IFC has accepted the challenge of ensuring that our investments do more than simply improve a company’s balance sheet. We strive to make ourselves a valued partner by helping clients adopt practices that strengthen their business while simultaneously enhancing the development impact of the investment. To most effectively catalyze the kind of changes we seek, IFC has undertaken a broad spectrum of initiatives to ramp up the resources we can make available to clients on the technical assistance and advisory fronts.
We provide tailored guidance to companies through programs on corporate governance, HIV/AIDS, and gender. We provide support to clients through our Sustainable Business Assistance Program (SBAP), for instance, on community development, energy efficiency, and cleaner production, and have a network of 11 SME development facilities around the globe. Our SME Linkage Program links small businesses to larger projects to stimulate local supply networks for products and services. All serve as a means of operationalizing IFC’s end goal to promote sustainable private sector development—locally, nationally, and regionally.

Working with Small and Medium Enterprises

SME development is a core component of IFC’s corporate strategy. SMEs account for over 90 percent of firms in some economies and can contribute significantly to a country’s GDP. In emerging markets, however, SMEs commonly face barriers to finance, or may be held back by a business environment where larger, uncompetitive firms dominate the market. Supporting small business growth is essential for long term economic growth—allowing small firms to thrive and become larger firms, increasing market competition and innovation, and most importantly, creating sustainable jobs.

IFC leverages support for SMEs through investments in local financial intermediaries and private equity partners, also strengthening SME business skills so they can qualify for credit. We also maintain a strong presence in low-income countries and regions through our network of Project Development Facilities (PDFs) (see box p. 18), which allows us to work closely with SME clients on an ongoing basis and build support of the local business community and policy makers. Through the PDFs, IFC works with SMEs to promote good corporate governance and build management capacity, to improve the business environment, to address HIV/AIDS, and to promote opportunities for women.

Linking SMEs to IFC Investment Projects

Linkage programs are a tangible example of our SME work in catalyzing market growth around our larger investments. We do this by linking SMEs to our larger companies as suppliers, in order to increase local SME participation in the project and to bring additional benefits to the surrounding communities. At the same time, these programs may reduce costs to IFC’s clients by simplifying procurement processes and, in the case of production inputs, improve quality control as a result of their proximity to suppliers.

IFC’s SME Linkages Program aims to strengthen local supply and distribution networks in two main ways: (i) by improving local SME business skills to qualify businesses for contracts to sell goods and services that generate sustainable sources of income; and (ii) by facilitating access to finance for local suppliers. To date, IFC has implemented linkage programs in 14 countries tied to more than $1 billion in IFC investments. We have leveraged $4.7 million for our own account in linkage technical assistance, with contributions of more than $12 million from private sponsors and other sources.

One linkage success can be seen in Tanzania, where an IFC-supported linkage program is allowing subsistence farmers and micro-enterprises to benefit from a secure local market for their sugarcane as they become suppliers to an IFC client, Kilombero Sugar Company. Since the program was established in 2002, results have been encouraging—the number of sugarcane farmers has increased from 2,760 to over 5,000 and annual sugarcane sales have more than doubled to 450,000 tonnes. The success of this program has mobilized more than $1 million from donors to help finance roads and bridges, strengthen farmers associations and microfinance groups, and develop agriculture and business training for local SMEs. Now, IFC is accelerating small business development, and almost 7,000 farmers could see their incomes increase by becoming sustainable suppliers to Kilombero. Building on Kilombero’s success, IFC is looking to replicate the program in up to nine new agribusiness linkage projects through the Africa Project Development Facility. Another good example of IFC’s linkage work is the BTC Pipeline project (see p. 32).
Supporting Social Enterprises at the Grassroots

Whether it is a cooperative of organic honey farmers in Africa, women’s self-help organizations in South and East Asia, or indigenous crafts enterprises in Latin America, IFC has witnessed increasing efforts by nonprofit entities to encourage business development as a means of improving the lives of their disadvantaged members and reducing dependence on donor funding. IFC has been working through its regional SME facilities to transform these social driven, income-generating projects into sustainable businesses by strengthening management capacity, quality control, access to local and international markets, and in some cases by raising capital. Building on the success of these projects, IFC established a new program in FY04 to assist nongovernmental organizations (NGOs) and grassroots business organizations (GBOs).

