

INTERNATIONAL FINANCE CORPORATION
Washington, DC 20433
U.S.A.

Office of the President

March 21, 2007

MEMORANDUM TO THE BOARD OF DIRECTORS

IFC Strategic Directions, FY08-10: Creating Opportunity

The attached Strategic Directions Paper outlines IFC's approach to supporting the private sector in developing countries. Throughout the developing world, the private sector is critical for job creation and growth. IFC, in conjunction with other institutions of the World Bank Group, has an important responsibility to promote private sector development and create opportunities for people to escape poverty and improve their lives.

Although developing countries have been growing significantly in recent years, there are still enormous needs and many people and businesses have not yet benefited. Yet even in the most challenging regions, there is hope, as many governments are working to improve the environment for private sector development. IFC is responding by scaling up activities and improving the effectiveness and scope of its operations. The Corporation has reached many of the development impact targets agreed with the Board in 2005 - in two years rather than three - and is making good progress toward the remaining targets.

IFC has now reached a stage where it can increase substantially the development impact of activities in its five strategic priorities. It can do this through more focus on systemic interventions, including in collaboration with other Bank Group institutions; innovation to reach underserved segments in the markets it serves; and greater client orientation and local presence.

I look forward to discussing these strategic directions with the Executive Directors, and to obtaining support for the implementation plans.

Paul Wolfowitz
President

IFC STRATEGIC DIRECTIONS, FY08-10

CREATING OPPORTUNITY

MARCH 21, 2007

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INTERNATIONAL FINANCE CORPORATION

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ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AFD	Agence Française de Développement
AML/CFT	Anti-money Laundering/Combating the Financing of Terrorism
ANAPI	National Agency for Investments Promotion
AS	Technical Assistance and Advisory Services
BEE	Business Enabling Environment
CAPRI	Capital Pricing and Risk
CAS	Country Assistance Strategy
CDC	Commonwealth Development Corporation
CIS	Commonwealth of Independent States
CVaR	Corporate Value-at-Risk
CY	Calendar Year
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
DFID	The United Kingdom Department for International Development
DOTS	Development Outcome Tracking System
DRC	Democratic Republic of Congo
EBRD	European Bank of Reconstruction and Development
EDFI	European Development Finance Institutions
EE	Energy Efficiency
EFSE	European Fund for Southeast Europe
EIB	European Investment Bank
EITI	Extractive Industries Transparency Initiative
EPFIs	Equator Principle Financial Institutions
ESMID	Efficient Securities Market Institutional Development Program
ESMS	Environmental and Social Management System
ESRP	Environment and Social Review Procedure
EC	European Community
FDI	Foreign Direct Investment
FIAS	Foreign Investment Advisory Services
FMO	Financierings-Maatschappij voor Ontwikkelingslanden
FMS	Financial Markets Sustainability
FMTAAS	Funding Mechanism for Technical Assistance and Advisory Services
FY	Fiscal year
GAP	The World Bank Group Gender Action Plan
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GEM	Gender Entrepreneurship Markets
GNP	Gross National Product
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HR	Human Resources
ICA	Investment Climate Assessment
ICT	Information and Communications Technologies
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
IIC	Inter-American Investment Corporation
IT	Information Technology
LAC	Latin America and Caribbean
MATCH	Matching Assets through Currency Hedging
MDB	Multilateral development bank
MENA	Middle East and North Africa
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small and Medium Enterprise
NGO	Non-Governmental Organization
NIB	Nordic Investment Bank
ODA	Official Development Assistance
OPIC	Overseas Private Investment Corporation
PACI	Partnering Against Corruption Initiative

PBGI	Performance-Based Grants Initiative
PEP	Private Enterprise Partnership
PIDG	Private Infrastructure in Development Group
PPP	Public-Private Partnership
PRM	Project Risk Management
PROPARCO	Promotion et Participation pour la Coopération économique
PRSC	Poverty Reduction Support Credits
PSD	Private Sector Development
RE	Renewable Energy
SECA	Southern Europe and Central Asia
SEDF	South Asia Enterprise Development Facility
SIDA	Swedish International Development Bank
SME	Small and Medium Enterprise
USAID	United States Agency for International Development
WBG	World Bank Group
XPSR	Expanded Project Supervision Report

IFC STRATEGIC DIRECTIONS

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EXECUTIVE SUMMARY

1. IFC is the largest global private sector development financial institution. As part of the World Bank Group, it has a unique role at the interface of public and private interests and has an important responsibility to promote the development of a strong private sector. The call for IFC's involvement in the markets it serves is stronger than ever. As IFC frames its strategic directions for the next three years, it must build on its strong performance with a view to taking a leadership role in creating opportunities for people to escape poverty and improve their lives.

2. *IFC has reached many of the Development Impact Targets of its Three-year Plan in Two Years.* By the end of FY07, IFC will have achieved many of its Board-endorsed targets – commitments in frontier countries; in Sub-Saharan Africa; in micro, small and medium enterprises; in infrastructure, health and education; and in the financial sector – and is making good progress towards the remaining targets. It has also made good progress towards its goals of increased use of World Bank Group synergies and measurement of its development impact.

3. *IFC Business Model.* As a result of these achievements, IFC has now reached a stage in its evolution where it can increase further the development impact of its activities in pursuit of the five strategic priorities endorsed by the Board. It aims to do this through: (i) more focus on systemic interventions, including working more closely with other members of the World Bank Group; (ii) innovation to reach underserved segments in its markets; and (iii) greater client orientation to meet the enormous needs in developing countries more effectively. IFC's drive towards greater decentralization supports these objectives.

4. *IFC's Options.* In 2005, IFC chose the path of scaling up its activities and its development impact, and IFC's recent performance places it again at a crossroads: (i) it can use its achievements as a springboard to a leading role in developing well-functioning private sectors in developing countries; or (ii) it can restrict its growth. As in 2005, IFC Management believes that IFC should choose the first course of action, with much greater focus on development impact and additionality. Recognizing, however, that there can be challenges in managing development impact, additionality and very rapid growth, IFC Management has decided that, for now, IFC should maintain growth rates in line with those agreed with the Board in 2006 (although from a higher FY07 base) rather than accelerate the pace of growth further. This can be reconsidered, in consultation with the Board, during FY08.

5. *Continued Need for Support in Developing Countries.* There is now wide acknowledgement that the private sector plays a vital role in development as the engine of growth and poverty reduction. Although developing countries have been growing significantly, and international financial institutions (including IFC) have scaled up their private sector activities, there are still enormous needs and many people have not yet participated in the benefits of the recent growth and financial flows. There are also a number of macroeconomic and other factors that could decrease the availability of private sector finance in developing countries. The potential for sudden changes in the political landscape, particularly in post-conflict countries, also poses risks. In such circumstances, IFC is

prepared to resume its countercyclical role, to mobilize scarce capital and ensure adequate liquidity.

6. *Challenges.* The key constraint for IFC in scaling up development impact is the measured pace of resource expansion, which is outpaced by increases in demand, especially as IFC pursues the aims of more systemic impact and more projects in the most challenging environments. As IFC moves to become a more decentralized institution, it will need to manage the associated human resources, risk management and information technology issues. IFC is confident that its strengths, its recent performance and its focus on results give it the tools to address these challenges and to be a leader in the delivery of development impact where it is most needed.

7. *Conclusion.* As IFC implements its plans for the next three years and beyond, it does so in pursuit of the long-term goal to be the premier private sector financial institution in emerging markets, working with determined focus on creating opportunity through private sector development, so that people in the developing world are empowered to escape poverty and improve their lives.

I. EXTERNAL ENVIRONMENT

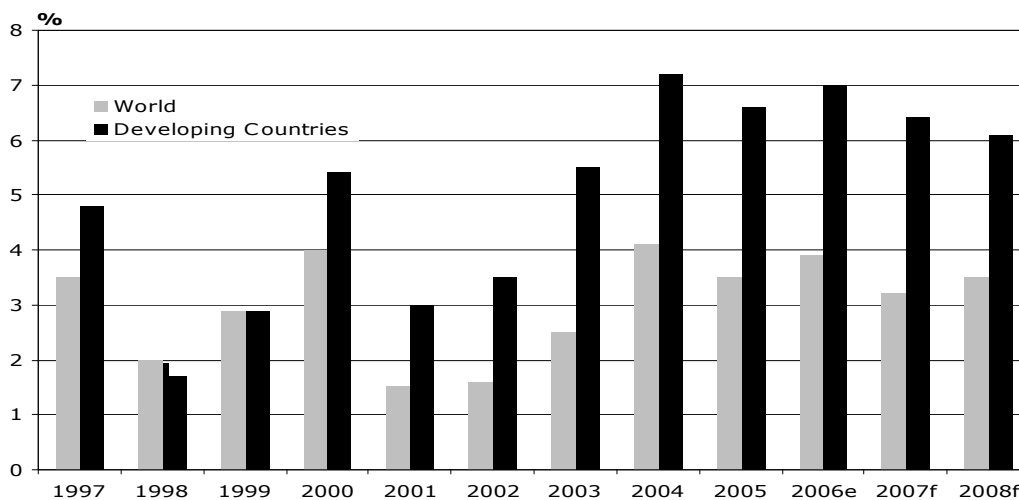
OVERVIEW

1.1. The external environment today poses unprecedented opportunities and challenges for IFC. Developing countries are growing at record levels, with their highest capital flows to date, yet poverty is persistent, there is growing concern about those not participating in global growth, and great gaps remain in the availability of financing. Physical and social infrastructure needs are still very great, with access to basic services still not available to many. A strong private sector is now recognized as a key to sustained levels of growth and poverty alleviation. Yet for the private sector to function successfully, much work is required to address needs in such areas as the business environment, public-private cooperation in infrastructure, environmental and social activities, governance, and micro, small and medium enterprise (MSME) development. International development finance institutions can assist companies in developing countries with critical financing and can provide the global expertise and knowledge to address many of the critical needs. With private sector development as a priority for the World Bank Group, and as the first and leading private sector development financial institution, IFC must seize these opportunities to improve lives in its client countries.

CONTINUED STRONG GROWTH IN DEVELOPING COUNTRIES

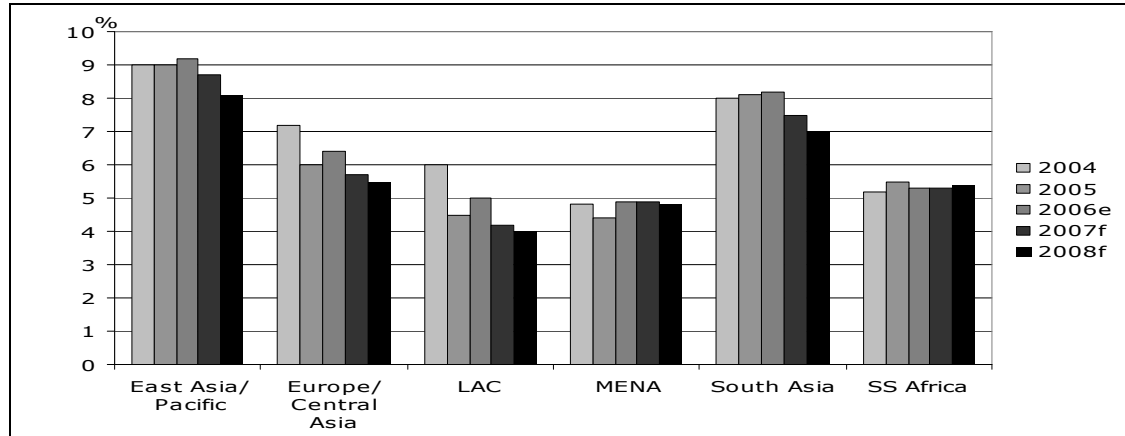
1.2. Developing countries have shown strong growth and at a higher rate than the high-income countries particularly over the last four years. The average gross domestic product (GDP) growth rate in developing countries in 2006 is estimated at 7.0%, with the world growth rate at 3.9% (Chart I-1). Whilst the East Asia and South Asia regions remain the highest growth areas, growth in the other regions, including Sub-Saharan Africa, has also been relatively strong, generally over 5% (Chart I-2). If current trends continue, growth in 2007 will likely remain in the recent range, with some slight tapering off due to possible slowing of export growth in many countries, rising interest rates, maturing of the business cycle, and lower commodity prices.

Chart I-1: Real GDP Growth (in 2000 Constant Dollars)



Source: *Global Economic Prospects 2007*

Chart I-2: Annual GDP Growth Rate



Source: Global Economic Prospects 2007

GREAT CHALLENGES REMAIN

1.3. **Many Remain in Poverty.** Whilst many developing countries have enjoyed an expansion of their share in the world economy, great challenges remain. About 2.7 billion people still live on less than \$2 a day. *Global Economic Prospects 2007* estimates that, based on current growth trends, the number of people living on less than \$2 a day should fall by 800 million to around 1.9 billion by 2030. However, the actual level of poverty reduction achieved will depend on how successful countries are in marshalling the policies and resources that can maximize the potential for growth.

1.4. **Concerns About the Underserved.** Over the last year there have been growing concerns expressed within the development community and elsewhere about countries and populations that may not be fully participating in global growth. The poorest country in 2002 had a lower per capita income than the poorest country in 1980¹. The Africa region remains of great concern, with its recent higher growth levels still below those needed to address the enormous development needs it faces. There are significant levels of poverty in other regions too, with for instance a quarter of the population in Latin America living on less than \$2 a day and nearly 440 million people in South Asia living in extreme poverty. Poverty extends beyond the poorest countries to poor regions within growing countries and urban poor populations. In some cases, the urban population or areas with good trade access have benefited from global growth, whilst the rural population has not benefited nearly as much.

PRIVATE SECTOR CRITICAL FOR GROWTH AND POVERTY ALLEVIATION

1.5. **Private Sector Is Key to Development and Creating Opportunity.** Effective markets encourage innovation and growth, by allocating resources efficiently. They also improve people's lives by creating opportunities for employment and access to better services. The private sector remains a major focus of the development community as an essential driver of growth and poverty reduction. The visibility and the impact of the *Doing Business Report* and new multilateral programs such as the Investment Climate Facility for Africa illustrate the momentum for a greater role of the private sector.

¹ Global Economic Prospects 2007.

1.6. Support from Global Investment. One indication of the growing strength of the private sector in developing countries is the substantial growth of international investment. Net capital flows to the private sector in developing countries hit a further record high at about \$530 billion in 2006, driven by the increase in foreign direct investment (FDI), portfolio equity and commercial bank flows (Chart I-3). The growth of flows as a percentage of gross national product (GNP) is less dramatic (Chart I-4), but even from this viewpoint, they are beginning to reach or surpass the high levels of the mid-1990s. These flows in part reflect improved fundamentals in developing countries and opportunities for investment in the private sector. They also have benefited from several years of easing monetary policy, high incomes among oil exporters, and high savings rates in fast-growing economies, all of which helped keep long-term interest rates low and the flow of private capital high. Emerging market benchmark spreads declined to under 200 basis points during 2006², partly reflecting global liquidity concentrating on a limited set of proven investment vehicles in emerging markets. Emerging market stock returns have also outperformed most developed markets. The Institute for International Finance forecasts continued growth in foreign direct investment in 2007, but foresees a modest reduction in the levels of portfolio equity and net debt flows.

Chart I-3: Net Medium / Long-Term Capital Flows to Private Sector in Developing Countries

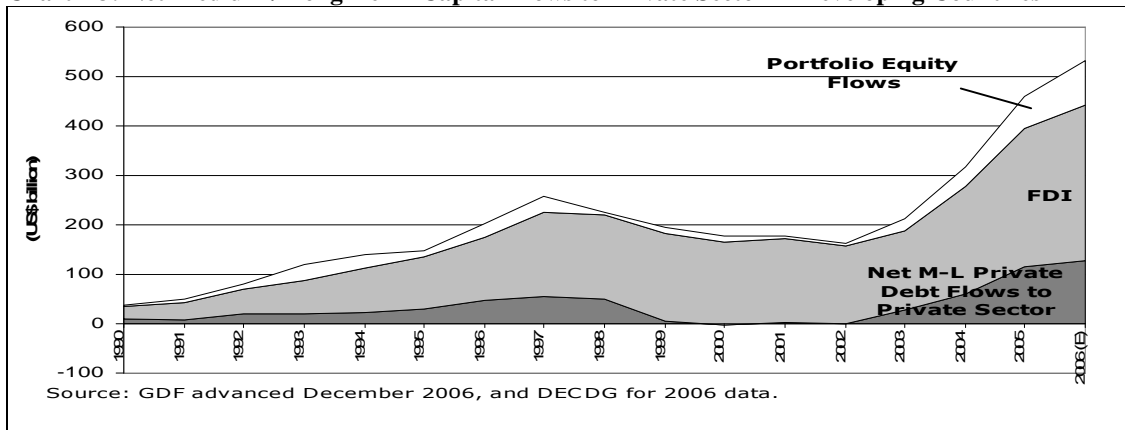
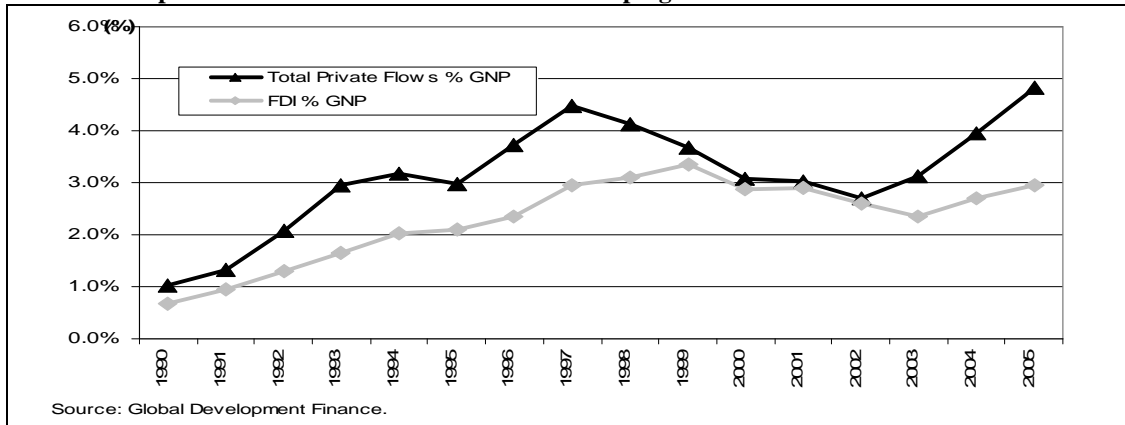


Chart I-4: Capital Flows to the Private Sector in Developing Countries as % of GNP



² JP Morgan Emerging Market Global Index.

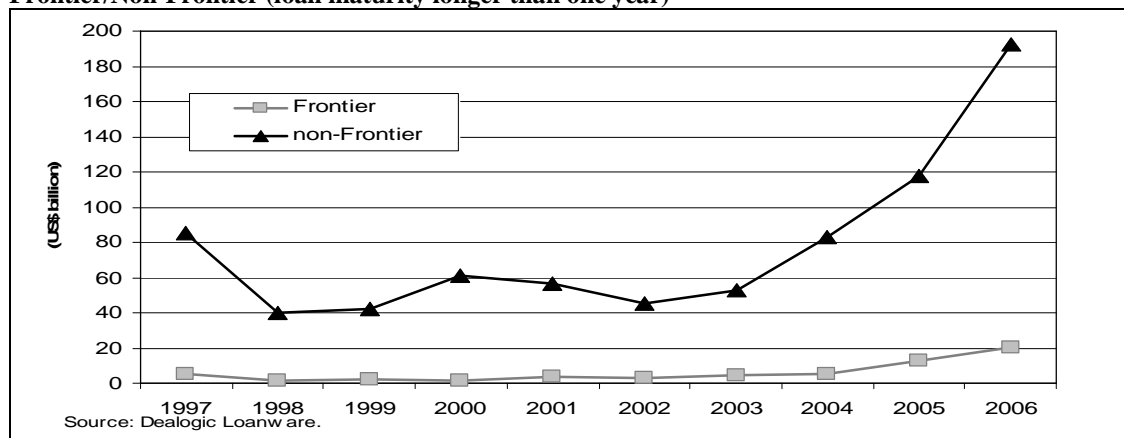
1.7. **Private Capital Flows Exceed ODA.** Private sector flows have now become one of the most important sources of external financing in developing countries. Net official development assistance (ODA) disbursements were \$105 billion in 2005, significantly less than private capital flows. Furthermore, much of the recent increase in ODA has been due to debt relief, which alone accounts for nearly 70% of the increase between 2004 and 2005³. Most of the ODA flows have been concentrated in Sub-Saharan Africa.

1.8. **Expanding Emerging Market Companies: South-South.** Another indication of the growing strength of the private sector in developing countries is the rise of companies from developing countries that have gone beyond their national boundaries. Although most of them are relatively small, a number have obtained global reach rapidly⁴, driven by a combination of opportunities in markets outside the home country, domestic market constraints, and the search for natural resources. South-South FDI is estimated to have reached about 37% of global FDI in 2003⁵. However, many companies encounter significant challenges in going outside their home markets. These include the need to adopt world-class environmental, social and corporate governance standards; difficulties establishing credibility in new environments; and difficulties obtaining credit.

