

# INDUSTRY OPERATIONS AND RESULTS

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



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

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

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









GLOBAL FINANCIAL  
MARKETSBUILDING  
THE  
FOUNDATION

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

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

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

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



# GLOBAL FINANCIAL MARKETS

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

## IFC STRATEGY

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

## NEW BUSINESS AND PORTFOLIO

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

## DEVELOPMENT RESULTS

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

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

## SUSTAINABILITY

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

## WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

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

## EXPANDING ACCESS TO AFFORDABLE HOUSING

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

## HELPING BANKS PROMOTE RENEWABLE ENERGY AND ENERGY EFFICIENCY

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

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

## DEVELOPMENT REACH

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

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

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

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

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

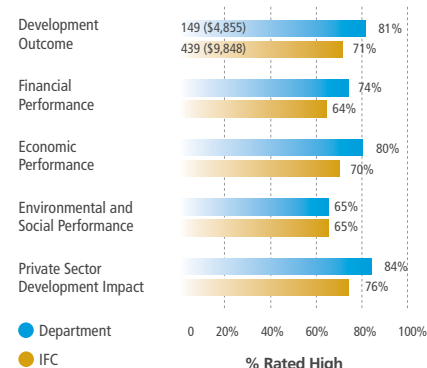
## PROJECT FINANCING AND PORTFOLIO

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

## COMMITMENTS

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

## DEVELOPMENT OUTCOME SCORES



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

# PRIVATE EQUITY AND INVESTMENT FUNDS

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

## IFC STRATEGY

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

## NEW BUSINESS AND PORTFOLIO

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

## DEVELOPMENT RESULTS

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

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

## SUSTAINABILITY

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

## WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

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

### IFC AND FUND MANAGER PARTNER TO EXPAND FINANCIAL SERVICES IN AFRICA

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

### IFC GLOBAL PRIVATE EQUITY CONFERENCE

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

### DEVELOPMENT REACH

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

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

\*\* FY08 expectations are projected for 2013.

\*\*\* Data have been revised.

\*\*\*\* Number of active investees is 397.

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

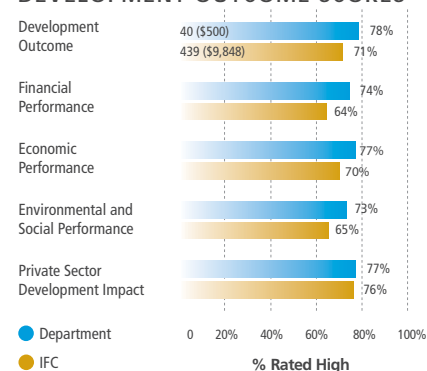
### PROJECT FINANCING AND PORTFOLIO

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

### COMMITMENTS

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

### DEVELOPMENT OUTCOME SCORES



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







## GLOBAL INFRASTRUCTURE

## CLOSING THE INVESTMENT GAP

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

## MAKING A DIFFERENCE

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

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

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

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



# GLOBAL INFORMATION AND COMMUNICATION TECHNOLOGIES

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

## IFC STRATEGY

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

## NEW BUSINESS AND PORTFOLIO

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

## DEVELOPMENT RESULTS

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

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

## SUSTAINABILITY

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

## WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

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

### CONNECTING EASTERN AFRICA

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

### TECHNOLOGY EXPANDS ACCESS TO FINANCIAL SERVICES

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

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

### DEVELOPMENT REACH

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

\* FY08 expectations are projected for end 2012.

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

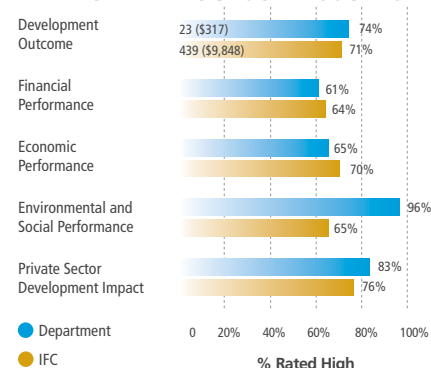
### PROJECT FINANCING AND PORTFOLIO

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

### COMMITMENTS

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

### DEVELOPMENT OUTCOME SCORES



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



# INFRASTRUCTURE

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

## IFC STRATEGY

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

## NEW BUSINESS AND PORTFOLIO

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

## DEVELOPMENT RESULTS

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

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

## SUSTAINABILITY

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

## WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

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

## IFC INFRAVENTURES

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

## IFC AND METITO EXPAND WATER TREATMENT

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

## DEVELOPMENT REACH

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

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

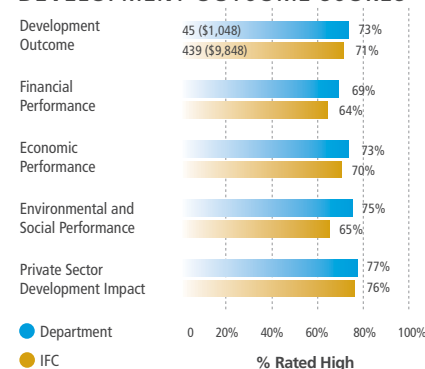
\*\* Data have been revised.

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

## PROJECT FINANCING AND PORTFOLIO

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

## DEVELOPMENT OUTCOME SCORES



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

## COMMITMENTS

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

# OIL, GAS, MINING, AND CHEMICALS

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

## IFC STRATEGY

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

### NEW BUSINESS AND PORTFOLIO

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

### DEVELOPMENT RESULTS

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

### SUSTAINABILITY

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

### WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

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

### EXTRACTIVE INDUSTRY REVENUES: ENSURING BENEFITS FOR DEVELOPMENT

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

### COMMUNITY DEVELOPMENT AROUND EXTRACTIVES PROJECTS

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

### DEVELOPMENT REACH

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

\* FY08 expectations are projected for calendar year 2008.

