IFC 50 YEARS International Finance Corporation World Bank Group

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Choices Matter

2005 SUSTAINABILITY REPORT

ON THE COVER:
The younger generation of stakeholders in the Sadiola Gold Mine project in Mali

© Ted Pollett

IFC has been involved with the Sadiola Gold Mine since investing in 1995. Our involvement has included helping the client to develop a comprehensive Environmental and Social Action Plan (including a Resettlement Action Plan) to manage impacts during the initial construction phase, as well as an Integrated Development Action Plan to ensure that benefits and opportunities associated with mining activities are shared with, and contribute to the long-term sustainable development of local communities.

"Part of the process has been creating synergies and building trust between the different stakeholders to increase the positive impact of the project. It isn't an easy approach, but it has been worthwhile. What we've learned will help us replicate this model in other investments."

Ted Pollett, Principal Social Development Specialist, IFC

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Our focus is on reinforcing the potential of markets to facilitate positive social and environmental change.

Foreword

This past year has been a time of tremendous change for IFC and one in which, in many respects, the eyes of the world have been focused on us. Taking up my position as Executive Vice President in January 2006, I welcomed the challenge and opportunity of joining this institution during such an exciting time.

IFC is a strong organization. It achieved excellent financial results last year and is on track to do the same this year. As we look ahead, we will focus even more on the assessment of our development impact. We will do so to better serve our clients and to meet our ambitious development goals.

The biggest development challenge lies in Africa. IFC can help in many ways: financing of infrastructure, good quality health services, education, and sustainable management of natural resources. Through private sector financing, we can encourage the right kinds of investments and have a real development impact. The section on Sub-Saharan Africa in this report gives a perspective on the work that IFC does in the region.

Since the end of February 2006, IFC has new environmental and social standards, and a new disclosure policy. These standards are stronger, better, and more comprehensive than those we had in place before.

With these new policies, we will increase the development impact of projects in which we invest. We will also give companies operating in emerging markets the capacity to manage fully their environmental and social risks and to compete better in a global economy.

The key challenge lies in the implementation of IFC's new standards. It will require a matching commitment and ability on the part of our staff and our client companies. To that effect, we are building internal capacity and have developed a number of implementation tools to both facilitate and monitor the implementation of the standards, and to assist companies in meeting them.

There are many cross-cutting issues in our work. One example is our response to climate change. Not only are we increasing our investments in projects that have sustainable energy benefits, but we are also facilitating the participation of emerging market companies in the market for carbon credits under the Kyoto Protocol. In keeping with our commitment to reducing carbon emissions, we are now improving the way we assess and offset our own carbon footprint.

Sustainability for me comprises all aspects of a successful business: financial, economic, environmental, social as well as governance issues. Strengthening good corporate governance in our client companies is an essential role for IFC. Combating corruption is an essential role for the whole World Bank Group.

We have multiple stakeholders. The two and a half years of the review process to update our environmental and social standards provided an unprecedented opportunity to hear and exchange views with many of you. We need to continue to engage with our stakeholders and further explore opportunities for partnerships.

There is no question that we face challenges in the years ahead and that our role is to help the private sector meet those challenges. These include climate change as well as emerging risks such as Avian Influenza and other global health pandemics. We are in the fortunate position to have the mandate and the caliber of resources to make good risk judgments. We have a talented, creative team of staff, and a wealth of experience to draw on. Being a pioneer means that we will suffer disappointments from time to time, but our responsibility is to learn, adapt, and improve. I am convinced that we have the strengths and assets to deliver.

Lars Thunell
Executive Vice President, IFC

Sustainability Snapshot

OUR MISSION

As a member of the World Bank Group (WBG), IFC has a mission to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives.

OUR APPROACH TO SUSTAINABILITY

IFC's approach to sustainability is founded on the belief that sound economic growth, facilitated by private sector development, is crucial to poverty reduction. We see sustainability as an opportunity to drive innovation and increase our development impact. In our investments and operations across the globe, we consider four dimensions of sustainability – economic, financial, social, and environmental – and seek to continually improve our performance in these areas. IFC is committed to ensuring that the benefits of economic development are shared equally with those who are poor or vulnerable, and that development takes place in an environmentally sustainable manner. We also see sustainability as an opportunity to drive innovation in new areas and to add value to our clients by helping them improve their business performance.

OUR WORK

IFC invests in private sector enterprises throughout most developing countries. IFC has a full range of financial products and is increasingly providing technical assistance and advisory services to private sector enterprises and related government agencies. We continue to develop new financial tools that enable companies to manage risk and broaden their access to foreign and domestic capital markets.

IFC programs and activities are guided by its 178 member countries, which are also IFC's shareholders and members of the World Bank. IFC has over 2,600 staff, of whom 55 percent work in our Washington, DC headquarters. Approximately 45 percent of IFC staff members are stationed in 96 other offices in 69 countries.

IFC's work is guided by five strategic objectives that focus on strengthening emerging markets to support sustainable development:

1. Focusing where needs are greatest – in countries that are low income or high risk – and using our capital and technical assistance to demonstrate the viability of private enterprises in these difficult markets

2. Building long-term partnerships with companies to help them succeed in the global marketplace

3. Increasing private sector participation in areas such as infrastructure, health, and education

4. Expanding access to finance through institution-building and innovative products, with particular attention to smaller businesses

5. Providing leadership to companies and financial institutions on social, environmental, and corporate governance issues

In FY05, more than 55 percent of IFC's new investments were in the financial sector, infrastructure, information technology, and health and education. The share of investments for IFC's account in either high-risk and/or low-income countries was nearly 28 percent. We committed a total of 236 projects in 67 countries, compared to 217 projects in 65 countries in FY04.

From its founding in 1956 through FY05, IFC has committed more than $49 billion of its own funds and arranged $24 billion in syndications for 3,319 companies in 140 developing countries.

OVERVIEW OF OUR INVESTMENTS FOR FISCAL YEAR 2005

New projects committed	236
Total financing committed	$6.45 billion
Financing committed for IFC's own account	$5.37 billion
Total committed portfolio*	$19.3 billion
Loans as a % of committed portfolio	77%
Equity as a % of committed portfolio	17%
Guarantees as a % of committed portfolio	5%
Risk management products as a % of committed portfolio	1%

**For IFC's own account as of June 30, 2005; includes guarantees and risk management products.*

MILESTONES ACHIEVED SINCE OUR LAST REPORT

- Following an unprecedented stakeholder consultation process, IFC adopted a revised Disclosure Policy and Policy and Performance Standards on Social and Environmental Sustainability.
- IFC began implementation of a more systematic approach to tracking indicators of development outcomes in all our investments as well as technical assistance and advisory services.
- IFC undertook its first comprehensive assessment to determine the level of renewable energy and energy efficiency components in our mainstream investment portfolio, laying the foundation for an effort to greatly expand sustainable energy investment through our core business.
- IFC scaled up an institutional effort to address barriers to the participation of women in private sector development and received the mandate to host the Secretariat of the Global Banking Alliance for Women.
- IFC and the *Financial Times* launched a new series of Sustainable Banking Awards to recognize global financial institutions whose lending practices involve strong social and environmental standards.
- IFC shared in the 2005 Green Power Leadership Award, which recognized the World Bank Group's purchases of renewable energy to offset electricity use in our own operations.

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As an institution, we've adopted an approach to sustainability that combines risk management – the bedrock of any successful business – with identifying market-based opportunities to improve overall business performance.

Introduction

Sustainability is central to IFC's business strategy and, as such, is a theme in our Annual Report and in other IFC publications. Yet there is a clear trend internationally toward more candid, responsive and reflective reporting on sustainability that traditional reporting channels often don't provide. We see this, our fourth Sustainability Report and third stand-alone volume, as an opportunity to engage our stakeholders in a different way and show our support for global efforts toward greater corporate accountability.

Where appropriate, we have used the Global Reporting Initiative (GRI) sustainability reporting guidelines to help shape the report. We're similarly joining in the debate on emerging reporting practices among international finance institutions and are looking at ways to make more information about our sustainability performance available online and in formats more accessible to readers in emerging markets.

However, publishing a sustainability report is as much about the process – how it mobilizes internal resources and identifies where systems can be improved – as it is about reporting on outcomes. One of the questions that drove this year's process was thus "how can the preparation of the report add practical benefits to the way we mainstream sustainability in everything we do?"

As an institution, we've adopted an approach to sustainability that combines risk management – the bedrock of any successful business – with identifying market-based opportunities to improve overall business performance. IFC's new Policy and Performance Standards tie these two dimensions together. We're also spearheading innovations in financial products and services that incorporate gender, health, access to finance, biodiversity, and clean energy.

At the next level up, we have to make sure these innovations are incorporated into all our investments and that we're helping our clients internalize sustainability over the long term. Here, we're making good strides, and a growing number of clients are coming to us for the support we provide to help them improve their performance.

Given the markets in which IFC operates and where we can add the most value, it is natural and logical that we find ourselves involved in many high-risk, high-profile – and occasionally highly controversial – projects. This past year was no exception. We continue to increase our effectiveness in mitigating social and environmental risks in these areas by employing more integrated and measured approaches to addressing the challenges. However, our ability to leverage our expertise and ensure outcomes is sometimes limited.

This may not necessarily mean that we shy away from these projects, but rather that we utilize our resources and expertise in a way that minimizes the risks while maximizing the opportunities to drive sustainable development where it is needed the most. This is an IFC tradition of which we are most proud. We take our responsibilities very seriously, and hold ourselves accountable in those areas where we can control outcomes. Fundamental to this is continued engagement with affected stakeholders to ensure that all concerns are considered.

Telling the story of such a large, diverse and decentralized organization is a formidable task, and we don't pretend to have captured every aspect of what we do. If we've missed something, we want to know about it. I hope you enjoy this report, and I look forward to your feedback on how well we've succeeded.

Rachel Kyte
Director, Environment & Social Development Department

Listening to Our Stakeholders

As a global multilateral finance institution with operations in numerous regions and sectors, IFC's investments impact a highly diverse range of stakeholders. In addition to our clients, our stakeholders range from communities and NGOs at the project level, to governments and civil society at the global level. The extent to which we engage with particular groups varies depending on the issues at hand, which stakeholders are most directly affected by our operations, and the opportunities offered by collaboration.

We've become more sophisticated in recent years in how we map and engage our stakeholders. In 1999, IFC established an independent Compliance Advisor/Ombudsman to provide an impartial recourse mechanism for communities directly affected by our projects. Over the last two years, we conducted an extensive public consultation as part of the process to update our environmental and social safeguards. Both processes have opened us up to a richer engagement with our external stakeholders and a greater understanding of their interests and concerns.

Internally and within the scope of our investments, we engage actively with clients, partners, shareholders and staff. We draw on several key sources of feedback in order to identify issues of importance to these groups and frequently adapt our strategies and procedures in response to their needs.

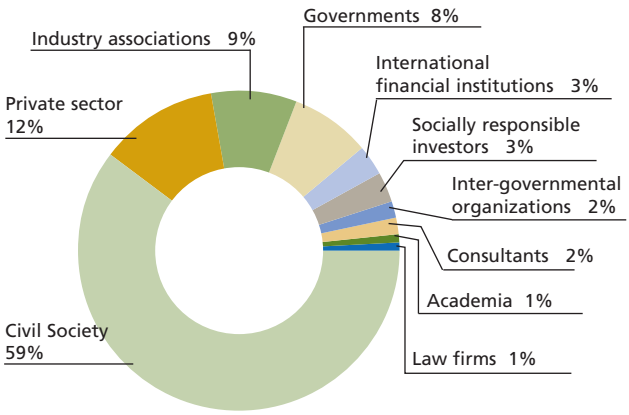
OUR WIDEST CONSULTATION EVER

In August 2004, IFC launched a broad public consultation as part of the comprehensive review of our environmental and social safeguards and disclosure policy. Signaling that we would meet with anyone, anywhere, anytime to discuss the new policies, the consultation extended further than any outreach IFC had done before. At the close of the consultation period in April 2005, we had received substantial input from the private sector, industry associations, international financial institutions, intergovernmental organizations, governments, academia, and a wide range of civil society organizations. Further inputs were later received during the 60-day public comment period on the revised drafts.

Comments were gathered through four regional multi-stakeholder workshops in Rio de Janeiro, Manila, Nairobi, and Istanbul, as well as from 42 open stakeholder meetings, one-on-one meetings, written submissions and a Web-based consultation tool. On specific topics, such as labor standards, biodiversity, the role of the private sector in human rights, and transparency in international financial institutions, we engaged with key organizations and groups.

All comments received before the close of the consultation period were summarized and entered into a comments database, and posted as part of a Comprehensive Indicative Draft in May 2005. Regardless of the perspectives of the submissions, every comment received during consultation helped IFC improve the policy documents by pinpointing areas in need of clarity and strengthening.

BREAKDOWN OF WRITTEN SUBMISSIONS BY STAKEHOLDER GROUPS



The submissions covered a broad range, and converged in some areas and diverged in others. Among the issues that matter most to a large number of our external stakeholders, three main areas of interest emerged:

Our contribution to development

- our contribution to poverty reduction
- our products and services
- our investment and pricing strategies
- how we choose the countries and clients in which we invest

Internal governance, accountability and mainstreaming of sustainability

- our organizational structure and responsibilities
- how we work with the World Bank
- procedures and decision-making criteria throughout the life of IFC investments
- incentives for compliance with standards and promotion of sustainability

Our relationships with stakeholders

- how IFC relates to governments and other entities
- how we support civil society

Many of our stakeholders, particularly those in regional consultation workshops, asked for a comprehensive story about IFC's business, strategy and procedures, and the global role that IFC plays in promoting sustainability. Local NGOs in particular asked that IFC promote their role and help them access local and national authorities.

CLIENTS

IFC conducts an annual external client survey to obtain the views of investee companies on their experience of working with us. The survey is sent to about a quarter of the clients in our portfolio, applying consistent criteria from year to year. Most clients are surveyed twice in the life of a project or corporate investment, so that we can learn from their possibly differing views depending on the project stage. The survey is anonymous so that clients can provide honest feedback, and the results are used internally only for the improvement of IFC's services.

As was the case last year, a major portion of clients came to us seeking a mixture of product (loan maturity or loan/equity pricing) and other attributes, such as country, technical and financial expertise; a long-

RESPONSES TO IFC CLIENT SURVEY

	2003	2004	2005	
	IFC adds value	IFC adds value	IFC adds value	Important to client
Environmental and social knowledge	75%	78%	79%	72%
Environmental and social technical assistance and advisory services		78%	72%	69%
Perceived stamp of approval on environmental and social issues		87%	82%	73%

**Percentages indicate clients who responded positively*

term relationship; stamp of approval; environmental, social, and corporate governance skills; political risk cover; and global presence. Notably, the environmental, social, and corporate governance category had the largest increase in why clients came to IFC compared to last year, with corporate governance in particular contributing to this result.

This year's survey found that repeat clients, even more than first-time clients, appreciated our value-added services such as environmental, social, and corporate governance services that come with finance. Client satisfaction with our overall services, the most representative indicator of client satisfaction, was 79 percent this year. We also list various products, services and attributes, and ask clients to rate their importance as well as IFC's ability and value in providing them.

Long-term partnership, capital/maturity, confidence brought by IFC's involvement, and sustainability-related items are usually where client needs and IFC's provision of them are strong and relatively balanced. Some of our sustainability-related expertise exceeds the level clients consider important.

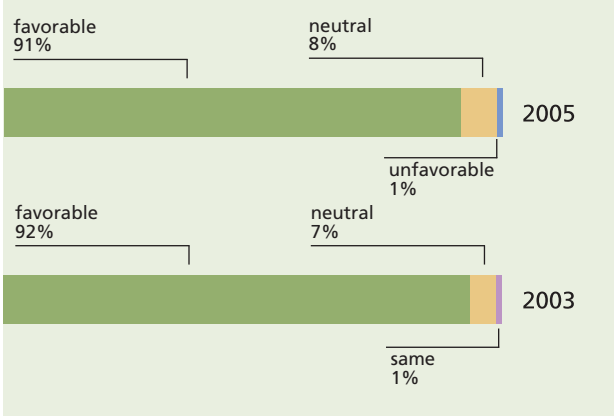
However, not all our clients saw our environmental and social requirements as a benefit to their businesses and, in some cases, they questioned their applicability. We therefore have a responsibility to continue to make the business case for sustainability evident to our clients by presenting opportunities and identifying risks, while ensuring that our internal systems and procedures don't seem to be a barrier to helping them improve their performance.