PRIVATE SECTOR NEEDS

1.9. **Availability of Long-Term Capital – Better but Not Sufficient.** Despite the high level of international finance to the private sector in 2006, companies are still facing limitations in obtaining financing that meet their needs. International loan syndications are still mostly going to non-frontier (lower risk) countries (Chart I-5). Countries with the greatest access to international loan markets in recent years have been Brazil, Chile, China, Hungary, Mexico, Poland, Russia and Thailand. Similarly, the availability of finance with long-term maturities to developing countries is very much less than the availability of finance with shorter maturities.

Chart I-5: Gross Private Banks Syndications to Private Sector in Developing Countries, by Frontier/Non-Frontier (loan maturity longer than one year)



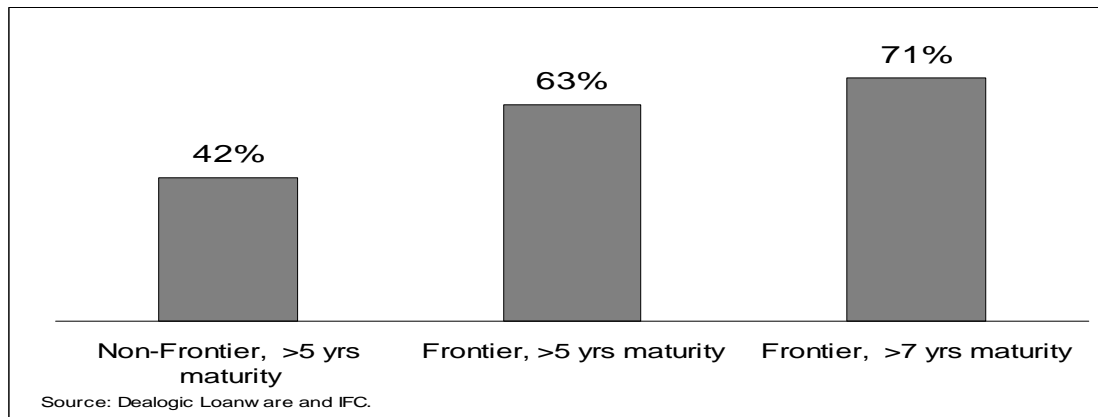
³ “Aid Architecture: An Overview of the Main Trends in Official Development Assistance Flows”, IDA/SecM2007-0103.

⁴ World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development.

⁵ Global Development Finance 2006.

1.10. Long-Term Finance Often Involves IFIs. Where long-term finance is available, it is often due to support from international financial institutions (IFIs) like IFC. For example, nearly two-thirds of cross-border loan syndications to frontier countries with maturities of five years or longer involved IFIs or export credit agencies (ECAs) in 2006, and for maturities of seven years or longer the rate of IFI/ECA participation was 71% (Chart I-6). Even in non-frontier countries, over 40% of long-term flows were supported by IFI/ECA participation. Thus, IFIs are already critical partners in the growth of private capital flows, and the current large volume of flows in part reflects the success of IFI support.

Chart I-6: Extent of IFI/ECA Participation in Commercial Bank Syndications to Developing Countries, 2006



1.11. Second-tier Companies Have Less Access. Obtaining adequate international or domestic credit often remains difficult for second-tier companies both in frontier and non-frontier countries and for companies engaged in innovative products or activities, such as South-South investment. An examination of international bond and syndicated bank financing in five large middle-income countries over the last five years indicates that only a small percentage of the companies in these countries are accessing these international financial markets⁶.

1.12. Challenges of Private Sector Development. There are a number of issues that are crucial to enhancing private sector development in developing countries:

- *Infrastructure.* Insufficient infrastructure in developing countries remains a great concern, limiting access to basic services such as steady electricity supply or clean water. Today developing countries face annual investment needs in infrastructure ranging from 5.5% to 9.0% of GDP⁷, well beyond the capacity of the public sector. Governments and development agencies are focusing more on supporting this segment, with the private sector becoming an important partner either in public-private partnership (PPP) schemes or in independent projects. This is an area where advice from IFIs can be very important and constructive.
- *MSMEs.* Micro, small and medium enterprises remain a key concern for development, and they are often particularly important in frontier countries. These businesses often

⁶ Based on issues from India, China, Russia, Brazil and Mexico from 2001-2005.

⁷ Public-Private Infrastructure Advisory Facility (PPIAF) Annual Report 2006.

struggle with excessive regulations and have difficulties gaining access to finance, markets and business expertise. A combination of financial and advisory services is often necessary.

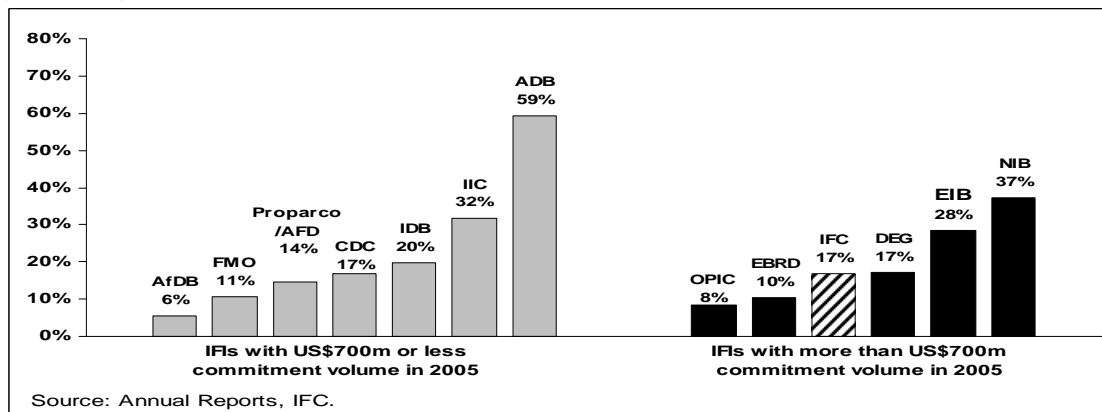
- *Environment, Social and Governance Issues:* There is increasing awareness of environmental issues globally, in particular relating to global climate change. This is a very good time to work with clients to address these issues with innovative projects. For example, there are untapped opportunities to invest in renewable energy technology⁸. Setting standards in corporate governance has also become increasingly important as it allows companies to access better finance.
- *Extending Opportunity to the Underserved.* Extending the reach of the private sector to help the disadvantaged has gained greater attention recently, reflecting the greater focus on groups left behind by global growth. Special programs – on investment climate, advisory services, finance, linkage, infrastructure, and specific sectors – may be tailored to help address these issues.

ROLE OF IFIs

1.13. Growth of IFIs to Support Private Sector Development. The greater focus on the private sector has increased the importance and growth of private sector development institutions. Private sector-oriented IFIs provide financing and advisory services that can address the critical private sector needs and extend the reach of global growth beyond what private finance can provide alone.

1.14. IFIs have significantly increased their levels of commitments to the private sector in developing countries in recent years (Chart I-7 and Chart I-8) with total commitments exceeding \$23 billion in 2005.

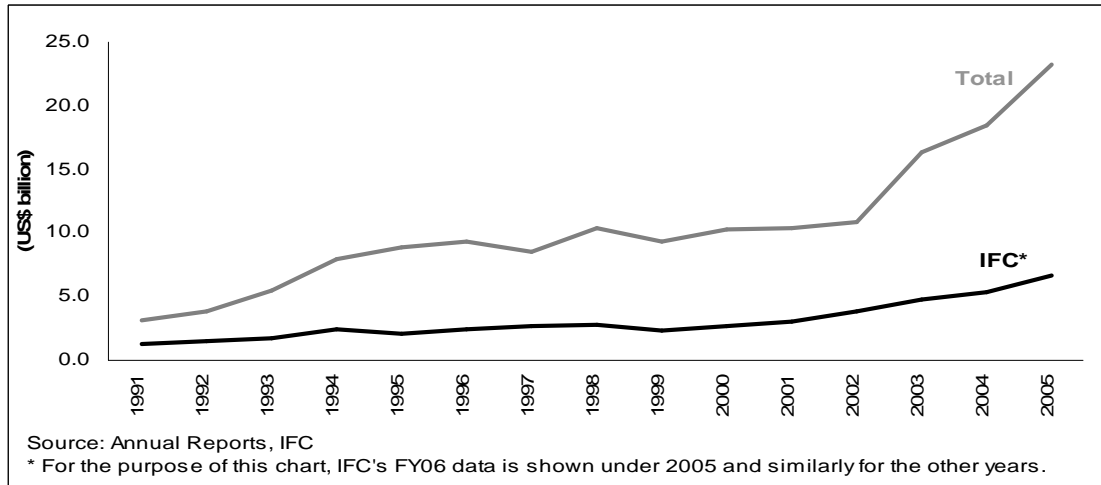
Chart I-7: IFI Private Sector Commitments – Compound Annual Growth Rate over a 5-year Period (2000-2005)⁹



⁸ “Climate change: beyond weather”, UBS Research Focus.

⁹ AFD (Agence Française de Développement), AfDB (African Development Bank), CDC (Commonwealth Development Corporation), DEG (Deutsche Investitions- und Entwicklungsgesellschaft mbH), EBRD (European Bank of Reconstruction and Development), EIB (European Investment Bank), FMO (Financierings-Maatschappij voor Ontwikkelingslanden), IDB (Inter-American Development Bank), IIC (Inter-American Investment Corporation), NIB (Nordic Investment Bank), OPIC (Overseas Private Investment Corporation), Proparco (Promotion et Participation pour la Coopération économique).

Chart I-8: IFI Private Sector Volumes



1.15. Preliminary estimates indicate similar high levels of finance occurred in 2006, with growth at both multilateral and bilateral development institutions. IFC's share of the total IFI finance is about 30%, with a slight decline in recent years as a number of IFIs have grown their activity more rapidly than IFC.

1.16. IFIs have been strengthening their approaches to private sector development in a number of ways over the last year. Alliances among the European institutions have been particularly prominent. A joint financing vehicle between the European Investment Bank (EIB) and numerous European bilateral private sector development institutions has entered its second round of financing, and other examples of coordination involve the European Bank for Reconstruction and Development (EBRD), EIB, Financierings-Maatschappij voor Ontwikkelingslanden (FMO), Deutsche Investitions-und Entwicklungsgesellschaft mbH (DEG), and the European Union. On the product side, equity investments have become more prominent. A number of the multilateral development institutions are also undertaking reorganizations to increase their country focus and bring staff closer to clients, including the Inter-American Development Bank (IDB) and the African Development Bank (AfDB).

1.17. **Advisory Services.** Private sector support has also been an increasing focus for a number of agencies providing advisory services in developing countries. Among IFIs, EBRD is particularly prominent in providing advisory services to private companies to support access to finance for MSMEs and infrastructure development. Aid agencies such as the United States Agency for International Development (USAID), the United Kingdom Department for International Development (DFID), and the European Commission also have programs for private sector support in areas such as finance, investment climate, infrastructure and small and medium enterprise (SME) capacity building.

1.18. **Growing Importance of Private Donors.** In recent years, the role of private philanthropic foundations in international development has drawn significant attention, as their aid has grown in importance in comparison to ODA. IFC is partnering with some of them. For example, the Bill and Melinda Gates Foundation, with IFC, has committed to spend \$2.6 million to conduct research on the business models that provide the best service in

the health sector in Africa. A number of foundations are also collaborating in areas of SME development, education, and gender. These changes could have a significant impact on how IFIs do business in developing countries, particularly with respect to funding and collaborating in advisory services.

IMPLICATIONS FOR IFC

1.19. With strong developing country growth but great development challenges remaining, and with an ever-greater role for the private sector in meeting these challenges, there is a clear need to find ways to help develop the private sector and extend its impact to more countries and people. The level of support in developing countries is not yet sufficient. IFC, along with other IFIs, is responding to the challenges by providing financial and advisory services beyond what the markets would provide on their own. These services need to be focused on addressing the serious challenges facing the private sector, such as in infrastructure, capital markets development, investment climate, international standards, and MSME development.

1.20. As IFC reviews its strategy in an environment with many growing and strengthening private and public providers of finance and advisory services, it must consider carefully where its comparative advantage lies and how it can focus its activities to maximize its contributions. In this regard, the characteristics that differentiate IFC are important:

- Strong and well-established credit culture and history of innovation
- Position as the largest private sector development institution
- Global expertise and reach
- Extensive field-based technical capabilities beyond finance, in such important areas as environment and social analysis, corporate governance, investment climate, public-private partnerships and project development
- Integration within the World Bank Group

1.21. Taken together, these characteristics are unique in the global development arena. IFC's strategy, as discussed in this paper, seeks to leverage these strengths and focus on investment and advisory activities that will yield the highest levels of development impact and do the most to create opportunity in client countries.

RISKS

1.22. There are a number of risks that could affect the environment described in this chapter. Global macroeconomic factors could lower the availability of private sector finance in developing countries and/or slow the pace of growth: (i) higher interest rates could reduce liquidity in the market; (ii) certain large global current account imbalances may go through a substantial correction; and (iii) downward pressure expected on commodity prices could weaken countries that are dependent on commodity exports. There are also risks from potential increases in protectionism. Beyond these macroeconomic risks, there are other growth risks, such as avian flu and climate change, as well as from sudden changes in the political landscape in post-conflict countries that could leave these states even more fragile. Similarly, world geopolitical change could hamper world growth and influence the appetite for market risk. As the recent sudden decline of global stock prices has shown, one important

risk characteristic in today's globalizing world is that a shock in one part of the world can travel to other parts of the world faster than ever.

1.23 It is difficult to predict the impact of these risks on IFC's growth outlook, its portfolio and its income. Should there be abrupt adverse changes in the external environment IFC is prepared to resume its counter-cyclical role, as it did in the late 1990s in Asia and early 2000s in Latin America. This allows IFC to mobilize scarce capital for the private sector in difficult times and ensure adequate liquidity in impacted economies. It is also important for IFC to remain engaged with clients throughout the cycle to manage risks and support continued access to capital.

II. CREATING OPPORTUNITY: IFC'S APPROACH FOR GREATER DEVELOPMENT IMPACT AND ADDITIONALITY

CONTEXT

2.1. There is now wide acknowledgement that the private sector plays a vital role in development as the engine of growth and poverty reduction. A strong private sector can bring the benefits of development to a wider population and help ensure the sustainability of economic progress. Whilst international finance institutions (IFIs), including IFC, have responded by scaling up their private sector activities, there are still enormous needs, and there are many segments of society that have not yet participated in the benefits of the recent growth or financial flows. There remain important challenges to poverty reduction and many of these can best be met by a combination of public and private solutions, and by taking a more systemic approach, whether to sectors, countries or regions. IFC must continue to respond to these challenges.

2.2. IFC's strategy must also be seen in the context of the opportunities offered by the external environment in which it operates. The current positive environment allows IFC to extend its activity further to the areas where the needs are the greatest. Whilst continuing to work with its existing clients, IFC must also develop new client relationships and through all its clients try to reach the underserved, particularly in frontier and rural areas. IFC may also have an opportunity, together with the World Bank, to shape regulations and standards that encourage a productive private sector and economic growth.

2.3. In response to both the challenges and the opportunities for significant development impact that the external environment presents, in 2005 IFC embarked on an ambitious growth strategy, which was endorsed and approved by the Board. The growth plan is guided by IFC's five strategic priorities, which have been in place since 2004: (i) strengthening the focus on frontier markets, including small and medium enterprises (SMEs) and, since 2007, 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) developing local financial markets through institution building and the use of innovative financial products. These priorities remain equally relevant today, with some additional areas of emphasis, in particular including agribusiness as a focus sector as part of the frontier markets priority. Progress on these priorities is discussed in detail in Annex I.

2.4. IFC is the largest global development financial institution focusing on the private sector, and as part of the World Bank Group, it is at the forefront of efforts to ensure that the public and private sectors work together to maximize the effectiveness of private sector development. IFC's focus on the development impact of its activities and its recent performance reaffirm that it is in a position to take a leadership role in creating opportunities for people to escape poverty and improve their lives.

ACHIEVEMENTS

2.5. **Development Impact.** Following discussion with the Board in 2005, IFC introduced a Corporate Scorecard with Board-endorsed development impact targets, which are based on

the five strategic priorities. This Corporate Scorecard set out the targets to be achieved by FY08. IFC has made significant progress since FY05 as a result of its growth and the focus on development impact throughout the Corporation (reinforced through incentives and accountability – see paragraph 2.21). IFC will already have achieved many of these targets by the end of FY07: commitments in the frontier countries; in Sub-Saharan Africa; in micro, small and medium enterprises (MSMEs); in infrastructure, health and education; and in the financial sector. IFC is also making good progress towards the remaining targets, including improvement in the Independent Evaluation Group (IEG) development outcome ratings. Table II-1 below summarizes the main results in FY06 and estimates for FY07 together with the FY08 targets originally agreed with the Board. Paragraph 2.7 describes highlights of progress with the five priorities, which are discussed in more detail in Annex I.

Table II-1: Summary of Progress on Key Indicators Compared to Targets

Scorecard Item	FY06	FY07 (Estimate)	FY08 TARGET / BENCHMARK
Ex Post Development Impact Measures			
% satisfactory or better <i>ex-post</i> development outcomes (XPSRs) - IEG ratings	55% ¹	55%-60% ³	65% on projects committed FY06-08
Development Outcome Tracking System (DOTS) Success Rate	56% ²	61% ⁴	-
Ex Ante Development Impact Measures			
Commitments in Sub-Saharan Africa	\$700m	\$770-850m	\$735-875m
Commitments in MSME	\$1,550m	\$1,100-1,250m	\$1,100-1,300m
% of IFC total commitments in frontier countries, compared with the frontier share of developing member country GDP	25%:15% (excl. Argentina)	26%-30%: 14%	Overweight in Frontier
Middle East and North Africa Commitments	\$668m	\$900-960m	-
Number of projects with new sponsors ⁵ as % of total project count	50%	45-50%	Larger than 50%
Renewable Energy / Energy Efficiency ⁶		(actual, half-year)	
- IFC Commitments	\$393m	\$108m	EIR target for the World Bank Group
- Total Cost of RE/EE Component	\$1,762m	\$400m	
Infrastructure, ICT ⁷ , Health & Education Commitments	\$1,447m	\$1,655-1,800m	\$1,500-1,800m
Financial Sector Commitments ⁸	\$2,468m	\$2,800-2,900m	\$2,100-2,500m

¹ FY06 results are based on a three-year rolling average for projects approved during calendar year (CY)98 to 00 (projects are typically evaluated 5-6 years after approval).

² FY06 DOTS results are based on a three-year rolling average for projects approved in CY98-00.

³ FY07 estimates for IEG results are based on a three-year rolling average for projects approved in CY99-01.

⁴ FY07 DOTS results are based on a three-year rolling average for projects approved in FY99-01.

⁵ Based on new projects, excluding rights issues, A/B loan increases and secondary commitments.

⁶ In FY06, the total project cost of projects with RE/EE components was \$5.9 billion, of which \$1.7 billion was invested in RE/EE components. IFC invested \$866 million in these projects, of which \$393 million was targeted to RE/EE components. In the first half of FY07, the total project cost of projects with RE/EE components was \$2.2 billion, of which the RE/EE component was \$400 million. IFC invested \$293 million in these projects, of which \$108 million was targeted to the RE/EE components.

⁷ Information and Communications Technologies.¹

⁸ Not including investments in private equity funds.

2.6. Development Outcome Tracking System (DOTS) Results. In addition to the *ex ante* and *ex post* impacts tracked in the Corporate Scorecard, the DOTS system allows for aggregate *ex post* results tracking at the department level. Table II-2 gives some highlights, and IFC will be discussing development results in more detail with the Board as part of the Annual Report deliberations.

Table II-2: Examples of Development Outcomes

Department	Development Outcomes
Global Financial Markets	<ul style="list-style-type: none"> • IFC fostered \$98.5 million of South-South transactions through the Global Trade Finance Program. • IFC committed \$1.8 billion in housing finance during the FY00-FY06. • Clients disbursed 7.6 million MSME sub-loans for \$51.8 billion in 2005. • Clients paid \$3.8 billion in taxes to governments in 2005.
Health and Education	<ul style="list-style-type: none"> • During FY06, IFC-supported projects reached 2.4 million patients and 320,000 students. • 65% of these projects made substantial contributions to increasing fire and life safety standards.
Oil, Gas, Mining and Chemicals	<ul style="list-style-type: none"> • 85% had community development programs; together they spent \$218 million on community development activities in 2005. • Two-thirds had strong local supply linkages; together they purchased about \$1.8 billion worth from local suppliers. • The fifty-nine client companies provided almost 50,000 direct jobs and contributed \$4.5 billion to government revenues in 2005.
Global Information and Communication Technologies	<ul style="list-style-type: none"> • Between 1996 and 2006, IFC investments in telecommunications firms have helped 80 million people gain access to phone service. • Since 2000, IFC investments in IT companies have created more than 21,000 employment opportunities in emerging markets.
Private Equity and Investment Funds	<ul style="list-style-type: none"> • Invested in fifty-five companies in frontier markets. • Invested in eighty-seven MSMEs. • Supported sixty-five high-growth companies (growth over 20% <i>per annum</i>). • Created 88,495 jobs.
Agribusiness	<p>Expected incremental development impact for committed projects in FY05-FY06:</p> <ul style="list-style-type: none"> • 29,500 additional jobs (total reach: 88,000) • 53,000 upstream farmers (total reach: 346,000) • 48,500 downstream SMEs (total reach: 88,000)
Infrastructure	<p>In calendar year 2005:</p> <ul style="list-style-type: none"> • The forty power generation companies in IFC's portfolio collectively produced 88 TWh, enough to meet electricity demand of over 75 million consumers in thirty-one developing countries and equivalent to total power generation in the Netherlands. Fifteen of these companies are located in frontier countries. • Investments in power distribution and water distribution companies reached 12 and 9 million customers, respectively. • Eight airports, which were used by 10 million passengers, and five toll roads, which were used by 60 million vehicles. • Three airlines with a particular focus on national and regional integration, which collectively transported over 16 million passengers. • Eleven container ports, which moved 3.3 million containers, equivalent to throughput at Tokyo port, ranked 22nd among world container ports; and ten general cargo/grain ports, which moved 10 million tons of goods.