\*\* Data have been revised.

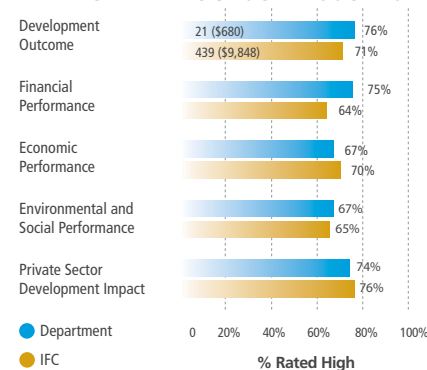
### PROJECT FINANCING AND PORTFOLIO

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

### COMMITMENTS

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

### DEVELOPMENT OUTCOME SCORES



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



# SUBNATIONAL FINANCE

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

## IFC STRATEGY

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

## NEW BUSINESS AND PORTFOLIO

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

## DEVELOPMENT RESULTS

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

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

## SUSTAINABILITY

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

## WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

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

### SUPPORTING GOOD MUNICIPAL MANAGEMENT IN KAMCHATKA

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

### MOBILIZING LOCAL CURRENCY FINANCING FOR SEWER PROJECT IN MOROCCO

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

### DEVELOPMENT REACH

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

\* FY08 expectations are projected for end 2013.

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

### PROJECT FINANCING AND PORTFOLIO

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

### COMMITMENTS

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





## GLOBAL MANUFACTURING FOSTERING PROSPERITY

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

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



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



# AGRIBUSINESS

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

## IFC STRATEGY

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

## NEW BUSINESS AND PORTFOLIO

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

## DEVELOPMENT RESULTS

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

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

## SUSTAINABILITY

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

## WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

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

## REBUILDING THE ECONOMY IN LIBERIA

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

## CONSERVING SCARCE WATER IN INDIA

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

## DEVELOPMENT REACH

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

\* FY08 expectations projected through 2013

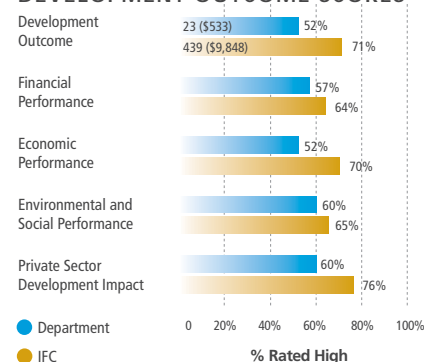
## PROJECT FINANCING AND PORTFOLIO

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

## COMMITMENTS

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

## DEVELOPMENT OUTCOME SCORES



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

# GLOBAL MANUFACTURING AND SERVICES

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

## IFC STRATEGY

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

## NEW BUSINESS AND PORTFOLIO

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

## DEVELOPMENT RESULTS

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

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

## SUSTAINABILITY

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

## WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

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

### IFC HELPS EXPAND AFFORDABLE HOUSING IN MEXICO

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

### BUILDING CEMENT CAPACITY IN AFRICA: A KEY TO INFRASTRUCTURE DEVELOPMENT

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

### DEVELOPMENT REACH

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

\* FY08 expectations are projected for 2013

\*\* Data have been revised

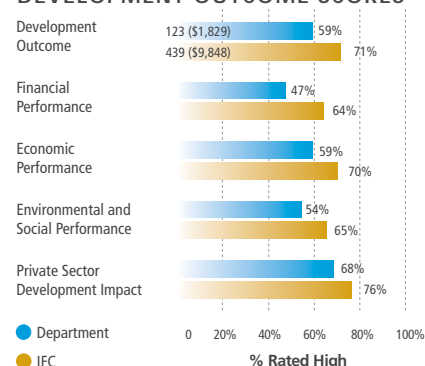
### PROJECT FINANCING AND PORTFOLIO

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

### COMMITMENTS

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

### DEVELOPMENT OUTCOME SCORES



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



# HEALTH AND EDUCATION

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

## IFC STRATEGY

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

## NEW BUSINESS AND PORTFOLIO

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

## DEVELOPMENT RESULTS

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

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

## SUSTAINABILITY

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

## WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

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

## EGYPT AND YEMEN: MAGRABI EYE HOSPITALS

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

## KENYA STUDENT LOANS

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

## DEVELOPMENT REACH

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

\* FY08 expectations are projected between 2010 and 2015.

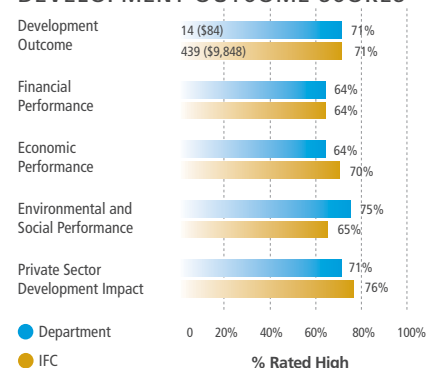
\*\* Data have been revised, and includes just over 1 million patients in a hospital chain in India, in which IFC has a 1.3% equity stake.

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

## PROJECT FINANCING AND PORTFOLIO

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

## DEVELOPMENT OUTCOME SCORES



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

## COMMITMENTS (\$ MILLIONS)

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