STAFF

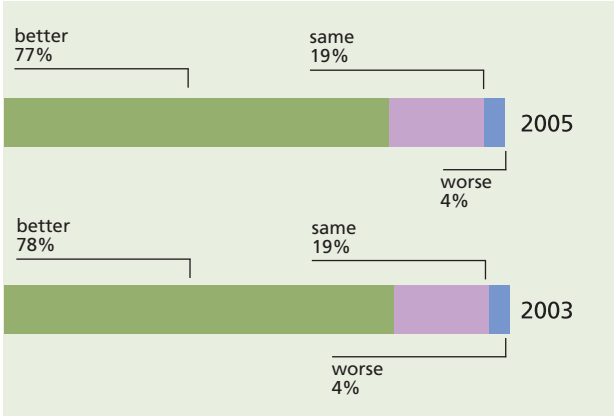
The World Bank Group has conducted staff surveys in the past and, in 2003, began conducting one every two years. The survey is taken anonymously and covers dimensions such as service to clients, teamwork, integrity, learning and development, and work-life

IFC RESPONSES TO WBG STAFF SURVEY

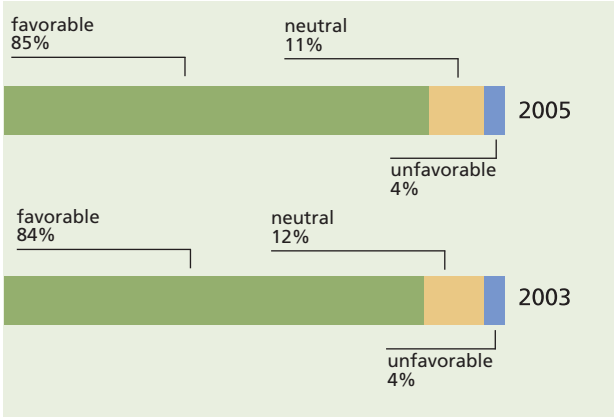
IFC STAFF PROUD TO WORK AT THE WORLD BANK GROUP*



HOW THE WBG COMPARES WITH OTHER EMPLOYERS*

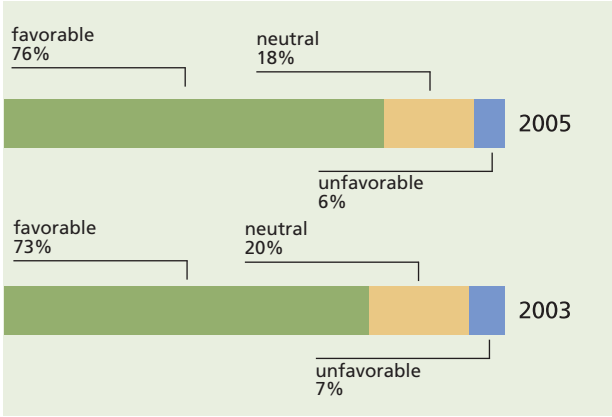


MY MANAGER ACTS WITH HONESTY AND INTEGRITY

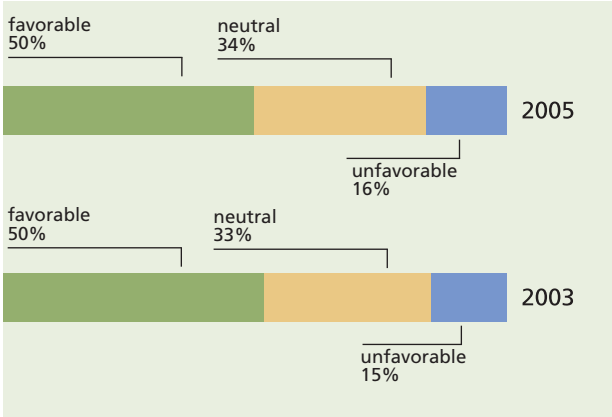


** Responses add up to 100% (+/- 1 percentage point due to computer rounding)*

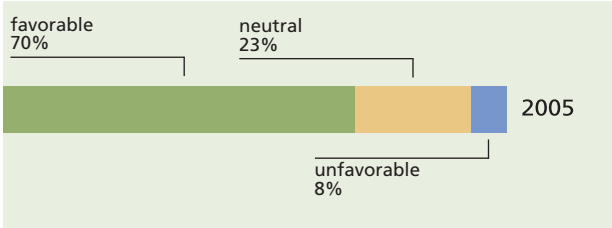
DIVERSITY IS VALUED IN MY GROUP



STAFF IN COUNTRY OFFICES AND WASHINGTON WORK TOGETHER EFFECTIVELY



IFC'S FOCUS ON CLOSER INTEGRATION BETWEEN INVESTMENT AND ADVISORY/TA BUSINESS IS ADDING VALUE FOR OUR CLIENTS



issues. The 2005 survey found that staff remain proud to work at the World Bank Group and most feel that it compares favorably with other employers.

Integrity is an important part of IFC's culture and is communicated through ethics training courses, with the emphasis placed on fighting corruption internally. This in turn strengthens our credibility when tackling these issues externally. Similarly, a respect for diversity is central to our principles and practices at work. The survey showed a strong perception among staff that integrity and a respect for diversity were truly mainstreamed in day-to-day interactions in the workplace, but with some room for improvement still remaining.

IFC is increasingly adding value to clients and other stakeholders through a combination of technical assistance, advisory services, and innovative collaboration between investment and regional departments, particularly in the area of sustainability. This underpins our commitment to moving more people, processes, and authority to the field. In the 2005 staff survey, although 70 percent of staff felt that IFC is succeeding in adding value, up to half felt that more could be done to encourage cross-departmental cooperation and strengthen the link between headquarters and the field.

In addition, IFC's environmental and social department conducted a survey in 2003 and 2004 to gather detailed feedback from IFC staff on the department's delivery and contribution to IFC sustainability leadership.

Responses to the survey showed a demand for evidence of the added value that IFC's environmental and social advice and guidance bring to investments. The survey also showed demand for more training and development of mainstream investment staff to assess environmental and social risk and opportunity in projects.

Overview of Our Investments

IFC invests in companies and financial institutions in all emerging markets. IFC will invest in projects that are financially sound, do not depend on distortions such as protection or subsidies, and meet our environmental and social standards.

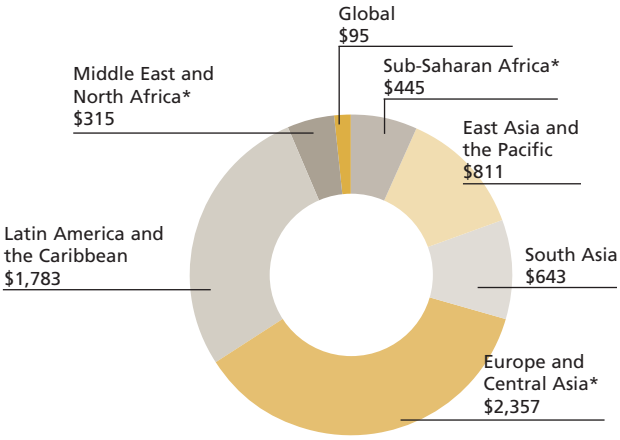
We emphasize investments that have a high impact on the economies of developing countries, either by reaching large numbers of people or by benefiting a wide range of sectors, particularly those dominated by small and medium-scale enterprises.

IFC won't invest in any product or activity illegal under host country laws or regulations, or international conventions and agreements. In addition, we won't invest in production or trade in

OPERATIONAL HIGHLIGHTS

COMMITMENTS BY REGION, FY05
Includes IFC's account and syndications (millions of U.S. dollars)

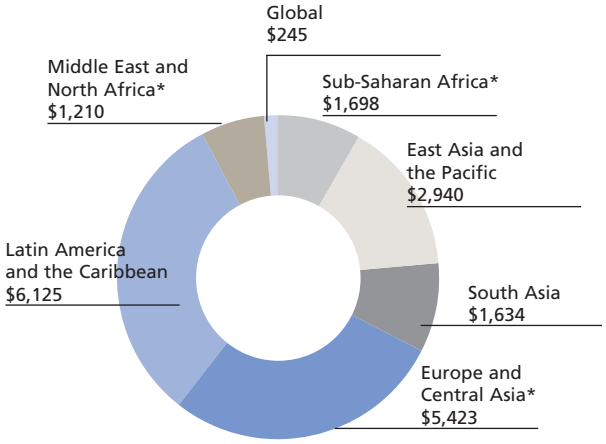
TOTAL $6,449



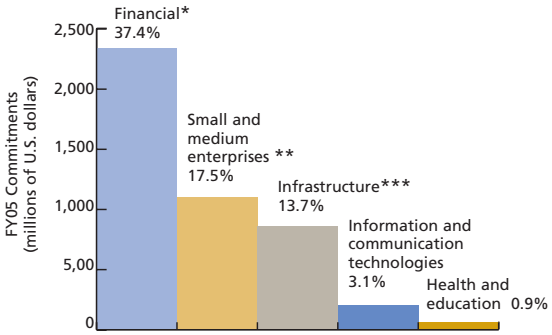
**Some amounts include regional shares of global projects.*

INVESTMENT PORTFOLIO BY REGION, FY05
For IFC's account (millions of U.S. dollars)

TOTAL $19,274



COMMITMENTS BY STRATEGY, FY05
Includes IFC's account and syndications



**Financial consists of finance and insurance, and collective investment vehicles.*
***SME investments cut across industry sectors.*
****Infrastructure consists of utilities and transportation.*

MEETING DEVELOPMENT GOALS
Commitments for IFC's account

	FY03	FY04	FY05
New investments in low-income* or high-risk countries**	28%	26%	28%
Mature projects with a positive contribution to development***	58%	58%	59%

**As defined by the World Bank.*
***Rated 30 or below or unrated by Institutional Investor (Excludes regional and global projects).*
**** Based on a random sample assessed against four development criteria: business success, economic sustainability, environmental and social effects, and private sector development. See www.ifc.org/ieg.*

weapons and munitions, alcoholic beverages (excluding beer and wine), tobacco, radioactive materials, unbonded asbestos fibers, gambling, casinos, and equivalent enterprises, and drift net fishing in the marine environment using nets in excess of 2.5 kilometers in length.

TECHNICAL ASSISTANCE AND ADVISORY SERVICES

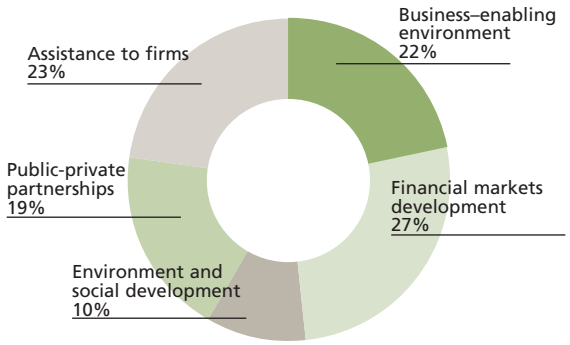
An important part of IFC's role is to transfer not just capital but knowledge and expertise to our developing country partners. Increasingly, this added value is channeled through technical assistance (TA) and advisory services (AS), unbundled from the provision of capital. Knowledge about emerging trends and risk mitigation has been a key element in these services, and has broadened recently to include corporate governance and environmental and social management.

In FY05 nearly one-third of IFC's staff were involved in these efforts, in Washington and in the field. Much of this work is conducted through units or programs managed by IFC but funded in partnership with donor governments and other multilateral institutions. IFC also makes cash contributions to the various TA activities from our own net income, which have increased steadily in recent years.

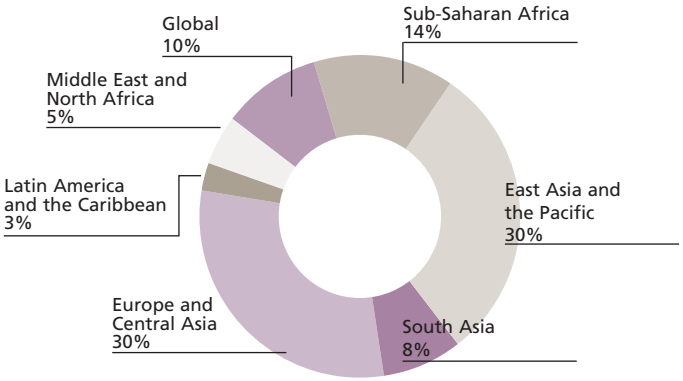
During FY05, donor-funded operations accounted for about $108 million in expenditures. IFC provided more than $57 million in funding. Cumulative contributions to all donor-funded operations managed by IFC reached $1.11 billion through FY05.

IFC TECHNICAL ASSISTANCE AND ADVISORY SERVICES (TAAS)

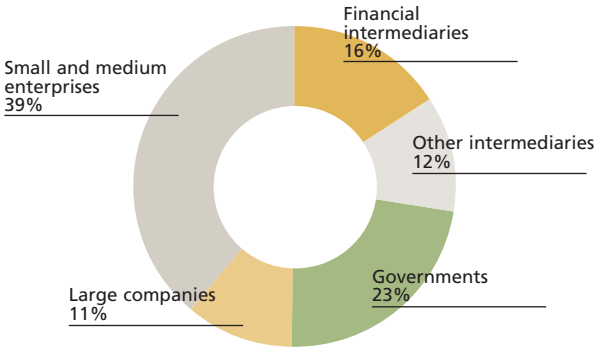
MAJOR AREAS OF TAAS WORK
(percentage of approved funds for active projects, FY05)



GEOGRAPHIC DISTRIBUTION OF OPERATIONS
(percentage of approved funds for active projects, FY05)



GROUPS THAT BENEFIT
(percentage of approved funds for active projects, FY05)



Approved funding for TAAS projects active in FY05 totaled $276 million.

The data in these graphs were collected using new procedures implemented across IFC during FY05; they have not been audited.

How We are Governed

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GOVERNANCE

IFC coordinates its activities with the other institutions of the World Bank Group but is legally and financially independent. Our 178 member countries provide IFC's share capital and collectively determine our policies through a Board of Governors and a board of 24 directors.

Voting power is weighted according to the share capital each director represents. The five countries with the largest voting power are the United States (23.66 percent), Japan (5.87 percent), Germany (5.36 percent), France (5.04 percent) and the United Kingdom (5.04 percent). Voting, however, is very rarely used as a means of reaching decisions. IFC's Board emphasizes rigorous discussion as a means of reaching consensus.

The World Bank Group Directors meet regularly at headquarters in Washington, DC, where they review and decide on investment projects and provide overall strategic guidance to IFC management. In 2005, the World Bank and IFC agreed to begin disclosing board meeting minutes to the public.

Directors also serve on one or more standing committees, which help the Board fulfill its oversight responsibilities by examining policies and procedures in depth:

- The Audit Committee, which advises on financial and risk management, corporate governance, and oversight issues.
- The Budget Committee, which considers business processes, administrative policies, standards, and budget issues that have a significant impact on the cost-effectiveness of Bank Group operations.
- The Committee on Development Effectiveness, which focuses on operations and policy evaluation and development effectiveness with a view to monitoring progress on poverty reduction.
- The Personnel Committee, which advises on compensation and other significant personnel policies.

- The Committee on Governance and Executive Directors' Administrative Matters.

Paul Wolfowitz is President of IFC and the other World Bank Group institutions and serves as chairman of the boards. Lars Thunell, IFC's Executive Vice President, oversees IFC's day-to-day operations and leads IFC's Management Group. Comprised of IFC's five Vice Presidents and four Senior Directors, the Management Group is responsible for IFC's key decision-making and strategic planning, including close oversight of investment decisions.

www.ifc.org/IFC_Governance

ACCOUNTABILITY

Two independent units work to ensure IFC's accountability to shareholders, as well as its accessibility to impacted and concerned stakeholders. They are the Independent Evaluation Group (previously known as the Operation Evaluation Group) and the Compliance/Advisor Ombudsman. A third unit, the Internal Auditing Department, monitors internal controls and governance.

Independent Evaluation Group

The Independent Evaluation Group in IFC (IEG) is responsible for the post-evaluation function within the institution. It provides accountability for achievement of IFC's objectives, identifies lessons from past experience to improve IFC's operational performance, and reinforces corporate objectives and values among staff.

In each year since 1996, IFC has undertaken self-evaluations of a random sample of projects that have reached early operating maturity. These expanded project supervision reports are prepared by investment staff, and their findings are independently verified by IEG.