IFC’s Strengthening Grassroots Business Initiative

Launched jointly with the World Bank, IFC’s Strengthening Grassroots Business Initiative (SGBI) aims to have a catalytic impact through funding and technical assistance to strengthen enterprises creating sustainable economic opportunities for poor and marginalized people in Latin America, Africa, and Asia. In Africa, IFC is supporting a South African company, Roundabout Outdoor Ltd., to construct “Playpumps” in Mozambican primary schools. Playpumps are innovative devices that serve as both children’s merry-go-rounds and sources of rural water supply. Installed above water wells at rural schools, the pumps harness the energy of children at play to supply villages with 1,400 liters of clean drinking water an hour. Local microenterprises manufacture the pumps at an average cost of $7,000 each, and commercial advertising sales, half of which is focused on HIV/AIDS awareness, support the pumps’ maintenance. With over 500 pumps benefiting communities across South Africa, IFC’s loan and grant financing of $125,000 and $90,000, respectively, will provide 30 playpumps to supply free, potable water to over 23,000 people in Mozambique, and test whether the concept can moved to a broader commercial model.

TOURISM: A TARGET SME SECTOR

IFC committed $50 million to tourism projects in FY04. While this represents a small percentage of the total portfolio, it is an influential sector in terms of impact: both in terms of generating local employment and business opportunities and on the host environment and communities. IFC has increased support in recent years for small, innovative tourism initiatives through regional SME programs, where tourism is a target sector. For example, in Cambodia, Vietnam, and Lao PDR, we are supporting a unique approach to e-commerce that makes it possible for around 300 small hotel owners to market their properties and compete for business with larger hotels. This initiative, which serves nearly 30 cities and towns across the region, was started by IFC’s Mekong Private Sector Development Facility, and in two years it has created Web portals in all three countries. Travelers book online, and booking commissions, ranging from 15 to 40 percent, filter back to cover local overheads through local hotel and guesthouse associations and tour operators. Worldhotel-link.com (WHL) is now replicating the project’s success through IFC’s SME programs in other regions.

Development Opportunities for Indigenous Peoples

Due to geographical remoteness, cultural and language barriers, and historical discrimination, Indigenous Peoples are frequently overlooked by mainstream markets and financial institutions. They often lack access to credit due to the fact that their informal economies and distance from markets result in higher perceived financial risk. Indigenous Peoples are also vulnerable to change resulting from large development projects, particularly from the extractive industries, due to their frequent proximity to biodiversity hotspots and dependence on mineral resources. Consequently, IFC is exploring partnerships with indigenous...
To foster indigenous business opportunities, IFC’s Latin America SME facility initiated an Indigenous Enterprise Development pilot in Bolivia and Peru during FY04, aimed at linking indigenous crafts producers to new markets. IFC provided assistance to enterprises with export potential to improve their production lines, partnering with an international retailer of global handicrafts to identify opportunities for introducing indigenous products to the market. Five indigenous enterprises have now fulfilled two international orders, one of which is Senor de Mayo, started by 600 Quechua and Aymara Indian women from El Alto, near the Bolivian capital of La Paz. Their hand-dyed, knitted alpaca wool scarves, and other woven garments, are being sold through the Business Council for Peace and COLORS magazine, with all proceeds donated to the UN Development Fund for Women (www.unifem.org). During 2005, the program will focus on assisting less market-ready indigenous enterprises in Bolivia to develop their businesses.

Corporate Citizenship Facility (CCF) promotes corporate social responsibility in IFC client companies. CCF focuses on helping IFC clients to seize opportunities and avoid risks arising from environmental and social areas relevant to their business, and to engage effectively with local stakeholders. Project examples can be found on p. 30.

