CREATING
OPPORTUNITY

IFC 2007

IFC International Finance Corporation
World Bank Group

International Finance Corporation
World Bank Group

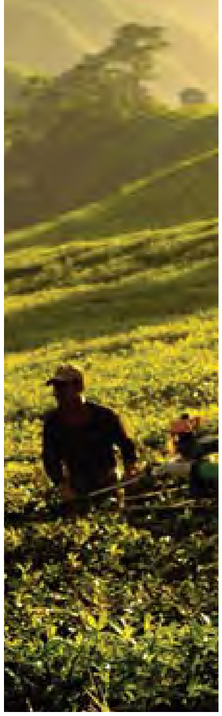
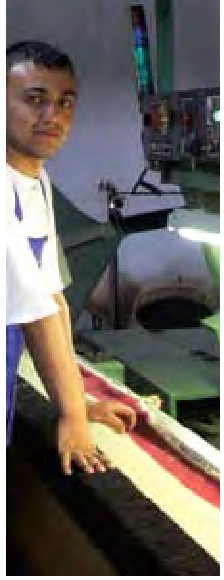
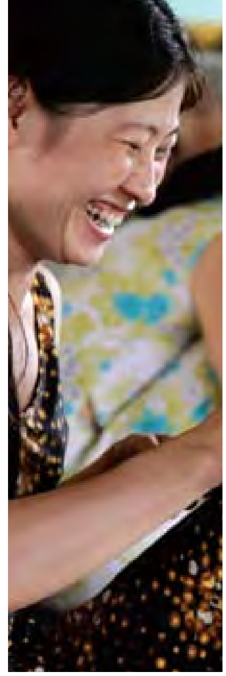
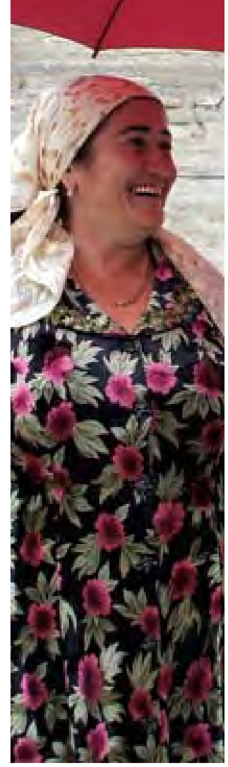
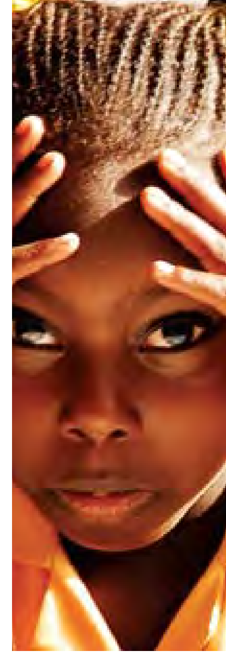
AN INTEGRATED REPORT

This year, IFC is consolidating our former Annual Report, Sustainability Report, and Report to Donors, as well as new reporting on our development effectiveness. The report covers fiscal year 2007 and discusses the year's new business as well as the performance and development results of our portfolio. It also incorporates information on partnerships that fund many of our advisory services.

Our goal is to provide in one place a full picture of what IFC does and how we are performing, and to report in a way that is relevant to many of our stakeholders: client companies, partners, member governments, local communities affected by our activities, advocacy organizations, investors, and our staff. We are doing this to enhance our accountability and because these four themes—development results, financial success, sustainability, and work with partners—combine to drive IFC's success.

The principles of the Global Reporting Initiative have helped us improve our reporting and conform to international best practice; a full GRI index is available at the Annual Report's Web site, www.ifc.org/annualreport. In addition to the statement from the financial auditors, this report features for the first time an independent assurance statement on its nonfinancial information.



IFC, a member of the World Bank Group, fosters sustainable economic growth in developing countries by financing private sector investment, mobilizing private capital in local and international financial markets, and providing advisory and risk mitigation services to businesses and governments. IFC's vision is that poor people have the opportunity to escape poverty and improve their lives. In FY07, IFC committed $8.2 billion and mobilized an additional $3.9 billion through loan participations and structured finance for 299 investments in 69 developing countries. IFC also provided advisory services in 97 countries.

IFC BOARD OF DIRECTORS

This fiscal year the Board of Directors maintained close oversight of IFC's efforts to increase and measure its development impact. Directors reaffirmed their support for IFC's strategic directions, including more specific emphasis on agribusiness and small and medium enterprises, as well as IFC's growth strategy. The Board approved a number of investments and joint World Bank–IFC–MIGA country assistance strategies and continued to encourage stronger collaboration, both across the World Bank Group and with partners and stakeholders.

Specific issues that Directors discussed with management included IFC's strategy for Africa, the joint Bank Group strategy for the financial sector, the launch of a new IFC–World Bank department focusing on subnational finance, and several proposals for new products and services with potential to expand IFC's reach in client countries. The Board continued to monitor new methods for measuring outcomes of IFC's investments and advisory services, as well as progress in implementing IFC's environmental and social performance standards.

The Board welcomed IFC's strong performance in FY07. These include record levels of financing and expansion of advisory activity in Africa and the Middle East, as well as measurable progress in a number of frontier markets and strategic sectors.

DIRECTORS	ALTERNATES
Svein Aass	Pauli Kariniemi
Abdulrahman M. Almofadhi	Abdulhamid Alkhalifa
Gino Alzetta	Melih Nemli
Felix Alberto Camarasa	Francisco Bernasconi
Joong-Kyung Choi	Terry O'Brien
E. Whitney Debevoise	(vacant)
Mat Aron Deraman	Chularat Suteethorn
Eckhard Deutscher	Ruediger Von Kleist
Pierre Duquesne	Alexis Kohler
Jorge Familiar	Jose Alejandro Rojas Ramirez
Alex Gibbs	Caroline Sergeant
Merza H. Hasan	Mohamed Kamel Amr
Makoto Hosomi	Masato Kanda
Mulu Ketsela	Mathias Sinamenye
Dhanendra Kumar	Zakir Ahmed Khan
Alexey Kvasov	Eugene Miagkov
Giovanni Majnoni	Nuno Mota Pinto
Michel Mordasini	Jakub Karnowski
Louis Philippe Ong Seng	Agapito Mendes Dias
Shuja Shah	Sid Ahmed Dib
Rogerio Studart	Jorge Humberto Botero
Samy Watson	Ishmael Lightbourne
Herman Wijffels	Claudiu Doltu
Zou Jiayi	Yang Jinlin

As of June 30, 2007

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. Robert B. Zoellick, 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, 2007, IFC expanded its sustainable development impact through private sector project financing operations and advisory activities.

From left to right: (standing) Samy Watson, Svein Aass, Alexey Kvasov, Terry O'Brien, Eli Whitney Debevoise, Tom Scholar, Pierre Duquesne, Herman Wijffels, Michel Mordasini, Eckhard Deutscher, Gino Alzetta, Makoto Hosomi, Jorge Familiar, Merza Hasan, Dhanendra Kumar, Felix Alberto Camarasa, Jorge Botero; (seated) Sid Dib, Giovanni Majnoni, Abdulrahman Almofadhi, Mulu Ketsela, Mat Aron Deraman, Louis Philippe Ong Seng, Zou Jiayi

MESSAGE FROM THE PRESIDENT

In beginning my tenure as President with the start of the new financial year, I am seeing at first hand the critical role that IFC plays within the World Bank Group and the unique and expanding contribution it makes to development, growth, and overcoming poverty. I am pleased to introduce a report that gives the fullest picture yet of the breadth and impact of this work.

Already I have seen up close how IFC's investments in Cambodia's ACLEDA Bank have helped microfinance reach many thousands of small-scale entrepreneurs, especially women and people in remote areas of the country. In Vietnam, I have seen a country moving closer to the ranks of middle-income economies, in part thanks to half a billion dollars invested by IFC and its partners in leading banks and companies like Khai Vy—a furniture manufacturer and exporter that is finding sustainable sources for its wood—as well as to IFC advice that supports the country's private sector. In Africa, IFC is backing innovative private financing for schools, women-owned businesses, and basic services. Wherever I look in our partner countries, I am impressed that IFC is a key catalyst for empowering private sector energy to drive development and offer opportunity.

By focusing on the private sector, IFC complements the other entities of the World Bank Group—IBRD, IDA, MIGA, and ICSID. IFC's talented and innovative staff enables us to offer a full range of products and services that help developing countries overcome poverty and improve the lives of their people. Through this comprehensive approach, the World Bank helps governments set policy and improve the investment climate, and IFC helps companies through advice and catalytic investments that create jobs, mobilize savings, and build skills.

As the role of the private sector in generating and sustaining economic growth has become more widely recognized, IFC has been uniquely positioned to increase its role, given its global knowledge of industries, its more than 50 years of investment experience, and its steady decentralization of staff expertise to offices around the world. Working as part of the Bank Group, IFC can ensure that it invests and offers advice in ways that help the private sector broaden benefits to people and places that would not otherwise be reached.

This report shows how IFC works through joint departments and programs across the World Bank Group and in close cooperation with donors and other partners. The successful and respected *Doing Business* report offers a prime example. In infrastructure, financial services, energy, manufacturing, and agribusiness—to name a few industries among many—IFC offers solutions that help companies innovate, grow, and improve the sustainability of their operations and use of resources. IFC is also leading the way in measuring the results of its work, and this report details the findings for the first time.

Ultimately, the work of IFC—along with that of the other entities of the World Bank Group—is about linking markets and incentives with targeted private and public assistance to empower the poor in developing countries. With a little support, fathers and mothers can build better lives for their children, local entrepreneurs can mobilize savings to create jobs and hope, and governments can establish the conditions and foundations for participating in inclusive and sustainable globalization.

I have greatly enjoyed meeting the highly motivated, dynamic, and creative staff of IFC. It seems that in every meeting they bring a new idea to better accomplish our mission. I certainly look forward to working closely with them so as to ensure that we leverage the private sector to bring a better life to people in the countries we serve.

Robert B. Zoellick

Robert B. Zoellick

CREATING OPPORTUNITY
is IFC's business

A LEADERSHIP PERSPECTIVE FROM LARS THUNELL, EXECUTIVE VICE PRESIDENT AND CEO

Taking IFC to the next level

Financial year 2007 was a remarkable one for IFC. We delivered strong, measurable development impact and continued to show how the private sector creates opportunities in emerging markets—especially for the millions of poor people who most need help. We also achieved the strongest financial position in our history. IFC's staff has worked hard to advance our mission, and they have had strong support and cooperation from our shareholders and partners, as well as colleagues across the World Bank Group.

I am pleased to present this annual report, which gives a more complete picture of IFC's activities and results than ever before. We have integrated our financial reporting with information on our advisory services, our work with partners, and our efforts to promote sustainability through investments and advisory services. We are also providing extensive new data on the development effectiveness of our activities, which I believe tells a compelling story about the role of the private sector in growth, job creation, and human development.

IFC's market is evolving. In the past, IFC mainly provided financing to firms from industrialized countries as they invested in emerging markets, and this work was a relatively small part of World Bank Group activity. Today, nearly two-thirds of our client firms are based in emerging markets, and there is wide acknowledgement that the private sector plays a critical role in addressing the needs of people in developing countries. Many of the firms we invest in are also expanding into other emerging markets, bringing capital, technology, management expertise, and jobs. We finance more than 20 such "South-South" transactions each year.

We are also transforming IFC's operations. Today just over half our workforce is based in field offices and better positioned to help local clients. With support from our shareholders, IFC is energetically pursuing opportunities even in higher-risk emerging markets. This approach has helped us achieve strong profitability, and that in turn lets IFC reinvest where the needs are greatest. Beyond financing, we continue to increase our advisory services, more and more of which lead to IFC investments or are delivered alongside financing. This work allows us to provide comprehensive solutions to our clients' business needs.

Despite strong growth and capital flows, challenges remain in emerging markets, and these are driving IFC's strategy. Many millions of people in smaller, less developed markets and in conflict-affected countries have not yet shared in the benefits of private sector growth. Poor infrastructure impairs such basic services as clean water, reliable electricity, and health care. Smaller businesses, often the major source of employment, struggle to obtain financing and face burdensome regulations. Throughout the developing world, the environment, corporate governance, and social issues all pose challenges to a private sector seeking to become competitive and meet international standards.

IFC is able to play a bigger role and tackle these challenges because we have made a strategic decision to take a larger number of well-managed risks. We are increasing our equity and quasi-equity investments, especially in markets where others are unable or reluctant to bear the risk. We are using innovative products in higher-risk and underserved markets, such as local currency financing that lets companies concentrate on building a business rather than worrying about exchange rate volatility. Taking this approach further, we are preparing a global fund to provide local currency hedges for IFC loans in the health, education, and smaller enterprise sectors in countries where there are no hedging alternatives.

Our priority markets are what IFC calls the "frontier": countries eligible for interest-free, public sector loans from the World Bank's International Development Association as well as countries that have high risk ratings for private sector investment. Just as important, the frontier includes low-income or high-risk regions in middle-income countries, such as northeast Brazil and western China. IFC also has an important role in supporting the private sector in conflict-affected countries, as detailed in this report.

IFC made substantial progress in Sub-Saharan Africa, where our investments reached $1.4 billion in FY07, double the previous year's commitments. Investments also topped $1 billion for the first time this year in the Middle East and North Africa. Overall, in FY07 IFC invested more than $8 billion for its own account and mobilized nearly $4 billion more.

Measuring the results of our investments and advisory work is critical to understanding how well our strategy is working. Our new tracking system gives insights into the number of people we are reaching. In 2006, for example, 4 million people received hospital treatment, 9.5 million customers received electricity, 5 million loans helped smaller businesses, and 40,000 entrepreneurs received training and advice through engagements supported by IFC.

These are encouraging numbers, and they keep our focus on people—farmers who have entered regional and even global

IFC has an ongoing commitment to step up our investment and advisory services in frontier markets.

Overall activity in FY07:

- Investment commitments in IDA countries represented 37 percent of IFC's total; 33 percent of this total was in frontier countries.
- IFC spending on advisory services projects in IDA countries was 62 percent of the total; 54 percent of this total was in frontier countries.

The growth this represents:

- Investment commitments in IDA countries grew more than 75 percent over FY06, reaching $3 billion in FY07, while investment commitments in frontier countries grew more than 80 percent over FY06, to $2.7 billion in FY07.
- IFC spending on advisory services projects in IDA countries increased by 51 percent, to $63 million in FY07, while such spending in frontier countries went up 50 percent over FY06, to $54 million in FY07.

IFC Frontier Country Definition: Countries that are either high risk (0-30 on a scale of 0-100) by the Institutional Investor Country Risk Ratings, or low income according to the World Bank classification.

supply chains, women entrepreneurs who are now able to join the formal economy, parents who can access quality medical care for their children. I have met many hardworking, ambitious individuals in our client countries since I joined IFC in early 2006. They are an inspiration for all of us.

Our Board of Directors reaffirmed our five strategic pillars this year: a focus on frontier markets, including IDA countries; building long-term relationships with local companies; ensuring environmental and social sustainability; helping the private sector strengthen infrastructure, from ports and roads to schools and hospitals; and developing local financial markets. We are also stepping up our support of agribusiness, an industry that touches most of the world's poor people.

