ANNEX I. IMPLEMENTATION UPDATE

1.1. This Annex presents an update on progress under the Board-endorsed priorities and examples of how IFC has used its strengths to deliver significant development impact in its client countries. IFC's five strategic priorities are: (i) strengthening the focus on frontier markets, including small and medium enterprises (SMEs) and agribusiness; (ii) building long-term partnerships with emerging players in developing countries; (iii) differentiating through sustainability competencies; (iv) addressing constraints to private sector growth in infrastructure, health and education; and (v) local financial markets development through institution building and by the use of innovative financial products. IFC Management has again endorsed these priorities with some slight changes of emphasis, in particular including agribusiness as a new focus sector as part of the frontier markets priority in order to be better aligned with the World Bank Group strategy.

HIGHLIGHTS OF PROGRESS FY06-FY07 (TO-DATE)

2.1. **Development Impact Targets.** Following discussions with the Board in FY05, IFC has Board-endorsed development impact targets in its Corporate Scorecard which are based on the five strategic priorities. The Corporate Scorecard also reports on profitability and client service.

2.2. As discussed in Section II, IFC has made significant progress since the Corporate Scorecard was introduced in FY05, and by the end of FY07 will already have achieved many of the FY08 targets agreed with the Board. Table II-1 in Section II summarizes the key development impact indicators for FY07. Annex V provides the full FY06 Corporate Scorecard.

2.3. This year, an overall Development Outcome Tracking System (DOTS) development outcome score has been included for the first time. IFC is considering how to incorporate more specific DOTS goals into the Corporate Scorecard and will engage with the Board on this following discussions of the IFC Annual Report in September 2007.

2.4. **World Bank Group Cooperation**. Greater World Bank Group cooperation is a key IFC corporate goal, and leveraging the strengths of the whole World Bank Group will increase in importance as IFC aims to make even more impact in its client countries.

2.5. IFC and other members of the World Bank Group are working in close cooperation on a number of fronts. There are diverse kinds of cooperation between the World Bank and IFC and they are driven by the needs of the clients and/or the nature of the projects/programs. Strong cooperation exists where policy and transactions intersect, in areas such as investment climate and in large IFC investments, especially in infrastructure and extractive industries. The new World Bank Group financial sector strategy, a joint effort of IFC's Financial Markets Department and the World Bank Group's Financial and Private Sector Development Vice Presidency, is another example of joint work at a strategic level. There are also three joint departments co-managed by IFC, as discussed in paragraph 2.10 in Section II.

2.6. In terms of advisory work, the objective of collaboration is to provide greater seamless advice from upstream reform to downstream investment. Within the World Bank Group, the World Bank generally has a comparative advantage in diagnostic/dialogue/reform advice, whilst IFC is well-positioned to provide hands-on implementation support once reforms have been decided, as well as to make catalytic investments in critical sectors. As part of ongoing efforts to improve coordination, IFC recently issued procedures for staff regarding advisory work that might involve coordination with other parts of the WBG.

2.7. It is important to step up this effort to exploit the synergies of the various members of the World Bank Group, acknowledging the different focus and areas of expertise of the World Bank, Multilateral Investment Guarantee Agency (MIGA) and IFC. This will lead to the World Bank Group as a whole having greater development impact and increase overall business. Some examples of recent World Bank Group cooperation in the seven regions are provided in Section II, Box II-1.

2.8. **Advisory Services**. IFC Advisory Services (AS), formerly called Technical Assistance and Advisory Services, are an essential tool to: (i) create the business environment that will allow projects to be viable; (ii) improve the business capability of companies (particularly in countries where IFC currently has limited opportunities to provide investment finance); (iii) extend IFC's reach to SMEs; and (iv) help develop and improve investment projects. In FY06, IFC provided AS work to over sixty frontier countries. AS expenditures are expected to be about $200 million in FY07, up from $153 million in FY06, including funds supported by donors. About half of Advisory Services work is in frontier countries.

2.9. *Five Business Lines*. In FY06, IFC organized the Advisory Services along five business lines: (i) Access to Finance; (ii) Business Enabling Environment; (iii) Value Addition to Firms; (iv) Infrastructure; and (v) Environmental and Social Sustainability. The Corporation also took steps to improve the alignment of AS with the overall IFC regional strategies, to clarify the principles and improve AS portfolio supervision and monitoring systems. During FY07, IFC has been engaged in a number of activities aimed at further increasing the effectiveness and strategic positioning of IFC Advisory Services:

- *Enhanced Strategy Process*. IFC has been developing core products, core product teams, and related monitoring and evaluation (M&E) indicators for each AS business line, in order to enhance quality, selectivity and knowledge sharing. A full strategy session for each AS business line took place with IFC senior management during the annual IFC strategic directions process in February. In addition, this year special task forces have helped analyze the strategic positioning and organization of IFC in Advisory Services.
- *Enhanced Results Measurement*. As noted above, IFC has continued to roll out the Advisory Services M&E systems.
- *Development of Pricing Policies*. In November 2006, IFC issued Advisory Services pricing guidelines to staff. These guidelines were developed to strengthen clients' commitment to implementation, strengthen business discipline, and leverage IFC and donor resources.
- *Improved Alignment with the World Bank Group*. In FY07, an extensive review of advisory activities at the World Bank, MIGA and IFC was undertaken to identify synergies and overlaps, and examine ways to enhance the collaboration and coordination among the three institutions. A number of these recommendations, including the integration of advisory services of MIGA and FIAS (Annex I, paragraph 2.12), are now being implemented.

- *Improved Knowledge Sharing and Training*. There has been increased technical and process training for AS staff and sharing of experiences through the *Smart Lessons Award Program*.
- *Client Survey*. Based on last year's pilot, IFC will conduct a client survey of all its AS clients.

2.10. IFC is now bringing greater focus to its efforts in AS and IFC Management has asked all five business lines to recommend areas which could be reduced or curtailed. Some examples of non-core products in the Environment and Social Sustainability Business Line that were recently or are in the process of being phased out include: (i) special purpose renewable energy funds with over-optimistic return expectations; (ii) stand-alone biodiversity projects without replication potential; (iii) stand-alone project assistance with no direct investment links; (iv) research projects with limited operational consequence for IFC's mainstream business; and (v) stand-alone workshops.

2.11. Business Enabling Environment. IFC's Business Enabling Environment (BEE) advisory services work is key to fulfilling the mandate set out in its Articles, and in particular, "to simulate and to help create conditions conducive to the flow of private capital, domestic and foreign, into productive investment in member countries." (Article I.iii). BEE helps open frontier markets for private investment, leading to wealth and employment creation, and creating conditions for possible downstream IFC investment. The service builds on IFC's core expertise as the leading foreign direct investment (FDI) financier to emerging markets, and as a part of the World Bank Group.

2.12. IFC's BEE services have continued to expand in scope and geographic coverage, and collaboration across the World Bank Group is deepening. Volume of work is expected to be about 36% higher in FY07 than FY06. As of February 2007, MIGA's technical assistance activities were integrated within Foreign Investment Advisory Services (FIAS), which is now a joint World Bank-MIGA-IFC multi-donor facility. Regional BEE strategies have been developed jointly by the regional BEE managers and FIAS colleagues, in consultation with the World Bank colleagues. In order to enhance impact, IFC is developing standardized and scaleable BEE core products. Two core products have now been developed – regulatory simplification (including business registration and licensing) and investment policy and promotion – and several other core products are under development. Measurement and evaluation of BEE activities is a major priority in 2007, and IFC will soon launch a detailed review of efforts in this area. Examples of impact measures from recent projects include a 543% growth in the number of operating licenses issued in Lima, Peru from 2005 to 2006, over $40 million in direct cost savings to local entrepreneurs as a result of advisory work in the Commonwealth of Independent States from 2002 to 2006, and $430 million in investment that have created over 2,000 jobs in Panama since 2003.

2.13. **Advances in Measurement.** Over the past year, IFC has made considerable progress in measuring the impact of both its investment and advisory activities, as well as in the area of environmental and social risk management.

2.14. Development Outcome Tracking System. In FY06, IFC introduced the Development Outcome Tracking System (DOTS), a system that provides systematic tracking of development results throughout the project cycle, from identification of clear, monitorable development objectives up front to ongoing tracking during supervision, and thus allows for earlier learning and feedback into IFC's operations. DOTS was "backfilled" for practically IFC's entire existing portfolio, and completion of DOTS is now required for all new business. Introduction of the system was accompanied by over forty training events which reached over 1,200 IFC staff. Training continues in FY07 focusing mainly on new staff.

2.15. As is to be expected with any new system, the quality of the information is still improving. Following a review of all DOTS entries for companies with project approvals between 1998 and 2003, IFC is now conducting a review of DOTS entries for FY07 commitments. In addition, an external assurance provider has now been hired to review both the methodology applied (similar to IFC's long-established evaluation framework) and the accuracy of the data. Furthermore, the Independent Evaluation Group (IEG) plans to review the consistency of DOTS information with their own independent evaluation findings.

2.16. IFC Management has placed considerable emphasis on development results in assessing departments' and individual performance. IFC's recent strategy meetings focused on development results achieved to date, the main results drivers and on incorporating these findings into future strategy in the form of concrete plans to improve development results. In terms of incentives, development results are an essential component of IFC's Long Term Performance Awards and DOTS data is included as a focus indicator for the FY07 Department Scorecard.

2.17. Work is continuing to improve DOTS further. During FY07 IFC has worked towards standardizing indicators to allow for better comparability and aggregation. IFC is also undertaking major technical improvements (DOTS 2), expected to be rolled out in FY08, which will allow aggregation of specific development results indicators (e.g. number of people getting access to services), integration into project cycle documents, and more systematic tracking of IFC's role and contributions, and of the investment climate impediments that IFC's clients are facing.