2.7. Highlights of Progress on the Five Strategic Priorities

- **Frontier Markets:** In FY06, IFC's investments in frontier countries¹⁰ rose by 19% to \$1.5 billion (excluding Argentina, which reverted to non-frontier status late in FY06); these investments are forecast to increase to around \$1.6-1.9 billion in FY07. There continues to be a strong focus on Sub-Saharan Africa and Middle East and North Africa (MENA),

¹⁰ Frontier countries are 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. IFC is proposing to adjust this definition to include all IDA countries as well as high-risk non-IDA countries, starting in FY08. See Annex 1 paragraphs 3.1-3.4 for further discussion and Annex III for a full listing of countries.

which were the two regions with the fastest commitment growth in FY06, although from a relatively low base. IFC is focusing not only on frontier countries, but also on frontier regions within middle-income countries. If these regions are included, frontier commitments for the first half of FY07 represented 51% of the total (excluding commitments to regional and global projects).

- *Building Long-term Partnerships*: IFC aims to nurture both new and existing clients with a view to helping clients grow and, in many cases, expand to other developing countries: through South-South investments. In FY06, South-South investments reached \$673 million and IFC again met the 50% target for new clients. Further decentralization should enable IFC to serve all its clients more effectively and thereby enhance the development impact of its operations.
- *Differentiate through Sustainability*: IFC has continued its strong focus on sustainability following the implementation of the new Performance Standards in 2006. The Equator Principles have now been adopted by forty-five financial institutions. IFC is working with institutions in emerging markets and other IFIs to encourage further adoption of the principles.
- *Infrastructure, Health and Education*: IFC has dedicated substantial resources to these important sectors, and this effort is now showing results. Commitments grew from \$880 million in FY05 to almost \$1.5 billion in FY06, but the needs remain substantial. IFC is therefore continuing to develop new ways to encourage investment in these sectors, including through public-private partnerships (PPPs) and more upstream work together with the World Bank.
- *Local Financial Markets Development*: Access to finance and a thriving financial sector are essential for sustainable private sector development. IFC's financial markets projects now account for around 35% of IFC's portfolio, and in FY06 they represented 37% of new commitments (almost \$2.5 billion). The expanding strategic areas for IFC are: (i) SME finance; (ii) microfinance; (iii) housing finance; (iv) trade finance; (v) local currency finance; (vi) structured finance; and (vii) sustainability finance.

2.8. **Advisory Services.** IFC Advisory Services (AS), formerly called Technical Assistance and Advisory Services, are an essential and growing part of IFC's business. IFC has devoted considerable attention to AS during FY06 and FY07 and undertaken a number of activities aimed at further increasing their effectiveness, including better alignment with both IFC's strategic priorities and with the World Bank Group. These achievements are discussed in paragraph 2.8 in Annex 1 and throughout this paper.

2.9. **World Bank Group Cooperation.** Greater World Bank Group cooperation is a key IFC corporate goal, and is being further increased in order to enhance the World Bank Group's effectiveness. IFC's strategy is consistent with the World Bank's objectives and leveraging the strengths of the whole World Bank Group will become even more important as IFC aims to increase its development impact in client countries and increase its systemic interventions (see paragraph 2.32 on Systemic/Programmatic Approaches).

Box II-1: Examples of World Bank Group Cooperation

Sub-Saharan Africa. *Africa Region* – Joint World Bank-IFC program funded by Swedish International Development Bank (SIDA), to improve the capabilities of securities markets; World Bank/IFC collaboration on access to energy through the joint Light Up Africa initiative. *Ghana* – World Bank-led housing finance policy work was complemented by IFC investment in a new housing finance institution. *Uganda* – A three-year World Bank-managed pilot project, delivered under a public-private partnership, to improve water supply to twelve small Ugandan towns and rural growth centers. *Liberia* – Joint program between FIAS/PEP-Africa/MIGA providing support to improve the climate for private sector-led development.

Middle East and North Africa. *Algeria* – Advisory services to improve Doing Business indicators. *Egypt* – World Bank/IFC joint technical assistance assignments related to investment climate, SMEs, and financial markets. *Yemen* – World Bank/PEP-MENA/IFC joint effort on gender chapter of 2006 Investment Climate Assessment and its dissemination. *Egypt and Yemen* – Joint activities in financial sector projects, advisory services, and oil, gas, mining and chemicals sectors.

Latin America and the Caribbean. *Strategic Response* – Closer coordination has allowed for a more strategic response in various areas/countries: Amazon Initiative, housing, Bolivia, Peru, Haiti, and Guatemala. *Brazil* – World Bank-IFC cooperation program including work on infrastructure, the financial sector, agribusiness, environment and the business climate. *Peru* – Joint World Bank-IFC focus team to build an integrated approach to support the private sector. *Haiti* – Cooperation between World Bank and IFC to provide technical assistance for the financial audit of Electricité de Haiti, enabling the effective use of donor financing, which in turn facilitated the disbursement of the World Bank's Economic Governance Reform Operation Project.

East Asia and the Pacific. *Frontier Markets* – In rural China, the Philippines and Indonesia, the World Bank provided support to policy reforms and IFC provided complementary support for the implementation of Doing Business indicators and related reforms at the sub-national level. *Indonesia* – World Bank/IFC/FIAS collaborated on the draft of the new Investment Law. *Vietnam* – The World Bank/IFC are working together to support the reform of Vietnam's investment regime. *China and the Philippines* – The World Bank supported policy dialogue and public sector financing for energy efficiency and renewable energy, and IFC supported specific reforms, providing financing for energy efficiency through client banks, and made equity investments for privatizations.

South Asia. *Bangladesh* – The World Bank and IFC worked together in private investment in power generation and investment climate reform. *India* – The World Bank and IFC worked together on India's financial sector reform, with the World Bank providing analytical and advisory activities on financial sector regulation and policies and IFC providing investments and technical assistance in private banks. *Nepal* – The World Bank and IFC co-managed the Investment Climate Assessment. *Bhutan* – Promoting SME development, the World Bank met the capital costs of industrial estates and IT parks, while IFC provided AS to advise on the design of industrial estates, IT parks, improving the business enabling environment and increasing access to finance.

Central and Eastern Europe. *Regional* – To remove critical business enabling environment constraints, the World Bank and IFC, through their FIAS and Doing Business initiatives, have agreed to hold bi-annual joint coordination meetings to improve regional decision-making. *Armenia* – Armenia Secured Transactions Reform represents a joint IFC-IDA funding for a technical assistance project, and is supported through work done by IDA under two Poverty Reduction Support Credits (PRSC) and planned under a pending third PRSC. *Russia* – The World Bank and IFC worked closely together in the area of sub-sovereign finance in providing support for the Chuvash Republic bond issue. *Ukraine* – IFC's Business Enabling Environment and Corporate Governance operations are closely linked with the World Bank's Development Policy Loan and Private Sector Development programs.

Southern Europe and Central Asia. *The Balkans* – In coordination with the World Bank, IFC's PEP-Southern Europe Infrastructure is promoting public-private partnerships in infrastructure to create future projects. *Kosovo* – The World Bank and IFC are working together to develop a lignite-fired power generation project with significant importance to the economic development of the country. *Tajikistan* – The World Bank is taking the lead in developing the power sector, primarily for the export markets, and IFC is working with the World Bank, providing input on what would be needed to make the projects viable for public-private partnerships.

2.10. Over the past year several steps have been taken to maximize the synergies available, from increased focus by IFC Senior Management (including again inviting senior World Bank staff to join IFC's strategy discussions), to including World Bank Group cooperation as part of the performance appraisal for managers in Sub-Saharan Africa, to a World Bank Group review of advisory services to assess overlaps and synergies. In addition to the WBG joint Management positions (Chief Financial Officer, Chief Information Officer and General Counsel) there are joint departments working in a number of core sectors: oil, gas, mining, information and communication technology and sub-nationals. These are integrated into three departments co-managed by IFC and the Sustainable Development Network (which has anchor responsibilities but also helps manage and support these teams operating in the market). Box II-1 gives examples of recent World Bank Group cooperation in IFC's seven regions. This cooperation is further discussed in Annex I, paragraph 2.4 and throughout this paper.

2.11. **Partnerships.** IFC works with many financial and development institutions, in addition to other members of the World Bank Group: from the banks that participate in its B Loan program and those that have adopted the Equator Principles, to partnerships with other IFIs in many of IFC's investment and advisory projects, to work with donors and other philanthropic organizations. The B-Loan program (see paragraph 4.1 in Annex I) grew to \$1.6 billion in FY06, from \$1.1 billion in FY05, and IFC is now working to develop new investor bases for the program, bringing pension funds, insurance companies and certain select hedge funds to emerging markets. In advisory services, IFC has ongoing relationships with many partners, especially relating to investment climate work, for example with the Investment Climate Facility (ICF) in Africa and with the United Kingdom Department for International Development (DFID) in Bangladesh. In addition, there is a group within IFC that develops and manages IFC's relationships with foundations, for example the joint study with the Bill and Melinda Gates Foundation discussed in paragraph 3.66 in Annex I.

2.12. **Anti-Corruption.** IFC is working with the rest of the World Bank Group in the area of anti-corruption. Several types of IFC engagements are naturally strong elements of an anti-corruption approach, including efforts that enhance openness and competition, that facilitate diversification of the domestic asset base, and that help build better governance systems, e.g. "Doing Business" reforms. IFC's corporate governance and Anti-Money Laundering / Combating the Financing of Terrorism initiatives are part of this work. IFC is also strengthening its corruption risk management in investments and advisory services as part of a larger World Bank Group effort to combat fraud and corruption. This is in the areas of: (i) selection of investments (including sponsor selection and award/procurement process); (ii) contract design and remedies; and (iii) supervision and exercise of remedies. Alongside the World Bank Group's broader-based policy work on the Extractive Industries Transparency Initiative (EITI), IFC has required that all its extractive industries projects make public their payments to the government. Annex I, paragraph 2.25 provides more details on IFC's work in anti-corruption.

2.13. **Equity Strategy.** Over the past year, IFC has been working on implementation of a more focused equity strategy and has built up equity specialization within investment departments. IFC has recently created a central Equity Department to help implement the equity strategy. IFC will focus on opportunities that can lead to significant development impact and where it can provide additionality by assisting companies realize their potential

through IFC's expertise and value-added services. The equity strategy is further discussed in Annex I, paragraph 2.28.

2.14. **Growth and Profitability.** In FY06, IFC exceeded its commitment goals (\$6.7 billion compared to a high-end projection of \$6 billion), and it is expecting a similarly strong performance in FY07. These \$6.7 billion of direct investments raised a further \$1.6 billion through the B Loan program and mobilized around another \$1.3 billion through structured finance transactions, bringing to a total of \$9.6 billion IFC's own account funding and mobilization. Mirroring the increase in commitments, the growth rate of the disbursed portfolio has recently improved – 9% between FY05 and FY06 and a further 12% in the first half of FY07 alone – following a significant increase in disbursements in FY06.

2.15. IFC's financial position strengthened further in FY06 through continued high profitability, although this was not as high as in FY05 (\$1.41 billion compared to \$1.95 billion). IFC's FY06 Return on Net Worth was 13.7%, down from 22.6% in FY05. In FY07, IFC is anticipating another year of strong profitability due to the continued positive market environment and large capital gains on a few investments.

2.16. As IFC grows, it is also becoming more productive, with a 10% increase per investment officer in the number of projects in its pipeline between January 2006 and January 2007, as reported in the Monthly Operations Report.

THE WAY FORWARD

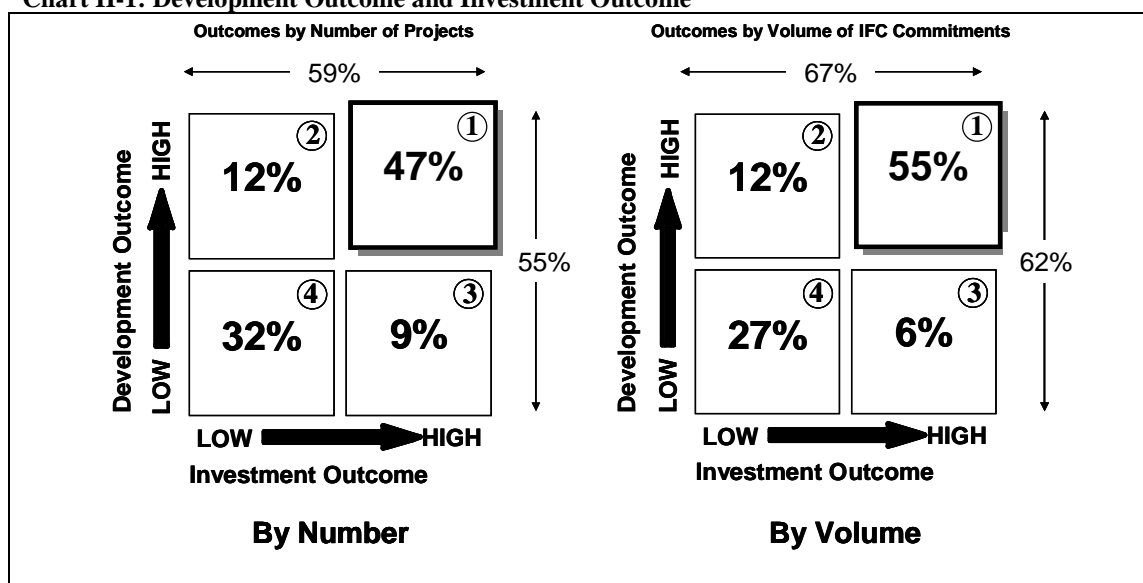
2.17. Two years ago, IFC was at a turning point in its evolution and, with Board support, chose the path towards scaling up its activities and development impact. As already discussed, IFC has reached many of the development impact targets of its growth plan in two years rather than three, yet the call for IFC to play a greater role is stronger than ever. This includes going further into the frontier, introducing innovation, promoting more systemic impact and addressing the enormous unmet development needs, especially in the poorest areas and riskiest markets. Today IFC again has a choice: it can use its achievements as a springboard to a leading role in developing well-functioning private sectors. Alternatively, it could restrict its growth. As in 2005, Management believes that IFC should choose the first course of action, pursuing the growth proposed in this paper, which includes the possibility of scaling up further as circumstances warrant, and with much greater focus on development impact and additionality.

2.18. As IFC embarks on the next stage in its evolution, it does so guided by the five Board-endorsed strategic priorities, which are summarized in paragraph 2.7 and discussed in detail in Annex 1. To sharpen the focus on these priorities, IFC last year set out several goals. These were: (i) greater development impact, in particular through greater focus in Sub-Saharan Africa, MENA, and other frontier markets, as well as strengthened measurement of development impact and better alignment and management of IFC's advisory services; (ii) better World Bank Group cooperation (see paragraph 2.9 and Annex I paragraph 2.4); (iii) improved client satisfaction; (iv) leadership in standard-setting (and, added this year, thought leadership); (v) maintain sound finances; and (vi) good, diverse and motivated staff. IFC Management has confirmed these corporate Goals, adding one additional Goal: ensure effective implementation of IFC's decentralization initiative.

Development Impact and Additionality

2.19. **Development Impact.** Development impact is core to IFC's mission. As a private sector development institution IFC has always considered the development impact and financial success of its investments to be closely interrelated and this view is supported by the work done by IEG (Chart II-1) and by the DOTS results. As IFC has grown, and the quality of its portfolio has improved, the development impact of its activities has become even more significant. IFC's move to increase its decentralization will help staff focus on delivering greater development impact, particularly in the more difficult frontier markets which have been harder to serve in a more centralized organization.

Chart II-1: Development Outcome and Investment Outcome

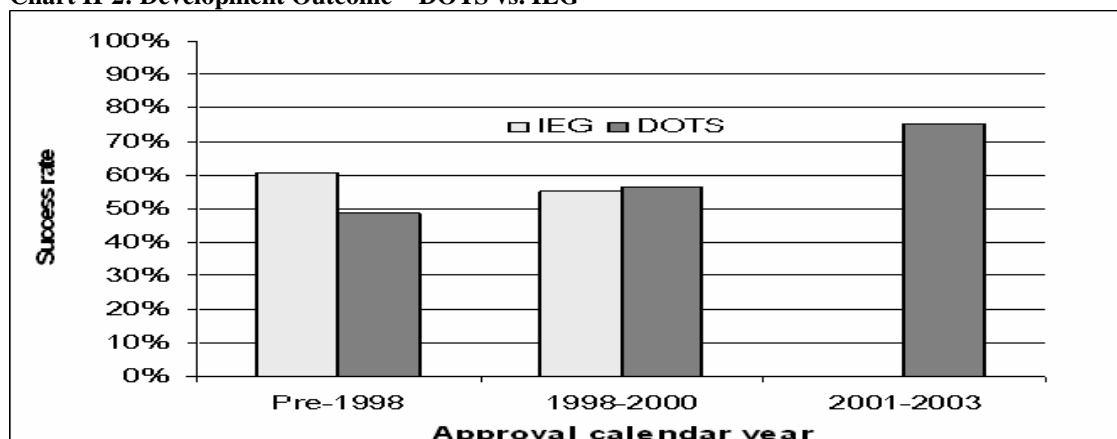


Source: IEG Annual Report 2005. Based on 210 projects approved 1997-1999 and evaluated from CY 2002-2004.

2.20. Most of the Corporate Scorecard indicators discussed above (see Annex V for the full Corporate Scorecard) measure IFC's *ex ante* development impact in line with the strategic priorities agreed with the Board. As illustrated in Table II-1, the FY06 Scorecard results and FY07 estimates show substantial progress on many of these measures. IFC measures *ex post* development impact through both the Expanded Project Supervision Report (XPSR) system of IEG, which is considered best practice among multi-lateral development banks¹¹, and through DOTS. Whilst there are some differences in approach, DOTS results are broadly consistent with IEG evaluation results for comparable time periods (Chart II-2) and for the overall development outcome rating as well as for the four underlying performance indicators (financial performance, economic performance, environment and social performance and private sector development impact). DOTS provides continuous assessment of performance and offers preliminary insights into more recent approvals.

¹¹ This refers to the "Good-Practice Standards for Evaluation of Private Sector Investment Operations" agreed by the multilateral development banks' (MDBs) "Evaluation Cooperation Group". IFC ranked the highest of all participating MDBs when mapping evaluation standards against these good practice standards. IFC's score from the 2004 benchmarking review was 92%.

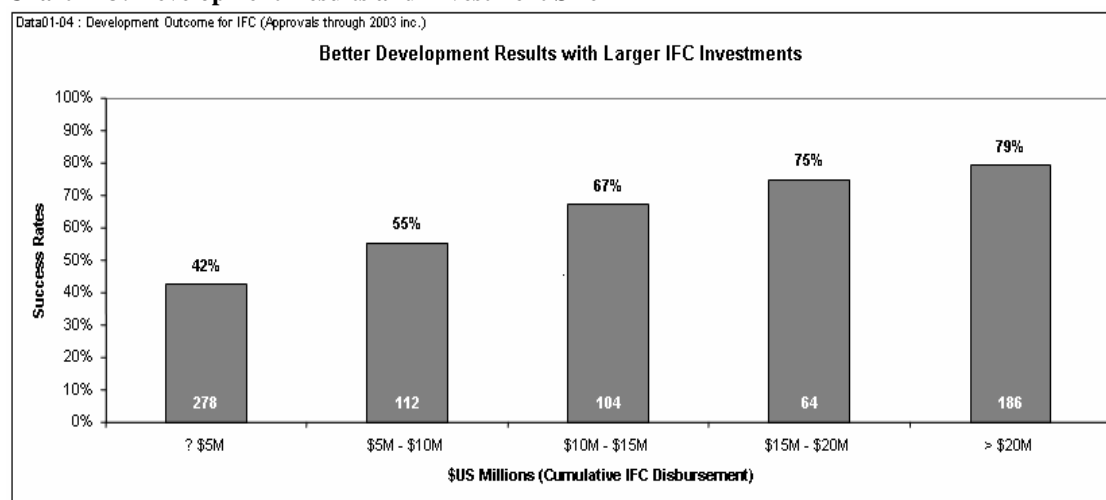
Chart II-2: Development Outcome – DOTS vs. IEG



2.21. **Development Impact Incentives – the Cascade Effect.** IFC ensures that the importance of achieving strong development impact is reflected in incentives at all levels of the Corporation, from the Corporate Scorecard by which Senior Management is held accountable to staff implementing projects on the ground. By linking corporate performance and staff performance, and aligning individual and corporate goals to strengthen accountability, IFC aims to ensure that the whole Corporation is focused on development impact. This “cascade effect” is further discussed in paragraph 3.12 in Section III.