IFC is committed to achieving broader development impact as we implement our strategy. This includes ensuring that the foundations for private sector development are in place: a sound business environment, environmental and social standards, basic infrastructure, access to finance, and support for firms with potential to expand into other developing economies. IFC can leverage the expertise of the larger World Bank Group, with World Bank assistance to governments on policy frameworks preceding advice and investments from IFC, which in turn spur additional private capital. The *Doing Business* report, a joint program helping streamline business regulations, is an excellent example of how IFC and the World Bank can work together, and we continue to explore opportunities for cooperation.

IFC has made progress on the challenges facing emerging markets, especially in reaching the poorest people. The opportunities to do more are tremendous. We have the strategy, mandate, and resources to deliver greater impact for our clients and shareholders. IFC's comparative advantage is our capacity to invest in frontier markets and to bring expertise, value-added services, and international standards. We also bring a commitment to measuring results. With ongoing support and cooperation from stakeholders, partners, and World Bank Group colleagues, IFC will continue to create opportunities for millions of people to escape poverty and improve their lives.

Lars H. Thunell

CREATING OPPORTUNITY
is a long-term commitment

IFC works with the private sector in emerging markets. This is a good business proposition for investors—and it is having a positive impact on the neediest people and places.

IFC's vision is that poor people have the opportunity to escape poverty and to improve their lives. By promoting open and competitive markets and providing investment and advisory support to private sector clients, we seek to create opportunities for progress in emerging markets. These opportunities take many forms: productive and profitable enterprises, new or better jobs, innovative products and services, lower prices, and new tax revenues that fund public programs. They allow people to work, prosper, and live better and longer lives.

The private sector plays a key role in the sustainable development of any economy. Private markets drive growth in productivity, creating jobs and raising incomes. Private initiative is also critical in expanding the basic services—infrastructure, health, and education—that empower poor people and create the conditions for sustained improvements in everyday life.

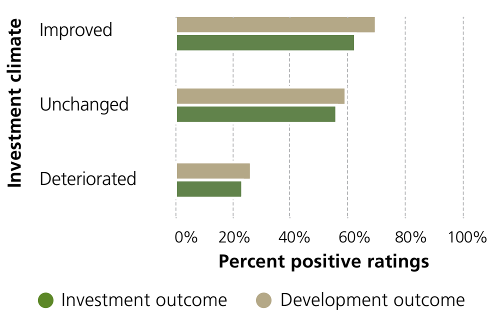
More and more governments have put the private sector at the center of their development strategies. Developing countries are growing faster than ever, with international capital flows reaching record highs. An increasing number of governments are reforming the laws and regulations that underpin private sector activity, bringing down barriers to initiative and growth. In this promising climate, IFC can focus more than ever on how we add value—making our engagements broader, developing new investment products, and enhancing the quality of our advisory work.

CHALLENGES ON THE FRONTIER

Despite progress, many of the poorest countries and regions are not yet able to access the growing capital flows and participate in economic growth. And for many of the 4 billion people at the base of the economic pyramid, the better jobs and higher incomes that markets can provide are still unattainable.

IFC plays a crucial role in promoting the development of the private sector, so that opportunities can reach more of the neediest people and places. Our financial products and advisory services go beyond those that developing country markets and private investors can provide on their own. We focus our efforts on the fundamental challenges facing the private sector, including the basics of the business environment, reliable infrastructure, and development of capital markets. And much of our work targets the economic frontier of low-income or high-risk countries and regions. For the most part, these are also recipients of assistance from IDA, the World Bank's International Development Association.

IN A BETTER BUSINESS ENVIRONMENT, INVESTMENTS PERFORM BETTER



Data based on a random sample of 584 projects evaluated by IFC's Independent Evaluation Group 1996-2006.

IFC'S CONTRIBUTION TO DEVELOPMENT

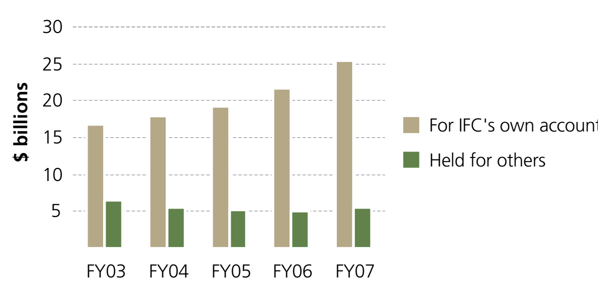
IFC works with private investors, putting money at risk alongside theirs to support promising business projects that might not otherwise attain financing. Our approach—taking debt and equity risks that the market would not otherwise bear—helps expand opportunities, especially in frontier countries and for poor people. We seek to support profitable businesses that contribute to sustainable development, and we add value to our clients while remaining fully accountable to our shareholders. In the process, we demonstrate that sustainability, development impact, and sound financial performance can, and do, go hand in hand.

IFC makes many investments, both large and small, that become cornerstones of growth in developing countries; and through our commitment to sustainability, we help increase their positive impact on the environment and their benefits to local communities. We also invest in financial intermediaries that serve new entrepreneurs and smaller businesses.

IFC's profitability allows us to invest in more private enterprises and innovate in the financial products we offer. Proceeds from investments help us grow our business—annual commitments have increased sixfold since our last capital increase in 1991—and demonstrate that responsible investors can make a strong profit in emerging markets.

These proceeds also help fund advisory work aimed at opening markets and helping firms grow and compete. We leverage the strengths of many partners, across the World Bank Group and in the larger development community. With generous donor support, our advisory services focus on creating a robust environment for business and on helping companies enhance their performance, governance, and sustainability.

IFC COMMITTED PORTFOLIO, FY03 TO FY07



OUR STRATEGIC APPROACH

As IFC works to advance private sector development, we have set ambitious goals for growth and for development impact. These focus on five key areas or "strategic pillars":

- Strengthening our focus on the frontier—the countries and regions where needs are greatest
- Building long-term partnerships with emerging players
- Ensuring environmental and social sustainability
- Promoting private sector growth in key sectors such as infrastructure, health, and education
- Supporting the development of local financial markets

IFC has a unique status as a global multilateral institution, working at the intersection of the public and private domains. We have always emphasized the value we can bring to clients, and we have continuously developed new products and services to meet clients' evolving needs.

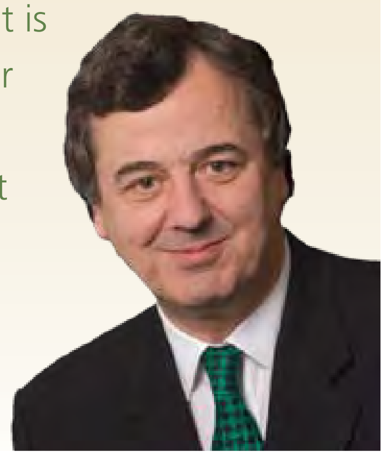
IFC's financing role is guided by our Articles of Agreement: "the Corporation shall not undertake any financing for which in its opinion sufficient private capital could be obtained on reasonable terms" (article 3.1). Through the design of our financing, IFC provides clients with advantages they would not otherwise have, including longer maturities, better amortiziation patterns, better security structures, and products such as equity, local currency financing, and structured finance. IFC's preferred creditor status and global brand bring other benefits, allowing client companies to manage political risks and improve their access to finance, especially in frontier markets.

Beyond financing, IFC's advisory services, global knowledge, objectivity, results measurement, and strong client relationships also add value. Increasingly, we provide integrated solutions to meet the individual needs of our clients:

- Promoting standard-setting for social and environmental performance and good corporate governance, while investing in ways that help implement these standards.
- Spreading global best practice through advisory services and demonstration projects, including in the critical sectors of health, education, and infrastructure.
- Pairing our investments in frontier financial markets with advice to strengthen the regulatory foundations of these markets, while focusing our free-standing advisory work with governments on laws and regulations that support a better business environment.

IFC will continue striving to make a real difference in our financing and advisory work, adding to and adjusting our approaches as business conditions and our clients evolve.

"IFC is growing rapidly in areas where we bring high impact and add value. This growth is consistent and balanced among the sectors where we invest and advise, and it is rooted in our long-term commitment to our client countries."

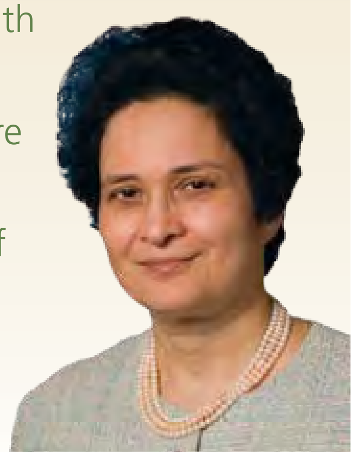


Declan Duff VICE PRESIDENT, INDUSTRIES

IFC'S CONTRIBUTION TO THE MILLENNIUM DEVELOPMENT GOALS

The international community's Millennium Development Goals for 2015 set specific targets in areas ranging from child mortality to environmental sustainability. IFC addresses the MDGs directly through, for example, investments in sectors like agribusiness, which has important impact on jobs and incomes in rural areas, and pharmaceuticals, where locally produced and generic drugs can make life-saving medicines more affordable for millions. We are active, along with the World Bank, in promoting innovative partnerships in sectors like water and sanitation that are critical for improving health and increasing economic opportunity. We work with our investment clients to address HIV/AIDS in the workplace and the community. More broadly, we help address the MDGs through our efforts to improve the environment for private sector development. A study by IFC's Independent Evaluation Group finds that countries with a better investment climate are also better positioned to reach the MDGs.

"IFC recognizes that challenges vary across the globe. We can tailor our approaches, from the smallest and poorest markets to the emerging middle-income economies, with a focus on people who are not yet seeing the benefits of growth."



Farida Khambata VICE PRESIDENT, ASIA AND LATIN AMERICA

SCALING UP OUR DEVELOPMENT IMPACT

In the last five years, IFC has committed $28.9 billion of its own funds and arranged over $6.4 billion in loan participations for 1,240 investments. We have also mobilized $5.61 billion through structured finance during that time and have been at the forefront of domestic capital market development. In addition, over the last five years we have provided more than $650 million of advisory services, funded to a large extent through the generosity of donor partners.

New investment commitments for IFC's account amounted to $8.2 billion in FY07, an increase of 22 percent compared to $6.7 billion in FY06. IFC also mobilized $1.78 billion through loan participations and $2.08 billion through structured finance in FY07. The disbursed outstanding investment portfolio stood at $16.2 billion on June 30, 2007, compared with $13.4 billion on June 30, 2006.

IFC's committed portfolio, including off-balance sheet guarantees and risk management products, increased by 18 percent to $25.4 billion on June 30, 2007, from $21.6 billion at the end of FY06. This increase is after taking into account new commitments, repayments, sales, cancellations, prepayments, write-offs, and translation adjustments. During the fiscal year, the disbursed loan portfolio grew by 19 percent, while the disbursed equity portfolio grew by 21 percent.

IFC ENGAGES IN FRONTIER MARKETS

In frontier countries and regions, IFC provides expertise to build markets and strengthen firms, as well as financial products and services that would not otherwise be available. Providing investment and advisory services side by side can produce strong results: we have achieved our best results when we invest in frontier countries that subsequently improve their business environment.

This year, frontier countries accounted for 38 percent of IFC investments and 37 percent of our advisory work. Our engagement here is much larger, relative to GDP or foreign direct investment, than in other client countries. And it continues to expand, with a strong focus on Africa and the Middle East and an increasing emphasis on frontier regions of middle-income countries, such as Brazil and China, as well as postconflict countries.

HELPING THE PRIVATE SECTOR IN CONFLICT-AFFECTED COUNTRIES

IFC has 195 active advisory service projects in 25 conflict-affected countries, and we are reaching thousands of smaller businesses in these countries with investment finance. In Africa, we are replicating successful access to finance projects, first in the Democratic Republic of Congo and more recently in Liberia. This is helping people disenfranchised by conflict start new businesses with microcredit loans.

In Lebanon, where the 2006 conflict destroyed infrastructure worth some $3.6 billion, some 1,500 local companies will get loans for working capital and business expansion as a result of $250-275 million that IFC has pledged to support recovery. The financing mostly targets smaller businesses, the main drivers of economic growth in the country. Our efforts here also include more trade finance funding, investment in the retail sector, and an expanded corporate governance program.

IC PILLARS

IFC HELPS DEVELOP LOCAL FINANCIAL MARKETS

IFC recognizes that local financial markets are fundamental to development in emerging markets. We invest and provide advisory services to financial institutions, many of which serve smaller enterprises; help put in place the infrastructure, such as credit bureaus and bond markets, that the financial sector needs to function; and work with the World Bank to create effective policy and regulatory frameworks.

Financial markets are IFC's largest business, representing 41 percent of our new commitments (almost $3.4 billion) in FY07 and 37 percent of our portfolio. By taking a wholesale approach, working with financial intermediaries, we are seeking to open up and strengthen markets in such areas as housing finance, student loans, lending for energy efficiency initiatives, and lending to micro, small, and medium enterprises—$1.67 billion in new investments this year targeted MSMEs. The IFC Global Trade Finance Program, launched in late 2005 to assist trade to and among emerging markets, has already issued 884 guarantees in support of transactions worth over $1.5 billion. IFC also helps develop emerging capital markets through structured finance, the swap market, and bonds that fund our own operations. Through these transactions as well as loans, IFC supports a growing amount of financing in local currency.

FINANCING FOR WOMEN-OWNED BUSINESSES

Women entrepreneurs are a large untapped market in developing countries. Financing them is good for business—and it fuels development, as increasing poor women's economic empowerment leads to greater spending on family welfare, nutrition, and children's education. In Bangladesh, for example, IFC client BRAC Bank has established a unit to serve women entrepreneurs, part of its larger effort to expand its reach in rural areas for clients with loans just above the threshold for microcredit.

In Africa, IFC's integrated program of policy reform, investment, and advisory services is helping banks engage in this market. We have provided pioneering local financial institutions in Nigeria, Tanzania, and Uganda with a combined $41 million in financing and hands-on support from industry leaders in Australia, Canada, Ireland, and the United States. Since October 2006, when IFC disbursed its first-ever line of credit dedicated to women, Access Bank in Nigeria has on-lent $10.8 million to 103 women-owned businesses and a microfinance institution that reaches 1,500 women.

IFC INVESTS IN INFRASTRUCTURE, HEALTH, AND EDUCATION

Basic services—including infrastructure, health, and education—are vital to growth in developing countries, as these help poor people participate in the broader economy and emerge from poverty. Across the developing world, however, households and companies suffer from poor access and inadequate and unreliable services. Infrastructure poses many bottlenecks in both frontier and middle-income economies, especially for firms that rely on exports and seek to emerge as global players.

IFC has dedicated substantial resources to these strategic sectors, and the effort is now showing results. Commitments grew from $679 million in FY05 to $1.14 billion this year, but the needs remain substantial. We help develop new ways to encourage investment in these sectors, including through innovative public-private partnerships and advice on privatization. This year, we launched a joint department with the World Bank to provide funding and advice to the subnational entities that provide basic services.

HELPING UNIVERSITY STUDENTS FINANCE THEIR EDUCATION

In Indonesia, a shortage of affordable student loans has been a barrier for students from middle-class and disadvantaged households who seek a university education. Less than 10 percent of young people are enrolled in higher education, and less than 4 percent complete their university studies. To help, IFC is partnering with the Sampoerna Foundation, a local nonprofit dedicated to improving the education sector, and with Bank Internasional Indonesia Tbk in the country's first private financing facility for student loans. This effort is creating a risk-sharing facility that enables philanthropic contributions from the foundation to leverage a portfolio of student loans. This is the first facility worldwide designed to leverage soft funds from a foundation. It is expected to help some 15,000 new students cover the cost of tuition and university entrance fees.