2.18. Section II, Table II-2 shows highlights of aggregated DOTS results for many IFC departments and IFC intends to present additional DOTS information at the time of the budget discussions in June 2007. As an indication of the importance accorded to development results throughout the Corporation, Annex I - Table 1 gives examples of development outcome expectations formulated from FY07 first half commitments.

2.19. *Advisory Services Results Measurement*. IFC is leading among multilateral development banks (MDBs) with respect to results measurement of its advisory work. The Evaluation Cooperation Group comprising the heads of evaluation of MDBs conducted a comparative analysis of MDB advisory work. Findings to date show that IFC is the only MDB systematically tracking outcomes and impacts of advisory projects and allowing for updates to evaluation findings after operational completion of projects.

2.20. As reported last year, IFC now routinely undertakes self-reported results measurement throughout the entire project life cycle. At project approval intended results are stated and matched against newly developed Standard Performance Indicators. These Standard Performance Indicators plus any additional ones are tracked and reported in the semi-annual project supervision reports. In addition to the self-reporting of results, IFC continues a program of external program reviews and experimental designs. Currently IFC has twenty experimental evaluations underway covering work in all seven regions. Ten external program evaluations are complete and five are underway.

Annex I - Table 1: Examples of Expected Development Outcomes from FY07 First Half Commitments

Departments	Expected Development Outcomes
Agribusiness (seven projects, over the next five years)	- Provide direct employment for 13,000 individuals. - Reach over 22,500 farmers. - Reach over 22,000 downstream SMEs. - Contribute to food safety/quality improvements (six out of seven). - Contribute to improvements in environmental and social sustainability (three out of seven). - Contribute to improvement of business transparency/corporate governance (six out of seven). - Contribute to a reduction of fossil fuel usage (one out of seven). - Contribute about $147 million in corporate taxes.
Oil, Gas, Mining and Chemicals (nine projects, over the course of CY07)	- Create or preserve about 3,200 direct jobs. - Contribute around $425 million to supply linkages. - Spend almost $3 million on community development programs. - Contribute over $160 million to government revenues.
Private Equity and Investment Funds (seven projects, over the next five years)	- Invest in seventeen companies in frontier markets. - Invest in twenty-seven MSMEs. - Support thirty-two high growth companies (growing over 20% p.a.). - Create an estimated 7,000 jobs.
Health and Education (six projects, by 2009)	- Serve 1.3 million patients and 47,000 students annually. - Four of the six projects are SMEs or serving SMEs. - Contribute about $2.2 million in taxes annually.
Infrastructure (thirteen projects, by 2010)	- Reach 2.2 million customers in the water sector. - Generate enough electricity for 4.9 million customers. - Enable 4.3 million vehicles to travel on roads. - Enable 1.6 million passengers and 3.7 million tons of freight to be transported by rail. - Enable 15 million passengers to travel by air. - Enable 230,000 tourists to transit through a cruise port.
Global Information and Communication Technologies (four projects, over the next five years)	- Contribute to the generation of jobs for 1,490 people. - Create 7 million new telephone connections. - Create 1.5 million new internet connections. - Contribute about $68 million in taxes and $9 million in fees.
Global Financial Markets	- *MSMEs* – MSME portfolio of fourteen client companies with MSME operations is expected to grow by an average of 28% per annum. - *Housing Finance* – Housing portfolio of eleven client companies with housing finance operations is expected to grow from 350,000 housing loans ($7 billion) to 515,000 housing loans ($10 billion) between 2006 and 2009. - *Trade Finance* – 289 guarantees issued for $313 million of which nearly 75% supported trade for SMEs, over 60% trade in frontier countries, 32% trade between developing countries.
Global General Manufacturing (nine projects)	- Expected to have permanent employment of over 3,550 workers. - Contribute income taxes of $38 million.
Sub-National Finance (over the next five years)	- Mobilize more than $380 million of infrastructure investments. - Increase share of geothermal energy in the energy mix of the Philippines from 12% to 14%.

2.21. *Environment and Social Risk Management System.* IFC introduced an Environment and Social Management System (ESMS) with the coming into force of the IFC Sustainability Policy and Performance Standards. The system allows IFC to ensure that the Performance

Standards (PSs) and Disclosure Policy are applied correctly and systematically with quality in implementation. For significant impacts, environment and social data will also be tracked by DOTS. The ESMS will allow IFC, when decentralized, to maintain high levels of performance in environment and social risk at the transaction level and provide the flow of data and oversight that will allow IFC to manage operational portfolio risk.

2.22. The ESMS is also a generator of knowledge about IFC's own performance, essential to IFC's convening and thought leadership role across the community of institutions that use IFC standards and more broadly in the universe of investors and development organizations and partners that work in emerging markets.

2.23. In May 2007, an updated version of the environment and social review procedure (ESRP) will be introduced, incorporating lessons learned from the first year of ESRP operation. IFC is presently considering whether to seek ISO14001 certification of the ESMS.

2.24. **Transfer to IDA.** In August 2006, the Board authorized IFC to conclude the designation of $150 million of retained earnings in IFC's fiscal year 2006 for a grant to the International Development Association (IDA). This grant is to fund IDA grant-financed projects that are in furtherance of IFC's purposes as set forth in Article I of IFC's Articles. In February 2007, IDA's Board resolved to accept the IFC grant and the full $150 million of the grant was disbursed. IDA has indicated to IFC that the disbursement will be used to fund all or part of IDA grant projects in the following countries, and for the purposes indicated below:

- *Democratic Republic of Congo (DRC)* – To strengthen the health sector, through the delivery of basic health services and malaria control interventions by the private sector;
- *Ethiopia* – To build financial sector regulatory capacity, improve small and medium enterprise (SME) access to finance, and improve the skills and number of finance professionals;
- *Rwanda* – To support the Government's poverty reduction policy, which includes private sector-led growth driven by agriculture, exports and financial sector deepening, as well as to expand public services delivery by the private sector;
- *Mongolia* – To develop information and communications technologies (ICT) infrastructure and delivery of communications services by the private sector, as well as ICT sector competition/regulation;
- *Afghanistan* – To build regulatory capacity in the mining sector, enhancing competition and transparency, and fostering private sector investment; and
- *Moldova* – To enhance private enterprise competitiveness through improved investment climate, access to finance, and modernization of measurements, standards, testing and quality systems.

2.25. **Anti-Corruption and Anti-Money Laundering/Combating the Financing of Terrorism**. IFC is working with the rest of the World Bank Group in the area of anti-corruption. IFC is strengthening its corruption risk management practices. Notably, it has included revised and expanded definitions of sanctionable practices, as harmonized among multilateral development banks, in its investments and advisory service agreements, and as of January 1, 2007, has adopted a new sanctions and debarment approach. New procedures will apply to advisory services agreements, and to investment projects for which IFC plans to commit financing or issue a guarantee. This new approach is part of a larger effort to combat fraud and corruption. In implementing the new procedures, IFC is working with the World Bank Group's Department of Institutional Integrity (INT), which is charged with investigating allegations involving the World Bank, MIGA and IFC projects, as well as allegations of staff misconduct.

2.26. IFC is also seeking to contribute to broader anti-corruption efforts of the development community, for example its work on the Extractive Industries Transparency Initiative (EITI) and its research and monitoring agenda. IFC is currently working with the World Economic Forum's Partnering Against Corruption Initiative (PACI) on a business case approach for rejecting corruption. IFC is sharing insights among PACI member companies and IFC investment partners as a means of providing guidance to support firms in their anti-corruption efforts.

2.27. IFC is close to completing the implementation of the Action Plan on Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) approved in 2005 by the Audit Committee and the Board. This has resulted in a strengthened due diligence process on sponsors and clients for potential AML/CFT risks and necessary changes to policies based on the Financial Action Task Force recommendations. During FY07, a consulting firm assessed IFC's AML/CFT risks and recommended areas for further improvement. IFC will review these together with the recommendations from the Internal Audit Department's review. These will take into account any changes that may be needed as IFC continues to decentralize.

2.28. **Equity Strategy**. IFC invests in equity as a means of achieving its private sector development goals, whilst maintaining its financial sustainability. Equity investments have the potential for significant development impacts, including: (i) economic growth generation and job creation; (ii) institution building; and (iii) facilitating the transfer of assets. It also plays an important role in IFC's pursuit of its strategic priorities, for example: (i) attracting scarce foreign equity capital flows into frontier markets; (ii) enabling IFC to play a long-term partner role with its clients; and (iii) promoting the development of local equity markets and institutions.

2.29. Following the launch of an equity strategy review, over the past year IFC has been building equity specialization within investment departments and working on the implementation of a more focused equity strategy. Each investment department will now have specialized staff responsible for the department's equity program. A newly created central Equity Department will work with investment departments to implement IFC's equity strategy and to focus on IFC's equity exposure whilst maintaining high quality investments with the potential for significant development impact. In so doing, IFC will focus on opportunities where it can provide additionality by assisting companies to realize their potential through its expertise and value-added services.

PROGRESS WITH THE FIVE STRATEGIC PILLARS

Pillar 1: Strengthen the Focus on Frontier Markets

3.1. IFC has continued to focus on increasing its activities in frontier markets, in both investments and advisory services. In FY06, dollar commitments in frontier countries rose by 19% to $1.5 billion, 25% of the total, and are forecast to increase further in FY07, and 47% of advisory services expenditures were in frontier countries. In terms of numbers of projects, frontier countries accounted for about one third of IFC's total projects, higher than the percentage of dollar volume commitments, due to the smaller average project size in frontier countries. As the risks and income levels of countries change, so will the countries which qualify for the frontier definition. For example, Argentina was included in the frontier from FY02-06 but has now reverted to the non-frontier category.

3.2. In addition to countries, IFC is focusing on increasing activities in frontier regions within non-frontier countries, such as north-east Brazil or western China. When commitments in these frontier regions are included in the total, the frontier market figures for the first half of FY07 account for 51% in terms of volume. The frontier regions analyzed are described in Annex IV.