As part of these evaluations, IFC rates a project's environmental, social, and health and safety effects as one of the four standard development outcome indicators in helping to foster sustainable development results on the ground. In addition, IEG started in 2003 to separately evaluate and rate IFC's work quality in projects from a social and environmental point of view. IEG regularly evaluates IFC's operations and reports on the degree to which IFC is achieving its relevant strategic objectives.

Summaries of these evaluations are already published online. As part of IEG's revised disclosure policy, reports that are sent to IFC's Board after April 2006 will be made available as well. These offer stakeholders information on our contribution to successful development outcomes and efforts toward continuous improvement.

www.ifc.org/ieg

Compliance Advisor/Ombudsman

The Compliance Advisor/Ombudsman was established in 1999 — as an innovation in accountability — to help IFC and MIGA (the Multilateral Investment Guarantee Agency) address the concerns of affected individuals and communities and to enhance the social and environmental outcomes of projects.

Reporting directly to the President of the World Bank Group, the CAO plays three distinct but complementary roles.

In its advisory role, the CAO provides independent advice to the President and management on broader

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environmental and social policies, guidelines, procedures, and resources. The CAO to date has conducted a major independent review of IFC's Safeguard Policies and a sampling of oil, gas, and mining projects as a contribution to the Extractive Industries Review. It has also examined the significance of human rights in private investment projects sponsored by IFC and MIGA.

In its compliance role, the CAO oversees audits of IFC's social and environmental performance in order to ensure compliance with policies, guidelines, procedures, and systems.

As Ombudsman, the CAO responds to complaints by individuals or groups who are affected by projects in which IFC invests or is involved, and attempts to resolve issues fairly. The CAO encourages complainants to seek recourse with the project sponsor or IFC before submitting a complaint to the Ombudsman and emphasizes a problem-solving approach to addressing disputes.

IFC's revised performance standards emphasize the need for companies to establish a grievance mechanism or procedure in order to receive and address the concerns of communities about their environmental and social performance. The CAO offers them an additional means of seeking recourse and assistance in resolving a dispute.

The CAO is focused on ensuring positive outcomes for the poorest and most vulnerable sectors of society. The CAO accepts complaints from any individual, group, community, entity, or other party affected or likely to be affected by the social and/or environmental impacts of an IFC or MIGA project. The complaint must relate to an aspect of the planning, implementation, or impact of an IFC or MIGA project, and there must be sufficient and specific grounds for the complaint.

In 2004-2005, the Ombudsman received 15 complaints, of which 4 were rejected, 10 have been assessed, 9 are ongoing, and 2 have been closed. In the same period, the CAO undertook one compliance audit. Information on complaints and audits accepted by the CAO as well as reports on findings and recommendations are published online.

IFC's responses to the CAO's reports are publicly available. Follow-up action in relation to CAO recommendations for both IFC and its clients is monitored as part of IFC's supervision process until the CAO is able to close its investigation.

Based on its existing and historical caseload, the CAO is undertaking an analysis of emerging trends with respect to complaints lodged against IFC and MIGA projects and implementation of the CAO's recommendations. The aim is to promote discussion within IFC and MIGA about improving institutional integrity and external accountability.

www.cao-ombudsman.org

Internal Auditing Department

The Internal Auditing Department (IAD) provides objective assurance and advice to help the World Bank Group enhance risk management, control, and governance, as well as improve accountability for results. Assurance services are generally initiated by IAD, while advisory services are generally initiated by internal client requests.

Advisory services are conducted primarily to answer specific questions aimed at improving risk management, control, or governance processes. Typical advisory services include analyzing controls built into systems under development, providing recommendations for analyzing operations, assisting in fraud and corruption investigations, and raising awareness of internal control activities.

INTEGRITY AND CONFLICT RESOLUTION

Staff and members of the public have a number of mechanisms to address ethical issues, harassment, and other issues of conflict.

The World Bank Group's Conflict Resolution System offers ombudsman services, mediation, advice on ethics and business conduct, and an appeals committee and administrative tribunal.

An Ethics Helpline is available to staff and members of the public with issues relating to the World Bank Group. The line is completely anonymous, toll-free, staffed 24 hours a day, and multilingual. Calls can relate to any issue of any scale, such as staff misconduct, gifts, discrimination, or conflicts of interest.

www.worldbank.org/ethics

The Department of Institutional Integrity investigates allegations of fraud and corruption in World Bank Group operations and allegations of staff misconduct. Their external hotline is also anonymous, toll-free, always available, and multilingual.

www.worldbank.org/integrity

IFC was one of the first multilateral finance institutions to commit to high social and environmental standards of due diligence for all private sector investments.

Our Approach to Sustainability

Sustainability is at the heart of IFC's business model. As a development bank, we are charged by our shareholders with a mission to reduce poverty and improve people's lives. The projects we choose to finance and the various products and services we offer must have a long-term outlook and fulfill development goals that go beyond financing.

Our definition of sustainability encompasses four dimensions of good business performance:

- the financial sustainability of IFC and our clients so that we can continue to make a long-term contribution to development
- the economic sustainability of the projects and companies IFC finances through their contribution to host economies
- environmental sustainability through the preservation of natural resources
- social sustainability through improved living standards, poverty reduction, concern for the welfare of communities, and respect for key human rights concerns

The challenges of sustainable development are very real and far from simple. Together with our clients, we nevertheless face significant risks to our business – reputational, legal, operational, and financial – if we don't take into account the full range of factors that influence our investments, including the environmental and social impacts of our projects.

Our role as a broker between companies and governments, our ability to access global funds, and our specialized knowledge and expertise help build a stronger and more sustainable private sector while promoting social and environmental concerns. It also means that we are uniquely placed to leverage the resources needed to help countries meet the Millennium Development Goals.

Our commitment to specific dimensions of sustainability results directly from our experiences in the field. We have seen not only how our business prospects and those of our clients can be improved, but also how society as a whole can be strengthened through the growth of smaller businesses, better governance, less corruption, access to clean drinking water, a cleaner and more richly diverse environment, and effective private sector responses to social problems such as HIV/AIDS.

As a natural outgrowth of our development mandate, IFC was one of the first multilateral finance institutions to adopt high social and environmental standards of due diligence tailored specifically to private sector investment activities. Having for many years used the World Bank's environmental and social safeguards, we adapted them in 1998 to make them more applicable to the private sector. This commitment reflected our belief in sustainability as a guiding business principle.

These early safeguards have since become a recognized model of good practice among other financial institutions, and, in 2003, were adopted as the basis for the Equator Principles, a framework for commercial financial institutions to use when investing in development projects with a capital cost of $50 million or more. As of February 2006, 41 banks had adopted the Principles, and it is estimated that they now cover approximately 80 percent of global project lending.

As more banks join the ranks, the impact of our standards is being more widely felt. In order to continue to meet the needs of the marketplace and to ensure that our standards kept pace with emerging best practice in sustainability, we launched a comprehensive revision of our safeguards in 2004. The process has invigorated the debate on the role of financial institutions in development and pushed

us to dramatically increase the added value that we can bring to our clients through sustainability.

A NEW POLICY AND PERFORMANCE FRAMEWORK

In February 2006, IFC completed a rigorous process of updating the environmental and social safeguard policies used to ensure minimum standards of performance in all our investments. Part of the process was renaming and expanding them to become IFC's Policy and Performance Standards on Social and Environmental Sustainability.

Updating our standards gave us an opportunity to advance our own practices as well as provide greater clarity for an increasing number of practitioners and concerned stakeholders. It also enabled us to respond to significant external changes in expectations and knowledge related to sustainability and the private sector's role over the last decade. The result is a revised framework consisting of three parts, each of which has been updated to reflect changing stakeholder needs and expectations.

A Sustainability Policy, which defines IFC's responsibility for supporting project performance in partnership with clients.

Environmental and Social Performance Standards, which define clients' roles and responsibilities for managing their projects and the requirements for receiving and retaining IFC support. The standards include requirements to disclose information as an integral part of engaging in early and ongoing discussion with communities that are affected by projects.

A Disclosure Policy, which defines IFC's obligations to disclose information about itself as an institution and its activities.

In addition, three sets of supporting documents serve as advisory or reference material to give direction to IFC staff and clients in implementing the proposed sustainability policy and performance standards.

Guidance Notes, which are companion documents to the Performance Standards and provide additional

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guidance to clients and IFC staff in fulfilling their roles and responsibilities under the standards.

An Environmental and Social Review Procedure, which gives direction to IFC staff in implementing the Sustainability Policy and reviewing compliance and implementation by private sector projects.

Environment, Health, and Safety (EHS) Guidelines, which provide technical guidance informing those parts of the new policy structure which relate to environmental, health, and safety issues.

What has changed?

The new policies and Performance Standards will be among the strongest environmental and social standards globally. They clearly state IFC's requirements, which are applicable to all our investments. They also add new requirements relating to integrated social and environmental assessments, core labor standards, greenhouse gas emissions, and community health and safety.

NEW AND EXPANDED STANDARDS	
Labor Rights	A broader policy requires a comprehensive approach to labor and working conditions on the part of the client and addresses all four core ILO labor standards: forced labor, harmful child labor, non-discrimination, freedom of association and collective bargaining.
Human Rights	IFC now incorporates key human rights concerns into the Performance Standards, such as adequate housing, security of tenure, and voluntary principles on security
Community Health and Safety	A new standard requires firms to consider a project's effects on health and safety in the surrounding community beyond the project itself.
Community Engagement	IFC will require early and ongoing community engagement in developing a project and throughout a project's lifecycle. Related new requirements are that IFC must be satisfied that broad community support is present for projects with significant impacts, and a grievance mechanism must be established by the client to address any community concerns.
Indigenous Peoples	The standards aim to protect the dignity, human rights, aspirations, cultures and customary livelihoods of Indigenous Peoples. On the commercial use of Indigenous Peoples' cultural resources, the standards require good faith negotiation between the client and Indigenous Peoples.
Pollution Prevention and Abatement	A new standard requires clients to avoid, minimize, or mitigate pollution and its impact on the environment, and quantify a project's greenhouse gas emissions.
Biodiversity	IFC is expanding its focus beyond preservation of natural habitats to a broader view of protection and conservation of biodiversity. Habitat destruction and invasive alien species are recognized as the major threats to biodiversity, and the standard specifies how to address them in natural and modified habitats. Sustainable management of all renewable natural resources is required, and must be demonstrated by independent certification in sectors such as forestry.

The new framework reflects IFC's extensive experience of what works in developing countries as well as emerging good practice. Addressing gaps in the previous IFC Safeguard Policies, the Performance Standards emphasize private sector considerations while ensuring compatibility with IFC's policies.

More importantly, the update reflects a new approach to managing social and environmental risks and a focus on achieving improved outcomes. Because strong outcomes are most likely when companies can incorporate standards into their own internal management systems and understand the business case for doing so, the new standards encourage firms to establish and maintain effective management systems as part of their basic operations.

The new standards also define clear requirements to help clients assess and manage social and environmental risks comprehensively. The requirements for achieving specific outcomes go into an Action Plan, which is disclosed to the affected communities by the client and posted on IFC's Web site. The Action Plan becomes part of the client's legal agreement with IFC.

An emphasis on integrated social assessment means that the Performance Standards now encompass all vulnerable groups and related social issues, while continuing to put special attention on the complexity of involuntary resettlement, Indigenous Peoples, and cultural heritage.

The new approach also lets companies consider diverse means and seize new opportunities for achieving required outcomes. This enables the private sector to do what it does best: manage projects efficiently, innovate, and improve performance over time for the long-term benefit of local people and the environment.

INCREASING IFC'S DISCLOSURE

The new disclosure policy clarifies and expands the responsibilities of IFC to disclose corporate information to the public. It determines the appropriate level of disclosure for IFC as a publicly owned institution working in the private sector and respecting the business confidentiality of its client companies. The policy improves IFC's process for disclosing information as well as expanding the types of information disclosed.

A disclosure policy advisor will be appointed to serve as an internal review mechanism and respond to complaints from stakeholders who believe their request for information has been unreasonably denied or that the policy has been incorrectly applied. The disclosure policy advisor will report directly to the Executive Vice President.

The Board also approved a new disclosure policy for IFC's Independent Evaluation Group, to take effect at the end of April 2006. For the first time, all IEG evaluation and budget documents that are distributed to the Board will be disclosed. With the change, IEG's disclosure practices will be aligned with other multilateral development banks that carry out private sector investment operations.

OUR COMMITMENT

New items that IFC is now committed to disclose include

- **IFC's budget and business plan**
- **Minutes from IFC board meetings**
- **Annual reporting on the aggregate development impact of IFC's activities starting in 2006 (Results to be reported in 2007)**
- **A summary of IFC's environmental and social review of an investment**
- **A Summary of Proposed Investment for each investment project, featuring information on expected development impacts**

A FOCUS ON IMPLEMENTATION

IFC's environmental and social specialists are responsible for the review, clearance, and supervision of all IFC investments in a manner consistent with IFC's policy and performance standards.

As controversial cases show, putting policies and procedures into practice can often involve enormous complexity. Who is a stakeholder? What is legitimate environmental and social impact? When is flexibility justified in order to achieve a greater development impact over the long term? At what point do we withdraw from projects that have too negative an impact? These are all questions that our investment officers and environmental and social specialists struggle to address on a daily basis.

FY05 COMMITMENTS BY ENVIRONMENTAL AND SOCIAL CATEGORY

Category*	Commitments in millions	No. of investments
A	$169.09	3
B	$2,515.26	101
C	$1,078.54	61
FI	$1,378.02	68

ALL COMMITMENTS AS OF JUNE 2005 BY ENVIRONMENTAL AND SOCIAL CATEGORY

Category*	Commitments in billions	No. of investments
A	$3.86	120
B	$21.00	1444
C	$5.33	637
FI	$9.54	625
N	$7.59	1194
U	$2.01	289

**See category descriptions on pg. 27.*
***N and U refer to projects committed before IFC began implementing environmental policies and guidelines in 1993*

STAFF DEVOTED TO ENVIRONMENTAL, SOCIAL AND INSURANCE-RELATED SUPERVISION

	FY03	FY04	FY05
Number of environmental and social (E&S) specialists	27	27	36
Number of insurance specialists	6	8	7

	FY03	FY04	FY05
Number of E&S specialists in regional offices	5	7	10
Number of E&S specialists in industry departments	7	7	11

STAFF HOURS SPENT ON ENVIRONMENTAL AND SOCIAL APPRAISAL AND SUPERVISION

	FY03	FY04	FY05
Appraisal of new projects	20,576	21,099	21,689
Supervision of portfolio projects	12,865	9,768	10,314
Insurance-related appraisal	2,099	2,004	2,400
Insurance-related supervision and added value	3,071	3,056	4,337

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THE SUPERVISION CHALLENGE

By William Bulmer, Associate Director, Environment and Social Development Department, IFC

The ability to mobilize first-class environmental and social development expertise in support of its business activities is essential for IFC to successfully meet its strategic objectives and have a leadership role in sustainability. Since the recruitment of the first environmental specialist in 1988 and the first social development specialist in 1996, the team has grown to a total of 36 specialists who provide IFC with an unparalleled resource both to assist clients and to improve its own portfolio performance.

This is a challenging time for the team. In addition to the ongoing work with the update of our environment and social policies, sector guidelines, and review procedure, we are dealing with a large volume of new business and project supervision needs.

So demands on staff are high, but the opportunities are enormous. The extensive consultations that have taken place in relation to the policy update have strengthened our belief that we are moving in the right direction and that the new policy and performance standards will provide an excellent tool to help IFC and its clients both manage risk and improve their performance. But if we are to achieve this we must be able to ensure that quality assurance procedures keep pace and that we have good performance metrics to determine our effectiveness.

The exercise of professional judgment in the context of a consistent approach to decision-making is fundamental to the services provided by IFC's

investment staff. Consistency can be achieved only through a combination of good training and a robust quality management system. The heart of such a system will be the revised environment and social review procedure that will accompany IFC's new sustainability policy and performance standards.

The procedure will capture the important decisions that are made by environmental and social specialists during the project lifecycle. It will also provide a mechanism for the peer review of complex projects, a clearance mechanism for such decision-making and a guarantee that follow-up actions are documented and acted upon.

The procedure will of course also apply to supervision activities, and an important new document will track key performance indicators during the life of an investment. These indicators will be available for use in helping assess IFC performance at the department and corporate level.

Like all enterprises, we have to deal with resource constraints. The key challenge is the limited number of staff to deal with $6 billion in new investments per year and a portfolio of $19 billion – both growing quite fast.

Although some new recruitment will take place, we need to work more efficiently and mobilize external resources more effectively. The new procedure should help allocate staff more efficiently on the basis of the risk of material adverse environmental or social impact.

