points to 80 percent. The improvement was partly due to many older, low-rated projects dropping out and many newer high-rated projects entering our reporting universe. The stronger performance also was

attributable to the fact that the crisis has not yet had a strong impact on many agribusiness projects.

The development results of two departments—Private Equity and Investment Funds, and Information and Communication Technologies—deteriorated by 10 percentage points. For the Private Equity and Funds Department, the deterioration mostly reflected the downturn of equity markets. For the Telecoms and IT department, it was partly the result of IFC's shift away from telecom projects that traditionally have been very successful and toward IT, cable, and broadband projects that arguably are more innovative and risky.

The Global Manufacturing and Services department remained the weakest performer among industry departments, though with significant regional variations (73 percent of projects were rated high in South Asia but performance was particularly weak in Sub-Saharan Africa) that underscored the sensitivity of manufacturing projects—particularly those involving small businesses—to difficult investment climates and poor infrastructure. In response, IFC strategy in recent years has increasingly focused on improving client countries' investment climates and infrastructure while shifting away from direct support to small businesses toward indirect support through financial intermediaries.

As in FY08, results weighted by IFC's investment volume proved to be stronger, with 82 percent of investments rated high. Weighted results were higher in all industries and regions, indicating, on average, that larger investments and companies tend to perform better.

This is due in part to a higher risk profile for small businesses and investments, and to the fact that larger companies have economies of scale, often with better management and corporate governance that make it easier for companies to overcome difficult business environments and external shocks. In Sub-Saharan Africa, for example, weighted results were 25 percentage points higher than unweighted results, and the highest of any region, confirming that larger projects were able to overcome the region's challenges and produce very strong development results, while smaller investments were particularly vulnerable to difficult investment climates, poor infrastructure, and limited access to finance.

DEVELOPMENT OUTCOME: INVESTMENTS

PERFORMANCE CATEGORY	GENERAL INDICATORS AND BENCHMARKS	EXAMPLES OF SPECIFIC INDICATORS ASSESSED AGAINST TARGETS
Economic Performance	Returns to society, e.g., economic returns at or above 10%	Numbers of connections to basic services, loans to small enterprises, people employed, tax payments
Financial Performance	Returns to financiers, e.g., financial returns at or above weighted average cost of capital	Return on invested capital, return on equity, project implemented on time and on budget
Environmental and Social Performance	Project meets IFC's Performance Standards	Improvements in environmental and social management, effluent or emission levels, community development programs
Private Sector Development Impact	Project contributes to improvement for the private sector beyond the project company	Demonstration effects (other firms replicating a new approach, product, or service), linkages to other private companies, corporate governance improvements

ADVISORY SERVICES

PERFORMANCE CATEGORY	GENERAL INDICATORS AND BENCHMARKS	EXAMPLES OF SPECIFIC INDICATORS ASSESSED AGAINST TARGETS
Strategic Relevance	Potential impact on local, regional, national economy	Client contributions, alignment with country strategy
Efficiency	Returns on investment in advisory operations	Cost-benefit ratios, project implemented on time and budget
Effectiveness	Project contributes to improvement for the client, the beneficiaries, and the broader private sector	Improvements in operations, investments enabled, jobs created, increase in revenues for beneficiaries, cost savings from policy reforms

Among regional departments, Eastern Europe and Central Asia was hit hardest by the crisis. In FY08, it had the highest DOTS score of any regional department (84 percent). This year, the department experienced the biggest drop of any region—14 percentage points. The region is projected to experience a sharp economic contraction in 2009, after strong growth in the last few years.

As a result, prior gains in poverty reduction are at risk of being reversed. IFC has taken several initiatives to stem the decline in the region, making capital available to support existing clients in key sectors through short-term finance, guarantees, quasi-equity investments, trade finance, and Advisory Services. In addition, IFC has helped mobilize capital for the region through multilateral initiatives, such as the Eastern European Banking Facility, the IFC Capitalization Fund, and the Global Trade Liquidity Program.

