IFC goes beyond financing to help companies increase the sustainability of their businesses and to generate benefits that can be shared by communities and other stakeholders. We also play a wider role in promoting the overall sustainability of emerging markets by strengthening investment climates, supporting the development of the private sector, and facilitating the creation of public goods, such as clear air, clean water, protection of biodiversity, and improvements in public health. Our approach consists of a combination of investments, technical assistance to clients and stakeholders, and research and innovation in response to pressing economic, environmental, and social needs.

Our global leadership position and AAA credit rating allow us to take educated risks that the private sector is reluctant to take alone. Our extensive international experience and presence in a wide range of regions and sectors enable us to pioneer new approaches and help sustainable products overcome initial market barriers. Through a combination of risk-taking and strategic support we are helping businesses improve their triple bottom line performance, and helping other stakeholders tap into the potential for change offered by the private sector.
INCREASING ACCESS TO MICROFINANCE

Microenterprises and small businesses account for the major share of the private sector and employment in many developing countries. Yet, despite their size and importance, these businesses rarely have access to the savings, credit, and payment services provided by formal financial institutions. To help address the problem, IFC has adopted several approaches to developing the microfinance sector. These include

- Setting up “greenfield” operations
- Helping nonprofit organizations evolve into commercially sustainable regulated financial intermediaries with the scale and capacity to reach a greater number of clients
- Working with global and regional microfinance networks with expertise and proven experience to create on-the-ground management and staff capacity
- Helping commercial banks develop microfinance operations worldwide (“downscaling”)
- Encouraging commercial investors to increase financing to underserved groups through specialized vehicles

As of June 30, 2005, our portfolio included investments in 69 microfinance projects in 43 countries, with a total value of $323 million. These investments have reached more than 1.2 million clients, for a total microcredit volume of more than $1.5 billion.

In addition, we are playing a visible role in international partnerships to promote sustainable microfinance. IFC is a member of the Consultative Group to Assist the Poorest (CGAP), which is recognized as the global leader and coordinator of microfinance. We have also helped to create more than 25 new microfinance institutions with partners such ACCION International (USA), PlaNet Finance (France), ProCredit Holding (Germany), and Women’s World Banking (USA).

TRANSFORMING AN NGO INTO A Viable MICROFINANCE PROVIDER

The winner of IFC’s 2005 Client Leadership Award was ACLEDA Bank Plc, a Cambodian non-governmental organization (NGO) specializing in rural development, which, with IFC assistance, has transformed itself into a first-tier commercial bank. Established in 1993, the Association of Cambodian Local Economic Development Agencies began its transition to a full-service bank in 1998, assisted by IFC’s Mekong Private Sector Development Facility, the United Nations Development Program, and other international aid agencies. IFC established an equity stake in ACLEDA, mobilized other investors, and provided financing to expand the bank’s lending to microenterprises. Now, ACLEDA is one of Cambodia’s largest banks in terms of assets. About 65 percent of its clients are women.

“Microfinance allows IFC to reach a target population in a largely underserved market. The success of the ACLEDA model reinforces our confidence to do this again and underscores the real business opportunities. What added to the success of this investment was the willingness of ACLEDA’s management to learn from other microfinance providers, to take advantage of IFC’s technical support, particularly in the area of risk management, and to pass on what it learned to other microfinance providers in Cambodia.”

Mark Rozanski, Investment Analyst, IFC
ADAPTING TO THE NEEDS OF LOCAL MARKETS

A technical assistance project with Orient Express Hotels Peru is linking local producers and service providers from the region to commercial opportunities offered by the tourist industry in Peru’s Sacred Valley Region. One of the most successful ventures was the formation and training of a local community dance group that is now providing daily dance performances as a service to Orient Express’s Peru Rail operations. One of the lessons from the project has been the importance of tracking community perceptions of the effectiveness of the initiatives. We’ve found that tracking the evolution of perceptions provides not only an idea of how the impact is perceived but also important feedback that can signal when adjustments to improve a project’s impact can be introduced.

SUPPORTING SMEs

IFC has long recognized that small and medium-scale enterprises (SMEs) are an important part of any economy. Small businesses comprise the bulk of the private sector and drive employment in many developing countries. We’ve therefore sought out alternatives to direct investment to support them, particularly in frontier countries where investment opportunities are scarce. We promote small business development through a combination of advisory and investment services, increasingly using intermediaries as a way to reach SMEs more effectively.

IFC provides equity and medium-term loans to banks and leasing companies that serve small businesses. Our investment in financial institutions where SMEs are more than half the client base has grown from $229 million in FY00 to $1.1 billion in FY05. IFC-supported financial institutions have provided over 1.7 million loans for over $16 billion to SMEs over this period.