We are increasing our field presence to react more quickly and meet client needs. We will also be looking at ways to better integrate environment and social risk management into the programs of the investment department portfolio managers. Finally, we will continue to depend upon some external consulting help, and so it will be necessary to provide clear guidance and support to these professionals as we introduce our new policies.

The bottom line is that we rely heavily on a highly trained pool of staff. The professional judgment of those staff will be an important determinant of IFC's credibility as a sustainability leader and, more importantly, how we achieve our goals of protecting the environment and ensuring that the poor and most vulnerable are beneficiaries rather than victims of development. IFC is placing high demands on its clients to implement effective management systems to ensure quality control and good performance. We must demand the same of ourselves.

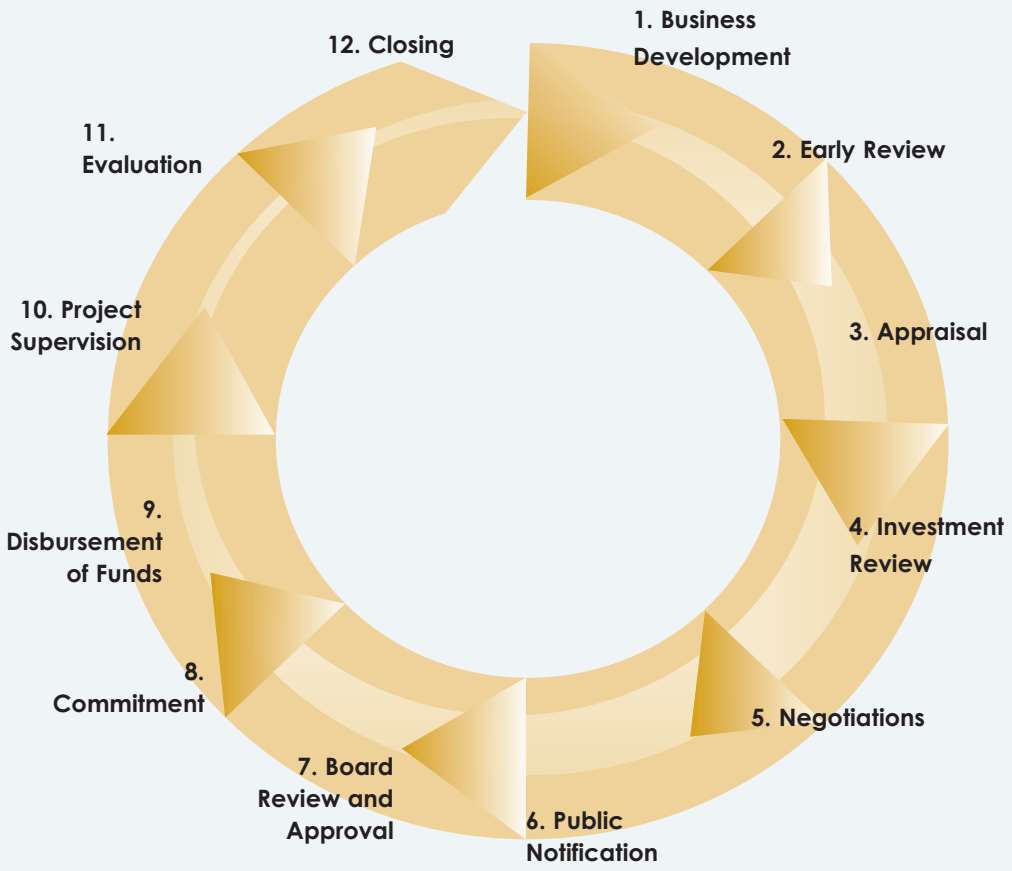
The exercise of professional judgment in the context of a consistent approach to decision making is fundamental to the services provided by IFC's investment staff.

OUR COMMITMENT

In our next Sustainability Report, we commit to report on

- **Progress with implementation of the new IFC Policy and Performance Standards on Social and Environmental Sustainability**
- **The volume of business to which individual Performance Standards are being applied**
- **The environmental and social performance of our portfolio according to sector and region, and lessons from experience**

IFC Investment Cycle



IFC INVESTMENT CYCLE

The following cycle shows the stages a business idea goes through to become an IFC-financed project.

1. Business Development

Guided by IFC's strategic goals, our investment officers (IOs) and business development officers identify suitable projects. This initial conversation with the client is critical in helping us understand their needs and determine whether there is a role for IFC.

2. Early Review

The IO prepares a description of the project, IFC's role, the anticipated contribution to development and benefits to stakeholders, and any potential deal-breakers. Lessons from previous projects are considered here and, in some cases, a pre-appraisal visit is conducted to identify any issues in advance. IFC senior management then decides whether to authorize project appraisal.

3. Appraisal (Due Diligence)

The investment team assesses the full business potential, risks, and opportunities associated with the investment through discussions with the client and visits to the project site. The following questions are asked: Is the investment financially and economically sound? Can it comply with IFC's social and environmental Performance Standards? Have lessons from prior investments been taken into account? Have the necessary disclosure and consultation requirements been met? How can IFC help the

client further improve the sustainability of the project or enterprise?

4. Investment Review

The project team makes its recommendations to IFC departmental management, who will decide whether to approve the project. This is a key stage in the investment cycle. The team and departmental management must be confident that the client is able and willing to meet IFC standards and work with us to improve the sustainability of their enterprise.

5. Negotiations

The project team starts to negotiate the terms and conditions of IFC participation in the project. These include conditions of disbursement and covenants, performance and monitoring requirements, agreement of action plans and resolution of any outstanding issues.

6. Public Notification

A Summary of Proposed Investment (SPI) for the project and the environmental and social review, where applicable, are posted on IFC's Web site before being submitted to the Board for review. The length of the disclosure period is determined by the category of the project.

www.ifc.org/projects

7. Board Review and Approval

The project is submitted to IFC's Board of Directors for consideration and approval through regular or streamlined procedures. ''Streamlined" means that the members of the Board review the documents but don't meet to discuss the project. This option is available to low-risk projects of a small enough size. Certain small projects can be approved by IFC management under delegated authority. The due diligence process and public disclosure remain the same in all cases. The Board demands that each investment have economic, financial, and development value and reflects IFC's commitment to sustainability.

8. Commitment

IFC and the company sign the legal agreement for the investment. This includes the client's agreement to comply with the applicable Performance Standards, to immediately report any serious accident or fatality, and to provide regular monitoring reports. The legal agreement will also covenant the client's Action Plan.

9. Disbursement of Funds

Funds are often paid out in stages or on condition of certain steps being completed as agreed in the legal agreement.

10. Project Supervision and Development Outcome Tracking

We monitor our investments to ensure compliance with the conditions in the loan agreement. The company submits regular reports on financial as well as social and environmental performance, and information on factors that might materially affect the enterprise. Ongoing dialogue during supervision allows IFC to support clients, both in terms of solving issues and identifying new opportunities. We also track the project's contribution to development against key indicators identified at the start of the investment cycle.

11. Evaluation

We evaluate projects on a regular basis. To help improve our operational performance, annual evaluations are conducted based on a stratified random sample of projects that have reached early operating maturity.

12. Closing

We close our books on the project when the investment is repaid in full or when we exit by selling our equity stake. In specific cases we may decide to write off the debt. Our goal is to help the client reach a high level of sustainability that will continue long after our involvement has ended.

PROJECT CATEGORIES:

An environmental and social category is assigned anytime after appraisal and before public disclosure. Category A projects require a minimum 60-day disclosure period. All other projects require at least 30 days.

CATEGORY A
Projects expected to have significant adverse social and/or environmental impacts that are diverse, irreversible, or unprecedented

CATEGORY B
Projects expected to have limited adverse social and/or environmental impacts that can be readily addressed through mitigation measures

CATEGORY C
Projects expected to have minimal or no adverse impacts, including certain financial intermediary projects

CATEGORY FI
Investments in Financial Intermediaries that themselves have no adverse social and/or environmental impacts but may finance subprojects with potential impacts

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Anatomy of a Project
Manufacturing PVC in India

IFC sees every investment as a potential collaboration with clients to improve the overall performance of their business. The timing of our entry into a project can dramatically influence how much we can contribute to its design and sustainability. We therefore seek partners who are already committed to high standards of corporate governance and social and environmental performance, or with whom we feel we can engage constructively in these areas.

The following is an example of a Category B investment – signaling limited adverse social and environmental impacts – in which the client's positive engagement with IFC led to improvements well beyond compliance with our safeguards.

DCM Shriram Consolidated Limited (DSCL) approached IFC in 2004 for a loan to expand the PVC (polyvinyl chloride) and carbide production capacities of its plant at Kota, in the Indian state of Rajasthan. During appraisal, the project was classified as a Category B investment because it was expected to have limited adverse social and environmental impacts that could be readily addressed through mitigation measures.

PROJECT NAME: DCM CONSOLIDATED
COUNTRY: INDIA
SECTOR: CHEMICALS
PROJECT SIZE: $60 MILLION
IFC GROSS INVESTMENT: $30 MILLION (included additional funding for an environmental upgrade)
ENVIRONMENTAL CATEGORY: B
PROJECT INFORMATION AND ENVIRONMENTAL DOCUMENTS DISCLOSED: NOVEMBER 30, 2004

www.ifc.org/projects

ISSUE 1
Early Review

SHOULD WE INVEST IN PVC PRODUCTION?

PVC production has been the focus of heated global debate. The concern lies mainly with the disposal of PVC, which is associated with the unintentional release of persistent organic pollutants (POPs).[1] In 2004, IFC became the first multilateral bank to issue a position paper on POPs. One of the commitments made in the position paper is that IFC will invest in the manufacture of PVC products only if they have compelling benefits over alternative products. In addition, IFC will invest only in those PVC resin plants that meet accepted criteria for Best Environmental Practices (BEP) and Best Available Techniques (BAT). Deciding whether the plant at Kota met these criteria was therefore one of the first things IFC needed to do, even before beginning the official appraisal process.

Most of the company's PVC resin production is used for the manufacture of pipes and conduits intended for irrigation in rural areas and for the supply of drinking water in urban areas, and for the protection of cables. The company's PVC manufacturing process uses abundant local resources, such as limestone and coal, and has a low impact on local ground and surface water. The economic benefits to the Indian market therefore outweighed the alternatives, once satisfactory mitigation of environmental impacts had been assured.

1. POPs are chemicals that have five characteristics of environmental and public health concern: they are toxic, long-lived and mobile, they accumulate in fatty tissue, and they magnify in the food chain. Their high mobility makes them a global issue, while their other properties mean that they are hazardous to animal and human health even at low levels of exposure. For IFC's position on POPs, see http://www2.ifc.org/sustainability/docs/Sustainabilitynewfile2.pdf

The main concern was that the plant still used outdated sludge-producing mercury cells in the production process. Although the company had established excellent waste management procedures, which met national regulations and IFC safeguard requirements, it was still difficult to justify investing in the project given the criteria stated in IFC's position paper on POPs.

"Given the possible issues, an engineer visited the Kota plant with an environmental specialist and an investment officer. This allowed us to assess the issues in advance so that there would be no surprises later, for the Company or for IFC. The pre-appraisal allowed for a better informed appraisal and for speedier processing."

Anil Chandramani,
Transaction Leader, IFC

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ISSUE 2

Appraisal
Negotiations
Commitment

PHASING OUT MERCURY CELLS

At the time of appraisal, the DSCL plant was producing PVC using chlor-alkali production technology from mercury cells. The use of mercury cells produces highly toxic waste and is undergoing a gradual phase-out in most developed countries. Nevertheless, the company did plan to upgrade to the use of much more environmentally friendly and efficient membrane cells and had established a time-frame for doing so even prior to approaching IFC.

Given the commitment on both sides, IFC proposed to increase its investment so that the company could undertake an environmental upgrade much sooner than it had planned. This was a key turning point in the negotiation process. Despite a high short-term cost, the use of membrane cells will benefit the company in the long term by increasing productivity and reducing the cost of maintenance and waste treatment.

WHAT THE CLIENT BROUGHT

- **Motivation to partner with IFC and improve its performance**
- **Recognized excellence in environmental, health and safety management**
- **History of community involvement**
- **Prior commitment to upgrading from mercury cells**

WHAT IFC BROUGHT

- **Additional investment for an environmental upgrade**
- **Expertise in environmental and social management**
- **Encouragement for the client to go beyond compliance**

ISSUE 3

Appraisal
Commitment (Action plan)
Supervision

ENSURING EMPLOYEE AND COMMUNITY HEALTH

Although an environmental impact assessment (EIA) wasn't required in this case by country laws or by IFC safeguards, the company commissioned an EIA upon IFC's request. The assessment identified dust levels at a few locations as being within local limits but falling slightly short of IFC guidelines. The EIA also anticipated that noise levels during the construction phase could affect employees. The company agreed to mitigate these factors as part of a corrective action plan (CAP). In addition, IFC asked for three more wells to be dug to monitor the downstream groundwater flow for traces of mercury and other heavy metals that may result from the existing landfills.

ISSUE 4

Appraisal
Commitment (Action plan)
Supervision

PREPARING KOTA CITY IN CASE OF A CHEMICAL ACCIDENT

Any chemical manufacturer runs the risk of accidents that could expose surrounding communities to toxic substances. The IFC team asked DSCL to establish an emergency response plan together with the local hospital and fire department in order to increase preparedness in the local colony and Kota City. This has included providing medical information to local hospitals on the effects of certain chemicals and conducting comprehensive safety audits with experienced chemical safety experts.

PARTNERS OF CHOICE

Before approaching IFC, DSCL already had a long history of supporting education, health, and local community development in the city of Kota. In the last ten years, the company has also won numerous awards for excellence in pollution abatement, energy efficiency, and oil conservation. IFC's involvement in the company's expansion contributed to DSCL's long-term strategy to ensure that its operations continue to meet international best practice standards.

Through the investment process, IFC has helped the company establish an integrated environmental, health, and safety management system. DSCL now has a general manager responsible for corporate-wide EHS issues and reports to the corporate management board. The company has asked for IFC's support in developing an integrated corporate social responsibility program to cover its community engagement and social responsibility activities.

CONTRIBUTION TO DEVELOPMENT

Offering a more sustainable product
The plant expansion and environmental upgrade will strengthen the company's ability to provide PVC to the Indian market in a more cost-efficient and sustainable way.

Providing employment
At Kota, DSCL employs about 1,658 people directly and is estimated to be responsible for another 1,700-2,000 local jobs. The project will create 94 new jobs directly and also help secure existing employment.

Influencing competitors
At least one other company in the region has begun phasing out mercury cells in a way similar to DSCL.

Helping local farmers
DSCL is supporting local farmers and its own fertilizer business through a network of rural retail stores that provide agricultural products and advisory services to farmers.

"Sustainability is the issue of this century, and we need to integrate it with our business model. It is not a fad, will not go away, is important, makes sense, and can differentiate IFC."
Staff participant in the IFC Building Better Business - Sustainability Learning Program

IFC client, Minera Escondida in Chile, successfully employed women in traditionally male jobs, such as truck drivers. The result was a better work culture and a bottom line savings through more care with maintenance and driving

A Commitment to Continuous Improvement

IFC staff remain our greatest champions in mainstreaming sustainability. We therefore invest in people by providing the tools and learning programs that improve their ability to assist clients in meeting environmental, social, and corporate governance standards and in identifying business opportunities through sustainability.

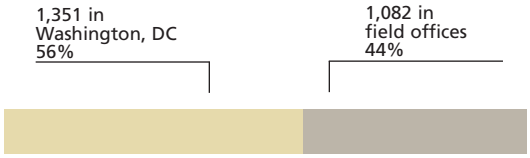
Building a talented and diverse workforce

Current projections indicate that IFC will hire more professionals in FY06 than at any other time in our history. Our workforce is likely to grow by about 20 percent during this time, and by up to 50 percent over the next three years, compared with a 35 percent growth over the last five years. The majority of these placements will be in the field as part of our move toward greater decentralization. This growth provides an opportunity to strengthen workforce diversity as well as our talent pool.

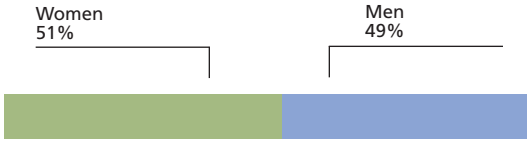
Diversity is one of IFC's greatest strengths, not only because it is the right thing to do but because it enriches our perspectives, allows for fresh ideas, and helps us to respond more effectively to clients and stakeholders.