Environmental Opportunities Facility (EOF) finances innovative projects that promote local environmental benefits. To this end, EOF provides catalytic funding for projects in areas such as water,

IFC’s Social and Environmental Facilities

The Sustainable Business Assistance Program (SBAP) is a joint IFC donor-funded program to facilitate socially and environmentally responsible business. Established in 2002, the program is managed by IFC’s Environment and Social Development Department, and comprises four distinct but synergistic facilities. These facilities provide a platform for making highly selective, strategic interventions in key areas where the demonstration of sustainable business practices offers potentially significant benefits to clients and the societies in which they operate. SBAP funding enables IFC and its clients to go well beyond standard compliance requirements on projects.

FY04 saw a successful second year of operations for SBAP. Expenditures rose 120 percent, from $1.62 million in FY03, the first year of operations, to $3.56 million in FY04. The number of active projects increased from 38 to 82, and related project implementation costs rose to $2.25 million from $476,000. Despite the dramatic increase in projects processed during FY04, non-project-related costs, in terms of staff and other resources, remained steady. The 2004 SBAP Report to Donors can be found at: http://www.ifc.org/ifcext/enviro.nsf/Content/Publications

LINKING INDIGENOUS ENTERPRISES TO MARKETS

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wastewater and solid waste management, pollution reduction or abatement, sustainable resource use, and eco-efficiency/cleaner production. Project examples can be found on pp. 26, 27.

Environmental Business Finance Program (EBFP) works to develop a sustainable market for SMEs whose activities benefit the global environment (renewable energy and energy efficiency; ecotourism; sustainable agriculture and agro-forestry; and certified fishing). Project examples can be found on p. 29.

Sustainable Financial Markets Facility (SFMF) provides advisory and technical assistance to enhance the social and environmental impact of financial intermediaries and the broader financial sector in IFC member countries, and promote increased private sector investment in emerging markets. Project examples can be found on p. 12.

IFC also administers the following environmental facilities:

- **Carbon Finance Facility**—to purchase GHG emission reductions
- **Global Environment Facility (GEF)**—to address global environmental concerns.
Strengthening Business through Good Corporate Governance

Good corporate governance is essential to long term private sector growth in developing countries. It is also at the core of sustainability, since companies that have effective structures and processes for direction and control are more likely to manage their social and environmental responsibilities well.

IFC incorporates governance analysis in its investment appraisals and helps lead global dialogue on corporate governance in emerging markets. Our Corporate Governance Department has developed a Web-based methodology to provide staff with tools to evaluate the governance of potential clients and help improve their practices. The curriculum has also been used by the Netherlands Development Finance Company (FMO) and the Inter-American Investment Corporation, among others.

IFC staff provide guidance to regulators, stock markets, members of boards, and other corporate governance advocates, as well as to client companies. IFC has co-sponsored the Latin America Corporate Governance Roundtable with OECD since 2000 and provides support to similar roundtables in Asia, Eurasia, and Russia. IFC houses the secretariat for the “Private Sector Advisory Group of the Global Corporate Governance Forum,” a joint effort of the World Bank Group, OECD, and donor countries, to improve policy and practices in emerging markets. At the local level, IFC staff manage the corporate governance work of the Private Enterprise Partnership in the former Soviet Union and of the China Project Development Facility. In addition, in FY04 IFC staff helped more than 40 companies and financial institutions review and enhance their corporate governance practices. Such efforts aim to increase the attractiveness of the emerging markets as an investment destination.

Building Local Management Capacity

As part of its overall push to enhance private sector activity in its member countries, IFC is working to build the capacity of universities in emerging markets to offer world class business education opportunities. Through the newly created Global Business School Network, IFC has partnered with leading international business schools such as Columbia, Harvard, and the University of Pennsylvania (Wharton) in the United States, INSEAD in France, and the London Business School in the U.K. Through this partnership, these schools will make faculty and other resources available to emerging market business schools as they develop new curricula and seek to ensure rewarding internship opportunities for students. Building capacity in Sub-Saharan Africa is a top priority for the Global Business School Network, given the challenge in attracting private investment and building local businesses in the region. Pilot programs are now underway in Kenya, Nigeria, and Ghana, where IFC is helping develop high-quality management and leadership training, and creating links between the business schools and the local business community to capitalize on available talent and knowledge locally.

