IFC International Finance Corporation
World Bank Group

Investing in Progress

with Experience, Innovation, and Partnership

2005 Annual Report

The International Finance Corporation is the private sector arm of the World Bank Group and is headquartered in Washington, D.C. IFC coordinates its activities with the other institutions of the World Bank Group but is legally and financially independent. Its 178 member countries provide its share capital and collectively determine its policies.

The mission of IFC is to promote sustainable private sector investment in developing and transition countries, helping to reduce poverty and improve people's lives. IFC finances private sector investments in the developing world, mobilizes capital in the international financial markets, helps clients improve social and environmental sustainability, and provides technical assistance and advice to governments and businesses. 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. IFC's worldwide committed portfolio as of FY05 was $19.3 billion for its own account and $5.3 billion held for participants in loan syndications. For more information, visit *www.ifc.org.*

International Finance Corporation
2005 Annual Report Volume 1

Volume 1 Contents

Volume 2 of this report includes management's discussion and analysis, the audited financial statements, detailed information on IFC's Board and management, listings of the Corporation's fiscal 2005 investment commitments and technical assistance and advisory projects, and IFC's investment portfolio as of June 30, 2005.

IFC's Annual Report on the Web, *www.ifc.org/ar2005*, is a companion to the printed edition. It provides downloadable files of all content in the two volumes, including several language versions of Volume 1.

Currency is given in U.S. dollars throughout unless otherwise specified. All numbers reflect rounding.

PAGE 2 **Overview**

PAGE 10 **Investing in Progress**

PAGE 27 **Report on Regions**

PAGE 61 **Report on Operations**

Operational Highlights

COURTESY OF NEWMONT

OPERATIONAL RESULTS SUMMARY, FY05

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.

RESOURCES AND INCOME, FY05

Operating income	$1.95 billion
Net income	$2.02 billion
Paid-in capital	$2.4 billion
Retained earnings	$7.4 billion
Borrowings for the fiscal year	$2.0 billion
Net worth	$9.8 billion

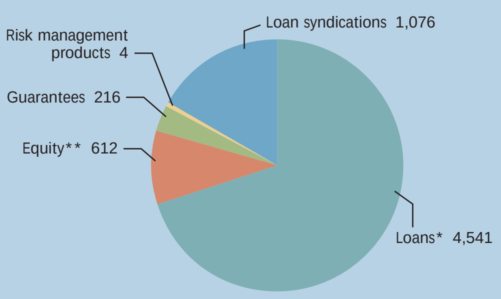
How

IFC offers a full range of investment products; the Corporation also increasingly provides technical assistance and advisory services to private sector enterprises and related government agencies. For details, see the Report on Operations, beginning on p. 61.

COMMITMENTS BY PRODUCT, FY05

Includes IFC's account and syndications (millions of U.S. dollars)

TOTAL $6,449



* Includes loan-type quasi-equity products.
** Includes equity-type quasi-equity products.

IFC also mobilized $1.1 billion through structured finance related to guarantees, loans, and equity investments.

What

IFC is active in all commercial sectors in its developing member countries. Funding is often accompanied by assistance on industry best practice, corporate governance, environmental and social issues, and links with local small businesses.

COMMITMENTS BY SECTOR, FY05

Includes IFC's account and syndications (millions of U.S. dollars)

Finance and insurance	$2,227	34.5%
Transportation and warehousing	561	8.7
Industrial and consumer products	552	8.6
Primary metals	330	5.1
Pulp and paper	327	5.1
Utilities	322	5.0
Oil, gas, and mining	314	4.9
Agriculture and forestry	278	4.3
Chemicals	237	3.7
Nonmetallic mineral product manufacturing	222	3.4
Accommodation and tourism services	203	3.1
Information	200	3.1
Collective investment vehicles	188	2.9
Wholesale and retail trade	143	2.2
Food and beverages	139	2.2
Textiles, apparel, and leather	84	1.3
Plastics and rubber	41	0.6
Education services	39	0.6
Construction and real estate	23	0.3
Health care	20	0.3
TOTAL COMMITMENTS	**$6,449**	**100%**

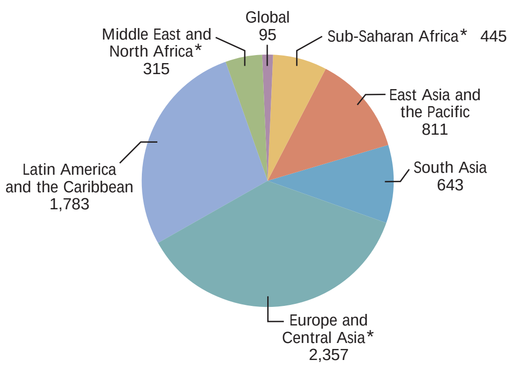
Where

IFC invests in companies and financial institutions in all developing regions. These activities are detailed in the Report on Regions, beginning on p. 27, and in the table of project commitments in Volume 2. Projects involving more than one developing region are classified as "Global."

COMMITMENTS BY REGION, FY05

Includes IFC's account and syndications (millions of U.S. dollars)

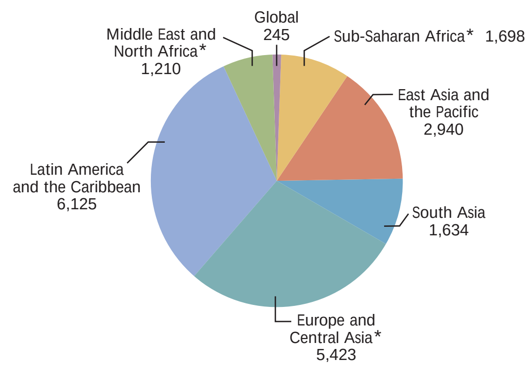
TOTAL $6,449



INVESTMENT PORTFOLIO BY REGION, FY05

For IFC's account (millions of U.S. dollars)

TOTAL $19,274



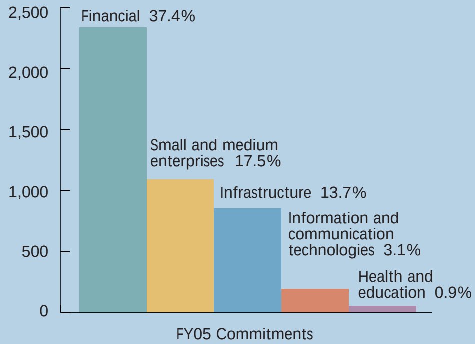
*Some amounts include regional shares of investments that are officially classified as global projects. See regional sections for details.

Why

IFC emphasizes sectors that have a high impact on the economies of developing countries, because they reach large numbers of people or benefit many other sectors. These sectors represent a large share of IFC's investment activity.

COMMITMENTS BY STRATEGY, FY05

Includes IFC's account and syndications (millions of U.S. dollars)



Financial consists of finance and insurance, and collective investment vehicles.
SME investments are derived from all industry sectors.
Infrastructure consists of utilities and transportation.

Impact

IFC also targets much of its effort to countries where there is little or no foreign capital flow. Each year a sample of mature projects is assessed to determine the contribution to development.

SNAPSHOT OF DEVELOPMENT IMPACT

Commitments for IFC's account (percentages)

	FY03	FY04	FY05
New investments			
In the financial sector	51	34	44
In infrastructure, information and communication technologies, health, and education	17	24	17
In low-income or high-risk countries*	28	26	28
Mature projects with a positive contribution to development **	**58**	**58**	**59**

*Countries that are low income, as defined by the World Bank, or high risk, rated 30 or below or unrated by *Institutional Investor.* (Excludes regional and global projects.)
**As evaluated by the Operations Evaluation Group (see p. 68).

IFC Board of Directors

DEBORAH CAMPOS

Letter to the Board of Governors

The Board of Directors of the International Finance Corporation has had this annual report prepared in accordance with the Corporation's by-laws. Paul D. Wolfowitz, president of IFC and chairman of the Board of Directors, has submitted this report with the accompanying audited financial statements to the Board of Governors.

The Directors are pleased to report that for the fiscal year ended June 30, 2005, IFC expanded its sustainable development impact through private sector project financing operations and advisory activities.

Board of Directors: Perspective and Oversight for IFC

This year the Board of Directors approved a number of investments and maintained close oversight of the development and implementation of IFC's strategy. During FY05 the Board continued to encourage the Corporation to coordinate its work closely with other World Bank Group institutions, especially in providing technical assistance to improve the investment climate and promote private sector development. Directors noted IFC's proposal to expand collaboration with IBRD in middle-income countries and with IDA in low-income countries. The Board reviewed country-specific operations and discussed 14 joint World Bank–IFC–MIGA country assistance strategies and related products.

Directors noted the challenges in both maintaining profitability and increasing development impact. They reaffirmed their support for IFC's five strategic priorities and endorsed a scaling up of activities to expand IFC's development impact. Directors were pleased to note the Corporation's plan to increase substantially its support to private sector development in high-risk and low-income countries and to expand its investments in infrastructure, health, and education through public-private partnerships.

Specific issues Directors discussed with IFC management include the Corporation's updates of its disclosure policy and its social and environmental safeguards policy, as well as a review of its accounting principles. They also discussed IFC's program for anti–money laundering and combating the financing of terrorism, as well as the integration of gender issues into its work.

In keeping with its oversight responsibility, the Board discussed the annual review on operations evaluation and the IFC management response. The Board appreciated the continued positive dialogue between IFC management and the Operations Evaluation Group.

With respect to the Corporation's performance, the Board welcomed IFC's achievements in FY05, as reflected in its strong financial results and the expansion and improvement in the quality of its portfolio.

PICTURED OPPOSITE
FROM LEFT TO RIGHT:

(Standing) Robert B. Holland III, Herwidayatmo, Pietro Veglio, Eckhard Deutscher, Mathias Sinamenye, John Austin, Tom Scholar, Chander Mohan Vasudev, Thorsteinn Ingolfsson, Sid Ahmed Dib, Yahya Abdullah M. Alyahya, Nuno Mota Pinto,* Otaviano Canuto, Pierre Duquesne, Paulo F. Gomes, Gino Alzetta, Gobind Ganga,* Alexey Kvasov, Luis Marti.*

(Seated) Mahdy Ismail Aljazzaf, Zou Jiayi, Jaime Quijandria, Yoshio Okubo, Ad Melkert.

** Alternate director*

Directors and Alternates as of June 30, 2005

DIRECTORS	ALTERNATES
Mahdy Ismail Aljazzaf	Mohamed Kamel Amr
Yahya Abdullah M. Alyahya	Abdulrahman M. Almofadhi
Gino Alzetta	Melih Nemli
John Austin	Terry O'Brien
Biagio Bossone	Nuno Mota Pinto
Otaviano Canuto	Jeremias N. Paul, Jr.
Eckhard Deutscher	Walter Hermann
Sid Ahmed Dib	Shuja Shah
Pierre Duquesne	Anthony Requin
Paulo F. Gomes	Louis Philippe Ong Seng
Herwidayatmo	Nursiah Arshad
Thorsteinn Ingolfsson	Svein Aass
Alexey Kvasov	Eugene Miagkov
Luis Marti	Jorge Familiar
Marcel Masse	Gobind Ganga
Ad Melkert	Tamara Solyanyk
Yoshio Okubo	Toshio Oya
Jaime Quijandria	Alieto Guadagni
Tom Scholar	Caroline Sergeant
Mathias Sinamenye	Mulu Ketsela
Chander Mohan Vasudev	Akbar Ali Khan
Pietro Veglio	Jakub Karnowski
Zou Jiayi	Yang Jinlin
(vacant)	Robert B. Holland, III

See Volume 2 for full listing of Board of Governors and for voting power of the Board of Directors.

IFC Governance

The International Finance Corporation's member countries, through a Board of Governors and a Board of Directors, guide IFC's programs and activities. Each country appoints one governor and one alternate. IFC corporate powers are vested in the Board of Governors, which delegates most powers to a board of 24 directors. Voting power on issues brought before them is weighted according to the share capital each director represents. The directors meet regularly at World Bank Group headquarters in Washington, D.C., where they review and decide on investment projects and provide overall strategic guidance to IFC management.

Directors also serve on one or more standing committees, which help the Board discharge its oversight responsibilities by examining policies and procedures in depth. The Audit Committee advises on financial and risk management, corporate governance, and oversight issues. The Budget Committee 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 focuses on operations and policy evaluation and development effectiveness with a view to monitoring progress on poverty reduction. The Personnel Committee advises on compensation and other significant personnel policies. Directors also serve on the Committee on Governance and Executive Directors' Administrative Matters.

Paul D. Wolfowitz is president of IFC and the other World Bank Group institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). Mr. Wolfowitz also serves as chairman of the boards. Assaad J. Jabre is acting executive vice president of IFC, overseeing its day-to-day operations.

See also related sections on the Operations Evaluation Group (p. 68) and the Office of the Compliance Advisor/Ombudsman (p. 70), both of which function independently of IFC management.

Message from the President

WORLD BANK

IFC's MISSION

To promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people's lives.

This Annual Report records the achievements of the International Finance Corporation during the last year of the tenure of Executive Vice President Peter Woicke and my distinguished predecessor, World Bank President Jim Wolfensohn. It is an enormous responsibility to be entrusted with the leadership of this extraordinary institution, and I am grateful to Jim and Peter for having done so much to strengthen it.

While much has been accomplished by the World Bank Group and its development partners, much remains to be done. The G-8 Summit at Gleneagles at the beginning of this new fiscal year has brought a welcome focus on the challenges of global development, particularly in Africa. It has also reaffirmed the central role of the World Bank in so much of that work and has given us even more to do.

As we move forward, we need to keep a balance among the different development priorities. The first priority must be to pay special attention to the needs of the poorest people in the poorest countries in the world. At the same time, the World Bank still has an important role to play with the rapidly growing developing countries, the so-called "middle-income" countries that nevertheless still have hundreds of millions of people living in extreme poverty. Finally, as a multilateral development institution, the World Bank is uniquely positioned to help the world address some of the concerns of the "global commons," such as the development of sustainable energy and the alleviation of global health crises.

For its part, IFC is at the forefront of private sector development—promoting sustainable private development to help reduce poverty and improve people's lives. It is an exciting mission, and across the spectrum of private enterprise—from critical, long-term infrastructure to small microfinance lending—encouraging progress continues.

IFC's strong operating results and ever-increasing development impact are compelling arguments for an optimistic outlook for the developing world. And I am very optimistic. I see the work ahead of us, but in the energy, creativity, determination, diversity, and talent of the people, I also see the promise.

In all of this work, the World Bank is blessed with an exceptionally dedicated and qualified professional staff. It is an honor and a privilege to work with them on a daily basis.

Paul D. Wolfowitz
President

Message from the Executive Vice President

"The Year of Development"—as many in the international community have termed 2005—has been a rare moment in the long global debate about reducing poverty and improving people's lives in the developing nations. Few times in recent years has there been such a sustained airing of views about aid, development, and the degree of progress it is fair to expect. The focus on development is long overdue, of course. But as important as the issues themselves has been the multiplicity of the voices taking part.

No longer is the issue of global development finance the preserve and prerogative of experts on development. It is a wide-open, wide-ranging debate that includes virtually all nations, large and small. It includes the public and private sectors. And it includes global advocates who campaign on behalf of a diverse array of economic, environmental, and social issues.

To a striking degree, these voices agree on many fundamental aspects of development. Few, if any, have suggested that they will be untouched by the decisions made. Few have argued that solutions can be transplanted from one nation to another without careful attention to local conditions. Overwhelmingly, the role of the private sector is recognized as pivotal, and most agree that one of the main challenges is to scale up the successful approaches that have been tried. Improving governance and building capacity in both the private and public sectors seem to be the starting point for every discussion. Strategically speaking, "bottom-up" approaches are in; "top-down" are out. The watchwords: discipline, measurement, and results.

Moreover, the idea that the developing nations are somehow a "third" world has been relegated to the dustbin. The fate of these nations has become the political, moral, economic, environmental, and social crossroads of our generation. Were one to list the biggest global challenges in economics, energy, or the environment, nearly all of them would be centered in the developing world. Wherever one may live, one's fate will be linked in some way, large or small, directly or indirectly, to the course these countries take.

BRETON LITTLEHALES

Assaad J. Jabre
Acting Executive Vice President

All of this underscores what a great opportunity IFC now has as an institution focusing on sustainable private sector development. For decades, our focus has been helping nations grow and thrive from the bottom up—one investment, one business at a time. This has also helped us catalyze investment and reform throughout markets and sectors, creating interest in those at the frontiers of the emerging markets. Meanwhile, the challenges we face in globalizing markets have continually forced us to innovate and experiment, while refining our traditional products and services. The institutional discipline that comes with being a risk-taking private investor has cultivated precisely the kind of careful, tailor-made approach that is now so widely recognized for its

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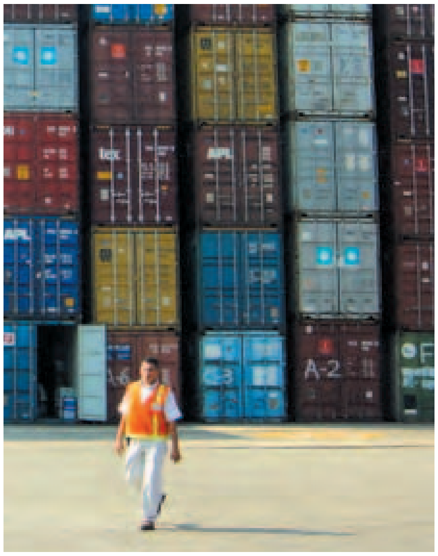

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effectiveness. And, more than ever, we have convincing results that point to the strong potential of this approach, at a time when pragmatic solutions are in demand.

This year marks a third consecutive year of record results for IFC. As much as we pride ourselves in that accomplishment and rejoice that the strong performance of so many emerging markets has made it possible, these results are overshadowed by a sobering recognition of how much remains to be done and, as the tsunami in Asia so tragically demonstrated, how quickly unforeseen events can reverse years of progress. Fulfilling our developmental mission will take more effort, creativity, and resolve, not less:

- For each of the past two years, we have committed more than $400 million in financing in Sub-Saharan Africa, a robust growth consistent with an upturn across the region. Yet Africa's economic growth needs to accelerate further if it is to reach the Millennium Development Goals.
- From a power plant in India to a port in Madagascar to airlines in Central America, we have helped catalyze much-needed private sector investment in infrastructure. Yet many nations still find their competitiveness and their access to markets and services hamstrung by transportation bottlenecks and an unreliable power supply.
- We have mobilized more than $1 billion through structured finance transactions in sectors such as housing, education, and microfinance. Yet many companies and aspiring entrepreneurs still find their dreams deferred or their business growth thwarted without mature markets and long-term financing in local currencies.
- Through our regional facilities and financial sector investments, we have helped improve the management capacity of institutions serving small and medium enterprises and facilitated access to financing for thousands of them. Yet many developing nations remain saddled with investment climates that are too heavy in applying red tape and too light on the expertise needed for effective governance.
- We have helped finance pioneering projects that preserve biodiversity, that promote the use of sustainable energy and energy efficiency, and that develop the carbon market. Yet the threats from ecosystem degradation and climate change call for a several-fold increase in such efforts.

In recent months, IFC has outlined an ambitious growth strategy for the coming years that will challenge all our staff. This strategy is grounded in a recognition that the needs of developing nations are enormous. It is grounded in the fact that private sector growth, through both domestic enterprise and foreign direct investment, is the largest lever available for reducing poverty. It is also grounded in the belief that IFC has grown into an institution with a unique value proposition for our clients and for our

Acting Executive Vice President Assaad J. Jabre and IFC's Management Group

From left to right
Front: Nina Shapiro, Assaad Jabre, Javed Hamid, Farida Khambata, Jennifer Sullivan
Back: Edward Nassim, Declan Duff, Dorothy Berry

Not pictured: Michael Klein, Corporate Secretary W. Paatii Ofosu-Amaah

shareholder governments, fostering sustainable development not only as a financier but also as a provider of advisory services and a promoter of best practices.

Our ambition is not growth for the sake of growth. Our ambition is to make a difference in our markets by improving the business environment for private investors and extending the benefits of economic growth to the underserved; by building capacity at the enterprise level and increasing competition at the market level; and by working with partners that share our commitment to improving corporate governance and raising environmental and social standards. These may be broad objectives, but they translate into the local, step-by-step victories on the road out of poverty: a new business, a first paycheck, a family with a new home, a child with a better education. They translate also into regional and global progress toward sustainability: clearer air, cleaner water, and healthy ecosystems.

Our founders' vision foresaw the growing role of the private sector in development when IFC was created in 1956. Our legacy of hard-won experience, the leadership of Jim Wolfensohn and Peter Woicke in recent years, and the commitment of our new president, Paul Wolfowitz, to the Corporation's mission will enable us to celebrate IFC's 50th anniversary next year with a brighter potential than ever before. Should we succeed in fulfilling that potential, the achievement will be shared across the years. We will continue to look back in gratitude, outward in partnership, and forward with a renewed sense of purpose.

IFC is a catalyst for progress in a rapidly changing world. We are fortunate that we can play an important role in addressing the defining challenge of our generation.

Assaad J. Jabre
Acting Executive Vice President

TRAM TRIET

Investing in Progress

with Experience, Innovation, and Partnership

The International Finance Corporation is at the forefront of private sector development: we are redefining how poverty can be reduced and lives improved through a stronger private sector in emerging markets.

Accomplishing this goal means reaching people, regions, and sectors that have not yet shared in the overall growth of emerging markets. It means innovation—forging new partnerships with governments and other multilateral institutions, identifying new roles for the private sector, creating products that develop financial markets, and making it easier for disadvantaged people to launch a business or own a home. It means building on significant strengths in many countries and industries—helping established enterprises become more competitive and sustainable as they expand their operations or extend their reach into new markets. It also means bringing to developing economies proven products and techniques, both from industrialized countries and, increasingly, from other developing countries. Above all, it means tailoring our global expertise to local needs. We recognize that there is no "business as usual" to our task of helping the private sector make a larger, more positive difference for the people living in developing countries. The examples that follow show how IFC is addressing, and working to solve, the challenges that face the countries we serve.

Strategic Objectives

1

Expanding Access to Finance

IFC works with financial institutions to broaden access to finance; the emphasis includes smaller businesses, housing finance, and leasing. Our advice and innovative products are also developing and strengthening financial markets.

2

Increasing Private Participation in Key Sectors

In infrastructure, health, and education, IFC is developing new approaches that increase private sector participation in delivering services.

3

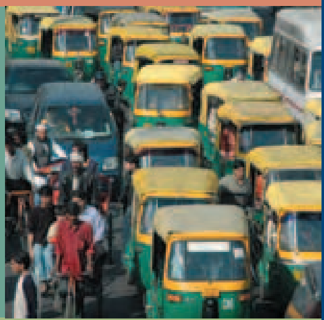
Helping Successful Enterprises Grow

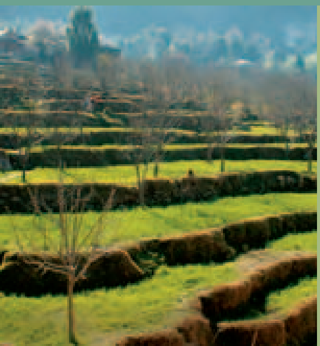
Many of IFC's clients are poised to grow into competitive, global players in their markets, but they still benefit from our long-term financing and global experience as they raise standards and improve performance.

4

Focusing Where Needs Are Greatest

In countries that are low income or high risk, IFC is helping governments improve the investment climate. We also use our capital and technical assistance to demonstrate the viability of private enterprises in these markets.





5

Ensuring Sustainability

Alongside financial expertise, IFC's experience in corporate governance and environmental and social development is crucial to helping our clients sustain the long-term success of their businesses. Our standards are also widely influential in the project finance community.

Expanding Access to Finance

TANG CHHIN SOTHY

IFC helps establish microfinance institutions, leasing companies, and credit bureaus in emerging markets.

Our innovative transactions and advice to regulators are helping build securities markets in many client countries.