3.3. Frontier countries are currently defined as countries which are either high risk (0-30 on a scale of 0-100) according to the Institutional Investor Country Risk Ratings, or low income according to the World Bank classification. There are currently seven IDA countries which are not included in the frontier definition, either because they are not low income or have lower risk ratings: Azerbaijan, Honduras, Indonesia, Kiribati, Lesotho, Serbia and Sri Lanka. These countries accounted for over $260 million of commitments in FY06, and when combined with frontier country commitments bring the FY06 total to over $1.7 billion.

3.4. From FY08, IFC is proposing that the definition of frontier countries include all IDA countries as well as high-risk non-IDA countries, to align the IFC frontier definition better with IDA. Annex III lists all Frontier and IDA countries and illustrates where they overlap and where they do not.

Annex I - Table 2: IFC Commitments in Frontier and IDA Countries

	FY04	FY05	FY06	FY07 (Estimate)
Frontier Country Investments ($m)	$1,032	$1,278	$1,516	$1,600-1,900
IFC Frontier Country Commitments as a % of Total IFC Commitments[1]	26%	28%	25%[2]	26 – 30%
Frontier Country GDP as a % of Total Developing Country GDP	22%	18%	15%	14%
IFC Frontier Country Commitments including Frontier Regions %	NA	38%[3]	37%[3]	51%[4]
IFC Commitments in Frontier Countries AND IDA Countries ($m)	1,080	1,435	1,780	927[5]
IFC Commitments in Frontier Countries AND IDA Countries as a % of Total Commitments	28%	32%	30%	44%[5]

[1] *% Commitments excluding commitments to regional and global projects.*

[2] *Starting in FY06, Argentina has been excluded from the frontier commitments calculation. Argentina entered into the frontier category in FY02 due to its high investor risk rating, and reverted to the non-frontier category late in FY06. If Argentina is included in the FY06 calculation the frontier percentage would be 30%.*

[3] *Based on a pilot analysis of frontier commitments in IFC's top ten non-frontier countries (in terms of recent commitments). Countries covered were Russia, China, Turkey, Mexico, Brazil, Indonesia, Philippines, Ukraine, Colombia and Romania. Frontier regions were identified based primarily on per capita income with adjustments by IFC staff to reflect prevailing business risk issues in the country. The percentage is based on actual commitments forFY05 and the first half of FY06 only as the analysis was on pilot basis.*

[4] *Actual commitments for the first half of FY07. In addition to the 10 pilot countries covered in the FY06 pilot analysis, frontier regions in the following countries have been added for the analysis: Argentina, Chile, Croatia, Dominican Republic, Egypt, Guatemala, Panama, Peru, Kazakhstan, Serbia, South Africa and Uruguay.*

[5] *Based on actual commitments for the first half of FY07.*

3.5. **Progress in Sub-Saharan Africa**. Sub-Saharan Africa is a priority for IFC and the whole World Bank Group. Management focus and dedication of resources are now showing results, with the volume of commitments growing significantly: from $445 million in FY05 to $700 million in FY06 to an estimated $770-850 million in FY07. IFC plans to continue growth into FY10. In December 2006, IFC's Strategic Initiative for Africa was presented to the Board (IFC/R2006-0297). As discussed in that paper, IFC intends to keep its three strategic pillars namely: (i) improving the investment climate; (ii) enhanced support to SMEs; and (iii) proactive project development to support IFC's investments. An additional priority area for IFC is stronger involvement in cross-border projects, complementing the Regional Integration initiative of the World Bank.

3.6. IFC plans to expand its investments in financial markets and oil, gas, mining and chemicals. Partnership with other members of the World Bank Group, African Development Bank (AfDB) and other external partners will be strengthened to increase private participation in infrastructure development. IFC will also step up its advisory services to deliver bankable public-private partnership (PPP) projects in power, ports, airports and railways, adding value through environment, social and community development programs. In addition, IFC will strengthen its capacity in the agribusiness sector by scaling up its trade finance and Africa micro, small and medium enterprise (MSME) programs.

3.7. As of December 2006, the financial markets portfolio in the region stood at $614 million, consisting of sixty projects across twenty-six countries. Examples of recent financial sector initiatives include:

- *Africa SME Finance Program* – This Program, part of the Performance-Based Grant Initiative (see paragraph 3.17) was approved by IFC's Board in December 2006. The first two Program projects in Burkina Faso and Malawi will be signed in March 2007 and possibly another three projects by the end of FY07.
- *Greenfield Microfinance Initiative* – In FY07, this program is expected to result in the creation of five new microfinance institutions in Madagascar, Tanzania, Ghana, Sierra Leone and Cameroon. In FY08, another four to six microfinance institutions will be formed. KfW is a central partner in many of these projects.

3.8. *Advisory Services*. Private Enterprise Partnership (PEP)-Africa has made good progress during its first years of operations. By the end of FY06, seventeen programs had been launched covering twenty countries and four business lines (Business Enabling Environment, Access to Finance, Infrastructure, and Value Addition to Firms). Partnerships were established with AfDB, the United Kingdom Department for International Development (DFID), Denmark, France, Japan, the Netherlands, Norway, Sweden and Switzerland, as well as Case Foundation and the African Investment Climate Facility (ICF). Going forward, the priorities of PEP-Africa will shift from program design and donor fund-raising to program implementation, seeking to align advisory services to country characteristics.

3.9. **Progress in Middle East and North Africa (MENA)**. IFC has expanded its investment and advisory services operations in the MENA region rapidly in the last few years. The volume of annual commitments in MENA continues to grow at a fast pace: from $315 million in FY05 to $668 million in FY06 and to an estimated $900-$960 million in FY07. There are five frontier countries (Afghanistan, Iraq, Pakistan, West Bank & Gaza, and

Yemen) among the nineteen countries and territories of the MENA region and in FY06, nearly half of IFC's commitments were in frontier countries. IFC expects to commit 30% to 40% of its investments in the frontier countries in FY07, particularly in Pakistan and Yemen where the governments are making significant efforts to promote private sector participation in areas which were traditionally dominated by the public sector. The MENA region is a significant source of South-South transactions, and the frontier countries in MENA are beneficiaries of this investment activity.

3.10. *Advisory Services*. Advisory services is an important activity in MENA particularly in the frontier countries where they can be used to improve the investment climate in specific sectors and to enhance the capacity of local entrepreneurs. In addition to the advisory services associated with IFC's investment projects, PEP-MENA is engaged in many projects in frontier countries including:

- *Afghanistan* – leasing development, housing finance, business training at Kabul University, and horticulture export cluster development;
- *Pakistan* – alternative dispute resolution, corporate governance and housing finance;
- *Iraq* – Business Edge[17], construction material and housing finance;
- *West Bank and Gaza* – enhancement of the olive oil industry, including export promotion, and microfinance advisory; and
- *Yemen* – leasing, Business Edge and advice on mining policy reform.

3.11. **Post-Conflict Countries Initiatives.** The World Bank Group's approach to working in post-conflict countries has evolved in recent years to include greater emphasis on private sector development. Whilst the principle focus remains on the public sector and enabling environment issues, recent World Bank Group proposals to the Board also stress the need to engage the local private sector from the outset. Providing access to financing and other support for local businesses is a crucial element of this new World Bank Group approach, and IFC is expected to play an important role in addressing these needs.

3.12. *Sub-Saharan Africa*. In June 2006, the Board approved funding for the post-conflict initiative for Africa to enhance IFC's presence in Democratic Republic of Congo, Liberia and Sierra Leone. Progress was discussed in the board paper on IFC's Strategic Initiative for Africa, and is summarized below:

- *Liberia* – A joint World Bank Group team visited Liberia in September 2006. Ongoing and planned activities include focus on three main areas: (i) reducing barriers to formalization and improving the environment for informal sector entrepreneurs; (ii) improving the investment policy framework – legislation and institutions; and (iii) developing a public-private sector forum to underpin the private sector development reform process. This project is being integrated with the World Bank country office programs and other initiatives including the World Bank Gender Action Plan.
- *Democratic Republic of Congo* – A multi-disciplinary World Bank Group team visited DRC in early 2006 and identified the following potential opportunities: (i) investment climate – a program with the National Agency for Investments Promotion (ANAPI), to

[17] Brand name of IFC's management training products and services specially designed for owners and managers of SMEs. First launched by IFC in Asia, this product has been adapted for MENA and is available in Egypt, Jordan, Yemen, Palestine, UAE, Oman and Iraq.

improve the business environment; (ii) MSME development; and (iii) several large investment projects including emergency rehabilitation and maintenance of four of the turbines at Inga, DRC's main hydropower plant, and joint World Bank and IFC support to the mining sector with focus on implementation of the mining code and the EITI.

- *Sierra Leone* – Work is focused on: (i) investment climate, including joint projects between FIAS, PEP-Africa and MIGA; and (ii) financial markets.

3.13. *Lebanon*. IFC joined the World Bank team soon after the ceasefire in late August 2006 and developed a comprehensive program of investment and advisory services, which is now under implementation. At the core of the program to support reconstruction of the private sector is the Lebanon Rebuild Program in the financial sector, consisting of: (i) a $200 million investment program with a number of partner banks; and (ii) $75 million increase in funding under IFC's existing Global Trade Finance Program. In addition to these investments in the financial sector, IFC will support selected companies in the retail and services sectors.

3.14. Advisory services work continues to focus on improving the environment for the private sector. A roundtable on techniques for recovery of microfinance portfolios was recently well attended by the industry. An expanded corporate governance program focusing on improving transparency and management practices in the private sector is under implementation, and programs to assist SMEs in the agriculture sector and capacity-building support to entities lending to SMEs are being considered. Finally, IFC is in discussions with the government on the next steps in administrative reform which will impact private sector activity, particularly in relation to the major issues raised by the recent administrative barriers study carried out by FIAS, which identifies administrative and governmental barriers to private sector development, and proposes solutions to remove these barriers.