IFC PROMOTES SUSTAINABLE DEVELOPMENT

Expertise on sustainability is an important component of the value IFC offers in a competitive marketplace—and something clients increasingly see as helpful to their business. Attention to environmental and social performance and good corporate governance helps our clients' businesses thrive and grow.

RESPONDING TO CLIMATE CHANGE

IFC's performance standards require client companies to reduce, manage, and mitigate the climate change impacts of their businesses. Clients increasingly seek support in preparing for new types of risk because of climate vulnerability, as well as guidance on risk management, including the types of insurance coverage needed. We also encourage the insurance markets to adapt to the private sector's changing needs. As a global investor, we work with partners to foster and invest in the development and uptake of sustainable energy and cleaner technologies, as well as innovative financial products designed to help lower carbon emissions. In carbon finance, this year IFC delivered the first certified emission reductions to the Dutch government; these came from Eco Power in Sri Lanka, which is generating clean, renewable energy with several small hydroelectric projects.

IFC is an active partner in the World Bank Group's 2004 Bonn commitment to scale up support for renewable energy and energy efficiency by 20 percent annually. In FY07, IFC's investments in these areas totaled $450 million. A key development here was the launch of a program to promote energy efficiency through Chinese banks. IFC will also begin reporting on the carbon footprint of our portfolio in FY08, data that should help identify ways to reduce these impacts.

IFC BUILDS LONG-TERM PARTNERSHIPS

IFC seeks to nurture both new and long-standing clients, helping them grow and, in many cases, expand into new markets, including other developing countries and regions. Long-term partnerships allow us to help emerging market companies make sustained improvements in their corporate governance and sustainability, as well as contribute more to their local communities. Hence our engagements with long-term partners yield relatively high development impacts.

Among this year's investments, 38 percent were in frontier markets and 16 percent involved South-South investment into other developing countries. Domestic sponsors accounted for 64 percent of our investments overall.

BRINGING WATER TO POORER COMMUNITIES IN MANILA

The recipient of this year's IFC Client Leadership Award is Manila Water Company, a successful private water and wastewater concessionaire in the Philippines that is making considerable contributions to sustainable development.

Manila Water has had considerable operational and financial success in supplying the East Concession for metropolitan Manila. It serves 870,000 households, up from 325,000 a decade ago. Over 98 percent of its customers today have a 24-hour water supply, up from 26 percent in 1997. More than a million urban poor people now have clean, safe, and affordable drinking water, and cases of waterborne diseases have dropped by nearly a third. But what makes Manila Water stand out is its skill in turning its orientation on clients and the community into a highly successful operation. It engages local communities in informal settlements to ensure that collective billing is timely and effective. It employs small-scale entrepreneurs to develop local business, supports microlending to broaden opportunities for its customers, and brings affordable water to schools, hospitals, markets, and households. Manila Water has translated its strategic objectives into measurable goals and action plans for clients, the environment, financiers, and the government, thus linking its business success to overall performance. Its decentralized structure fosters a strong sense of ownership and responsibility among employees and local communities.

IFC has provided a total of $90 million in loans and $15 million in equity to support the company's network rehabilitation and expansion, helping transform an inefficient public utility into a world-class operation. By incorporating the needs of the poor into innovative programs, Manila Water has demonstrated that water privatization can succeed economically and improve water quality and efficiency while expanding service into poorer communities.

LEARNING AND ADAPTING AS WE GROW

IFC's impact and value to clients depend on our ability to track and learn from results. This means taking innovative approaches to measuring not only financial performance, but also our development impact and the sustainability of our engagements. It means learning and adapting, while building on successes. Evaluations allow us to assess investments and advisory projects during their life cycle and make improvements if needed. They also inform the design of new engagements.

Building on our successes, learning from our failures …	**… helps us increase our impact on development.**
The quality of the investment climate is an important driver of development results.	**We are helping countries around the world reform their investment climate** by simplifying regulation and strengthening local institutions and business-related legislation.
We are more effective in reaching larger numbers of smaller clients through financial intermediaries.	**We use local intermediaries to increase our reach to MSMEs,** improving access to finance for these important drivers of development at a more competitive cost. In Africa, we support one-stop shops to provide smaller businesses with advice and other services.
Working with repeat clients helps deepen our development impact.	**We focus on developing long-term partnerships with emerging country clients.** In our portfolio, we seek to balance enhancing our development impact through repeat engagements and building relationships with new partners.
A strong focus on socially critical sectors like agribusiness can improve both our development and our sustainability impact.	**We have made agribusiness a strategic priority.** We will scale up our support for the sector, working with companies to improve sustainability and increase economic impacts, including employment, to help lift rural people out of poverty.

A STRONGER FOCUS ON RESULTS

This year, for the first time, IFC is bringing together in one report information about our financial performance, our performance in enhancing the environmental and social impact of our engagements, and our broader development impact. In the pages that follow, you will find more information about:

- how we approach results measurement
- our latest results by product line, by region, by industry, and in our advisory services
- our work with partners in government, the private sector, and civil society
- our internal governance and processes, including efforts to model in our own organization the high standards we seek to bring to our private sector clients in emerging markets

While some aspects of IFC's reporting remain a work in progress, this report provides the fullest picture to date of the work we are doing to reduce poverty and improve lives in emerging markets worldwide.

INTRODUCING DOTS

IFC has a long-term commitment to measuring results. The World Bank Group's Independent Evaluation Group has a well-established role in evaluating IFC's development impact for representative samples of mature projects, and its approach is considered the best among its peers.

To enhance our measurement of the development effectiveness of our investment and advisory work, IFC launched the Development Outcome Tracking System in October 2005. The new system is consistent with the ongoing work of IEG but differs in permitting contemporaneous monitoring of development results throughout a project's life cycle. This earlier feedback gives IFC an ability to make mid-course corrections in investment operations and advisory work. It enables us to capture more systematically the developmental reach of our engagements—for example, how they help create jobs or expand critical services. Information captured in DOTS also informs IFC's incentive system at the corporate, departmental, and individual levels, and it feeds into the formulation of strategy.

Some 2,300 IFC staff have received DOTS training, and the system now covers IFC's entire active investment portfolio and all advisory projects.

APPLYING DOTS TO IFC INVESTMENTS

DOTS enables ongoing tracking of the good practice standards applied by IEG in its evaluations. We distinguish four areas of performance: financial performance, broader economic performance, social and environmental performance, and private sector development impacts.

- For financial success, which measures return to the financiers, we compare returns to our client companies' cost of capital.
- For economic returns, which measure returns to society as a whole, we compare benefits against a benchmark of 10 percent annually, plus inflation.
- To assess social and environmental performance, we look at compliance with IFC's performance standards.
- To assess private sector development impacts, we look at how investments contribute to private sector development beyond the client company.

We use an aggregate index, based on these four components, to measure overall development success. Results from DOTS are proving consistent, overall, with evaluations by IEG.

The most meaningful measure of financial performance is the market test. To be a commercial success, a company has to outperform the competition and beat market benchmarks to continue to attract private funding. In a market environment, only about half of all projects succeed, and this has also been IFC's experience in terms of financial performance.

Unlike with financial performance, there is no simple number to measure how IFC's investments contribute to private sector development beyond the client company. Sometimes an investment has demonstration effects—when it shows how the private sector can succeed in a difficult country environment; when it improves environmental, social, or corporate governance standards; or when it uses new technologies. Sometimes the added impact comes from links to the local economy: for example, our manufacturing and services clients alone purchased over $24 billion of goods and services locally in 2006. Sometimes IFC investments help bring changes in the business environment, particularly when we combine them with advisory services: for example, IFC helps governments revise laws and regulations to allow leasing and is also able to help firms enter this new market. Financial performance and development results are closely aligned: IFC's profits are a reliable indicator that we are achieving our mission.

IEG 2007 REPORT: RESULTS, LESSONS, AND IMPLICATIONS FROM 10 YEARS OF PRIVATE SECTOR DEVELOPMENT EVALUATION

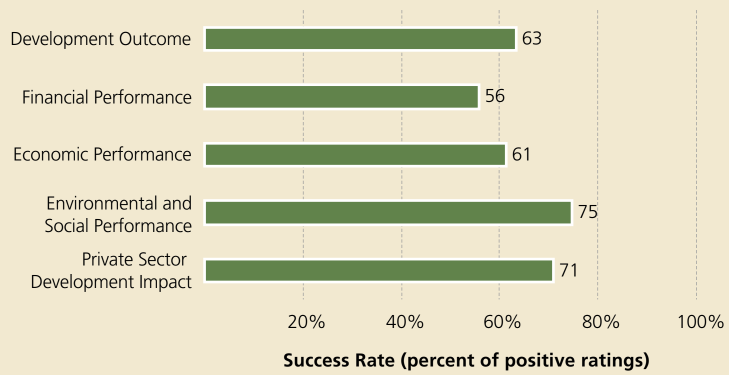
This year, a new IEG report looked back on 10 years of evaluating IFC's development results. The review found a good overall result, that 59 percent of investments (65 percent by volume) evaluated between 1996 and 2006 achieved high development ratings—they were, on balance, delivering sustainable results across financial, economic, environmental, and social performance, as well as contributing to private sector development generally. The report underscores that profitability and development impact usually go hand in hand, and that our development impact is further enhanced when we work with repeat clients. It also underlines the critical importance the quality of IFC's own project execution and supervision (particularly of environmental and social effects) for our development results.

The report generally endorses IFC's strategic directions, but also provides guidance for coming years. It recommends that IFC adopt more tailored, sharply focused country strategies, especially for middle-income countries, as well as strengthen cooperation with the World Bank in key areas such as business environment and financial sector work, infrastructure development, and environmental and social impact.

WHICH INVESTMENTS DOES DOTS COVER?

The DOTS results reported here are for investment projects that IFC started between 1998 and 2003 and that are still active in our portfolio. We do not report on newer investments, since they are too immature for us to be able to judge their success reliably. We also do not report success rates on older investments, since they are less relevant for today's operations, and because many of them are already closed.

IFC'S DEVELOPMENT RESULTS FOR INVESTMENTS



DOTS data as of June 30, 2007, for projects approved in calendar 1998-2003.

Historically, as evaluated by IEG, about 60 percent of IFC's investments have managed to meet the combined conditions of success described above. As of June 30, 2007, DOTS showed that 63 percent of our mature investment portfolio had high development outcome ratings, similar to success rates reported by IEG. Some 75 percent of these investments had successful environmental and social performance, while 71 percent had significant private sector development impacts, such as positive demonstration effects or an improved business environment. Aid agencies that focus on activities for which clear market benchmarks do not exist can evaluate success only by comparing stated intentions with achievements, not whether the activity did better than competitors. Hence they typically report success rates at or exceeding 80 percent, but these ratings are subjective.

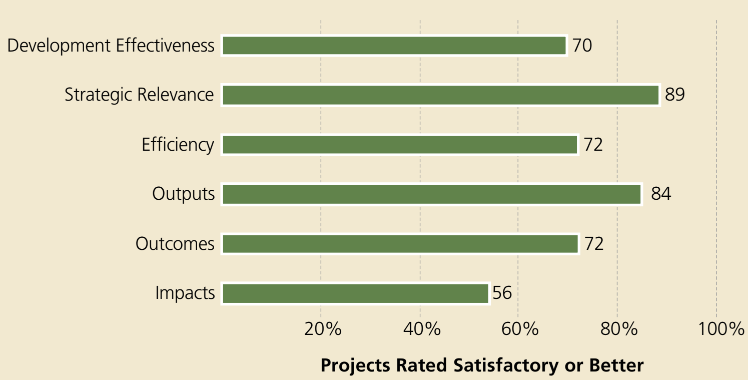
APPLYING DOTS TO IFC ADVISORY PROJECTS

For advisory projects and programs, DOTS enables ongoing monitoring of key measures of performance against objectives. All projects are required to specify objectives with output, outcome, and impact indicators, as well as targets for these indicators. These are monitored during the life of the project, and they are compared at project completion to achieved results. DOTS, like IEG, looks at five dimensions of advisory project performance, which are synthesized into an overall rating of development effectiveness:

- Immediate deliverables, or *outputs.*
- Medium-term *outcomes,* measured in terms of changes in knowledge, behavior, or performance.
- Longer-term *impacts,* such as higher productivity, higher income, and growth.
- Strategic relevance, and the fit of the advisory service engagement to the issues at hand.
- The efficiency of the engagement: project costs in relation to potential results.

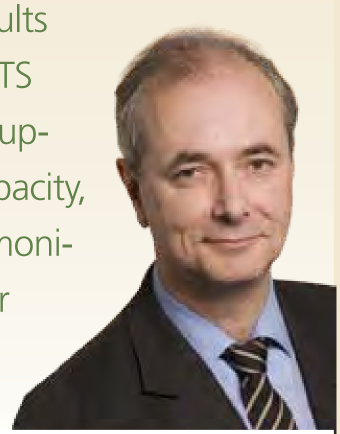
As evaluated by IEG, where calculable, the overall development effectiveness success rate for advisory projects that were completed between July 2004 and December 2006 is 70 percent. While outputs can be observed during project implementation, outcomes and impacts tend to come only after a project ends and are thus harder to measure. Hence IFC is putting in place a mechanism to track, for selected projects, longer-term impacts.

IFC'S DEVELOPMENT RESULTS FOR ADVISORY SERVICES



Data based on a random sample of 293 projects evaluated by IFC's Independent Evaluation Group.

Understanding how our investments and advisory work contribute to development goals — and learning how to enhance this contribution — depends on a clear and consistent approach to results monitoring. DOTS is an important upgrade to our capacity, enabling us to monitor results as our projects unfold.



Michael Klein VICE PRESIDENT, FINANCIAL AND PRIVATE SECTOR DEVELOPMENT, AND IFC CHIEF ECONOMIST

OUR SYSTEMS IN CONTEXT

Good practice standards for assessing development results of investment projects have been agreed upon by multilateral development banks. In 2005, a consultant study commissioned by the MDBs found that IFC's evaluation system was the most consistent with these standards. Since then, many institutions have strengthened their results measurement. A subsequent 2007 consultant review found that IFC's results measurement and reporting continues to be at the forefront both for investment and for advisory services, for example by publishing development results of its portfolio, by seeking external assurance for this report, and by innovating through control group experiments.

IFC's private sector investments constitute over 30 percent of the volume among all development finance institutions that provide such financing in emerging markets. IFC leads in terms of profitability, with equity returns double the average of such institutions for almost every year in the past decade. Development results are not comparable across peer institutions, largely due to differences in systems, approaches, and implementation.

ENHANCING OUR RESULTS MEASUREMENT OVER TIME

FOR INVESTMENTS

As we continue to improve our measurements, we gain insights into the impacts of our activities. For investments, one first step was to collect a systematic set of indicators of development reach at the company level. In this report, we have aggregated these indicators by sector and region for the first time to show the reach of IFC clients in developing countries.

We have also started to standardize indicators and to set specific benchmarks for the results we expect them to achieve. Standardizing indicators allows us to compare performance across projects and to aggregate results. This includes aggregating across industries to provide a regional view. However, more work remains in this area.