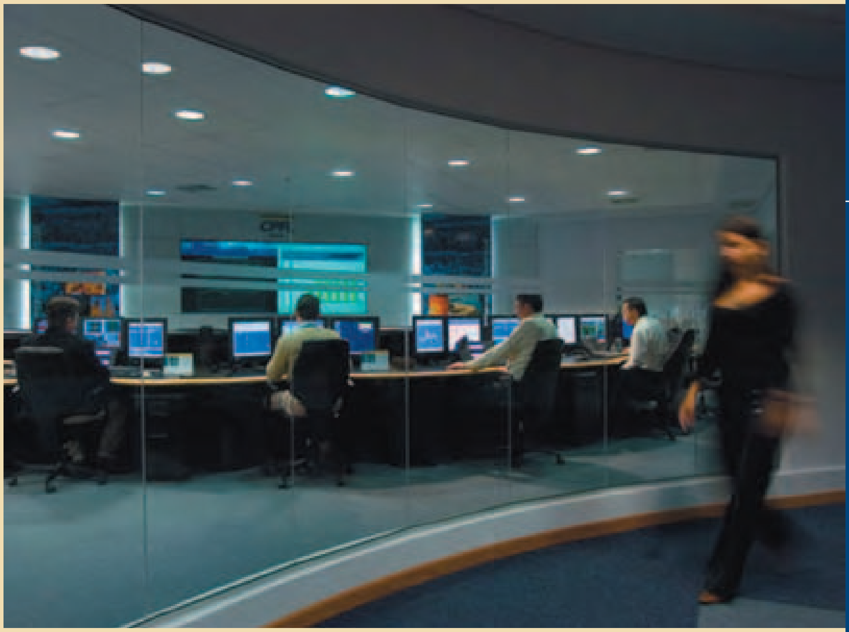
IFC is helping strengthen developing countries' financial markets—with an emphasis on expanding access to finance for poor people and the businesses they create—as a key to sustainable economic growth. Through investments and technical assistance, IFC is developing financial intermediaries and building the financial infrastructure. We are also working with the World Bank and governments to ensure that laws and regulations in emerging markets support a robust financial sector.

Financial intermediaries include the bank and nonbank institutions through whose lending IFC reaches smaller businesses, as well as larger firms that have a positive impact on development. IFC invests in financial institutions and provides technical assistance to increase their activity in such key areas as financing for smaller businesses, microfinance, housing finance, leasing, and insurance. Through innovative investments and technologies, we are also helping them build their capacity to provide finance for a wider range of environmental and social products and services, especially in sectors, such as renewable energy and energy efficiency, with much untapped potential in the global market.

As part of its efforts to develop financial infrastructure, another critical component of sustainable growth in emerging markets, IFC emphasizes establishing credit bureaus and securities markets. Credit bureaus play an indispensable role in expanding credit and enabling economic growth, and IFC is involved in developing such bureaus in 34 countries around the globe. A functioning securities market also expands the availability and affordability of financing, and IFC is helping establish such markets both through engagement with governments and through pioneering transactions that break new ground. (For details of transactions, see the sections on investment operations and individual regions.)

Financial Markets Technical Assistance

In FY05, 127 technical assistance projects for financial markets were active in over 60 countries, representing more than $89 million in donor commitments. Projects in this sector represent a significant share of IFC's technical assistance work. Most were in high-risk or low-income countries (65 percent), particularly in Africa and the Middle East. More than 70 percent of the projects focused on strengthening access to finance, mainly through lending to micro, small, and medium enterprises and through leasing. Many of these activities accompany IFC's financial sector investments; specific projects are highlighted in the regional sections of this report.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LUDWINA JOSEPH

Mexico: Innovative Structure Helps Finance Housing

In a landmark transaction, IFC committed a total of 1.265 billion Mexican pesos (about $113 million) to GMAC Financiera, a wholly owned subsidiary of GMAC Residential Funding Corporation, to finance the origination or acquisition of eligible mortgage loans for low- to middle-income families and to support the company's mortgage-backed securities business in Mexico. The financing consists of an IFC loan of up to $65 million equivalent and a credit enhancement facility of up to $50 million equivalent. Through this transaction, IFC is providing its first-ever structured, collateralized mortgage loan; it will be backed by a pool of mortgages in a trust that will be rated AAA on a local scale.

The project is expected to have a major developmental impact. It will enable GMAC Financiera to continue extending mortgage financing to *sofoles*, specialized financial institutions that in turn will provide housing finance to a large number of lower- and middle-income people. With its innovative structure, this transaction will also contribute to development of Mexico's capital markets.

ALEJANDRO PEREZ

Increasing Private Participation in Infrastructure

In FY05, IFC's investments in developing countries included $883 million in infrastructure sectors (utilities and transportation).

We also invested $200 million in information and communications technology.

IFC prioritizes infrastructure because it is the basis for all economic growth and development—and because it offers so much scope for the private sector to play an innovative role.

The Corporation is an active investor and advisor in sectors ranging from power, transportation, and water and sanitation to information and communications technologies. We invest for our own account, mobilize private sector funding, advise governments on the privatization of services, and provide technical assistance that helps companies and agencies improve the competitiveness and sustainability of their operations.

Cornerstones of IFC's efforts include the promotion of public-private partnerships to deliver infrastructure services, the expansion of our investment and technical assistance efforts to subnational levels of government, and—as in all our activities—unwavering attention to the environmental and social impacts of the development activities we support. In all these efforts, IFC operates in partnership with the institutions of the World Bank Group.

IFC Advisory Services

IFC provides advice to governments on the structuring and implementation of private sector participation in infrastructure, health, and other public services. IFC's efforts focus on sustainably expanding access to public services, where we can help strike the balance between the objectives of governments and the requirements of private investors.

In FY05, IFC worked on 25 transactions in mining, power, water and sanitation, health, solid waste, irrigation, and several sectors of transportation: airlines, airports, ports, railways, and urban transit. We completed four transactions: Moatize Coal in Mozambique, the concession for operating Madagascar's principal port, and public-private partnerships in Morocco and Romania. The Moroccan transaction is the developing world's first for irrigation services. New projects are underway in Brazil, India, the Philippines, and Saudi Arabia, as well as in Sub-Saharan Africa and the Pacific islands. An advisory hub has been created in IFC's Johannesburg office.

Subnational Financing: The Municipal Fund

A joint pilot program of IFC and the World Bank, the Municipal Fund continues to explore ways of investing in municipalities, municipal entities, and other tiers of local government without taking sovereign guarantees. Staff have studied over 20 countries and identified opportunities in markets as varied as Brazil, China, Colombia, India, Peru, the Philippines, Russia, and Thailand. The team has built partnerships and alliances with advisors, commercial and development banks, and bilateral and multilateral donors.

This initiative has established that subsovereign finance contributes strongly to IFC's mission, as the potential impact on development—expanding its benefits to less developed areas and to poorer people—is substantial. Engaging with municipalities supports a number of IFC's priorities, including small businesses, housing finance, public-private partnerships in infrastructure, and carbon finance. It also complements our efforts to help governments simplify municipal business regulations, as demonstrated by IFC's work this year in Bolivia (see box, p. 55). Technical assistance is also critical to enhancing the capacity and creditworthiness of subsovereign borrowers and to ensuring successful implementation of projects.

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COURTESY OF CEPALCO

The Philippines: Long-term Financing Supports Renewable Energy

IFC has provided its first loan in Philippine pesos for up to $15 million equivalent to Cagayan Electric Power and Light Company. Known as CEPALCO, the company serves nearly 87,000 customers in northern Mindanao, a less developed region of the country. Our 12-year financing in pesos through the local swap market supports critical infrastructure needs while furthering development of the country's long-term hedging markets. Up to now, CEPALCO has funded its network expansion and assets through financings of five years or less because of limited access to debt or capital market financing. IFC's long-term financing will help the company make critical investments in its distribution network. It is our second investment with CEPALCO; we also helped the company establish the first full-scale demonstration of the environmental and economic benefits of combining hydroelectric and photovoltaic power. The company now operates the largest grid-connected photovoltaic installation in the developing world.

Increasing Private Participation in Health and Education

TED POLLETT

As with infrastructure, the social sectors of health and education are a priority for IFC, both because they are key to raising living standards and because more involvement from the private sector can improve the quality and reach of services.

IFC invests in private companies that deliver health care or that provide health-related services and technologies. Concern with health also underlies much of our emphasis on environmental and social development, as we help client companies upgrade their operations to international standards or, in a growing number of places, address the unprecedented threat to their operations that is posed by the spread of HIV/AIDS.

IFC also invests in private schools and universities, which are often an essential complement to state-run institutions as developing countries struggle to meet a burgeoning demand for education. Through an innovative program, we are also helping the business schools of industrialized nations share expertise with their counterparts in developing countries. Reflecting the knowledge-sharing role of the World Bank Group, IFC develops and disseminates best practices in many sectors, sets up forums for policymakers and businesspeople to share ideas, and helps client companies upgrade their operations and the skills of their staff.

RONKE-AMONI OGUNSULIRE

Contributing to the Millennium Development Goals

The international community has set specific targets for a global partnership to reduce poverty, hunger, and child mortality; expand primary education and gender equality; combat infectious diseases and improve maternal health; and ensure environmental sustainability. The *Global Monitoring Report 2005*, produced by the World Bank Group and International Monetary Fund to assess progress in reaching these goals by 2015, has outlined an agenda for accelerating progress, especially in Sub-Saharan Africa. The agenda emphasizes the need to improve the environment for stronger economic growth led by the private sector—the area in which IFC, as the private sector arm of the Bank Group, is uniquely positioned to make a difference. Our approach has never been more relevant to fighting poverty and improving lives. As demonstrated by the efforts highlighted in this report, we are addressing regulatory and institutional constraints to business and trade, innovating to strengthen basic infrastructure, improving access to finance for smaller enterprises, and working to make private sector activity more environmentally and socially sustainable. Our global reach also gives us a role in transferring innovations with broad impact on living standards among developing countries and regions. For more information on the Millennium Development Goals and progress toward meeting them, see *www.developmentgoals.org*.

Ghana: A New Approach to Funding Private Schools

IFC is providing local currency financing and technical assistance to private primary and secondary schools in Ghana, our first investment in the country's education sector. The project includes a partial guarantee of up to 9.5 billion cedi (equivalent to $1.1 million) to Ghana's Trust Bank on loans extended to eligible private schools in the Accra region. The loans will fund construction, purchase of educational materials, and other capital expenditures. Comprehensive technical assistance is being designed to strengthen the schools' financial, management, and educational capacities; to improve the business environment for private education; and to foster the development of an independent provider of educational services to private schools.

Few local banks lend to Ghana's private K-12 schools, and those that do generally lend for less than two years, a tenor too short to support expansion or modernization projects. Hence projects proceed in piecemeal fashion, while schools lose revenue and cannot keep pace with the growth in demand for private schooling. IFC's guarantee will help Trust Bank lengthen loan maturities to three to five years, tenors better suited to capital investments. IFC hopes to establish a model that it can expand across Ghana and adapt and replicate throughout Sub-Saharan Africa.

ALICE LIN

LAURA BURES

Global Business School Network

IFC has established a partnership with business schools around the world that is strengthening the skills of business managers in developing countries. To date we have enlisted faculty from 18 business schools in industrialized countries to help build the institutional capacity of their African counterparts. Pilot programs with business schools in Sub-Saharan Africa are improving future leaders' access to high-quality management education, improving the transferability of best practices in education and training, and strengthening ties between institutions and their surrounding communities. The efforts aim to maximize the impact of private sector knowledge and skills at the local level.

This year one pilot brought together over 60 African faculty from 20 business schools across the region for an intensive course on practice-based and case teaching methods. The workshop was jointly organized by South Africa's Gordon Institute of Business Science and Nigeria's Lagos Business School, with the involvement of the Columbia, Harvard, and IESE business schools. Also this year, IFC convened a conference of deans and directors of Africa's business schools, at which participants launched a regional association of African business schools. For more on IFC's work with business schools, see *www.ifc.org/gbsn.*

Helping Successful Enterprises Grow

COURTESY OF RIO BRAVO

In addition to investing capital, IFC helps firms become more competitive by improving corporate governance and upgrading environmental and social performance.

Increasingly, we are helping long-term clients expand their business into other sectors or countries.

Though the challenges of development remain immense, a number of emerging markets and many individual private enterprises are making impressive progress. Increasingly, IFC is building long-term relationships with successful clients.

Companies and financial institutions that we supported in the early stages of their growth now seek our expertise to upgrade their operations. We help these firms finance capital improvements, attract strategic investors, and mobilize additional funding from commercial banks. We assist them in bringing their business practices and environmental compliance more into line with international standards, improving their competitiveness as they prepare to expand or develop new business lines. We are also helping spur a rapid increase in private investment among developing countries. These interregional or "south-to-south" investments have the potential to extend development to less developed areas and to many people who have not yet benefited from growth—and they make business sense for many of our clients.

Corporate Governance

IFC emphasizes corporate governance in its investments and internal operations; the Corporation also provides technical assistance to companies and financial institutions seeking to improve their practices. A joint department with the World Bank serves as a clearinghouse for knowledge and resources, including the Bank's country-level assessments and policy recommendations to governments. It also houses the Global Corporate Governance Forum, a donor-funded center of best practice.

IFC has developed a methodology that allows us to reduce risks related to corporate governance while contributing to the development of best practices. IFC also organizes and participates in conferences and policy dialogue to build global understanding of the business benefits that derive from upgrading corporate governance practices. As highlighted in the regional sections of this report, our efforts have helped many clients become leaders in their markets, improve their access to long-term capital, and play a larger role in economic growth.

Global Trade Finance Program

Launched in FY05, IFC's Global Trade Finance Program will support trade with emerging markets worldwide. It extends and complements the capacity of banks to deliver trade financing by providing risk coverage in difficult markets. Targeting banks in Africa, Asia, Latin America, and the Middle East, the $500 million program is open to all regional and international confirming banks. The resulting network allows participants to finance their trade conveniently through any of the bank counterparties in the program.

IFC will provide partial or full guarantees on the payment risk of banks in over 70 developing and transition countries, with the objective of increasing developing countries' share of global trade and promoting the "south-to-south" flow of goods and services. The guarantees will be used primarily to support short-term trade but will also accommodate longer tenors, of up to three years, for capital goods imports. In addition, IFC will make pre-export cash advances and provide technical assistance and training for local banks, helping them achieve best industry standards in trade.

IFC is spearheading this new approach because trade finance plays a critical role in economic growth. This initiative strengthens local financial institutions and assists smaller companies that need trade finance in order to grow.

NEERAJ JAIN

NILUFAR MUKHAMMADKULOVA

Kazakhstan: Helping Launch the Leasing Industry

IFC has brought together Bank Turan Alem, one of Kazakhstan's largest banks, with ORIX Corporation of Japan and ORIX Leasing Pakistan in a joint venture, called BTA-ORIX Leasing, to support Kazakhstan's leasing industry. The investment will enhance the firm's institutional capacity and increase its capital base, helping it expand operations to serve the needs of the country's private sector. By bringing in technical expertise from its counterpart in Pakistan, the joint venture will also strengthen BTA-ORIX Leasing's risk management and corporate governance.

IFC has invested $1.2 million for a 10 percent equity stake and is providing a senior loan of up to $5 million. The project represents IFC's first investment in Kazakhstan's leasing industry after working, through our Private Enterprise Partnership, to establish an appropriate regulatory and legal framework for a leasing industry in the country.

This project demonstrates IFC's commitment to supporting leasing throughout Central Asia, as it offers an effective term financing alternative for smaller businesses that seek to upgrade long-term assets and improve their competitiveness. The project will also help BTA-ORIX Leasing secure independent access to sustainable private sector funding once it establishes a good borrowing record. IFC's involvement helps set high operational and governance standards for the financial services industry in Kazakhstan.

Focusing Where Needs Are Greatest

NEERAJ JAIN

The private sector can help raise living standards for poor people in developing countries, but only if the economic climate is conducive to investment, job creation, and higher productivity. IFC collaborates with the World Bank and MIGA to identify ways of fostering a climate for growth. Some countries need help with the basics of attracting foreign investment. Others need our expertise to ensure that business development is equitable, reaching, for example, less urbanized areas, more women, and groups that have been excluded from full economic participation.

COURTESY OF NOVOBANCO

Strengthening the Investment Climate

IFC and the World Bank work together on surveying and assessing the investment climate of developing countries. A database of the surveys has been set up, which makes data from 30,000 firms accessible to governments considering reforms. In addition, IFC and the Bank publish the annual *Doing Business* report, which provides objective, quantifiable indicators of business regulations in 145 countries; reform efforts in more than 30 countries have been spurred by the data and recommendations in the first two editions. Investment climate is also the focus of the Bank's 2005 *World Development Report*.

Foreign Investment Advisory Service

A joint operation of IFC and the World Bank, the Foreign Investment Advisory Service advises developing country governments on how to attract and retain foreign direct investment and maximize its impact on poverty reduction. Since 1985, FIAS has advised more than 130 countries in more than 600 projects. FIAS conducts diagnostic studies, helps design solutions, and assists in implementation of its recommendations.

FIAS completed 74 projects in FY05. These included 16 knowledge management activities, notably four regional learning events on investment climate issues, which were held in Bangkok, Cape Town, Istanbul, and Washington.

FIAS coordinates its activities with other parts of the World Bank Group and bilateral donors; it increasingly works with IFC's regional facilities. Examples include collaboration with the Private Enterprise Partnership in Magadan in Russia's Far East, with PEP-MENA in Egypt, and with SEDF in Bangladesh.

MICHAEL WILD

ALEX BAND

MICHAEL WILD

New Initiatives Broaden Our Reach

This year IFC and the World Bank launched the Strengthening Grassroots Business Initiative, which helps poor, marginalized people expand revenue-generating activities that bring them into the market economy. The initiative provides technical assistance and invests "patient capital" to strengthen organizations' access to markets, management capacity, and capital structure. Recipients can be for-profit or not-for-profit. Pilot projects are underway in Africa, South Asia, and Latin America, and the initiative is working to develop a wholesale approach to supporting grassroots businesses.

IFC has also launched Gender Entrepreneurship Markets, a program addressing the gender inequalities—including in the investment climate, access to finance, and business management skills—that prevent women from realizing their economic potential in emerging markets. To expand opportunities for female entrepreneurs and reduce restrictions to women's participation in the formal economy, the program is integrating gender issues into IFC's work. Its initial focus is Sub-Saharan Africa, where women run some 40 percent of businesses but have little access to finance.

Small and Medium Enterprises

In many developing countries, small and medium enterprises—companies with 10 to 300 employees and annual sales of $100,000 to $15 million—are a key source of employment and critical to economic growth and poverty reduction. Strengthening these firms as well as microenterprises—businesses with fewer than 10 employees and less than $100,000 in turnover—is a priority for IFC.

In FY05, commitments to institutions focused on smaller enterprises, such as microfinance institutions, banks, or leasing companies, reached $1.1 billion, up from $718 million in FY04. We also strengthen smaller enterprises through our technical assistance programs, which help establish a more favorable policy environment for local businesses, build capacity at financial institutions that finance smaller enterprises, and expand the range of business services available to these enterprises.

IFC assists smaller businesses through a network of regional facilities, which tailor services to meet local demand, as well as the IFC-IDA program for micro, small, and medium enterprise development in Sub-Saharan Africa; linkage programs, which extend the benefits of large IFC investments to local firms and communities; the Strengthening Grassroots Business Initiative (see box); and other donor-funded operations.

Ensuring Sustainability

KENJI YUHAKU

The Equator Principles: Raising Industry Standards for Project Finance

Through the Equator Principles, IFC is collaborating with the wider financial sector to meet the demand for greater social responsibility among providers of capital. Launched in June 2003, the principles are a voluntary set of environmental and social guidelines for project finance lending based on IFC's standards and procedures. It is estimated that they are now used by about 80 percent of the project finance market worldwide. To date, 32 financial institutions have adopted the principles; the group increasingly includes institutions from emerging markets, with four Brazilian banks among new adopters during FY05. IFC has helped train Equator bank professionals in implementing the principles; the institutions in turn have participated as stakeholders in IFC's policy review.

Private sector development supports IFC's mission only if it is sustainable—if it makes a positive, long-term contribution to the economy and in doing so reduces poverty and improves lives.

Integrating environmental, social, and corporate governance issues with financial and economic factors helps ensure that our efforts have long-term benefits for the people, regions, and sectors most in need. It also allows us to engage more comprehensively with our clients, reduces the risk of private investing for everyone involved, and strengthens the ties between companies and the communities in which they operate. IFC has become a leader in making private sector development more sustainable—for all of these reasons—and because there is a business case for doing so. Our expertise in sustainability, in turn, is a main reason that clients who have other options for funding choose to work with IFC.

The Corporation incorporates environmental, social, and corporate governance due diligence into its investment operations. Sustainability is also the focus of much of our technical assistance and advisory work with clients, as detailed throughout this report. In addition, we ensure that key staff at IFC receive thorough training in these issues; to date some 555 staff have participated in the Sustainability Learning Program. It has been delivered in our regional hubs as well as in Washington, and with clients, partners, and other stakeholders attending. IFC also collaborates with the international community on many key initiatives, including on the Millennium Development Goals (see p. 16).

During FY05, IFC increased its resources for measuring both its development impact and the environmental and social footprint of its own operations. These issues are covered in detail in IFC's annual *Sustainability Report.* (See also related section on the Operations Evaluation Group, p. 68.)

Updating IFC's Policies and Guidelines

IFC's environmental and social standards have a broad impact on the private sector, both through our work with clients and through the widespread adoption of the Equator Principles by major commercial banks (see box). To ensure that these standards remain relevant to a rapidly evolving marketplace, this year the Corporation pushed ahead with an integrated review of our existing Safeguard Policies; Policy on Disclosure of Information; and Environmental, Health, and Safety Guidelines.

The review involved a broad consultation process with stakeholders around the world, including governments, our clients and partners, and representatives of civil society. The resulting comprehensive update of our policies and guidelines was presented to IFC's management in July 2005, with Board discussion to follow. The new Policy on Social and Environmental Sustainability and Performance Standards is expected to take effect during 2006. For more information, see *www.ifc.org/policyreview.*

IFC Against AIDS

IFC Against AIDS helps client companies step up their involvement in fighting HIV/AIDS. Through this program, IFC works with clients to analyze the business risks the disease presents and provides guidance on design and implementation of education, prevention, and care programs that target the workforce and surrounding communities.

During FY05, we began providing strategic technical assistance in South Asia, where Indian companies are matching the funds they receive through IFC's Corporate Citizenship Facility. The first two companies, Ambuja Cement Foundation and Apollo Tyres, are already scaling up their HIV/AIDS awareness and prevention programs in the workplace and the community, as well as enhancing their clinics' capacity for treating sexually transmitted diseases and for preventing and detecting HIV among long-distance truckers. Partnership with African companies, including training for smaller businesses, also remains a key focus of the program (see box, p. 32). For more information, see *www.ifc.org/ifcagainstaids*.

VLASSIS TIGKARAKIS

Carbon Finance: Building for the Future

IFC is helping developing countries participate in the fast-growing market for carbon credits. We are leveraging our experience and knowledge in evaluating and financing private sector projects in developing countries to help mitigate the risk associated with the delivery of emission reductions under the flexible trading mechanisms set up by the Kyoto Protocol. For example, our equity investment this year in AgCert International will help over 500 livestock farms in Latin America capture and dispose of methane from animal waste, generating revenue through carbon credits. We have also begun collaborating with private sector partners to design, launch, and manage related financial products, with the goal of taking risk in such transactions for IFC's own account. In addition, IFC operates two facilities to purchase emission reductions on behalf of the Netherlands. In FY05, these facilities concluded emissions reduction purchase agreements with two clients: Brascan Energetica in Brazil, which is building and operating run-of-river hydropower facilities to displace generation from fossil fuels; and Balrampur Chini Mills Limited, one of India's largest sugar producers, which has developed, with IFC support, two cogeneration projects that use bagasse, reducing reliance on fossil fuels. These agreements represent a combined 4.5 million carbon credits and an expected contract value of more than $25 million.

Making a Difference in the Extractive Industries

In association with the World Bank and MIGA, IFC has begun implementing a set of proposals to improve the governance, revenue management, and community involvement of the extractive industries—oil, gas, and mining—in which we invest. This reflects the recent Extractive Industries Review, which consisted of independent evaluations of World Bank Group involvement in this sector; during FY05, the Board endorsed a response from the management of IFC, the World Bank, and MIGA. The Bank Group is setting up an Extractive Industries Advisory Group, which will draw on the experience of outstanding representatives from a range of stakeholder groups to provide advice and a forum for discussing key issues in these industries. As part of an overall commitment to sustainability, the Bank Group will also increase its investments in natural gas and renewable energies, as well as in projects that improve energy efficiency.

MAX YACOUB

COURTESY OF ACLEDA (3)

ACLEDA Bank Receives IFC Client Leadership Award

IFC presents an annual Client Leadership Award to recognize a highly successful corporate client that, in line with IFC's mission, has made a significant contribution to sustainable development. This year's award goes to ACLEDA Bank Plc, a leading private bank serving micro and small enterprises in Cambodia.