3.15. **Agribusiness**. In many poorer developing countries, agriculture is the principal source of overall economic growth and agricultural growth is the cornerstone of poverty reduction. Human population growth, improved incomes and shifting dietary patterns are increasing the demand for food and other agricultural products. International trade is increasing rapidly, bringing with it a set of regulatory frameworks and requirements whose implementation requires local capacity. At the same time, however, the natural resource base underpinning agricultural production is under threat, with growing threats to genetic diversity and the degradation of land and water resources. How to lever these shifts so that the sector continues to improve its efficiency in an environmentally sustainable and socially inclusive way is a major challenge for most developing countries.

3.16. The agribusiness sector is today largely driven by the private sector. IFC is well positioned to address the above challenge through its ability to combine long-term financing with a variety of financing instruments appropriate to the needs of the sector, its sector experience, its environmental and social experience as well as its capacity to mobilize advisory services designed to support projects with strong linkages to individual farmers. IFC can also use its convening power to catalyze the emergence of commodity initiatives that require the broad support of multiple stakeholders (producers, traders, consumers and civil society) to address commodity-specific emerging environmental and social issues, thus extending its impact beyond its investments. Over the past five years, IFC's commitments in this sector have grown significantly and development outcomes have also improved and IFC is now intending to increase its involvement in this sector by being more systematic in its approach and by developing wholesale financing solutions using financial intermediaries and processors and traders. .

3.17. **Performance-Based Grants Initiative**. In March 2006, IFC's Board of Directors authorized a pilot phase for the Performance-based Grants Initiative (PBGI). The preliminary results of the pilot phase have confirmed the ability of performance-based grants as a useful instrument for IFC to incentivize service providers to extend services to customers when it would otherwise not have been financially viable to serve, and thus, have demonstrated true additionality in terms of development impact over and above what would have been feasible with classical IFC instruments. The institutional arrangements emerging after the pilot phase have proven suitable for mitigating concerns about possible conflicts of interest, and for ensuring that individual operations are well aligned with the World Bank Group strategies.

3.18. Building on the lessons learned during the pilot phase, IFC will be proposing to scale up the PBGI through a replenishment of $170 million over the FY07-FY09 period from the funds already designated. The replenishment will be split between the two original tranches: (i) $70 million for Access to Finance; and (ii) $100 million for Access to Infrastructure, and is expected to be fully utilized over two years. This will be presented to the Board before the end of FY07.

Pillar 2: Build Long-Term Partnerships with Emerging Players in Developing Countries

3.19. According to the most recent annual client survey (2006), the prospect of long-term partnership remains one of the most highly scored features identified as important in IFC's services. The ability of IFC to continue to support clients with a changing menu of products and services as they grow and through positive and negative changes in their environments are advantages often cited by clients, and an important aspect of IFC's value to these clients. Furthermore, the DOTS data shows that repeated investments with the same clients tend to have better development outcomes (Chart II-8 in Section II).

3.20. Many of the FY06 projects with repeat clients were focused on IFC's strategic priorities:

- *Frontier Markets* – 39% are in frontier markets.
- *South-South* – These projects accounted for 14% of projects with repeat clients.
- *Domestic Sponsors* – Supporting domestic companies is also a corporate priority and domestic sponsors accounted for 60% of FY06 projects with repeat clients.

3.21. IFC aims to achieve a balance between nurturing existing clients and working with new clients, as both offer the potential for significant development impact. In FY06, IFC again met the 50% target for new clients, and further decentralization will be a critical factor in reaching larger numbers of new clients in future. Even within the "repeat" category, about half involve IFC financing for new projects being developed by existing clients, enabling IFC to promote its sustainability agenda and expand the development impact of IFC-supported projects. Excluding these, repeat projects account for only 22% of the total in FY06.

3.22. **South-South Investments.** Supporting developing country clients wishing to expand to other markets is a priority for IFC. These investments help the spread of knowledge and expertise between developing countries and help the investing company become more sophisticated as it grows. In addition to financial support, IFC adds value to these clients through its knowledge of the markets they wish to move into as well as its expertise on environment, social and corporate governance standards. IFC's South-South investments reached $673 million in FY06 and are expected to continue growing in FY07.

3.23. **Corporate Governance.** IFC's corporate governance assistance is important value-added for its clients, as continues to be reflected in IFC's Client Survey. Corporate governance is also an important aspect of IFC's development impact in the case of equity investments, as good corporate governance is essential to protect the long-term interests of minority shareholders. IFC regards its involvement in assessing governance and working with companies on improvements to be an important contribution to both portfolio quality and long-term investee performance. In addition to working directly with the private sector, the joint World Bank/IFC Corporate Governance Department has now developed a set of tools in its Corporate Governance Methodology to assess the quality of governance of state-owned enterprises. These tools were applied for the first time in early FY07 with very good results.

3.24. The web-based Methodology developed by IFC is used not only by IFC staff, but is also seen as a standard for other development banks and private institutional investors. It goes beyond diagnosis and helps companies come up with solutions to improve their governance, and is therefore increasingly valued by clients. IFC often nominates directors to the boards of its investee companies, and through them IFC can play an important role in guiding the company to better governance. At the same time, this level of representation exposes IFC to reputation risks, and IFC has improved its policies and procedures for directorships. IFC conducts two formal workshops for IFC-nominated directors annually.

3.25. IFC also advises governments, regulators, stock markets, institutes of directors and other private sector players on corporate governance issues. On March 1, 2007, IFC was presented with a special award for its contribution to the development of the Novo Mercado, the Sao Paolo stock exchange's (Bovespa) special listing segment for well-governed companies, on the occasion of the listing of its 100th company. Since 2003, Novo Mercado has become the recognized standard, and it now accounts for a majority of both Bovespa's market capitalization and trading volume on the Novo Mercado, and virtually all initial public offerings have been placed there. Perhaps more importantly, the index of Novo Mercado companies has consistently and very significantly out-performed the general market index since its inception.

3.26. **Linkages.** IFC's Linkages Program aims to catalyze local economic growth by integrating SMEs into the supply chains of investment clients and by creating income generation opportunities for communities around clients' project sites. These objectives are achieved through a mix of interventions, such as local supplier development programs, training in business/technical skills for SMEs and micro entrepreneurs, and facilitating SMEs' access to finance and entry into new markets. The Program is proving the replicability of some of these interventions. For example, Enterprise Centers (ECs) that support the development of competitive SMEs are running as part of linkage programs in Chad, Azerbaijan and shortly in India. These ECs have enabled SMEs in Chad to win about $12 million of contracts, whilst those in Azerbaijan have won contracts of over $150 million. Similarly, the Program is seeking to work with large clients across regions, as evidenced by its relationship with Newmont Mining in Peru being carried over to the company's latest project in Ghana. Some of the more innovative areas where pilots are being conducted include traceability for farmers in agriculture supply chains and improving waste management supply chains by involving informal street collectors. As of January 2007, the Program had forty-one projects being implemented or designed in thirty-three countries, related to IFC investment commitments of over $2.5 billion.

Annex I - Box 1: Example of Linkages - Lonmin: A Menu of Integrated Value Added Services

Lonmin, a leading platinum producer in South Africa, recently agreed in principle with IFC on a package of financial and advisory services. The company, set to become a leader in sustainability within the mining industry, recognized IFC's unique offerings in linkages—supplier development, community development, gender and HIV/AIDS. IFC's integrated approach creates synergies. For example, connecting development of informal community as well as women entrepreneurs with Lonmin's procurement needs requires a combination of product knowledge and ability to gain the trust of a large corporation. The combined strength of IFC and its client is expected to significantly improve social conditions in and around Lonmin's operations and directly impact the lives of tens of thousands of people. This is a model that IFC is keen to replicate across extractive industries.

3.27. **IFC Against Aids.** The Corporation's program dedicated to the prevention and care of HIV/AIDS, IFC Against AIDS, aims to protect people and profitability by being a risk management partner for IFC's clients, HIV/AIDS expert and catalyst for action where HIV/AIDS is threatening sustainable development. The program helps develop the capacity of IFC clients to implement HIV/AIDS workplace and community programs. The program has been most active in Sub-Saharan Africa and this region will remain a priority for FY08.

3.28. In India, IFC has four active projects. HIV/AIDS has become a major element of the corporate social responsibility strategy of all four clients since they started working on these issues with IFC. In Sub-Saharan Africa, IFC Against AIDS is actively working with fourteen large companies and with four others at initial engagement. It has trained 169 participants from ninety-seven SMEs under its SME HIV/AIDS training program which is now integrated as part of Linkages programs and other IFC AS programs involving SMEs.

3.29. In FY07, the program is completing a perception survey of occupational health and safety and HIV/AIDS in Russia, and in November 2006, published a briefing book on HIV/AIDS and the private sector in China.

Pillar 3: Differentiate through Sustainability

3.30. IFC has continued its strong focus on promoting its sustainability agenda through improving policies and processes, developing lessons learned and best practice material and sustainability strategies in sectors which have large environmental, social and governance impacts.

Improving Policies and Processes

3.31. **Implementing the Performance Standards.** Following Board approval and formal launch of the performance standards (PSs) on April 30, 2006, IFC's focus has been on sound implementation of the PSs. Within the Environmental and Social Risk Management System, performance indicators for each project will help in monitoring PS implementation. In addition, IFC will report to the Board on the costs of implementation internally and for its clients and a task force has been created to develop a methodology for the latter.

3.32. As of February 2007, 1,222 staff had been trained. Ongoing training opportunities will be available, including a new e-learning program, together with in-depth training on new topics, such as labor and how projects should manage risks posed to local communities by security personnel hired by project companies.