For our investments, this report also shows how much IFC expects client companies to expand their reach, for example by providing jobs to people, improving access to finance or infrastructure for businesses and households, or paying revenues for governments. It will be some years before we will be able to report on the extent to which these expectations have been fulfilled.

IFC is tracking changes in reach over time. Using the previous year as a baseline, we can see how many new businesses were established or new jobs created. For example, the 99 financial market clients for which we had portfolio data for 2005 and 2006 had increased their portfolios of micro, small, and medium enterprises by 23 percent, adding some 650,000 loans. Investment volumes increased by 33 percent, or over $6.5 billion.

IFC'S REACH

Reach indicators give an indication of the people touched by IFC's activities.

INVESTMENTS, 2006

- Hospital patients treated: 4 million
- Students educated: 350,000
- Electricity customers served: 9.5 million
- Water customers served: 15.3 million
- MSME loans: 5 million
- New phone connections: 53 million
- Local purchases by IFC clients: $31 billion
- Community development spending by clients: $250 million

ADVISORY SERVICES, 2002-2006

- Assisted 1,768 banks
- Assisted 40,000 entrepreneurs

FOR ADVISORY SERVICES

IFC uses a number of evaluation tools to measure the development outcomes and impacts of our advisory work. These range from cost-benefit analyses to inform decision making at the outset, to before-and-after analyses, to randomized experiments with large-scale data collection efforts.

Randomized experiments are the most advanced method for evaluating results, as they allow us to assess whether the recipients of advisory services are better off than a control group. IFC leads in developing the use of such experiments for advisory work in emerging markets. As of the end of FY07, we are implementing 25 such experimental designs to evaluate advisory programs.

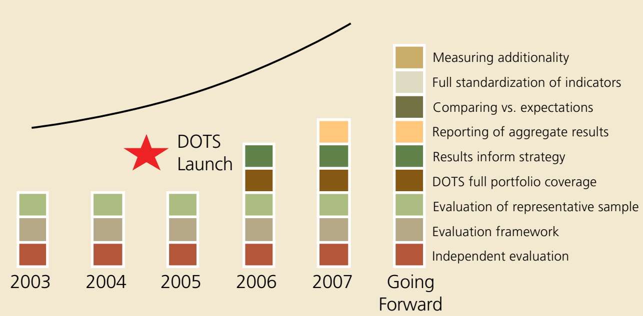
For example, a quasi-experimental evaluation of IFC's alternative dispute resolution program in Serbia showed significant reductions in time and cost as businesses used mediation rather than the court system. By contrast, for a farm forestry program in India and a seaweed farmer cooperative program in Indonesia, randomized trials and quasi-experimental evaluations showed the difficulty of doing better than other market participants, because of the high cost of discovering market information that is relevant to individual farm operations.

The data provided on our advisory services in this year's report reflect our ongoing and evolving work to quantify the outcomes and impacts of these engagements.

BEFORE AND AFTER COMPARISON

New business registrations	Relative to previous three years
El Salvador	Up 100%
FYR Macedonia	Up 78%
Georgia	Up 55%

EVOLUTION OF RESULTS MEASUREMENT



A NEW GLOBAL BENCHMARK

In April 2006, IFC reinforced a long-standing commitment to sustainability by adopting a new policy and performance standards for managing environmental and social risk. We also support the use of our standards by commercial banks, export credit agencies, and other financial institutions. Previous IFC safeguards were adopted as the basis for the Equator Principles in 2003. Today our standards form the basis of a revised set of Equator Principles for financing projects with capital costs above $10 million. Over 50 leading financial institutions have signed on—including some key players from emerging markets—and the principles are estimated to cover nearly 90 percent of global, cross-border project finance. During FY07, 18 of the Equator institutions provided 46 percent of new loan participations in IFC investments. In June 2007, the Organisation for Economic Co-operation and Development updated the Common Approaches for Export Credit Agencies with references to IFC's performance standards.

IFC INVESTMENT PROJECT CATEGORIES

A Expected to have significant adverse social or environmental impacts that are diverse, irreversible, or unprecedented

B Expected to have limited adverse social or environmental impacts that can be readily addressed through mitigation measures

C Expected to have minimal or no adverse impacts; includes certain financial intermediary projects

FI Investments in financial intermediaries that have no adverse social or environmental impacts but that may finance subprojects with potential impacts

STRONGER STANDARDS

IFC's new policy and performance standards for social and environmental sustainability took effect on April 30, 2006. Some 182 new projects have been screened against them as of June 30, 2007, and we have improved procedures and internal monitoring systems to keep pace.

The standards enable our clients to meet environmental and social challenges and IFC to process complex projects more effectively. With the performance standards we are doing more and better deals. Our clients are implementing the standards and meeting IFC's requirements; these include, among other things, comprehensive environmental and social management systems; safe working conditions; avoidance of child labor; free, prior, and informed consultations of affected communities; and mitigation of threats to biodiversity.

The standards apply to all new IFC investments. For a given project or company, certain standards are particularly relevant depending on levels of risk, location, and the nature of the business, and the application of these standards results in specific items that the client is expected to act on.

The new performance standard on Labor and Working Conditions has strengthened IFC's engagement with clients on these issues, including the International Labour Organization's core labor standards. IFC now assesses the client's management systems on labor and working conditions and looks at how these are implemented with the company's employees and contractors, as well as how the company addresses child labor and forced labor among its suppliers. In such industries as agribusiness and global manufacturing and services, we pay particular attention to traceability and monitoring of labor and working conditions across the supply chain.

Our Board expects us to work more quickly, effectively, and without compromising on quality. Initial results indicate that applying the new standards has not significantly increased IFC's cost of doing business or the time we need to process projects. We continue to share our experiences with the rest of the private sector. In May 2007 we convened the first Community of Learning Event for Equator Banks and other bilateral and multilateral financial institutions.

MANAGING ENVIRONMENTAL AND SOCIAL RISK AND PERFORMANCE IN OUR PORTFOLIO

IFC monitors the environmental and social performance of investments and manages associated risks as part of our portfolio management. We have been calculating an environmental and social risk rating (ESRR) for applicable investments since 2000. This rating is given and updated, typically once a year, by our environmental and social specialists and is based on reports provided by clients and on supervision site visits. The frequency of visits depends on an investment's risk rating and how it performs.

With the launch of new performance standards in 2006, IFC introduced an expanded methodology that allows us to disaggregate data on performance and risk components for all projects following the performance standards. We give an ESRR to companies that have some degree of risk in their projects (as reflected by their categorization as A, B, or FI) and that have passed their first reporting period. IFC has environmental and social risk knowledge on 70 percent of the portfolio, including projects with no expected risk (category C) and projects that have not passed their first reporting milestone (normally after 14 months). We do not update ESRRs on projects that have no remaining IFC investment.

IFC's goal is to have an ESRR for all investment projects that have potential adverse environmental and social impacts and have passed their first reporting milestone. Sufficient information for an ESRR is particularly difficult to obtain where companies run into financial or legal difficulties. In these cases, IFC regards these investments as no longer reporting, although from an environmental and social risk management perspective we still seek to assure ourselves that there is not a significant risk to IFC, the environment, or local communities.

The DOTS rating includes IFC's assessment of the extent to which companies in the portfolio are meeting environmental and performance requirements, drawing from the ESRR.

IMPLEMENTATION OF THE STANDARDS

Highlights since April 2006 have included the following:

- Adopting an environmental and social review procedure that guides staff and formalizes new components in the appraisal and supervision process.
- Creating a central information management system that consolidates related decision making for all projects.
- Introducing a new quality assurance system and team to ensure higher standards of supervision and monitoring.
- Training 1,228 IFC employees, including 532 investment staff, in sessions at headquarters and in the field.
- Providing additional training on standards related to labor and working conditions and security personnel.
- Running nine external training sessions for consultants and clients in China, Ghana, India, Indonesia, Kenya, Russia, South Africa, and Turkey.
- Issuing new versions of the World Bank Group's Environmental, Health and Safety Guidelines on April 30, 2007, which offer technical guidance on pollution prevention and abatement to both public and private sector users.
- Publishing guidance on lessons of experience from two major oil pipeline projects, BTC and Chad-Cameroon; a handbook on stakeholder engagement; and a guide to applying the International Labour Organization's code regarding indigenous peoples.

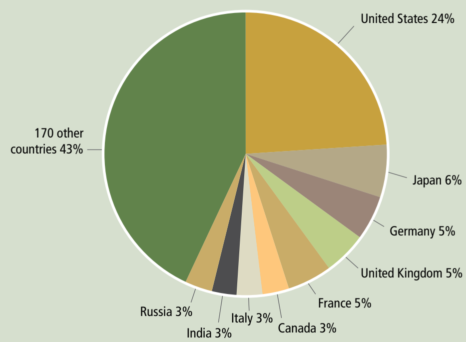
ASCERTAINING COMMUNITY SUPPORT FOR COMPLEX PROJECTS

To ensure the support of the local people their projects will affect, IFC's clients are required to undertake free, prior, and informed consultation wherever communities are subject to risks or adverse impacts as the result of a new IFC investment project. In such cases—and before seeking Board approval of the project—IFC verifies that the process has enabled the informed participation of the affected communities and has led to broad community support for the project. Such consultations were required in seven instances during FY07: two category A and five category B projects.

IFC AT A GLANCE

OUR MEMBER COUNTRIES

STRONG SHAREHOLDER SUPPORT

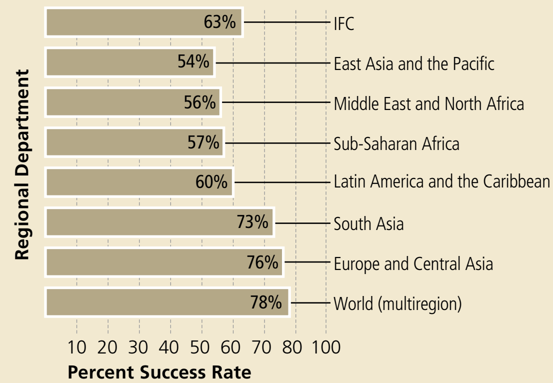


LARGEST COUNTRY EXPOSURES (JUNE 30, 2007)

Global rank	Country name	Portfolio ($ millions)	Percent
1	Russian Federation	2,238	9%
2	India	2,117	8%
3	China	1,680	7%
4	Brazil	1,618	6%
5	Turkey	1,342	5%
6	Mexico	1,228	5%
7	Argentina	768	3%
8	Colombia	756	3%
9	Indonesia	743	3%
10	Nigeria	684	3%

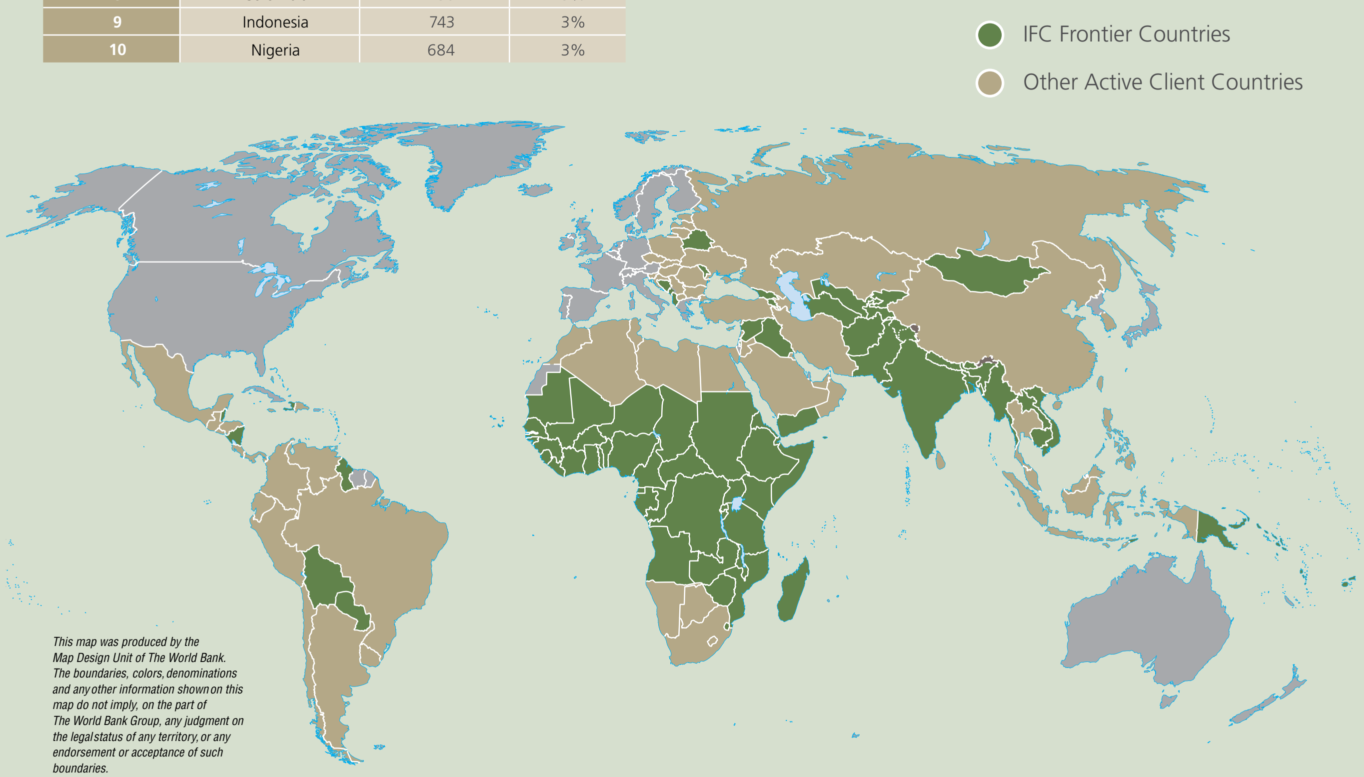
OUR DEVELOPMENT IMPACT

DEVELOPMENT RESULTS BY REGION

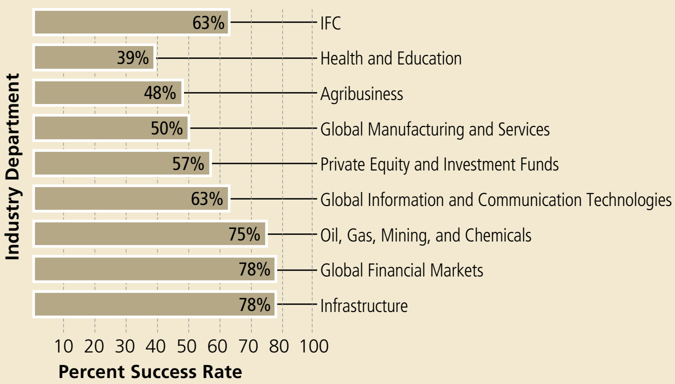


DOTS data as of June 30, 2007, for projects approved in calendar 1998-2003

IFC fosters sustainable private sector growth in developing countries.