With IFC's support, ACLEDA has transformed itself from a nongovernmental organization focusing on rural development into a first-tier commercial bank. Established in 1993, the Association of Cambodian Local Economic Development Agencies began its transition into 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. Through investments in 2000 and 2004, IFC established an equity stake in ACLEDA, mobilized other investors, and provided financing to expand the bank's lending to microenterprises. The transformation is a success: today ACLEDA is Cambodia's second-largest bank in terms of market share on loans outstanding. Its strong profitability has exceeded business targets and makes it a top performer among microfinance institutions worldwide.

With 136 branches and offices, ACLEDA has expanded coverage to more than 130,000 active borrowers and to areas not usually served by formal financial institutions. About 66 percent of its clients are women. As part of its efforts to raise living standards, it has introduced a loan product for small power generation facilities that serve remote districts and has invested in communications infrastructure to support money transfers between its rural branches. ACLEDA has aligned with industry best practices in training and compensation for staff, and it has drawn on IFC's expertise in implementing effective environmental management.

ACLEDA's success demonstrates how providing financial services to low-income entrepreneurs makes sound business sense in emerging markets. It serves as a role model for similar institutions around the world.

JOHN KELLS

SANJIVA SENANAYAKE

SANJIVA SENANAYAKE

Helping the Private Sector Respond to the Indian Ocean Tsunami

The devastating tsunami in December 2004 affected several economies in East and South Asia. IFC immediately set up a matching grant program for selected partner companies in Indonesia, the Maldives, Sri Lanka, and Thailand. By matching the costs they incurred in their response to the tsunami, IFC helped these firms step up their participation in the relief effort. The program helped remove infrastructure and distribution bottlenecks for relief operations and provided health services, power, communications, and clean water. IFC committed $1.4 million to support 11 projects covering water treatment plants and emergency school facilities in Indonesia; food, water, emergency supplies, and repair and reconstruction of housing in the Maldives; port and airport logistics, relief camps, and emergency telecommunications in Sri Lanka; and cleanup and reconstruction of buildings and boats in Thailand.

IFC also established a special loan facility to support the recovery of tourism in the Maldives, Sri Lanka, and Thailand. In addition, the Corporation has conducted seminars and consultations on insurance in the Maldives and Sri Lanka. IFC also provided $150,000 from its corporate contingency funds to a program run by Sri Lanka's National Development Bank Group that repaired or replaced fishing boats and equipment damaged by the tsunami.

At its launch, the International Finance Corporation became the first multilateral organization to have as its main objective the promotion of private enterprise. Today, it remains one of the few multilaterals to assume full commercial risks alongside private investors in emerging markets. The idea of an institution to spur private sector investment in poor countries—complementing the World Bank's lending to governments—had been broached at the founding of the Bank and the International Monetary Fund in 1944. In the summer of 1956, IFC's first loans, for manufacturing projects in Brazil and Mexico, put the World Bank Group on course to making that vision a reality.

In half a century of growth, IFC has remained the largest multilateral source of loan and equity financing for private sector projects in developing countries, even coining the term "emerging markets" for the clients we serve. We have been a key investor in more than 3,300 companies, a catalyst for partnerships in commercial investment and technical assistance, and a champion of best practice with global expertise to help firms and the government entities that work with them. We have played a leading role in building recognition that developing and transition countries offer sound and sustainable business opportunities. The Corporation will celebrate its accomplishments during 2006 with a renewed commitment to providing the innovative products and services our clients need and to expanding our impact on development.

50

years

1956-2006

IFC Organizational Structure

IFC has a workforce of over 2,400, representing more than 120 nationalities. Reflecting the strategic decentralization of operations, 45 percent of staff work in field offices in some 70 countries. To be closer to clients and tailor strategies and services to the countries where they operate, regional departments are centered at hubs in Cairo, Hong Kong, Istanbul, Johannesburg, Moscow, New Delhi, and Rio de Janeiro. Each draws on the global expertise of industry departments based in Washington.

BOARD OF GOVERNORS

BOARD OF DIRECTORS

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  - **William E. Stevenson**, Director, Operations Evaluation Group[2]
- **Paul D. Wolfowitz**, President
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      - **Avi Hofman**, Director, Financial Operations
      - **Lakshmi Shyam-Sunder**, Director, Risk Management & Financial Policy
      - **Maria da Graca Domingues**, Director, Special Operations
      - **Mwaghazi Mwachofi**, Director, Trust Funds
    - **Dorothy H. Berry**, Vice President, Human Resources & Administration
    - **Jennifer Sullivan**, General Counsel
    - **Nina Shapiro**, Vice President, Finance & Treasurer
    - **Declan J. Duff**, Director, Municipal Fund
    - **Rachel Kyte**, Director, Environment & Social Development
    - **Joseph O'Keefe**, Senior Manager, Corporate Relations

1. Vice presidential rank; serves same role for MIGA.
2. Reports to the Director-General, Operations Evaluation; to the Executive Vice President for administrative purposes.
3. Jointly IFC and World Bank.
4. Also reports to Vice President, Portfolio & Risk Management.
5. Also reports to World Bank Vice President for Infrastructure.

For details of IFC organization and management, see Volume 2.

Report on Regions

TED POLLETT

Sub-Saharan Africa

Project Financing and Portfolio

(millions of U.S. dollars)

	FY03	FY04*	FY05**
Financing committed for IFC's account	140	405	445
Loans	93	242	357
Equity	28	81	36
Guarantees and risk management	20	82	52
Loan syndications signed	26	0	0
TOTAL COMMITMENTS SIGNED	**167**	**405**	**445**
Committed portfolio for IFC's account	1,448	1,608	1,698
Loans	974	1,010	1,185
Equity	414	461	336
Guarantees and risk management	60	137	177
Committed portfolio held for others (loan participations)	254	225	194
TOTAL COMMITTED PORTFOLIO	**1,702**	**1,832**	**1,892**

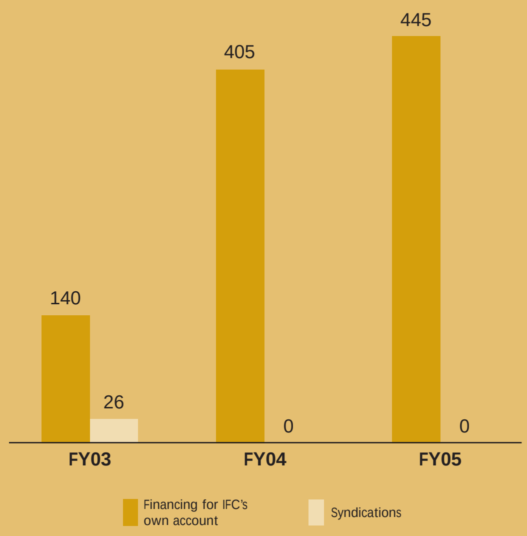
Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.

* Includes regional share of LNM Holdings investment, which is officially classified as a global project.

** Includes regional share of BAPTFF investment, which is officially classified as a global project.

Commitments

(millions of U.S. dollars)



IFC's Largest Country Exposures

Committed portfolio for IFC's own account as of June 30, 2005*
(millions of U.S. dollars)

Nigeria	419
South Africa	191
Mozambique	139
Cameroon	121
Kenya	115

*Excludes individual country shares of regional and global projects.

Project Commitments and Countries

	FY03	FY04	FY05
Number of projects	21	25	30*
Number of countries	13	12	14

* Includes BAPTFF investment.

Some data from previous years have been revised. All dollar amounts reflect rounding.

ANGOLA, BENIN, BOTSWANA, BURKINA FASO, BURUNDI, CAMEROON, CAPE VERDE, CENTRAL AFRICAN REPUBLIC, CHAD, COMOROS, DEMOCRATIC REPUBLIC OF CONGO, REPUBLIC OF CONGO, CÔTE D'IVOIRE, DJIBOUTI, EQUATORIAL GUINEA, ERITREA, ETHIOPIA, GABON, THE GAMBIA, GHANA, GUINEA, GUINEA-BISSAU, KENYA, LESOTHO, LIBERIA, MADAGASCAR, MALAWI, MALI, MAURITANIA, MAURITIUS, MOZAMBIQUE, NAMIBIA, NIGER, NIGERIA, RWANDA, SENEGAL, SEYCHELLES, SIERRA LEONE, SOMALIA, SOUTH AFRICA, SUDAN, SWAZILAND, TANZANIA, TOGO, UGANDA, ZAMBIA, ZIMBABWE

New Opportunities for the Private Sector

Growth for Africa was 4.4 percent in calendar year 2004, an increase from 3.1 percent in 2003. The region benefited from the recovery of the world economy, rising commodity prices, improved macroeconomic stability, and country-specific developments. Still, growth remains below the 7 percent target that is needed to reach the Millennium Development Goals by 2015. Africa faces immense challenges in generating private sector development and overcoming a weak investment climate, lack of infrastructure, HIV/AIDS, conflict, and a shortage of human capital.

IFC is working to address Africa's development more comprehensively through a new strategy initiated in FY04. Committed investments were $445 million for FY05; for the first time, we have invested over $400 million in the region for two consecutive years. IFC's strategy focuses on expanding the program to target smaller businesses, which constitute much of the private sector in Africa. For larger projects, the strategy targets more support in the formative stages of project development, expanding our role significantly beyond provision of finance. To improve the overall investment climate, IFC is also focusing its global knowledge and local expertise on reducing investment constraints that the private sector faces.

This strategy calls for an increase in technical assistance. Hence IFC has designed a program that builds on the work of its Africa Project Development Facility but has a broader mandate to promote private sector development. This new program, the Private Enterprise Partnership for Africa, was approved by IFC's Board in March 2005, with IFC initially funding its core staff and operating costs. PEP-Africa has already mobilized $9.5 million in donor funding and initiated five new multiyear technical assistance programs. These include a regional program to support leasing in east Africa; a parallel leasing program in Ghana that forms part of the joint Micro, Small, and Medium Enterprises initiative with the World Bank's International Development Association; a program to improve business regulation in Burkina Faso; an export promotion program for smaller businesses in Madagascar; and an Entrepreneurship Development Initiative, which will continue some successful small and medium enterprise development activities of APDF.

As part of comprehensive assistance to smaller businesses, IFC opened a second SME Solution Center in Kenya this year. The MSME initiative with IDA is funding activities in Ghana, Kenya, Mali, and Uganda. Also under this initiative, IFC has invested $1.9 million in ACCION Nigeria to launch a new commercial microfinance bank (see box); this will be complemented by technical assistance funds from an IDA credit.

In addition, IFC has invested in a new microfinance bank in the Democratic Republic of Congo. At the request of the country's government and the World Bank, IFC also launched the Mozambique SME Initiative. On a pilot basis, the program provides an integrated package of risk capital and technical assistance to selected businesses.

ABIGAIL TAMAKLOE

IFC has paid particular attention to identifying new investment opportunities in the region. This effort has resulted in innovative financial products for schools in Ghana (see box, p. 17). We have also financed a greenfield cement plant in Nigeria, the country's largest private investment outside the oil sector in recent years (see box). To assist in broadening economic empowerment in South Africa, IFC has committed $30 million to FirstRand Empowerment Trust (see box).

IFC is working hard to strengthen relationships with existing clients. For example, IFC has invested $35 million with MTN Nigeria, the country's leading telecommunications provider, following a $100 million investment last year. We have also made repeat investments in Celtel, a regional cellular provider; the Development Finance Company of Uganda; Banque Nationale de l'Industrie in Madagascar; Guaranty Trust Bank and Diamond Bank in Nigeria; and Generale de Banque de Mauritanie in Mauritania. Collectively, investments with repeat clients totaled $158 million in FY05.

IFC is also seeking to assist countries emerging from conflict. Building on our first investment in Angola, we have now invested in NOSSA Seguros, an insurance company that will help improve efficiency and introduce new products in the country's insurance sector.

Private sector investment in infrastructure is another important focus. Here we have invested in Scancom, a cellular provider in Ghana; we also initiated several infrastructure advisory assignments and closed the Tamatave port advisory mandate in Madagascar with a successful private concession.

Nigeria: Helping the Smallest Businesses Access Finance

Poor access to finance seriously impedes development of the micro and small enterprise sector in Nigeria; 85 percent of the country's firms have access only to short-term credit. IFC is helping Nigeria's government address the problem. The country's commercial banks are now required to set aside 10 percent of pretax profits for investments in the equity of smaller businesses. IFC is helping them do so through the new Micro Finance Institution, which specializes in funding micro and small businesses.

The MFI was launched with initial capital of $5 million, with ACCION International providing technical and management expertise. IFC has taken an equity investment along with several large Nigerian banks, and ACCION is the lead investor. Funding for technical assistance is coming from the Micro, Small, and Medium Enterprise Program, a collaborative effort of IFC and IDA. This is IFC's first investment under the program.

The institution's specialization will help it streamline credit evaluation procedures and implement tailored systems for information management and monitoring of microloans. Its lending is expected to become highly efficient in a relatively short time.

Nigeria: Assisting an Industry with a Pivotal Role in Development

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 country or the region, it is being implemented by Dangote Industries Limited, a leading Nigerian conglomerate, and will fill a supply gap in the country's cement market. Whereas over 75 percent of the annual consumption of 10.6 million tons is currently imported, the project will use locally available limestone, gypsum, and natural gas to produce cement at a competitive price. Better availability of cement will promote investment in infrastructure, as well as in industrial, commercial, and residential construction. These are acute needs in a nation of 134 million people.

The project will generate employment and improve the standard of living in a part of Nigeria with limited industrial activities. It will also create jobs indirectly through formal and informal businesses serving the plant and its employees. IFC is helping Dangote Industries build its capacity to implement community development programs in such areas as water supply, small business development, skills training, and health, including HIV/AIDS and malaria.

South Africa: Empowerment in the Financial Sector

In 2003, South Africa's financial sector published a charter mandating that a quarter of financial institutions' interests should be vested with historically disadvantaged South Africans by 2010. In support of this empowerment agenda, IFC has approved a rand-denominated, five-year mezzanine loan equivalent to $30 million to FirstRand Empowerment Trust to finance its acquisition of 6.5 percent of common shares in a major bank, FirstRand Limited. The project is part of the bank's transformation to comply with the charter; the acquired shares will be held in the trust for the benefit of four black economic empowerment groups.

The project helps transfer ownership of a leading financial institution, and related economic benefits, to reputable and broad-based partners. Over time, as the debt of the trust is serviced, cash flows to the empowerment groups will increase, enhancing their financial resources and establishing partial black ownership and control of FirstRand. The empowerment groups will also benefit from skills development, training for professionals and managers, senior appointments within the institution, access to financial services, empowerment financing, and procurement and sourcing from black-owned ventures. The transaction is expected to set a benchmark for future transformation projects in the country's financial sector and to help improve opportunities for black South Africans.

Helping Businesses Address the Challenges of HIV/AIDS

Through the IFC Against AIDS program, the Corporation works with client companies in Africa to accelerate their efforts in fighting HIV/AIDS. This year, MTN Nigeria received guidance in developing an AIDS policy, conducting a specialized survey, offering peer education, and providing anti-retroviral treatment to employees and their dependents. In Kenya, Magadi Soda also began providing this treatment; IFC Against AIDS will continue to strengthen the company's internal program and develop funding proposals to expand it in the community. IFC Against AIDS also worked with the South African company Hernic Ferrochrome to help shape its HIV/AIDS education and prevention program. In Nigeria, IFC provided assistance to the Dangote Group in drafting an AIDS policy, outlining an intervention strategy, and identifying partners among nongovernmental organizations for a program that will cover all the group's operations. In cooperation with PEP-Africa, the program is developing tools that will help smaller businesses in many parts of the continent manage the business risks of HIV/AIDS. This year, IFC Against AIDS also established a full-time staff presence in Johannesburg to support activities in the region.

ABIGAIL TAMAKLOE

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Kenya: A Better Living for the Poorest Farmers

This year IFC lent $178,000 to Honey Care Africa Limited, a socially responsible Kenyan small business that sells hives to local subsistence farmers and buys their honey at guaranteed prices. The market Honey Care creates for locally produced honey increases incomes in rural areas with few economic opportunities, typically doubling beekeepers' income. Honey Care also provides training in beekeeping as well as equipment and technical support to the farmers. Many of these farmers are women, and most earn less than $1 a day. To date, the company has provided sustainable economic opportunities to more than 2,500 poor farmers in rural Kenya. Through the Strengthening Grassroots Business Initiative, IFC is also helping Honey Care upgrade its processing capacity to meet international standards, strengthen its management information systems, and increase its level of extension services to beekeepers, collection centers, and distribution facilities. This will enable the company to increase its geographical coverage in Kenya, assist more farmers, and enter the export market.

COURTESY OF CELTEL

COURTESY OF CELTEL

Africa: A Company's Success Spurs Interregional Investment

IFC's experience with Celtel International, B.V., a telecommunications company active across Sub-Saharan Africa, demonstrates that the region is becoming an attractive destination for foreign investors. IFC has made a number of investments in Celtel since 1994, helping the company as it developed mobile networks in more than a dozen countries. In addition to providing modern cellular communications at affordable prices to African consumers, the company has been a model of good governance and community involvement—a commitment recognized by IFC in 2004 with its inaugural Client Leadership Award. This year the company's success led the Mobile Telephone Corporation of Kuwait to acquire Celtel for $3.34 billion. The transaction is a leading example of the interregional or "south-to-south" investments that IFC is promoting among developing countries. It also reflects investors' changing perceptions of Sub-Saharan Africa. The combined company intends to support further substantial growth in the region, and IFC will continue to nominate one of its board members.

OU YANGJIE

East Asia and the Pacific

Project Financing and Portfolio

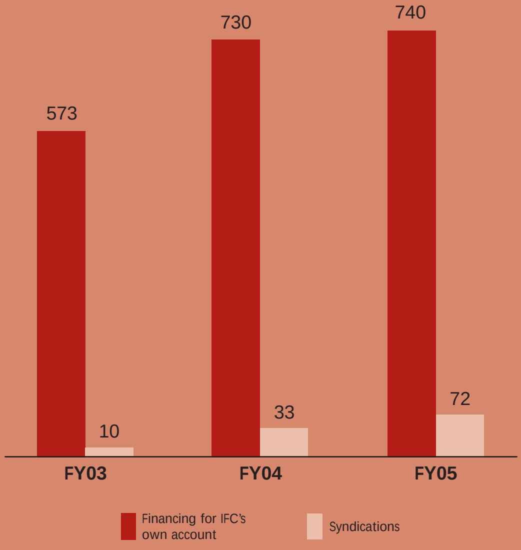
(millions of U.S. dollars)

	FY03	FY04	FY05
Financing committed for IFC's account	573	730	740
Loans	135	427	520
Equity	178	239	195
Guarantees and risk management	260	64	25
Loan syndications signed	10	33	72
TOTAL COMMITMENTS SIGNED	**583**	**763**	**811**
Committed portfolio for IFC's account	2,791	2,897	2,940
Loans	1,354	1,503	1,572
Equity	850	961	910
Guarantees and risk management	587	433	458
Committed portfolio held for others (loan participations)	1,138	907	821
TOTAL COMMITTED PORTFOLIO	**3,929**	**3,804**	**3,761**

Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.

Commitments

(millions of U.S. dollars)



IFC's Largest Country Exposures

Committed portfolio for IFC's own account as of June 30, 2005*
(millions of U.S. dollars)

China	999
Indonesia	494
Philippines	480
Thailand	336
Korea, Republic of	155

*Excludes individual country shares of regional and global projects.

Project Commitments and Countries

	FY03	FY04	FY05
Number of projects	31	40	40
Number of countries	7	7	11

Some data from previous years have been revised. All dollar amounts reflect rounding.

CAMBODIA, CHINA, FIJI, INDONESIA, KIRIBATI, REPUBLIC OF KOREA, LAO PEOPLE'S DEMOCRATIC REPUBLIC, MALAYSIA, MARSHALL ISLANDS, FEDERATED STATES OF MICRONESIA, MONGOLIA, MYANMAR, PALAU, PAPUA NEW GUINEA, PHILIPPINES, SAMOA, SOLOMON ISLANDS, THAILAND, TIMOR-LESTE, TONGA, VANUATU, VIETNAM

Domestic Demand and Trade Fuel a Boom

East Asia and the Pacific grew by 8.5 percent in 2004, a regional boom led by strong domestic demand and trade growth in China. Growth has also been robust in Malaysia, the Philippines, Thailand, and Vietnam, with Indonesia not far behind. Underpinning this surge are reforms associated with WTO membership, a more welcoming attitude to foreign capital, and efforts to recapitalize and restructure the financial sector in the countries most affected by the 1997 financial crisis.

To maintain this momentum, however, economies in the region need to deepen and diversify their financial systems, strengthen corporate governance and other responsible business practices, and improve the environment for private investments in infrastructure. IFC's investment and technical assistance programs in the region focus on these priority areas for reform.

IFC is working to develop new and stronger banks in East Asia, particularly in transition economies. In Cambodia, we provided a loan to help Canadia Bank expand its lending operations; through technical assistance, we are helping Canadia become a leader in risk management and other best practices. In Vietnam, we increased our equity stake in Sacombank, part of our ongoing support to strengthen its capital base and institutional capacity. In China, our equity investment in Bank of Beijing supports its strategic development and modernization (see box).

IFC also continues to encourage the deepening and strengthening of the financial sector through technical assistance and investments in nonbank financial institutions. In the Philippines, we helped the National Housing Mortgage Finance Corporation conduct the country's first auction of nonperforming housing loans; this auction is a model mechanism for resolving nonperforming assets and helps develop a market for them. In Thailand, we provided a loan to Siam Industrial Credit Public Company Limited, a finance company that focuses on retail services and commercial financing for small and medium enterprises. Proceeds of the loan will be used primarily to fund the company's growing business in leasing. In Indonesia, IFC made its first rupiah-denominated loan to Austindo Nusantara Jaya Finance, an independent finance company. The loan will help the company expand its leasing activities, diversify its funding base, and better match the currency of its assets and liabilities. To help develop the private equity market in China, IFC invested up to $5 million in the BioVeda China Fund, through which institutional investors will provide capital for developing Chinese companies in biotechnology and life sciences. In Malaysia, IFC became the first supranational institution to undertake a bond issue using the principles of Islamic finance; the 500 million ringgit issue (equivalent to $132 million) helps deepen the country's domestic capital market.

Expansion of private infrastructure, including through privatization, is another priority for IFC in East Asia. This year, IFC assisted in the expansion of Minsheng Shipping, a company operating on the Yangtze River in China (see box). In the Philippines, we made a long-term corporate loan in local currency to CEPALCO, an electricity distribution company, to finance its investment program (see box, p. 15). Also in the Philippines, IFC provided a $22 million loan to a consortium of local shareholders to computerize and connect the offices of the country's Land Registration Authority (see box).

IFC continues to promote the growth of the region's domestic companies as they transform themselves into regional and international competitors. This effort is particularly strong in China, where our program in general manufacturing expanded significantly in FY05. IFC made a loan

The Philippines: A Private Sector Approach to Land Registration

Property rights can support economic growth and development but only when they are formalized, for example through land titling and registration. This is crucial for poor people, who may have assets—basic housing, informal businesses—but lack formal rights to them. Lacking rights constrains people's ability to use assets as collateral and raise capital for small enterprises. It can also preclude entrepreneurs from connecting to the formal economy, making it difficult or illegal for them to obtain utility services.

In the Philippines, IFC is helping the government address this problem. A leader in privatization, the Philippines has awarded concessions for various public utilities and selected government services. To meet the urgent need for land registration and titling, it awarded a concession to Land Registration Systems, Inc., a local private company, to computerize and connect the 162 offices of the country's land registration authority. By building a database and network infrastructure, the privatization will increase the authority's efficiency and the security, quality, and accessibility of land title information. It will also improve the process of issuing land records.

IFC has provided a loan of $22 million and a quasi-equity instrument of $2.7 million to support this privatization, which we expect to send a positive signal to the market and demonstrate the viability of service concessions to other governments. The project also complements the World Bank's efforts to promote broader institutional reforms in land administration.

OU YANGJIE

China: Opening the Interior to Trade

In little more than 20 years, China has emerged as one of world's premier trading nations. But because the benefits of growth have largely bypassed the country's interior, the Chinese government is working to accelerate economic development there. IFC is supporting this goal through, for example, the donor-funded China Project Development Facility, which provides technical assistance to improve the business climate and develop financing and business support services for smaller businesses in the southwestern province of Sichuan.