In addition, we help local firms become suppliers to IFC investment projects. In partnership with our investment clients, we provide training and advisory services to local small businesses, enabling them to improve the competitiveness of their products and services. This work provides the tools for local entrepreneurs to benefit directly from an IFC investment, and also contributes to local economic development. In FY05, IFC implemented advisory projects in 134 countries, including 82 frontier countries, mostly through over 60 field offices.

CREATING SUSTAINABLE FINANCIAL MARKETS

Since 2002, IFC has been promoting environmentally and socially sustainable lending and investment practices among our financial intermediaries and the wider emerging markets financial sector. Using donor funds, we provide executive education and
Institutional capacity to a wide range of financial institutions of all sizes. We are also helping to develop good practice through demonstration models, market research and feasibility studies.

In addition, IFC is involved in a number of global and regional initiatives and projects focused on mainstreaming sustainability into investments by pension funds and other institutional investors, brokers and analysts, stock exchanges, and investment consultants, with a particular focus on investment in publicly listed equities in emerging markets. Our experience has shown us that a major barrier to harnessing the potential of environmental and social investment trends in emerging markets is the lack of information available about the performance of locally based companies.

In 2005, we collaborated with BOVESPA, the Brazilian stock exchange, to launch a sustainability index that would encourage Brazilian companies to take fuller advantage of this area of added value to their businesses. In 2006, we will be launching a $500,000 grant competition to encourage rating research firms based in emerging market countries to produce data on the sustainability performance of local companies.

There is still a perception among investors that the risk associated with investing in developing countries is high, particularly in the still relatively experimental area of sustainable investing. However, the rewards and the development impact can be great. In December 2005, IFC and the Financial Times launched the first global awards dedicated to recognizing banks that have actively integrated social and environmental objectives into their operations while maximizing financial gain for shareholders.

www.ifc.org/gfm

Recognizing the benefits of sustainability-related products and services

In a survey conducted in 2005 among over 100 banks in 43 countries that have participated in IFC trainings on the business potential of sustainability, 65.6 percent of respondents confirmed that they have seen tangible benefits from developing business in new areas and enjoying first-mover advantage in fast-growing markets, such as carbon finance, energy efficiency, renewable energy, biofuels, and organic agriculture. The main sustainability drivers motivating financial institutions to pursue these opportunities include improved reputation (66.2 percent), attracting international financing (54.7 percent), value to stakeholders (51.5 percent), and better financial returns (39.7 percent).

Sustainability business opportunities

- Developing Business in New Areas: 65.6%
- Accessing to New Markets: 59.4%
- Providing Loans for Environmental Projects: 54.7%
- Providing Loans/Advisory Services for Eco-Efficiency and Cleaner Production: 43.8%

Source: IFC Sustainability Survey of Financial Institutions (2005)
CLOSING THE GENDER GAP

Where gender inequalities are reinforced through legislation, policy, or practice, this inevitably leads to market distortions relating to participation of men and women in private sector development. For instance, women are more likely to be stuck in the informal sector for reasons associated with specific legal impediments or cultural norms. Women’s lack of formal property rights in many countries and the fact that they are often not recognized as valuable customers by financial institutions also impede their access to finance and ability to start or grow their businesses.

In FY05, IFC launched a cross-cutting institutional effort to mainstream gender issues throughout our operations, while at the same time helping to better leverage the untapped potential of women in emerging markets. This has added a critical dimension and new capacity to IFC’s development mission. It has also helped us to begin identifying gaps in investments and services to clients.

One of the first initiatives in this new program was to conduct a Gender and Economic Growth Assessment for Uganda in response to an invitation by the Ugandan Ministry of Finance. Published in 2005, the study highlighted growth forgone as a result of gender inequality. It also identified legal, regulatory, and administrative barriers to women’s entrepreneurship. This assessment is now being replicated in other African countries and is helping to unleash economic growth through greater attention to gender equality and empowerment of women. In September 2005, IFC sponsored the first Pan African Women Inventors and Innovators (PAWII) Awards, Exhibition, and Conference in Accra, Ghana.

The gender program has also produced a set of guiding principles for integrating gender equality into IFC-managed technical assistance programs. Similar analytical tools are being developed to assist in adding a gender dimension to IFC’s mainstream investments in areas such as financial markets, agribusiness and mining.

SHARING STRATEGIES FOR SOCIAL RESPONSIBILITY

Social responsibility has become an important part of doing business for a growing number of our clients. For companies in emerging markets that are looking to become leaders in their regions or sectors, social responsibility initiatives offer a way to differentiate themselves as employers, producers, and service providers. It is also a way to ensure their long-term license to operate and establish themselves as business partners for global clients. Many are seeking support in taking their first steps in this direction.