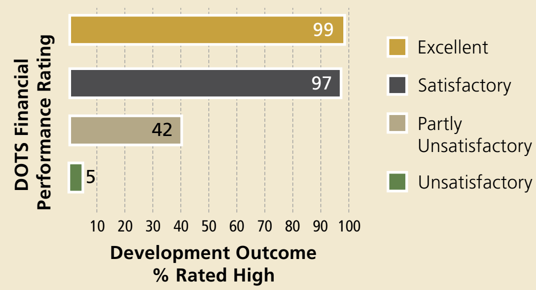


DEVELOPMENT RESULTS BY INDUSTRY



DOTS data as of June 30, 2007, for projects approved in calendar 1998-2003

FINANCIAL PERFORMANCE AND DEVELOPMENT OUTCOME



DOTS data as of June 30, 2007, for projects approved in calendar 1998-2003

SUSTAINABILITY

CUMULATIVE COMMITMENTS BY ENVIRONMENTAL AND SOCIAL CATEGORY

Category*	Commitments ($ billions)	Number of investments
A	4.7	132
B	27.9	1,677
C	8.1	792
FI	14.1	796
N**	7.5	1,196
U**	2.0	299

*See category descriptions on p. 20.
**N and U refer to projects committed before IFC began implementing environmental policies and guidelines in 1993.

FY07 COMMITMENTS BY ENVIRONMENTAL AND SOCIAL CATEGORY

Category*	Commitments ($ millions)	Number of investments
A	593.2	8
B	3,522.6	112
C	1,462.9	94
FI	2,640.9	85

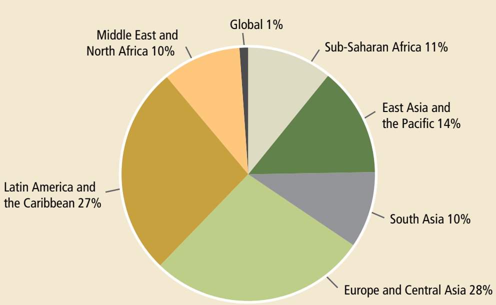
FY07 Investments in Renewable Energy and Energy Efficiency: $450 million

Visit IFC's Annual Report on the Web—www.ifc.org/annualreport—for more information on sustainability, including a Global Reporting Initiative index.

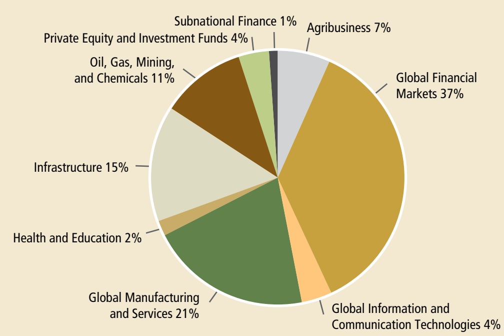
INVESTMENT PORTFOLIO

For IFC's own account as of June 30, 2007: $25.4 billion

COMMITTED PORTFOLIO BY REGION



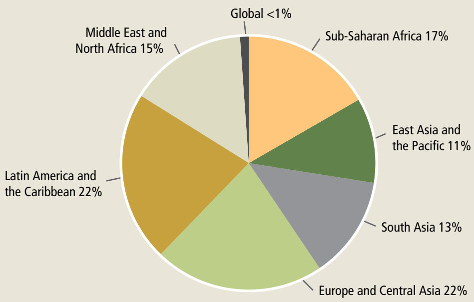
COMMITTED PORTFOLIO BY INDUSTRY



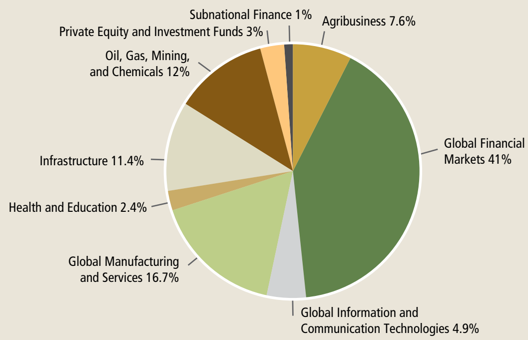
IFC AT A GLANCE

FY07 INVESTMENTS For IFC's own account as of June 30, 2007: $8.2 billion

BY REGION



BY INDUSTRY



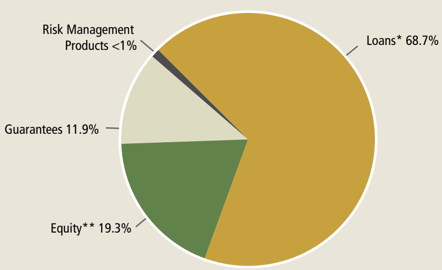
*Some amounts include regional shares of investments that are officially classified as global projects. See regional sections for details.

IFC INVESTMENT OPERATIONS AND RESOURCES ($ MILLIONS)

	FY03	FY04	FY05	FY06	FY07	Five-year total
Investment commitments						
Number of projects‡	204	217	236	284	299	1,240
Number of countries	64	64	67	66	69	—
Total commitments signed* **	**5,037**	**5,632**	**6,449**	**8,275**	**9,995**	**35,388**
For IFC's own account***	3,856	4,753	5,373	6,703	8,220	28,905
Held for others	1,181	879	1,076	1,572	1,775	6,483
Structured finance mobilization**	751	480	1,049	1,245	2,083	5,608
Investment disbursements						
Total financing disbursed	**4,468**	**4,115**	**4,011**	**5,739**	**7,456**	**25,789**
For IFC's own account	2,959	3,152	3,456	4,428	5,841	19,836
Held for others	1,509	964	555	1,311	1,615	5,954
Committed portfolio*						
Number of firms	1,378	1,333	1,313	1,368	1,410	
Total committed portfolio* **	**23,379**	**23,460**	**24,536**	**26,706**	**30,954**	
For IFC's own account***	16,777	17,913	19,253	21,627	25,411	
Held for others	6,602	5,546	5,283	5,079	5,543	

‡Includes first commitment to projects in the fiscal year. Projects involving financing to more than one company are counted as one commitment.
*Total committed portfolio and held for others include securitized loans.
**This financing is not included on IFC's balance sheet.
***Includes loan guarantees and risk management products.

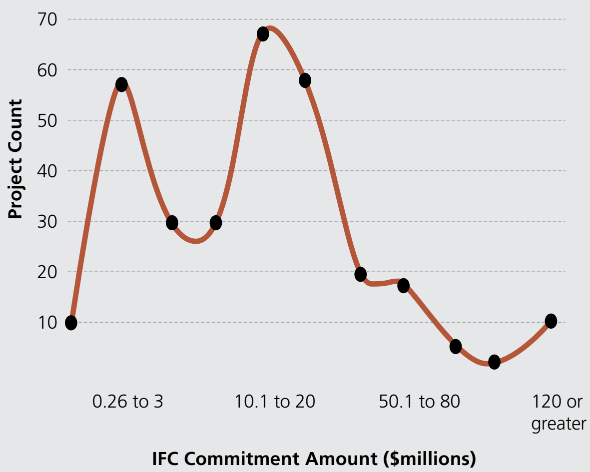
BY PRODUCT



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

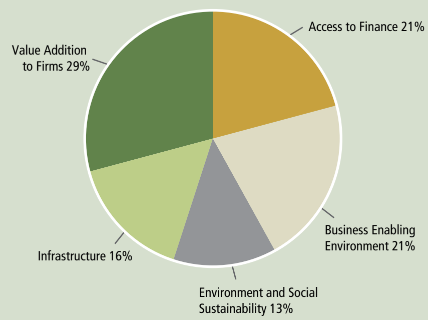
IFC also mobilized $3.9 billion in FY07 through structured finance, loan participations, and parallel loans.

FY07 INVESTMENTS BY SIZE OF IFC COMMITMENTS

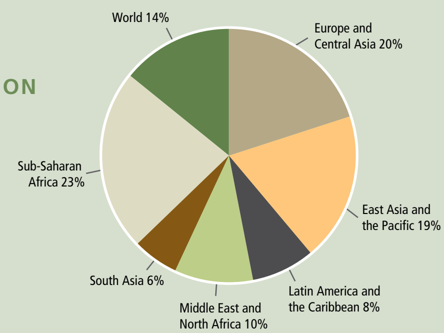


FY07 ADVISORY SERVICES

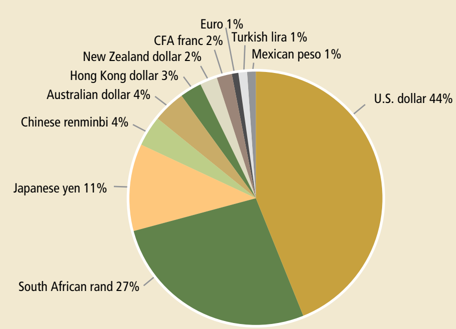
EXPENDITURES BY BUSINESS LINE



EXPENDITURES BY REGION

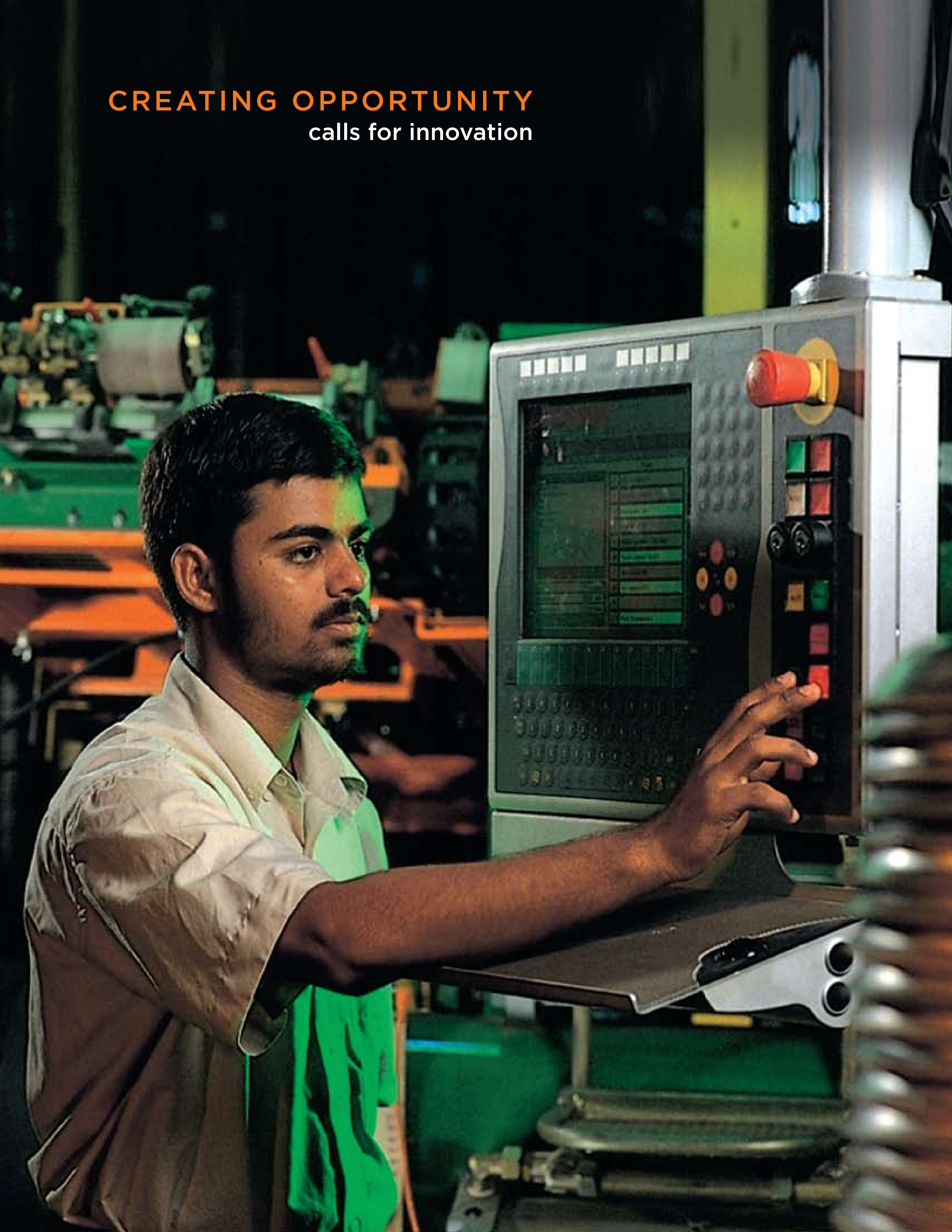


FY07 BORROWING ON INTERNATIONAL MARKETS



The FY07 Financial Statements and Management's Discussion and Analysis appear later in this volume and provide full financial information.

CREATING OPPORTUNITY
calls for innovation



IFC OPERATIONS AND FINANCIAL RESULTS BY PRODUCT LINE

IFC's financial products and advisory services go beyond those that developing country markets and private investors can provide on their own.

IFC is the largest provider of multilateral financing for the private sector in the developing world. In FY07, IFC invested $8.2 billion for our own account and mobilized an additional $3.9 billion through loan participations, structured finance, and parallel loans. Altogether, we supported 299 investments in 69 countries, typically funding about 25 percent of the total project cost. We also approved 349 new advisory projects in 84 countries; total expenditures for advisory services were $197 million.

Our operations create opportunity for progress in developing regions and sectors and contribute to economic, financial, environmental, and social sustainability. This year, 38 percent of our investments were in frontier countries, and there was strong growth across all of our product lines. Guarantees, primarily for trade finance and structured finance, registered the largest increase on our balance sheet (69 percent), followed by equity investments (37 percent). New loans increased 13 percent to our largest-ever volume of $5.6 billion, while loan participations grew 12 percent to $1.8 billion. Our resource mobilization increased by over $1 billion (36 percent) compared to FY06.

IFC has been consistently profitable since 1956, and our financial results reflect the success and growth of enterprises in emerging markets around the world.

OVERVIEW OF FINANCIAL RESULTS

IFC's performance for FY07 continued its recent strong trend. Income after expenditures (operating income) was $2.61 billion in FY07, an increase of $1.2 billion when compared with FY06 results. Operating income comprises revenue from client services operations (primarily corporate and project finance) and income from treasury services, after administrative expenses, advisory services, expenditures for performance-based grants, and grants to IDA.

IFC's net worth consists of retained earnings and paid-in capital. Our paid-in capital remains $2.4 billion, while net income of $2.62 billion this year increased retained earnings to $11.3 billion. The Corporation's net worth at the end of FY07 was $14.1 billion.

Overall, our operating return on average net worth was 21.2 percent in FY07, compared to 13.7 percent in FY06. Net income reported for FY07, including gains (losses) on nontrading financial instruments, was $2.6 billion, compared with $1.3 billion for FY06. The main contribution to the increase in net volume in FY07 was the significant rise in realized capital gains on equity sales and dividend income, while interest and fees from loans and debt securities, and liquid asset portfolio income also rose in FY07.

IFC's liquid asset portfolios earned an absolute return well in excess of that recorded in FY06, but they underperformed when compared to benchmarks in certain portfolios. Income from liquid assets, net of allocated funding cost, amounted to $320 million, including $14 million of spread income from market-funded liquid assets, as compared to $178 million and $92 million, respectively, in FY06.

Administrative expenses on the financial statements rose 11 percent to $482 million in FY07, compared to an increase of 8 percent to $436 million in FY06.

The preponderance of profits this year came from realized capital gains on equity investments IFC had made in countries that now may be as classified as middle income. Three such countries, Romania, Russia, and Kazakhstan, together accounted for over 60 percent of total capital gains in FY07.