IFC has made progress on several diversity issues in recent years by increasing the representation of women and people from developing countries and by raising awareness of this issue. Going forward, issues of diversity and inclusion will be getting greater attention, with a particular focus on having women in senior positions, widening the representation of nationalities, and recruiting people from more diverse educational backgrounds.

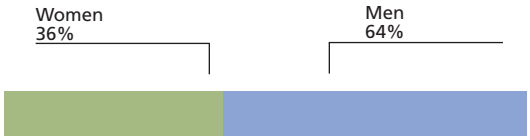
WASHINGTON, DC VS. FIELD STAFF (END FY05)



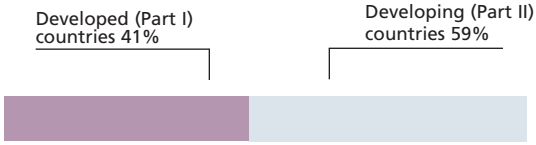
GENDER DISTRIBUTION – FULL-TIME STAFF



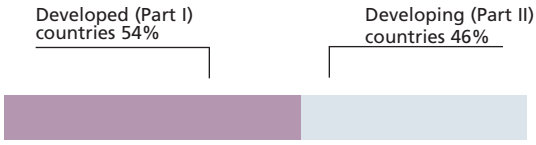
GENDER DISTRIBUTION – OFFICER LEVEL AND HIGHER



REGIONAL ORIGINS – FULL-TIME STAFF



REGIONAL ORIGINS – OFFICER LEVEL AND HIGHER



Courtesy of Minera Escondida

Mainstreaming sustainability

Since 2004, a dedicated staff training program has introduced staff to best practices and familiarized them with sustainability as a business strategy. The Building Better Business - Sustainability Learning Program has now been offered nine times to staff from all departmental levels, including three times in the field (Johannesburg, Bangkok, and Istanbul).

We found that by involving some of our clients directly in the learning process, we were able to improve our ability to design innovative social and environmental solutions and therefore add value for clients, shareholders, and stakeholders. Stakeholders that have attended include clients, NGOs, donor agencies, trade unions, and external experts.

The Building Better Business learning program has covered all investment departments and will be mainstreamed via integration into existing training programs. One such example is IFC's Credit Program, which is a six-week course for all new investment staff. Its purpose is to ensure a common level of ability to assess and make decisions about investment risk. Up until now, the program has focused mainly on the financial dimension of investments. From FY06 on, sustainability will be fully integrated in the IFC Credit Program as part of a more holistic approach to assessing risk and opportunity.

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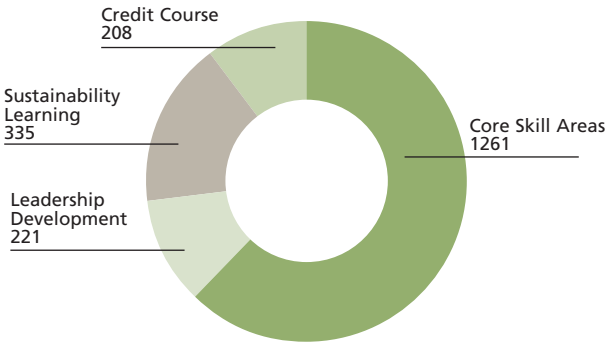
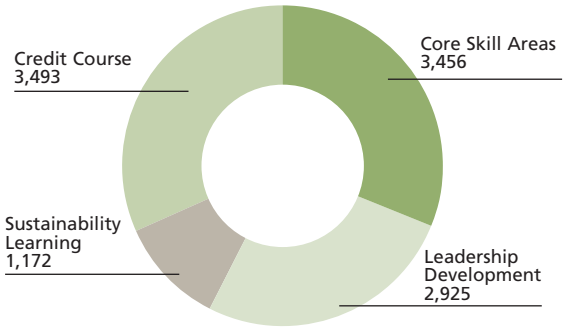
STAFF PARTICIPATION IN TRAINING, FY05
Number of Participants



STAFF PARTICIPATION IN TRAINING, FY05
Participant Days



"Participating in the Sustainability Learning Program was a valuable experience to see what IFC's strengths and weaknesses are on sustainability. This was the first time that I really saw what an important part sustainability plays in IFC's corporate strategy and how it can support my company's own goals."

Enrique Canas, Executive Director, Banco Uno, El Salvador

THE HUMAN RESOURCES CHALLENGE

By Dorothy Hamachi Berry, Vice President, Human Resources

The ability to attract, develop, and retain excellent people is essential for IFC to implement its growth strategy and to make a difference in private sector development. It is also critical to our efforts to mainstream sustainability.

Since IFC adopted sustainability as part of our business strategy four years ago, there is no doubt that we have begun attracting a much more development-focused group of candidates with a wider range of skills. We now have investment officers coming to us because they want to do development work and are already holding themselves to a high standard. Our responsibility is to ensure that, from the recruitment process through to training and mentoring, those skills and interests are cultivated.

Over the last few years, we have worked hard to strengthen our HR platform in order to help build a high-performance organization. We've put an enormous effort into performance management, training, leadership development, and recruitment. The result is that we had quite a few successes in the last year.

For example, we introduced a new Corporate Leadership Program to provide staff with strong performance records the opportunity to hone their leadership skills. The program has received rave reviews from participants, who say they've received straight, helpful feedback on how they can become even more effective as leaders. We have also made a strong start in our recruitment effort, where we have been able to attract an outstanding, diverse group of people from all over the world. We are particularly happy that over half of our recruits are from developing countries.

However, our biggest job has been in changing organizational culture over the last five-year period to match IFC's new goals and commitments. We've moved in leaps and bounds, but there is still a lot to do, particularly in the area of sustainability.

Training programs can have an energizing effect, but sustainability should be in the fabric of what we're doing – in the conversation throughout the project cycle. The core business is being done across organizational boundaries. So the big question is what it actually means for mainstreaming. We're addressing this through the co-location of staff, but we need to ensure that there is an overarching structure to provide leadership and accountability on the social, environmental, and corporate governance components of our work. This is already happening.

To me, the most significant achievement in the last year was the implementation of our Long Term Performance Awards program. For the first time, IFC recognized outstanding teams and individuals for their contributions to long-term corporate results based on actual project results. Another first was the fact that the rigorous selection process gave equal weighting to development impact and financial results. We're thereby reinforcing the message that results and quality matter, and that each member of a team is measured on his or her contribution to a project throughout its lifetime.

As a development as well as financial institution, development effectiveness and financial performance go hand in hand. We need to ensure that our projects leave a positive legacy. Our investment officers are doing this on a daily basis. What they need are the right tools, support, and incentives to continue to do so over the long term. I believe that as a human resources team, this is where we can make our biggest mark.

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In addition, corporate-wide training on IFC's new Sustainability Policy and Performance Standards and Disclosure Policy has begun. All operational staff at IFC Headquarters in Washington, DC, as well as staff in field offices are being trained on the basic content, functionality, rationale, and implementation. Particular emphasis is placed on topics that are new or different from IFC's existing policies. A total of 22 one-day training sessions have been scheduled – 10 in Washington, DC and 12 in the field. A series of half-day briefings on the new policies will also be offered to IFC clients and local consultants.

Making sustainability a performance criterion

One measurement tool of our success is the corporate scorecard. Our corporate scorecard looks at IFC's corporate performance in three areas – client satisfaction, development impact, and financial performance. In the development impact category, the scorecard has targets agreed to with our shareholders in IFC's pursuit of its developmental priorities, and the areas where IFC has a strong role in adding value to our projects, including the sustainability agenda.

To encourage better performance, several indicators included in the corporate scorecard are also reflected in IFC's internal department scorecard, a metric for measuring and comparing performance among investment departments. The department scorecard allows for differential allocations of incentives between departments.

In FY05 a long-term performance incentive was introduced for individual investment officers. The program assesses the long-term success of individual projects in terms of equally weighted financial and development impact contributions.

Promoting a learning culture

Our ability to learn and improve is crucial to our long-term success and our ability to have a lasting development impact. As we take risks and pioneer new approaches to development and to investment, we are also constantly collecting and evaluating our experiences and working to ensure that these are incorporated into future efforts.

This in turn is helping us to enrich the knowledge resources of the wider private sector, local communities, and development organizations, thereby strengthening the frameworks in which we operate. IFC regularly produces Good Practice Notes in specific topic areas, which provide guidance on emerging practices in sustainability. We also develop and publish lessons from our investments and technical assistance projects. Importantly, we are striving to create a culture in which experiences in projects where things didn't run smoothly are seen as an opportunity to learn with and from our partners, clients, and stakeholders.

www.ifc.org/enviro

"The fact that we are trying to learn from others is not an admission of failure or an indication of inadequacy. It is merely recognition of the fact that we do not have a monopoly on knowledge."

Eluma Obibuaku, Monitoring and Evaluation Specialist, IFC

© Kamila Azizova

Sharing lessons helps IFC to replicate successful technical assistance models such as the Russia leasing project, which has been replicated in a number of regions, including Central Asia. In Uzbekistan, new equipment acquired with a $20,000 lease from Zomin-Invest, the country's first fully private leasing company, allowed this Uzbek food processing company to increase production and create eight new jobs.

GLOBAL EXPERTISE, LOCAL RESULTS

IFC's devolved structure means it is crucial for staff in different locations to be well integrated into the institution. They need to understand IFC's full range of services, work well with other partners of the World Bank Group, and be able to share lessons quickly. One area where knowledge management has been particularly successful is the work IFC does in creating linkages between our clients and small and medium-scale enterprises (SMEs) at the regional level.

As of September 2005, IFC has implemented 86 linkage projects in 30 countries, linking IFC clients with local small businesses, and tied to $2.5 billion in IFC investments. Effective learning and knowledge sharing have become vital to the success of these projects.

We have developed a training program for staff working on linkage programs in the field, and we manage knowledge networks on specific themes to identify who is doing the work and connect them to the relevant people. Standard indicators are being developed to facilitate the sharing of information among regional staff, and a number of Web-based platforms have been created for networking and information sharing.

"The relationships being built are more important than the Web site itself. Practitioners in the networks meet twice a year at conferences to share material and documents. Anecdotal evidence so far suggests a strong increase in cross-fertilization. There are more projects than there used to be. We're seeing successful projects in one region being replicated in another region. We've also now launched a 'Learning Note' program to capture the essence of technical assistance activities."

David Lawrence, Business Development Officer, SME Department, IFC

We are improving our ability to monitor selected development indicators – including indicators for environmental and social performance – throughout the life of a project.

Measuring Impacts

Tracking our contribution to development

Monitoring and evaluation of our projects, policies, and procedures constitute a critical part of what IFC does. We already track "high impact" projects based on their potential to go significantly beyond compliance with IFC's social and environmental standards and to deliver a high economic return. The intention has been to help investment staff identify opportunities to add value to their projects and to recognize this through departmental scorecards.

This year an institution-wide effort was launched to improve the way we track the full sustainability and development impact of our investments as a means to report on our overall contribution to development.

The new approach involves identifying and monitoring selected development indicators throughout the life of a project, including economic, financial, corporate governance, social, and environmental dimensions. The new system aims to fulfill IFC's commitment to systematically articulate expected development results at approval and track them during supervision. A similar system is currently being developed for our technical assistance and advisory services.

The new effort emphasizes the role of staff as data stewards and champions in maintaining effective monitoring systems. Individuals are given clear responsibilities and accountability for specific information. Ultimately, the quality, completeness, and usefulness of the data collected are dependent on the commitment of those who input it and the management oversight provided.

Monitoring the performance of our clients

IFC also tracks the compliance of clients with commitments made in the investment agreement, such as reporting on environmental and social performance as stipulated prior to disbursement, and the submission of annual environmental and social performance reports. The revision of our Policy and Performance Standards and the introduction of improved management systems will allow us to better track and support sustainability throughout the investment cycle.

Internalizing lessons from experience

The IEG publishes an Annual Report which reviews the adequacy, coverage, and quality of evaluation processes within IFC. It examines how effectively IFC is using performance measurement and evaluation findings to enhance its results and increase its accountability.

www.ifc.org/ieg

CASE STUDY

An investment with high environmental impact

In 2005, IFC provided $10 million in equity financing to greenhouse gas emissions company AgCert to help the company roll out emission reduction projects in Brazil and Mexico. AgCert was founded in 2002 to generate and sell reductions in greenhouse gas emissions, which are intended to satisfy the requirements of the Kyoto Protocol and are expected to be traded in the international market for carbon credits.

AgCert works with swine and dairy farms to modify their animal waste management systems and enable the capture and disposal of methane, thus allowing the creation and sale of carbon credits. This operation will generate a stream of revenue for the company and the farmers.

The project involves modification of animal waste management systems at about 1,600 sites in Brazil, Mexico, and other countries in Latin America over a two- to three-year period at an estimated cost of $150 million. Upon completion of all the planned sites, AgCert is expected to produce about 15 million tons of emission reductions per year.

This is an innovative transaction with significant development impact potential, not only in reducing greenhouse gas emissions but also in improving the water and air quality at livestock farms. It will provide a source of organic fertilizer and renewable energy for the farmers, thus supplementing their income in multiple ways. This business model could be implemented in farms in other countries, with a positive environmental and development impact.

Anatomy of a Region
Investing in Sub-Saharan Africa

In FY05, IFC investments in Sub-Saharan Africa exceeded $400 million for the second consecutive year, and a new target has been set to increase investment levels to $900 million by FY09. This is in turn expected to mobilize around $3.5 billion in private sector investments. As of June 2005, IFC largest country exposures were Nigeria, South Africa, Mozambique, Cameroon, and Kenya.

Sub-Saharan Africa continues to present the world with a formidable development challenge, yet improved economic performance in a number of countries reflects important regional trends that are opening up opportunities for IFC to increase our development role in the region.

As shown by IFC's 2005 Doing Business Report, a number of African governments are improving country policies and institutions to facilitate private sector development. Collaborative efforts at regional level, such as the African Union, the New Economic Partnership for African Development (NEPAD), and widening adoption of initiatives such as the Extractive Industries Transparency Initiative (EITI) also bode well for improved governance. With some notable exceptions, the number and intensity of conflicts have declined, and political stability has improved.

These changes are encouraging a greater interest in Africa on the part of private sector investors. The medium-term prospects for substantial increases in aid to Africa also look promising as a result of the Gleneagles G-8 Summit in July 2005, and strong opportunities are being presented for public-private partnerships in Infrastructure Development.

With this window of opportunity to step up support for sustainable private sector development in Africa, a new Strategic Initiative for Africa was approved by IFC's Board. The new regional strategy focuses on

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- Significantly expanding IFC's program for small- and medium-scale enterprises, which constitute the majority of the private sector in Africa
- Substantially increasing IFC's proactive engagement in project development for larger projects, especially in infrastructure and public-private partnerships
- Rapidly improving the overall investment climate, focusing on technical assistance to improve reform implementation in collaboration with the Bank

In all three pillars, IFC will continue efforts to enhance the social, environmental, and economic benefits of private investment by channeling expertise in areas such as corporate governance, gender entrepreneurship, HIV/AIDS, business school development, and support for grassroots businesses.

In 2005, IFC moved from a "retail-oriented" approach to SME development through the Africa Project Development Facility (APDF) to an integrated and broader approach to providing technical assistance through the launch of the Private Enterprise Partnership for Africa (PEP Africa). Maintaining a focus on SMEs, PEP Africa will undertake multi-year and sector-wide programs in sectors that have clear potential to significantly accelerate economic growth, job creation, and poverty reduction. These include financial markets; infrastructure; agribusiness; health and education; oil, gas, and mining; and tourism.

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EXPANDING SUPPORT FOR SMEs

MOZAMBIQUE
IFC's Mozambique SME Initiative provided financial support and technical assistance to Spectrum Graphics Limited (SGL), a pre-press design and printing services company. The company is women-owned and operated and has a staff of 58 employees.

KENYA
IFC provided a loan to Honey Care Africa Limited, a socially responsible Kenyan small business to upgrade its processing capacity and expand its services to rural beekeepers. The company sells hives to local subsistence farmers, many of whom are women, and buys their honey at guaranteed prices, typically doubling their income. To date, the company has benefited more than 2,500 poor farmers in rural Kenya.

DEMOCRATIC REPUBLIC OF CONGO (DRC)
IFC helped establish Procredit SARL, a microfinance institution in the DRC, which provides credit and other financial services to micro and small enterprises.