The Latin America and the Caribbean region has been affected by crisis-related deleveraging, declining commodity prices, and a slowdown in remittances. However, as in other regions except Eastern Europe and Central Asia, the development results of our client companies have not been compromised. In fact, Latin America and the Caribbean saw an increase in DOTS score from 67 percent in FY08 to 77 percent in FY09. That is because several old projects that had been affected by the Argentina crisis dropped out of the reporting cohort, while projects in the newly added cohort of 2005 approvals performed extremely well.

ADVISORY RESULTS

Sixty-eight percent of IFC Advisory Services projects that closed in fiscal year 2008 and could be assessed for development effectiveness were rated high as of June 30, 2008. The results are based on a review of 112 completion reports filed between September 1, 2007, and June 30, 2008. Of those, 71 could be assessed for development effectiveness.

Projects that could not be assessed for development effectiveness were excluded from the analysis because their outcome and impact results had not been achieved by June 30, 2008. The review of the project completion reports filed in FY09 has not been carried out yet.

Development results varied by business line: In Access to Finance, 74 percent of projects were rated high; in Infrastructure Advice, 93 percent; in Corporate Advice, 69 percent; in Environmental and Social Sustainability, 50 percent; and in Investment Climate, 48 percent.

Performance also varied by region. In Europe and Central Asia, 100 percent of projects were rated high; in Latin America and the Caribbean, 77 percent; in the Middle East and North Africa, 70 percent; in Sub-Saharan Africa, 56 percent; and in South Asia, 43 percent.

IFC's system for measuring development effectiveness for Advisory Services was established in September 2007.

DEVELOPMENT REACH BY IFC'S CLIENT COMPANIES

	PORTFOLIO CY07	PORTFOLIO CY08
Investments		
Employment provided (millions of jobs) ¹	1.9	2.1
Microfinance loans		
Number (millions)	7.0	8.5
Amount (\$ billions)	7.9	9.3
SME loans		
Number (millions)	1.0	1.3
Amount (\$ billions)	86.0	90.6
Customers reached with services:		
Power generation (millions)	152.5	140.9
Power distribution (millions)	21.6	25.2
Water distribution (millions)	18.7	20.5
Gas distribution (millions)	10.7	12.5
Phone connections (millions)	139.7	220.1
Patients reached (millions) ²	4.7	5.5
Students reached (millions)	0.6	1.2
Payments to suppliers and governments:		
Local purchases of goods and services (\$ billions) ¹	40.4	47.0
Contribution to government revenues or savings (\$ billions)	19.0	22.7

CY08 and CY07 data are not strictly comparable, because they are based on a changed portfolio of IFC clients. Indicator definitions and reporting periods vary somewhat across industries. Some CY07 data have been revised.

¹ Selected departments only. Employment: CY08 data includes infrastructure (172,819 jobs, 107 companies, which only had partial data for CY07 (57,797 jobs, 24 companies).

² Includes just over one million patients in a hospital chain in India, in which IFC has a 1.3% equity stake.

DEVELOPMENT RESULTS

Strong Development Performance Varies by Business Line

Development results span a range of different social, economic, and financial indicators, depending on the business line and product type. We track the extent to which each project met its impact objectives, such as the following different kinds of project development results:

— Access to Finance: Over the last five years, IFC has helped to create or significantly improve credit bureaus in 13 countries, including Egypt, Guatemala, Nigeria, Pakistan, and Romania. In 2008, these credit bureaus received 38.9 million credit inquiries, helping generate about \$19 billion in financing.

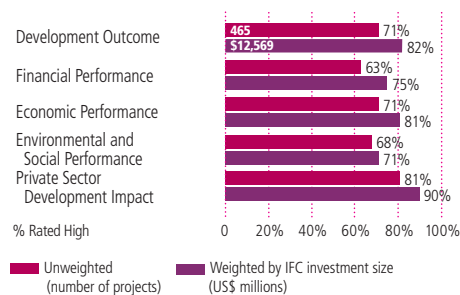
— Corporate Advice: In a South African district where poverty and unemployment are widespread, an IFC-supported supplier-development program launched in 2007 enabled local small and medium enterprises to win \$45 million in contracts with a large IFC investment client. IFC worked with the client to help smaller businesses obtain \$2.3 million in financing.