3.33. Capturing IFC's best practice and the experiences of clients in the application and implementation of the PSs will form the basis of the "Community of Learning" events to be held for first time in May 2007 and at regular intervals thereafter. In May 2007, marking the one-year anniversary of the PSs, IFC will report to the Board in a Technical Briefing on PS implementation data and the knowledge generated for the "Community of Learning". In November 2007, IFC will provide a full Board report on PS implementation.

3.34. **Updating the Environment Health and Safety (EHS) Technical Guidelines.** The ongoing EHS Guidelines Update builds on the completion of the IFC Policy and Performance Standards. IFC undertook this work and agreed to lead it for the international financial institution (IFI) community as a whole. IFC uses the Guidelines as a key source of information during project appraisal and risk management activities. The Guidelines Update will conclude in FY07, and should position IFC as a global leader in the publication of environmental, health, and safety standards and guidelines.

3.35. **Equator Principles.** In order to maintain its environmental and social sustainability leadership, IFC will continue to provide support for the further adoption and implementation of the Equator Principles. To this end IFC has three strategic goals: (i) the sound implementation of the Equator Principles among adopting Equator Principle Financial Institutions (EPFIs), with the support of seminars, training programs, an exclusive webpage and a helpdesk; (ii) increased adoption of the Equator Principles among financial institutions in emerging markets, focusing on financial institutions and their regulators and government counterparts in leading emerging markets such as China, India, Indonesia, Brazil and Russia, among others; and (iii) increased adoption/application of the Performance Standards/Equator Principles among financial institutions in developed economies by promoting the benefits of applying a single standard among IFIs for private sector projects through the IFC Community of Learning events, training programs and participation in various IFI forums. Currently there are forty-five EPFIs.

3.36. **Mainstreaming**. In order to mainstream sustainability into IFC's investment work, mitigate environmental and social risks, and ensure sustainability in clients' operations in FY07, 65% of IFC's environment and social specialists are now co-located in industry or regional departments. This will increase as IFC's decentralization is implemented with enhanced presence in the field.

Developing Sector Strategies

3.37. **Renewable Energy and Energy Efficiency**. IFC is committed to scaling up its activities in renewable energy (RE) and energy efficiency (EE) investments. IFC continues to play a supporting role in the World Bank Group's G8 Gleneagles July 2005 Summit follow-up process to prepare a "Clean Energy Investment Framework" to accelerate investments in low carbon energy systems and to increase assistance to developing countries in order to help them adapt to climate change. IFC has a unit within its Infrastructure Department which focuses on investments in renewable energy projects and other greenhouse gas-friendly technologies. Additionally, IFC develops and pilots innovative private sector business models and instruments designed to deliver environmental benefits, including clean energy.

3.38. To date, IFC has participated in a wind power project in the Dominican Republic and is processing several others including several projects in India. IFC is also carefully analyzing wind investment opportunities in other promising markets such as Mexico, Pakistan and China, several of which are at an advanced stage of development. In small hydros, IFC has closed projects in India and China and is currently pursuing a number of small hydro transactions in Chile, and in several countries of Central America. This year, IFC made an investment in the partial privatization of a geothermal company in the Philippines. IFC continues to look for other opportunities in biomass and energy efficiency and is exploring strategic alliances with major industry players and local or regional development banks interested in fostering renewable energy investments. IFC is also considering making early investments in renewable energy projects that could catalyze their development.

3.39. IFC currently manages $185 million (an increase from $100 million a year ago) in two carbon finance donor-funded facilities, which are expected to be fully committed by the end of FY07. The private sector is key to the development of carbon markets, and IFC's carbon finance strategy focuses on moving beyond intermediation to taking risk for its own account and includes development of new risk mitigation and structured finance products. The Carbon Delivery Guarantee product represents a market innovation that is well received by clients. Two projects have so far been presented to the Board as of March 2007.

3.40. *Energy Efficiency – Mainstreaming and Scaling Up*. Energy efficiency is an important developmental priority for IFC due to rapidly increasing demand for energy in emerging markets, significant constraints on the supply side, and growing concerns over the environmental and health effects of pollution. The bulk of the EE finance market is linked to SMEs and consumers, which are most efficiently reached at scale through IFC's financial institution (FI) partner network.

3.41. IFC has set ambitious targets to scale up the business volume and development impact in this area by implementing the following strategy: (i) leverage IFC's existing FI client base and integrate EE into SMEs, housing and consumer finance offerings, (ii) develop innovative financial structures and new products that enable IFC to support higher risk segments and thereby increase its impact as well as potential financial returns (mezzanine instruments, partial first loss, etc); (iii) develop wholesaling approaches (such as collective investment vehicles in structured finance and special purpose vehicles) to extend IFC's reach in the sector; and (iv) build a robust advisory services program to support capacity building at a client level as well as for targeted interventions at a regulatory/market infrastructure level that can unlock investments in EE. In 2006, IFC committed $180 million in EE though FIs in five projects, and the target is to triple this business volume in three to four years.

3.42. **Extractive Industries**. IFC continues to face strong demand for its services in the extractive industries sector, especially from local and smaller international companies, partly driven by persistent high oil and mineral prices. Concurrently, South-South investments with new international players – notably from Brazil, China, India and Russia – are growing.

IFC's activities continue to be guided by the Management Response to the Extractive Industries Review. IFC made its second report to the Board on implementation progress at the end of 2006.

3.43. This continues to remain a difficult sector especially in some regions where governance issues are problematic. IFC is addressing the challenges, including through more effective coordination of private sector investment support on the IFC side and policy work on the World Bank side to help mitigate governance risks to expected benefits at the national level. This has involved, for example, World Bank policy and capacity-building work in countries such as DRC, Guinea and Mongolia prior to potential IFC investments. There is a growing focus by IFC on local governance capacity to manage and be accountable for extractive industries revenues.

3.44. **Agribusiness**. The agribusiness sector continues to face challenges across several dimensions that need to be addressed in order to strike a balance between the need to secure increased food production and the need to safeguard finite natural resources. IFC has been proactive in raising its clients' awareness of environmental and social sustainability issues, and its assistance on these issues is increasingly sought by companies that aspire to a higher level of social responsibility. At a global level, IFC continues to support an initiative launched in FY04: "Better Management Practices" for commodities. These programs have mobilized a wide range of stakeholders, including IFC clients, and have established roundtables to come up with a consensual view of better management practices in their respective industries. This progress has attracted the attention of other industry stakeholders, such as in the cocoa sector, which are now contemplating joining a similar process.

3.45. IFC is also addressing the growing divide between small farmers and commercial farmers. An effort is made to expand the number of suppliers, particularly small farmers, and integrate them into commercial marketing channels through advisory services. Increasingly, IFC is also engaging industry "aggregators", generally processors or traders, who themselves collect agricultural products from a large number of small farmers, cooperatives or other forms of producer associations, using them to provide pre-financing with longer tenors and/or advisory services to improve the sustainability of production practices.

3.46. IFC will engage on a selective basis in countries and sectors where there is a perception that economic development and sustainability concerns may diverge. The objective is to support willing partners in the private sector to define workable solutions that address major environmental and social challenges in their supply chain. This is facilitated by the fact that export markets are increasingly requiring higher levels of food safety (e.g. traceability) as well as environmental and social responsibility from their suppliers.

3.47. Through its engagement, IFC's ultimate objective is to help its partners set benchmarks of responsible production for the sector so that these solutions become more widely adopted throughout the industry. The benefits are likely to be equally high, as illustrated in the case of Grupo Bertin (Annex I - Box 2).

Annex I - Box 2: Brazil – Grupo Bertin

In FY07, IFC supported Grupo Bertin (Bertin), the second largest cattle processor in Brazil, in its ambitious expansion plans. This project has four objectives: (i) increase capacity to process beef and hides in line with growing domestic and international demand; (ii) further develop Bertin's value chain; (iii) diversify the source of cattle; and (iv) shift product mix towards higher value-added products. A key component of Bertin's expansion strategy was the recognition that it needed to address its foreign clients' increasingly strict standards. To that end, a full traceability system to guarantee the origin of cattle to its clients is being set up based on SISBOV (the government registration system established as a response to outbreaks of foot-and-mouth disease in some parts of Brazil), irrespective of whether the final product is intended for the domestic market or for export. Building on this initiative, and as an outcome of its engagement with IFC, Bertin agreed to strengthen its cattle purchasing procedures further to address the environmental and social impacts of cattle ranching, particularly in its only slaughterhouse in the Amazon in the state of Pará.

The World Bank and the IFC have worked closely on the strategic elements of the Bertin project which is viewed as a cornerstone of the Amazon Partnership Framework. The ultimate aim of this project, which has been developed in the context of the World Bank's engagement in the Amazon, is to promote a new paradigm for livestock production, raising the bar on compliance with social and environmental standards, with the clear understanding that the proposed project is the start of a complex process and aims to contribute to this ambitious long-term goal a set of practical and achievable short-term measures. In addition, IFC, jointly with Bertin and in close coordination with the World Bank Pará Rural project, local universities, cooperatives and government and civil society representatives, is designing a technical assistance program aimed at assisting small farmers around Bertin's Pará plant to improve their cattle rearing and agricultural practices, including grazing intensification.

3.48. **Sustainability in Financial Markets**. IFC's financial markets sustainability finance work is currently divided into two main areas with two distinct short- to medium-term strategic approaches: (i) scaling up and mainstreaming the products where there is sufficient experience and up-take from the market; and (ii) capacity building, market development and further product development, with the expectation that as products mature they would be scaled up and moved into the mainstream. The target sectors for sustainability financing include: (i) sustainable energy (including energy efficiency and renewable energy); (ii) cleaner production; (iii) corporate governance; (iv) sustainable supply chains; and (v) disadvantaged social groups and communities.

