IFC MISSION STATEMENT

IFC’s mission is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people’s lives.
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IFC’s Social and Environmental Principles........................................ Inside Back Cover

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As we publish our third Sustainability Report, we can be proud of our progress. In the past couple of years, the advance of sustainability as a core operating principle within IFC has been remarkable. In 2001, we launched a corporate-wide sustainability training program. In 2002, we partnered with two other organizations to promote the business case for sustainability with the publication of Developing Value. In 2003, we launched a realignment of our internal resources to ensure that our social and environmental expertise is mainstreamed into all operational activities of our investment departments. In 2004, we started to overhaul the policy architecture which governs the way in which IFC—and over two dozen Equator Banks—commit to engage on social and environmental issues. So in three years, we have planned, implemented, and reviewed—a cycle of continuous improvement any institution should be proud of.

Most important, we see our clients doing much the same. They spend far less time debating the pros and cons of corporate social responsibility, and far more time practicing it. As more markets become subject to global competition, companies recognize that global standards of performance are the norm. Sustainability is about competition and long term profit. Companies with poor corporate governance will not survive. Nor will those that are profligate with raw materials. Nor those who fail to build trust with stakeholders who influence their business—workforces, regulators, and the communities in which they operate. Many factors affect a company’s ability to turn a profit, and they all need to be managed effectively if that profit is to be sustained.

To help clients with that challenge, we need to tailor and refine our products and services accordingly. This report testifies that there is a wide range of offerings on show. While we are proud of the manner in which we have moved sustainability to the center of our business strategy and the pace at which we have innovated, we are also aware that there is a tremendous amount of work still to be done. We have important initiatives underway that must be followed through—implementing the new safeguard and disclosure policies; building on the progress we have made in supporting small and medium enterprises (SMEs) and microfinance; rolling out technical assistance and advisory services to ensure that they become an integral part of our investments. Then there are the challenges ahead—our work on sustainability with the financial sector, with the Equator Banks, and providing leadership to socially responsible investors, making good on our renewable energy commitment, developing an approach to human rights, launching a new gender initiative, and continuing to help our clients tackle HIV/AIDS in their communities. Within IFC, we must continue the mainstreaming of our social and environmental capacity across the Corporation and improve diversity in our workplace—something we are looking at carefully in our recruitment process.

To conclude, I hope that this report has something for all readers. Those who seek rapid change will find many new initiatives and programs described. Those who seek reassurance that we are spending sufficient time learning and sharing our experiences will find evidence that these processes are alive and well in the Corporation. Sustainability is here to stay, and IFC will continue to provide leadership, assist clients, and contribute to poverty reduction in the countries and communities affected by our investments.

Peter Woicke
Executive Vice President, IFC
Introduction

Since taking up my post in January 2004, I have seen how sustainability has become part of IFC’s strategic fabric. Some argue that we have been “doing sustainability” for many years, while others see it as a recent arrival, but nobody questions its existence. Sustainability is a belief in the way that development can be achieved. Yet, like many beliefs, it is not easily characterized, prompting some to debate its various forms. Sustainability, corporate social responsibility, the triple bottom line, ethical business—all hail from the same conviction. We have chosen the term sustainability because it is so encompassing. Given the breadth of work IFC undertakes around the world, it suits us well.

As this report shows, there are many ways to practice what you believe. I am excited by the range of sustainability initiatives underway at IFC and the way they have energized our staff, clients, and stakeholders. Some will be outstanding successes, others will need restructuring, and some may fail. However, more important to us is that the ideas and innovation continue to flow. Leadership on sustainability cannot be achieved by being comfortable 100 percent of the time. We must take some calculated risks, celebrate our achievements, learn from mistakes, and share the lessons of our experience.

Updating our safeguard and disclosure policies is an example of this approach. We will never meet the expectations of each individual stakeholder, but we endeavor to recognize, respect, and respond to their concerns. Leadership involves as much listening as talking. IFC welcomes opportunities for constructive engagement with those who can help us further our mission of poverty reduction though sustainable private sector investment.

The big initiatives, such as IFC’s policy overhaul, the Equator Principles, or the BTC Pipeline project, will always receive the lion’s share of attention. We have therefore devoted considerable space in this report to these aspects of our work, but I urge you to look at the dozens of other sustainability activities described within these pages. IFC’s ability to engage across a broad spectrum of projects, clients, sectors, and countries is our core strength and we work hard to maintain it.

Our approach to sustainability is a challenging one. Internally, we continue to look at our procedures, staff, and corporate footprint. Externally, we seek ways to influence behavior and markets. To help us with this task, this report includes a number of actions where we will report on progress via our Web site, www.ifc.org/ enviro. We are honest enough with ourselves to see where we have fallen behind our own expectation curve—for example, in quantifying the carbon footprint of our portfolio—and will need to prioritize these aspects accordingly as we move forward.

In closing, I would like to return to the basics of what will make sustainability work. Of thirty-four services listed in IFC’s 2004 Client Survey, “environmental and social knowledge” scored 71 percent in terms of importance to our clients—a healthy percentage. Clients ranked “perceived stamp of approval for environmental, social and corporate governance matters” several places higher. The top-ranking service, scoring 97 percent, was IFC’s understanding of its clients and partnering with them for the long term. Clearly the depth of the relationship, and the trust that stems from it, is just as important in the business context as it is for any other aspect of our lives.

The same principle applies to sustainability. We are looking for partners, be they clients, shareholder countries, or civil society organizations, who have an interest in engaging in sustainability for the long term. If we do our job well, the results on the ground will speak for themselves.