— Environmental and Social Sustainability: A global renewable-energy and energy-efficiency fund supported by IFC and operating since 2005 has financed technologies that led to 197,000 metric tons of avoided greenhouse gas emissions. This is approximately equivalent to the annual emissions of 36,000 passenger vehicles.

— Infrastructure: In June 2009, the government of Egypt awarded a 20-year concession for a wastewater treatment plant in greater Cairo, the first under Egypt's public-private partnership program. The project is expected to improve sanitation for over 1 million people.

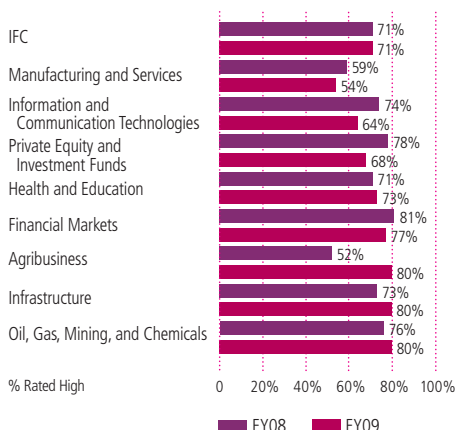
— Investment Climate: As a result of joint WB-IFC *Doing Business* advisory work, Tajikistan cut the minimum capital requirement for firms by more than 90 percent, and laid the foundation for a new credit registry.

IFC DEVELOPMENT RESULTS FOR INVESTMENTS



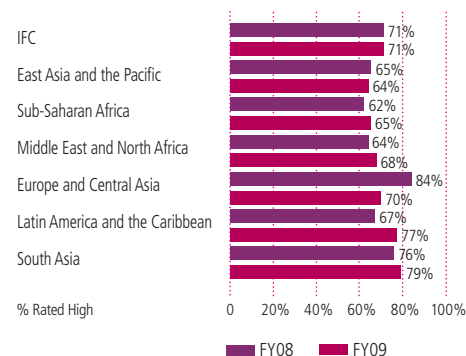
DOTS data as of June 30, 2009, for projects approved in calendar years 2000–2005.

DEVELOPMENT BY INDUSTRY: FY08 VS. FY09



FY08: DOTS data as of June 30, 2008, for projects approved in calendar years 1999–2004.
FY09: DOTS data as of June 30, 2009, for projects approved in calendar years 2000–2005.

DEVELOPMENT BY REGION: FY08 VS. FY09



FY08: DOTS data as of June 30, 2008, for projects approved in calendar years 1999–2004.
FY09: DOTS data as of June 30, 2009, for projects approved in calendar years 2000–2005.

DEVELOPMENT RESULTS

What DOTS Covers

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

For **investments**, DOTS covers all 1,375 companies under supervision, and this report focuses on the 465 investments approved between 2000 and 2005 that are mature enough to be rated. Every year the cohort of investments we report on shifts by one year. Newer investments are not mature enough to be evaluated, while older ones are less relevant for today's operations and have often already closed. We also address the current reach of all active investments in IFC's portfolio. Reach indicators measure the number of people reached by goods and services provided by IFC clients, or the dollar benefit to particular stakeholders affected by the activities of IFC clients.

It is important to note that the reach of IFC's clients cannot be attributed solely to IFC's investment: IFC is always a minority investor, and sometimes IFC investment is small compared with the overall project size. In addition, sometimes one company can contribute a large percentage to the overall reach of IFC's clients. For example, the reach figures for 2008 include about \$11.7 billion in loans to about 900,000 micro, small, and medium enterprises by one large Latin American client, in which IFC invested about \$350 million. They also include about 1 million patients in an Asian hospital in which IFC has a 1.3 percent equity stake.