MADAGASCAR
IFC has established a Service Solution Center (SSC) offering integrated support to Malagasy SMEs. A new SME risk capital fund with Business Partners International has just been launched.

AFRICA REGION
Working through the AfriCap MicroFinance Fund, IFC is building capacity among African microfinance services providers to manage the business risks of HIV/AIDS.

PROACTIVE PROJECT DEVELOPMENT FOR LARGER PROJECTS

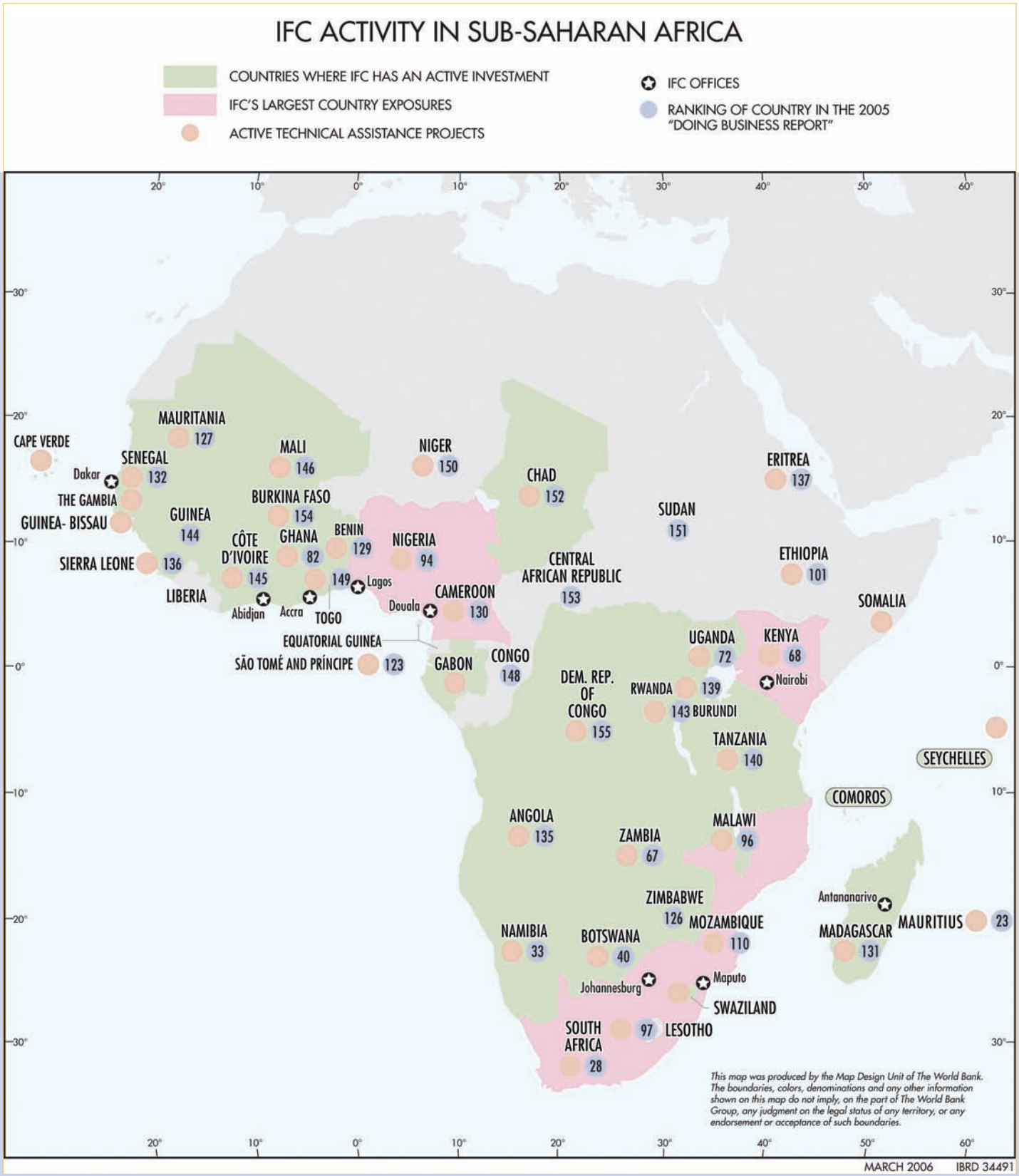
SENEGAL
With active support from the World Bank, IFC coordinated an investment in Kounoune I, a 67.5 megawatt power plant to be constructed near Dakar that will help to address the growing electricity needs of the country.

NIGERIA
IFC is providing $75 million for construction and operation of a greenfield cement plant with a capacity of 4.4 million tons a year at Obajana in Nigeria's Kogi state. One of IFC's largest investments in the region, the plant will fill a supply gap in the country's cement market and promote investment in infrastructure, as well as in industrial, commercial, and residential construction.

KENYA AND UGANDA
IFC advised Kenya on the joint selection of concessionaire Rift Valley Railways Consortium to operate and manage the national railway systems of Kenya and Uganda for the next 25 years.

GHANA
Supporting the spread of mobile telephone access, IFC invested $40 million in Scancom, a cellular provider in Ghana.

SOUTH AFRICA
IFC will nearly triple its financial support to South Africa's low-income housing sector and other sustainable project areas over the next five years.



www.ifc.org/africa

IMPROVING THE OVERALL INVESTMENT CLIMATE

BURKINA FASO

Through PEP Africa, IFC is providing a 30-month "Doing Business Better" program to improve the specific aspects of Burkina's investment climate captured in IFC's 2005 Doing Business Report.

NIGERIA

Together with the World Bank, IFC is supporting the "Better Business Initiative," a public-private dialogue initiative. PEP Africa will take over coordination of the initiative as it begins to focus on implementation of reforms.

www.doingbusiness.org

A REPLICABLE MODEL FOR JOB CREATION

A successful voucher model from Kenya has been successfully transferred to South Africa to help disadvantaged youths gain access to training, jobs, and financing. Operated by South Africa's largest business support initiative, the Umsobomvu Youth Fund (UYF), the project has helped around 3000 youths receive new job training and business services. In addition, an estimated 2,400 jobs have been created or sustained through business start-ups and expansions.

EXTRACTIVE INDUSTRIES AND TRANSPARENCY

While oil, gas, and mining can make important contributions to development and poverty reduction, their contribution is lessened when the revenues that these industries generate for governments are used poorly or misappropriated. An important step toward greater accountability and better use of the revenues in this respect is greater transparency about the funds received by governments. The World Bank Group is helping to contribute to this in a number of ways.

IFC promotes good governance and environmental and social sustainability through its direct involvement in extractive projects. In addition, through the Extractive Industries Transparency Initiative, IFC and the World Bank are working to encourage around 20 countries to improve public reporting of income from oil, gas, and minerals, including taxes and other payments. From January 2006, the World Bank Group will require all material payments to government to be made public for all extractive industries projects that it helps finance. For the very largest projects, disclosure is required now.

www.worldbank.org/ogmc

Promoting Good Corporate Governance

Sustainable businesses are well governed businesses. Well governed companies benefit from higher prices for their shares, have access to cheaper debt, and just perform better than their poorly governed peers. Firms with transparent and professional systems of direction and control are also more likely to understand the importance of taking social and environmental considerations seriously and mainstreaming them into their operations.

IFC systematically examines corporate governance in its investment process, and is a leader in the dialogue on corporate governance in emerging markets. We work with clients to improve their practices, looking at five dimensions in particular:

- Commitment to good corporate governance
- Equitable treatment of shareholders and other financial stakeholders
- The control environment
- Transparency and disclosure
- The role and functioning of the Board of Directors

Rather than rating a company's governance, IFC's analysis is designed to come up with practical solutions that add value to companies in which IFC is making an investment.

In addition to client companies, IFC provides advice on corporate governance issues to governments, regulators, stock markets, institutes of directors, and other private sector players. Since 2000, IFC has co-sponsored the Latin America Corporate Governance Roundtable with OECD. IFC also regularly contributes to similar fora in Asia, Eurasia, and Russia. The Global Corporate Governance Forum is now housed in the IFC/World Bank Corporate Governance Department.

In 2005, we launched a Companies Circle of firms recognized for their good governance practices to provide practical private sector input to the work of the Latin America Roundtable. The Circle recently published a set of case studies of their experiences in reforming and improving their own corporate governance practices, for the benefit of the broader market of Latin American businesses.

Policies for engagement through directorships in equity investments

As of November 2005, IFC had about 1,380 companies in its active investment portfolio. Of these, IFC had equity investments in 625 companies, 136 of which (10 percent of all companies) had an IFC-nominated director on their board. A majority of the companies in which IFC has nominated a director are financial intermediaries, including private equity funds, banks and insurance companies. In the companies with IFC directorships, the outstanding equity exposure is $784 million – representing approximately 34 percent of IFC's total outstanding equity exposure.

In order to better ensure that our director nominees play a value-adding role on boards and to manage IFC's reputational risk, we maintain a formal set of policies and procedures and a monitoring system for directorships.

Our current policy on directorships outlines the factors that should be considered before we decide to nominate a director, including the current composition and quality of the board, any gaps in expertise that the nomination seeks to fill and the prospects for implementing better governance practices in the company. We also rolled out a revised training program for all IFC-nominated

directors in 2005. This program highlights that IFC's director nominees owe exclusive duties of care and loyalty to the company on whose boards they sit.

In addition, subject to their fiduciary obligations to our clients, insider trading laws, and similar considerations, IFC-nominated directors report annually to IFC on the activities and status of the board and the nominee's contribution to its effectiveness. The monitoring system aims to facilitate access to all essential company board documents and details of voting records.

From June 2006 all newly nominated directors will receive mandatory training in IFC's directorship policy and good corporate governance principles as part of the Corporate Governance Department's program of semi-annual director trainings.

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Voting shares

IFC advocates improved corporate governance and offers both support and advisory services to further this goal. However, we may not be seen as managing the company or as a sponsor, and will limit our role in the investee company to that of a minority investor. Because of these restrictions, we will generally refrain from exercising our voting rights unless the matter to be voted on is considered necessary to protect IFC's interests or further a corporate goal. One example in which IFC has played a role in influencing corporate governance is a joint investment made by IFC and the European Bank for Reconstruction and Development (EBRD) in 2004 in Romania's Banca Comerciala Romana (BCR).

IFC purchased 12.5 percent of the shares of BCR, which was predicated on an overhaul of the bank's governance structure and practices, the reformulation of its Board of Directors, and training on corporate governance for its senior management and new Board members. Later that year, Fitch Ratings upgraded BCR's individual rating to "C/D" from "D", and Standard & Poor's rating of the company went from BB- to B+. In each case, corporate governance was cited as among the improvements undertaken at the bank on the advice of IFC.

www.ifc.org/corporategovernance

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Creating Business Value

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

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

INCREASING ACCESS TO MICROFINANCE

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

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

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

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

www.ifc.org/gfm

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TRANSFORMING AN NGO INTO A VIABLE MICROFINANCE PROVIDER

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

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

Mark Rozanski, Investment Analyst, IFC

SUPPORTING SMEs

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

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

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

www.ifc.org/sme

CREATING SUSTAINABLE FINANCIAL MARKETS

Since 2002, IFC has been promoting environmentally and socially sustainable lending and investment practices among our financial intermediaries and the wider emerging markets financial sector. Using donor funds, we provide executive education and

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ADAPTING TO THE NEEDS OF LOCAL MARKETS

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

institutional capacity to a wide range of financial institutions of all sizes. We are also helping to develop good practice through demonstration models, market research and feasibility studies.

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

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

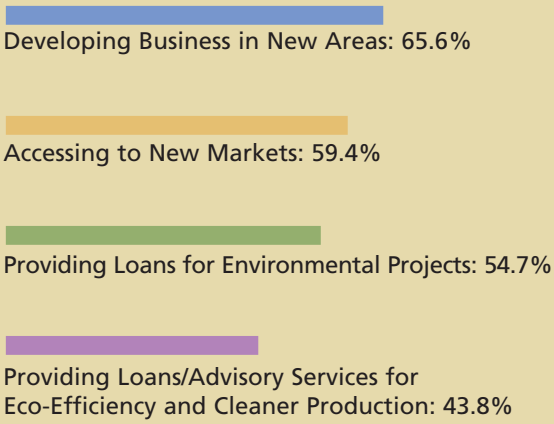
There is still a perception among investors that the risk associated with investing in developing countries is high, particularly in the still relatively experimental area of sustainable investing. However, the rewards and the development impact can be great. In December 2005, IFC and the *Financial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

www.ifc.org/gfm

RECOGNIZING THE BENEFITS OF SUSTAINABILITY-RELATED PRODUCTS AND SERVICES

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

SUSTAINABILTIY BUSINESS OPPORTUNITIES



Source: IFC Sustainability Survey of Financial Institutions (2005)

CLOSING THE GENDER GAP

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

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

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

© Barbara Mowat

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

www.ifc.org/gem

SHARING STRATEGIES FOR SOCIAL RESPONSIBILITY

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

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

www.ifc.org/enviro

Courtesy of Manila Water

LEADING BY EXAMPLE: MANILA WATER COMPANY

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

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

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

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

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

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

STRENGTHENING BUSINESS RESPONSES TO HIV/AIDS

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

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

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

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

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

www.ifc.org/ifcagainstaids

PIONEERING APPROACHES TO BIODIVERSITY

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

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

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

www.ifc.org/biodiversity

© Hoa Doan

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

www.ifc.org/BiodiversityGuide

JOINING FORCES TO TRANSFORM MARKETS

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

www.sustainable-palmoil.org

Responding to Climate Change

As the realities of climate change become increasingly apparent, efforts are needed from all parts of society to address the root causes and manage its effects. In 2005, the G-8 nations stepped up pressure on leading global institutions to play their part and looked specifically to multilateral banks, with their extensive global reach, to develop investment frameworks for clean energy and to increase the amount of investments made in renewable energy and energy-efficient technologies.

IFC is taking a leading role in developing new business models that stimulate private sector investment in sustainable energy and at the same time support sustainable economic development in emerging markets. This includes helping fledgling products, such as low-cost clean energy alternatives, enter the marketplace. Clean energy has the potential to improve development outcomes significantly by increasing the availability and security of energy in emerging markets, while reducing its environmental impact.

With the Kyoto Protocol having come into force, IFC is also facilitating the development of a commercial carbon market. Besides helping developed country partners meet their commitments to reduce greenhouse gas emissions, we plan to deliver new financial products that allow our clients in emerging markets to unlock the value of their carbon assets.

Investing in sustainable energy

In 2005, our level of investment in sustainable energy was substantially greater than the numbers reported in previous years, as well as far exceeding the $61 million reported in the December 2005 report *World Bank Group Progress on Renewable Energy and Energy Efficiency Fiscal Year 2005*.[1] As noted in that report, previous assessments referenced only "stand-alone" projects whose sole focus was energy efficiency (EE) or renewable energy (RE),[2] thus missing the full scope of investment in sustainable energy undertaken as a component of larger investments in various industry sectors.

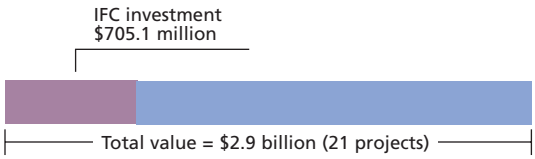
Yet it is precisely in these mainstream investments that IFC is able to achieve its greatest impact. For instance, we are discovering a wide range of investments in which IFC's engineering and technical advice, our expertise in carbon markets, and our environmental standards are leading sponsors to go beyond normal practices to achieve substantial energy efficiency benefits in support of a stronger project (see "Anatomy of a Project," page 29). These opportunities exist throughout the economy and might otherwise go unrealized.

With this in mind, we recently undertook a thorough review of our portfolio to identify those investments that include a sustainable energy improvement or benefit, and to gain an idea of how much we directly or indirectly contributed to this "added value" component. The review yielded some new insights into the reach of our portfolio and provided the basis for a more comprehensive sustainable energy strategy.

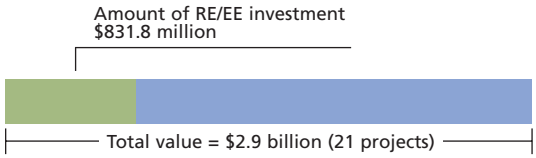
1. At the June 2004 Bonn International Conference on Renewable Energies, the World Bank Group pledged to increase investment in RE and EE by 20 percent every year for five years. In the first year following this commitment, the World Bank Group collectively exceeded its goal of $251 million for FY05 by increasing support for new RE and EE to an estimated $299 million. IFC's contribution to this was estimated to be $90 million.
2. New RE is defined as energy from wind, solar, geothermal, biomass, and hydropower with a capacity less than 10 MW per facility.