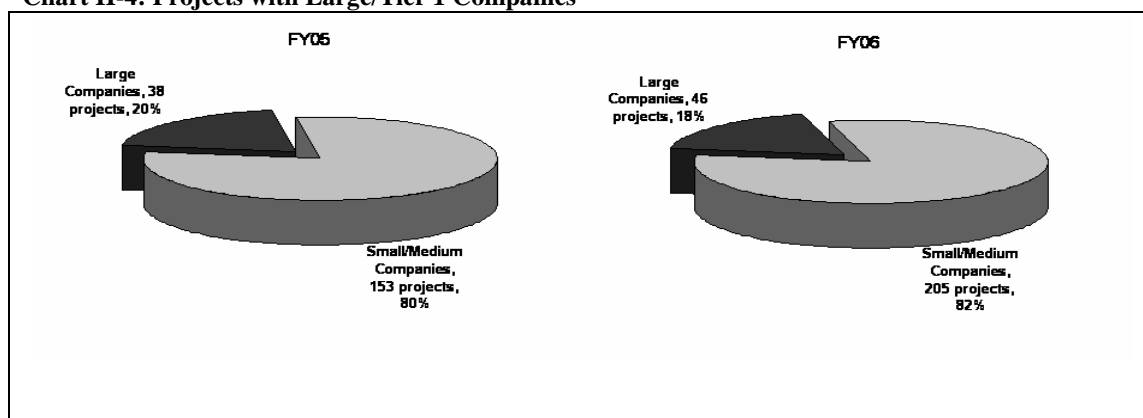
2.22. **Additionality.** IFC has always placed great importance on its additionality in projects but there is nonetheless scope to do more and to articulate better its goals and accomplishments in this area. A significant aspect of IFC’s additionality, as anticipated by IFC’s Articles of Agreement, is the provision of financing to support productive private enterprises where sufficient private capital is not available on reasonable terms. IFC also brings additionality to clients in many other ways, including through its expertise and value-added services, its preferred creditor status and objectivity, its results measurement (which leads to accountability and therefore performance), and its strong client relationships. Furthermore, different types of clients and projects will benefit from different types of additionality: smaller and less sophisticated clients benefit from financing and expertise not readily available from the private sector, whereas larger clients benefit from more complex financial products and value-added services, IFC’s global knowledge and from its reputation, particularly in difficult sectors such as the extractive industries.

2.23. Working with large clients can help IFC achieve important development objectives, for example championing of the sustainability agenda, introducing innovations, supporting South-South investments, replicating sound business models in less developed markets and developing SMEs through linkages programs. The Lonmin project discussed in Annex I - Box 1 is a good recent example of IFC’s strong additionality for a large client. Furthermore, both IEG’s past studies and DOTS show that, as illustrated in Chart II-3 (DOTS data), larger projects tend to have better development outcomes than smaller projects.

Chart II-3: Development Results and Investment Size

Source: DOTS

2.24. Nonetheless, as a percentage of the total number of projects committed in IFC's top fifteen exposure and non-frontier countries, large or tier 1¹² companies accounted for only 20% and 18% in FY05 and FY06 respectively (Chart II-4). In terms of dollar volume, the percentages were 43% in FY05 falling to 30% in FY06.

Chart II-4: Projects with Large/Tier 1 Companies

2.25. Over the past several years, IFC has striven to add real value to its clients in many new ways, from introducing local currency and other innovative financing, to building expertise in environment, social and corporate governance areas, to scaling up its advisory services offerings. It has also increased its frontier commitments, from \$619 million in FY02 to \$1.5 billion in FY06, and its local clients from 48% in FY03 to 63% in FY06. Furthermore, as indicated in the Matrix in Chart II-7, additionality can be viewed not only in the context of a given transaction but also in terms of how the transaction fits into the broader

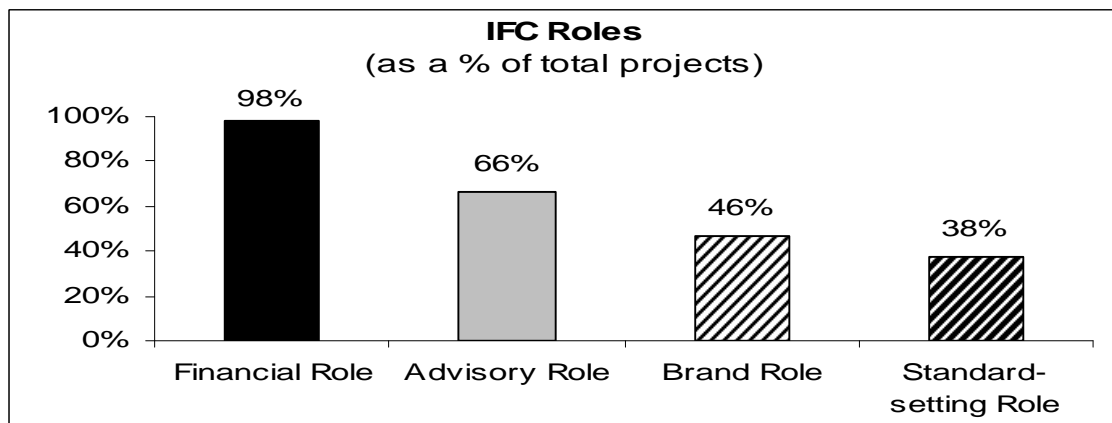
¹² Large/tier 1 companies are defined as companies which are either in the top fifty companies in the real sector or top twenty banks in the country, determined by asset size or number of employees. Also included are leading companies in their respective industries in the country even if they were not in the top fifty and projects with a large developed country sponsor.

picture of what IFC is trying to achieve in the country and sector and with the particular client.

2.26. Whilst additionality – beyond being the only provider of finance on reasonable terms – can often be hard to measure, IFC has undertaken a pilot study of FY06 investment approvals, grouping its expected role and contributions into the four categories below, illustrated in Chart II-5. A preliminary analysis of FY07 commitments (excluding projects approved in FY06 to avoid double-counting) shows similar results but with much greater emphasis on the standard-setting role.

- (i) *Financial Role.* Providing financial products and services not readily available elsewhere, and willingness to be a long-term partner. This includes the ability to create innovative structures designed to meet client needs and help them overcome regulatory barriers, which in turn helps to develop the business-enabling environment.
- (ii) *Brand, or “IFC” Role.* This includes IFC’s ability to introduce clients to other financial institutions and investors as well as the perceived political and country risk protection and “stamp of approval”.
- (iii) *Advisory Role.* This covers IFC’s expertise in areas such as corporate governance, privatization, cross-country expertise and industry knowledge.
- (iv) *Standard-setting Role.* Under this category, clients valued IFC’s environmental and social standards as well as expertise in energy efficiency and renewable energy.

Chart II-5: IFC Roles (as a % of total projects) – FY06 Approvals



2.27. This analysis is supported by the results of IFC’s annual client survey, which shows the top reasons clients choose IFC (in the most recent survey from 2006, these were financing terms, expertise, long-term partnership and perceived stamp of approval). IEG’s analysis (Box II-2) shows that IFC’s Role and Contribution has generally achieved the highest success rating among the three indicators of IFC work quality.

2.28. *Additionality with Advisory Services.* IFC’s Advisory Services enable the Corporation to reach locations and sectors where it would be difficult to provide investment services alone and often play a catalytic role in facilitating private sector investment. Advisory Services are in many cases integrated with investments (e.g. for access to finance, infrastructure, linkages, corporate governance, environment and social programs, etc.). This unique integration of high-quality investment and advisory services becomes a key element of IFC’s additionality,

and IFC uses a combination of in-house and outside expertise to provide the best service to clients. Another group of advisory assignments consists of advice to governments on investment climate issues. IFC has focused on some key product areas where it has strong expertise and value-added (e.g. regulatory simplification and investment promotion) and primarily in areas relating to implementation of reforms in specific sub-sectors (e.g. leasing). IFC provides additionality by leveraging these key areas of expertise, as well as the Corporation's position as a global development investor, its pioneering role in investment climate diagnostics (e.g. the *Doing Business Report*), and links with the World Bank. IFC coordinates extensively with the World Bank in participating in this segment, with the World Bank generally providing the broad policy dialogue. IFC also provides transaction structuring advice to governments (e.g. for PPPs) providing a unique service where government and private sector issues converge. Further, IFC provides advisory services in private sector capacity building for SMEs, and here it provides additionality by focusing on key products where it has a particularly strong and replicable position, drawing on its global credibility and investment culture, and on-the-ground expertise. IFC is undertaking extensive work to streamline and further focus this part of IFC's Advisory Services business on the areas of highest additionality.

Box II-2: IEG-IFC Evaluation Findings: Informing IFC's Strategic Directions

As in previous years, IEG-IFC's evaluation reports this year feature data, analysis, and findings with strategic significance to IFC. These include:

- *Achieving Greater Development Impact*. IEG-IFC's independent evaluations reconfirmed that IFC's development impact has been positive overall. The majority of IFC's investment operations have consistently generated good development outcomes amidst market volatility and country financial crises. Investment operations evaluated in 2006 (approved in 2001) show above average success. Large projects have better development impact success rates and overall, strategic sectors have been generating good results. IEG-IFC's evaluation of the Transport Sector found that IFC achieved a significantly higher proportion of successful development outcomes in transport compared with other sectors. By and large, IFC's projects yield positive development impacts when IFC achieves good investment results. IFC is increasingly managing internal key success drivers well, i.e., work quality has improved, risks are better mitigated, and investments in strategic high impact sectors increased. Positive trends in investment climate suggest greater development impact in the future. Past IEG-IFC evaluations have shown that IFC achieved higher development impact success rates when investment climates improved. Continued IFC and World Bank support for improving the investment climate should result in broader development impacts.
- *Country Priorities*. Country priorities based on a country's development needs make good business sense. IFC has a role to play in both frontier countries and middle-income countries. IFC could give priority to addressing country-specific investment climate issues, e.g., addressing impediments in strategic sectors in frontier countries and enhancing competitiveness in middle-income countries. In its review of IFC's operations in Honduras, Madagascar and Yemen as part of the IEG-World Bank Country Assistance Evaluation (CAE) for each of these countries, IEG-IFC found that investment climate issues hampered the growth of private sector development in general and of IFC's investment operations in particular. To address this issue, IFC and FIAS conducted advisory services operations, a number of which led to enactment of laws aimed at creating a conducive environment for doing and expanding business. IEG-IFC country evaluations also found that an appropriately structured multi-country approach could be effective in addressing regional issues.
- *IFC Additionality (Role and Contribution)*. IEG-IFC measures the success of IFC Role and Contribution – defined as the extent IFC played a catalytic role and made a special contribution – as part of the self-evaluation of project operations (XPSRs). IFC's Role and Contribution is the equivalent of IFC additionality in the XPSR framework. This indicator has generally achieved the highest success rating among the three indicators of IFC work quality. In the few cases where role and contribution was rated low, it was largely because IFC was unable to deliver its needed contribution to enhance project success post-approval or because IFC overestimated its expected contribution.

2.29. IFC's aim is to maximize its development impact and additionality in all its projects. IFC must also strike a balance between taking risk, which is part of IFC's role, and achieving good development results: whilst investments in risky environments can lower IFC's development impact due to their higher probability of failure, it is important that IFC pursue investments where its role is critical. There are many risk factors affecting results, and IEG evaluations have shown that where IFC combines too many risk factors in one project, it is more likely to fail (IEG Evaluation Brief Number 7, April 2006).

2.30. In selecting projects, IFC Management seeks to balance these aspects, together with the need to invest in projects that meet IFC's other investment criteria, such as predicted financial success, sustainability and sponsor selection. Whilst IFC will continue to be guided by its five strategic priorities, the Matrix in Chart II-7 is a useful framework to think about striking a balance as IFC makes decisions on priority activities. The Matrix helps to explain IFC's additionality as it moves to add a more systemic/programmatic approach to its business. This illustrates the range of activities from firm level to systemic interventions (bottom to top); IFC can see priority activities in each of these quadrants. Firm-level interventions will tend to be more difficult in frontier markets, and there is therefore likely to be a greater need for investment climate advisory services to lead the way and thereby catalyze subsequent investments.

Chart II-6: Mapping IFC Priorities: Illustrative Framework

WORLD BANK <i>Informative Diagnostics, Policy Dialogue, Detailed Assistance on the Design of Reform Programs and Implementation Plans, etc.</i>			
Systemic	IFC	Frontier Markets	Non-Frontier Markets
Systemic Implementation ↑ ↓ Firm Level	Business Enabling Environment	<ul style="list-style-type: none"> •Business Edge •PEP Facilities •FIAS Advisory •Doing Business 	<ul style="list-style-type: none"> •Municipal Administration Simplification
	Standards	<ul style="list-style-type: none"> •Corporate Governance •E&S 	<ul style="list-style-type: none"> •Equator Principles •Corporate Governance •E&S
	Access to Finance	<ul style="list-style-type: none"> •MSME Finance •Trade Finance •Housing Finance 	<ul style="list-style-type: none"> •Capital Markets Development •Sustainability Finance •Housing Finance
	Infrastructure (incl. Health & Education)	<ul style="list-style-type: none"> •Early Stage Project Development •Investments •PPP •Privatizations 	<ul style="list-style-type: none"> •Direct Investments •PPP •Sub-national Finance •Privatizations
	Firm-level Interventions: Direct Investments & Advisory Services	<ul style="list-style-type: none"> •Direct investments •SME Training and Advisory •Introducing South-South Investments •Investment Climate Advisory Services 	<ul style="list-style-type: none"> •Direct investments/ Linkages •E&S and Corporate Governance •Originating South-South Investments

IFC's Business Model

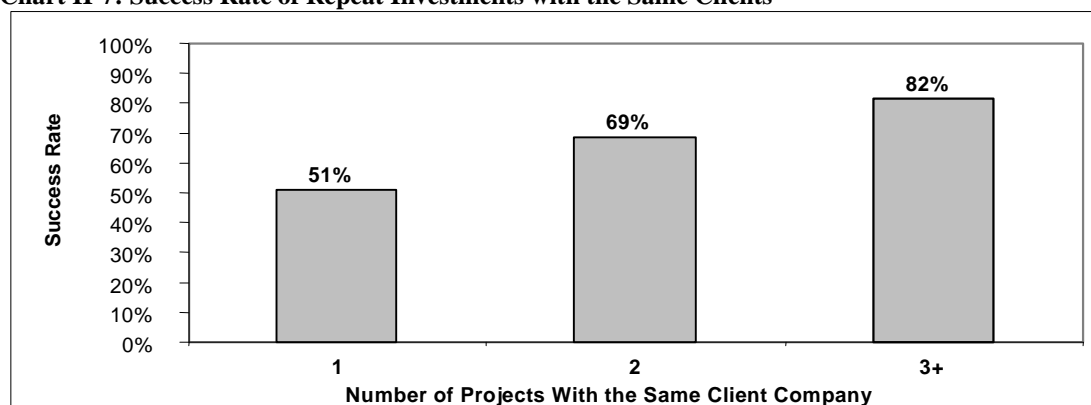
2.31. IFC has now reached a stage in its evolution where it is aspiring to increase substantially the development impact of its activities by adopting new approaches in pursuit of its five strategic priorities: more focus on systemic interventions, innovation in order to reach underserved segments in its markets and greater client orientation to meet the enormous needs in developing countries more effectively.

2.32. **Systemic/Programmatic Approaches.** There is the potential for IFC to have much more development impact through systemic and programmatic approaches to the needs of its clients, both corporate clients and client countries. IFC is already doing this in a number of areas and aims to scale this up significantly. Typically, the systemic approach to a sector would start with upstream advisory work on the business enabling environment and/or privatization, often building on efforts of the World Bank and the government. This in turn encourages downstream private sector investments in which IFC participates, directly and/or by bringing clients from more advanced countries (developing and developed) to stimulate growth of the sector. Recent examples include the AES Sonel project in Cameroon (Annex I - Box 4), Mexico housing finance (Annex I - Box 7), and Peru land titling. Drawing lessons from the past, upstream work involves: (i) a sector approach; (ii) an effective use of advisory services; (iii) up-front involvement of the World Bank; and (iv) early engagement with key stakeholders. However, combining IFC's investment efforts with advisory services and coordinating with the World Bank and the host governments make IFC's work more resource intensive.

2.33. Greater use of financial intermediaries combined with advisory services to address a specific sector will also be an important aspect of this approach, as illustrated by the work IFC did in the Ghana school finance program. IFC intends to adapt this model – using financial intermediaries and other clients to help deliver impact – to other industries, such as agribusiness.

2.34. Building strategic relationships with key clients will also be part of this effort, with a particular focus on supporting them in South-South investments. It is therefore important to view each proposed IFC project in the context of what IFC is trying to achieve through its entire relationship with that client, especially as IFC moves to adopt more systemic approaches to addressing development challenges. IFC's second strategic pillar "Building long-term partnerships with emerging players in developing countries" recognizes the importance of these ongoing client relationships. Furthermore, development results from both DOTS and IEG indicate that repeat investments with the same client tend to have better development results.

Chart II-7: Success Rate of Repeat Investments with the Same Clients



Source: DOTS

2.35. **Reaching the Underserved.** There are many people and businesses in developing countries that are not yet benefiting from global growth and the increased financial flows to these markets. IFC must develop ways to address the needs of the underserved, such as

provision of services to the poor (e.g. infrastructure projects, access to basic services) and gender aspects (e.g. access to finance for female entrepreneurs). IFC is now well placed to do this, given its financial strength, its global experience and its mandate to take risks that the private sector would not undertake alone.

2.36. IFC's growing support to MSMEs and continued focus on frontier markets form part of these efforts. The proposals discussed with the Board in the paper "IFC: Creating Opportunity and Update on Capital Position" (IFC/SecM2007-0005) are also primarily aimed at these underserved segments:

- *Local Currency*: providing long-term local currency to markets where hedges do not exist and where there are no alternatives.
- *Infrastructure and Environment*: addressing market failures by: (i) using risk capital to increase the supply of viable infrastructure projects; and (ii) investing in climate-friendly projects outside IFC's conventional scope due to their structure or limited market experience, with the aim of scaling up successful approaches.
- *Innovation and Entrepreneurship*: supplying risk capital (probably through investment vehicles) to support innovation, small SMEs and others not served by the formal financial sector.

2.37. These are proposals with both very high additionality and the potential for strong development impact: by undertaking projects with an even higher risk profile than most of IFC's business and where the private sector is not yet ready to step in, IFC would hope to kick-start investment in several key areas, often in the most challenging environments. IFC will discuss these proposals further with the Board in the papers that the Board requested at the informal Board meeting on February 22, 2007.

2.38. In this context, the recent joint study by IFC and the World Resources Institute¹³ suggests that there are significant opportunities for market-based approaches to meet the needs of the four billion low-income people at the base of the economic pyramid – a population that currently spends some \$5 trillion each year. IFC is looking at ways it can address these needs with a view to developing approaches which can be replicated and scaled up for broader systemic impact.

2.39. Becoming More Client Centered (with both country and private sector clients). As IFC strives to do more and increase its development impact further, particularly in the more difficult frontier markets, it needs a different operating model. The decentralization pilot in Asia agreed with the Board at the time of last year's Budget discussions represents the first phase in IFC becoming a more client-centered organization, and IFC has already deployed staff with key skills to the field as part of this effort. By 2010, IFC aims to process most of its investments in the field and to give decision-making authority to managers in the field enabling processing to happen in the most effective way, including introduction of appropriate risk management practices. Whilst this approach will help nurture new clients, it may also lead to an increase in business with existing clients, in particular those identified as able to help IFC deliver the most development impact and where IFC's additionality is greatest. This could require reconsideration of the new client target currently in the Corporate Scorecard. (In addition to development impact and additionality criteria, any increase in

¹³ "The Next 4 Billion – Market Size and Business Strategy at the Base of the Pyramid".

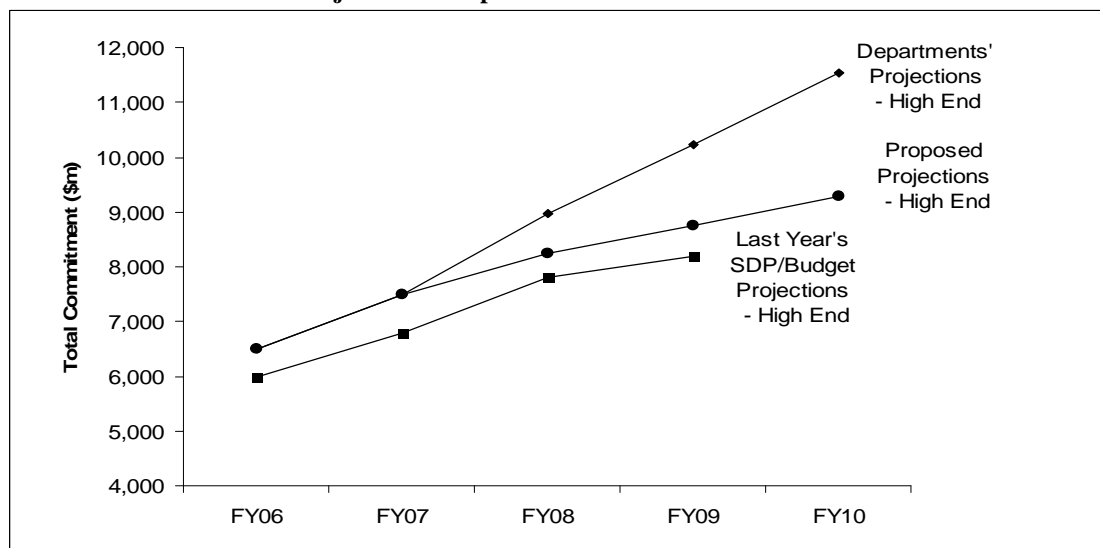
business with existing clients will be subject to IFC's exposure guidelines.) Through Advisory Services, IFC is also working towards being more client-driven, being selective in the services it offers and ensuring that its services are world-class.