IMPROVING CORPORATE GOVERNANCE IN UKRAINE

Galnaftogaz is a leading petroleum distributor in western Ukraine with ambitious plans to increase the company’s share of the Ukrainian market to 10 percent by 2008 and reposition the company as a national chain. The cost of expansion is high, and access to finance for Ukrainian companies is difficult—poor transparency and governance mean that foreign investors are unwilling to take risks in the Ukrainian market. Galnaftogaz approached IFC’s Ukraine Corporate Governance Project for assistance in improving the company’s internal documentation and financial practices as a first step. The company has gone much further by developing one of the first private sector corporate governance codes in Ukraine. Improvements to Galnaftogaz’s practices have reduced investment risk in the company and may enable it to access debt financing for its ambitious $90 million expansion project.

“As we realized that investors are becoming increasingly concerned about corporate governance, we decided to improve our governance practices and turned to IFC for assistance.”

Chief Analyst Andriy Khudo
Gender Equality
Promoting gender equality is an international development priority and one of the Millennium Development Goals (see IFC and MDGs, p. 54). Given that women comprise the majority of the poorest 1.3 billion people who subsist on less than $1 a day, increasing women’s participation in the private sector in emerging markets is essential to reducing poverty.

To address the legal, regulatory, and cultural impediments that often restrict women’s access to jobs and credit, IFC will be implementing a gender mainstreaming program during FY05.

Gender Entrepreneurship Markets (GEM) will advance the business case for gender equality. The program will target opportunities for women entrepreneurs through our work with financial intermediaries and SMEs, provide advisory and best practice assistance on delivering profitable financial services and business support to women, and address gender barriers in the business environment. The primary focus of the program for the first two years is Africa, through a “Women Mean Business in Africa” initiative. At the inception of the program, three gender specialists will be based at headquarters in Washington, and one in the field.

As part of our broader efforts to mainstream gender expertise at IFC, our policy framework and project evaluation tools are being aligned to address gender issues. IFC is also working in partnership with other organizations to promote best practices and quantify bottom-line benefits to clients in supporting women in their business. Gender issues and business opportunities will be incorporated in IFC training, and in our good practice materials as we develop a Global Directory of Women’s Business Associations as a resource for IFC clients and staff.

“The winner of IFC’s Client Leadership Award should be a company that sets the gold standard for its peers anywhere in the world, a company that is a role model for others, regardless of sector, region, or country.”

Peter Woicke

IFC’S CLIENT LEADERSHIP AWARD
IFC’s Client Leadership Award recognizes a highly successful corporate client who has made a significant contribution to sustainable development. We spotlight companies that fully endorse IFC’s values and go beyond basic compliance to demonstrate excellence in management commitment and corporate governance, environmental practices, and socioeconomic development.

In 2004, IFC awarded its first annual Client Leadership Award to Celtel International B.V., a pan-African provider of cellular telephone services and an IFC client for more than 10 years. Celtel provides affordable cellular services to over 4 million people in Africa, and its business is growing by roughly 50 percent each year. The company has invested more than $600 million in mobile phone operating companies in 13 countries, including Chad, the Democratic Republic of Congo, Sierra Leone, Sudan, and Kenya. IFC’s investments have helped the company to modernize networks and increase mobile phone usage, as well as increase competition, which has led to lower tariffs and increased local private participation in the telecoms sector.

Celtel has achieved its business goals while committing to strong corporate governance and community development. Operating in some of the world’s most difficult markets, Celtel is committed to transparency and high standards of ethics and integrity. The company has embraced HIV/AIDS as a business and community issue and has worked with IFC Against AIDS on its HIV policy for workers and their families. Celtel has also supported schools and health clinics, started a community phone initiative, and installed solar panels for recharging phone handsets.

“IFC’s Client Leadership Award recognizes a highly successful corporate client who has made a significant contribution to sustainable development. We spotlight companies that fully endorse IFC’s values and go beyond basic compliance to demonstrate excellence in management commitment and corporate governance, environmental practices, and socioeconomic development.”

Peter Woicke
We are also partnering with external parties, establishing an Advisory Board comprising successful women business owners and women ministers, and developing a film series on African women entrepreneurs (see CineArts Afrika box, above).