In FY05, IFC invested $705.1 million in 21 projects that had a sustainable energy component. The total value of investment in these projects was $2.9 billion and included an estimated $831.8 million invested directly in RE and EE components.

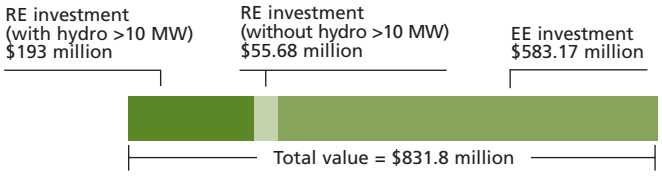
TOTAL VALUE OF PROJECTS WITH RENEWABLE ENERGY/ENERGY EFFICIENCY COMPONENTS – SHOWING PORTION OF IFC INVESTMENT



RENEWABLE ENERGY/ENERGY EFFICIENCY AS PART OF TOTAL INVESTMENT



TOTAL RENEWABLE ENERGY/ENERGY EFFICIENCY INVESTMENT LEVERAGED – SHOWING TYPES OF RENEWABLE ENERGY/ENERGY EFFICIENCY



The review demonstrated a significant level of investment in RE and EE in our mainstream business. However, because of the way IFC invests through comprehensive project structures and corporate investments, the sustainable energy component is often integral to a larger project enabled by the IFC investment. Thus the amount of our investment that directly supports the sustainable energy components within these projects is simply impossible to disaggregate.

In the absence of a precise methodology, we have assessed the percentage of IFC's investment in proportion to the full project cost and applied that proportion to the full RE/EE project value. Based on this calculation, our estimated direct investment in sustainable energy through our portfolio in FY05 was $220.9 million ($64.59 million in RE; $156.35 million in EE)

The recent evaluation of our portfolio lays the groundwork for a new tracking system to support our business development processes and investment procedures. The system, to be refined during FY06, will allow us to more accurately capture and report on the wide array of sustainable energy investments and project enhancements that we achieve as a result of our role in highly developmental projects.

Perhaps more importantly, the system will identify where such opportunities may arise in the course of our business so that they can be fully realized in the project as finally implemented. To this end, the tracking system will feed measurement into IFC's corporate scorecard, thus supporting an institution-wide commitment to achieve higher levels of energy efficiency performance, where economically and financially prudent to do so.

Supporting the carbon finance market

IFC currently has about $100 million[3] under management in partnership with the Government of the Netherlands, through which we purchase emission reduction credits from projects eligible under the Kyoto Protocol's Clean Development and Joint Implementation mechanisms. In addition, capitalizing on our ability to manage long-term project and credit risk in emerging markets, we are developing products that will allow businesses to attract a higher premium for their carbon credits in the global carbon market. These have the added benefit of lowering the cost to developed country companies or governments of meeting their Kyoto related obligations.

It is estimated that the market for carbon credits will be worth $10 billion in less than 10 years. However, the perceived risk associated with projects in developing countries remains one of the barriers many companies face in finding developed country buyers for their carbon credits. A new credit enhancement product – the first of its kind – will allow IFC to use its AAA-rating to guarantee delivery of carbon credits from high-quality projects in developing countries to companies or governments in developed countries. By applying our extensive experience in assessing and mitigating project and political risks, IFC is able to improve projects' financial and environmental performance, thereby reducing the risk of underdelivery of carbon credits.

Driving innovation in clean energy

In addition to IFC's substantial portfolio of commercial investments in sustainable energy, we support technology development and the establishment of new business models to move markets toward sustainable energy, technology, and services. With Global Environment Facility (GEF) and other donor resources, IFC oversees a diverse portfolio of more than $200 million dedicated to helping the private

© Vikram Widge

sector develop commercially viable, climate friendly products, as well as working to remove market barriers and reduce future transaction costs.

These ventures are by their very nature pioneering and therefore often initially high in risk. We are in the fortunate position that our mandate and our role in the marketplace allow us to take on this risk in order to develop business models with combined social, environmental, and economic benefit.

New technology: Commercializing new energy technologies is essential for reducing the long-term growth in greenhouse gas emissions in developing countries. The transfer of new technologies requires a combination of technical know-how and financial management. IFC has undertaken several such projects with GEF and other donor resources, including projects to commercialize stationary fuel cells, use advanced power generation technologies to cogenerate with bagasse at sugar mills, and manufacture advanced micro-turbines.

Supporting local lending by financial intermediaries: IFC provides specialized credit lines and credit enhancement vehicles to assist local banks and leasing companies in establishing self-sustaining lending products for sustainable energy. IFC/GEF programs for this purpose now operate in seven countries with commitments of more than $100 million in IFC funds.

3. This will soon be expanded by an additional $55 million

© Milson Mundim

FINANCING THE DELIVERY OF SUSTAINABLE ENERGY

IFC is active in the growing market to finance private power generation using grid-connected renewable energy technologies (e.g., wind, hydropower, biomass, and geothermal). We also finance operations that generate energy-efficiency benefits, such as the reduction of system-wide losses in electricity distribution networks, direct investments in energy service companies (ESCOs), and the manufacture of energy-efficient equipment.

WIND: Wind energy investments included the 50 megawatt (MW) Rio do Fogo project in Brazil and the 8.25 MW Cabo Engano project in the Dominican Republic. We are also actively pursuing wind project and carbon credit financings in other promising markets, including China and India. An IFC-supported credit facility in the Czech Republic led to the first fully commercial wind project in that market. Our commercial guarantees and technical assistance have since spurred several additional wind projects with the same bank partner.

HYDRO POWER: Financing has been provided for more than ten run-of-river hydroelectric projects including the El Canada project in Guatemala (43 MW), the Pamir project in Tajikistan (28 MW), the Allain Duhangan project in India (192 MW), and the La Higuera project in Chile (155 MW). IFC has successfully concluded carbon credit purchase agreements with Brascan Energetica in Brazil, which has more than 100 MW of operating run-of-river hydro generation assets, and Eco Power, a private developer of small hydro power plants in Sri Lanka with more than 30 MW in seven projects.

BIOMASS: IFC provided financing to Balrampur Chini Mills, a large sugar producer in India that included construction of bagasse cogeneration plants at two mills for a total of 40 MW and also signed an agreement to purchase carbon credits from these projects.

GEOTHERMAL POWER: IFC helped finance the 24 MW Orzunil geothermal power plant project in Guatemala. We are also involved in exploring financing of other prospective geothermal projects, involving electricity production and district heating. A GeoFund to support new geothermal projects for Central and Eastern Europe is under development with the Global Environment Facility and the World Bank.

SOLAR/ PHOTOVOLTAIC (PV) ENERGY: IFC is the largest source of financing for off-grid solar businesses in the developing world. We use a combination of donor resources and our own capital to test new business models, seed promising enterprises, and provide capital for business development. With GEF resources, we have also implemented the largest grid-connected PV installation in the developing world, a 1 MW facility in the Philippines.

METHANE CAPTURE AND DESTRUCTION: IFC has invested equity in a company that provides waste management services to swine and dairy farmers and sells carbon credits by capturing and combusting associated biogas (see page 40). We are currently considering project and/or carbon-related financing for several waste management, wastewater, landfill gas, and coalbed methane projects.

www.ifc.org/enviro

© Courtesy of Merlon

A SNAPSHOT OF OUR IMPACT: Reducing CO_2 emissions

IFC operates several climate change initiatives in emerging markets in Africa, Asia, Eastern Europe and Latin America, funded primarily through the Global Environment Facility together with our private sector partners. These initiatives contribute directly and indirectly to the reduction of greenhouse gas emissions in emerging markets. Although many of these initiatives have yet to reach maturity, our conservative estimate of direct CO_2 emissions expected to be avoided is 3 million tonnes annually. This is equivalent to about 1 percent of Brazil's annual CO_2 emissions, or 125 percent of emissions of a small country like Nicaragua. Given that the GEF initiatives mentioned above are intended to be catalytic and to transform markets, we expect and hope that the indirect greenhouse gas reductions will be even more substantial.

In addition to this, IFC's current product offerings in the area of carbon emission trading under the Kyoto Protocol are expected to facilitate a trade of 40-50 million tonnes of greenhouse gas emission reductions in the next three years.

www.ifc.org/carbonfinance

A NEW CLIMATE OF RISK
How global warming is impacting the insurance sector

One of the services that IFC provides is assistance to clients to assess their business exposures, and to structure appropriate, cost-effective methods to mitigate, treat, or transfer risks. This includes providing expertise on appropriate insurance coverage. Because we work with clients across a wide range of regions and sectors, we are well placed to help insurance providers adapt to new and emerging areas of risk. One potential area is climate change.

A study of the global impact of natural disasters from 1980 to 2004, conducted by Munich Re, showed that insured property losses were dominated by storm events and major earthquakes, for which insurers were poorly prepared. These exposures are most acute in the developing world, where vulnerability is high and preparedness is low. Climate change is a growing cause of natural disasters and is affecting the availability and affordability of insurance for consumers and businesses. Insurance claims from catastrophic weather events are rising 10 times faster than premiums.

The complexity of climate change protection is heightened by the fact that multiple events impacting the same area, such as the hurricanes which struck both North and Central America in 2005, dramatically increase the vulnerability of the area and the severity of impact. Storms and floods also bring disease, widening the impact of the initial event. Despite and because of the unpredictability of natural disasters, the insurance sector has a crucial role to play in helping businesses and communities prepare and recover.

At current growth rates, emerging markets will represent half of world insurance premiums by the middle of this century. Beyond worrying about who will bear the cost of climate change, public authorities, businesses, and insurers need to concentrate on prevention. This can mean providing products that meet changing customer needs as a result of global warming, or providing risk coverage to investment in solutions – such as renewable energy – thereby addressing the root causes of climate change.

The majority of small businesses that were impacted by the Indian Ocean tsunami of December 2004, particularly in the tourism sector, had little or no insurance in place to help rebuild their operations and recover lost expenses and revenue. IFC has since run risk and insurance awareness workshops for these businesses to highlight the importance of insurance and good risk management, and has also been working with local insurance markets to find ways to make insurance protection more readily available and affordable for this sector of society.

Our Values at Work

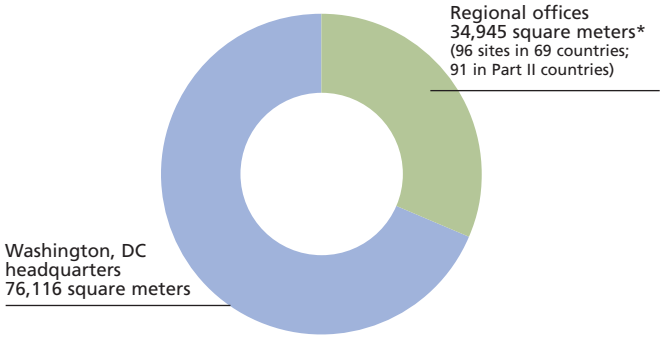
Practicing sustainability in our headquarters in Washington, DC and in our field offices is an important part of living out our mission statement and being consistent with what we ask of our clients. This means improving our environmental and social footprint, which is made up of the direct impacts due to the operation of our buildings and daily work habits, and the relationship between IFC and the local communities in which we work and live.

Over the past several years, we have taken various steps to improve our footprint. The first of these was the construction of our energy-efficient Washington office in 1997. More recently, we created a Footprint Reduction Team in 2003, made up of staff volunteers. In 2005, we stepped up our workplace greening and community outreach programs by appointing a dedicated Footprint Officer to work full-time on these issues.

Now that we have a staff member to coordinate IFC's Footprint Program, we've been able to greatly expand our efforts. This has included setting priorities and collecting data – such as building our greenhouse gas inventory – and identifying what should be tracked and how. The Footprint Program has also allowed us to increase collaboration between departments through an advisory committee and departmental champions, and to more actively reach out to field offices.

One of the goals of the program was to establish clear priorities that could be communicated to our staff and other stakeholders. Based on reporting guidelines from the Global Reporting Initiative,

TOTAL AREA OF IFC OFFICES
*Estimated



recommendations by our own environmental experts, and an independent review conducted in 2002,[1] we identified priority areas for the short and medium term that reflect our offices' most significant impacts and which we could also influence. The priority areas identified for the Footprint Program are

- energy/CO_2 emissions (including business travel)
- procurement
- paper consumption and electronics use
- community outreach
- diversity
- staff awareness and engagement

OUR ENVIRONMENT

Greenhouse Gas Emissions

We recognize greenhouse gas (GHG) emissions as a key part of our environmental footprint, resulting from our own activities such as the production of electricity, on-site generators, business travel, and commuting.

1. An environment, health, safety, and social footprint review was completed in 2002 by an external firm, which compared our practices to our peers and outlined recommendations.

To better track and understand our greenhouse gas (GHG) emissions, IFC partnered with the World Resources Institute to develop a GHG inventory, and in the process tested WRI's updated guidance document on developing these inventories for large service-based organizations. Basic results are presented here, with more detail and methodology online.

www.ifc.org/SustainabilityReport

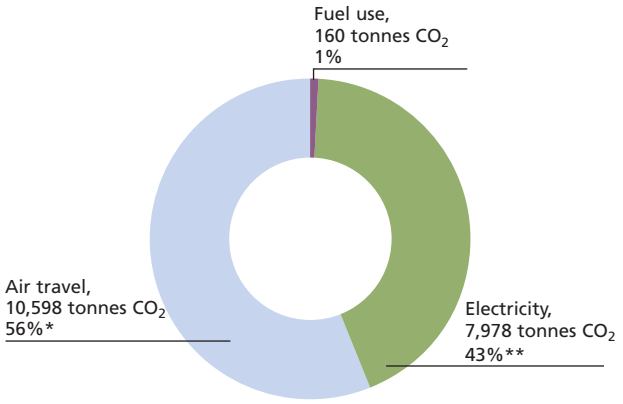
The graph below shows that our electricity consumption makes up over 40 percent of our Washington office emissions. To reduce the impact of this significant source of emissions, we purchased renewable energy credits (RECs) to cover 100 percent of our electricity use. Our electricity still comes from the local power grid, but the purchase of RECs allows for renewable, more environmentally friendly power to be generated elsewhere in the United States. The majority of IFC's purchase—94 percent—is from an old, low-impact hydro generator, and the remaining 6 percent is from a new wind farm.

The WBG received the 2005 Green Power Leadership Award from the Green Power Partnership, a program of the U.S. Environmental Protection Agency and Department of Energy, which recognizes significant purchases of renewable energy.

Business travel is a necessary part of our business but contributes a significant amount to IFC's emissions. We will continue to explore ways to reduce travel, as this also impacts the health of our staff and their families, and we will investigate options to offset these emissions.

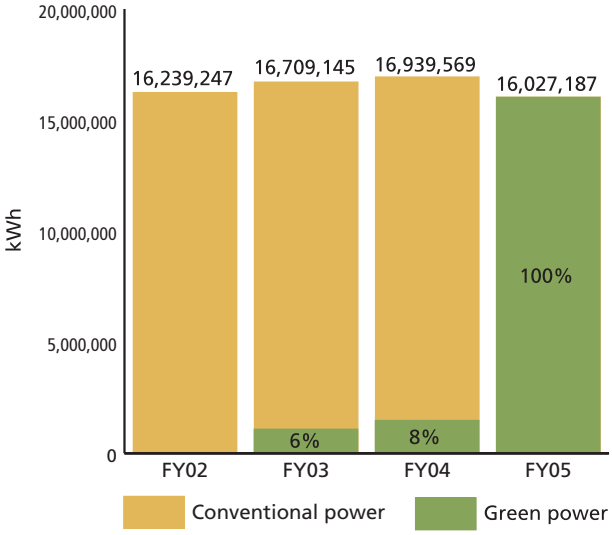
Ways to track, reduce, and offset other sources of emissions, such as those generated through our field offices and day-to-day staff commuting, will be considered as well. This year, for the first time, IFC distributed a questionnaire to field offices to collect baseline data on various aspects of their footprint, and the WBG distributed a staff commuting survey which will be conducted annually. We will report on these results as we work to increase participation in these surveys and develop more robust data.