Our larger investments are also making a difference. Based in the city of Chongqing, Minsheng Shipping is a leading transportation company along the Yangtze River, the principal artery linking the interior of China with the coast. Minsheng operates nearly 70 vessels on the river, including container liners, barges, tugboats, and specialized vessels for carrying vehicles (called "ro-ro" vessels, short for "roll on, roll off"). Minsheng also operates six oceangoing container vessels, mainly to serve the market between China and Japan.

To serve its clients more effectively, Minsheng is shifting its river operations from the barge and tug business to container and ro-ro operations. Through our $15 million investment, IFC is helping the company acquire 20 new vessels by 2007. The project will help Minsheng optimize its fleet structure, gain efficiency, and capitalize on a growing demand for transportation along the Yangtze.

China: Upgrading Bank Operations and Securing Foreign Investment

The challenges facing Chinese banks in general—high levels of nonperforming loans, a thin capital base, management and governance in need of strengthening—are amplified among the city commercial banks that China established by consolidating some 2,000 urban credit cooperatives in large and midsize cities. These institutions also face heavy local government influence and are restricted to conducting business only within their city boundaries. IFC has been helping the Bank of Beijing build its business amid these challenges.

Soon after the bank's founding in 1996, IFC provided technical assistance to improve its credit risk management and formulate overall business strategies. The bank has considered IFC a close partner ever since, consulting us in its ongoing efforts to improve management and asset quality and recently seeking our advice in the selection of an international strategic investor. IFC's involvement has been encouraged by Chinese regulators, who believe that the development of Beijing's city commercial bank, the country's second-largest, could have a strong demonstration effect for financial sector reform across China.

In FY05, IFC made an equity investment in the Bank of Beijing of up to RMB479 million (about $58 million). The Netherlands' ING Bank is taking just under the 20 percent ceiling that a single foreign investor is allowed to invest in a Chinese bank; the combined investment will reach the 25 percent maximum imposed by the country's banking regulators for combined foreign shareholdings in a domestic bank. The funding initiates a comprehensive strategic alliance. ING will provide technical and management support to the Bank of Beijing, helping expand its retail business, providing training to staff, and nominating personnel to senior management positions. The Bank of Beijing will use its strong branch network across the city's 12 districts to promote the insurance business of ING's joint ventures in China.

WANG QINGXIAN

and equity investment in Fenglin, one of the country's largest medium-density fiberboard producers, for construction and operation of a plant producing fiberboard and related value-added products. The project will also establish over 13,000 hectares of fast-growing plantation forest, helping make the company's business more environmentally sustainable. Fenglin will be able to play a larger role in meeting the demand from China's furniture and construction industries, while increasing economic activity in one of the poorest areas of southern China. IFC has also invested in North Andre, a major apple juice producer in Shandong province; this will enable it to complete an expansion project by providing permanent working capital and a long-term loan, while benefiting thousands of farmers who supply its processing plants. In the Philippines, we continue to work with Manila Water, as this concessionaire serving eastern Manila develops a more integrated and sustainable approach to managing its business.

We also help build capacity for private enterprises and regulators, and funding for technical assistance in the region has more than doubled, to $20 million, in the past two years. This assistance, much of it delivered by four regional facilities, is our main product in some smaller, more isolated economies. In Samoa, the Pacific Enterprise Development Facility is helping develop the venture capital industry, privatize infrastructure, and promote tourism development. In Laos, the Mekong Private Sector Development Facility has launched a forum to promote public-private partnership on improving the business environment. Our facilities in less developed regions of China and Indonesia are working on supply chain partnerships that benefit the environment (see box). This year IFC also assessed private sector investment opportunities in Timor-Leste and worked on a strategic business plan with a new microfinance institution in Papua New Guinea.

East Asia: Innovative Partnerships Address Environmental Challenges

IFC's technical assistance facilities are establishing relationships with civil society organizations to help private companies and entrepreneurs contribute more to sustainable development. Examples from our facilities in eastern Indonesia and China's interior demonstrate approaches that are friendly to business and to the environment.

In Indonesia, IFC-PENSA has established a sustainable supply chain program in partnership with the World Wildlife Fund and the Nature Conservancy; it creates market-based alternatives to illegal logging and other practices that are depleting tropical forests. A pilot program is promoting fast-growing acacia wood as an alternative to teak in furniture production. To test the market for acacia products, the program displayed samples from five manufacturers at a furniture show in Singapore in March 2005. Initial orders exceeded $40,000, and inquiries continue. One company signed an exclusive deal to sell beds to the British market, while another received a 900-piece order for a product using acacia and bamboo.

IFC's China Project Development Facility has set up its own innovative partnership with the World Wildlife Fund, which is helping preserve critical natural habitat in northern Sichuan. The project, initiated by WWF, will help local farmers in Minshan develop sustainable farming as an alternative to illegal logging and the poaching of endangered monkeys and deer, in habitat that is also home to pandas. IFC is providing advisory services and additional resources to create pilots that can be used in an area with more than 500 villages. Our contribution includes helping identify products with a positive impact locally as well as good market prospects. For example, IFC is supporting a company that purchases honey, walnuts, mushrooms, and spices from local communities. Our support has helped attract the global retailer Carrefour, which offers a guaranteed price and provides display space for these products at its outlet in Chengdu. IFC's facility is helping reduce costs in this supply chain and increase product quality to meet the standards of a demanding international business. The project provides new income for local farmers, while Carrefour benefits by building ties to communities and offering unique Chinese products to local consumers.

WANG QINGXIAN

ANASTASIA GEKIS

South Asia

Project Financing and Portfolio

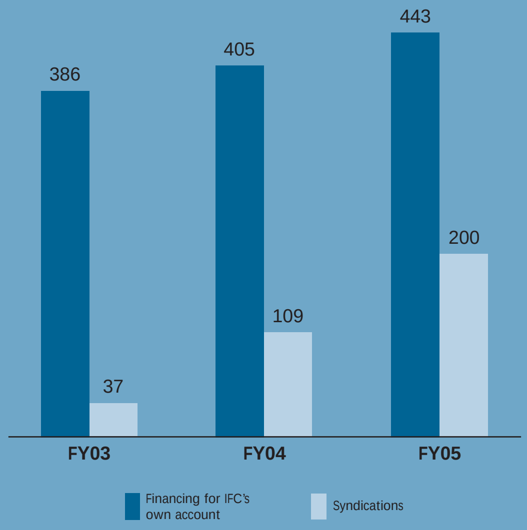
(millions of U.S. dollars)

	FY03	FY04	FY05
Financing committed for IFC's account	386	405	443
Loans	355	379	384
Equity	28	18	57
Guarantees and risk management	3	9	2
Loan syndications signed	37	109	200
TOTAL COMMITMENTS SIGNED	**422**	**514**	**643**
Committed portfolio for IFC's account	1,447	1,518	1,634
Loans	929	1,101	1,326
Equity	345	265	214
Guarantees and risk management	172	152	93
Committed portfolio held for others (loan participations)	140	237	416
TOTAL COMMITTED PORTFOLIO	**1,587**	**1,755**	**2,050**

Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.

Commitments

(millions of U.S. dollars)



IFC's Country Exposures

Committed portfolio for IFC's own account as of June 30, 2005*
(millions of U.S. dollars)

India	1,268
Bangladesh	111
Sri Lanka	102
Maldives	55
Nepal	47
Bhutan	10

*Excludes individual country shares of regional and global projects.

Project Commitments and Countries

	FY03	FY04	FY05
Number of projects	18	19	20
Number of countries	4	5	2

Some data from previous years have been revised. All dollar amounts reflect rounding.

Strengthening International Competitiveness

South Asia remained one of the world's fastest-growing regions during FY05, with particularly strong growth in India. Many companies in the region are striving for international competitiveness and pursuing new investment opportunities in South Asia and beyond. IFC is promoting sustainable private sector growth, both through investments in projects that have a high development impact and through technical assistance. This technical assistance helps clients improve their sustainability; it also helps strengthen smaller businesses and support community development programs. In FY05, IFC committed investments of $443 million for its own account and $200 million in loan syndications.

IFC's investments in Indian manufacturers demonstrate how we are helping build an internationally competitive private sector. A loan to Tata Steel will facilitate the company's expansion in East Asia, while increasing its production capacity and productivity in India. Our second investment in Apollo Tyres will help expand its production of bus and truck tires. Through an equity investment in Cosmo Films, a packaging manufacturer, IFC is helping a repeat client strengthen its capital structure and supporting its growth prospects. DCM Shriram Consolidated, a diversified chemical company, is using IFC's investment for an environmental upgrade of an existing plant, to create more capacity for production and captive power generation, and to help expand the company's rural network of retail stores for agricultural products. IFC also made three equity investments to support India's emerging biotech industry (see box); a loan and equity investment in Andhra Pradesh Paper Mills, India's fourth-largest pulp and paper manufacturer; loans to repeat clients, United Riceland Limited, one of India's leading rice millers, and Rain Calcining Limited, a producer of petroleum coke; and a loan to SRF Limited, a manufacturer of nylon tire cord and chemical gases. In support of India's IT industry, IFC provided a loan to KPIT Cummins Infosystems Limited, an IT services outsourcing company focused on manufacturing and financial services, as it embarks on a growth and acquisition strategy.

We are also helping South Asian countries continue their growth in tourism, a focus that took on special urgency after the tsunami in the Indian Ocean in December 2004. As part of our comprehensive support to response and recovery efforts, IFC established a Tsunami Tourism Loan Facility. A company affected in the Maldives has already received assistance through this facility, which will also support the industry's recovery in Sri Lanka and Thailand (see box, p. 25).

Infrastructure is a high priority for IFC's investment and technical assistance work in the region, given its critical importance for sustaining growth and reducing poverty. IFC is helping expand the availability of power, water, and telecommunications through investments and advice on public-private partnerships. In FY05, IFC provided AD Hydro Power Limited with a loan and equity investment to develop one of the first hydropower plants to be financed on a merchant basis in Asia (see box). An investment in Sealion Sparkle will allow this company to expand its port management services within India and beyond (see box). IFC has also provided an equity investment to India's Ramky Group, helping expand the

NEERAJ JAIN

Bangladesh: A Consortium Helps Small Businesses Grow

An important way to improve the competitiveness and performance of small and medium enterprises is to increase their access to business services. IFC's SouthAsia Enterprise Development Facility is helping service providers in Bangladesh make more comprehensive and sustainable assistance available to small and medium enterprises. One such effort is the Consortium for Business Development Services, launched in 2003 with an initial investment of $8,500 by a group of local consultants. SEDF has helped the members coordinate and integrate their capabilities so that the consortium can now offer a wide range of management training and business consulting services to the country's smaller businesses. These include pricing analysis of poultry, feed, nursery, and seed products; assessment of training needs for businesses in selected supply chains; a diagnostic study of the Dhaka Chamber of Commerce and Industry; and the publication of a set of business case studies. The consortium is now generating revenues from its training and consulting. SEDF will continue to support the evolution of the consortium into a one-stop shop that provides key management development services to smaller enterprises throughout Bangladesh.

country's largest private business in solid waste management. IFC has signed an advisory mandate with the Indian city of Bangalore to introduce private participation in its water and wastewater systems.

IFC is supporting infrastructure indirectly as well, through a loan to the Infrastructure Development Finance Company Limited, a firm that invests and provides advisory services for developing projects in India's key infrastructure sectors. Also in the financial sector, a loan to Kotak Mahindra Bank will help it increase its lending to smaller businesses, particularly those that focus on exports.

Through technical assistance, the SouthAsia Enterprise Development Facility expands IFC's reach in Bangladesh, Bhutan, and Nepal, as well as in India's northeast. Operational since 2002, SEDF is working to improve the business environment, strengthen providers of business services, and increase financial services for smaller businesses. For example, SEDF has supported the development of a consortium to help smaller enterprises improve their access to business services (see box). Also during FY05, the IFC Against AIDS team launched a program with IFC's South Asian clients (see p. 23).

NEERAJ JAIN

India: Investing in Biotechnology and Pharmaceuticals

Biotechnology and pharmaceuticals could potentially be major growth sectors in India's economy. To support these emerging industries, IFC made three investments during FY05. The first is an equity investment in the APIDC Biotechnology Fund, which will make equity and equity-related investments in start-up and early-stage life sciences businesses working in such areas as health care, drug discovery, agriculture, dairy, and environmental and industrial applications. IFC's investment will enable the fund to take significant minority stakes in Indian businesses; it plans to build a portfolio of 20 to 25 companies with an average transaction size of $1.5 million. IFC also made its first direct investment in a biotech company, Bharat Biotech India Limited, a firm in Hyderabad that develops, manufactures, distributes, and markets vaccines and biopharmaceuticals. IFC's equity investment will help the company expand its development and production of new products, as well as improve its marketing and sales efforts. As the first international institutional investor in Bharat Biotech, IFC will assist the company in establishing good corporate governance and help it ensure timely financial reporting and sound financial management. IFC also invested equity in Dabur Pharma, a leading pharmaceutical company in India. This investment will help the company expand and upgrade its manufacturing facilities to meet regulatory requirements in the United States and the European Union, obtain regulatory approvals for sales of generic oncology products in these markets, and enhance its corporate governance practices.

COURTESY OF SEALION SPARKLE

India: Meeting the Competition for Port Services

With competition rising among the country's ports and with Indian companies seeking to enhance their competitiveness in international markets, IFC is helping improve the efficiency, productivity, and safety of India's port operations. Ocean Sparkle Limited, one of the first private Indian companies offering comprehensive port services, owns and manages one of the country's largest private fleets of harbor tugs and provides management and other services to eight key ports in India. To strengthen its financial and technical capabilities and its ability to bid for larger port management contracts, Ocean Sparkle has entered into a joint venture with the Port of Singapore-Marine Limited, a subsidiary of Singapore's port authority. The consortium has won three large port management services contracts in India and is seeking additional opportunities, both in India and worldwide. IFC's loan to the consortium, Sealion Sparkle, for $4.9 million will support these domestic and international expansion plans and contribute to the overall development of infrastructure critical to India's growth.

India: A Pioneering Investment in Cleaner Energy

IFC has made a combined $49 million loan and equity investment in AD Hydro Power Limited in the Himalayas of northern India. The project is one of the first hydropower plants in the developing world to be financed on a merchant basis, with the private sector taking market risk. IFC's funding supports construction, operation, and maintenance of a 192 megawatt run-of-river hydroelectric power plant and a 185-kilometer, 220-kilovolt transmission line. The plant will help meet a growing demand for electricity and alleviate peak shortages in the region. It will be developed mainly by Indian contractors and suppliers, generating short-term and permanent jobs as well as substantial revenues to the state and national governments through royalties and taxes. By using a renewable source of energy, the plant will help reduce reliance on thermal power, which produces greenhouse gases and particulate emissions. The project encourages private hydropower development and private participation in India's power sector. To ensure that local communities benefit from the investment, IFC will provide technical assistance to promote forest and wildlife conservation, links with smaller local businesses, and sustainable tourism in the area.

KENJI YUHAKU

BRYCE MEEKER

Europe and Central Asia

Project Financing and Portfolio

(millions of U.S. dollars)

	FY03	FY04*	FY05**
Financing committed for IFC's account	1,203	1,667	1,938
Loans	1,058	1,374	1,751
Equity	50	292	187
Guarantees and risk management	95	1	0
Loan syndications signed	191	363	419
TOTAL COMMITMENTS SIGNED	**1,394**	**2,030**	**2,357**
Committed portfolio for IFC's account	3,575	4,548	5,423
Loans	2,899	3,768	4,602
Equity	521	667	719
Guarantees and risk management	156	113	102
Committed portfolio held for others (loan participations)	785	935	1,008
TOTAL COMMITTED PORTFOLIO	**4,360**	**5,482**	**6,431**

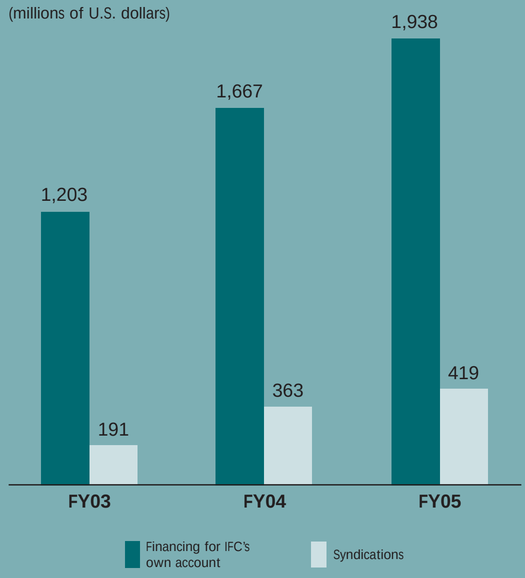
Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.

* Includes BTC Pipeline and regional share of LNM Holdings, which are officially classified as global projects.

** Includes regional share of Melrose Facility, which is officially classified as a global project. Committed portfolio includes BTC Pipeline, which is officially classified as a global project.

Commitments

(millions of U.S. dollars)



IFC's Largest Country Exposures

Committed portfolio for IFC's own account as of June 30, 2005*
(millions of U.S. dollars)

Russian Federation	1,432
Turkey	981
Romania	409
Ukraine	265
Bulgaria	253

*Excludes individual country shares of regional and global projects.

Project Commitments and Countries

	FY03	FY04	FY05
Number of projects	60	65*	67
Number of countries	18	17	15

* Includes BTC Pipeline.

Some data from previous years have been revised. All dollar amounts reflect rounding.

ALBANIA, ARMENIA, AZERBAIJAN, BELARUS, BOSNIA AND HERZEGOVINA, BULGARIA, CROATIA, CZECH REPUBLIC, ESTONIA, GEORGIA, HUNGARY, KAZAKHSTAN, KYRGYZ REPUBLIC, LATVIA, LITHUANIA, FORMER YUGOSLAV REPUBLIC OF MACEDONIA, MOLDOVA, POLAND, ROMANIA, RUSSIAN FEDERATION, SERBIA AND MONTENEGRO, SLOVAK REPUBLIC, SLOVENIA, TAJIKISTAN, TURKEY, TURKMENISTAN, UKRAINE, UZBEKISTAN

Rising Investment and Broader Impact

At 7.2 percent during 2004, growth in Europe and Central Asia has remained strong. IFC's activity here covers many sectors, led by the financial sector, where our investments, expertise in structuring transactions, and advice to firms and governments are helping build capital markets and expanding access to finance. During FY05 we also continued expanding our technical assistance efforts, particularly in Southeast Europe.

Southern Europe and Central Asia

Rapid Change, Varied Opportunities

Southern Europe and Central Asia is an economically diverse region, with per capita incomes ranging from $200 a year in Tajikistan to $6,500 in Croatia. Most countries are in transition from state-controlled to free market economies or are coming out of conflict. But most of these are changing rapidly, with a growing private sector and emerging local businesses, and are drawing increased interest from foreign investors. This year, the economies of Southeast Europe and Turkey registered strong growth; for the most part, growth was healthy in Central Asia and Azerbaijan. Economic development in the region will require large investments to accelerate growth, increase employment, and facilitate integration into international markets. During FY05, IFC's investments in the region reached $811 million in new commitments, compared to $842 million in FY04; we also mobilized $174 million through syndications.

IFC has been involved in restructuring and privatizing the financial sector in much of the region. This year, we continued to support private banks, which in turn help improve access to finance for local private companies and smaller businesses. IFC is also fostering the development of nonbank financial institutions, especially in housing finance and leasing. In Kazakhstan, we invested in Bank Turan Alem Leasing, the country's first commercial leasing company (see box, p. 19). Here IFC took a 10 percent shareholding and helped attract foreign strategic and technical partners; our involvement helped set new standards in corporate governance, encouraging other investors to enter the country. In Turkey, through a loan and equity package, IFC supported Intercity, a vehicle leasing operation, reflecting our strategy to help innovative clients and entrepreneurs (see box). IFC supported TSKB, a large term-lending institution, to enhance the availability of funding for Turkish companies. IFC invested in financial institutions, often with technical assistance to strengthen capacity, in Azerbaijan, Bosnia and Herzegovina, Croatia, Romania, and Tajikistan. In Serbia and Montenegro alone, IFC committed $108 million in the banking sector this year.

In manufacturing and services, and consistent with IFC's strategy to encourage "south-to-south" investments, we helped a Lebanese sponsor invest in the Albanian cement sector; a competitive local supply of cement will reduce Albania's dependence on imports (see box). In another example of interregional investment, we worked with Arcelik, a Turkish firm, to establish a greenfield manufacturing facility in Russia that will improve the company's position as a globally competitive supplier of major household appliances. In Bulgaria and Croatia, IFC invested in discount retail outlets and hypermarkets; these are expected to improve distribution of locally procured goods at competitive prices to consumers nationally.

In the social sectors, IFC supported two projects in Turkey, where the market is well positioned for private provision of education and health services. IFC is helping a leading health services provider establish two hospitals, one in Istanbul specializing in oncology and neurosurgery, the other serving general health care needs in Bursa. In education, IFC made its first loan in Turkish lira to assist a K-12 school and vocational institute in expanding its services, including in information technology and software.

COURTESY OF FUSHE KRUJE

Albania: The First Investment in the Privatized Industrial Sector

This year IFC provided a $30 million loan for rehabilitation and expansion of Albania's Fushe Kruje Cement Factory, which will install a new production line, increasing capacity to 1.3 million tons a year. A good example of interregional or "south-to-south" investment, the project is sponsored by Seament Holding, a major cement trading group based in Lebanon. It will establish the only modern cement factory in a market that consumes 1.5 million tons of cement per year, two-thirds of which is imported. Located near inexpensive sources of clay and limestone and operating with a low capital cost, the factory is expected to produce clinker and cement at roughly half the cost of imports.

With a total cost of $130 million, the project is the first investment in Albania's industrial sector since its privatization. It brings modern production technology and operational know-how to the country while providing attractive wages to 400 workers in an area with few employment opportunities. Fushe Kruje will draw on IFC's environmental due diligence and supervisory oversight to raise its environmental and social management to international best practices. The workers will also benefit from a more formalized safety program.

IFC played a key role in completing the financial plan, which posed challenges due to the project's size and a shortage of domestic and external sources of funding. Our presence gave comfort to other financial institutions, encouraging them to participate. The project will help demonstrate the feasibility of project finance in Albania and promote more foreign direct investment in the country.

In infrastructure, IFC is helping potential European Union accession countries privatize their utilities. In Romania, IFC provided a financing package to DistrigazSud, a recently privatized gas distribution company. The private provision of infrastructure services, especially through public-private partnerships, will be increasingly important, especially in Southeast Europe, and IFC will seek to support the emerging opportunities in this area.

IFC continues to give priority to the frontier markets of Central Asia, where opportunities for investments remain severely constrained. Here, through the donor-supported Private Enterprise Partnership, IFC has deployed technical assistance, especially for small and medium enterprises. To achieve long-term, sustainable impact, regional and country programs have been established in the areas of leasing, housing and mortgage finance, microfinance, corporate governance, and supply chain links between small and large companies. A major new initiative in leasing will combine technical assistance with

PEP

Tajikistan: Supporting the Growth of Smaller Businesses

One of the poorest countries in the former Soviet Union, Tajikistan needs private sector growth to help raise living standards. Because investment opportunities are limited, IFC is providing technical assistance to improve the investment climate and supporting pioneering programs that help bring scarce capital to small and medium enterprises. During FY05, IFC followed up on a survey of smaller businesses that it conducted last year with Swiss support. The survey identified major regulatory hurdles that entrepreneurs face, including complex licensing procedures and repeated and overlapping inspections. IFC has convened stakeholders to build consensus on the issues, established close partnerships with several key

ALEJANDRO PEREZ

IFC's advice on corporate governance helped Romania's Banca Comerciala Romana improve its credit rating this year.

investment capital to selected financial intermediaries in four Central Asian countries.

During the year, IFC also committed to a new initiative, the Private Enterprise Partnership for Southeast Europe, which will continue and broaden our technical assistance in the countries there. Its focus will be on smaller businesses, environmental issues, and infrastructure. This year, we worked with Serbia and Montenegro to establish legislation that creates a leasing industry for the first time. In FYR Macedonia, we initiated a program to help the steel recycling industry work with small enterprises that employ more than 5,000 Roma people. In Bosnia and Herzegovina, we introduced alternative dispute resolution for commercial cases, enabling businesses to save time and costs while resolving cash-flow and liquidity issues successfully.

IFC's efforts have had a favorable impact, but major challenges still remain. To meet these challenges effectively, IFC will continue to strive for innovative programs in line with country priorities.