2.40. The Business Process Review currently underway is part of the effort to make IFC more responsive and to enable its staff to focus on adding value to its clients, on helping clients in more difficult frontier markets and on creating development impact rather than focusing on internal processes. Introducing a risk management framework that is aligned with this new model will be an important part of this endeavor (see paragraph 3.14 in Section III for more on Risk Management). Whilst these initiatives should help IFC to become a more effective development institution, there are challenges ahead, and these are discussed in Section III.

Pace of Growth

2.41. Increased scale allows IFC to create more opportunities and permits more systemic impact, provided this growth focuses on projects with strong development impact. IFC therefore proposes to continue its growth path into FY10. The proposed growth rates are lower than those proposed by IFC's investment departments¹⁴ at the recent internal strategy discussions in recognition of the fact that there may sometimes be tensions between very rapid growth on the one hand and development impact and additionality on the other, and to allow IFC to pursue its decentralization in a considered way. The proposed growth rates are in line with those discussed last year with the Board, although starting from a higher FY07 base (Chart II-9): growth rates of 10%, 6% and 6% for each of the years FY08-10, compared to growth rates of 15% and 5% for FY08 and FY09 shown in last year's Business Plan and Budget Paper (Table II-3).

Chart II-8: Commitments Projections Comparison



¹⁴ These proposed commitment levels were arrived at without factoring in budget implications.

2.42. In light of the tremendous needs in its markets, the important role of the private sector and the value of more systemic approaches, in FY08 IFC will consider accelerating growth further. This will be done in consultation with the Board, reexamining the balance of development impact, additionality and financial success and taking into account IFC's increased field presence, enhanced measurement of development impact, the quality of projects through better risk management practices, and productivity improvements.

Table II-3: Comparison of Commitment Volume Ranges: FY06 Business Plan and Budget, Current Projections and Departments' Projections

	FY05 (Actual)	FY06 (Actual)	FY07 (Estimate)	FY08 (Projected)	FY09 (Projected)	FY10 (Projected)
Projected commitments shown in last year's Budget Paper	5,373	5,600-6,000	6,000-6,800	6,500-7,800	7,000-8,200	-
%YoY change – High end		12%	13%	15%	5%	-
Current Projections		6,703	6,800-7,500	7,400-8,300	7,900-8,800	8,500-9,300
%YoY change – High end		25%	12%	10%	6%	6%
Departments' Projections - High end		6,703	7,500	8,980	10,233	11,550
%YoY change		25%	12%	20%	14%	13%

2.43. The situation could change should there be a significant downturn or adverse event in any of IFC's markets and a need for IFC to play a more countercyclical role, such as it did in the early 2000s in Brazil and Argentina through provision of trade lines and other support to selective clients, particularly in the financial sector. It is difficult, however, to predict the precise impact on growth that such circumstances might have: while some projects would not proceed, others would emerge from the increased need for IFC to resume its countercyclical role.

2.44. As discussed in Section I, far from being over-ambitious, IFC's recent rate of growth is around the average for all private sector development financial institutions analyzed (Chart I-7). Furthermore, the pace of growth IFC is proposing is in fact slower than in recent years and may result in further reduction in IFC's share of IFI financing to the private sector in developing countries. It is also below the historical average: an examination of the compound annual growth rates¹⁵ (CAGR) of commitments since 1960 reveals the following:

¹⁵ Compound annual growth rate is the year-over-year rate of growth over a specified period of time: in the context above it describes the rate commitments would have grown if they had grown at a steady rate each year.

Table II-4: Compound Annual Growth Rate of IFC Commitments

Fiscal Years	CAGR %
Actual	
1960 – 1970	16.8
1970-1980	16.4
1980-1990	8.3
1990-2000	10.2
2000-2007	17.6
Projections	
2007-2010 (Current projections – high end)	7.4
2007-2010 (Departments' projections – high end)	15.3

MEASURING SUCCESS

2.45. The DOTS system provides much useful information that should allow IFC to move to specific development results targets, although IFC must remain sensitive to the escalating costs to its clients that could stem from increasing demands for data. With the increased focus on development impact and additionality, and as IFC moves to new approaches to its business, IFC will engage with the Board to consider how best to measure IFC's performance, in particular what might be appropriate benchmarks, which development impact success rates to target, how to look at repeat clients and development of systemic impact measures.

III. CHALLENGES

3.1 The call for IFC to help create opportunity so that people can escape poverty and improve their lives is greater than ever. With its strong financial position, high-quality and motivated staff and record of achievements, it has become clearer that the key constraint for IFC to scale up its development impact is the measured pace of resource expansion which is being outpaced by increases in demand. An increase in budgetary resources would of course have implications on human resource management. Whilst IFC Management is confident about the implementation of its strategy, there are challenges:

- IFC is aiming to have more systemic impact in developing countries, which will require significant resources, as will the push to do more projects in the most challenging environments.
- Fluctuations in emerging market economies, and the resulting need for IFC to resume a counter-cyclical role, could have an impact on IFC's growth plans and financial position.
- IFC is moving to become a more decentralized institution to enhance its development impact and become more responsive to its clients, and human resources management will be critical in ensuring effective decentralization.
- Decentralization will require effective management and dissemination of IFC's global knowledge so that large and small clients in all regions can benefit.
- In terms of risk management and financial capacity, whilst IFC is currently in a strong position, it needs to conserve resources in order to maintain its AAA rating whilst remaining able to (i) accommodate downturns and crises in its member countries through its countercyclical role; and (ii) pursue innovations that may initially entail more risk but have the potential for significant development impact and additionality.
- There are information technology implications of growth and decentralization, particularly in light of the proposed delegation of decision-making to the field.
- In all its activities, IFC needs to balance the imperatives of delivering development impact and providing additionality to its projects, and at the same time growing and remaining profitable.

3.2 IFC's strengths as an institution, its management structure and focus on measuring and learning from results give it the tools to address these challenges and to be a leader in the delivery of development impact where it is most needed.

HUMAN RESOURCES

3.3 As IFC strengthens its client focus, its human resource (HR) strategy has evolved to support a decentralized business model with the objective of enhancing IFC's impact on the ground. Since FY99, IFC's HR strategic direction has been centered on building a high-performance, merit-based organization that can effectively and efficiently help the Corporation achieve its business goals. There are three pillars to the HR strategy: (i) differentiation of staff based on performance; (ii) accountability of managers for people management and results; and (iii) recognition of behaviors that model excellence, teamwork, integrity and commitment to IFC's mandate.

3.4 Whilst the HR strategic direction remains constant, the strategic challenges have evolved and are becoming more pronounced. These challenges, which directly affect IFC's

ability to achieve its business goals, define the HR strategic priorities: (i) recruitment to grow the business and enhance impact; (ii) compensation and incentives to attract and retain talent; and (iii) measurement and recognition of teams and individuals who achieve results.

3.5 Recruitment: Attracting Talent in a Decentralized Business Model. Recruitment of diverse talent has been a key factor in growing IFC's business. As of January 31, 2007, IFC's workforce totaled 3,031 staff, reflecting a 55% increase since FY01. The most significant increase in staffing numbers is in country offices. The total country-office based staff is 1,507 (50% of all IFC staff) compared to 626 (32%) in FY01. Whilst the majority of the growth in country staff has come in advisory services (which grew from 170 staff in FY01 to 806 staff today), staffing in investment operations has also grown in the field from 462 staff in FY01 to 701 staff today. Since July 2005, IFC has hired 948 new staff, including 643 staff (or 68% of the total) in country offices.

3.6 As IFC operations move closer to clients, it is critical that the right people be located in the right place. Therefore, to achieve greater development impact and improve client responsiveness, recruitment will focus on hiring people with skills that are relatively scarce in today's workforce: (i) experienced staff with client relationship management skills in the regions; (ii) seasoned industry and product specialists, primarily in Washington; and (iii) junior staff globally, rather than centered in Washington, to build the future core of IFC operations.

3.7 Whilst the recruitment strategy is clear, a major challenge facing IFC is the highly competitive employment market worldwide for finance and investment professionals. Based on market data and on rejection of offers from IFC, finance/investment professionals, particularly those with expertise in emerging markets, have never commanded salary packages more competitive than today. For example, Investment Officers (at Grades G and above) are consistently offered total compensation packages outside equivalent to three to four times their IFC salaries. In addition, turnover for Investment Officers has averaged around 8% over the last two years, compared to 3.6% for the period FY01-FY05. Turnover is particularly high for those investment officers who have 5-9 years of experience, with 39% of those staff having left IFC. IFC is losing core staff just as they become more productive as team leaders. IFC is also experiencing a higher rate of offer rejections than in recent years: about 15% of the offers to finance/investment professionals were rejected in FY07 (excluding another 15% based on verbal offers) compared to less than 8% of offers rejected over the previous five years. A concern is the impact of uncompetitive packages to recruit talent that would add greater diversity to the workforce; for example, IFC has experienced a larger number of rejections from countries whose currencies have appreciated over the last few years against the U.S. dollar.

3.8 Compensation. The comprehensive review of the World Bank Group's compensation framework provides an opportunity to implement a more performance-based and market-based approach, which could help IFC mitigate its staffing challenges. Within a decentralized business model, IFC has a business imperative to ensure that its core talent pool is deployed effectively across regions, with equal standards for staff quality regardless of location. As a result, IFC endorses the elimination of the current international versus local World Bank Group employment framework for staff, and the implementation of some flexibility to enable the use of "global" salaries in different country offices. As importantly, the implementation of differentiated functional pay among distinct career streams, an

approach already used by organizations such as European Bank of Reconstruction and Development (EBRD), is critical to recruit and retain top talent. IFC has already implemented a number of initiatives that differentiate staff based on market and performance (such as the Long Term Performance Awards program, only available for investment staff) and experience shows that such tools can be effective when managed systematically and with discipline. The use of such approaches is driven by business imperatives – for example, the market for investment/finance professionals with African experience/backgrounds is particularly at a premium, and constraints to hire and retain such talent limit IFC’s ability to operate and deliver effectively in Africa.

3.9 The global compensation market for investment/finance professionals has changed substantially in the last two years. In the past, peaks in compensation for finance/investment professionals were limited to “bubbles” in the major financial centers (London, New York, Singapore, Hong Kong). Today, a global “pay-line” for experienced finance/investment professionals has emerged, with salaries closely within range in cities such as Moscow, Delhi, Johannesburg and Sao Paolo – all key areas for IFC’s business. Given the existing World Bank Group compensation framework, IFC is severely limited in its ability to attract and retain these core professionals. Based on current reality, IFC is therefore giving serious consideration to the implementation of a global pay-line for seasoned finance/investment professionals.

3.10 **Aligning Incentives to Reward Superior Performance.** IFC currently has in place four programs to measure and reward performance, which together, provide incentives to staff: (i) an annual performance, evaluation, and planning process linked to annual salary increases; (ii) a competency-based career framework that provides staff with clear guidelines on what it takes to progress at IFC; (iii) a Performance Awards program to reward and recognize annual results at the corporate, departmental and staff level; and (iv) a Long Term Performance Awards program to reward staff for actual, long-term results. All programs reward both team and individual performance.

3.11 In order to support a client-centered strategy, IFC is considering a number of enhancements to the existing performance award programs. One foreseeable enhancement, rooted in external best practice, would be to link awards more closely to the achievement of collective results. In addition, IFC is considering using the full funding authorized by the Board for the Long Term Performance Awards program, based on the market premium for the investment stream (please refer to Board report IFC/R2004-0007 and PC2007-0004). Such an approach would enable IFC to reward its superior performers and would further accentuate development impact indicators in the award programs.

3.12 **Measuring Results and Developing Staff Globally.** IFC has enhanced its performance management framework to strengthen the alignment of corporate objectives with management and staff goals. This year, IFC adopted a cascading approach to manage organizational and staff performance. The Management Group is responsible for developing strategic corporate goals, reflected in the Corporate Scorecard and then incorporated into objectives for department directors. The Department Scorecards and new director scorecards are a means towards building vertical alignment of strategic priorities within IFC, and the larger World Bank Group, as well as horizontal integration of performance objectives across IFC departments. Completing the performance cascade, directors evaluate managers in

alignment with departmental scorecards, and managers, in turn, develop staff objectives to meet unit goals.

3.13 *Global Career Framework.* A final priority is to design a new Global Career Framework, to enable equal professional growth and development opportunities for all staff, whether hired in a country office or in Washington. Staff hired in any location would be able to progress to senior jobs within their own region and/or may relocate to other regions. In addition, to groom high potential staff, existing corporate leadership programs will be enhanced to provide development opportunities. New career and staff development frameworks will also be developed for core staff in advisory services, and for all administrative client support (ACS) staff worldwide. A robust career and development framework, coupled with appropriate tools to attract and retain high performing talent, would substantially help IFC deliver its development mandate more effectively.

RISK MANAGEMENT AND FINANCIAL CAPACITY

3.14 As IFC scales up its activities and decentralizes further, management of risk, including maintenance of a sound financial structure and appropriate risk management practices, will become an even more critical issue.

3.15 **Risk Management.** As part of the decentralization initiative, the Risk Management function will be transformed to facilitate improved client service and efficiency whilst retaining appropriate checks and balances on decentralized decision-making. Steps in this direction include: (i) the ongoing Business Process Review to streamline, and at the same time strengthen, operational procedures; (ii) shifting credit review and, eventually, most aspects of risk management decision-making to the field to parallel the decentralization of business decision-making to the field; (iii) enhanced corporate tools for risk management including economic capital allocation, improved risk rating systems and associated principles that allow for greater decentralization and accountability for pricing, performance measurement and portfolio management; (iv) integration of development impact metrics with financial risk-return metrics; (v) enhanced reporting of all metrics; and (vi) strengthening of information technology (IT) hardware, including bandwidth suited to the various field office needs and IT infrastructure for more efficient and effective document processing and management. The various elements of this new framework are in the process of being developed and will be brought to the Audit Committee and/or the Board in due course.

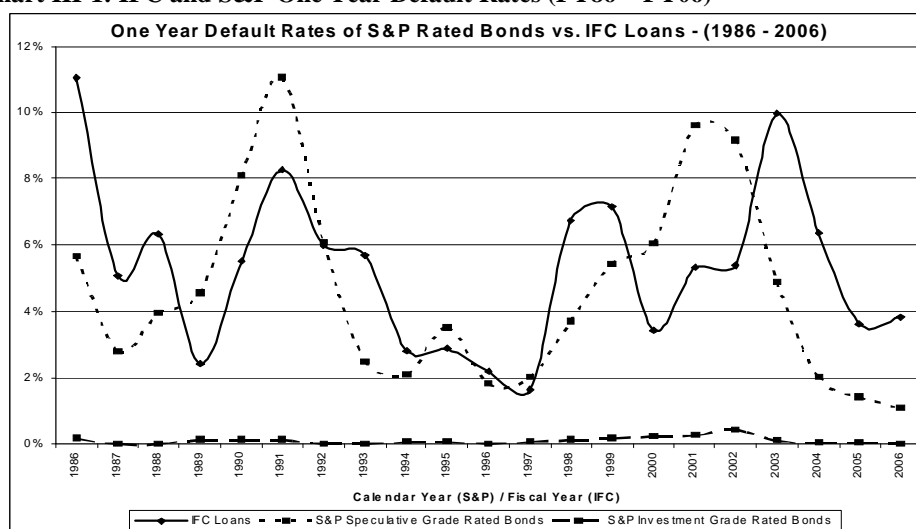
3.16 IFC is piloting and using the Capital Pricing and Risk (CAPRI) economic capital approach for capital adequacy, capital allocation and internal risk management purposes and potentially for setting loan loss general reserves. This approach brings IFC in line with industry best practice in the measurement of risk and has been discussed previously with the rating agencies and the Audit Committee¹⁶. The rating agencies have endorsed this approach for capital adequacy. In this regard, a paper proposing changes in capital adequacy and financial polices will be brought to the Audit Committee in the coming months. Information systems needed for this approach are currently being constructed and/or implemented.

¹⁶ AC2005-0029: Review of, and Potential Enhancements to, IFC's Capital Adequacy and Risk Management Framework, April 5, 2005 as well as various prior technical briefings and papers cited in this paper.

3.17 International Financial Reporting Standards. As discussed with the Audit Committee on February 14, 2007, IFC has set a revised target date of FY10 to resume presentation of its financial statements using International Financial Reporting Standards (IFRS). In the interim, IFC's FY07-09 financial statements will be prepared using accounting principles generally accepted in the United States. Amongst other changes, this will require the Corporation to make expanded use of fair value accounting, principally in equity investments, and derivatives associated with the loan and equity portfolios. This will imply significantly greater volatility in net income reporting, including the possibility of sizeable net losses due to market downturns. Given the operating and financial results so far, and the revised program commitment target ranges provided in this Strategic Directions Paper, IFC estimates that its current capital position would allow it to accommodate a shock in two of its high exposure countries and continue to meet its countercyclical role, whilst still being able to allocate about \$750 - \$800 million for special initiatives or for other uses that the Board assesses to be appropriate. However, given the uncertainties in many of its markets, including some high exposure countries, and the future volatility of its net income, IFC is proposing a conservative approach to the designation of retained earnings. These issues will be discussed further in the Annual Report on Financial Risk Management, which will be presented to the Board before the end of the fiscal year.

3.18 Financial Capacity. IFC is by its nature and mandate a risk-taking institution. Economic theory postulates that there is a direct link between risk and reward and IFC's experience bears out this relationship: it has traditionally made some of its largest returns in investments considered amongst the most risky at the time. As an indication of the significant risks inherent in its portfolio, an analysis of IFC's one year default rates shows that they are comparable to Standard and Poor's speculative ("junk") grade default rates (Chart III-1). IFC makes this risk transformation of investing in riskier assets whilst maintaining its AAA credit rating by: (i) diversification in its investments, giving it exposure to a range of risk profiles; (ii) maintaining a strong financial structure and capital base; (iii) being a long-term investor particularly for its equity investments; and (iv) rigorous due diligence, accumulated knowledge and experience in developing countries and sophisticated risk management practices.

Chart III-1: IFC and S&P One Year Default Rates (FY86 – FY06)



STRATEGIC COMMUNICATIONS

3.19 **A Broader Approach to Communications.** IFC needs a broader approach to communications for several reasons: (i) the Corporation's growth strategy and plans to become much more decentralized by 2010; (ii) IFC's leadership role in key areas, particularly environmental and social standards, which brings increased attention to IFC's projects, especially in politically contentious environments; (iii) the commitments that the Corporation has made to assess and report on its development impact as well as to improve its public disclosure and handling of community relations; (iv) the need to educate and assimilate large numbers of new staff in a more global and decentralized organization; and (v) the greater market leverage gained by integrating investments and advisory services under a single brand.

3.20 **Enhanced Communications Function.** In light of the above challenges, IFC is putting in place an enhanced communications function in order to support IFC's role and growth strategy more effectively. This will be approached on several fronts: (i) realigning communications strategy and the structure supporting it to promote and support IFC's business plans; (ii) developing and implementing a corporate brand strategy; (iii) developing communications strategies for all major corporate initiatives as well as complex or visible projects; (iv) improving internal communications across the Corporation, helping staff understand corporate strategies, objectives, and priorities and contributing to positive culture change; and (v) developing an external stakeholder outreach program, to increase awareness and value for IFC's brand among relevant groups.

3.21 **"Creating Opportunities"**. The overarching theme of IFC's communications effort during 2007 is "Creating Opportunities." This will be reflected in the communications support for IFC's business plans and major corporate initiatives, the leadership on the brand strategy, and the integration of IFC's external reporting into a single annual product, with emphasis on the development impact of the Corporation's portfolio as well as new business activities during the fiscal year.

INFORMATION TECHNOLOGY

3.22 The alignment of information technology (IT) with IFC's strategic directions is an important part of IFC's strategy implementation, and meeting the IFC's client-centered business goals will certainly require a significant IT component over and above the support of current systems and infrastructure.

3.23 As decentralization results in changes to IFC's organizational structure, physical locations, and business processes, IT must be ready to respond with an infrastructure that provides accessibility and mobility and with application architectures that are flexible and responsive to change. New classes of tools to facilitate collaboration and expertise sharing will also be required. With these elements in place, IT will play a critical role in expanding and streamlining the flow of information and business processes to enhance effectiveness of IFC in delivering results to its clients.

3.24 Integrating the demands, priorities, and challenges of an extensive IT program that addresses IFC's further decentralization, as well as maintenance, support, and enhancement of existing infrastructure and systems, will be carefully considered in close coordination with significant stakeholders, including ISG. This strategy and work program formulation exercise

is underway, and the resulting IT budget will be included in the forthcoming Business Plan and Budget Board Paper.

IV. CONCLUSION

IFC has been evolving since its inception. As emerging markets have changed it has developed from a small project-financier doing one-off deals with the aim of catalyzing others through demonstration, to a provider of a range of financial and advisory products and services with significant mobilization effects and an institution with the capacity to help bring the benefits of development to a wide range of stakeholders. Its clients have changed alongside it, from being primarily developed country sponsors to now over 60% local sponsors, many of whom are themselves expanding into new markets, helping IFC to deliver broader development impact. As its business has changed so has its structure, from a Washington-centric organization to one that is increasingly decentralized.