CARBON EMISSIONS (WASHINGTON, DC, FY05)



**Air travel purchased from Washington, DC. Emissions are based on total number of miles flown by the WBG, and IFC's share is based on our percentage of total staff. More precise figures will be available for FY06 when we update our data collection system.*
*** In 2004, the WBG purchased renewable energy credits to cover 100 percent of our power, effectively making this carbon neutral.*

ELECTRICITY CONSUMPTION (WASHINGTON, DC)



Energy use

Our team of engineers and our Washington building's efficient design help keep our energy usage low. The building was awarded the Energy Star Label by the U.S. Environmental Protection Agency and Department of Energy in 1999, 2001, 2004 and 2005, which means that we have met the rising bar of being in the top 25 percent of energy-efficient buildings in the United States for these years.

Procurement

We aim to choose more environmentally and socially friendly products for our daily operations, as this not only improves our own footprint but also signals to our suppliers a demand for items that reduce waste and have a positive impact on our communities. Our bid requests and contracts state our preference for responsible products and services. We now purchase goods such as environmentally friendly paints, recycled paper, and organic/fair trade coffee, and we aim to work with small and minority-owned businesses.

Reporting on the footprint impacts of procurement has been challenging, as data collection systems aren't always present, and it is often difficult to quantify the benefits of actions such as avoiding threatened seafood species. We will continue to explore the best ways of reporting on our progress in this area by specifying data requirements in contracts and looking to peers for best practice in methodology.

Waste, Paper, Electronics, and Water

Paper and electronics are some of the most significant waste streams for our offices. We purchase 30 percent post-consumer recycled paper – the standard in U.S. Federal Government offices – and the WBG print shop, where many of our documents are printed, is applying for certification from the Forest Stewardship Council for best practice in the printing industry. Most of our old computers still in working order are donated to

MAKING IT PERSONAL

By Rob Pearlman, Senior Facilities and Administration Officer

© Vanessa Manuel

IFC's building management team has achieved much since the building opened in 1997. Building operating costs, approximately 30 percent of which are for energy, have averaged 24 percent below industry standards for comparable building types and sizes. Over the past three years, with energy costs rising, and the addition of 200 more people and associated equipment to the Washington, DC building, we have reduced electrical energy consumption by 4 percent, saving 682,000 kWh in FY05 compared with FY03.

In managing IFC's Washington, DC building, we seek the best solutions to balance environmental concerns with our staff's needs for a comfortable, pleasant, and functional workplace. The best solutions must also be cost-effective, sensible, and realistic. It is with this set of attitudes and values that we aim to continuously reduce negative impacts on the environment. Since our building was designed, built, and occupied, this has been, and always will be, an ongoing process.

We must all change the way we think about the issues of environmental sustainability: we must all take it personally and make it personal. Our individual and our collective actions, decisions, and practices contribute either to helping preserve or destroy our planet. I want my child and his children to have a better place to live. When I work with the IFC Footprint Team, we aim to raise all the awareness of all IFC staff members.

TAKING UP THE FOOTPRINT PROGRAM IN THE FIELD

IFC's Footprint Program extends beyond our headquarters in Washington, DC, with some of our field offices already running their own footprint initiatives.

IFC's Hong Kong office has been particularly proactive in this area. The office of 22 staff launched a Corporate Social Responsibility (CSR) Committee with over 10 members as keen champions. They've implemented initiatives on energy efficiency, paper reduction, environmental product sourcing, recycling, a book/video/magazine exchange, and community service activities.

Staff who leave lights on in their empty offices now receive a "Light Monster" sign, which has proven to be an effective reminder to save electricity. The committee also prepares regular CSR Bulletins to relay data on the impacts of their office and of Hong Kong residents, as well as actions staff can take to reduce these impacts.

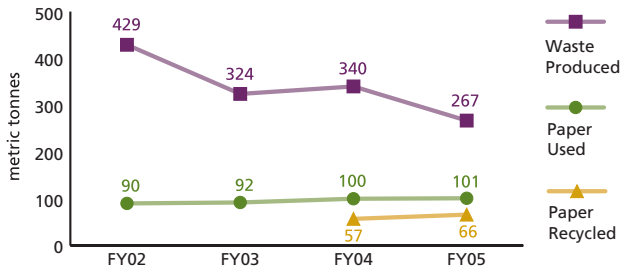
OUR COMMITMENT

This year we began gathering baseline footprint data on all of our regional offices, and we received responses representing approximately 30 percent of field staff. Our goal is to report for FY06 on the footprint impacts of offices representing at least 60 percent of staff.

local and international non-profit organizations, and we will explore ways to reuse and recycle all of our electronic equipment. Each office has a paper recycling bin, and bins for beverage containers are located in each floor's kitchen and in the cafeteria.

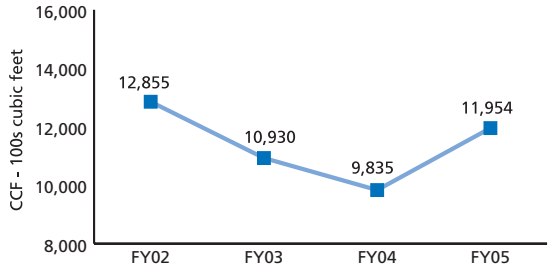
Data on our waste stream and water consumption are included below, and we will continue to track these to identify potential areas for improvement.

WASTE AND RECYCLING (WASHINGTON, DC)



**Recycling data not available for FY02 – FY03*
*** Data on recycling and paper use shown in short tons in last year's report*

WATER CONSUMPTION (WASHINGTON, DC)



OUR COMMUNITY

Community Outreach

The WBG's Community Outreach Program supports local poverty alleviation by encouraging staff to volunteer in and contribute to their communities, partnering with local organizations, and making in-kind donations (such as over 12,000 computers, 500 pieces of furniture, and facilities space).

Our grants program funds organizations in the Washington area that reflect our mission to reduce

poverty and improve the quality of life of disadvantaged people. In 2005 the WBG gave a total of $755,450 in amounts of $8,000 – $25,000 to organizations that focus on issues such as feeding the hungry, building employment skills, and combating domestic violence. Additionally, we provided $580,000 to local collaborative funding organizations. In 2006, the program intends to focus attention on philanthropic efforts that are targeted, effective, and driven by outcomes. Preference will be given to nonprofit organizations working on youth and education in Washington's poorest neighborhoods. All grants will be $25,000, in order to allow these nonprofits to expand their programs and make significant impacts.

Through our workplace giving program, IFC staff contributed over $103,000 in 2005-2006, compared with $65,000 the previous year (excluding donations for the South Asian tsunami relief). The WBG absorbs all administrative costs, so 100 percent of the donations go to the charities chosen by staff. The year, for the first time, the WBG matched pledges at 50 percent, which means that over $170,000 (including funds raised at special events) will go to our community. Staff also support humanitarian efforts through the Red Cross. Across the WBG, we raised over $1.4 million for Red Cross relief efforts for the December 2004 tsunami alone.

Among our many partnerships is our high school internship program, which serves as a model in the community. During summer 2005, we hired 22 students from local public schools in high poverty areas. Interns are paid an excellent salary and given paid training every Friday during the summer. For these students, some of whom are homeless, this has been a lifesaving opportunity. We recently

"A CHANCE TO WORK": PROVIDING OPPORTUNITIES TO COMMUNITY MEMBERS GLOBALLY

"A Chance to Work" (ACW) provides an opportunity for motivated, disadvantaged people to rejoin the workforce. The program was created in 1997 by IFC's Legal Department. The program started in Washington and has expanded internationally with IFC assisting in the implementation of pilot programs in our Moscow and Cairo offices, with plans underway to establish a pilot program in Lima.

Participants in Washington are selected from local community organizations, and work in clerical positions in WBG/IFC offices to develop skills. After a few months, IFC helps these individuals transition to jobs in the private sector, creating new openings for more workers. We also provide continuing assistance to the business partners who employ the participants.

© Nail Mavlyutdinov

The ACW model for the international program differs from ACW in Washington. The international ACW program facilitates partnerships between the private sector and NGOs assisting the disadvantaged. The private sector provides the jobs and training directly, with IFC facilitating the process.

In Moscow, Russian orphans aged 18-30 have been placed in office internships at private sector companies after having undergone preparatory workshops administered by local NGOs. These interns are then helped to find positions at private sector companies in Moscow, such as IT support at PricewaterhouseCoopers. A total of 17 companies now have interns from the program. To date, 80 people have completed the program in Washington, and 124 in Moscow.

expanded this opportunity to a year-long internship program for five students.

Volunteering

Each WBG staff member is given one paid day of leave to volunteer, and four additional days were offered in September 2005 to staff who wished to assist with relief for Hurricane Katrina on the U.S. Gulf Coast. Our Dollars for Doers program donates $500 to nonprofit organizations where an individual staff member or retiree volunteers at least 40 hours a year. Due to the high demand for this program, funding has been increased this year.

Volunteer initiatives at the field offices are often done on an individual office basis. For the December 2004 tsunami relief efforts and the October 2005 Pakistani earthquake, country office staff raised over $50,000 and volunteered untold hours to assist victims and help in the rebuilding efforts.

In 2006, we are recruiting community service coordinators within all departments who will be able to help staff take advantage of volunteering opportunities, as individuals or for group retreats. We are also exploring options for collecting data on time staff spend volunteering, as we are currently unable to report on this.

www.worldbank.org/dcoutreach

OUR WORKPLACE

Building Awareness and Engaging Staff

An important challenge for the Footprint Program, and one of the areas in which significant progress was made this year, is promoting collaboration among different departments and generating general staff support and involvement. The unexpected benefits of simply bringing together individuals who do not usually work with one another have already been noticeable. For example, the Community Outreach Coordinator was able to fill a request for furniture at a new local children's hospital by working with a member of the Facilities Management Group, when the topic arose at a Footprint Program meeting.

© Vanessa Manuel

BEING A COMMUNITY PLAYER

By John Pendleton, Office Assistant, Environmental and Social Development Department, and graduate of the "A Chance to Work" program

IFC needs to play a role in its own backyard and let the community know it cares. For the people who come through the "A Chance to Work" program, it's important to see that IFC is committed to its values. You'd be surprised at the outpouring of generosity and support for people coming from where we come from. People care and people want to give. That's why, after seven years in the organization, I take pride in working here and acting as a liaison for people coming into the corporate culture. However, a lot of people I talk to in the community still don't know how much IFC does.

The Footprint Program has put more leadership, energy and heart into the issue. There's a strong feeling for community outreach at IFC. Many staff members are already involved on their own time and others want to get involved but often don't know where to start. There's a definite need to make this a consistent thing that people can tap into in their own personal way as well as through their departments.

In October 2005 we held a "Footprint Day" to raise awareness about the program. The event focused on what staff can do to improve their own environmental and social impacts, and included information on what IFC is doing already. A series of stations focused on the issues of commuting, paper and energy use, greenhouse gas emissions, sustainability in IFC's cafeteria, and community outreach initiatives. Roughly 200 people participated, including visitors from other DC-based institutions and a local commuter advocacy group.

A session on IFC's Footprint Program is now included in the mandatory New Staff Briefing, and departmental champions are being recruited to increase the impact and foster ownership of the program among existing staff.

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Representing staff concerns

The World Bank Group Staff Association offers a vital mechanism for staff to engage with senior management on important areas of concern. In 2005, human resources issues dominated the agenda – including pensions and retirement age, family concerns, and career development – as well as the transition to a new WBG president and the role of country offices.

The WBG Staff Association is also an important partner in managing IFC's footprint. The Staff Association hosts an active Environment Working Group, with one co-chair from IFC. The group has been a consistent voice in promoting environmentally friendly commuting, reducing paper usage, and improving environmental practices in our food services. Their persistence has played a critical role in generating institutional recognition for footprint issues.

Health and Security

To help keep our staff safe, IFC has in place a regularly tested emergency management plan to deal with emergencies affecting the operations of IFC. We have a number of security measures to screen out suspicious individuals, packages, or deliveries, such as thorough ID checks, regular patrols, security cameras, and perimeter security barriers.

To address health concerns, IFC has a health room with a part-time nurse who gives medical advice on minor ailments, vaccinations, and allergy shots. The IFC building houses a fitness center which has roughly 300-400 members, with an average of 100-150 visits per day. Indoor bike racks, lockers, and showers make healthy commuting easier for staff.

The Health Services Department (HSD) provides regular newsletters and workshops to advise staff on a variety of health issues. HSD has an HIV/AIDS Response Team that is able to address any HIV/AIDS-related concerns and offers confidential advice to staff based around the world on medical or insurance issues, evacuation, referrals, psychological support, and assistance with securing anti-retroviral (ARV) drugs.

Twice each year, IFC hires a consultant to conduct monitoring of indoor air for the presence of volatile organic compounds (VOCs). A full building indoor air quality test is performed every three years, with the next test to be conducted in 2007. Results have always come back significantly under the threshold limits. Contractors are informed of chemicals that they are not allowed to use on IFC premises.

The Corporate Citizenship Company

THE CORPORATE CITIZENSHIP COMPANY
IFC ASSURANCE STATEMENT
17 MARCH 2006

External assurance statement and commentary

The International Finance Corporation (IFC) has commissioned The Corporate Citizenship Company to provide it with external assurance and commentary on its Sustainability Report 2005. IFC management has prepared the report and is responsible for its contents. Our objectives were to review and advise on aspects of its contents and presentation, to conduct selected checks to underlying corporate records, and to provide this statement for which we have sole responsibility.

A full statement of our external assurance and commentary is available at www.ifc.org/SustainabilityReport, including details about The Corporate Citizenship Company, our relationship with IFC and the assurance process we have adopted. This statement summarizes our principal findings.

Our opinion

In our opinion, the report provides a fair and balanced representation of the progress IFC is making in living out its commitments to sustainability. In our commentary below, we recognize positive developments and highlight opportunities for future improvements in reporting.

In forming our opinion and making our comments, we have had regard to the principles underlying the international assurance standard AA1000 (www.accountability.org.uk) notably concerning materiality, completeness and responsiveness. We have also had regard to the 11 reporting principles judged essential by the June 2002 GRI sustainability reporting guidelines (www.globalreporting.org).

Commentary

A sustainability report should explain how the organization carries out its core mission, account for its financial, economic, social and environmental impacts, and demonstrate its contribution to the long-term goal of sustainable development. It should show how crucial decisions are made and differing interests balanced. Honest about shortcomings, it should also demonstrate how the organization is responsive by listening, learning and improving.

Against these goals, we believe IFC's fourth Sustainability Report marks a clear step forward on previous years.

The report effectively communicates how IFC is living out its particular mandate as a development institution focused on helping the private sector improve the lives of people living in developing countries.

It responds to stakeholder consultation conducted during the year, addressing issues people said were material to the organization and their perceptions of it. In particular, this report gives readers a clearer

picture of how and where the IFC invests and how decisions are made internally.

The report also explains key policy changes. IFC's revised Policy and Performance Standards on Social and Environmental Sustainability and Disclosure Policy will affect not only how the IFC operates in the future, but also companies operating in emerging markets and other financial institutions through the Equator Principles.

The final section on how IFC lives out its values in its own operations describes an increasingly strategic social and environmental 'footprint' program, where good progress is being made.

Looking ahead

In our opinion, to account fully for its sustainability performance, there are four areas that IFC should address in future reporting:

IFC has committed to report on its aggregate development impact by 2007. We believe future sustainability reporting should draw on analysis of this data to assess how the organization contributes to sustainable development goals and balances economic, social and environmental impacts over the long term.

We encourage IFC to build on the extensive stakeholder consultation carried out in 2005 by developing a system for managing ongoing stakeholder engagement. IFC should keep under review the full range of issues of concern to stakeholders, and respond with information in future reports and other channels such as the IFC Web site.

Future reporting will be strengthened by the reporting and disclosure requirements of the new Performance Standards and Disclosure Policy. Future reports should discuss the extent to which the new Disclosure Policy is moving IFC toward better and clearer provision of information to stakeholders, in particular on controversial projects. In addition, IFC should continue to report on progress in training and empowering employees to apply the new Performance Standards.

Finally, we think that future IFC sustainability reports would benefit from a more systematic approach to setting targets and benchmarking performance over time, both for the impact of its investments and in the management of its own operations around the world.

The Corporate Citizenship Company
www.corporate-citizenship.com
March 2006

GRI content index

In preparing this report, we have drawn on the Global Reporting Initiative's guidelines for sustainability reporting, and in particular GRI's Financial Services Sector Supplement.

The following index indicates the location of information relevant to specific GRI indicators. More information about our operations and investments is available online.

www.ifc.org

KEY

NR = Not reported

AR = Reported in IFC's Annual Report

NA = Not applicable to IFC's operations

IC = Inside Cover

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