3.49. Beyond banks, IFC plans to expand further its successful efforts in promoting sustainable investment at the market and policy level. IFC is now looking at supporting this concept in China and India and this is an area of high priority. Other efforts include: (i) working with banking regulators to encourage their promotion of sustainability risk management frameworks in banks; (ii) providing training to equity analysts and fund managers to incorporate environmental and social sustainability factors into their analysis of stocks; (iii) the launch, in FY07, of the Capturing Value market survey and report to address information gaps in the market; and (v) raising the awareness of emerging market companies and their environmental and social practices.

3.50. **Gender Entrepreneurship Markets (GEM)**. GEM was launched as a pilot program in December 2004 to help mainstream gender issues throughout IFC's operations and is now a full program, with funding for the next three years and a global mandate. GEM's entire work program is part of the World Bank Group Gender Action Plan (GAP). The three main goals of the program are: (i) to provide advisory services to financial intermediaries on the delivery of financial services and business support to women; (ii) to add value to IFC's investment projects with a focus on women in the workforce and women in the supply chain; and (iii) to address gender barriers in the business enabling environment. One example of an integrated access to finance project is IFC's work with Access Bank in Nigeria, where IFC has extended a $15 million line of credit to support the bank's lending activities to women entrepreneurs. This investment is complemented by advisory services to the bank, combined with enterprise-level capacity-building activities. GEM is implementing this program in partnership with local business development support providers. GEM now has similar programs underway in Uganda and Tanzania (Annex I - Box 3) with future work planned for Egypt, Mauritania, Senegal and South Africa..

Annex I - Box 3: Access to Finance for Women Entrepreneurs

In addition to Access Bank in Nigeria, IFC has signed a further two lines of credit for women entrepreneurs in Africa: in Uganda ($6m with the Development Finance Corporation of Uganda, of which $2m is dedicated to women entrepreneurs) and Tanzania ($5m with EXIM Bank, of which $1m has been on-lent to a micro leasing company for women). IFC has also worked with its bank clients to provide training for their women clients and prospective clients on improving financial literacy, how to write a bankable business plan and how to access markets (product development and connection to buyers).

In both Uganda and Tanzania GEM undertook Gender and Growth Assessments at the request of the government, in partnership with FIAS, the World Bank and PEP-Africa, which revealed that access to finance was a significant problem for women entrepreneurs. The lines of credit are a result of these assessments, and IFC is engaging in on-going efforts to support the passage of legislation to address these problems.

3.51. **Sustainability Innovation**. IFC is managing an IFC- and donor-funded facility designed to encourage innovation in environmental and social sustainability. Practice areas include sustainable energy, carbon finance, cleaner technologies, biodiversity, social responsibility and sustainable investing. IFC's energy efficiency lending, carbon delivery guarantee and cleaner production initiative are examples of products that were developed through this facility and that are now becoming mainstream IFC offerings. Some of these products would be deployed through the proposed Greenhouse Gas Mitigation Facility, which was discussed with the Board in the paper "IFC: Creating Opportunity and Update on Capital Position" and which would provide a platform for scaling up these small-scale innovations.

Pillar 4: Address Constraints to Private Sector Growth in Infrastructure and Health and Education

3.52. **Infrastructure.** Infrastructure remains an important priority for IFC, and IFC's infrastructure commitments grew significantly from $599 million in FY05 to $955 million in FY06. Despite these achievements, the pace of expansion needs to increase, particularly in the most challenging markets such as Sub-Saharan Africa. It has become clear that new approaches are needed if progress is to be made in addressing these needs, and IFC is pursuing a number of initiatives in order increase the footprint of private participation in infrastructure.

3.53. *Project Development*. The lack of bankable projects is a serious impediment to trying to address the infrastructure needs of developing countries. At the same time, the shortage of project development resources has been widely identified as a critical constraint to private sector participation in infrastructure, especially in frontier countries. Development financial institutions are implementing several different project development models with the objective of increasing the number of bankable public-private partnership infrastructure projects, but much remains to be accomplished. IFC has been supporting several of these initiatives and has, for example, approved a $30 million line of credit to support projects which are successfully developed by InfraCo, a donor-sponsored infrastructure development company.

3.54. Despite these efforts, there remains a clear consensus for the need to increase substantially the number of bankable private infrastructure projects. IFC's proposed Global Infrastructure Project Development Facility, discussed with the Board in February 2007 in the paper "IFC: Creating Opportunity and Update on Capital Position", aims to be a response to these needs and would allow IFC to have real impact in this area. Through this Facility, IFC would provide funding for project development activities in frontier markets, in addition to dedicated and experienced staff and delivery, in a seamless manner, of a combination of all the instruments available within the World Bank Group.

3.55. *Public-Private Partnerships*. Development of public-private partnerships (PPPs) remains a priority for IFC. There continues to be close collaboration between IFC and other members of the World Bank Group, both to ensure that suitable regulatory frameworks are in place and that public sector participation is appropriately structured. AES Sonel in Cameroon is a recent example which involved the World Bank as well as IFC. This is described in Annex I - Box 4.

Annex I - Box 4: AES Sonel, Cameroon

The World Bank and IFC have worked closely together to help support the Government of Cameroon (GOC)'s electricity reform program. A key milestone in this reform program was achieved in July 2001 when the GOC sold 56% of the capital of Cameroon's integrated electric utility (Sonel) to AES Corporation as part of a World Bank Group-supported privatization process. IFC acted as the lead privatization advisor to the GOC.

Following the privatization, it appeared critical that the World Bank and IFC continue to play an important role to help address the many challenges that AES Sonel and the energy sector were experiencing. IFC and the World Bank joined forces and allocated considerable resources to help address these challenges in the first fragile years of the privatization. The World Bank and IFC teams closely coordinated their activities in the sector with IFC focusing on the financing of AES Sonel's investment program, whilst the World Bank took the lead in helping the GOC strengthen sector reforms. The World Bank Group's support has been instrumental in helping AES Sonel raise, in December 2006, a major financing of €260 million ($340 million) from a syndicate of development financial institutions coordinated by IFC and comprising the African Development Bank (AfDB), Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG), European Investment Bank (EIB), Société de Promotion et de Participation pour la Coopération Economique (Proparco), Financierings-Maatschappij voor Ontwikkelingslanden (FMO), Emerging Africa Infrastructure Fund, Banque de Développement des États d'Afrique Centrale and IFC. This financing is one of the largest financings ever provided to a privatized utility in Sub-Saharan Africa and will help fund AES Sonel's post-privatization investment program estimated at over €380 million (approximately $495 million). This investment program is expected significantly to improve electricity services in Cameroon.

The success of the power privatization in Cameroon demonstrates how different arms of the World Bank Group can work together and deploy the full range of instruments available to support the development of complex private infrastructure projects in frontier countries. Another joint Bank/IFC operation in Cameroon's power sector is underway with both IFC and the World Bank expected to finance a 150 MW gas-fired power project under development.

3.56. *Advisory Services to Governments*. IFC provides advisory services to governments in structuring and introducing private participation in infrastructure and social sectors on a sustainable basis. This support is undertaken in close collaboration with the World Bank, often following on from World Bank supported sector reform programs, and often is further complemented by follow-on funding or risk mitigation for the private sector from the World Bank, MIGA or IFC. Demand for this type of advisory support continues to grow rapidly, reflecting its importance to IFC member governments, and the unique value IFC can bring to the table in this area, especially in balancing the demands of investors with public policy considerations. IFC expects to conclude between seven and nine such assignments in FY07, and to double this level in coming years.

3.57. Advisory activity is most concentrated in Africa and the Middle East, and is often supported by donors (principally the Private Infrastructure in Development Group, PIDG). Recent successful assignments have included structuring private public partnerships for off-grid power supply in the Philippines, executing Nigeria's first transport concession (Abuja airport), structuring a $700 million mixed use development on an old military base in Panama, and concessioning a specialized terminal for Hajj Pilgrims in Saudi Arabia.

3.58. *Subnational Finance.* As a follow-up to the experience of IFC's Municipal Fund, on August 1, 2006, the Board endorsed a joint Bank-IFC subnational initiative – a three-year Subnational Development Program. This initiative represents the next phase in the World Bank Group's response to the demand for subnational products without sovereign guarantees. The program is a pilot effort to scale up financial and capacity building support to subnational entities and will facilitate the development of local credit markets and mobilize local private financing.

3.59. The Municipal Fund has been converted into a joint World Bank-IFC department, the Subnational Finance Department. The joint initiative will build on IFC's credit, risk management and structuring skills in combination with the World Bank's sector and policy expertise and long-standing relationships and experience in working with subnational clients globally.

3.60. **Information and Communications Technologies**. Information and communications technologies (ICT) is now widely recognized as a fundamental catalyst for growth across many sectors of an economy and is proven to generate high development impact. Empirical studies show a direct correlation between increase in telephone density and gross domestic product (GDP) growth. In fact, it is believed that 1% higher telephone density leads to 0.6% growth in GDP, and as much as 5% growth when all direct and indirect benefits are accounted for. ICT remains a key focus for IFC, with commitments growing from $366 million in FY06 to $385 - $420 million expected in FY07.

3.61. IFC's future focus in ICT will be on: (i) improving access to basic services, such as voice communication and internet availability, through innovative means and public-private partnerships to lower tariffs, improve service quality and create better coverage, particularly in frontier markets and through South-South opportunities; (ii) increasing the availability of advanced technologies and application services for consumers and businesses; and (iii) supporting the development of downstream industries such as mobile-banking and mobile-commerce, e-Government and IT-enabled industries. In addition to these mainstream activities, IFC will continue to partner with private and public groups to develop and pilot innovative programs to address market gaps, particularly with respect to broadening access coverage and extending service to low-income populations and rural areas. An example of this is highlighted in Annex I - Box 5.

Annex I - Box 5: Pan-African Community Phone Program

Building on the work done on the Village Phone program by Grameen Phone in Bangladesh, IFC created a community phone model in Nigeria with MTN, a large pan-African mobile operator and client of IFC. Through the initial pilot, some 300 villages were reached with a target of an additional 2,700 to be covered over a three-year period and a comprehensive tool-kit created to help further the roll-out of the program in other parts of Africa.