Serbia and Montenegro: Privatization Support to a Major Bank

IFC has taken a shareholding in Podgoricka Banka, the largest bank in Montenegro, to help the government with privatization. Founded in 1906, Podgoricka Banka was one of the first banking institutions in the region. It is the only relatively large bank in Montenegro, with branches across the republic and 230 employees, and it has remained majority state-owned.

IFC has also extended a new €5 million term loan to enhance the bank's reach and allow it to provide long-term loans for the first time. In addition, IFC is providing technical assistance to strengthen the bank's management capacity in advance of privatization: a resident advisor will support its management, while specialists will assist on selected banking functions. Our investment and technical assistance will help improve Podgoricka Banka's performance, corporate governance, market position, and attractiveness to potential strategic investors. The restructuring and IFC's support are expected to have a large impact on the Montenegrin economy, helping attract foreign direct investment and significantly improving the bank's privatization prospects.

inspectorates, and helped the legislature draft a new law governing business inspections.

Also this year, IFC invested in the First MicroFinance Bank of Tajikistan, a joint investment and advisory project with the Aga Khan Development Network and Germany's development bank, KfW. The new bank provides credit and savings products to micro and small enterprises, and it already has over 7,000 clients. IFC is undertaking a broad technical assistance program to help the bank upgrade its operations, train staff, and extend its services to more customers, especially to women. These efforts should contribute to the bank's achieving financial sustainability within four years.


PEP

PEP

A Successful Model for Technical Assistance

The Private Enterprise Partnership is IFC's technical assistance program in the former Soviet Union. It is funded jointly by IFC, which has allocated an annual budget of $4.6 million through FY06, and donor governments, which provided a total of $73 million from the partnership's founding in 2000 through the end of FY05. The partnership implements programs to build financial markets, link local firms into supply and distribution chains of larger companies, improve corporate governance practices, and strengthen business support services and the regulatory environment for small enterprises. These activities serve the partnership's objective of building and strengthening the private sector and economic growth in these countries. The partnership's technical assistance has facilitated $493 million in investment, including $100 million from IFC. Its success has provided a model for new partnerships that IFC is promoting in Sub-Saharan Africa, the Middle East and North Africa, and Southeast Europe.

Georgia and Turkey: Vehicle Leasing Spurs Business Growth

Throughout Europe and Central Asia, IFC promotes leasing as a key source of financing for growing companies. In Georgia, for example, our Private Enterprise Partnership has worked with the government to improve leasing legislation, assessed the market to determine the sectors most in need of leasing, and trained and advised companies on the benefits of leasing. This year IFC lent $3 million to TBC Leasing, one of Georgia's first leasing firms, allowing it to meet demand for this new financial product.

One company this helps is Clauss, a small, growing business whose 42 employees deliver food and beverage products around Tbilisi. In two years, Clauss has grown from a start-up to become the market leader in distribution services. To keep pace, the company needed more vans—but found it made more sense to lease than to buy them. Leasing does not require collateral or credit history, and it typically offers longer maturities than banks. Thanks to TBC Leasing, Clauss has six new Ford Transit vans. A bigger fleet has helped sales grow by 45 percent, and the company has created 12 new jobs.

In Turkey, IFC has provided a $45 million financing package to Intercity, an independently owned business that leases cars, vans, and trucks to the private sector. Its vehicles assist a wide range of commercial clients in sales calls, inventory management, and the transportation and delivery of goods. Founded in 1992 by a local entrepreneur, Intercity has become the country's largest vehicle leasing and fleet management company, with more than $20 million in annual revenue. It has a 20 percent market share, 90 employees, and over 6,000 vehicles under management.

By providing Intercity with both equity and long-term funding, IFC is helping an entrepreneurial business become a larger, more significant player in Turkey. The project addresses a scarcity of medium-term financing for the country's auto leasing industry and promotes the development of operational leasing. IFC's support is expected to encourage other financial intermediaries in Turkey to consider operational leases as an alternative financing instrument.

COURTESY OF CLAUSS

COURTESY OF CLAUSS

TED POLLETT

Central and Eastern Europe

Supporting the Region's Expanding Opportunities

IFC's commitments in Central and Eastern Europe exceeded $1.1 billion, with an additional $245 million in syndications, a record high, reflecting the region's continued growth and increasing investment opportunities. The majority of this funding went to Russia, where IFC invested more than $832 million in 21 projects, with an emphasis on the financial sector and infrastructure. The sharpest increase was in Ukraine, where strong growth and an impetus for reform enabled IFC to quadruple its investment volume, to $255 million. Technical assistance continued to play an important role in former Soviet countries, helping develop financial institutions, improve the business environment for smaller enterprises, strengthen corporate governance, and target strategic industries by strengthening supply chains and access to markets.

Inadequate infrastructure remains a constraint to the region's business growth, but the private sector is helping address the problem. This year, IFC's projects to support Russia's transport infrastructure included two investments to build cargo ships, with Volga Shipping and Northwest Shipping Company, and investments to increase the capacity of two rail shipping companies, Eurosibtrans and Russkiy Mir. In Ukraine, IFC supported two private electricity distribution companies (see box).

Access to finance remains a challenge, particularly for smaller companies. IFC continued to provide financing and know-how to strengthen local financial institutions, including one of Georgia's first leasing companies (see box). In Belarus, IFC made a loan to Belgazprombank; coordinated technical assistance funded by Sweden will strengthen the bank's operations. In Ukraine, IFC provided $35 million to Aval Bank, one of the country's largest locally owned banks. In Russia, IFC supported Sibakadembank's further growth in Siberia. We also provided a subordinated loan and a ruble-linked loan to a repeat client, Center-Invest in the Rostov oblast, allowing long-term ruble financing to the bank's small business clients. IFC lent to Moscow Credit Bank and continued to support Russian Standard Bank, with a $20 million ruble-linked loan. In addition, IFC targeted smaller borrowers through ruble-linked credits to the Russian Women's Microfinance Network. IFC leveraged its long experience in corporate governance advisory services, launching projects with Russian and Ukrainian banks.

IFC complemented its work with local banks by supporting two global clients that are active in building banking and leasing services throughout Eastern Europe. Raffeisen International will expand its subsidiaries in Belarus, Russia, and Serbia and Montenegro, while Societe Generale will direct our funding to subsidiaries in Russia and Ukraine.

Housing finance is another priority for IFC. Our efforts in Russia include mortgage credit lines, a Dutch- and Swiss-funded advisory program to help develop a primary mortgage market, and ongoing work with the Russian government on securitization transactions (see box). In Latvia, IFC structured and brought to market the first cross-border sale of notes

COURTESY OF KUAZ

Russia: Better Governance Attracts Investment

Kuibyshevazot Joint Stock Company produces chemicals for artificial fibers and engineering plastics. Based in the Samara region, 600 miles southeast of Moscow, it is also one of Russia's leading producers of nitric fertilizers. It has a good reputation in the market and in the community where it operates.

In 2002, when the company's management enrolled in a corporate governance program run by IFC's Private Enterprise Partnership with funding from the Netherlands and Switzerland, they realized that to attract international long-term financing at competitive rates, the company needed to align its corporate governance with global best practice. Drawing on IFC's advice, Kuibyshevazot's management and shareholders developed a plan to upgrade corporate governance practices throughout the company.

These efforts have made the company a regional leader in corporate governance while forming the foundation for a deeper relationship with IFC. As part of helping the company prepare for international financing, we assisted with an environmental audit, which led to an integrated health, environment, and safety management system that the company is now putting in place. This year IFC provided a $15 million corporate loan to Kuibyshevazot to refinance a local currency bond and finance the company's capital expenditure program. Several international banks active in Russia have also expressed interest in working with the company.

Building the Russian Dream

With 144 million people, Russia is potentially Europe's largest market for mortgage finance. Developing this market could raise living standards while helping Russians realize their dreams of owning a home. Over several years IFC has become the country's largest financier of housing finance, with investments topping $245 million. We have provided credit lines to leading housing finance institutions—including Credit Bank of Moscow in FY05—that are bringing modern practices to bear on a nascent market.

This year IFC also launched a technical assistance project to help develop further Russia's market for primary mortgages. It will work closely with up to five Russian banks, helping them implement international best practices in mortgage origination, underwriting, and servicing, then following up with credit lines. IFC will also train other banks and providers of mortgage-related services as well as advise government agencies.

To make affordable financing for mortgage lending more available to financial institutions, IFC is promoting securitization through a partnership with market participants and the Russian parliament. IFC spearheaded a technical working group that has identified key legal obstacles to securitization transactions and developed recommendations for overcoming them. Russia's Federal Service for Financial Markets, a government agency, is now drafting legislation based on these recommendations, with additional input from the working group.

FABIANA FELD

backed by mortgages, increasing the financing available to final borrowers in the region. This transaction was precedent-setting in the region, with strong potential for replication in other countries. In Belarus, at the request of the National Bank, IFC organized a seminar on mortgage finance, including discussion of international experience and best practice.

IFC provided equity support to local companies through investments in three funds this year: Russia Partners, a venture capital fund; Quadriga Capital, a private equity fund that invests in midsize companies in St. Petersburg and Nizhniy Novgorod; and Baring Vostok Private Equity Fund, which works with local Russian companies. In addition, the Corporation lent ABOLmed $8 million to produce antibiotics in Novosobirsk. IFC joined with foreign investors to support the processing of one of Russia's major natural resources—wood products—through two investments in particleboard lines.

Agribusiness, an important sector for Ukraine's economy, remained a priority for investment and advisory services there. IFC made a second investment of $80 million in the leading Ukrainian poultry company, Mironovsky, to help expand operations and lower costs. With the second investment, IFC will help Mironovsky improve its corporate governance, prepare for an initial public offering, and further strengthen its food safety program. Apart from this large investment, IFC targeted the vegetable, fruit, and dairy sectors in Ukraine with new advisory projects funded by Sweden and Austria. Through these projects, over the next three years IFC will provide advice and training to small and midsize farms to improve their efficiency and ability to meet a growing demand from food processors for high-quality products.

Ukraine: Recharging the Electricity Sector

Ukraine emerged as the fastest-growing economy in Eastern Europe during 2004, but its aging infrastructure poses a barrier to sustaining this growth. The challenges facing the electricity sector, for example, include deteriorating power plants and power lines, poor reliability, high losses during transmission, nonpayments, and a lack of investment. IFC is helping turn this sector around.

In 2001, Ukraine privatized several electricity distribution companies, and the government is continuing to reform and privatize the sector. This year IFC invested in two of these distribution companies, Kyivoblenergo and Rivneenergo. Both majority-owned by AES Corporation, the companies serve 1.4 million customers in the Kyiv and Rivne regions and cover a combined service area of nearly 50,000 square kilometers. IFC's $45 million loan to Kyivoblenergo and Rivneenergo will help them reduce electricity losses, refurbish their network equipment, and increase network capacity in high-growth areas. The companies will also improve their overall management efficiency by investing in modern communication systems and information technology. The investment will ensure a more reliable energy supply and better service to 3 million customers, and it should help power Ukraine's further growth.

JOUNI EERIKAINEN

Latin America and the Caribbean

Project Financing and Portfolio

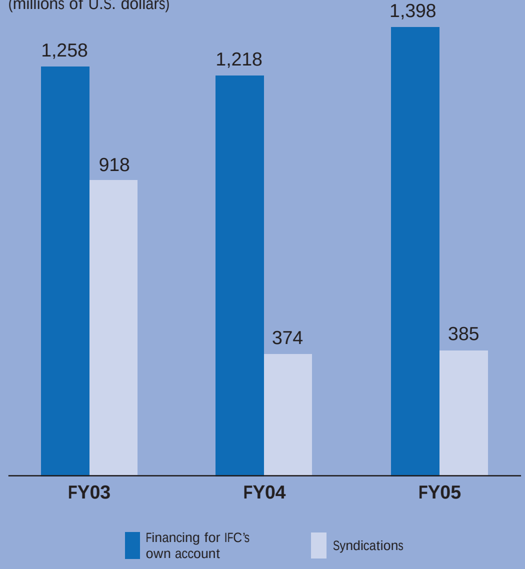
(millions of U.S. dollars)

	FY03	FY04	FY05
Financing committed for IFC's account	1,258	1,218	1,398
Loans	1,147	1,119	1,221
Equity	63	60	75
Guarantees and risk management	47	39	103
Loan syndications signed	918	374	385
TOTAL COMMITMENTS SIGNED	**2,176**	**1,593**	**1,783**
Committed portfolio for IFC's account	6,145	6,076	6,125
Loans	4,963	5,033	5,113
Equity	1,099	928	799
Guarantees and risk management	82	115	213
Committed portfolio held for others (loan participations)	3,447	2,504	2,179
TOTAL COMMITTED PORTFOLIO	**9,592**	**8,580**	**8,305**

Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.

Commitments

(millions of U.S. dollars)



IFC's Largest Country Exposures

Committed portfolio for IFC's own account as of June 30, 2005*
(millions of U.S. dollars)

Brazil	1,398
Mexico	1,104
Argentina	731
Colombia	387
Peru	320

*Excludes individual country shares of regional and global projects.

Project Commitments and Countries

	FY03	FY04	FY05
Number of projects	53	45	54
Number of countries	16	16	17

Some data from previous years have been revised. All dollar amounts reflect rounding.

ANTIGUA AND BARBUDA, ARGENTINA, THE BAHAMAS, BARBADOS, BELIZE, BOLIVIA, BRAZIL, CHILE, COLOMBIA, COSTA RICA, DOMINICA, DOMINICAN REPUBLIC, ECUADOR, EL SALVADOR, GRENADA, GUATEMALA, GUYANA, HAITI, HONDURAS, JAMAICA, MEXICO, NICARAGUA, PANAMA, PARAGUAY, PERU, ST. KITTS AND NEVIS, ST. LUCIA, TRINIDAD AND TOBAGO, URUGUAY, REPÚBLICA BOLIVARIANA DE VENEZUELA

An Economic Rebound amid Major Challenges

The economy of Latin America and the Caribbean is rebounding significantly from years of crisis. Growth was 6 percent during 2004—up sharply from 1.9 percent the previous year—and it has remained strong into 2005, reflecting an upswing in exports of commodities to China, a growing U.S. economy, and effective fiscal and debt management that has lowered country risks. But the region continues to face major challenges. It compares unfavorably with other emerging markets in investment climate, domestic financial sectors, infrastructure, and social tensions. These factors have hampered the development of a broad-based private sector, and the benefits of growth have yet to reach poorer segments of the population. Having responded to the region's crisis with countercyclical interventions in the last few years—supporting export-earning projects in Argentina, for example, and helping reactivate trade financing in Brazil—IFC has now refocused its activities on providing longer-term funding and selecting projects with a broader impact on social and economic inclusion. Throughout, we have emphasized competitiveness, support to high-growth industries, and helping the region's firms become global players.

During FY05, IFC committed $1.4 billion, including $385 million in syndications, in the region, with an emphasis on sectors that have a high impact on poverty alleviation and economic competitiveness. IFC continued to find creative ways to maximize its impact, partnering with clients, nongovernmental organizations, donors, host governments, and local communities, as well as increasing our collaboration across the World Bank Group. The Corporation was able to reach underserved segments of the economy, particularly lower-income housing; micro, small, and medium enterprises; and indigenous groups. We also helped corporates face many challenges posed by globalization: the need to deepen local capital markets, improve corporate governance, become more competitive globally, and address environmental issues (see box).

Technical assistance is a key component of IFC's work in the region. We are using our LAC Facility, IFC's advisory services on privatization, and teams specializing in the development of smaller businesses. These efforts, many of which are donor-funded, are resulting in streamlined business regulations (see box), improved access to markets, more socially responsible enterprises, and stronger competitiveness in small businesses. In Brazil, Colombia, and Peru, IFC is collaborating with the World Bank to deliver on specific findings of the *Doing Business* report, which pinpoints ways to improve the business environment. Technical assistance is also supporting IFC's investments in strategic industries—oil, gas, mining, and agribusiness—sectors where we often have unique expertise to offer our clients. The Corporation is advising on several privatization mandates, notably in Brazil and Panama.

Poor infrastructure remains a constraint to growth throughout the region. Underinvestment in the sector impedes economic activity, and in many countries, basic utilities are not available to poorer people. This year IFC financed three operations totaling $96 million in the energy sector, with an emphasis on environmentally friendly sources of energy and on reduction of harmful emissions. Recognizing that the region's exporters face bottlenecks and high costs, the Corporation also invested in transport and

COURTESY OF NEWMONT

logistics. Projects include ports in Brazil and Panama, airports in the Dominican Republic, and a logistics company in Peru. Our investments in two regional airlines, Copa and Taca in Central America, will help promote regional integration and competitiveness. We also lent $15 million for a telecommunications project in Paraguay.

IFC is also helping clients understand how sustainability fuels growth. Many companies are gaining business benefits from progress toward sound environmental practice, better corporate governance, and attention to social and economic development in the communities where they operate. In key industries, IFC is combining financial investments with assistance in community engagement and in local capacity building for efficient use of fiscal revenues; the Yanacocha project in Peru is a good example (see box). In this project and others, IFC is addressing the specific issues and challenges of projects in the extractive industries as part of our comprehensive commitment to sustainable development. This year we also financed two oil and gas projects in Bolivia and Venezuela.

IFC is introducing innovative financial products into local capital markets, giving clients new sources of long-term financing while helping them avoid foreign exchange risk. This approach is allowing us to make a difference in the social sectors: this year, we partially guaranteed a seven-year bond in U.S. dollars and Peruvian soles to Universidad San Martin de Porres, a leading private higher education institution in Peru. In addition,

COURTESY OF EMBRAER

Latin American Corporates Go Global

IFC works with first-tier companies in the region's larger countries when we can help them become more competitive in the global marketplace. We assist in long-term finance, advise on corporate governance and environmental performance, and encourage firms to invest in other emerging economies. Through all these efforts, IFC promotes greater development impact.

Empresa Brasileira de Aeronáutica (Embraer), a Brazilian company listed on the New York Stock Exchange, is among the world's largest aircraft manufacturers and Brazil's second-largest exporter. But due to perceived country risk, Embraer—like other top-rated Brazilian borrowers—has limited access to loans in the international market with tenors of five or more years. This is a constraint to growth in an industry whose product cycle is up to 10 years. IFC's $180 million loan package, which includes $145 million in long-term funding from participating banks, is financing the end-stage launch program for Embraer's new 170/190 series passenger airplanes. This will help the company consolidate its position as a global player and diversify its funding base.

IFC is also helping Embraer reduce its emissions of volatile compounds and integrate international reporting standards into its internal financial monitoring. In addition to the benchmark loan tenor, our due diligence and ongoing business relationship with Embraer contribute to the company's establishing itself in the global debt markets.

This year IFC also provided a $50 million loan to Carvajal, one of the leading privately owned Colombian multinationals. Carvajal, a socially responsible company, operates in 17 countries across Latin America; its business lines include paper manufacturing, school and office supplies, plastic packaging, and publishing. IFC's loan supports Carvajal's further expansion in the region, helping it improve efficiency and upgrade its environmental standards.

MATTHIAS HEDINGER

An Ongoing Commitment to Microfinance

IFC's portfolio of microfinance investments in Latin America and the Caribbean covers countries as varied as Bolivia, El Salvador, Haiti, Mexico, Nicaragua, and Peru. These include key investments in specialized, privately managed funds that operate on a regional level. Our efforts emphasize activities and transactions that effectively connect microfinance institutions with financial and capital markets, and we are developing and working with private sector investors and funds that have a focus on microfinance. We are also responding to the demand among microfinance institutions for innovative investment structures, including bond issues and securitizations, that allow them to reach new groups of investors such as local pension funds.

This year, IFC invested $430 million in three microfinance operations in Brazil, Chile, and Mexico. By developing creative structures and instruments and partnering with bilateral institutions, multilaterals, and NGOs, we are reaching out to entrepreneurs in segments traditionally excluded from the formal economy, including women, indigenous groups, and people in rural areas.

An investment in Mexico's Financiera Compartamos is a key example. With IFC's help, Compartamos has closed a bond transaction that greatly improves its access to financing from institutional investors. Some 300,000 Mexican small businesses, the vast majority of them run by women, rely on microloans from Compartamos, which is registered in Mexico as a *sofol*, a nondeposit–taking financial institution. The company's ability to tap the markets is critical for its expansion. In July 2004, Compartamos issued five-year, Mexican peso bonds equivalent to $15 million. The issue was partially guaranteed by IFC for 34 percent of the outstanding principal amount. Our guarantee helped the bond issue achieve high ratings from both Standard & Poor's and Fitch. The transaction was named the Best Structured Bond of the year by *LatinFinance*.

COURTESY OF TCL

The Caribbean: Benefiting Business and the Environment

IFC is helping ensure that projects with broad environmental benefits are commercially viable in emerging markets. In line with our pledge to increase lending for renewable energy, IFC has provided $23 million to Consorcio Energetico Punta Cana-Macao SA, a small, off-grid private utility company serving the Bavaro and Punta Cana districts in the Dominican Republic. The project will include construction, operation, and maintenance of an 8.25-megawatt wind power plant to be located at Cabo Engano. By using a clean, sustainable resource rather than burning fossil fuels to produce electricity, the plant will avoid 17,000 tons of carbon emissions per year over the 20-year life of the project. The project is expected to demonstrate the viability of wind power in many emerging markets.

IFC is also assisting Trinidad Cement Limited, the only integrated cement producer in the English-speaking Caribbean, as it expands and modernizes its Jamaican subsidiary. In addition to lending $35 million, we helped the company arrange local financing, including a bond issue in Trinidad and Tobago dollars and a syndicated loan. The funding will enable the company to raise its environmental performance, with improvements in the production process reducing carbon emissions by more than 100,000 tons per year. This reduction should make the company eligible for carbon credits under the IFC-Netherlands Carbon Facility.

COURTESY OF NEWMONT (3)

IFC uses local swap markets to structure direct local currency loans and hedges to clients; we work closely with market counterparts in Latin America to extend the maturity and liquidity of these swap products.

During FY05, IFC committed $622 million for 21 financial sector projects in areas including finance for micro, small, and medium enterprises (see box); housing finance (see box, p. 13); financial restructurings; and regional banking. Our efforts to develop local capital markets and expand financing options for local corporations included an IFC guarantee to Corporacion Drokasa S.A. in Peru; our participation helped ensure a triple-A credit rating for the bond. In another innovative transaction, financing we arranged for a cement company includes a bond that raised $50 million equivalent in Trinidad and Tobago (see box). A credit line to Brazil's Banco Real allows it to target some of its lending specifically to companies that are improving their environmental sustainability (see box).

IFC committed $217 million for five projects that support housing finance to lower-income families, as well as the deepening of local capital markets. In addition, we are using technical assistance to improve access to housing finance: through a program funded by Canada and Italy, we are working to integrate primary mortgage markets in Central America and supporting Peru's Fondo Mivivienda in developing a domestic market for secondary mortgages.

Peru: Broader Benefits from Mining

IFC is helping companies in the mining sector upgrade their social and environmental performance so that more local people benefit. In addition to financing, we are providing training and technical assistance that build stronger ties between these companies and surrounding communities, as well as to the smaller businesses that can serve as suppliers of goods and services. The goal is to promote sustainable economic development around the mining projects in which we invest. In Peru, for example, IFC and the World Bank are strengthening local municipalities' capacity to manage funds that the Yanacocha mine generates, as well as helping disseminate information on the mine in order to increase transparency and accountability. Working through local NGOs and service providers, we have helped local small and medium enterprises improve their business skills and their access to finance—in some cases expanding their role as suppliers to the mine. With IFC's encouragement, the Yanacocha mine has set up a foundation that is undertaking broader community development programs in health care, education, agriculture, forestry, and microfinance. Yanacocha also supports directly an extensive rural development program for communities near the mine.

Brazil: A Long-term Partnership Promotes Sustainability

IFC has committed a $115 million credit line to Brazil's ABN AMRO Banco Real that supports long-term on-lending targeted to sustainability. The funding will finance firms for environment-related projects as well as small and medium enterprises whose work addresses climate change, loss of biodiversity, land degradation, and persistent organic pollutants. A long-time IFC client, ABN AMRO was one of the original adopters of the Equator Principles—voluntary standards based on IFC's environmental and social guidelines. And now its Brazilian operation, Banco Real, is the world's first financial institution to target a large IFC credit line specifically to advancing environmental sustainability. The investment lets Banco Real focus on middle-market, family-owned companies in Brazil. Funding from IFC's credit line is expected to encourage a wide range of reforms that promote sustainability in these companies.