SUPPORT FOR WOMEN ENTREPRENEURS IN SOUTH AFRICA

IFC is providing $150,000 in grant funding in FY05 to scale up the Women Entrepreneurship Program it initiated in South Africa in 2002. The program targets viable women-owned SMEs and offers high-quality training, mentoring, marketing advice, and assistance in developing a business plan to help secure loans from local banks. Run by IFC’s Africa Project Development Facility, the program has trained 45 women in its pilot phase, and supporting partners include the Amalgamated Bank of South Africa, the University of Pretoria, and the South African Department of Trade and Industry.

CINEARTS AFRIKA

In FY04, IFC extended a $250,000 grant to CineArts Afrika to help fund its general budget and business plan. The founder of this Kenyan film company, Jane Muragomunene, first approached IFC in 1997 for help in accessing finance to buy production equipment. Since then, the company has produced films to raise awareness on critical development issues, such as gender and HIV/AIDS. As part of IFC’s new gender program in FY05/6, CineArts Afrika will produce a video/TV series on African women entrepreneurs.

“...the company has produced films to raise awareness on critical development issues, such as gender and HIV/AIDS.”
Helping Companies Fight HIV/AIDS

Across the globe between 35 and 42 million people now live with HIV/AIDS—95 percent of whom reside in the developing world. Given the anticipated impact of the disease in inhibiting productivity and long term economic growth, IFC is helping clients to mitigate the impact of HIV/AIDS on their businesses. The IFC Against AIDS program helps IFC clients analyze the risks that the disease presents to their business and provides guidance on establishing education, prevention, and care programs for workforces and surrounding communities.

In FY04, IFC Against AIDS provided guidance to a beverage company in Nigeria, a forestry company in South Africa, and a microfinance bank in Kenya. A cellular telephone company operating in 13 African countries received guidance to refine its HIV policy and develop an AIDS action plan, including anti-retroviral treatment for employees and dependents (see Client Leadership Award, p. 20). IFC’s program also provided customized tools to support HIV/AIDS workplace policies and community programs for a mining company in Madagascar, a tea company in Kenya, a cotton manufacturer in Zambia, and an electricity company in Jamaica.

SMEs are particularly vulnerable to HIV/AIDS due to the devastating impact the disease can have on their small workforces. Increased absenteeism and lower productivity can jeopardize their very survival—one study in South Africa found that HIV/AIDS is one of three factors causing 80 percent of bankruptcies in SMEs’ first year of operation. To help address these challenges, IFC Against AIDS launched a training program for African SMEs in FY04 in cooperation with the Africa Project Development Facility. To date, 70 small businesses in South Africa, Kenya, Mozambique, and Tanzania have participated in the training program, which works intensively with the businesses over a year and encourages networking with other parties, local governmental and nongovernmental organizations, to support their needs after the program is complete. A program will be developed for India during FY05. For more information, see www.ifc.org/ifcagainstaids
BEST PRACTICE GUIDANCE ON HIV/AIDS FOR THE MINING SECTOR

IFC’s new HIV/AIDS Guide for the Mining Sector provides mining companies with advice on strategies to manage and mitigate the impact of HIV/AIDS—detailing processes for prevention in the workplace, mitigation programs to stem new infections, and care programs to provide holistic support to workers affected by HIV/AIDS. Based on IFC’s experience in southern Africa, the guide provides information, tools, and case studies for stakeholders and organizations working in the region’s mining communities. It addresses emerging mining companies, trade unions, contractors, and service providers, as well as larger companies with established HIV/AIDS programs and their partners.

In focusing on the mining sector, the guide aims to support a key business driver in southern Africa, an industry that is also one of the hardest hit by HIV/AIDS. At the same time, it provides a model for other industries, including oil and gas, transportation, and construction.

Developed with the support of $300,000 from the Canadian Trust Fund, IFC officially launched the guide at World AIDS Day 2004. The guide is part of the IFC Against AIDS program tools and is available free of charge at: www.worldbank.org/ogmc/wbmining-hivaidstoolkit.htm

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