Using the Nigerian experience, IFC has now expanded the program in order to replicate and scale the project with IFC's other key mobile operators in four African countries. The overall objective of the program will be to realize a win-win situation for all stakeholders including individual phone operators, rural community members, micro-credit institutions and mobile phone companies. The total funding is approximately $4 million including contributions from the mobile phone companies to establish 20,000 individual phone operators.

3.62. **Health and Education**. IFC is aiming to increase the scale and scope of its development impact in these sectors by expanding its investment and advisory services operations over the next three years: FY07 commitments are estimated to increase by 50% over FY06 to $170 **-** $180 million, with the aim of reaching $326 million by FY10.

3.63. IFC will pursue broad strategic relationships with groups that are seeking more efficient modes of operation, new areas of specialization, movement across borders, and innovative means of financing their own operations and those of their clients. These clients are likely to be hospital groups and higher education institutions, and they are emerging in Brazil, India, Mexico, Turkey and the MENA region. IFC will also continue to seek out domestic institutions that aim to secure a strong position within local markets and have great potential to grow and to generate significant development impact.

3.64. IFC will work to design and implement innovative financing structures, such as student loans, to enable the financing (via a local intermediary) of a large number of smaller providers. In FY07, IFC committed its first two student loan projects (Annex I - Box 6) and has several similar projects in the pipeline (in Brazil, Chile, Columbia, Jordan, Kenya Pakistan, and Turkey). IFC's role in structuring and bringing together universities, foundations, and financial institutions is critical, and the potential development impact – giving hundreds of thousands of students access to education – is enormous.

Annex I - Box 6: New Approaches to Supporting Health and Education

Sampoerna Student Loans – IFC worked with the Sampoerna Foundation and PT Bank Internasional Indonesia Tbk to establish Indonesia's first private financing facility for student lending. It is also the first example of how a philanthropic organization can be used to leverage commercial funding to extend financing to a large number of students. It is expected that the facility will enable 15,000 students to attend higher education institutions in Indonesia.

EduInfra –IFC is supporting EduComp, an established educational services provider in India, to set up EduInfra, a company that will build and lease private school buildings throughout the country. All private schools in India are required by law to be registered as trusts and thus often have difficulty accessing financing to invest in new infrastructure. EduInfra aims to alleviate this bottleneck by constructing and then leasing (under long-term contracts) school buildings to established private providers. It aims to build up to twenty schools over the project period which, at full capacity, will educate 40,000 students. It also plans to build many of the schools in tier II and III cities, where access to private education, especially for lower-income households, is limited.

3.65. In FY07, IFC replicated the Ghana Schools Project in Kenya, and has similar projects under development in Uganda, Senegal and Nigeria. IFC will seek to establish a regional education advisory services and financing facility for Africa. These projects have enormous potential development impact, improving the managerial capacity of small schools which cater largely to low- and middle-income households, increasing access to education, and improving the quality of education. IFC is currently undertaking an impact evaluation of these projects jointly with the World Bank. IFC is also exploring the application of such facilities to the health sector.

3.66. In FY07, together with the Bill and Melinda Gates Foundation, IFC launched a study of the private health sector in Africa. The first draft of the report is due in April 2007. Preliminary results suggest the viability of creating a private equity fund for health in Africa as well as the usefulness of a "Doing Business" type report focused on private healthcare in the region. IFC will engage further with the Board on its strategy in these important sectors at a Technical Briefing to be held in April/May.

Pillar 5: Develop Local Financial Markets

3.67. IFC plays an important role in enabling greater access to finance in its developing member countries, through a combination of loans, equity, structured products, derivative products and advisory services. In FY06, financial sector investments accounted for 37% of IFC's commitments, and this level is expected to continue. IFC has adopted a three-pronged approach to developing financial markets: (i) working alongside the World Bank to create supportive policy, legal and regulatory frameworks; (ii) investing and providing technical assistance to financial institutions; and (iii) helping build the necessary financial infrastructure for such institutions to operate effectively, for example credit bureaus. The key strategic areas for IFC are SME finance, microfinance, housing finance, trade finance, local currency finance, structured finance and sustainability finance. These are discussed below, other than sustainability finance which is discussed in Annex I, paragraph 3.48.

3.68. **MSME Finance.** IFC has focused on reaching micro, small and medium enterprises (MSMEs) through financial intermediaries, and IFC's MSME commitments in FY06 were $1.6 billion (extended to banks, microfinance institutions, leasing companies and other non-banking financial institutions), more than five times the figure in FY00[18] of $229 million, of which over $1 billion was targeted to SMEs. As an indication of the reach of this approach, in calendar year 2005, IFC's clients disbursed an estimated 7.6 million MSME sub-loans totaling $52 billion, and held a portfolio of 3.9 million MSME sub-loans for $47 billion. The outstanding MSME portfolio stood at $2.4 billion for IFC's account at the end of FY06 and represented around 18% of IFC's outstanding portfolio. IFC targets MSMEs through: (i) encouraging financial institutions to downscale into SME lending; (ii) investing in microfinance institutions, as described more fully below; and (iii) strengthening credit infrastructure, for example through support of rating agencies and credit bureaus, and technical assistance to improve credit assessment and monitoring capabilities.

3.69. ***Microfinance.*** IFC will focus on four strategic solutions that aim to boost both investment volume and development impact: (i) promoting collective investment vehicles

[18] Including the Global Trade Finance Program, MSME commitments in FY06 were approximately $1.7 billion.

such as structured finance, debt and equity funds (e.g. Global Microfinance Facility launched in 2004 and the European Fund for South-East Europe); (ii) developing microfinance network partners (e.g. ProCredit group of nineteen microfinance and SME banks operating in transition and developing countries) and IFC will seek Board approval for four such parallel facilities, which should lead to the establishment of up to twenty-two new microfinance banks over the next three years; (iii) supporting individual financial institutions through strategic partnerships, e.g. the partnership with KfW (discussed in Annex I, paragraph 3.7). IFC is planning to roll out this model with KfW to MENA and Asia, and explore such a partnership with other institutions; and (iv) engaging in selected advisory services projects at the financial infrastructure and policy levels with a direct impact on IFC's ability to achieve its objectives in the other three types of operations.

3.70. These strategic solutions incorporate and build on IFC's traditional microfinance products, and seek to combine advisory services and investments when appropriate. Priority will be placed on innovative programs with the potential to reach very large scale, for instance, work with certain Post Banks (e.g., China), or investments in mobile phone banking. The key challenge going forward will be to find partners that embrace a modern approach to these operational models.

3.71. Microfinance commitments in FY06 were $132 million (extended to MSME banks and microfinance institutions) in twenty-one projects, and IFC expects this to increase in FY07. IFC plans to scale up its activity to reach an estimated eighteen million micro entrepreneurs over the next five years. The strategy envisions considerable economies of scale in investment delivery.

3.72. **Housing Finance.** Housing finance continues to be a growing sector for the Corporation and IFC is working closely with the World Bank to develop an integrated approach to this sector. As of February 1, 2007, IFC had invested $2.6 billion in more than 110 housing finance-specific transactions in over forty countries. This represents a marked growth in its investment portfolio: in FY00, commitments in this sector were approximately $30 million, but in FY06 this had grown to $600 million in housing finance-related projects, with a similar level expected in FY07. IFC continues to explore ways to expand the availability of mortgages to lower income segments of the population and frontier markets.

3.73. IFC is taking a more programmatic approach in several sectors, including housing finance. The Mexico Housing Finance program described in Annex I - Box 7 is a good recent example both of this approach as well as of work with the World Bank in the financial sector. IFC aims to achieve a broader sector impact through global and regional multi-bank and multi-country financing and advisory services packages. In the case of sector-related advisory services, the focus will continue to be on legal and regulatory frameworks carried out in conjunction with the World Bank.

Annex I - Box 7: World Bank Group Support to Housing Finance in Mexico

In Mexico in 1995, residential mortgage markets were hit by a broad economic and financial sector crisis. The impacts included high non-performing loans (more than 20% of portfolios), suspended lending, weakened and failed lenders, and wealth loss for millions of households. Through a combination of technical assistance and loans, the World Bank has helped authorities to manage the recovery from the crisis and rebuild the foundations of sound, expanding housing finance systems. IFC has provided funding and equity investments at critical times to private sector lenders in primary and secondary mortgage markets.

The World Bank's engagements helped to support the building blocks of a better housing finance system – risk-based regulations, bond funding, targeted subsidies, agency restructuring, creation of mortgage insurance industry, and so forth. IFC in parallel launched a programmatic approach to provide innovative financing structures to several private primary lenders, which linked to direct access to securitization markets. IFC also helped developers to access bonds to finance residential construction. As mortgage markets expand (outstanding debt is now 11% of GDP), the World Bank is now supporting – through a combination of development policy lending and technical assistance – the implementation of a social housing policy which incorporates housing finance for lower income households (smarter subsidies, housing microfinance, titled land, etc.).

3.74. IFC continues to explore work in other niche products, such as housing products consistent with Islamic finance principles, sustainable housing construction and energy efficiency/home renovation products. In FY06, IFC committed €35 million to support the development of housing finance and energy efficiency products of Raiffeisen International Bank-Holding AG network banks in Bosnia and Herzegovina, Serbia and Montenegro, and Kosovo. The investment will channel financing to the largely underserved residential housing markets in the frontier markets of Europe. It will also support the innovative program for financing of energy efficient housing improvements in these countries.

3.75. Over the past year, IFC has piloted a property finance initiative to support private sector involvement in creating organized and sustainable property finance markets and to increase the supply and quality of affordable residential stock to meet housing demand in member countries. This initiative strongly complements the World Bank's long-standing interest in the provision of shelter.