MARCY VIEIRA

Reducing the Hurdles to Registering a Business

Local governments are a first point of interaction for many businesses, and they tend to impose a high administrative burden. Hence IFC's LAC Facility is working to simplify regulatory procedures, especially business registration at the municipal level. Starting with a pilot in Bolivia's capital, La Paz, the facility's business simplification work has grown within two years into a regional program, allowing a common methodology and sharing of expertise across countries while still tailoring assistance to the specific needs of the client. The facility has helped simplify administrative procedures in Bolivia, Honduras, and Nicaragua and is expanding this effort to Brazil and Peru. By making it simpler to register a business, these reforms encourage more businesses to comply. While increasing revenues for municipalities, the simpler procedures also bring more micro, small, and medium enterprises into the formal economy, making it easier for these entrepreneurial businesses to access finance.

COURTESY OF MERLON EGYPT

Middle East and North Africa

Project Financing and Portfolio

(millions of U.S. dollars)

	FY03	FY04*	FY05**
Financing committed for IFC's account	287	236	315
Loans	164	186	257
Equity	0	13	20
Guarantees and risk management	123	37	38
Loan syndications signed	0	0	0
TOTAL COMMITMENTS SIGNED	**287**	**236**	**315**
Committed portfolio for IFC's account	1,337	1,144	1,210
Loans	803	840	926
Equity	253	191	161
Guarantees and risk management	281	113	123
Committed portfolio held for others (loan participations)	837	739	664
TOTAL COMMITTED PORTFOLIO	**2,174**	**1,882**	**1,874**

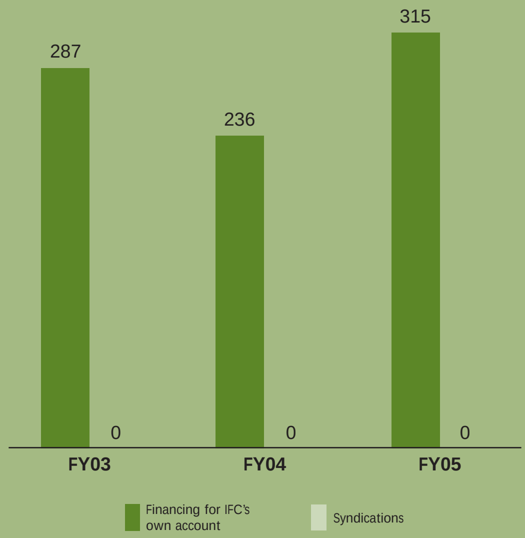
Loans include loan-type, quasi-equity products. Equity includes equity-type, quasi-equity products.

* Includes regional share of LNM Holdings, which is officially classified as a global project.

** Includes regional shares of BAPTFF and Melrose Facility, which are officially classified as global projects.

Commitments

(millions of U.S. dollars)



IFC's Largest Country Exposures

Committed portfolio for IFC's own account as of June 30, 2005*
(millions of U.S. dollars)

Pakistan	315
Egypt	297
Oman	105
Morocco	80
Algeria	72

*Excludes individual country shares of regional and global projects.

Project Commitments and Countries

	FY03	FY04	FY05
Number of projects	17	18*	21**
Number of countries	6	7	8

*Includes LNM Holdings.
**Includes Melrose Facility.

Some data from previous years have been revised. All dollar amounts reflect rounding.

AFGHANISTAN, ALGERIA, BAHRAIN, ARAB REPUBLIC OF EGYPT, ISLAMIC REPUBLIC OF IRAN, IRAQ, JORDAN, KUWAIT, LEBANON, LIBYA, MOROCCO, OMAN, PAKISTAN, SAUDI ARABIA, SYRIAN ARAB REPUBLIC, TUNISIA, UNITED ARAB EMIRATES, WEST BANK AND GAZA, REPUBLIC OF YEMEN

Building Capacity in the Private Sector

Fiscal 2005 saw major changes in the way IFC operates in the Middle East and North Africa. With the launch of the Private Enterprise Partnership for the Middle East and North Africa (PEP-MENA), the Corporation now has the capacity to provide a wide range of technical assistance throughout the region in addition to traditional financing. IFC's field presence also broadened, with new offices in Jordan, the United Arab Emirates, and the Republic of Yemen.

IFC's strategy aims to address the main challenges of the region, including employment creation and increased investment, in order to accelerate growth and create more open economies. IFC is focusing on highly developmental sectors, including housing and development of smaller enterprises, with about 40 percent of FY05 commitments in these sectors. IFC is using technical assistance, separately or in combination with long-term capital, to reach our goals and to introduce best practices in the region.

Our investment program is broad-based and includes the financial sector, manufacturing, oil and gas, education, agribusiness, and infrastructure. Our efforts in higher-risk countries, including Afghanistan and Iraq, emphasize the financial sector and other basics of private sector development. Our Dubai office is helping mobilize private resource flows from the capital-surplus countries of the Persian Gulf to the region's FDI-seeking economies and beyond.

Launched formally in October 2004 and largely donor-funded, PEP-MENA focuses on the financial sector, small and medium enterprises, the business enabling environment, public-private partnerships, and the privatization or restructuring of state-owned enterprises (see box). Building on earlier initiatives to support the region's smaller businesses, the partnership has initiated programs in many countries, from frontier to more developed markets, and is assessing possibilities for others throughout the region.

IFC invested $315 million for its own account in 21 projects during FY05, across a number of sectors. In the financial sector, we provided support for housing finance, notably in Saudi Arabia (see box) and Oman; other investments focused on small and medium enterprises, insurance, and banking. IFC's $45 million to Oman's Alliance Housing Bank, the first institution of its kind in the Gulf states, will be accompanied by capacity-building technical assistance from PEP-MENA. The Corporation committed its first investments in Iraq, with pioneering projects in the financial sector; we also launched the first bond issue by a supranational in Morocco (see box).

In infrastructure, IFC's activities increased in FY05, reflecting greater business development efforts, particularly for advisory services. We expanded our investment in the port sector of Pakistan and undertook advisory assignments in power distribution. Other advisory projects included an airport terminal in Saudi Arabia (see box) and, in Morocco, the world's first public-private partnership for irrigation. Here a Moroccan-led private consortium will join with the government to provide water for citrus farming; the project will establish a significantly lower tariff than farmers now pay for use of rapidly depleting groundwater.

Saudi Arabia: Upgrading a Key Airport Terminal

IFC is advising Saudi Arabia's aviation authority on private sector participation to expand and rehabilitate the Hajj Terminal at the King Abdulaziz International Airport in Jeddah, which is used by Muslims visiting the holy city of Mecca during the *hajj* and *umrah* pilgrimages. The *hajj* season takes place over a six-week period, creating unusually heavy air traffic in a concentrated time frame. Given the number of pilgrims to be accommodated and the diverse requirements of the *hajj*, the facility was designed and built in 1981 to function much like a large village in the range of services it provides. With improvements in air transport, the number of pilgrims has grown significantly, reaching an estimated 2.5 million people in 2004. The terminal's facilities have become inadequate, and its capacity is constraining the growth of the pilgrimage itself.

To alleviate this situation and accommodate future growth, the aviation authority has enlisted IFC's help to bring in the private sector under a "build then own" scheme. The project represents the first large-scale private sector involvement in an air terminal in the Middle East. The Saudi government intends to use the Hajj Terminal as a model for private sector participation that can be replicated at other airport terminals in the country.

TOREK FARHADI

The engagement in Iraq's banking sector demonstrates how the technical assistance provided by PEP-MENA complements IFC's investment program. Here PEP-MENA joined with the Arab Academy for Banking and Financial Services to conduct in-depth training for Iraqi bankers. This five-month initiative was geared to operating-level staff and focused on retail banking, risk management, credit appraisal, and other key topics. It was followed by a strategy seminar for senior managers of Iraqi banks. During the year, IFC also committed its first investment in Iraq's banking sector, an equity investment in Credit Bank of Iraq, together with the National Bank of Kuwait. Credit Bank was one of the participants in the PEP-MENA training, and the funding will help it contribute to the reconstruction effort in the country. IFC also invested in the first subproject of the Iraq Small Business Finance Facility, a donor-funded program that allows us to provide financing and technical assistance to local Iraqi banks (see box).

IFC investments in Iran's financial sector this year include two credit lines to private Iranian banks, Karafarin Bank and Saman Bank, for on-lending to private companies. Through this project and a related technical assistance program—the first of its kind in Iran in 25 years—market-based practices in banking and risk management will be introduced to these nascent private sector banks. Like much of Iran's economy, banking has been heavily dominated by the public sector. Hence IFC's credit lines have a

Morocco: An Innovative Bond Issue in Local Currency

IFC broke new ground in the region this year with innovative financial transactions. The Corporation became the first supranational to launch a bond issue in the African continent or the Middle East. The bond, denominated in Moroccan dirhams and launched in Morocco's domestic capital market, will help develop that market and will provide a benchmark for future bond issuers. The issue was for seven-year bonds totaling 1 billion dirhams (equivalent to about $117 million). The bonds were targeted to domestic institutional investors, and the transaction was listed on the Casablanca Stock Exchange. More than 20 investors, including insurance companies, mutual funds, and pension funds, purchased the paper. The success of the issue shows how far Morocco has come in instituting structural reforms in its local financial markets. IFC worked closely with Moroccan authorities for two years to bring this transaction to fruition. The results demonstrate the effective partnerships IFC can establish with governments to support capital market development.

PEP-MENA

REEM HAMDY

PEP-MENA: Greater Impact through Technical Assistance

IFC's Private Enterprise Partnership for the Middle East and North Africa is a new technical assistance facility that supports private sector development in all countries of the region. Its broad program activities include assistance to the financial sector, development of small and medium enterprises, advice on privatization and the business enabling environment, and support for public-private partnerships.

PEP-MENA is increasing access to finance for smaller companies through its advisory program for commercial banks, with assignments underway in Algeria, Egypt, Morocco, Saudi Arabia, and Tunisia. PEP-MENA is helping Afghanistan's first leasing company standardize its underwriting procedures and internal controls and is working with the Central Bank of Yemen to review the country's leasing law. The facility is conducting a survey of corporate governance practices at Lebanese banks and has begun advising these institutions. It is collaborating with FIAS on a study to reduce administrative barriers to business in Egypt, as part of a World Bank Group investment climate assessment; this work will inform further technical assistance and provide a model for efforts in other countries.

In Jordan, Oman, Saudi Arabia, the West Bank and Gaza, and Yemen, the facility is also rolling out Business Edge, IFC's management development program for small and medium enterprises. The program supports local organizations that provide management training to meet the needs of smaller businesses.

KEITH MARTIN

significant demonstration effect, encouraging other international financial institutions to invest in the country's private banks.

Also in Iran, IFC invested in Karafarin Leasing Company. We consider leasing a priority for many countries in the region, since it is well suited to the financing of smaller businesses, compatible with Islamic finance, and a sector in which IFC has extensive knowledge and global experience. This year a Pakistani leasing company, ORIX Leasing Pakistan, joined IFC and other partners in an interregional investment in Kazakhstan (see box, p. 19). We also cosponsored a conference on leasing with Yemen's central bank.

Supporting our goal to foster private sector investment in health and education, IFC invested in the International School of Choueifat for a school being built in Adma, Lebanon. The new school will be the flagship for Intered, a Lebanese education company that owns the Choueifat schools across the region and in the West.

Saudi Arabia: IFC Helps Fund Islamic Home Financing

IFC is providing its first-ever funding for a Murabaha facility, an Islamic finance product, through a transaction with Saudi British Bank. Our investment of 187.5 million Saudi riyals (equivalent to $50 million) will support the growth of the bank's Islamic home financing portfolio. The project is a key element of IFC's effort to encourage development of a viable housing finance market in Saudi Arabia; we aim to catalyze the country's primary mortgage market and to provide technical and advisory services to local authorities as needed. IFC seeks to replicate this innovative approach across the region, increasing access to housing finance for low- and middle-income individuals. This is also IFC's first use of the World Bank's national currency paid-in capital to fund a project.

Iraq: Lending Targets Smaller Businesses

This year IFC and our partners committed $12 million to the Iraq National Bank under the Iraq Small Business Finance Facility, which supports development of micro and small businesses in the country through local financial intermediaries.

IFC is contributing up to $50 million to the facility for on-lending to smaller businesses, along with $40 million in donor funding from Japan, Spain, the United Kingdom, and the United States. Technical assistance will develop the capacity of local Iraqi banks, so that they can operate on a modern, transparent, and financially sound basis and develop their lending to smaller enterprises. By providing these partner banks with long-term resources to on-lend, the facility will help put entrepreneurial businesses back on their feet and create jobs in the private sector.

The Iraq National Bank has entered into a joint venture with the Export and Finance Bank of Jordan, which has assumed management responsibility. The project is expected to have a very strong developmental impact, improving the lives of ordinary Iraqis by helping them acquire new capital assets for the businesses they run.

ISBFF

Report on Operations

Investment Operations

COURTESY OF NEWMONT

Overview

In FY 2005, 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 or low-income countries was nearly 28 percent.

Investment Commitments

IFC signed investment commitments of $6.45 billion in FY05, including $5.37 billion for its own account and $1.08 billion in syndications, compared with $5.63 billion in IFC commitments for FY04, which included $4.75 billion for its own account and $879 million in syndications. IFC provides a range of products and services for clients, including loans, equity, quasi-equity, structured finance, and risk management products that are funded through IFC's own financial resources. It also syndicates participations in its loans to international financial institutions. Of the investment commitments IFC signed for its own account, $4.54 billion were for loan agreements (including loan-type quasi-equity), $612 million were for equity investments (including equity-type quasi-equity), $216 million were for guarantees, and $4 million were for risk management products. Based on the total project costs of our FY05 projects, each $1 in IFC commitments for our own account resulted in an additional $3.38 in funding from other sources.

We committed a total of 236 projects in 67 countries, compared to 217 projects in 65 countries in FY04. Our investment portfolio at June 30, 2005, included $19.3 billion for IFC's own account and $5.3 billion in syndicated loans held for others. We added 174 companies to our portfolio this year, and 176 companies left the portfolio. Investment projects are detailed in the regional sections and listed in our project tables in Volume 2.

Syndication and Resource Mobilization

IFC's syndications play a key role in mobilizing private sector finance in emerging markets, where tenors are generally limited to shorter maturities and market access is open primarily to top-tier companies in middle-income countries. Our B-loan program helps clients secure more favorable financing, often through landmark transactions. Signings of new B-loans totaled $1.08 billion in FY05, compared with $879 million in FY04. In addition, IFC mobilized $65 million for the market by selling existing A-loans through the B-loan program. As of June 30, 2005, IFC's syndicated loan portfolio was $5.3 billion in 204 projects.

In Brazil, Embraer raised $145 million with tenors of up to 10 years, the longest maturity for a private corporate loan achieved in the country for many years. In Bolivia,

IFC's Largest Country Exposures

Committed portfolio for IFC's own account as of June 30, 2005*
(millions of U.S. dollars)

Russian Federation	1,432
Brazil	1,398
India	1,268
Mexico	1,104
China	999
Turkey	981
Argentina	731
Indonesia	494
Philippines	480
Nigeria	419

* Excludes individual country shares of regional and global projects.

IFC Operations

(millions of U.S. dollars)	FY01	FY02	FY03	FY04	FY05
OPERATIONS					
Investment commitments					
Number of projects[1]	201	203	204	217	236
Number of countries	73	76	64	64	67
Total commitments signed[2]	3,934	3,494	5,037	5,632	6,449
For IFC's own account[2]	2,734	2,957	3,856	4,753	5,373
Held for others	1,201	518	1,181	879	1,076
Investment disbursements					
Total financing disbursed	2,370	2,072	4,468	4,115	4,011
For IFC's own account	1,535	1,498	2,959	3,152	3,456
Held for others	835	574	1,509	964	555
Committed portfolio[3]					
Number of firms	1,378	1,402	1,378	1,333	1,314
Total committed portfolio[2]	21,841	21,569	23,379	23,460	24,557
For IFC's own account[2]	14,311	15,049	16,777	17,913	19,274
Held for others	7,530	6,519	6,602	5,546	5,283

1. Includes first commitment to projects in the fiscal year. Projects involving financing to more than one company are counted as one commitment.
2. Includes loan guarantees and risk management products.
3. Total committed portfolio and held for others include securitized loans.
Some data from prior years have been revised. All dollar amounts reflect rounding.

Balance Sheet Highlights

(millions of U.S. dollars)	FY01	FY02	FY03	FY04	FY05
ASSETS					
Liquid assets, excluding derivatives	14,581	16,924	17,004	18,397	22,781
Net loan and equity investments	8,696	7,963	9,377	10,279	11,489
Derivative assets	1,143	1,077	1,734	1,092	1,516
Receivables and other assets	1,750	1,775	3,428	2,593	3,774
Total assets	26,170	27,739	31,543	32,361	39,560
LIABILITIES					
Borrowings outstanding	15,457	16,581	17,315	16,254	15,359
Derivative liabilities	1,768	1,576	1,264	1,549	2,332
Payables and other liabilities	2,850	3,278	6,175	6,776	12,071
Total liabilities	20,075	21,435	24,754	24,579	29,762
CAPITAL					
Capital stock	2,360	2,360	2,360	2,361	2,364
Retained earnings	3,723	3,938	4,425	5,418	7,433
Other	12	6	4	3	1
Total capital	6,095	6,304	6,789	7,782	9,798

Income Statement Highlights

(millions of U.S. dollars)	FY01	FY02	FY03	FY04	FY05
Interest and financial fees from loans	732*	547*	477	518	660
Interest from time deposits and securities	773*	493*	318	278	533
Charges on borrowings	–961	–438	–226	–141	–309
Net interest income	544	602	569	655	884
Net gains and losses on trading activities	87	31	157	–104	–175
Net income from equity investments	26	160	145	658	1,365
Release of/provision for losses on loans and guarantees	–206	–389	–48	103	261
Net noninterest expense	–210	–243	–295	–330	–344
Income before expenditures for TAAS	241	161	528	982	1,991
Expenditures for TAAS	—	—	—	—	–38
Operating income	241	161	528	982	1,953
Net gains/losses on financial instruments	11	54	–41	11	62
Cumulative effect of change in accounting principle	93	—	—	—	—
Net income	345	215	487	993	2,015

*Reclassified to conform to FY05 presentation.

COURTESY OF ASIAN COMMERCIAL BANK

Local Currency Financing

IFC uses local currency financing to help clients mitigate foreign exchange risk and to develop local capital markets. Using market-based instruments, IFC provides local currency debt financing in several forms: loans in local currency, risk management swaps that allow clients to hedge foreign currency liabilities back into local currency, and credit enhancement structures that enable clients to borrow in local currency from other sources.

To date, IFC has disbursed over $1 billion equivalent in local currency transactions through 39 loans and hedges in 10 currencies. In FY05, IFC committed its first local currency loans in Indonesian rupiah, Philippine pesos, and Turkish lira. This form of financing requires long-term derivatives markets, and IFC works closely with market counterparts and government regulators to extend the availability and liquidity of these markets.

IFC is at the forefront of domestic capital market development. Through its participation in the structuring and credit enhancement of transactions, IFC has helped introduce new asset classes. Transactions have not only enabled IFC's clients to secure attractive long-term local currency financing; they have also been catalysts for expansion of numerous domestic markets. IFC has completed 28 domestic market structured transactions for an exposure of $406 million equivalent and has assisted in mobilizing over $2 billion equivalent.

RICHARD LORD

Transierra was able to raise $100 million from the market at a time of political uncertainty; this was the first time we combined our B-loan product with expropriation insurance from a private sector provider. IFC syndicated a $65 million, six-year loan to Trakya Glass Bulgaria, part of the largest foreign direct investment in Bulgaria since 1989. In Russia, IFC completed its first acquisition financing syndication, enabling Orient-Express Hotels Ltd. to acquire a property in St. Petersburg.

Client Risk Management Products

IFC provides currency, interest rate, and commodity price hedging products to clients in emerging markets, who usually cannot access them because of credit or country risk. Through its Client Risk Management program, IFC combines its experience in risk management with its traditional role in credit intermediation. Because we can accept our clients' long-term credit risk, IFC can intermediate between them and derivatives markets. Clients who hedge using risk management products protect their financial positions. The transactions also improve the quality of IFC's investment portfolio.

In the 14 years since the program was established, IFC has committed 82 risk management projects in 32 countries. The transactions have hedged a notional amount of over $2.7 billion (the potential exposure or future risk of these transactions is a fraction of the notional amount). In FY05, the Corporation committed risk management transactions to provide interest rate hedging for Laredo, a raw sugar producer in Peru; for Merlon, an oil and gas producer in Egypt; and for Magadi Soda in Kenya.

Risk management products are offered to IFC customers solely for hedging purposes and not for speculation. IFC hedges its own market risk on these transactions and monitors exposure on an ongoing basis.

Structured Finance Products

During FY05, IFC continued to develop and execute structured finance solutions for clients, including partial credit guarantees and securitizations. These tools are part of IFC's broader strategy to build domestic capital markets; to provide clients with new forms of cost-effective financing, with an emphasis on long-term local currency funding; and to increase investment capacity in strategic asset classes, including loans to small businesses, mortgages, and trade finance.

This year IFC invested $218 million and mobilized a further $1.1 billion through 13 structured finance transactions. Innovations widely recognized in the financial industry include the first securitization of nonperforming loans in Latin America; the first cross-border securitization of residential mortgages in Central and Eastern Europe, in Latvia; the first structured bond from a microfinance institution, which was also IFC's first direct partial credit guarantee in Mexico (see box, p. 53); the first structured risk-sharing facility in the education sector, in Ghana (see box, p. 17); and the first domestic partial credit guarantee in the agribusiness sector, in Peru.

Technical Assistance and Advisory Operations

BEN O'BRIEN

Many of IFC's technical assistance and advisory services are detailed in the regional sections of this report.

A comprehensive listing of projects appears in Volume 2.

Overview

In addition to making investments, IFC provides technical assistance and advisory services that strengthen companies, financial institutions, and the government entities involved in the private sector.

In FY05 nearly one-third of IFC's staff were engaged in these efforts, in Washington and in the field. Much of this work is conducted through 24 facilities or programs managed by IFC but funded by partnerships with donor governments and other multilateral institutions. Facilities focus on either a region or a strategic aspect of development; they play a key role in carrying out IFC's emphasis on the business-enabling environment, smaller enterprises, corporate governance, and environmental and social development. 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. (See next page for a list of regional facilities.)

The Corporation is improving and strengthening the systems that support technical assistance and advisory projects. This effort is making it easier to share knowledge, measure performance, and evaluate results.

Trust Funds and IFC Funding

In addition to donor-funded facilities, IFC has set up trust funds with individual donor countries and agencies. These funds can be used to hire consultants with financial, legal, technical, or environmental expertise to work on specific projects; certain funds are tied to hiring citizens of the donor country.

Through FY05, the donor community provided cumulative contributions of $203 million to support the Technical Assistance Trust Funds program; this includes $17.8 million from IFC's own resources to date. Donors

ELENA CHUZHAKOVA

have approved more than 1,480 technical assistance projects through the program since its inception in 1988. Examples of projects funded this year include a feasibility study for a global home township program in El Salvador, development of consumer and small business banking in Mauritania, and assistance to two new commercial banks in Iran to strengthen their operational procedures, credit analysis, and risk management. A project in the Democratic Republic of Congo benefited the general business environment, improving smaller businesses' access to finance and information and consultancy services. Other projects the program funded are highlighted in the regional sections of this report.

This year, IFC also created the Funding Mechanism for Technical Assistance and Advisory Services, which designates a portion of the Corporation's retained earnings as a contribution to support donor-funded operations and other technical assistance and advisory projects. This improves the efficiency and strategic responsiveness of our technical assistance, especially for new initiatives. It also helps make IFC's spending on investments and donor-funded operations more separate and transparent, but it does not eliminate the need for donor funding of these activities. Using funds designated from FY04's earnings, funding was approved for 46 activities and projects to spend $225 million over a six-year period; spending in FY05 was $63 million.

IFC's Donor-Funded Facilities in Developing Regions

In addition to the regional facilities below, IFC operates facilities with a global focus on specific aspects of development, including—among others—foreign investment, privatization, and environmental and social development. A more comprehensive list of donor-funded operations precedes the table of Technical Assistance and Advisory Projects in Volume 2.