IFC's growth and performance now place it in a position to increase further the development impact of its activities through new approaches and innovative solutions to development challenges. As IFC implements its plans for the next three years and beyond, it does so in pursuit of the long-term goal of being known as the premier private sector development institution and one that works with determined focus to realize its vision that people have the opportunity to escape poverty and improve their lives. The enormous needs in IFC's markets require it to succeed.

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)	<ul style="list-style-type: none"> - 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)	<ul style="list-style-type: none"> - 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)	<ul style="list-style-type: none"> - 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)	<ul style="list-style-type: none"> - 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)	<ul style="list-style-type: none"> - 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)	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - <i>MSMEs</i> – MSME portfolio of fourteen client companies with MSME operations is expected to grow by an average of 28% per annum. - <i>Housing Finance</i> – 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. - <i>Trade Finance</i> – 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)	<ul style="list-style-type: none"> - Expected to have permanent employment of over 3,550 workers. - Contribute income taxes of \$38 million.
Sub-National Finance (over the next five years)	<ul style="list-style-type: none"> - 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 for FY05 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 Edge¹⁷, 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 Paulo 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 through 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 FY00¹⁸ 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.

ANNEX II. REGIONAL STRATEGIES

CENTRAL AND EASTERN EUROPE

Annex II - Table 1: Central and Eastern Europe

	FY05 Actual	FY06 Actual	FY07 Plan	FY10 Indicative
Commitments (\$m)	1,128	1,092	700-900	900-1,100
Advisory Services Spending (\$m) ¹	18	17	25	21
Development Impact Score (%) ²	70%	70%	75%	-

¹Incurred by field-based or HQ-based AS programs, including pre-project, project, program management and overhead costs for regional donor-funded operations (DFOs), global facility allocation, business line envelope and stand-alone advisory services.

²Expanded Project Supervision Report (XPSR) – percentage of XPSRs which scored “mostly successful and above” on the development outcome measure based on a 3-year rolling average. The FY07 score is an estimate.

Strategic Context

1.1. In this region of fast growing economies, IFC has rapidly increased its activities in recent years. Most of the region’s countries place a strong emphasis on private sector-led growth. The World Bank Group Country Assistance Strategies (CAS) reflect this and assign a strong role to IFC. Both the financial performance and development impact of the IFC portfolio have been strong in recent years. IEG evaluations of development impact show that projects in the region have had higher success rates than IFC’s average since 1994. Whilst the share of the region’s GDP in frontier countries (Armenia, Belarus, and Georgia) is small, IFC has seen an increasing number of projects in these countries, and 5% of the portfolio is currently in these countries. In terms of sectors, financial markets continues to represent about half of the portfolio, with manufacturing and services and infrastructure also representing significant portions.

1.2. **Advisory Services.** IFC has also engaged in an active advisory program through the Private Enterprise Partnership (PEP), which was established in FY01. Since its establishment, PEP has generated significant development impact¹⁹, for example in the following business lines:

- Access to Finance (housing finance, energy efficiency finance and leasing): programs enabled \$399 million in investment by local and foreign companies and a \$392 million growth in the availability of lease financing;
- Value Added to Firms (primarily corporate governance and agribusiness supply chain development): programs enabled \$694 million in investments in clients served, and more than 1,200 clients reported an improvement in their operations;
- Business Enabling Environment: businesses saved an estimated \$45 million as a result of reforms related to permits (Ukraine), company registration procedures (Belarus) and reducing the burden of government regulation (Uzbekistan).

¹⁹ Note that these results include all countries where PEP works, including those in the Southern Europe and Central Asia Region.

IFC's Priorities

1.3. Assuming continued growth in the financing available to the region from the private sector, IFC anticipates a leveling off of investment levels (with a greater number of smaller projects) and focus on a few high value added products in advisory services. IFC will focus on priority areas where it has strong additionality. This will include supporting local companies and building long-term partnerships with strong regional players. Across the region, IFC will continue to support financial institutions with investment and advisory services, particularly in the expansion of key financial products, including housing finance, securitization, SME finance, and sustainability financing. A relatively new priority will be the promotion of private sector investment in infrastructure and public-private partnerships.

1.4. **Geographical Priorities.** In terms of geographical priorities, in both investment and advisory services, IFC will increase efforts to reach the frontier regions of Russia and Ukraine more effectively and the frontier markets of Armenia, Georgia and Belarus. Armenia and Georgia are small markets, and Belarus has a nascent private sector, but IFC anticipates making several small but catalytic investments in these countries each year, particularly in financial markets, agribusiness, the manufacturing and service sectors, and in infrastructure. In order to benefit the SMEs of these frontier markets, IFC will provide advisory services, in particular to improve the business enabling environment and support the development of financial institutions and products.

1.5. *Ukraine.* IFC plans to increase business development efforts in Ukraine, where it sees significant opportunities. IFC's efforts to reach clients in Ukraine will extend across all sectors, particularly financial markets, agribusiness, and manufacturing and services. Investments in infrastructure and sub-national financing may also have significant development impact, although opportunities in these areas are currently limited by external factors. IFC will also increase advisory services in Ukraine, launching new projects that include alternate dispute resolution, work with municipalities on energy efficiency, and agricultural insurance.

1.6. *Russia.* Given the large portfolio in Russia, IFC expects annual investment volumes to level off and the focus will be on the areas of high impact. Financial markets will continue to be a priority area, including the introduction of new financial products and strengthening institutions in the less developed regions of the Federation. Together with the World Bank, a key area of engagement is municipal infrastructure and sub-national finance, which are central to the recent Country Partnership Strategy for Russia. Investments in transport infrastructure and high-tech sectors (such as information and communications technology and convergence) are also important to support Russia's economic development and diversification. Advisory services will remain an important part of IFC's engagement in Russia through a select number of projects, in particular through existing products in housing finance and energy efficiency, and with an opportunity to expand into cleaner production.

1.7. *New EU Member Countries.* In the new EU member countries, IFC responds to opportunities only where the Corporation has a clear role in projects that support complex privatizations, environmental improvements, the introduction of innovative financial products, or that promote inter-regional investment.

EAST ASIA AND THE PACIFIC

As discussed earlier in this paper, IFC has begun to accelerate the decentralization of operations and to streamline business processing to serve clients better and increase its development impact. The decentralization pilot in East Asia and the Pacific and South Asia discussed with the Board in last year's Business Plan and Budget Paper (IFC/R2006-0219) is the first stage of this new approach, and several projects have already been processed in the field using the increased field resources and delegation of authority.

Annex II - Table 2: East Asia and the Pacific

	FY05 Actual	FY06 Actual	FY07 Plan	FY10 Indicative
Commitments (\$m)	740	982	1,100-1,200	1,700-2,300
Advisory Services Spending (\$m) ¹	26	26	45	50
Development Impact Score (%) ²	62%	59%	47%	-

¹Incurred by field-based or HQ-based AS programs, including pre-project, project, program management and overhead costs for regional DFOs, global facility allocation, business line envelope and stand-alone advisory services.

²Expanded Project Supervision Report (XPSR) – percentage of XPSRs which scored “mostly successful and above” on the development outcome measure based on a 3-year rolling average. The FY07 score is an estimate. The recent development impact scores reflect the higher risks and the learning curve associated with smaller projects involving new business models largely related to the dot.com sector. This experience has informed subsequent IFC investments.

Strategic Context

2.1. **Recent Economic Developments.** In 2006, the region grew at an annual rate of a little over 8%, and growth is expected to remain at about the same rate in 2007. This dynamism is underpinned by some of the highest levels of savings and investments in the world. The region is characterized by rapid integration driven by the emergence of China. Intra-regional trade and investment flows are growing in importance. Chinese companies are becoming important investors in countries within and outside the region. IFC sees an increasing role in helping regional companies expand outside their borders.

2.2. Countries in East Asia and the Pacific are very diverse in terms of size, level of development and the challenges the private sector is facing. China is a major emerging economic power with growing regional and global influence. It has a liquid banking sector and receives the largest share of FDI to emerging markets. Vietnam joined the World Trade Organization in January 2007 and Philippines benefited from the reduction of public sector deficits and fiscal reforms. Other “transition” economies in the region, including Mongolia, Laos and Cambodia, are reforming and looking for ways to improve the business environment for their small and medium sized enterprises, whilst the market economies of Indonesia, Thailand, Malaysia and Korea have made significant progress since the 1997 Asian crisis.

2.3. **Development Challenges.** Despite these positive developments, addressing the institution-building issues of financial sector development and corporate governance is still a long-term challenge. The financial systems of economies in the region rely on weak banks, many countries suffer from weak legal institutions and most countries still present difficult investment environments for private sector growth. In addition, the region is increasingly faced with the need to cope with the environmental and social challenges of rapid growth. Economic dynamism and massive urbanization are putting pressures on physical and social

infrastructure and the investment needs in this area are enormous. Although poverty continues to fall in most parts of the region, there is still widespread poverty with more than 550 million people living on under \$2 a day. A large number of small, isolated and often conflict-ridden countries, especially in the Pacific, have barely grown above population growth over the last decade.

2.4. IFC's commitments in the region have increased, growing from \$740 million in FY05 to \$982 million in FY06. In general manufacturing, IFC supported twelve projects with local firms trying to meet international standards. Activities in transition economies have focused on supporting the growing role of the private sector, particularly local domestic private companies. In the financial sector, IFC engaged in landmark banking transactions in China, Indonesia, and Vietnam, resolution of non-performing loans through asset management companies and provided support through advisory services for institution-building. In Indonesia, the World Bank Group made a step forward in the sub-national area, with IFC supporting a sub-national borrower that had previously been supported through World Bank loans. In the frontier economies of the region, IFC's activities have concentrated on assisting the growth of SMEs through IFC and donor-funded project development facilities. The region hosts six such facilities, which are to be integrated under PEP East Asia and the Pacific: Mekong Project Development Facility (MPDF) for the Mekong region, Pacific Enterprise Development Facility (PEDF) for the Pacific countries, Private Enterprise Partnership for Philippines (PEP-Philippines), China Project Development Facility (CPDF) for the Western regions of China, Private Enterprise Partnership for Aceh (PEP-Aceh), and Program for Eastern Indonesia SME Assistance (PENSA) for the remote islands of Indonesia.

IFC Priorities

2.5. IFC's strategic priorities in the region are: (i) small states and frontier regions; (ii) financial market development; (iii) infrastructure development; and (iv) sustainability.

2.6. *Small States and Frontier Regions.* IFC will use advisory services to strengthen the business enabling environment and unlock opportunities in infrastructure. It will leverage relationships with local and regional banks active in the Pacific, Timor Leste, Papua New Guinea and other small states to expand investment activities and reach SMEs. IFC will also support investments in sectors of comparative advantage, including in resources sectors. IFC's global products, including trade and micro-finance, are particularly well suited for small and frontier countries and it will try to apply them across the region beginning with the frontier countries of Vietnam and Mongolia.

2.7. *Financial Market Development.* IFC's objective will be to strengthen financial institutions, support institution building in capital markets and build capacities and incentives to reach underserved segments. To achieve these objectives, IFC will use advisory services to strengthen the enabling environment and build supporting infrastructure, particularly in frontier markets. IFC will leverage relationships with client banks to reach underserved segments, including MSMEs, housing, trade, and energy efficiency by introducing IFC's global product expertise. To support institution and capacity building, IFC will make equity investments in existing financial institutions in strategic partnerships with other institutions or strong management teams to support good governance and better capital allocation. IFC will also use advisory services to support capital market development and build relationships with non-bank financial institutions.

2.8. *Infrastructure Development.* IFC will use advisory services to unlock investment opportunities in infrastructure. IFC's business development efforts will be focused on: (i) countries with limited local financial market capability; (ii) local and regional players seeking to leverage IFC's reputation, global expertise and advisory services capabilities; and (iii) wholesale opportunities through IFC's financial market network. To address the specific investment needs in infrastructure, IFC will introduce innovative products, including long-tenor local currency loans, credit enhancement of carbon credits and flexible quasi-equity/preferred equity structures. IFC will develop and demonstrate new models of public private partnerships and introduce IFC's new sustainability products.

2.9. *Sustainability of Growth.* Advisory services will be used to strengthen the enabling environment for sustainable investment, particularly in frontier markets, with complementary investments to provide demonstration effects. IFC will use advisory services and investments to catalyze private investment in urban infrastructure, renewables, clean energy and energy efficiency. IFC will continue to work with financial institutions to encourage the adoption of energy efficient technologies. In natural resource industries and manufacturing sectors, IFC will align advisory and investment strategies to strengthen impact and establish models of best practice in environmental, social and corporate governance standards, including linkages programs as well as other targeted value-added services.

SOUTH ASIA

As discussed earlier in this paper, IFC has begun to accelerate the decentralization of operations and to streamline business processing to serve clients better and increase its development impact. The decentralization pilot in East Asia and the Pacific and South Asia discussed with the Board in last year's Business Plan and Budget Paper (IFC/R2006-0219) is the first stage of this new approach, and several projects have already been processed in the field using the increased field resources and delegation of authority.

Annex II - Table 3: South Asia

	FY05 Actual	FY06 Actual	FY07 Plan	FY10 Indicative
Commitments (\$m)	443	507	500-530	1,000-1,200
Advisory Services Spending (\$m) ¹	7	12	17	36
Development Impact Score (%) ²	57%	46%	43%	-

¹Incurring by field-based or HQ-based AS programs, including pre-project, project, program management and overhead costs for regional DFOs, global facility allocation, business line envelope and stand-alone advisory services.

²Expanded Project Supervision Report (XPSR) – percentage of XPSRs which scored “mostly successful and above” on the development outcome measure based on a 3-year rolling average. The FY07 score is an estimate. The development impact ratings in recent years reflect an increased number of projects affected by a number of factors, including the industrial slowdown in India in the late 1990s, security problems in Nepal, and the higher risks associated with investments in small IT companies.

Strategic Context

3.1. South Asia is home to 1.3 billion people, of which 30% live on less than \$1 a day. In recent years, economic growth has accelerated to nearly 7% per year, reducing poverty levels. Continued strong growth offers the best prospect for further poverty reduction, but this depends on expanded provision of social infrastructure and improvements in environmental

sustainability, so that the benefits of growth are widely shared, and the growth is sustainable. A long legacy of over-regulation and under-investment in infrastructure has resulted in a high-cost investment climate, which is a major impediment to attracting private investment. As a result, South Asia receives the lowest amount of FDI as a proportion of GDP of any region in the world, so growth is largely generated by domestic investment, fuelled by rising savings rates. Recently, India's strong growth and relatively well developed capital markets have attracted record inflows of portfolio capital and private equity. However, this has been focused on a few sectors. Overall, the region continues to lack both the financing and the access to global knowledge and markets that FDI would bring.

IFC's Priorities

3.2. IFC aims to help South Asia integrate into the global economy by bringing foreign investors to South Asia and taking South Asian companies to other markets; share global best practices; and provide longer tenor/subordinated debt and equity to second tier companies, whilst adding value from mobilization, sustainability and IFC's "seal of approval". As of end FY06, the committed portfolio was \$1.9 billion. IFC aims at least to double this to \$4 billion by FY10.

3.3. **Infrastructure.** Infrastructure continues to be the main constraint to sustaining rapid economic growth in South Asia. Lack of access to or poor quality of infrastructure services seriously affects the quality of life, especially for the poor. Regional governments are increasingly seeking private participation in infrastructure financing. The main constraints to greater private financing are the lack of bankable projects, lack of equity and availability of long tenor funding. IFC aims to scale up its support for private investment in infrastructure in close collaboration with the World Bank, with new commitments possibly reaching \$500 million per year by FY10. This will be achieved through a mix of investments of long-term debt and equity in specific projects; corporate investments in local infrastructure development companies; wholesale funding through local financial institutions and investment funds; pioneering sub-national finance transactions; and advisory work to structure concessions, privatizations and PPPs. Target sectors include power, transportation, water, waste water and sanitation. IFC is improving the structure of its local currency loan products in order to provide more appropriate products for infrastructure lending. IFC is also developing a donor-funded facility to increase its capacity to do advisory work for infrastructure.

3.4. **Rural Areas.** In India, the majority of the poor live in rural areas, where the private sector has had less of an impact on economic growth. IFC is seeking ways to increase the impact of the private sector on rural growth through investments and associated advisory services in agribusiness, rural finance (especially microfinance) and rural infrastructure. IFC aims to increase investments in these three areas to \$200 million per year by FY10. In addition, IFC helps investee companies link their operations to the rural economy. This year, IFC launched a major linkage program in a poor, undeveloped region of Rajasthan, India, associated with its investment in Cairn Energy.

3.5. **Financial Sector.** In the financial sector, IFC's strategy is to make investments and provide advisory services to build capacity in private financial institutions which contribute to financial deepening and expansion of financial services to underserved segments, such as SMEs. In India, IFC will focus on strengthening private sector banks through equity

investments in second-tier banks and Upper Tier II capital for stronger private banks as the sector opens up to increased competition and as banks strive to meet Basel II capital adequacy standards. IFC is precluded from a larger role in the Indian financial sector by government regulations which largely prohibit external borrowing by financial institutions. In Bangladesh, Bhutan, Nepal and Sri Lanka, IFC is working with partner banks through the South Asia Enterprise Development Facility (SEDF) to increase SME financing, and also to provide trade finance.

3.6. Industrial Growth. South Asia is currently experiencing rapid industrial growth, especially in India, as a result of improved international competitiveness stimulated by reduced tariffs and relaxation of FDI restrictions, and strong growth in domestic consumption. IFC's strategy is to invest equity and debt in labor-intensive, knowledge-based, export-oriented, globally competitive second-tier companies to support continued industrial growth. Over the past year, IFC has undertaken extensive sector mapping and segmentation analysis. This includes supporting Indian companies investing abroad, particularly in other developing countries. Three investments by Indian companies in Africa and the Middle East are expected to be committed in FY07.

3.7. Equity Investments. As of end-FY06, IFC held \$217 million in equity in South Asia, with a market value of \$428 million, representing 19.8% of the disbursed portfolio (net of specific reserves) at cost, and 32.7% at market value. IFC plans to increase the proportion of equity in its portfolio to 25% by FY10, with a focus on smaller investments and investments in family-owned companies which find it difficult to attract public or private equity. About two thirds of new investments would be made directly, and one third through funds in segments in which IFC cannot effectively invest directly. This could include early stage technology and pharmaceuticals, SME, microfinance, infrastructure and buyout/distressed assets funds.

3.8. Energy Efficiency and Renewable Energy. IFC sees good prospects for promoting energy efficiency and renewable energy in infrastructure, industry and agribusiness in South Asia. To encourage companies to make energy efficiency and renewable energy investments, IFC could help monetize carbon credits. IFC will promote energy efficiency in all new projects, and expects to double the number of projects with energy efficiency or renewable energy components in FY08, and increase sustainable energy commitments to \$100 million by FY10.

3.9. Frontier Countries and Regions. IFC is undertaking focused business development efforts to find investment opportunities in frontier countries in the region and frontier regions within India. However, IFC is constrained by exposure limits in Bhutan and the Maldives, which are small countries with limited debt service capacity. In Bangladesh, Nepal and Sri Lanka, a difficult investment climate and political instability has also limited investment opportunities in recent years, although prospects for new investments are improving.

3.10. Advisory Services. Advisory services for SME development are IFC's main contribution to private sector development in those parts of the region where investment opportunities are limited. The SEDF program in Bangladesh, Bhutan, Maldives, Nepal, Sri Lanka and the North-East states of India is laying the foundations for later investment opportunities, by improving access to finance in partnership with local banks, improving the business enabling environment and encouraging the growth of SMEs in key sectors. SEDF

works closely with the World Bank, including joint diagnostic work such as Investment Climate Assessments and joint private sector development programs. As part of a multi-donor private sector development (PSD) program in Bangladesh, IFC is preparing to launch a \$24 million advisory program (IFC Bangladesh Investment Climate Facility) to support implementation of investment climate reforms, building on work begun through SEDF. SEDF is expected to continue into a second phase when the current funding cycle is completed at the end of FY08, with a focus on access to finance and private sector development.

LATIN AMERICA AND THE CARIBBEAN

Annex II - Table 4: Latin America and the Caribbean

	FY05 Actual	FY06 Actual	FY07 Plan	FY10 Indicative
Commitments (\$m)	1,398	1,747	1,700-1,800	1,800-2,300
Advisory Services Spending (\$m) ¹	6	9	17	23
Development Impact Score (%) ²	64% ³	58%	56%	-

¹Incurred by field-based or HQ-based AS programs, including pre-project, project, program management and overhead costs for regional DFOs, global facility allocation, business line envelope and stand-alone advisory services.

²Expanded Project Supervision Report (XPSR) – percentage of XPSRs which scored “mostly successful and above” on the development outcome measure based on a 3-year rolling average. The FY07 score is an estimate. The development impact scores in recent years reflect the adverse effects of the Brazilian and Argentinean crises on IFC’s operations.

³FY05 result of 66% shown in last year’s paper was on the basis of one XPSR rating that had yet to be validated by IEG. Subsequently, the XPSR was re-issued, giving a result of 64% for FY05.