Because of our extensive experience and networks in emerging markets, IFC is able to provide access to expertise and technical support in developing successful strategies in this area. Working closely with our clients, we are helping them develop solutions to particular issues surrounding their business, such as labor and human rights, and developing models for community engagement. We’ve also begun assisting companies in producing their first sustainability reports.
STRENGTHENING BUSINESS RESPONSES TO HIV/AIDS

The International Labor Organization predicts that in the absence of treatment, as many as 74 million workers worldwide could die from AIDS-related causes by 2015. As an investor in regions hardest hit by the disease or where prevalence is low but new infections are rising rapidly, IFC is committed to helping clients develop proactive approaches to the pandemic.

Through a dedicated program launched in 2000, IFC’s support to businesses includes guidance, training, and special initiatives based on the analysis of the pandemic’s dynamics as well as private sector responses. In Africa, where smaller businesses represent large parts of the economic structure, IFC has developed a training program targeting SMEs and building their capacity to mitigate the impact of HIV/AIDS on their businesses.

In addition, we are looking at ways to catalyze actions in regions where the rate of overall HIV infections is low but new infections are rising very rapidly, such as India, Russia, and China. Throughout, our approach focuses on the business case for responding effectively – not only by addressing soaring turnover, absenteeism, and medical costs, but by creating a positive and supportive workplace that helps prevent the

LEADING BY EXAMPLE: MANILA WATER COMPANY

In a recent collaboration with a leading business in the Philippines, Manila Water, we worked hand in hand with the company to develop a comprehensive corporate sustainability strategy around the full range of its business activities. We also helped the company prepare its first environmental and social report in line with international reporting trends. With IFC’s support, Manila Water became the first domestic Philippine company to prepare a sustainability report based on Global Reporting Initiative guidelines.

The company has since received several awards in recognition of its corporate social responsibility efforts. The company received an Anvil Award of Merit from the Public Relations Society of the Philippines in February 2006, as well as an award from the Management Association of the Philippines.

“The company is inspired to continue its sustainable development programs, and the report has served as a model for other companies to emulate.”

Glorina de Castro, Head of Treasury Department, Manila Water Company

“The important thing is that this report is grounded in a sustainability strategy that the company will continue to develop and implement. We worked with Manila Water to develop a sustainable development vision and policy, and to identify all the environmental, economic and social issues associated with all parts of their business. This grounding gives the report added weight and credibility, but it also brings enhanced internal management and engagement benefits.”

Anne Copeland Chiu, Environment and Social Specialist, IFC, Hong Kong

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JOINING FORCES TO TRANSFORM MARKETS

Since 2003, IFC has been working closely with WWF, other NGOs, and a number of agribusiness companies and investment banks to affect large-scale changes in industries that have a high-impact on natural habitats. IFC is participating in an effort to change practices in the production of four high impact commodities: palm oil, sugar, cotton, and soybeans. In November 2005, the Roundtable on Sustainable Palm Oil approved a decision to no longer clear primary forests for production. The Roundtable members are estimated to represent between 30 and 50 percent of the total world production volume of palm oil.

www.sustainable-palmoil.org

Creating Business Value

spread of the disease. Cross-cutting issues — such as gender, stigma, and discrimination — as well as monitoring and evaluation remain fundamental to developing successful responses.

In 2006, IFC will continue to offer tools and training to companies and practitioners that aim to address these issues. An HIV/AIDS Guide for the Mining Sector and a Good Practice Note on HIV/AIDS, developed by IFC together with leading practitioners in the field, are already being used by our clients as well as other international financial institutions.

Creating Business Value

PIONEERING APPROACHES TO BIODIVERSITY

IFC is the executing agency with the largest private sector portfolio working on behalf of the Global Environment Facility (GEF), the financing mechanism of the UN Convention on Biological Diversity. With GEF financing, IFC is able to provide various forms of funding, including grants, low interest loans, and equity, in order to support businesses with a biodiversity focus. IFC is committed to the Convention on Biological Diversity and in particular to its decisions concerning private-sector engagement.

In partnership with NGOs, the private sector, other financial institutions and donors, we have developed three approaches to biodiversity that combine conservation, risk mitigation, and business opportunity to achieve sustainable wealth creation for communities and the environment, as well as for the private sector:

• Helping companies improve the efficiency of their operations or tap new business avenues, such as ecotourism and markets for sustainable products
• Incubating new “bio-businesses” and helping to develop markets for businesses that base their business platform on nature
• Moving markets to more sustainable practices through joint efforts by the private sector, governments, and other stakeholders

www.ifc.org/biodiversity

www.ifc.org/ifcagainstaids

IFC recently launched an online Guide to Biodiversity for the Private Sector to further help companies understand and address biodiversity as part of their core business practice.

www.ifc.org/BiodiversityGuide