IFC'S FINANCIAL RESULTS ($ MILLIONS)

	FY07	FY06
Client services—operating income	2,291	1,231
Loan	108	106
Equity/quasi-equity, including debt securities	2,401	1,318
Expenditures for advisory services	(96)	(55)
Expenditures for performance-based grants	-	(35)
Grants to IDA	(150)	-
Corporate charges and other	28	(103)
IFC treasury services—operating income	320	178
IFC operating income	**2,611**	**1,409**

Investment Commitments

New investment commitments for IFC's account amounted to $8.2 billion, including $982 million in signed guarantees. This represents an increase of 22 percent compared to $6.7 billion in FY06. IFC also mobilized $1.8 billion through loan participations and $2.1 billion through structured finance and parallel loans.

The largest share of commitments for IFC's own account went to Europe and Central Asia (22 percent), Latin America and the Caribbean (22 percent), and Sub-Saharan Africa (17 percent). We saw the greatest increase in South Asia. The business sectors with the highest volume of new commitments were Global Financial Markets with 41 percent, followed by Global Manufacturing and Services with 17 percent.

Disbursements for IFC's own account in FY07 were $5.8 billion, up from $4.4 billion in FY06. Loan disbursements were $4.7 billion, and equity disbursements were $1.1 billion. IFC also disbursed $1.6 billion in loan participations with other financial institutions.

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, we provide 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 committed over $3.8 billion equivalent in local currency, using derivatives for 137 transactions in 18 currencies. In FY07, we committed our first local currency loans in Nigeria, Romania, and Vietnam, and we have been particularly active in providing financing in Brazilian reais, Indian rupees, Mexican pesos, and Russian rubles. This form of financing requires long-term derivatives markets, and we work 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 participation in the structuring and credit enhancement of transactions, IFC has helped introduce new asset classes. Transactions have enabled IFC's clients to secure attractive long-term local currency financing and have been catalysts in expanding numerous domestic markets. IFC has completed 58 domestic market structured transactions in 21 currencies for an exposure of $753 million equivalent and assisted in mobilizing over $4.6 billion equivalent since 2001.

Investment Portfolio

IFC's committed portfolio, including off-balance sheet guarantees and risk management products, increased by 17.5 percent to $25.4 billion on June 30, 2007, from $21.6 billion at the end of FY06. In addition, we managed $5.5 billion in loan participations. At the end of FY07, the committed portfolio included investments in 1,410 companies in 116 countries. Some 24 percent of these investments were in frontier countries.

The net increase in committed portfolio was $3.8 billion after taking into account new commitments, repayments, sales, cancellations, prepayments, write-offs, and translation adjustments. Loan principal repayments and prepayments totaled nearly $2.6 billion, and $596 million in equity investments were sold or redeemed.

The total disbursed and outstanding investment portfolio (before fair value and other adjustments) stood at $16.2 billion at the end of FY07, compared with $13.4 billion at the end of FY06. The disbursed loan portfolio grew by 18.9 percent, while the disbursed equity portfolio grew by 21.2 percent.

PRODUCT LINES

IFC provides a range of financial products and advisory services to clients in developing countries. These include loans for our own account and for the account of participating financial institutions, equity and quasi-equity investments, structured finance transactions, and advisory services that support private sector development. A growing number of investments provide or promote financing in local currency, and our involvement in trade finance is expanding rapidly.

Loans

We finance projects and companies through loans for our own account, generally for seven to 12 years, though some loans have been extended for tenors as long as 20 years. We also make loans to intermediary banks, leasing companies, and other financial institutions for on-lending, for example to smaller businesses. IFC extends loans in major or local currencies, depending on the needs of our clients, and we hedge against currency risk by using swap-based instruments.

In FY07, we made commitments for $5.6 billion in new loans. Interest and financial fees from loans (including guarantee fees) increased 33 percent in FY07 to $1.01 billion, from $807 million in FY06. Total reserves against losses on loan investments decreased to $832 million in FY07, representing 6.5 percent of the disbursed loan portfolio, down from 8.3 percent in FY06.

Equity

IFC risks its own capital by buying shares in project companies, other project entities, financial institutions, and portfolio or private equity funds. This is a strategic and expanding part of our portfolio, with commitments growing from $612 million in FY05 to $1.59 billion in FY07. Equity investments provide the long-term developmental support that entrepreneurs and private enterprises most need, with the deliberate assumption of risk as well as participation in gains. These investments also provide opportunities to support reforms, particularly in corporate governance.

We generally subscribe to between 5 and 20 percent of a company's equity. We are long-term investors and usually exit by selling shares in a trade sale or, if liquidity permits, in a capital market following a public offering. We also invest in quasi-equity instruments, which may have either debt or equity characteristics. Our equity and quasi-equity investments are funded from IFC's retained earnings.

Income from our equity investment portfolio increased 88 percent in FY07 to $2.31 billion. As of June 30, 2007, the estimated fair value of the equity portfolio was $10.00 billion, compared to a book value of $3.14 billion representing IFC's original cost less impairment, of which $187 million is classified as debt securities on IFC's balance sheet. Capital gains realized on equity sales were $1.94 billion in FY07, up from $928 million in FY06.

Loan Participations

IFC's loan participation program mobilizes financing from commercial banks and other financial institutions. Participating institutions benefit from IFC's preferred creditor status while sharing fully in the credit risk of the project. This gives emerging market companies better access to finance: in FY07, IFC introduced about 90 investors to borrowers they had never lent to before. This product also enables lenders to stretch maturities, providing borrowers with longer-tenor financing than otherwise available: in FY07, the average final maturity of IFC loan participations was 7.3 years, versus 4.5 years for other commercial loans in the same countries.

In FY07 the program saw its third consecutive year of growth, with $1.8 billion in new loan participations. Of 29 deals, 12 were to borrowers in frontier countries. The largest amounts went to Europe and Central Asia (44 percent) and Latin America and the Caribbean (17 percent). For the first time, 15 percent of new loan participations were for African borrowers.

Innovative transactions included the first syndication of Tier II capital (Banco Davivienda, Colombia), the first international syndication for a Pakistani borrower since the 1998 crisis (Dewan Petroleum), and a syndicated ruble-linked U.S. dollar loan (Concordia, Russia). IFC is developing new investor bases and bringing pension funds, insurance companies, and asset managers to emerging markets.

Structured Finance

IFC uses structured finance to provide clients with cost-effective forms of financing that would not otherwise be readily accessible. Products include partial credit guarantees, structured liquidity facilities, portfolio risk transfer, securitizations, and Islamic finance. IFC uses expertise in credit due diligence along with our international triple-A credit rating to help clients diversify funding sources, extend maturities of financings, and obtain financing in their currency of choice. Through structured finance transactions, IFC mobilized a total of $2.08 billion for clients this year with only $318 million from our own account.

We worked in such new markets for structured finance as Algeria, Indonesia, Jordan, Kenya, and Saudi Arabia, as well as with repeat and new clients in established markets. IFC also launched several new products: the Matching Assets through Currency Hedging, or MATCH, fund, to facilitate direct local currency lending by IFC in frontier countries to clients involved in the health, education, microfinance, and SME sectors; the Guarantee of an Offshore Liquidity Facility, or GOLF, to help mitigate the risk associated with currency convertibility and transferability; and IFC's first partial credit guarantee that complies with Islamic finance rules as part of the first true securitization in the Gulf Cooperation Council countries.

"IFC takes the mandate for development seriously. We have a good opportunity to help develop markets in a sustainable way."

Nina Shapiro VICE PRESIDENT, FINANCE AND TREASURER

Advisory Services

IFC provides advisory services to promote sustainable private sector investment in developing countries. Through this work, which is funded in partnership with governments and other donors, IFC contributes to development where opportunities for investments may be limited. This year we organized our advisory services in five business lines that correspond with our operational strategy (see p. 68 for full information on these business lines).

In FY07, our total expenditures for advisory services were $197 million, and we began 349 projects in 84 countries. The largest shares of our advisory activity went to Sub-Saharan Africa (23 percent) and Europe and Central Asia (20 percent). The most active business lines were value addition to firms (29 percent) and the business enabling environment (21 percent).

Donor governments account for the largest share of partner contributions, but IFC's share has increased due to the greater

use of our retained earnings as a funding mechanism. Fee income from clients is also increasing, in part because IFC established pricing guidelines for its advisory work during FY07. The policy has two guiding principles. Where possible, all clients should make some contribution, to demonstrate commitment; and pricing is determined according to the nature of the product or service—for example, a public good or a private good.

PORTFOLIO MANAGEMENT

IFC monitors compliance with investment agreements, visits sites to check on project status, and helps find solutions to problem projects. To strengthen supervision, we have portfolio management units in all investment departments. This helps identify problems and address them early on. An investment credit risk-rating system also supports this process. We ensure that banks participating in IFC loans are kept regularly informed of project developments, consulting them or seeking their consent as appropriate.

IFC manages financial risks and exposures for its investment portfolio through market-based risk management instruments, tools, and strategies. These include instruments to perform hedging transactions on the IFC loan and equity portfolio as well as exit strategies. All transactions and strategies share the goal of

FUNDING FOR ADVISORY SERVICES (IN $ MILLIONS)

Source	FY06		FY07	
IFC	$54.8	36%	$95.6	49%
Donor & Other*	$96.7	64%	$101.3	51%
Total	$151.5	100%	$196.9	100%

* Other includes client fees and investment income

protecting the portfolio against downside risk.

IFC management determines specific reserves against loan losses on the basis of portfolio reviews and recommendations by the portfolio management units in the investment departments. The entire loan portfolio is reviewed quarterly. The Corporation's external auditors examine the recommendations, policies, and methods for determining the reserves against losses.

Investments are required to comply with IFC's Performance Standards, the strongest, most comprehensive of environmental and social risk management frameworks among financial institutions. IFC monitors the related performance and risks of investments on an ongoing basis. Where problems occur, specialists help clients find solutions and mitigate impacts on the environment and affected communities.

When financial difficulties arise, operational departments evaluate projects and set appropriate reserves. For projects with severe problems, the Special Operations Department determines appropriate remedial action. 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, IFC takes all necessary and appropriate measures to protect its interests.

TREASURY SERVICES

IFC funds its lending activities by issuing bonds in international capital markets and has been the first multilateral, or among the first, to issue bonds in the local currencies of many emerging markets. In FY07, IFC became the first nonresident institution to issue domestic bonds in the eight-country CFA franc market in West Africa.

Most of the Corporation's lending is denominated in U.S. dollars, but IFC borrows in a variety of currencies to diversify access to funding, reduce borrowing costs, and develop local capital markets. Because most loans made by IFC are denominated in U.S. dollars on a floating-rate basis, most borrowings were swapped into floating-rate U.S. dollars. IFC's borrowings continued to keep pace with its lending activities. New borrowings in the international markets totaled $2.8 billion equivalent in FY07.

Liquidity Management

Liquid assets on the balance sheet totaled $13.3 billion on June 30, 2007, compared with $12.7 billion a year earlier. The majority of liquid assets are held in U.S. dollars, with small euro and Japanese yen balances. The level of liquid assets is determined with a view to ensuring adequate resources to meet commitments even during times of market stress.

CAPITAL ADEQUACY AND FINANCIAL CAPACITY

All of IFC's operations require that we maintain our capital adequacy and financial capacity.

Our capital adequacy ratio at the end of FY07, which includes paid-in capital, retained earnings (adjusted for some accounting items that do not count as available capital), and general reserves compared with risk-weighted assets, both on- and off-balance sheet, stood at 57 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 1.3 to 1, well within the limit of 4 to 1 prescribed by the Corporation's financial policies.

IFC's paid-in capital, retained earnings, and general loan loss reserves constitute its financial capacity. This financial capital serves to support the existing business; accommodate medium-term growth opportunities and strategic plans; and provide a buffer to withstand shocks or crises in some member countries or more general market downturns, while retaining capacity to preserve our triple-A rating and play a countercyclical role.

IFC's current and projected capacity over the medium term is considered adequate for these purposes.

"Managing risk comprehensively is not just about safeguarding IFC's resources—in my view, it is also a powerful lever that enhances our capacity to create tangible opportunities for underserved people in the developing world."

Michel Maila VICE PRESIDENT, RISK MANAGEMENT

TAKING RISKS—AND MANAGING THEM

As part of our strategy to increase IFC's impact on development, we are looking more closely and comprehensively than ever at the risks we can afford to take in support of the private sector in our client countries. This integrated approach should allow us to do more when markets are favorable, as they have generally been in the last several years, and as we continue implementing our plans to grow and decentralize more of our operations, so that we are closer to our clients. Risk management also allows us to guard against downturns, so that we can continue our work and provide financing in the markets that are experiencing crises. The specific aspects of our risk management are detailed in the Management's Discussion and Analysis, later in this volume.

CREATING OPPORTUNITY
where IFC is needed most

IFC is an organization with truly global reach, serving all developing regions. We focus not on where the business is easiest, but on places where we can make the biggest difference.

Fiscal year 2007 saw strong growth in new investment commitments for developing regions, with corresponding expansion in our advisory work. In financing for IFC's account, South Asia registered the largest increase (over 110 percent), followed by Sub-Saharan Africa (97 percent). In both of these regions, over 90 percent of the new investments are in frontier countries, reflecting our commitment to reach more of the neediest people and places. Commitments for the Middle East and North Africa also grew significantly, with an 82 percent increase over FY06. The largest share of commitments went to Europe and Central Asia (22 percent), Latin America and the Caribbean (22 percent), and Sub-Saharan Africa (17 percent).

Our advisory services continued to grow throughout the regions, with the largest shares of our $197 million in expenditures going to Sub-Saharan Africa (23 percent) and Europe and Central Asia (20 percent). Over half our expenditures on advisory services in these regions went to frontier countries.

We have made significant progress in measuring our development impact and the sustainability of our investment and advisory projects across the regions. The share of our tracked investments with successful development results has been most encouraging in Europe and Central Asia, with a 76 percent success rate, and in South Asia, at 73 percent. These compare to an IFC average of 63 percent across the regions.

SUB-SAHARAN AFRICA

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

FRONTIER COUNTRY   OTHER CLIENT COUNTRY

OVERVIEW

Sub-Saharan Africa's political and economic environment is improving. Macroeconomic reforms and reduced conflict have spurred sustained growth in many countries, averaging 5.3 percent in 2006, and confidence has improved among African investors. Fueled by high commodity prices, natural resources remain drivers of growth in many African countries. Governments across the region increasingly look to the private sector to play a role in tackling many pressing development challenges: to help reduce poverty for over 300 million people living on less than a dollar a day, to upgrade and maintain the region's infrastructure, and to help find practical solutions to communicable diseases. African women contribute about 50 percent to GDP, but their economic activity is confined mainly to the informal sector.

DEVELOPMENT OUTCOME SCORES

PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06*	FY07
Financing committed for IFC's account	$700	$1,379
Loans	$393	$823
Equity	$72	$160
Guarantees and risk management	$235	$397
Loan participations signed	$0	$261
Total Commitments Signed	$700	$1,640
Committed portfolio for IFC's account	$2,033	$2,712
Committed portfolio held for others (Loan and guarantee participations)	$168	$386
Total Committed Portfolio	$2,201	$3,098

* Includes regional shares of Veolia Water AMI investments, which is officially classified as a global project. Committed portfolio for IFC's account includes regional share of BAPTFF, which is officially classified as a global project.