Strategic Context

4.1. Latin America is enjoying a sustained period of solid growth and low inflation. In 2006 real GDP growth is expected to be more than 4%, and is projected to be at the same level for 2007. The regional economy has been boosted by high prices for the commodities it exports, good global financial market conditions, and strong growth in its trading partners. Its success also owes much to sound fiscal policies. Average inflation has come down in the last two years, fiscal and external positions are much stronger, more countries have flexible exchange regimes and most central banks have established credibility in combating inflation. This credibility enables them to set lower real interest rates, which support growth. In many countries, domestic demand has played a crucial role, with real incomes boosted by lower inflation and both investment and private credit benefiting from the expansion of bank credit. This combination of global and local factors has created a positive environment for the region’s economies.

4.2. Whilst governments seem determined to maintain macroeconomic stability, concerns about persistent poverty and inequality remain and have given rise to political and social tensions. Elections in the past few years, including in Ecuador, Bolivia and Argentina, have led to important changes in the political leadership in several countries. After a year of unusually high electoral activity, the relative populist shift in the region mirrors a certain degree of public dissatisfaction about the distribution of economic power and wealth. Economic growth in LAC has also been falling behind other emerging markets. LAC’s relative growth in GDP per capita measured against the world average of the past twenty-five years is below average and lower than any other emerging market region except for Sub-Saharan Africa. The region remains vulnerable to a possible slowdown in the global economy

and to potential decreases in commodity prices. An investment gap remains, particularly in upgrading manufacturing competitiveness, infrastructure development, and in social sectors such as health and education. Progress in structural reform is still needed in pension, labor, fiscal, infrastructure, and financial sector areas to achieve sustainable growth. In a nutshell, the region is not yet on a sustainable growth path.

4.3. IFC Activities in FY06. IFC's activities in the region have been evolving and adapting to this dynamic environment. Commitments in FY06 reached \$1.7 billion. As countries are making headway in accessing capital markets, as liquidity is increasing, IFC places its emphasis in providing long-tenor financing, which remains difficult to access in most countries in the region, and supporting MSMEs, second-tier companies and leading companies aiming to become global players. The Corporation is also using more of its equity and advisory services.

4.4. Global Trends: Implications for LAC. IFC sees four global trends which have significant implications for LAC, in terms of both opportunities and challenges for IFC: (i) Shifts in global economic activity, although primarily towards Asia, are also occurring in LAC and IFC is finding opportunities in agribusiness, steel, and forestry. However manufacturing companies in several countries are experiencing declining competitiveness, exacerbated by gaps in workforce skills, access to infrastructure and bureaucracy. (ii) Climate changes and a concern for sustainable development are prompting IFC to encourage sustainable practices in the Amazon, to develop partnerships with NGOs, and to support new markets in renewable energy such as ethanol. (iii) The changing consumer landscape creates new opportunities for IFC to provide support in housing and retail finance. And finally, (iv) the aging population in both the US and Canada, including aging populations from Latin America and the Caribbean living in those countries, is opening new markets for healthcare, tourism and health-related education in Mexico, Central America and the Caribbean.

IFC Priorities

4.5. IFC's effort to support the development of the private sector in order to make markets work for all of its citizens remains the focus of its activities in the region. Specifically, against a backdrop of persistent inequality in the region and economic growth rates that lag most other emerging economies, IFC will focus on helping improve the business environment, broadening and deepening the access to finance for large and small entrepreneurs, and encouraging the sustainable development of physical and social infrastructure.

4.6. Systemic Approach. Whilst considerable progress has been made to encourage the private sector to invest and develop certain sectors, bottlenecks remain. A case in point is infrastructure, where public and private sector investment remains significantly below what is needed to upgrade the regions' crumbling infrastructure. In many instances, the know-how, ability and expertise of regulators to organize, prioritize and structure Public Private Partnerships is inadequate. IFC sees a critical need to work "upstream" through some combination of technical assistance and advisory services in order to encourage these PPPs to be successful. A "downstream" investment opportunity may materialize several years later but the early project development work needs to be undertaken. In both Mexico (Irapuato-Piedad Toll Road) and Brazil (BR116), IFC has seen its early stage efforts bear fruit but it took time (2-5 years) and resources to get to this stage. This systemic approach has also

worked in Mexico (Housing finance) and Peru (Land Titling/Microfinance) where IFC, by complementing and building on the efforts by the World Bank and the Government, is able to catalyze private sector investment in a sector. In the Peru example IFC has leveraged the World Bank's work in helping slum dwellers get title to their properties by providing microfinance for water connections. This systemic approach seeks to maximize the World Bank Group synergies, to address effectively the structural impediments to private sector growth and achieve a greater developmental impact.

4.7. IFC plans to do more of this type of work in coming years. There are currently six to eight such initiatives underway in the LAC region. Currently, around 25% of IFC's annual commitment volume in LAC comes from such long-term initiatives. IFC's goal is to increase substantially this share during the next three years. Focus sectors include financial markets, health & education, agribusiness, infrastructure and general manufacturing.

4.8. **Putting Clients First.** IFC relies on its clients in the delivery of development impact. It is critical that IFC continually identify, develop and nurture the appropriate set of strategic clients with whom to work so that development impact can be maximized over time. At the country level this means focusing the Corporation's efforts on the key sectors that correspond to the core country needs: improving the business climate, strengthening infrastructure, improving access to finance and promoting sustainability. At the company level, the LAC region focuses on understanding client needs, ensuring efficient delivery, sharing global knowledge/best practices and innovation. This combination of assessing country needs, and selecting appropriate clients to help meet those needs will allow IFC to be more effective in frontier countries (e.g. Haiti), and smaller economies such as the small island economies of the Caribbean, whilst also making a difference on poverty in the bigger economies where 90% of the poor in LAC are struggling to make a decent living.

4.9. **Sustainability.** In Latin America, sustainability is an overarching theme which includes corporate governance, environmental and social standards. IFC is leading a number of corporate governance initiatives (Brazil – Sustainability Index, Novo Mercado) as well as providing advisory services to its clients in order to improve their access to markets. Setting benchmarks in environmental and social standards across LAC has become an everyday challenge for the Corporation. This involves the will to tackle difficult and high profile projects (Mining in Peru, Guatemala and Guyana, Labor rights in Haiti/DR, Agribusiness and forestry in the Amazon, etc) where IFC provides its full range of products and services to address stakeholder needs. The implementation is strengthened further by close collaboration with the World Bank. On the one hand, IFC is setting benchmarks in the private sector, on the other the World Bank is working more at a macro level on developing the regulatory framework and its enforcement to provide the right signals to the private sector. Similarly, in extractive industry projects, emphasis is placed on tying IFC's financial investments with advisory work in consultation with the World Bank when synergies exist, on revenue management, local capacity building for efficient use of fiscal revenues and community engagement, in addition to IFC's established assistance in environmental management.

MIDDLE EAST AND NORTH AFRICA

Annex II - Table 5: Middle East and North Africa

	FY05 Actual	FY06 Actual	FY07 Plan	FY10 Indicative
Commitments (\$m)	315	668	900-960	1,000-1,250
Advisory Services Spending (\$m) ¹	8	15	23	27
Development Impact Score (%) ²	35%	44%	50%	-

¹Incurred by field-based or HQ-based AS programs, including pre-project, project, program management and overhead costs for regional DFOs, global facility allocation, business line envelope and stand-alone advisory services.

²Expanded Project Supervision Report (XPSR) – percentage of XPSRs which scored “mostly successful and above” on the development outcome measure based on a 3-year rolling average. The FY07 score is an estimate.

Strategic Context

5.1. **Overview of the Region.** Middle East and North Africa region (MENA) has shown strong economic growth over the last three years, averaging about 6.2% per annum. Whilst many countries in the region benefit from high oil revenues, oil-importing countries such as Egypt, Jordan and Pakistan have also experienced GDP growth in the past four years of 5% to 7% p.a. Some governments such as in Egypt and Pakistan, are privatizing state owned enterprises which have dominated the economy and are trying to diversify the basis of economies opening opportunities for private sector participations.

5.2. The region is undergoing a period of increased economic integration. In the region high oil prices have led to growing inter and intra regional FDI flows. Private companies throughout MENA are investing increasingly in other counties, not only in banking, oil, gas and petrochemicals, and telecoms, but also in manufacturing, health and education and agribusinesses sectors. Financial markets have been improving with the introduction of new types of institutions and products such as housing finance, microfinance and bond markets.

5.3. The challenge of employment creation nevertheless remains high since the economic growth rate is not high enough to absorb a fast growing young population (67% of the population is below the age of twenty-four). The region as a whole still tends to be more public sector-dominated than other regions.

5.4. The private sector has an important role to play in generating more jobs and income opportunities, but many factors still hamper the development of the private sector. They include weak and costly business environments, inadequate infrastructure, under-developed capital markets, low contribution of SMEs in most economies and weak corporate governance.

5.5. **IFC’s current investment portfolio, commitments and advisory services activities.** IFC’s portfolio of investments in the region totals about \$1.6 billion. Over the past three years, annual commitments have increased from \$236 million (FY04), \$315 million (FY05) to \$670 million (FY06). Investments are held in fifteen out of the total nineteen countries/territories in the MENA region and span all the sectors, while the investments in the financial sector represent about 30% of commitments. IFC expects to commit 30% to 40% of its investments in frontier countries in FY07, particularly in Pakistan and Yemen.

5.6. The PEP-MENA advisory services facility is currently engaged in about one hundred active advisory services projects across fifteen countries. IFC's engagement in Public Private Partnerships in the MENA region now includes five recently signed mandates in Egypt in such areas as private sector concessions of waste water management and construction and maintenance of public schools.

IFC's Priorities

5.7. IFC's strategic priorities in the MENA region are: (i) catalyze South-South investments; (ii) promote investments in the frontier countries and sectors; and (iii) post-conflict response.

5.8. MENA is a very diverse region in terms of countries' endowment of natural resources and political and economic situations. These countries can be grouped into four categories, and IFC aims to address the particular challenges facing these countries:

- Egypt, Pakistan, Jordan, Lebanon, Morocco, and Tunisia, which are poor in natural resources but have abundant labor. IFC is seeking investment opportunities in several sectors including agribusiness, petrochemicals, and infrastructure in addition to supporting housing and SME finance. The advisory services activities focus on business regulatory reforms, corporate governance, PPP and privatization. The post-conflict initiative in Lebanon is discussed in Annex I, paragraph 3.13;
- Algeria, Iran and Syria are countries which have both natural resources and abundant labor. IFC seeks to engage in developing financial markets and privatization/post-privatization support in the oil and gas and telecom sectors. Advisory services activity primarily addresses business regulatory reform and financial markets;
- Frontier and post-conflict countries of Afghanistan, Iraq, West Bank and Gaza, and Yemen. IFC has a strong program of investments and advisory services in Yemen acting as a catalyst for investment, and providing technical assistance to build local capacity of SMEs; and
- GCC countries are rich in resources and are importing labor. GCC is the source of South-South investments with strong regional players with whom IFC continues to develop strong partnership within and beyond the region. In addition, IFC will assist these countries to deepen financial markets on a selective basis and use Islamic products with a view to replicating in countries outside of GCC. Advisory services to enhance corporate governance are well accepted by the GCC business community.

5.9. The MENA region is particularly challenged by political events and conflicts. IFC has remained active despite these events and will continue to be engaged in conflict countries. Investment and advisory services continue to work in a coordinated manner. Nearly half of the expenditures of PEP-MENA are spent on investment-related AS and/or privatization and PPP advisory work. The remaining activity is either directly complementary to World Bank activity or in other priority areas such as Business Edge and Corporate Governance.

SOUTHERN EUROPE AND CENTRAL ASIA

Annex II - Table 6: Southern Europe and Central Asia

	FY05 Actual	FY06 Actual	FY07 Plan	FY10 Indicative
Commitments (\$m)	811 ¹	991	1,000-1,200	1,200-1,600
Advisory Services Spending (\$m) ²	11	9	23	16
Development Impact Score (%) ³	71%	63%	69%	-

¹This is slightly higher than the \$809 million shown in last year's paper due to allocation of World Region projects.

²Incurred by field-based or HQ-based AS programs, including pre-project, project, program management and overhead costs for regional DFOs, global facility allocation, business line envelope and stand-alone advisory services.

³Expanded Project Supervision Report (XPSR) – percentage of XPSRs which scored “mostly successful and above” on the development outcome measure based on a 3-year rolling average. The FY07 score is an estimate.

Strategic Context

6.1. Southern Europe and Central Asia (SECA) countries have continued to grow fast. In 2006, the region continued to experience strong economic growth (6.2%) driven by recovery in industrial growth influenced by a strong inflow of FDI, strong domestic demand fuelled by credit growth, revival of export markets, and increase in oil prices (in Central Asia). Turkey has been one of the fastest growing economies in the world over the last four years with 7.8% average annual growth during 2002-2005. Overall, the growth has been driven by competitive markets rather than by governments. South Eastern Europe countries made the most headway in reforms while in Central Asia the reforms have been slower.

6.2. **Private sector is faced with constraints and challenges to grow.** The main barriers to private sector growth remain weak local institutions, degraded economic and social infrastructure, difficult business environment, corporate governance, and corruption. External shocks are a threat and capital may be withdrawn from vulnerable economies. The financial sector is developing fast and long-term funding is becoming increasingly available in more developed markets such as Bulgaria, Croatia, Romania, Turkey and Kazakhstan. However, financial intermediation and the quality of the financial institutions remain low in most of the countries in the region.

6.3. **IFC has achieved very good results in the SECA region.** Results from DOTS show that IFC has achieved high development impact in the SECA region. IFC's activities have been growing fast and its strategy/approach has been changing to adapt to a fast changing business environment. As a result, the outstanding portfolio has grown, from \$1.65 billion in FY04 to \$2.5 billion as of January 2007, and is healthy (non-performing loans of less than 2%). The number of projects with new clients is forecast to double in FY07 as compared to FY06. SME financing grew significantly in Kazakhstan, Macedonia, Albania, Croatia, and Azerbaijan. In FY06, about 40% of the projects and 60% of advisory services expenditures were in frontier markets (compared to 7% of their share of GDP). IFC continued to support South-South projects, investing in ten projects in FY07 to end-February as compared to five projects in FY06.

6.4. To respond better to the country needs and to a fast changing business environment, IFC has been implementing innovative approaches such as: (i) wholesale products in smaller countries or difficult sectors (e.g. student loan facility in Turkey and credit facility to

Hamkobank Uzbekistan); (ii) small equity investments in the financial sector in frontier markets; direct investments in the SME sector (twelve projects); (iii) groundbreaking advisory services products (alternative dispute resolution, European standards, recycling, advisory services for privatizations in infrastructure); (iv) transformation of NGOs to commercial microfinance in frontier countries (e.g., the transformation of Ekonomik Kredit Institution from its not-for-profit status to a regulated, commercially oriented, non-deposit taking financial organization); and (v) multi-country projects in retail and oil and gas in the Balkans and Turkey.

IFC's Priorities

6.5. Countries' needs drive IFC's Strategy in the SECA region. Financial markets and general manufacturing remain the main sectors of focus. The level of financial intermediation is low in most of the countries in SECA (domestic credit to GDP ratio of 8-30% in most markets). Housing finance is still at an early stage of development and the lack of it is the main constraint for people to have access to affordable housing (mortgage penetration ranges as low as 3% in Turkey compared to 70% in developed countries). In general manufacturing IFC's activities are largely driven by services/industries such as retail, real estate, construction materials and export oriented manufacturing. Food processing is an important component of industry given its staple nature and the fact that agriculture represents 16% of GDP of SECA region countries and significantly more in terms of employment. In addition, infrastructure and energy services have a lot of potential to develop in the region. Access to efficient utility services is lower in most SECA countries than in developed markets. Resource development continues to be a priority in Kazakhstan, Azerbaijan, Turkmenistan and Uzbekistan. Turkey and Southeast Europe will remain important players for regional energy transport projects.

6.6. IFC is expanding its reach to smaller/frontier markets. IFC will increase its presence and provide better services through adjusting its approach, being more active and taking higher risk, working with other IFIs to share risk, and benefiting from the synergies with advisory services and the World Bank. In three years, IFC expects to double the number of projects in frontiers. IFC will also expand beyond capital cities in more developed countries in the region. To reach out to frontiers, smaller markets and difficult sectors IFC will continue to use its strong advisory services.

6.7. In more developed markets, IFC will be more innovative. IFC will continue to develop new products, support South-South projects and provide a range of products and services. In the financial sector, IFC will increase its activities in structured finance, mortgage and housing finance and local currency finance. In Turkey, IFC will further diversify its client base, reach out to more sectors, and offer its products (including equity) to a wider group of clients. IFC has made significant progress in reaching out to good second tier companies in Turkey as a result of a comprehensive mapping for a number of sectors. IFC expects to develop more projects with a diverse set of second tier clients, including reaching out to the less privileged parts of the country. IFC will offer new products to larger clients, supporting South-South investments and smaller companies in their supply chains.

6.8. IFC will continue to grow in the SECA region. In three years, IFC aims to increase its outstanding portfolio from \$2.5 billion at end-February 2007 to around \$4 billion. South-South investments will remain a priority. To enhance its development impact, IFC will also

expand advisory services significantly. The focus of advisory services will be on frontier markets allocated on a limited number of business lines. In three years, IFC expects to increase its equity portfolio in SECA investing primarily in Turkey, Balkans and Kazakhstan in financial markets, infrastructure and regional funds. IFC will continue to work with its regional private equity fund clients as an effective way of increasing equity investments in the region.

6.9. **To achieve results, IFC will foster its cooperation with the World Bank.** The region has a promising start through its joint work in regulatory reforms in Central Asia and close cooperation on joint CASs for Serbia, Bosnia, Montenegro and Albania. IFC is in the process of further exploiting IFC/Bank synergy: promoting public-private partnerships in infrastructure in the Balkans through PEP-Southern Europe Infrastructure to create future projects; in Kosovo, to develop a lignite-fired power generation project with significant importance to the economic development of the country; IFC and FIAS are implementing a joint program in the Western Balkans; in Central Asia, co-locating offices and sharing of support staff such as IT, accounting, reception, public relations, etc.

SUB-SAHARAN AFRICA

Annex II - Table 7: Sub-Saharan Africa

	FY05 Actual	FY06 Actual	FY07 Plan	FY10 Indicative
Commitments (\$m)	445	700	770-850	900-1,000
Advisory Services Spending (\$m) ¹	19	20	51	67
Development Impact Score (%) ²	39%	41%	48%	-

¹Incurring by field-based or HQ-based AS programs, including pre-project, project, program management and overhead costs for regional DFOs, global facility allocation, business line envelope and stand-alone advisory services.

²Expanded Project Supervision Report (XPSR) – percentage of XPSRs which scored “mostly successful and above” on the development outcome measure based on a 3-year rolling average. The FY07 score is an estimate.

7.1. IFC’s Strategic Initiative (SI) for Africa – Progress Report (FY04-FY06) and FY07-FY09 Priorities (IFC/R2006-0297) was discussed by the Board in December 2006. The following is a summary of this report.

Strategic Context

7.2. The economic and political environment in Africa is changing. Macroeconomic improvements in Africa have been substantial over the previous three-to-five years. There are fewer conflicts, spurred by The African Union’s proactive approach to resolution of issues. Importantly for IFC, there is increased confidence among African investors.

7.3. There were three pillars in the FY04-06 strategy (which will remain the pillars for the next three years): (i) improving the investment climate; (ii) enhanced support to SMEs; and (iii) proactive project development to support IFC investments, especially in infrastructure projects. Implementation of the SI focused on: (i) developing new products and services for clients; and (ii) leveraging partnerships in implementation. IFC’s results in Africa over the FY04-FY06 period are indicators that its approach is working: during FY04-FY06, IFC’s commitments in Africa grew by 400% (and in FY07 IFC expects to commit around \$770-

\$850 million); the Private Enterprise Partnership for Africa (PEP-Africa) has made good progress; and partnerships, external and internal, have been enhanced throughout the region.

7.4. Resources from the SI together with enhanced administrative budget allocated to Africa have enabled IFC to develop new services and products, notably, the SME solution centers, local currency lending, trade finance and the Post-conflict and IFC Against AIDS Initiatives. Progress has been made in implementing the three pillars of the African strategy.

7.5. During FY06-FY07 IFC has leveraged internal and external partnerships. On-the-ground collaboration with the World Bank and MIGA has been a top priority. Progress is good on investment climate work, where PEP Africa and FIAS integrated their management and strategies. A pilot with the World Bank and MIGA to map and offer to mutual clients a fully coordinated set of World Bank Group products and services is being established.

7.6. Improving corporate governance is an important focus for IFC in the region. There are two major aspects to IFC's corporate governance work: (i) implementation of proper corporate governance procedures in IFC projects; and (ii) funding of the Pan-African Consultative Forum on Corporate Governance meetings. The Forum is a major initiative aimed at improving corporate governance in Africa and involves a number of regional and international institutions including the World Bank, IFC, African Development Bank, African Capital Markets Association, East Central and Southern Africa Association of Accountants, Centre for Corporate Governance, NEPAD, African Association of Central Banks, African Capacity Building Foundation, UN Economic Commission for Africa, and others.

IFC's Priorities

7.7. IFC will be retaining the same strategic focus under the Strategic Initiative for Africa:

- **Pillar 1: Improving the Investment Climate.** IFC will develop business based on: (i) maximizing the synergies from joint World Bank Group programs; (ii) concentrating efforts in post-conflict countries; and (iii) expanding into new advisory services product areas. The priorities are aligned with other initiatives previously approved by the Board and reflect the priorities of the Africa Action Plan (AAP) of the World Bank;
- **Pillar 2: Enhanced Support to SMEs.** This involves concentrating efforts on two areas: (i) expanding the MSME finance portfolio; and (ii) leveraging Linkages programs for SMEs.
- **Pillar 3: Proactive Project Development to Support IFC Investments, especially in infrastructure projects.** The three priority areas are: (i) advisory services-led business development; (ii) leveraging IFC's corporate advisory mandates; and (iii) improving market reach.