3.76. IFC aims to scale up support to address the severe supply-demand imbalance by combining investment with advisory services. The initial focus is the Africa region, where IFC has committed $20 million in the African Real Estate Company (ARECO) project and is in the advanced stages of processing several other projects. As experience is gained, the initiative will be expanded to other regions.

3.77. **Trade Finance.** IFC's Global Trade Finance Program (GTFP) of $1 billion (first $500 million approved in FY05 and a further increase of $500 million approved in January 2007 (IFC/R2006-0319)) has a mandate to provide trade facilitation to underserved clients and markets. Under the Program, IFC issues partial or full guarantees related to trade transactions on a per-transaction basis, covering the payment risk of local banks. GTFP is delivering on its promise to bridge several important gaps in trade, including: (i) expanding the financing available to local banks in less advanced markets to support their clients, particularly small and medium enterprises; (ii) making available longer tenors needed for the import of capital goods; (iii) enabling local banks to do business on an unsecured basis, thus releasing cash collateral requirements that can then be extended as working capital for clients; and (iv) capacity building of local banks through eight trade finance training programs delivered in FY07, seven of which were in Africa and reached bankers representing eighteen countries on the continent.

3.78. The Program has been showing significant results. In FY06, representing nine months of operation, total commitments reached $267 million, of which $187 million was in Sub-Saharan Africa. As of March 1, 2007, total commitments for FY07 to date were $433 million, of which $228 million was in Sub-Saharan Africa. The priority of the Program continues to be banks from under-financed markets with a focus on Africa. Latest entries include banks from the post-crisis countries of Liberia, Sierra Leone, Rwanda and the DRC. Examples of recent transactions include supporting food from Turkey to Lebanon, medical equipment from South Africa to Nigeria and rice from Pakistan to Sierra Leone. As discussed with the Board in the paper “IFC: Creating Opportunity and Update on Capital Position”, IFC is considering expanding this Program to smaller banks by making higher risk investments.

3.79. **Promoting Local Currency Financing.** IFC promotes local currency financing through both structured finance and derivatives-based local currency products. Total local currency financing commitments increased from $820 million in FY05 to $1.3 billion in FY06, with a further $763 million mobilized in the market. To date, IFC has provided local currency products in twenty-six emerging market currencies, up from eighteen a year ago.

3.80. *Derivatives based Local Currency Products*. IFC uses long-term derivatives markets to provide local currency loans and hedges to its clients, and can offer these products in any currency where it can hedge the local currency loan cash flows back into US dollars using the derivatives markets. Long-term swap markets are developing rapidly in emerging markets and there are now about twenty-five emerging markets where such instruments are available. In FY06, IFC committed over $750 million equivalent in derivatives-based local currency products in ten currencies to twenty-eight clients.

3.81. In frontier markets especially, IFC works closely with market counterparts and government regulators to structure swap instruments that enable the Corporation to provide local currency loans. IFC has placed particular emphasis on promoting the development of local currency derivatives in Sub-Saharan Africa. It has recently signed its first local currency loan in Nigeria and is actively pursuing opportunities in other Sub-Saharan African countries.

3.82. *Structured Finance*. IFC has developed several categories of structured finance products that facilitate local currency financing for clients: (i) partial credit guarantees on single assets (e.g. bonds and loans); (ii) credit enhancement on pools of assets (e.g. securitizations, collateralized debt obligations, and loan portfolios); and (iii) credit-linked guarantees that cover credit risk subject to a reference event not occurring. Cross-border transactions are also pursued, including those that utilize IFC’s guaranteed offshore liquidity facilities to mitigate currency convertibility and transferability risk, but the focus remains on domestic markets. Mobilizing local currency through the bank or bond market helps domestic borrowers to match assets and liabilities, and eliminates the foreign exchange risk associated with borrowing in foreign currency. Local currency financing through IFC's structured products provides benefits not only to local clients but also to domestic institutional investors who are generally in need of high quality assets for portfolio diversification.

3.83. *Matching Assets Through Currency Hedging (MATCH)*. In order to provide local currency financing in markets where there are no hedging alternatives available, IFC is working on creating a global fund (MATCH) to provide local currency hedges for loans disbursed by IFC. The fund will begin as a pilot capitalized with $30 million, which is expected to facilitate between $100 to $200 million of local currency loans. The initial focus of the fund will be on microfinance, health and education, and SME projects. If the pilot is successful, plans are to scale this up, as discussed with the Board in February in the paper "IFC: Creating Opportunity and Update on Capital Position" to include larger projects such as infrastructure and housing finance. The fund is expected to have a strong development impact as it would provide crucial, but unavailable, local currency funding, thereby reducing the probability of default due to mismatches and enabling long-term planning by clients. IFC plans to present the pilot to the Board in April.

3.84. **Developing Local Securities Markets.** The local financial markets remain dominated by the banking sector in many developing countries, and the lack of alternative financial intermediaries still presents constraints to private sector development. To help address this, IFC credit enhances bonds and securitization transactions for clients to: (i) introduce these products to new markets; (ii) introduce new borrowers to the market; (iii) introduce new asset classes to the market; (iv) improve credit ratings; (v) extend tenors; and/or (vi) increase size. Participation is generally in the form of a guarantee offered by IFC that acts as an enabling element to catalyze liquidity from domestic investors.

3.85. In structured finance transactions, investors also benefit from IFC's direct involvement in structuring the transaction. Many of IFC's clients have returned to the market after their first successful issuance without further need for IFC's support. Some recent examples of IFC's innovative securitizations include the first securitizations of residential mortgages in Colombia, Korea, Latvia, Mexico, Russia, Saudi Arabia, and South Africa, the first future flow securitization of student tuition payments in Chile and the first publicly placed bond by a microfinance company in Mexico.

3.86. An important initiative aimed at developing local securities markets is the work IFC and the World Bank are doing together on the Efficient Securities Market Institutional Development Program (ESMID). The program is initially focused on Africa, and is funded with $5.5 million provided by the Swedish International Development Cooperation Agency. The objective is to strengthen local securities markets, in particular bond markets, to finance housing and infrastructure investments where long-term local currency funds are necessary. ESMID will provide technical assistance for market and institutional capacity building and support selected costs related to transactions which are expected to have a strong demonstration effect. The program is starting in East Africa, and will roll out to Nigeria and other countries over time.

3.87. IFC also helps to build the financial infrastructure necessary for expanding access to finance, through both direct investments and technical assistance. Over the past five years, IFC has been able to create and significantly improve credit bureaus in seven countries, complete feasibility work in fourteen countries and map (jointly with the World Bank), the credit reporting infrastructure and needs in over 150 countries which is published in the *Doing Business* report. IFC and the World Bank are actively involved in credit bureau development in over forty countries and this role is expected to continue to expand.

3.88. **Financial Markets Advisory Services**. IFC has a strong track record in providing advisory services in conjunction with its financing of financial intermediaries in emerging markets. During the 1990s, IFC's financial markets advisory services averaged $12 million in committed funding for active projects. As of February 2007, there were over 168 active projects worth over $230 million in committed funding. The main areas of focus are retail and SME banking, microfinance, housing finance, leasing, and credit bureaus/financial infrastructure. New areas of focus are sustainability finance, collateral framework and registries, securities markets, insurance and contractual savings and trade finance, many of which are joint programs with the World Bank. In terms of individual advisory services focus areas, domestic banking, microfinance and housing finance have large programs in place.

WORKING WITH OTHER FINANCIAL INSTITUTIONS

4.1. **International Banks, Regional Banks, and other Private Institutional Investors.** IFC's B Loan program is a critical part of its catalytic role, and IFC continues to "crowd in" private sector financing through this mechanism. In addition to catalyzing funding, the B Loan program gives emerging market companies access to international banks, and selectively, other investors, which they would not otherwise have, and helps these investors get comfortable in markets which they might otherwise not have approached. There has been significant recent growth in the program, with over $2 billion in B Loans expected to sign in FY07, compared to $1.6 billion in FY06 and $1.1 billion in FY05. Tenors available to most emerging market borrowers are still limited, and an important part of IFC's role with B lenders is enabling them to stretch maturities, helping clients to achieve better balanced debt profiles. In FY07 to date, the average final maturity of IFC B Loans was 7.3 years, whilst the average final maturity obtained by borrowers in the same countries through market transactions was 3.8 years.

4.2. **Towards more Frontier Countries and Second Tier Borrowers**. The current global economic environment continues to present IFC with a unique opportunity to lead international banks and other investors towards more frontier countries and second tier borrowers. Furthermore, as emerging market companies expand regionally or globally, IFC is able to facilitate the participation of IFC clients' local relationship banks in this growth. Of thirty B Loans expected to be signed in FY07, nine are for borrowers located in frontier countries. In addition, through its B Loans, IFC has been able to introduce thirty new investors to a country they had not invested in before, and forty-two new investors to a borrower to which they had not yet lent.

4.3. **New Applications for B Loan Structure.** IFC is also developing new applications for its B Loan structure. In January 2007, it signed the first placement of Tier II capital for a financial institution (Colombia - Banco Davivienda), and is currently working on the possible placement of an Islamic financing for a Jordanian borrower under a B Loan structure. At the request of several banks, IFC is also selectively using B Loans for syndications in local currency (Russia) and has recently closed its first ruble-linked US Dollar B Loan. Through these new applications, IFC is developing new investor bases, bringing pension funds, insurance companies and certain select hedge funds to emerging markets.

4.4. **Mobilization**. In furtherance of its catalytic role, IFC seeks to mobilize funding for developing countries in a number of ways. In FY06, IFC's $6.7 billion of direct investments raised a further $1.6 billion through the B Loan program discussed above, and mobilized around another $1.3 billion through structured finance transactions, bringing IFC's own account financing and mobilization to a total of $9.6 billion. The total size of all projects which IFC's investments supported in FY06 was over $28 billion, up from $25 billion in FY05.