For **Advisory Services**, the DOTS system covers all projects that are active, completed, or on hold, dating back to projects that were active in 2005. The current FY09 fourth-quarter supervision portfolio includes 589 active and closed projects (as of June 30, 2009). This report highlights results of program activities measured and reported during prior supervision cycles. It also covers assessments of 112 completed projects.

Some types of investment projects are not tracked in the DOTS systems. By number, the most important exclusions were projects at early stages of the project cycle, projects that are expansions to existing ones, projects that are split into several investments, small projects that typically form parts of larger programs, and certain financial products such as swaps and rights issue.

LEARNING *and* USING RESULTS

IFC uses development results to inform our strategy, operations, and incentive programs at all levels. Results are incorporated into departmental and corporate strategies, and are reviewed at the portfolio level. The teams responsible for individual investments and advisory projects are required to specify in their project documents how lessons learned are being applied.



IFC is a leader in measuring and reporting development results, with IFC's evaluation system considered best practice among multilateral development banks.

HOW IFC CREATES OPPORTUNITY

Based on past results, we calculated how much leverage IFC obtained from our investments and what development results were achieved. Using a random, representative sample of IFC projects over a relatively long time frame spanning both bad and good economic conditions for emerging markets, we extrapolated from a sample of IFC projects with in-depth evaluations to the universe of projects rated under the tracking system that we are reporting on here.

IFC provides both loans and equity investments. Although equity investments require IFC to set aside more capital, they typically enable us to raise more funding from other investors. Loans, on the other hand, require IFC to set aside less capital, but usually leverage less capital from other investors. Overall, for every dollar of IFC capital invested in either equity or loans, we supported projects worth about \$17.50.

These projects, in turn, generated benefits above and beyond a risk-free return. Their added value accrued to investors in the form of profits and to a variety of other stakeholders in many different ways: customers who got new, more affordable, or better products and services; employees who got better job opportunities; suppliers whose sales increased; governments that received more in taxes and other payments; and neighbors who benefited from community development programs.

For every dollar of IFC capital invested, we estimate that the total value added was some \$11.50—or about 66 cents per dollar of project costs. Creating value added and opportunities is particularly important in an adverse economic environment, with negative growth forecast for the world economy in 2009.

Different types of investments have very different development effects on different stakeholder groups. Although we cannot say how many people are benefiting incrementally from an IFC-supported project, we can calculate how many overall are benefiting from clients supported through IFC projects. In the past, for every \$1 million in IFC investments, our infrastructure clients reached over 80,000 people with utility connections, and our financial market clients supported 430 micro, small, and medium enterprises with loans totaling over \$15 million.

Examples of the benefits for different stakeholder groups can be found in the section on "How IFC Creates Opportunity" on pages 26–27. For more information about the methodology see www.ifc.org/results.

DEVELOPMENT RESULTS

Integrating Results from Investments and Advisory Services

Going forward, IFC's results reporting will help stakeholders understand how our investments and advisory work fit together. In infrastructure, for example, IFC makes direct investments and advises governments on private sector participation in infrastructure services. Our FY09 investments and advisory projects will combine to mobilize over \$1.5 billion in investments, reach 20 million customers, and provide revenues or savings of \$13.5 billion for host governments. IFC's active infrastructure portfolio in CY08 mobilized private investments of \$33.5 billion, which reached 435 million customers, and contributed \$6.4 billion to government revenues or savings.

LEARNING AND RESULTS

Measuring an IFC Client's Socioeconomic Effects on the Supply Chain

Cartones America, an IFC client since 2003, is a primarily family-owned manufacturer of container board, corrugated boxes, and related packaging products in Colombia. It also has manufacturing facilities in Chile, Ecuador, Peru, and Venezuela.

Cartones makes its products from recycled wastepaper and cardboard, which it obtains from a supply chain that begins with waste pickers and ends with large collection centers. The company directly deals with the large warehouses, although it relies heavily on the group farthest down the supply chain—the waste pickers who stand to benefit from the company's activities.