7.8. An additional priority area for IFC is stronger involvement in cross border projects in line with the regional integration work of the World Bank.

7.9. IFC plans to explore South-South investment opportunities, especially with investors from China, India, Brazil, and South Africa. IFC hopes to play a bigger role in assisting

South African companies that are interested in investing in the rest of Africa. Early indications suggest opportunities exist in energy, oil gas and mining, infrastructure, and telecommunications.

7.10. IFC plans to accelerate the growth of investments into FY10. Over this period, commitments in Africa are expected to grow substantially, reaching up to \$1 billion. The three key sectors behind the projected growth are: (i) Financial Markets; (ii) Infrastructure; and (iii) Oil, Gas, Mining and Chemicals. In addition, IFC intends to increase its activities in the agribusiness sector.

7.11. Given the limited market-oriented mortgage system in most of sub-Saharan Africa, IFC is supporting a program to facilitate the general market development through the standardization of mortgage provision and improvements in the quality of housing construction. IFC's focus in housing finance are on: (i) advisory services that targets capacity building at the sector level and mortgage origination capability at the financial institutions level, such as the Mortgage Toolkit for Africa; (ii) financing the supply side (construction finance and residential property development to provide bankable and affordable homes; and (iii) financing the demand side (primary mortgage products).

7.12. Opportunities in the infrastructure sector are strong and are likely to remain so in the next three years. IFC will seek to make early stage equity investments in parallel with the TA interventions. IFC is currently considering a proposal, discussed in the paper "IFC: Creating Opportunity and Update on Capital Position" for a project development facility which will enable IFC to capture the value of early stage project development interventions in the infrastructure sector.

7.13. **Post-Conflict Countries.** A key challenge for IFC in expanding its reach is how to engage effectively in post-conflict countries and fragile states, in full collaboration with the World Bank and other development partners. In June 2006, the Board approved funding for the post-conflict initiative for Africa, to enhance IFC presence in Democratic Republic of Congo, Liberia, Sierra Leone and Central African Republic. IFC plans to play a more proactive and catalytic role to accelerate private sector involvement by: (i) introducing innovative ways to mitigate risk; (ii) helping improve the investment climate; (iii) building MSME capacity; and (iv) mobilizing local and foreign investors. IFC will request the approval for setting up new SME facilities in these countries. This should complement the reconstruction efforts currently underway that put greater emphasis on access to finance and other support for local businesses in post-conflict countries. Subject to lessons learned from this pilot, consideration will be given to extending the initiative to other post-conflict countries.

ANNEX III. FRONTIER COUNTRIES AND IDA COUNTRIES

The countries in shaded Boxes 1, 2 and 3 would be included in IFC's proposed new definition of Frontier countries, aligning IFC better with the rest of the World Bank Group. The current Frontier country definition includes the countries in Boxes 1 and 2. The proposed new definition of Frontier countries would include all IDA countries as well as high-risk non-IDA countries. As risk and income levels of countries in Box 4 change, they may qualify for the Frontier definition.

	IDA (*IDA BLEND) COUNTRIES			NON-IDA COUNTRIES			
FRONTIER	Afghanistan	Georgia	Nigeria	Antigua and Barbuda	Micronesia, Federated States of		IFY06 Commitments in Frontier (1+2) = \$1.5 billion / 25%
	Albania (*)	Ghana	Pakistan (*)	Belarus	Palau		
	Angola	Grenada (*)	Papua New Guinea (*)	Belize	Paraguay		
	Armenia	Guinea	Rwanda	Equatorial Guinea	Saint Kitts and Nevis		
	Bangladesh	Guinea-Bissau	Saint Lucia (*)	Fiji	Seychelles		
	Benin	Guyana	Samoa	Gabon	Swaziland		
	Bhutan	Haiti	Senegal	Iraq	Syrian Arab Republic		
	Bolivia (*)	India (*)	Sierra Leone	Kosovo	Turkmenistan		
	Bosnia and Herzegovina	Kenya	Solomon Islands	Marshall Islands	West Bank and Gaza		
	Burkina Faso	Kyrgyz Republic	Somalia				
	Burundi	Lao PDR	Sudan				
	Cambodia	Liberia	Tajikistan				
	Cameroon	Madagascar	Tanzania, United				
	Cape Verde	Malawi	Timor-Leste				
	Central African Republic	Maldives	Togo				
	Chad	Mali	Tonga				
	Comoros	Mauritania	Uganda				
Congo Republic	Moldova	Uzbekistan (*)					
Congo, DRC	Mongolia	Vanuatu					
Cote D'Ivoire	Montenegro (*)	Vietnam					
Djibouti	Mozambique	Yemen, Republic of					
Dominica (*)	Myanmar	Zambia					
Eritrea	Nepal	Zimbabwe (*)					
Ethiopia	Nicaragua						
	Niger						
	BOX 1	FY06 - \$1.4 billion (23%)	BOX 2	FY06 - \$0.1 billion (2%)			
NON-FRONTIER	Azerbaijan (*)		Algeria	Guatemala	Namibia	IFC FY06 Commitments in non-Frontier (3+4) = \$4.5 billion / 75%	
	Honduras		Argentina	Hungary	Oman		
	Indonesia (*)		Bahamas, The	Iran, Islamic Republic	Panama		
	Kiribati		Bahrain	Jamaica	Peru		
	Lesotho		Barbados	Jordan	Philippines		
	Serbia (*)		Botswana	Kazakhstan	Poland		
	Sri Lanka		Brazil	Korea, Republic of	Romania		
			Bulgaria	Kuwait	Russian Federation		
			Chile	Latvia	Saudi Arabia		
			China	Lebanon	Slovak Republic		
			Colombia	Libyan Arab	Slovenia		
			Costa Rica	Lithuania	South Africa		
			Croatia	Macedonia, FYR	Thailand		
			Cyprus	Malaysia	Trinidad and Tobago		
			Czech Republic	Malta	Tunisia		
			Dominican Republic	Mauritius	Turkey		
			Ecuador	Mexico	Ukraine		
			Egypt	Morocco	United Arab Emirates		
			Estonia		Uruguay		
			El Salvador		Venezuela		
		BOX 3	FY06 - \$0.3 billion (5%)	BOX 4	FY06 - \$4.3 billion (70%)		
IFC FY06 Commitments in IDA Countries (1+3) = \$1.7 billion / 28%			IFC FY06 Commitments in non-IDA Countries (2+4) =\$4.4 billion / 72%				
IFC FY06 Commitments in Frontier and / or IDA Countries (1+2+3)= \$1.8 billion / 30%							

NOTE: Commitment numbers exclude commitments to regional or global projects

ANNEX IV. FRONTIER REGIONS OF MIDDLE INCOME COUNTRIES

Argentina Catamarca Chaco Corrientes Entre Ríos Formosa Jujuy La Rioja Misiones Salta San Juan Sgo. del Estero Tucumán	Colombia Norte Santander Putumayo Sucre Vichada Croatia Karlovac Sibenik-Knin Sisak-Moslavina Slavonski-Brod Posavina Vukovar-Sirmium Dominican Republic Del Valle Region Enriquillo Region Noroeste Region Egypt Assiut Aswan Behera Beni Suef Fayoum Luxor Menia New Valley Qena Suhag Guatemala Alta Verapaz Baja Verapaz Chimaltenango Huehuetenango Jalapa Jutiapa Petén Quetzaltenango Quiché San Marcos Santa Rosa Sololá Totonicapán Indonesia Prop. Bangka Belitung Prop. Banten Prop. Bengkulu Prop. Gorontalo Prop. Jambi Prop. Kalimantan Barat Prop. Kalimantan Selatan Prop. Kalimantan Tengah Prop. Lampung Prop. Maluku Prop. Maluku Utara Prop. Nanggroe Aceh Darussalam Prop. Nusa Tenggara Barat Prop. Nusa Tenggara Timur Prop. Papua Prop. Sulawesi Selatan Prop. Sulawesi Tengah Prop. Sulawesi Tenggara Prop. Sulawesi Utara Prop. Sumatra Barat Prop. Sumatra Selatan Prop. Sumatra Utara Prop. Yogyakarta	Kazakhstan Akmola oblast Almaty oblast East-Kazakhstan oblast Kostanai oblast North-Kazakhstan oblast South-Kazakhstan oblast Zhambyl oblast Mexico Chiapas Guerrero Hidalgo Michoacan de Ocampo Nayarit Oaxaca Tabasco Tlaxcala Veracruz de Ignacio de la Loyla Zacatecas Panama Bocas Del Toro Chiriqui Cocle Darien Herrera Los Santos Veraguas Peru Amazonas Apurímac Ayacucho Cajamarca Cusco Huancavelica Huánuco Junín Lambayeque Loreto Piura Puno San Martín Tumbes Ucayali Philippines Bicol Cagayan Valley Calabarzon Caraga Central Luzon Central Visayas Cordillera Administrative Davao Region Eastern Visayas Ilocos Mimaropa Muslim Mindanao Northern Mindanao Soccsksargen Western Visayas Zamboanga Peninsula
Brazil Acre Alagoas Amapá Amazonas Bahia Ceará Maranhão Pará Paraíba Pernambuco Piauí Rio Grande do Norte Rondônia Roraima Sergipe Tocantins		
China Anhui Chongqing Gansu Guangxi Guizhou Heilongjiang Henan Hubei Hunan Inner Mongolia Jiangxi Jilin Liaoning Ningxia Qinghai Shaanxi Shanxi Sichuan Tibet Xinjiang Yunnan		
Chile Araucania Coquimbo Los Lagos Maule		
Colombia Amazonas Caquetá Cauca Chocó Córdoba Guanía Magdalena Nariño		

Romania	Russian Federation	Ukraine
Bistrița-Năsăud	Ust-Ordinsk Buryatsk okrug	Cherkasy oblast
Botoșani	Vladimir oblast	Chernivsti oblast
Brăila	Volgograd oblast	Kherson oblast
Buzău	Voronezh oblast	Khmelnyskyi oblast
Călărași		Rivne oblast
Dolj	Serbia	Temopil oblast
Giurgiu	Bor District	Vinnytsia oblast
Gorj	Jablanica District	Volyn oblast
Hunedoara	Kolubara District	Zakarpattia oblast
Ialomița	Pčinja District	Zhytomyr oblast
Mehedinți	Pirot District	
Neamț	Podunavlje District	Uruguay
Olt	Rasina District	Artigas
Sălaj	Raška District	Cerro Largo
Teleorman	Šumadija District	Lavalleja
Tulcea	Toplica District	Rio Negro
Vaslui	Zaječar District	Tacuarembó
Vrancea	Zlatibor District	
Russian Federation	South Africa	
Aginsk Buryatsk okrug	Eastern Cape	
Altai krai	Limpopo	
Amur oblast	Mpumalanga	
Astrakhan oblast	Northern Cape	
Belgorod oblast	Northwest Province	
Bryansk oblast		
Chelyabinsk oblast	Turkey	
Chita oblast	Adıyaman	
Ivanovo oblast	Afyon	
Jewish autonomous okrug	Ağrı	
Kaliningrad oblast	Aksaray	
Kaluga oblast	Amasya	
Kemerovo oblast	Ardahan	
Kirov oblast	Bartın	
Kostroma oblast	Batman	
Krasnodar krai	Bayburt	
Kurgan oblast	Bingöl	
Kursk oblast	Bitlis	
Novgorod oblast	Çankırı	
Novosibirsk oblast	Diyarbakır	
Orenburg oblast	Düzce	
Orlov oblast	Erzincan	
Penza oblast	Erzurum	
Primorsk krai	Gaziantep	
Pskov oblast	Giresun	
Rep. of Karashayev-Cherkesiya	Gümüşhane	
Republic of Adigeya	Hakkari	
Republic of Altai	Iğdır	
Republic of Buryatiya	Isparta	
Republic of Chechnya	Kahramanmaraş	
Republic of Chuvashiya	Karabük	
Republic of Dagestan	Kars	
Republic of Ingushetiya	Kırşehir	
Republic of Kabardino-Balkariya	Konya	
Republic of Kalmikiya	Malatya	
Republic of Khakasiya	Mardin	
Republic of Marii El	Muş	
Republic of Mordoviya	Ordu	
Republic of Northern Osetiya	Osmaniye	
Republic of Tyva	Şanlıurfa	
Republic of Udmurtiya	Siirt	
Rostov oblast	Sinop	
Ryazan oblast	Şirnak	
Saratov oblast	Sivas	
Smolensk oblast	Tokat	
Stavropol krai	Trabzon	
Tambov oblast	Tunceli	
Tomsk oblast	Uşak	
Tula oblast	Van	
Tver oblast	Yozgat	
Ulyanovsk oblast		

ANNEX V. CORPORATE SCORECARD FY06

Indicators with FY08 targets agreed with the Board are boxed.
US \$ million unless noted.

CLIENT SATISFACTION MEASURES	FY06 RESULTS	FY07 ESTIMATE	FY08 TARGET OR BENCHMARK	FY10 TARGET OR BENCHMARK	NOTES
External: % of satisfied respondents in the Annual Client Survey	85%	NA	Benchmark: FY04	Benchmark: FY06	
External: % of clients who said IFC's services are responsive and timely	67%	NA	-	Benchmark: FY06	

DEVELOPMENT IMPACT MEASURES	FY06 RESULTS	FY07 ESTIMATE	FY08 TARGET OR BENCHMARK	FY10 TARGET OR BENCHMARK	NOTES
A. Ex-post Development Impact Measures					
% satisfactory or better ex-post development outcomes (XPSRs) – IEG ratings	55%	55 - 60%	65% on projects committed FY06-08	[65%] on projects committed FY08-10	1
DOTS (Developing Outcome Tracking System) Success Rate	56%	61%	-	-	2
B. Ex-ante Development Impact Measures					
Pillar 1. Strengthen the Focus in Frontier Markets					
Commitments in Sub-Saharan Africa	700	770 – 850	735 – 875	900 – 1,000	
Commitments in MSME	1,550	1,100 - 1250	1,100 – 1,300	1,300 – 1,600	3
% of IFC total commitments in frontier countries, compared with the frontier share of developing member country GDP	25%:15% (excl. Argentina)	26% - 30% : 14%	Overweight in Frontier	Overweight in Frontier	4
Commitments in Middle East and North Africa	668	900 - 960	-	1,000 – 1,250	
Pillar 2. Build Long-term Partnerships with Emerging Players					
Number of projects with new sponsors as % of total project count	50%	45-50%	Larger than 50%	Larger than [45-50]%	
Domestic sponsors as % of total number of commitments	63%	58 - 63%	Benchmark: FY04	Benchmark: FY06	
South-South commitments	673	376 (half year)	Benchmark: FY04	Benchmark: FY06	
Pillar 3. Differentiate through Sustainability Competencies					
Renewable Energy and Energy Efficiency projects					5
IFC Commitments	393	108 (half year)	EIR target for the World Bank Group	EIR target for the World Bank Group	6
Total Project Cost with RE/EE Component	1,762	400 (half year)	EIR target for the World Bank Group	EIR target for the World Bank Group	
% of Clients who received E&S input in Annual Client Survey	67%	NA	Benchmark: FY04	Benchmark: FY06	
of which, % of Clients who said E&S input had positive impact on their business	84%	NA	Benchmark: FY04	Benchmark: FY06	
Pillar 4. Address Constraints to Private Sector Growth in Infrastructure, Health and Education					
Commitments in infrastructure, ICT, health and education	1,447	1,655 – 1,800	1,500 – 1,800	2,100 – 2,340	
of which, ICT	366	385 – 420	Benchmark: FY04	Benchmark: FY06	7
of which, Infrastructure other than ICT	955	1,100 – 1,200	Benchmark: FY04	Benchmark: FY06	
of which, Health and Education	126	170 – 180	Benchmark: FY04	Benchmark: FY06	
Commitments in Sub-nationals	52	95-100	Benchmark: FY04	Benchmark: FY06	
Number of mandates in Advisory Services to Private-Sector Participation in Public Infrastructure Services	Closed – 4 Ongoing – 26	Closed – 6 Ongoing – 26	Benchmark: FY04	Benchmark: FY06	8

DEVELOPMENT IMPACT MEASURES	FY06 RESULTS	FY07 ESTIMATE	FY08 TARGET OR BENCHMARK	FY10 TARGET OR BENCHMARK	NOTES
Pillar 5. Continue to Emphasize Local Financial Market Development					
Commitments in Financial Sector	2,468	2,800 – 2,900	2,100 – 2,500	3,000 – 3,200	⁹
of which, Housing Finance	586	550-600	Benchmark: FY04	Benchmark: FY06	¹⁰
Commitments in Local Currency Financing	1,320	350 (as of end Feb)	Benchmark: FY04	Benchmark: FY06	
Number of Technical Assistance and Advisory Services in Financial Sector (Count)	133	150-170	Benchmark: FY04	Benchmark: FY06	¹¹

FINANCIAL AND ORGANIZATIONAL PERFORMANCE MEASURES	FY06 RESULTS	FY07 ESTIMATE	FY08 TARGET OR BENCHMARK	FY10 TARGET OR BENCHMARK	NOTES
Operational Performance					
IFC net commitments	6,703	6,800-7,500	6,015 – 7,150	8,500 - 9,300	
IFC committed syndications	1,572	2,000-2,300	Benchmark: FY04	Benchmark: FY06	
Technical Assistance and Advisory Services Expenditures	153	NA	Benchmark: FY04	Benchmark: FY06	¹²
Financial Performance					
Operating income	1,409	2,100 – 2,700	Benchmark: FY04	Benchmark: FY06	¹³
Return on Net Worth	14%	17 – 22%	Benchmark: FY04	Benchmark: FY06	
Return on Net Worth, adjusted for TAAS	15%	20 – 24%	6.0%	6.0%	¹⁴
Loan portfolio: Non-performing loans	4.2%	3.5%	Benchmark: FY04	Benchmark: FY06	¹⁵
Maintenance of AAA Rating	Yes	Yes	Yes	Yes	
Productivity					
Productivity: # Commitments / Investment staff	0.57	0.56 – 0.59	Benchmark: FY04	Benchmark: FY06	¹⁶
Productivity: \$ Commitments / Investment staff	13.5	12.6 – 13.6	Benchmark: FY04	Benchmark: FY06	
HR Dimension					
Diversity: % of Sub-Saharan African and Caribbean Nationals	8%	9%	10% (WBG Target)	10% (WBG Target)	
Diversity: % of Female Workers in GF-GG	41%	42%	45% (WBG Target)	45% (WBG Target)	¹⁷
Diversity: % of Female Workers in GH+	24%	24%	30% (WBG Target)	30% (WBG Target)	
Staff morale: % of satisfied respondents in the Biannual Staff Survey	81%	NA	Benchmark: FY06 (Latest WBG Staff Survey)	Benchmark: FY06 (Latest WBG Staff Survey)	¹⁸

¹ FY06 results are based on a 3-year rolling average for projects approved during calendar year (CY)98 to 00 (projects are typically evaluated 5-6 years after approval).

² FY06 DOTS results are based on a 3-year rolling average for projects approved in CY98-00.

³ MSME commitments include: direct MSME borrowers; financial institutions with more than 50% of their business clients being MSMEs; and any other investments that explicitly target MSMEs as primary beneficiaries. FY10 target includes trade finance.

⁴ Frontier countries are low income (World Bank income category) or highest risk (Institutional Investor rating of 30 or less) countries. The comparator is the size of frontier economies as a % of all IFC's developing member countries, measured by GDP in current US dollars.

⁵ World Bank Target is to increase RE/EE portfolio by an annual average of 20% over five years, FY05-09.

⁶ In FY06, the total project cost of projects with RE/EE components was \$5.9 billion, of which \$1.7 billion was invested in RE/EE components. IFC invested \$866 million in these projects, of which \$393 million was targeted to RE/EE components. In the first half of FY07, the total project cost of projects with RE/EE components was \$2.2 billion, of which the RE/EE component was \$400 million. IFC invested \$293 million in these projects, of which \$108 million was targeted to the RE/EE components.

⁷ Information and Communication Technologies.

⁸ FY07 figure as of February 28, 2007.

⁹ Not including Private Equity funds.

¹⁰ Does not include direct commercial bank lending that targets housing finance sector.

¹¹ Active TA projects in Financial Sector.

¹² Donor-funded Operations (DFO) and Advisory Services (AS) expenditures include overhead costs and cost of delivering projects in the 32 DFO/AS programs, including: Trust Fund program, FIAS, DEVCo, six Environmental Facilities, SME Capacity Building Fund, SME Initiatives, Grassroots Business Initiatives, Project Development Facilities, and PEPs.

¹³ Including unrealized gains from IFC's investments in Limited Liability Partnerships and certain investments in Limited Liability Corporations.

¹⁴ IFC Return on Net Worth based on operating income adjusted for FMATAAS expenses.

¹⁵ FY07 figure as of February 28, 2007.

¹⁶ Total number of projects divided by the total number of investment officers from grade F to H, excluding managers, industry specialists, economists/strategists, and budget officers.

¹⁷ All diversity figures as of January 31, 2007.

¹⁸ Biannual Staff Survey 2005, percentage of favorable respondents on "overall satisfaction" section.