China Project Development Facility
Sichuan province, China

Latin America and the Caribbean Technical Assistance Facility
Bolivia, Honduras, Nicaragua, Peru

Mekong Private Sector Development Facility
Cambodia, Lao PDR, Vietnam

Pacific Enterprise Development Facility
Pacific islands

Private Enterprise Partnership
Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyz Republic, Mongolia, Russian Federation, Tajikistan, Ukraine, Uzbekistan

Private Enterprise Partnership for Africa
Sub-Saharan Africa

Private Enterprise Partnership for the Middle East and North Africa
Middle East and North Africa; includes Afghanistan and Pakistan

Private Enterprise Partnership for Southeast Europe
Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Moldova, Romania, Serbia and Montenegro

Program for Eastern Indonesia SME Assistance
Eastern islands of Indonesia

SouthAsia Enterprise Development Facility
Bangladesh, Bhutan, northeast India, Nepal

ELENA CHUZHAKOVA

A Snapshot of IFC's Technical Assistance and Advisory Services

Assistance to firms. Includes support to strengthen micro, small, and medium enterprises and to help establish supplier or distributor links between these businesses and larger companies.

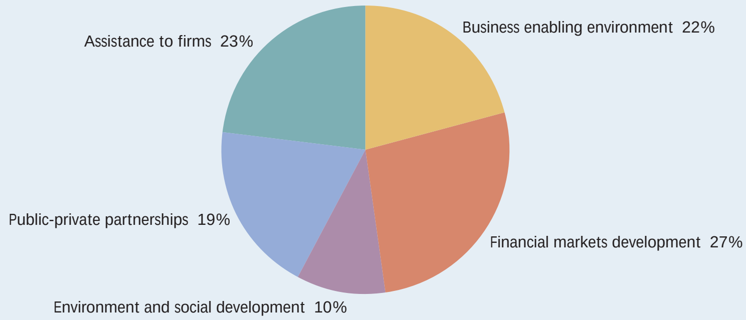
Business enabling environment. Includes removing barriers to investment, improving government policies for SME sector, strengthening business service providers, studying specific sectors, advising on corporate governance, and conducting gender initiatives.

Environment and social development. Includes benefits related to biodiversity, energy efficiency, HIV/AIDS, renewable energy resources, workforce health and safety, community development, and indigenous people.

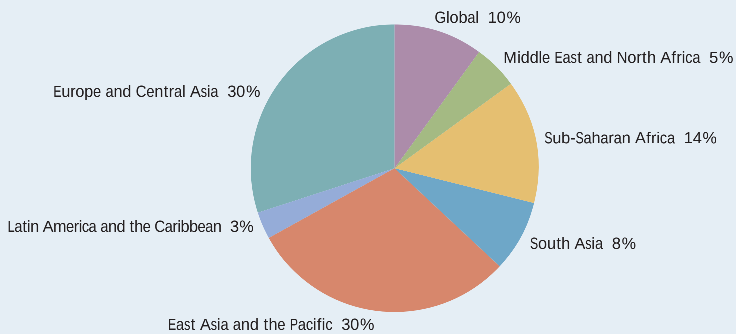
Financial markets development. Includes promotion of leasing, factoring, housing finance, insurance, banking, microfinance, and trade finance.

Public-private partnerships. Includes providing advisory assistance (primarily to governments) on privatization and restructuring of state-owned enterprises, and on private sector participation in infrastructure to expand access to public services (such as transportation, health services, and power).

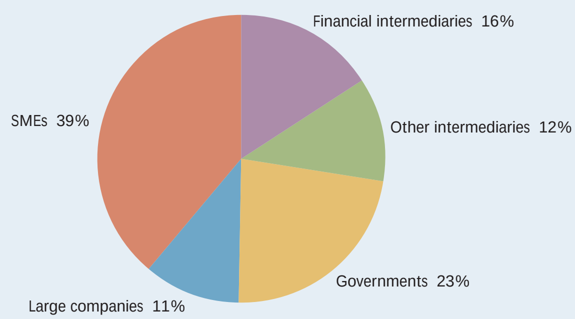
MAJOR AREAS OF TAAS WORK
(percentage of approved funds for active projects, FY05)



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.

Operations Evaluation Group

OEG independently evaluates IFC's investment projects and programs, as well as the Corporation's related strategies, policies, and procedures. OEG reports to IFC's Board of Directors, which discusses its evaluations. Many evaluations are carried out jointly with OEG's counterparts in the World Bank and MIGA.

In FY05, the Board discussed evaluations of IFC's project development facilities and the investment climate for private sector development. OEG also completed evaluations of IFC's operations in Pakistan, Romania, transition economies, and the leasing sector. OEG is working to harmonize evaluative standards and reporting so that stakeholders can compare the performance of various multilateral development banks according to appropriate and transparent standards. A working group of these institutions has established good practice standards, and IFC's evaluation system is considered the most consistent with these standards.

Findings from OEG's Annual Review

Each year, IFC's investment staff evaluate a representative random sample of investments that have reached operating maturity. OEG analyzes the results and presents its findings in its Annual Review. This year's review examined whether IFC is achieving its mission: to what extent it is promoting sustainable private sector investment in developing countries, helping reduce poverty and improve people's lives (see figure on opposite page). Key findings include the following.

An Upward Trend in Some Project Indicators

The trend since 2000 suggests an improvement in project success rates for development outcome, investment outcome, and IFC work quality. The environmental, social, health, and safety performance of evaluated real sector projects has not, however, improved in line with other development impacts, thus constraining development outcome quality. OEG has recommended that IFC move forward with the mainstreaming of environmental and social sustainability within investment departments, and management is making progress.

IFC Invested More, and Achieved Better Outcomes, in Its Strategic Sectors

Since making them a priority in 1998, IFC has steered its resources toward the financial markets, infrastructure, information technology, and social sectors, increasing their share of its total commitments to 55 percent in FY05. This growth was achieved primarily in the finance and insurance sectors. Overall, the evaluated projects in these strategic sectors have yielded higher-than-average success rates on development and investment outcome.

The Risk Profile of Recent Commitments Improved

New IFC commitments generally feature lower risk intensity than investments in the mature, evaluated sample that was approved in 1996–1998. This reduced risk resulted from external market conditions that have driven better business toward IFC, as well as from management's initiatives, introduced in 1998, aimed at enhancing work quality.

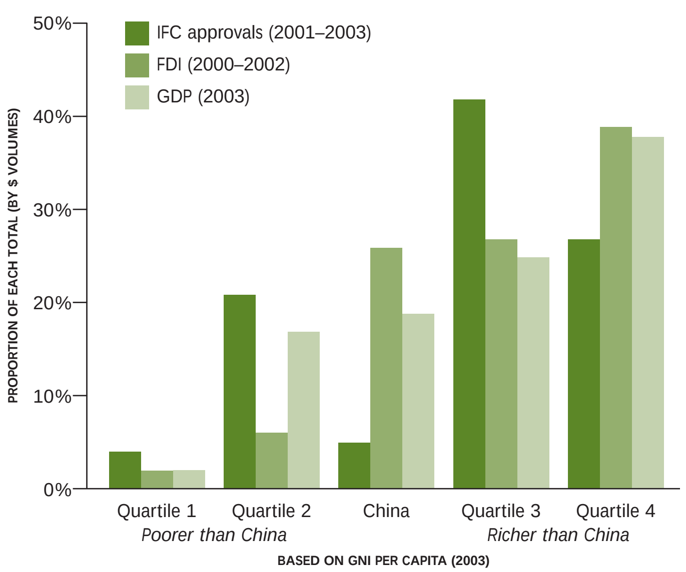
IFC Pursued Its Frontier Strategy

IFC first articulated its frontier country strategy in 1998, recognizing the need to stimulate capital flows in higher-risk countries and in pioneering or underserved sectors. Since then, IFC has successfully steered resources toward countries where its value added and poverty reach are greatest. IFC's investments are more concentrated in poorer countries, as compared to these countries' share of overall gross domestic product and foreign direct investment (see figure below).

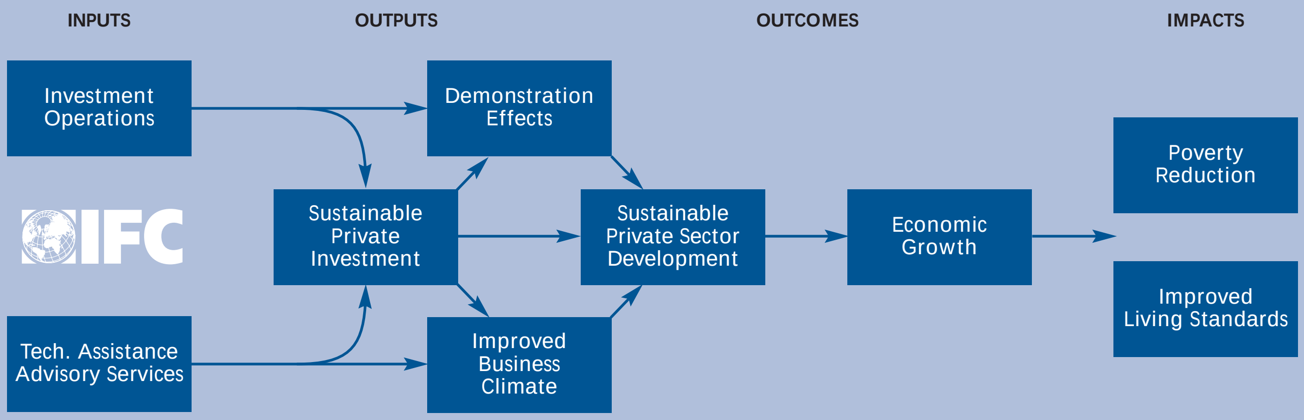
Historically, the best development and investment results have been achieved in countries that have improved their business climates and graduated into medium- or low-risk environments. As a result of this graduation, the frontier country group (high-risk or low-income countries) is now significantly smaller than it was in 1998, has less absorptive capacity, and receives a smaller share of private capital flows.

Further information on OEG can be found at: *www.ifc.org/oeg*.

IFC IS MORE CONCENTRATED IN POOR COUNTRIES THAN ARE GDP AND FDI



How IFC Operations Help Reduce Poverty and Improve People's Lives



A Project with a Highly Unsuccessful Development Outcome

The project was a pilot agency credit line serving wood processors and furniture manufacturers in a postconflict transition economy in Europe. These companies were previously part of a state-owned conglomerate that had collapsed, leaving the companies without financial, production, marketing, or sales support.

Project Business Performance: *Unsatisfactory.* IFC provided technical assistance to help the companies build management capacity in preparation for a planned privatization. This support proved insufficient to bridge their lack of expertise, and problems were compounded by difficult trading conditions. All the companies financed through the agency line consequently fell into financial distress.

Economic Sustainability: *Unsatisfactory.* The project aimed to regenerate the country's wood sector, which had traditionally benefited from skilled craftsmen and a natural supply of high-quality wood. None of the companies have proven a sustainable source of employment, tax revenues, or added value. Their expected contribution to postwar reconstruction has been limited.

Environmental Impacts: *Unsatisfactory.* The environmental performance of the companies did not meet prescribed standards. For example, one furniture manufacturer was found to be polluting local air quality, soil, and surface and underground waters.

Private Sector Development: *Unsatisfactory.* No privatization occurred due to lack of interest from domestic and foreign investors. Moreover, the agency line failed in its objective to help build expertise within the agent banks to support future private enterprise in the country.

A Project with a Highly Successful Development Outcome

The project was the installation of a new digital cellular network in an Asian country to provide 55 percent coverage by area and increase access to telephony services among poor rural communities. It aimed to provide a viable and affordable infrastructure in a country that had one of the lowest telephone density rates in the world and a waiting time of more than 10 years for a fixed telephone line.

Project Business Performance: *Excellent.* The project is a huge commercial success. Market uptake was overwhelming, and the company responded by making technical adjustments to its network, which doubled its capacity. After four years, the company has achieved a subscriber base of nearly half a million, more than twice the level anticipated.

Economic Sustainability: *Excellent.* The project has yielded outstanding returns to the economy, including taxes and duties paid to government, revenue-sharing payments to the regulator, license fees, and lease payments to a railway company for using its fiber-optic backbone. It has a village phone program that serves more than 50 million people nationwide and has become an effective model for increasing rural connectivity.

Environmental Impacts: *Satisfactory.* The company is committed to sound environmental, social, health, and safety performance and is in compliance with World Bank Group guidelines.

Private Sector Development: *Excellent.* The project increased competition in the cellular market, resulting in lower tariffs, increased range, and improved quality for users. It also provided essential infrastructure for more general private sector development. Its village phone program helped create microenterprises in rural areas by way of wireless pay phones owned and operated by local women.

Compliance Advisor/Ombudsman

The Office of the Compliance Advisor/Ombudsman is the independent accountability mechanism of IFC and MIGA, established in 1999 and reporting directly to the president of the World Bank Group. The CAO serves as an ombudsman who responds to complaints from people affected or likely to be affected by projects; as an auditor who assesses IFC's and MIGA's compliance with environmental and social safeguards; and as an advisor, who provides independent advice to the organizations' senior management and president on policies and systemic issues, including those that arise in the process of complaint investigations and compliance audits.

During FY05, the CAO's office received 10 new complaints and continued its work on ongoing cases. Complaints were received regarding projects in Botswana, Georgia, Guatemala, India, and Kazakhstan. To resolve complainants' issues and avoid future problems, the CAO uses a variety of methods, including mediation, negotiation, and fact-finding with project sponsors, IFC or MIGA management and staff, and affected persons. There was also one compliance audit completed during FY05.

The CAO makes its operational guidelines and all other public documents, including assessment reports on complaints received, available in print and online at *www.cao-ombudsman.org*. Most Web content is in English, French, and Spanish; the guidelines are available in these languages as well as in Arabic, Chinese, Portuguese, and Russian. The guidelines and Web site include a model letter to the CAO's office to assist people in filing a complaint.

KENJI YUHAKU

Financial Review

Operating income[1] in fiscal year 2005 was $1.953 billion, above the $982 million earned in FY04 and $528 million in FY03. Including a $62 million gain from derivatives and hedging activities, IFC's net income totaled $2.015 billion in FY05, compared to $993 million in FY04. Operating income in FY05 comprised income of $1.759 billion on the Corporation's client services operations (compared to $911 million in FY04) and income on treasury services of $194 million, after administrative expenses (above the $71 million treasury contribution in FY04). Overall, the Corporation's operating return on average net worth rose from 13.7 percent in FY04 to 22.6 percent in FY05.

The strong growth in profit on client services operations reflected significant realized gains on sales of investments, robust dividend income from the equity portfolio, stronger loan portfolio income, and the positive impact of a release of loss reserves in FY05. The loan portfolio generated operating income of $323 million in FY05 (after charges for non-accruals, specific loss provisions, internal administrative expenses, borrowing costs, and loan hedging costs). This follows an operating profit of $304 million in FY04.

The equity and quasi-equity portfolios—the portfolios funded from net worth—recorded operating income of $1.4 billion in FY05, significantly above $585 million in FY04. Capital gains realized on equity sales totaled a record $723 million in FY05, up from $381 million in FY04.

The liquid asset portfolios outperformed their investment benchmarks in FY05 and earned a positive return for the year. Reflecting a rise in U.S. Treasury yields, income from liquid assets rose to $194 million including $175 million of realized and unrealized trading losses (compared to $71 million and $104 million respectively in FY04).

New investment commitments for IFC's account amounted to $5.4 billion (including $220 million in signed guarantees), and an additional $1.1 billion in loan syndications were signed. The disbursed outstanding investment portfolio stood at $12.3 billion at June 30, 2005, about the same level as the year before. The Corporation's administrative expenses grew 12 percent to $403 million in FY05. As a share of the average disbursed investment portfolio, total administrative expenses rose to 3.3 percent in FY05, up from 3.0 percent in FY04. Administrative expenses include the grossing-up effect of certain revenues and expenses attributable to the Corporation's reimbursable program ($33 million in FY05, as compared with $34 million in FY04). IFC's borrowings continued to keep pace with its lending activities. New borrowings in the international markets totaled $2.0 billion equivalent in FY05.

IFC'S FINANCIAL PERFORMANCE HIGHLIGHTS
(millions of U.S. dollars)

	FY05	FY04
Client services—operating income	**1,759**	**911**
Loan—operating income	323	304
Equity/quasi-equity—operating income	1,425	585
Technical assistance	(8)	(7)
Contributions to facilities	(38)	(29)
Corporate charges and other	57	58
IFC treasury services—operating income	**194**	**71**
IFC treasury services—liquid assets	194	71
IFC operating income	**1,953**	**982**

Financial Performance of Major Product Lines

Disbursed and outstanding loans (excluding loan-type quasi-equities), or straight loans, rose 3 percent to $8.3 billion in FY05. IFC's loan portfolio recorded operating income of $325 million in FY05, compared to $304 million in FY04. Lower nonaccrual rates, higher recoveries of interest past due, stronger financial fee income, and a release of specific loss reserves all contributed to the improved performance of the straight loan portfolio. Operating income here was equivalent to a return of 22.7 percent of capital employed in FY05, unchanged from FY04.

The equity and quasi-equity portfolio (including loan-type quasi-equities), IFC's net worth funded portfolio, totaled $4.0 billion outstanding in FY05. This portfolio recorded a record operating income of $1.4 billion in FY05, compared to $585 million in FY04, because of significant capital gains from sales of equities, strong dividend income, and changes in carrying value of equity investments. Capital gains realized on equity sales totaled $723 million in FY05, compared with $381 million in FY04. Due in part to continued demand in the global markets for energy and resources, dividend income also grew strongly, totaling $258 million in FY05, up from $207 million in FY04. Changes in the carrying value of investments contributed $269 million to equity portfolio income in FY05, compared to $74 million in FY04. In addition, in FY05, $191 million of

1. Operating income is defined as income after expenditures for technical assistance and advisory service (TAAS) but before any gain/loss from accounting for derivatives and hedging activities (SFAS No. 133). Certain amounts in the prior years have been reclassified to conform to the current year's presentation.

unrealized gains were recognized on investments accounted for by the equity method. Operating income on this portfolio (net of custody fees and derivatives gains/losses) amounted to a return on capital employed of 44.5 percent in FY05, after 17.6 percent in FY04.

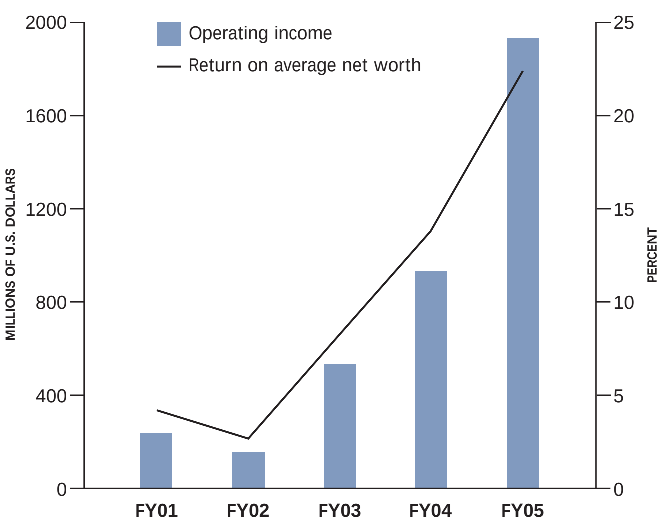
In FY05 there was another release of loss provisions totaling $261 million, compared to $103 million released in FY04. The total reserve against losses on loans declined to 9.9 percent of the year-end disbursed and outstanding loan portfolio, significantly below the level of 14.0 percent in FY04.

Capital and Retained Earnings

IFC's net worth consists of retained earnings and paid-in capital. IFC's paid-in capital was $2.4 billion, unchanged from the end of FY04, while net income of $2.0 billion increased retained earnings to $7.4 billion. The Corporation's net worth at the end of FY05 was $9.8 billion.

On June 30, 2005, IFC's capital adequacy ratio (paid-in capital, retained earnings, and adjusted general reserves compared with risk-weighted assets, both on- and off-balance sheet) stood at 50 percent. This is well above the policy minimum of 30 percent, defined under the capital adequacy framework adopted by the Board of Directors in May 1994. IFC's leverage ratio—outstanding borrowings and guarantees measured in relation to the sum of subscribed capital and retained earnings—was 1.8 to 1, well within the limit of 4.0 to 1 prescribed by the Articles of Agreement.

OPERATING INCOME AND RETURN ON AVERAGE NET WORTH



Funding Management

In FY05, IFC borrowed $2.0 billion equivalent in the international capital markets and repurchased $133 million in outstanding debt. These repurchases were undertaken as part of IFC's strategy of enhancing the liquidity of its outstanding bond issues.

IFC issued securities in six currencies during FY05: U.S. dollars, Japanese yen, Peruvian soles, Malaysian ringgit, Moroccan dirham, and South African rand. The largest borrowing of the year was a $1 billion global bond issue.

IFC raised 50 percent of total new borrowings in FY05 through a U.S. dollar global bond issue, 22 percent via structured issues primarily in Japan, 2 percent in Peruvian soles, 6 percent in Moroccan dirham, 7 percent in Malaysian ringgit, and 13 percent in South African rand. Notable among these was the Moroccan dirham issue, which was the first borrowing by a non-resident entity in that currency, and the Malaysian ringgit issue, which was the first domestic currency borrowing by a supranational under Islamic finance principles. All borrowings were swapped into floating-rate U.S. dollars. Most loans made by IFC are denominated in U.S. dollars on a floating-rate basis. The below-LIBOR cost achieved through the use of currency and interest rate swaps as well as the income generated through debt repurchases contributed to maintaining IFC's low funding cost in FY05.

Liquidity Management

Liquid assets on the balance sheet totaled $13.3 billion on June 30, 2005, up from $13.0 billion a year earlier. The majority of liquid assets are held in U.S. dollars, with small euro and yen balances held to support operational disbursements. Total liquid assets held are determined by constraints associated with IFC's AAA/Aaa credit ratings and, notably, by the pace of new market borrowings and new loan and equity disbursements to clients.

In FY05, IFC's liquid asset portfolios faced a challenging environment, and both the externally and internally managed portfolios had difficulty outperforming their benchmarks. The most important market events were the steady increase in interest rates by the U.S. Federal Reserve, coupled with unexpected strength at the long end of the yield curve. Even though overnight Fed Funds rose to 3.25 percent by the end of the fiscal year, the 10-year U.S. Treasury yield fell from around 4.5 percent to below 4 percent during the year, resulting in a dramatic flattening of the yield curve. The other key trends were the steep rise in oil prices, the decline of the U.S. dollar versus most other major currencies (though it had regained its losses by the end of FY05), and a relatively weak performance by the U.S. stock market. The

U.S. economy remained fairly strong, with unemployment falling and the housing sector showing no signs of moderating its growth. Inflation remained subdued. In Europe, growth was stagnant; unemployment remained high and consumer spending weak. Japan appears to have begun a modest recovery, and there have been some signs that the Bank of Japan might start tightening conditions, at least moderately.

In this environment, the liquid asset portfolios generated $194 million in operating income, with $124 million in spread income from funded liquidity and $70 million from net worth liquidity, comprising interest income net of realized and unrealized losses. This compares with $71 million during FY04, which included $39 million in spread income from funded liquidity and $32 million in interest and gains income from net worth liquidity.

IFC's liquid assets are invested in line with policies and standards set under the Investment Authority granted by the Board of Directors. The authority specifies the types of instruments and entities eligible for investment. IFC is authorized to invest its liquid assets in the obligations of highly rated governments, agencies, corporations, and commercial banks. Within the authority's framework, IFC's senior management has established prudent guidelines for managing the different dimensions of risk inherent in a large, diversified bond portfolio with particular regard to market (interest rate) risk and credit risk. For management and reporting purposes, IFC's liquid assets are separated into five distinct portfolios and invested globally in the highest-quality assets, including sovereign and triple-A-rated corporate bonds.

The P0 portfolio is a cash account that accommodates all of IFC's daily requirements, ranging from project cash movements (loans, equity, market borrowings) to administrative expenses of the Corporation. The portfolio also manages about $450 million cash for the P2 portfolio, as part of that portfolio's new benchmark. The larger portfolio size, which is slightly longer in duration, has allowed P0 to take advantage of higher-yielding short-dated assets, including very short average life home equity lines and home equity lines of credit. At the beginning of FY05, P0's benchmark was changed from an overnight Effective Fed Funds target to overnight LIBID (LIBOR-12.5 basis points). While the change has not had a significant effect on portfolio performance, the new target is more in line with industry practice for an overnight book. P0 outperformed its LIBID benchmark by 18 basis points, delivering a return of 2.37 percent compared to 2.09 percent on the benchmark.

The P1 portfolio consists of funded liquidity, specifically the proceeds of variable-rate borrowings, which are invested in high-quality investments pending disbursements of approved loans. IFC's objective is to outperform the total return of its benchmark—three-month U.S. dollar deposits—within the interest rate and credit risk limits allowed. The total return was 2.24 percent as compared to the benchmark return of 2.17 percent, with an excess return of 7 basis points.