Our impact study focuses on the company's effects across the supply chain, including socioeconomic effects. Preliminary findings show that employment in Cartones' supply chain totals 12,030 in Bogotá and Cali, including 5,600 people who are directly employed. On average, four people—including family members—depend on those working in the wastepaper collection network. As a result, 48,000 people benefit indirectly from the company's activities.

The study also shows that employees' income is generally in line with Colombia's minimum wage, although income for employees in small family-owned warehouses along the supply chain is higher, about \$322 a month.

Generally, more men than women are active in the supply chain. However, in small family-owned shops, women make up 50 percent of the labor force because typically they sort the materials.

Final results will be available by September 2009.

ENHANCING RESULTS MEASUREMENT

Within IFC, we are improving our Development Outcome Tracking System with the launch of "DOTS-2" in FY10. The new system will allow us to measure our development performance and reach more quickly and accurately and in more detail. DOTS-2 will further standardize indicators across regions and industries, and significantly enhance the indicators themselves. We will be able to compare actual results against the original baselines and expectations faster and more accurately, and also apply the findings to new operations sooner.

Moreover, as performance indicators and data are systematically incorporated into project documents throughout the project life cycle, reporting will be streamlined and harmonized across IFC. The results data and our commitment to development-results measurement and reporting will underpin IFC's investment strategies and ultimately help to enhance IFC's development impact on an ongoing basis.

Beyond IFC, our results measurement framework is considered best practice among multilateral development banks. We constantly share our experience with the broader development community, including other multilateral development banks, foundations, and donors. Since 2005, we have fostered the improvement and harmonization of development results measurement among multilateral development banks through the Common Performance Assessment System, an annual self-assessment exercise led every year by a different multilateral development bank by rotation. The World Bank Group led the preparation of the 2008 report (online at www.ifc.org/results, under "Our Peers"), and IFC compiled inputs from all multilateral development banks on private sector operations.

IN-DEPTH EVALUATIONS TO ASSESS IMPACTS

Assessing long-term impacts from IFC's activities, including impacts on poverty, is difficult for both investments and Advisory Services. To provide more in-depth assessment for Advisory Services, IFC completed 19 external evaluations in FY09. We launched 34 experimental or quantitative evaluations, 10 of which were completed this year, including several in IDA and conflict-affected countries.

For example, a pilot evaluation of IFC Advisory Services for First Microfinance Bank of Afghanistan showed that 80 percent of FMBA clients reported year-on-year increases in profits and attributed those gains to business loans. Only 50 percent of similarly matched nonclients reported increased profits. Moreover, FMBA's reach of 28,000 borrowers was almost three times higher than similar microfinance institutions in other conflict-affected countries.

For investments, IFC is undertaking several case studies to assess our clients' development impact in more depth. The two boxes on this page provide examples.

LEARNING AND RESULTS

Small-Business Lending Reaches the Poor and Helps Increase Wages

Relatively little is known about the effects of small-business lending on employment and poverty or how to track these data cost-effectively. To shed more light on this issue, ShoreCap Exchange, a U.S.-based nonprofit organization, conducted a study of an IFC client, BRAC Bank in Bangladesh.



The study surveyed a random sample of over 1,000 of BRAC Bank's small-business customers and their over 7,000 employees. The businesses had received average loans of just under \$7,000, with a maturity of 21 months. They employed three to 12 workers, depending on the sector.

The study found that—with increasing skill levels and tenure at the firm—employees increased their cash wages. Using a poverty scorecard, the study found that, on average, about 20 percent of the employees of BRAC Bank's clients were poor, and that the incidence of poverty was higher in the agribusiness, service, and manufacturing sectors than in the trading sector, and also where enterprises employed female or unskilled workers.

Based on these five indicators, the study derived a firm-level scorecard that can estimate the poverty rate among employees. Small-business lenders could track these five variables in loan applications with little incremental effort, which would enable internal process improvements and provide valuable data to development-oriented investors and the field. For more details see IFC's results measurement portal: www.ifc.org/results.