IFC'S STRATEGY

IFC expects to increase investments in Africa further over the coming years. Our priorities are to improve the investment climate, support small and medium enterprises, and help develop commercially viable, large-scale investment projects, especially in infrastructure. We also support regional integration and South-South investments from one developing country to another. SMEs make up the bulk of Africa's businesses, and we help them gain better access to finance and business consulting services. We aim to increase our activities in frontier countries, especially those emerging from crisis. We help ensure that the benefits from extractive industries, an important sector in many African countries, are transparently managed and widely shared. And we work with our clients to help them address gender issues as well as HIV/AIDS in their workforces and local communities.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $1.38 billion for 52 projects in FY07, and we mobilized an additional $294 million through loan participations, structured finance, and parallel loans. Excluding projects classified as regional, 94 percent are in frontier countries. Our portfolio is concentrated in the financial sector, extractive industries, and general manufacturing and services; and a significant share of our portfolio in information and communications technologies is located in Africa. We have improved the quality of our portfolio in recent years, for example, by supporting smaller businesses through financial intermediaries rather than investing directly. Our advisory services have an active portfolio of 223 projects valued at $223 million. Based on value, 52 percent are in frontier markets, with the emphasis on improving value addition to firms (31 percent) and access to finance (25 percent). Major partners in regional advisory work include, among others, Switzerland, the Netherlands, the African Development Bank, Germany, and Denmark.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	25*	30	38**	52
Number of countries	12	14	11	17
Financing for IFC's own account	405	445	700	1,379
Loan participations	0	0	0	261

* Includes LNM Holdings.
** Includes Veolia AMI.

DEVELOPMENT RESULTS

IFC investments have made a significant developmental contribution. In 2006, for example, our clients in the extractive industries contributed over $1.74 billion to government revenues, and our financial sector clients had roughly 144,000 outstanding loans to MSMEs, with a volume of just over $1 billion. Our projects in Africa have achieved moderate development outcomes compared with other regions. Generally strong outcomes of larger projects, particularly in extractive industries, are moderated by the weaker performance of a significant number of small projects with inexperienced sponsors in agriculture, manufacturing, and services. Despite marked improvement in recent years, environmental and social performance continues to be comparatively weak: the poor performance of financially struggling firms and small companies, as well as weak regulatory frameworks and enforcement, can make it challenging to achieve compliance with our global performance standards. To help improve our performance, we have added senior-level environmental and social specialists in our African country offices.

SUSTAINABILITY

IFC helps clients improve their environmental and social management systems and address the environmental and social impacts of large-scale investment projects, such as in mining and infrastructure. In Ghana, at the Idupariem mine, we helped AngloGold Ashanti bring in a community development coordinator and a nonprofit organization to set up livelihood projects. We also helped establish a forum for all stakeholders. With our guidance, the company has markedly improved its community relations, though there are still issues to be resolved. We are also helping smaller businesses meet international standards of sustainability while identifying opportunities to improve efficiency and reduce costs. In Kenya and Rwanda, we have helped assess and plan for energy efficiency at hotels and industrial sites.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

Over the past year, IFC made progress in helping improve Africa's investment climate and in supporting the development of infrastructure. We cooperated with our fellow World Bank Group organizations, for example with MIGA in the Bujagali Hydropower Project in Uganda. We have strengthened our advisory programs with a focus on smaller businesses, including through a joint program with IDA. In the next two years, we expect to provide advisory services that improve access to basic services—including electricity, water, telecommunications, health, and education—for almost 2 million people in Africa. A number of countries have begun significant reforms that improve conditions for private companies; in Ghana, Kenya, Tanzania, and Uganda, IFC has also helped governments understand the gender dimensions of this effort. Within two years, we expect to help at least 13 African countries raise their ranking in the IFC–World Bank Doing Business report by some 27 percent.

"IFC is serving clients better by leveraging the full range of our products and services, increasing cooperation across the World Bank Group, and expanding into new markets—in a way that will ultimately improve our impact on the lives of Africans."

– IFC Director for Sub-Saharan Africa Thierry Tanoh

DEVELOPMENTAL REACH

	CY 2005 Portfolio	CY 2006 Portfolio	FY07 New Business Expectations
MSME loans (amount / number of loans)	$1.07 billion / 143,862	$1.62 billion / 166,194	Average annual portfolio growth SME: 111% Microfinance: 110%
Power generated (number of customers)	5 million	5.9 million	2.3 million
New phone connections	20 million+	11 million	4.1 million
Employment	29,879	32,706	10,549
Local purchase of goods and services	$397.9 million	$541.7 million	$889 million
Payments to government	$810.6 million	$1.76 billion	$177.6 million

Reach data for select industries; indicator definitions and reporting periods vary somewhat across select industries.
+New phone connections created, 1996-2005.

LARGEST COUNTRY EXPOSURES

	Portfolio ($ millions)
Nigeria	
FY07	684
FY06	544
Success Rate*	50%
South Africa	
FY07	349
FY06	206
Success Rate*	45%
Kenya	
FY07	185
FY06	152
Success Rate*	86%

* Percent of tracked companies with successful development results ratings.

BOND ISSUE SUPPORTS LOCAL CURRENCY FINANCING

IFC made its first local currency bond offering in Sub-Saharan Africa during FY07, a five-year bond equivalent to $44.6 million that was sold to funds, banks, insurance companies, and pension funds in the eight countries that use the West African franc. All of the proceeds will be invested locally, where they will help deepen capital markets and support domestic companies that need long-term financing in local currency. IFC hopes the bond will establish a framework for future issuance, not only by supranationals but eventually by other classes of approved borrowers. So far we have identified four local companies in which we will invest the proceeds: a cement plant in Senegal, hotels in Mali and Burkina Faso, and a rubber company in Côte d'Ivoire.

CONTRIBUTING TO STABILITY FOLLOWING CRISES

IFC is helping the private sector increase its role in ensuring stability where countries are emerging from crises. A special initiative for conflict-affected countries was approved by IFC's Board in June 2006 to enhance our activities in the Democratic Republic of Congo, Liberia, and Sierra Leone. In Liberia, we are providing a trade facility to expand opportunity for business institutions and reintroduce the country's financial institutions to international business transactions and counterparts. We are advising the government on the selection of a private operator to supply Monrovia with electricity until a permanent solution can be achieved. IFC supported a private sector investment conference for Liberia in February 2007, and a joint World Bank Group team has studied the country's informal sector, suggesting ways to reduce barriers that small businesses face in joining the formal economy.

EAST ASIA AND THE PACIFIC

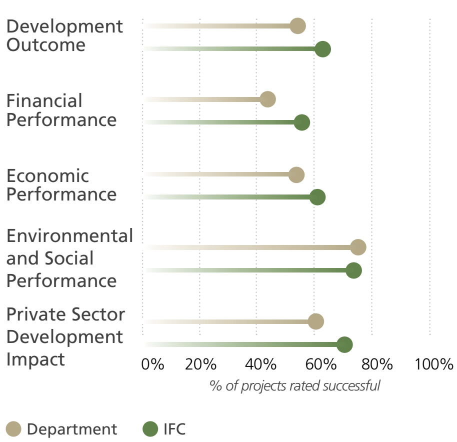
CAMBODIA • CHINA • FIJI • INDONESIA • KIRIBATI • LAO PEOPLE'S DEMOCRATIC REPUBLIC • MALAYSIA • MARSHALL ISLANDS • FEDERATED STATES OF MICRONESIA • MONGOLIA • MYANMAR • PALAU • PAPUA NEW GUINEA • PHILIPPINES • REPUBLIC OF KOREA • SAMOA • SOLOMON ISLANDS • THAILAND • TIMOR-LESTE • TONGA • VANUATU • VIETNAM

FRONTIER COUNTRY OTHER CLIENT COUNTRY

OVERVIEW

Economies in East Asia and the Pacific have been expanding at robust rates—averaging about 9.2 percent in 2006—but the region remains one of paradoxes. It is the fastest-growing developing region, but over half a billion people live on less than $2 a day. It is a large net lender to developed countries, yet its unmet investment needs—particularly in infrastructure—are immense. The region sends its excess savings to Europe and North America because its own financial systems are weak. Asians enjoy higher incomes but live in some of the most polluted cities, face prospects of acute water shortages, and are at risk of losing much of the region's biodiversity.

DEVELOPMENT OUTCOME SCORES



PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06*	FY07**
Financing committed for IFC's account	$982	$944
Loans	$624	$654
Equity	$310	$220
Guarantees and risk management	$48	$70
Loan participations signed	$243	$128
Total Commitments Signed	$1,225	$1,072
Committed portfolio for IFC's account	$3,253	$3,579
Committed portfolio held for others (Loan and guarantee participations)	$689	$599
Total Committed Portfolio	$3,942	$4,178

* Includes regional share of Soco Facility and Avenue Asia investments, which are officially classified as global projects.

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

IFC'S STRATEGY

IFC seeks to balance the development impact by seeking out private sector investment opportunities in frontier areas and countries. IFC partners with emerging domestic companies to address the region's most pressing development challenges: improving physical and financial infrastructure, which has not kept pace with rapid urbanization and growth; and increasing access to credit for smaller businesses and financing for housing, trade, student loans, and energy efficiency. To improve environmental sustainability, we support the development of cleaner energy, sustainable forestry, and energy efficient products. We work to broaden our impact in frontier countries and small states by combining advisory services and financing to improve the investment climate, promote reform, and support private investment through innovative financing structures.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $944 million for 38 projects in FY07, and we mobilized an additional $183 million through loan participations and structured finance. Excluding projects classified as regional, 35 percent are in frontier countries. Our committed portfolio in East Asia and the Pacific is $3.58 billion. Our portfolio is concentrated in the financial sector (32 percent) and general manufacturing (26 percent), and a significant share of IFC's portfolio in private equity and investment funds is located in the region. Supported by 14 donor partners, our advisory services have an active portfolio of 194 projects valued at $128 million. Based on value, 41 percent are in frontier markets, with the emphasis on improving access to finance (32 percent) and environmental and social sustainability (29 percent). Major partners in regional advisory work include, among others, Australia, Canada, the Netherlands, Finland, and the United Kingdom.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	40	40	41*	38
Number of countries	7	11	5	8
Financing for IFC's own account	730	740	982	944
Loan participations	33	72	243	128

* Includes Soco Facility and Avenue Asia.

DEVELOPMENT RESULTS

The developmental contribution of IFC's projects has been significant. Our investments have contributed to higher employment, better supply-chain linkages, significant tax payments in the manufacturing sector, and greater access to finance for poorly served market segments. In 2006, our clients had loans outstanding to 315,000 MSMEs, provided 10 million new phone connections, and generated power for 18.5 million customers. Development success rates for projects in East Asia and the Pacific are somewhat weaker than those of other regions. They began to improve in line with the recovery after the Asian crisis, but have recently worsened again due to weak performance of manufacturing companies and some early private equity funds, particularly in the Philippines, and the relatively weak performance of our China portfolio, where we focus on the most difficult frontier regions. The environmental and social performance of our projects has been solid, however, and we expect it to improve further as we move additional specialists to the region.

SUSTAINABILITY

IFC promotes the use of cleaner energy throughout the region, accelerating the transition to more sustainable fuels such as ethanol, which is also a potential raw material in manufacturing. In China, we are helping increase financing to commercial, industrial, and residential customers that are implementing energy efficiency projects.

We also help companies enter the carbon finance market, for example Deqingyuan in China, which aims to capture methane from chicken litter, reducing emissions while generating a new revenue stream. In the Philippines, we are supporting development of new power sources, while in Indonesia our advisory services support trade in sustainable wood, helping combat illegal logging.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC has made great strides in strengthening the financial sectors of many countries in the region, and our portfolio of investments supporting sustainability innovations and cleaner energies is growing. Our advisory services have supported key reforms. We provided advice on China's new property law, which is expected to open doors to financing for farmers and small businesses. We also supported a groundbreaking policy reform project in Vietnam, leading to passage of two key business laws that significantly improve the investment climate. Going forward, we will emphasize better integration of investment and advisory services to deliver greater development impact. We intend to expand our activities, particularly in infrastructure.

DEVELOPMENTAL REACH

	CY 2005 Portfolio	CY 2006 Portfolio	FY07 New Business Expectations
MSME loans (amount / number of loans)	$20.5 billion / 286,361	$12.95 billion / 315,113	Average annual portfolio growth SME: 9%
Power generated (# of customers)	8.1 million	18.5 million	5 million
Water distribution (# of customers)	400,000	5.1 million	--
Patients reached	1.34 million	479,269	1.32 million
New phone connections	5.8 million+	10 million	76,000
Employment	87,134	85,296	40,978
Local purchase of goods and services	$1.34 million	$3.4 billion	$1 billion
Payments to government	$348.9 million	$377.6 million	$106 million

Reach data for select industries; indicator definitions and reporting periods vary somewhat across select industries
+ New phone connections created, 1996-2005.

LARGEST COUNTRY EXPOSURES

	Portfolio ($ millions)
China	
FY07	1,680
FY06	1,498
Success Rate*	43%
Indonesia	
FY07	743
FY06	606
Success Rate*	60%
Philippines	
FY07	411
FY06	407
Success Rate*	53%

* Percent of tracked companies with successful development results ratings.

NEW APPROACHES TO INFRASTRUCTURE

IFC has provided about $10 million in advisory services in the region's infrastructure. In FY07, we signed mandates to advise on privatization of power generation in the Philippines, on private participation in power in Vietnam, and on water supply and light rail projects in the Philippines. We are also working with subnational entities to develop and demonstrate new models of public-private partnerships. We provided financial support to PNOC-Energy Development Corporation, an integrated producer of geothermal steam and electric power, as the company went through an IPO on the Manila stock exchange. PNOC-EDC will use the resources to develop new geothermal energy projects, which will help the country reduce its dependence on imported fossil fuels and accelerate a shift toward more sustainable sources of energy.

ADVISORY SERVICES PAVE THE WAY FOR INVESTMENT

A lack of competition has constrained development of modern banking in the Lao People's Democratic Republic, a small, mountainous country where less than a quarter of the population can access financial services. In FY07, IFC's advisory services program in the Mekong region helped the government improve its legislation covering commercial banks. In just seven months, a new law was written, passed, and promulgated. This has facilitated IFC's first financial sector investment in the country. It has also led to the start-up of a new local bank, while established banks are planning to expand. Within a few years, tens of thousands more individuals and smaller enterprises are expected to have the financial services they need to prosper.

SOUTH ASIA

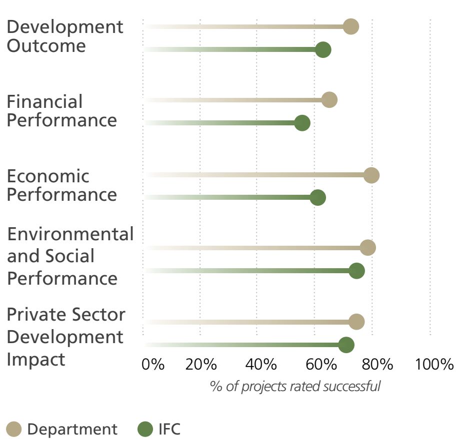
BANGLADESH • BHUTAN • INDIA • MALDIVES • NEPAL • SRI LANKA

FRONTIER COUNTRY OTHER CLIENT COUNTRY

OVERVIEW

South Asia, with 1.3 billion people, is home to half the world's poor, and about a third of the population here lives on less than a dollar a day. Rapid economic growth in recent years—averaging 8 percent last year—is largely home-grown. Large foreign investments remain the exception, and the highly regulated economies of South Asia receive the least foreign direct investment relative to their GDP of any region of the world. Despite overall growth, the benefits remain uneven and have yet to reach rural populations. The development of infrastructure—physical, financial, and social—needs urgent attention if growth is to be sustained and broadly shared. And an expanding working-age population needs jobs.