I hope you enjoy reading the report.

Rachel Kyte
Director, Environment and Social Development Department
2004 Sustainability Snapshot
The Year’s Highlights and Challenges

Record Financial Performance
IFC achieved a record financial performance in FY04 with operating income reaching $982 million, an 86 percent increase over the previous year. In the year 217 new projects were approved, representing over $5.6 billion of investment. New business was distributed widely across sectors, with investments more than doubling in Sub-Saharan Africa. Contributions from donors to all of IFC-managed technical assistance programs reached $90 million during FY04. Nearly one third of IFC staff now work in donor-funded operations. See www.ifc.org/ar2004

Mainstreaming Social and Environmental Expertise
As part of IFC’s mainstreaming initiative, we continue to integrate our social and environmental capacity into IFC’s core business functions. Over 60 percent of IFC’s social and environmental specialists are now co-located within investment departments and regional offices. This shift allows our specialists to engage at an earlier stage of the project processing cycle, resulting in better integration of the financial and nonfinancial services that IFC offers its clients. We also continue to recruit, with eight new positions in the Environment and Social Development Department coming on line during FY05. See page 40 or www.ifc.org/enviro

Safeguard Policy Update
IFC is in the process of updating its Environmental and Social Safeguard Policies. Regional multi-stakeholder consultations have commenced on the draft of IFC’s new Policy and Performance Standards on Social and Environmental Sustainability. IFC embarked on the update process following a review of its existing safeguard policies by its Compliance Advisor/Ombudsman (CAO) in 2003. The draft Performance Standards are expected to address key gaps and provide greater clarity for private sector clients and other stakeholders. See page 36 or www.ifc.org/policyreview

Equator Principles
The Equator Principles, a voluntary set of social and environmental standards based on IFC’s policies and guidelines, have been adopted by 28 financial institutions (including three emerging market banks) since 2003. These Equator Banks are estimated to have arranged about 80 percent of global project finance lending in 2003, sending a strong signal to the market on the importance of nonfinancial risks in project finance. This builds on a decade of IFC experience in working with over 400 emerging market financial institutions to apply social and environmental standards to their investments. See page 13 or www.ifc.org/equatorprinciples and www.equator-principles.com

Extractive Industries Review
In 2004, the World Bank Group reached the culmination of an intensive, independent three-year review of its role in oil, gas, and mining projects—the extractive industries. Recommendations being implemented during FY05 will help IFC achieve higher standards on governance, transparency, revenue management, and community consultation to improve poverty reduction around extractive industry investments. The World Bank Group has committed to an average growth rate of 20 percent per year over the next five years in its annual financial commitments for renewable energy and energy efficiency projects. See page 35 or www.worldbank.org/ogmc and www.worldbank.org/eirresponse
BTC Pipeline
One of IFC’s most challenging projects is the 1,760-km Baku-Tbilisi-Ceyhan (BTC) Pipeline, a world-class oil pipeline through Azerbaijan, Georgia, and Turkey, led by a consortium of international oil companies with US$3.6 billion in total project costs. Projects in high-risk environments, and of the scale of BTC, present complex social and environmental challenges. BTC has become a test for IFC’s ability to mobilize communities, clients, and partner institutions to work toward achieving sustainable project outcomes. See page 32 or www.ifc.org/btc

Gender Entrepreneurship
Women comprise the majority of the world’s poor yet are less likely to access business credit than men. This means that promoting gender equality and women’s private sector participation is essential for IFC to enhance its development impact. As such, IFC is mainstreaming its focus on gender with the establishment of Gender Entrepreneurship Markets (GEM) in FY05, a program that will seek to advance gender equality and women’s business opportunities in emerging markets. See page 20 or www.ifc.org/gem

Sustainable Business Assistance Program
The Sustainable Business Assistance Program (SBAP) is a joint IFC/donor-funded program comprising four different facilities that catalyze socially and environmentally responsible business. The facilities finance strategic interventions in key areas where the demonstration of sustainable business practices offers potentially significant benefits. Donor commitments to SBAP approximately doubled to US$3.56 million in FY04, with the number of active projects increasing from 38 to 82 in the same period. See page 17 or www.ifc.org/enviro

IFC Against AIDS
Ninety-five percent of those living with HIV/AIDS reside in the developing world. The magnitude of this impact on productivity and long term economic growth creates a strong business case for IFC to work with its client companies to combat the disease. During FY04, the IFC Against AIDS program gained pace, with 15 client initiatives spanning 17 countries, a training program targeted at African Small and Medium Enterprises, and the addition of two new staff based in Africa. See page 22 or www.ifc.org/ifcagainstaids

IFC’s Corporate Footprint
This is the third year in which IFC is reporting on its corporate footprint—the impact of our physical facilities on the environment, on staff and their families, and on the local communities in which we work and live. We are increasing our efforts to monitor our own energy use, recycling, and procurement practices, and improve our local community outreach in Washington and in our offices around the world. In FY05, we will extend our corporate greening efforts with the appointment of a dedicated footprint officer to devise a strategic plan for our corporate footprint-related activities. See page 44.

Transparency and Disclosure Review
IFC is reviewing its Disclosure Policy in consultation with clients, civil society, industry groups, and governments. The aim is to continue respecting the legitimate business confidentiality of our clients while fostering a culture of transparency and greater openness. The draft new policy seeks to clarify disclosure obligations and encourages clients to engage with their stakeholders earlier in the project cycle, particularly with respect to social and environmental impacts. See page 38 or www.ifc.org/policyreview