The P2 portfolio corresponds primarily to the Corporation's paid-in capital and accumulated earnings. P2 is managed against the Lehman Brothers U.S. Intermediate Treasury benchmark. The portfolio is actively managed on a total return basis against this benchmark. The return for FY05 was 3.73 percent versus a benchmark return of 3.80 percent.

The P3 portfolio consists of funded liquidity, originally taken from the P1 portfolio. This portfolio is actively managed by six external managers against the P1 benchmark. At the end of FY05, assets in the P3 portfolio totaled $1.128 billion—about 8 percent of the Corporation's total liquid assets. The portfolio consists of a global fixed income (GFI) program allocated to two asset managers with $317 million under management and a mortgage-backed securities (MBS) program allocated to two asset managers with $380 million under management. The remaining $431 million is managed by two asset managers as a hybrid GFI/MBS mandate. The P3 portfolio delivered an absolute return of 2.35 percent for FY05, outperforming the benchmark by 0.10 percent.

The P4 portfolio is the outsourced portion of the P2 portfolio. P4 is actively managed by three managers against the Lehman Brothers U.S. Intermediate Treasury Index, like the P2 benchmark. At the end of FY05, assets in the P4 portfolio totaled $415 million, about 3 percent of the Corporation's total liquid assets. For FY05, the P4 portfolio delivered 4.51 percent and beat its benchmark by 0.65 percent.

Risk Management and Financial Policies

In keeping with industry best practice, risk management and financial policies are administered by a separate department under the Vice Presidency of Portfolio and Risk Management. The department is independent from all transaction groups and is responsible for recommendations on financial policy and risk management issues, risk measurement methodologies, risk limits, capital allocation and pricing, internal financial policy guidelines, monitoring compliance with these guidelines, and rating agency issues. It covers business operations, treasury activity, and active portfolio management with a view to ensuring coherence and consistency in policies and an integrated financial framework for all business activities.

IFC's overall activities are governed by a set of financial policies on exposure, capital adequacy, leverage, asset-liability management, liquidity, and derivatives. Specific activities in treasury and portfolio management are subject to detailed internal management guidelines for each area of activity.

IFC has policies that set guidelines on exposure to countries, sectors, products, and groups as well as single obligors. While these guidelines serve to limit and monitor business exposures, IFC also limits its financial risks through conservative financial polices. These include a minimum capital adequacy ratio of 30 percent of risk-weighted assets and a maximum ratio of debt plus outstanding guarantees to net worth of 4 to 1 as long as IFC has any outstanding borrowings from the IBRD. In addition, IFC has conservative approaches to asset-liability, liquidity, and derivatives exposure management as described below.

Funding, interest rate, and currency exposure is controlled through the matched funding policy, which requires loan assets to be funded by liabilities that have matching interest rate and currency characteristics. In order to accommodate client needs for loans in nondollar currencies in fixed or floating rates, and to allow for flexibility in borrowing and investment of liquid assets in various currencies and alternative interest rate bases, IFC makes use of derivatives, primarily over-the-counter swaps, to transform assets and liabilities into synthetic variable-rate dollar assets and liabilities. Equity and quasi-equity assets are funded from net worth and are limited by policies that require such investments not to exceed 100 percent of net worth.

Currency and interest rate mismatches that arise over the course of a loan's life (due to provisioning, prepayments, reschedulings, receipt of spread or fee income in nondollar currencies, and possible differences in LIBOR reset dates between assets and liabilities) are monitored and hedged on an ongoing basis subject to operational limits.

IFC's liquidity requirements are governed by the matched-funding policy and the liquidity policy. Under the matched-funding policy, IFC carries funded liquidity for approved but undisbursed loans. Under the liquidity policy, IFC is required to maintain at all times a level of liquid assets of not less than 65 percent of the next three years' projected net cash flow requirements.

IFC's liquid asset holdings are made up of market-funded portfolios and a net worth–funded portfolio. Interest rate risks are managed against duration benchmarks for each of the portfolios, and currency risks are managed by using derivatives to hedge the currency exposure. Credit risks are managed through eligibility requirements for investments and issuer limits based on size and rating as well as concentration limits on asset classes.

IFC uses derivatives in the areas of funding, liquidity management, asset-liability management, client risk management products, and active portfolio management.

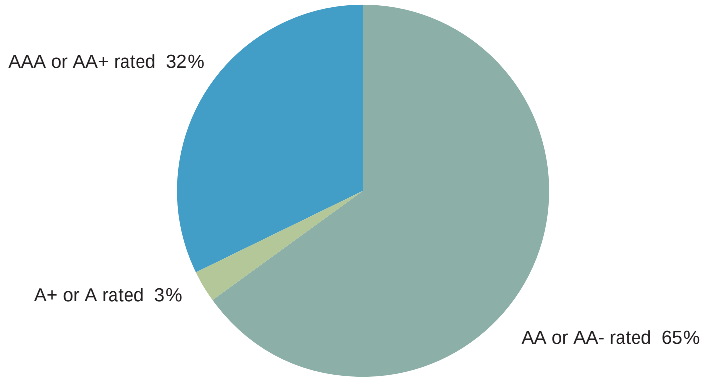
With the exception of the use of derivatives for active portfolio management, and some positions taken in liquid assets management, uses of derivatives do not entail market risk as they are used only for hedging purposes. Market risk arising from derivative use in liquid assets and portfolio management activities is subject to the respective guidelines for such activities. While the other derivatives used only for hedging do not entail open market risk, they create credit exposure that arises from the potential counterparty default when the derivative contract has positive value to IFC.

To manage these counterparty exposures, IFC has credit risk polices relating to eligibility criteria and credit limits that are coordinated with those of the IBRD. Limits are set in terms of the total potential exposure to the counterparty.

To protect against counterparty downgrades subsequent to undertaking contracts, IFC has entered into mark-to-market collateral agreements with most of its derivative counterparties.

The active portfolio management program enables IFC to hedge and manage the aggregate financial risks, returns, and exposures incurred in connection with its portfolio of loan, quasi-equity, and equity investments. The proactive use of risk management techniques, hedging instruments, and income enhancement strategies is tailored to IFC's financial risk tolerance and income objectives.

TREASURY CREDIT RISK ALLOCATION



Portfolio Review

IFC's committed portfolio at the end of FY 2005 increased by 7.6 percent to $19.3 billion, from $17.9 billion in FY04.[1] Nearly 77 percent of the committed portfolio was in loans amounting to $14.8 billion, and 17 percent was in equity investments amounting to $3.3 billion. Guarantee products of $998 million accounted for 5 percent of the committed portfolio, and risk management products of $168 million accounted for almost 1 percent. In addition, IFC held and managed for participants $5.3 billion in loans it had syndicated. At the end of FY05, the committed portfolio included loan and equity investments, risk management products, and guarantees in 1,314 companies in 119 countries.

The net increase in the committed portfolio was $1.4 billion after taking into account new commitments, repayments, sales, cancellations, prepayments, write-offs, and translation adjustments. Loan principal repayments and prepayments totaled $2.3 billion, and $515 million in equity investments were sold or redeemed.

The total disbursed portfolio for IFC's own account remained nearly unchanged at $12.3 billion at the end of FY05, primarily due to higher levels of loan prepayments. During the fiscal year, the disbursed loan portfolio grew by 2.3 percent, whereas the disbursed equity portfolio contracted by 9.5 percent.[2]

Many of the Corporation's investments are denominated in U.S. dollars, but IFC borrows in a variety of currencies to diversify access to funding and reduce borrowing costs. The currency breakdown of the disbursed loan portfolio on June 30, 2005, is shown in the notes to the financial statements (see Volume 2 of the IFC Annual Report). The Corporation minimizes its risk exposure to off-balance-sheet transactions by entering into offsetting swap, option, or forward contract positions with highly rated market counterparties and by performing thorough credit reviews of all counterparties.

Commitments and Disbursements

New commitments for IFC's own account were concentrated in the Europe and Central Asia (36 percent), Latin America and Caribbean (26 percent), and East Asia and Pacific (14 percent) regions. The business sectors with the largest volume of new commitments were finance and insurance with 41 percent and transportation and warehousing with 7 percent.

Disbursements in FY05 were $3.5 billion, up from $3.2 billion in FY04. Loan disbursements were $2.9 billion and equity disbursements were $588 million. IFC also disbursed $555 million on behalf of financial institutions participating in its syndicated loans.

BREAKDOWN OF IFC PORTFOLIO

June 30, 2005

(millions of U.S. dollars)

Committed loans and equity	**18,108**
Loans	14,781
Equity	3,327
Off-balance-sheet exposure (on risk management and guarantee products)	**1,167**
Total committed portfolio for IFC's own account	**19,274**
Total committed portfolio held for participants	**5,283**
Total disbursed portfolio	**12,276**
Total undisbursed portfolio	**5,832**

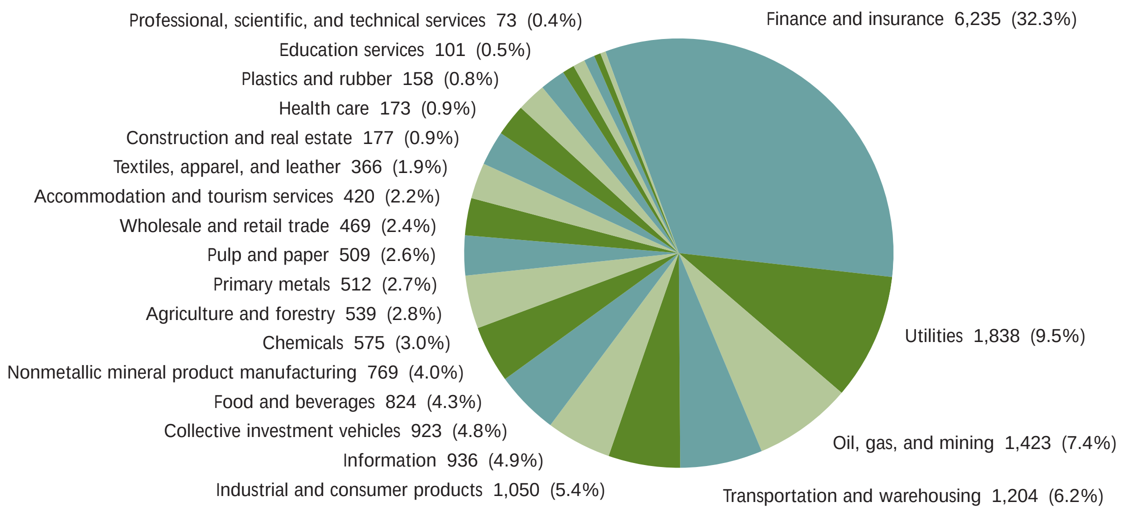
Portfolio Management

As part of its supervision efforts, IFC closely monitors compliance with investment agreements, visits sites to check on project status, and helps find solutions to problem projects. To strengthen portfolio supervision, the Corporation has in place portfolio management units in all investment departments, each under a portfolio manager. This structure helps identify problems early and address them in a timely manner. The maintenance of an investment credit risk–rating system also supports this process. Furthermore, headquarters staff has continued to be both rotated and relocated to the field, and local staff members in resident missions have increasingly been assigned to supervisory tasks. IFC makes special efforts to ensure that banks participating in IFC loans are kept regularly informed of project developments through the B-Loan Management Division. There is always a close and continuing consultation between IFC and its participants.

1. Committed portfolio includes guarantees and risk management products, which are off-balance sheet.
2. The Corporation complied with EITF 03-1 effective March 31, 2005. EITF 03-1 changed IFC's loss provisioning policies and impairment assessment procedures with respect to equity investments. EITF 03-1 requires that investments that are impaired and for which impairment is other than temporary be written down to their impaired values. It also requires that the impaired value become the new cost basis for the asset. Equity write-offs during FY05 totaled $459.8 million. On the same basis as FY04, the disbursed equity portfolio would have grown approximately 6 percent.

COMMITTED PORTFOLIO FOR IFC'S OWN ACCOUNT

By sector on June 30, 2005 (millions of U.S. dollars)



TOTAL IFC PORTFOLIO $19,274

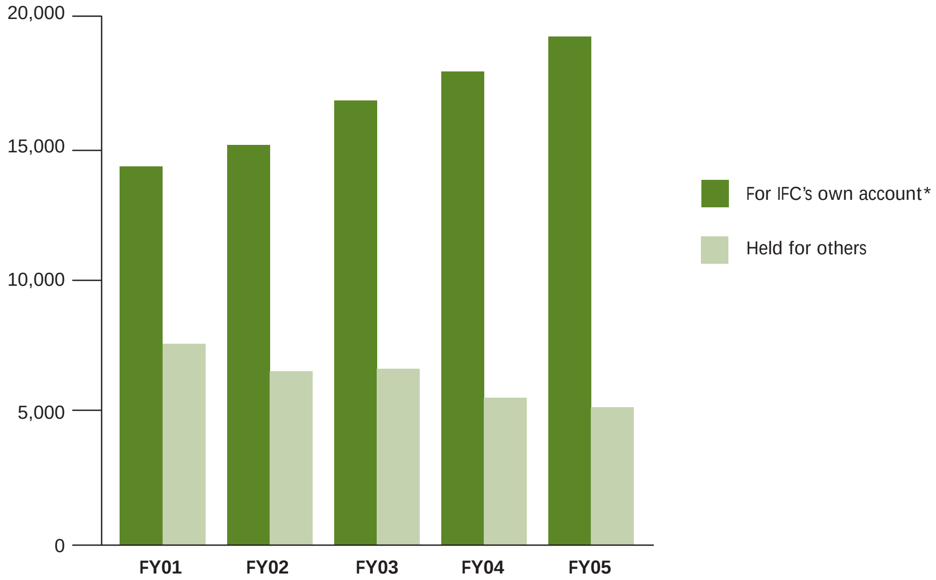
Operational departments evaluate projects case by case when difficulties arise. For projects with particularly severe problems, the Special Operations Department determines appropriate remedial action. In such situations, it seeks to negotiate agreements with all creditors and shareholders to share the burden of restructuring so that problems can be worked out while the project continues to operate. In exceptional cases, when the parties reach an impasse in negotiations, IFC takes all necessary and appropriate measures to protect its interests.

IFC's Corporate Portfolio Management Department manages financial risks and exposures in connection with the portfolio of loan and equity investments using market-based risk management instruments, tools, and strategies. Portfolio management activities approved include the use of market-based instruments to perform hedging transactions on the IFC loan and equity portfolio as well as equity buyback strategies. All transactions and strategies share the common goal of protecting the portfolio against downside risk.

During FY05, loan and equity portfolio income was $1.8 billion, up 63 percent from FY04, largely due to higher capital gain and dividend income from the equity portfolio. Principal outstanding on nonperforming loans as a percentage of the disbursed loan portfolio was 6.4 percent on June 30, 2005, compared with 11.5 percent on June 30, 2004. During the same period, principal in arrears as a percentage of the disbursed loan portfolio declined to 4.1 percent, from 5.1 percent. Furthermore, the risk level of the loan portfolio declined in FY05 due to sustained economic growth in emerging markets, which reduced country risk levels as well as credit risk levels of existing investments.

Estimated unrealized gains on the equity portfolio rose during FY05. Capital gains of $723 million were realized, a

IFC COMMITTED PORTFOLIO, FY01–05
(millions of U.S. dollars)



*Totals for IFC's own account for FY01–05 include risk management and guarantees.

substantial increase from $381 million in FY04. IFC received dividends of $258 million, compared with $207 million during FY04. Dividends in FY05 were higher than in FY04, primarily as a result of higher commodity prices.

Reserves against losses on loan investments decreased to $989 million in FY05, representing 9.9 percent of the disbursed loan portfolio, down from 14.0 percent in FY04. The decrease was due to a $321 million reduction in specific loan reserve after the write-off of $143 million and a $57 million reduction in general reserve. The Corporation changed its process of estimating impairment on equity investments in FY05 to adopt an impairment methodology based largely on fair value estimates. As a result, the Corporation recorded a release of provision for losses on equity investments in the amount of $269 million.

Management determines specific reserves against loan losses on the basis of portfolio reviews and recommendations by the portfolio management units in the investment departments. For this purpose, the entire loan portfolio is reviewed quarterly. Management determines general reserves using a Monte Carlo–based simulation technique. The Corporation's external auditors examine closely the recommendations, policies, and methods for determining the reserves against losses.

IFC's Products and Services

COURTESY OF ASIAN COMMERCIAL BANK

Investment Products

Equity and Quasi-Equity

IFC risks its own capital by buying shares in project companies, other project entities, financial institutions, and portfolio or private equity funds. We generally subscribe to between 5 and 20 percent of a company's equity. We will not normally hold more than a 35 percent stake or be the largest shareholder in a project. We are a long-term investor in our projects. When it comes time to sell, we prefer to exit by selling shares either in a trade sale or, if liquidity permits, in a capital market following a public offering.

With quasi-equity instruments, we invest through products that have both debt and equity characteristics. Some instruments, like subordinated loans and convertible debt, impose fixed-repayment schedules. Others, such as preferred stock and income notes, do not require such rigid repayment arrangements.

Loans and Intermediary Services

We finance projects and companies through our A-loans, which are for IFC's own account. IFC cannot accept government guarantees as security for its loans. The maturities of A-loans generally range between seven and 12 years at origination, but some loans have been extended to as long as 20 years. IFC's loans are provided in major currencies and in an increasing number of emerging market currencies.

We carry out comprehensive due diligence before investing in any project. Because of our extensive lending experience in developing countries, we are uniquely qualified to evaluate the risks associated with projects. We are willing to extend loans that are repaid only from the cash flow of the project, with only limited recourse or without recourse to the sponsors.

We also make loans to intermediary banks, leasing companies, and other financial institutions through credit lines that result in further on-lending. These credit lines are often targeted to small businesses.

Syndicated Loans

Syndicated loans, or B-loans, are a key part of IFC's efforts to mobilize private sector financing in developing countries, thereby broadening our development impact. Through this mechanism,


COURTESY OF ODEBRECHT

financial institutions share fully in the commercial credit risk of projects, while IFC remains the lender of record. Participants in IFC's loans share in the advantages that IFC derives as a multilateral development institution, including its *de facto* preferred access to foreign exchange. Where applicable, these participant banks are also exempted from the mandatory provisioning requirements that regulatory authorities may impose.

Structured Finance

IFC also offers structured finance solutions to clients, enabling them to raise a significantly larger amount of capital than that represented by IFC's own exposure. This is especially important for mobilizing local currency funds in the domestic market from institutional investors and financial institutions.

Through partial credit guarantees of debt instruments, IFC uses its triple-A credit rating to help clients diversify their funding sources, extend maturities, and obtain financing in their currency of choice. IFC also helps clients structure securitizations and risk-sharing facilities, transactions that allow a client to sell off part of the risk associated with a pool of assets. IFC is continuing to develop other structured products in response to clients' financing needs.

Risk Management

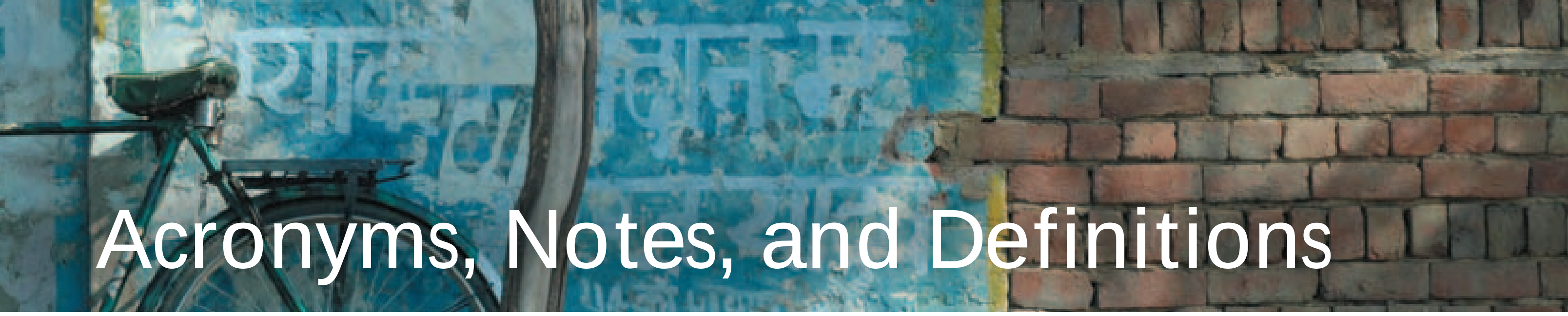
IFC's risk management products provide clients with access to long-term derivatives markets. Currency-hedging instruments allow clients to hedge their foreign exchange exposures, typically related to foreign currency borrowings. With the development of emerging market derivatives, IFC offers hedges into local currency where these markets exist. IFC also provides derivative products to enable clients to manage their interest rate and commodity price risks.

Technical Assistance and Advisory Services

Technical assistance further complements IFC's investment activities by offering advisory and training services to governments and private companies in developing countries. IFC delivers many of these services through donor-supported technical assistance facilities that focus on either a region or a strategic aspect of development. IFC also manages trust funds supported by donor governments and has established a funding mechanism that sets aside a portion of the Corporation's net income as a contribution to donor-funded operations.

IFC collaborates with the World Bank through several joint units dealing with aspects of private sector development, including policy issues, sector advice, and specific transactions. Our activity includes advice on competition policy, privatization structuring, and policy analysis of the investment climate.

Much of our technical assistance and advisory services aims to improve business practices of the companies and financial institutions in which we invest. The focus includes upgrading compliance with international standards, especially in the areas of corporate governance and environmental and social performance. Efforts promote development of smaller enterprises, create links between these enterprises and larger companies, and help our clients increase their community development activities in the areas where they operate.



Acronyms, Notes, and Definitions

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Acronyms

CAO	Compliance Advisor/Ombudsman
EU	European Union
FDI	foreign direct investment
FIAS	Foreign Investment Advisory Service
FY	fiscal year
GDP	gross domestic product
GEF	Global Environment Facility
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IT	information technology
LAC	Latin America and the Caribbean
MENA	Middle East and North Africa
MIGA	Multilateral Investment Guarantee Agency
MPDF	Mekong Private Sector Development Facility
MSME	micro, small, and medium enterprise
NGO	nongovernmental organization
OEG	Operations Evaluation Group
PENSA	Program for Eastern Indonesia SME Assistance
PEP	Private Enterprise Partnership
PEP-Africa	Private Enterprise Partnership for Africa
PEP-MENA	Private Enterprise Partnership for the Middle East and North Africa
PSD	private sector development
SEDF	SouthAsia Enterprise Development Facility
SME	small and medium enterprise
TAAS	technical assistance and advisory services
TATF	Technical Assistance Trust Funds
WTO	World Trade Organization

Notes and Definitions

A-loan and B-loan. A single loan agreement between the borrower and IFC normally stipulates the full amount of financing to be provided by IFC and the participating institutions. The IFC loan may be in two portions: (1) the A-loan is IFC's own portion, funded with IFC's own resources and subject to its agreed loan terms; (2) the B-loan is funded by participants on terms that may differ from those of IFC.

Commitments include (1) signed loan and equity (including quasi-equity) investment agreements; (2) signed guarantee agreements; and (3) risk management facilities that are considered ready for execution as evidenced by a signed ISDA agreement or a signed risk management agreement with a client.

Disbursements are loans and investments paid out.

The fiscal year at IFC runs from July 1 to June 30. Thus, FY05 began on July 1, 2004, and ended on June 30, 2005.

Investment amounts are given in U.S. dollars unless otherwise specified.

On-lending is the process of lending funds from IFC's own sources through intermediaries, such as local banks and microfinance institutions.

Participants and IFC fully share the commercial credit risks of projects, but because IFC is the lender of record, participants receive the same tax and country risk benefits that IFC derives from its special status as a multilateral financial institution.

Quasi-equity instruments incorporate both loan and equity features, which are designed to provide varying degrees of risk/return trade-offs that lie between those of straight loan and equity investments.

Rounding of numbers may cause totals to differ from the sum of individual figures in some tables.

The World Bank includes both IBRD and IDA.

The World Bank Group includes IBRD, IDA, IFC, MIGA, and ICSID.

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World Bank Group

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At IFC our mandate is to further sustainable economic development through the private sector. We pursue this goal through innovative solutions to the challenges of development, as we invest in companies and financial institutions in emerging markets and as we help build business skills. We consider positive development impact an integral part of good business, and we focus much of our effort on the countries with the greatest need for investment. We recognize that economic growth is sustainable only if it is environmentally and socially sound and helps improve the quality of life for those living in developing countries.

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