DEVELOPMENT OUTCOME SCORES



PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06*	FY07**
Financing committed for IFC's account	$507	$1,073
Loans	$367	$885
Equity	$130	$170
Guarantees and risk management	$10	$19
Loan participations signed	$200	$102
Total Commitments Signed	$707	$1,176
Committed portfolio for IFC's account	$1,800	$2,645
Committed portfolio held for others (Loan and guarantee participations)	$584	$669
Total Committed Portfolio	$2,384	$3,314

* Includes regional shares of Avenue Asia investments, which is officially classified as a global project.

** Includes regional share of Italcementi investment, which is officially classified as global projects.

IFC'S STRATEGY

IFC helps the private sector fulfill its role in meeting South Asia's needs. We focus on removing infrastructure bottlenecks through investments and advisory services, and we are working with governments to simplify and strengthen the regulatory framework for private enterprise. We help the region integrate into the global economy and benefit from best practices by bringing in foreign investors. We aim to help deepen financial markets, and we work with financial intermediaries to help poorly served segments, including smaller companies and rural people, access finance. To help rural areas benefit from growth, we encourage investment in agribusiness, rural finance, and rural infrastructure. We provide equity and long-term debt financing to midsize enterprises, particularly in manufacturing and agribusiness, and target advisory services to smaller companies. We encourage clients to reduce their environmental impact through more use of renewable energy and greater energy efficiency, and we help mobilize carbon finance to support these efforts.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $1.07 billion for 30 projects in FY07, and we mobilized an additional $102 million through loan participations. Of these projects, 93 percent are in frontier countries. Our portfolio spreads across eight sectors, with the largest concentration in the financial sector and manufacturing; and a significant share of IFC's portfolio in information and communications technologies is located in South Asia. Three-quarters of our $2.6 billion regional portfolio is in India, with Bangladesh at $147 million the second largest. Our investments in financial services and infrastructure are growing rapidly. Our advisory services have an active portfolio of 94 projects valued at $80 million. Based on value, 40 percent are in frontier markets, with the emphasis on improving infrastructure (52 percent) and value addition to firms (20 percent). Major partners in regional advisory work include the European Commission, Norway, the Netherlands, Canada, and the United Kingdom.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	19	20	25*	30
Number of countries	5	2	3	3
Financing for IFC's own account	405	443	507	1,073
Loan participations	109	200	200	102

* Includes Avenue Asia.

DEVELOPMENT RESULTS

IFC activities in the region have produced tangible development results, such as job creation, higher wages and tax revenues, and better supply-chain linkages. We helped women's business membership organizations, for example, increase the sales of women-owned enterprises by $1.7 million in two years. In 2006, our clients had loans outstanding to nearly 755,000 MSMEs, provided 25 million new phone connections, and generated power for 27 million customers. Our projects in South Asia have high development outcome ratings compared to other regions. This is mainly because of strong performance in manufacturing and IT, due to Indian companies' restructuring and cost-cutting efforts in the early 2000s. A small number of financial markets projects with weaker outcomes moderate the overall success somewhat. In particular, Indian housing finance companies have struggled to compete with commercial banks. Building on these lessons, we have shifted our focus to help build the mortgage insurance sector and facilitate funding alternatives, such as securitization. The environmental and social performance of our projects has been solid.

SUSTAINABILITY

IFC has a growing portfolio of renewable energy investments, and we help mobilize financing for our clients through carbon credits. Our efforts are helping displace coal power generation and reduce emissions of greenhouse gases. They also reduce the cost of renewable energy technology. IFC has investments in four hydropower projects in India and Nepal, as well as carbon credit investments with Eco Power in Sri Lanka (see p. 14) and with one of the region's largest wind turbine manufacturers, Enercon India. We are also helping four IFC client companies with HIV/AIDS programs.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC has made good progress in South Asia, with noteworthy successes in the manufacturing, finance, and infrastructure sectors. We have helped create many world-class companies, such as Moser Baer, one of the world's leading producers of CDs and DVDs, and India's HDFC and IDFC, which target financing for the housing and infrastructure sectors. Helping South Asia's lagging regions catch up continues to be a challenge, and we aim to focus more investments on the rural economy. Our initial advisory work with partner financial institutions in Bangladesh is now bolstered by equity investments, loans, and trade finance facilities; here we are also helping expand SME finance to women. We also need to find ways to respond quickly to support the private sector in postconflict countries, such as Nepal. In view of the pressing needs, we will also continue to scale up our support for infrastructure development.

"South Asia demonstrates huge potential in its growth rate, and huge challenges in its poverty levels. I hope we can help make economic growth more inclusive of the poor."

– IFC Director for South Asia Paolo Martelli

DEVELOPMENTAL REACH

	CY 2005 Portfolio	CY 2006 Portfolio	FY07 New Business Expectations
MSME loans (amount / number of loans)	$3.15 billion / 557,268	$4.8 billion / 754,890	Average annual portfolio growth SME: 10%
Power generated (# of customers)	23.2 million	27.4 million	13.3 million
Patients reached	97,800	65,907	800,000
New phone connections	21 million+	25 million	--
Employment	37,175	61,379	19,460
Local purchase of goods and services	$894 million	$2.574 billion	$558 million
Payments to government	$280 million	$398 million	$54 million

Reach data for select industries; indicator definitions and reporting periods vary somewhat across select industries.
+New phone connections created 1996-2005.

LARGEST COUNTRY EXPOSURES

	Portfolio ($ millions)
India	
FY07	2,117
FY06	1,261
Success Rate*	72%
Bangladesh	
FY07	147
FY06	161
Success Rate*	71%
Maldives	
FY07	66
FY06	71
Success Rate*	100%

* Percent of tracked companies with successful development results ratings.

HELPING MICROFINANCE REACH RURAL INDIA

IFC is investing risk capital to promote the growth of commercial microfinance in India. We invested $1.6 million in Aavishkaar Microfinance, a firm that will invest in 35 to 40 start-up microfinance institutions and promote their growth through an innovative franchise model. We have also taken a $5 million equity stake in Financial Information Network and Operations, a start-up technology service provider that helps banks reach rural markets through a "smart card" solution. If successful, it will serve a large segment of India's population. Our advisory work is helping microfinance institutions improve the efficiency, scale, and transparency of their financial and operational management systems. We also support mobile banking solutions that enable rural banks, cooperatives, and microfinance institutions to provide cost-effective services and generate employment.

CREATING ECONOMIC OPPORTUNITIES FOR FARMERS

IFC is helping enhance rural productivity in India. Our investment of $11 million in equity in Suguna Poultry Farms Limited, a first for the country's poultry sector, will help the company expand its breeder farms, hatchery, and feed mill capacity. Pioneering an integrated poultry business, which revolutionizes the way chicken is grown and marketed in India, Suguna has sales of $243 million and net profit of $16 million. IFC will also help the company improve its supply chain management, sourcing feed inputs directly from farmers. The project will create opportunities for more than 10,500 contract poultry farmers, who will benefit from Suguna's guaranteed prices and purchase volume, as well as from hands-on advisory services in poultry rearing.

EUROPE AND CENTRAL ASIA

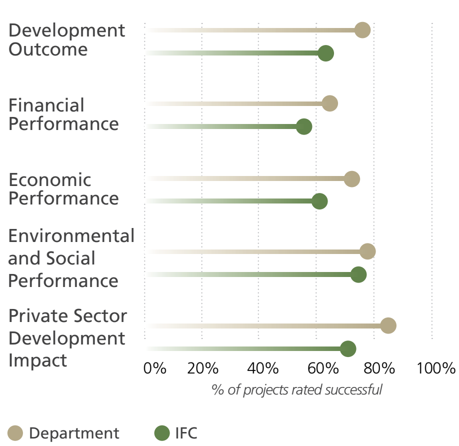
ALBANIA • ARMENIA • AZERBAIJAN • BELARUS • BOSNIA AND HERZEGOVINA • BULGARIA • CROATIA • CZECH REPUBLIC • ESTONIA • GEORGIA • HUNGARY • KAZAKHSTAN • KYRGYZ REPUBLIC • LATVIA • LITHUANIA • FORMER YUGOSLAV REPUBLIC OF MACEDONIA • MOLDOVA • MONTENEGRO • POLAND • ROMANIA • RUSSIAN FEDERATION • SERBIA • SLOVAK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

FRONTIER COUNTRY OTHER CLIENT COUNTRY

OVERVIEW

Nearly two decades after the fall of the Berlin Wall, economies in the region continue to progress from central planning to free markets. Countries here are diverse, ranging from the newest members of the European Union to the poorer countries of Central Asia. Many rank among the fastest-growing worldwide over the past decade, fueled by strong exports, integration in global markets, better access to credit, and, for energy-exporting countries, high commodity prices. At the same time, private sector development faces many challenges in the region, including poor infrastructure, persistent weaknesses in financial markets, cumbersome regulatory regimes, weak institutions, and corruption.

DEVELOPMENT OUTCOME SCORES



PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06*	FY07**
Financing committed for IFC's account	$2,084	$1,786
Loans	$1,710	$1,163
Equity	$231	$513
Guarantees and risk management	$143	$109
Loan participations signed	$241	$775
Total Commitments Signed	$2,325	$2,560
Committed portfolio for IFC's account	$6,525	$7,033
Committed portfolio held for others (Loan and guarantee participations)	$995	$1,387
Total Committed Portfolio	$7,519	$8,420

* Committed portfolio for IFC's account and held for others includes regional share of BTC Pipeline, which is officially classified as a global project.

** Includes regional share of Melrose II, Melrose II Expansion, and Italcementi investments, which are officially classified as global projects.

IFC'S STRATEGY

IFC assists the transition to market economies by supporting investments that diversify economies and modernize industries and infrastructure. We help establish a sound financial sector, concentrating on access to credit for smaller enterprises; institution-building; and the introduction of new products, such as leasing. We encourage intraregional investments and are increasingly involved in infrastructure development and public-private partnerships. In frontier countries where governance remains weak, we often start with donor-funded advisory services to help simplify regulation and strengthen local institutions and corporate legislation. In middle-income countries, we develop and test new products, such as financing for energy efficiency, housing finance, and alternative mechanisms for dispute resolution. In more developed countries, such as Russia and Turkey, we focus on expanding investments to second-tier clients and in frontier regions. IFC takes a selective approach in EU member countries, investing where our development role is crucial, for example in socially and environmentally sensitive sectors.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $1.79 billion for 67 projects in FY07, and we mobilized an additional $1.55 billion through loan participations and structured finance. Excluding projects classified as regional projects, 20 percent are in frontier countries. The majority of new business went to Russia and Turkey, both among IFC's top 10 country exposures. Half our portfolio is in the financial sector, with manufacturing and services and infrastructure also significant portions. The portfolio's financial performance has been above IFC's average since the mid-1990s, and this year the region contributed 61 percent of IFC's profits. This year, our advisory services launched 20 new projects in 12 countries with new donor commitments of $19.1 million, including $7.5 million from IFC. In FY07 we completed 13 projects. Our advisory services have an active portfolio of 159 projects valued at $147 million. Based on value, 53 percent are in frontier markets, with the emphasis on improving access to finance (29 percent) and value addition to firms (27 percent). Donors contributed $16.7 million and IFC $10.3 million to FY07 expenditures. Major partners in regional advisory work include, among others, Switzerland, Sweden, Canada, Austria, and Norway.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	65*	67**	80***	67****
Number of countries	17	15	17	15
Financing for IFC's own account	1,667	1,938	2,084	1,786
Loan participations	363	419	241	775

* Includes BTC Pipeline, LNM Holdings.
** Includes RI Facility, Arcelik, Melrose.
*** Includes EECFII.
**** Includes Melrose II and Melrose II Expansion.

DEVELOPMENT RESULTS

IFC projects in the region have had very strong development outcomes, outperforming all other regions, with the environmental and social performance of our portfolio particularly high. Strong results in global manufacturing and services, and in the financial sector, where we addressed major gaps during transition, have driven high development ratings. Our investments in Russia and Turkey have performed especially well; in Turkey, we attribute the strong development results to a strategy of seeking long-term partnerships with local companies. Weaker results in Central Asia reflect difficult business environments. Our developmental contribution from advisory services has also been significant. For example, our programs have enabled $2.9 billion in investments by local and foreign companies, led to a $392 million growth in the availability of lease financing, removed red tape in ways that have allowed businesses to save an estimated $83 million since 2000, and released $58 million in funds that were tied up in commercial disputes.

SUSTAINABILITY

IFC continues to promote sound corporate governance in the region, working with governments to strengthen corporate legislation and advising companies and banks on best practices. We help clients engage with local communities, especially in environmentally and socially complex sectors, such as extractive industries and intensive manufacturing; the focus includes community engagement, public disclosure, and supply chain linkages. IFC continues to develop financing mechanisms for projects that use or promote energy efficient technologies. We help agribusiness clients introduce efficient waste management and strengthen food safety standards at production facilities. In the Balkans, IFC is helping develop the capacity of SMEs that provide recycling services, with an emphasis on working conditions for waste collectors.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC has increased commitments in the region's frontier countries in recent years, and they remain a priority for us. We pay particular attention to designing advisory programs in these countries that aim to address constraints to private sector growth, particularly in financial markets, agribusiness, and infrastructure. In the more developed markets of Russia, Turkey, and Ukraine, our priority is to invest in low-income regions and, as more private capital becomes available, to focus our support on smaller, second-tier companies, whose growth we assist with both capital and advice.

DEVELOPMENTAL REACH

	CY 2005 Portfolio	CY 2006 Portfolio	FY07 New Business Expectations
MSME loans (amount / number of loans)	$17.97 billion / 717,388	$26.28 billion / 833,120	Average annual portfolio growth SME: 23% Microfinance: 16%
Power generated (# of customers)	16.2 million	19.6 million	--
Patients reached	374,546	1.78 million	400,000
Students reached	13,541	12,200	--
New phone connections	7.8 million+	2 million	6.6 million
Employment	157,366	126,420	23,380
Local purchase of goods and services	$4.15 billion	$10.66 billion	$1.29 billion
Payments to government	$1.68 billion	$2.01 billion	$180 million

Reach data for select industries; indicator definitions and reporting periods vary somewhat across select industries
+New phone connections created 1996-2005.

LARGEST COUNTRY EXPOSURES

	Portfolio ($ millions)
Russian Federation	
FY07	2,238
FY06	1,974
Success Rate*	89%
Turkey	
FY07	1,342
FY06	1,197
Success Rate*	76%
Romania	
FY07	491
FY06	530
Success Rate*	75%

* Percent of tracked companies with successful development results ratings.

TURKEY: AN EMERGING REGIONAL PLAYER

IFC is helping Turkish firms expand into other developing and transition countries. This year our investment helped Turkish glass producer Sisecam expand to become the fifth-largest glass producer in Europe and a major regional player in investment and technology transfer. IFC supported Sisecam in the privatization, purchase, and rehabilitation of a soda ash plant in Bosnia and Herzegovina, preserving about 800 jobs. Over the last several years, IFC has supported Arcelik, a Turkey-based home appliance manufacturer, in acquiring Romania's only refrigerator producer, Arctic, and establishing a greenfield manufacturing facility in Russia. In Georgia, IFC provided $27 million to TAV Georgia, jointly owed by four Turkish companies, to support the expansion and modernization of Tbilisi International Airport.

BUILDING THE MORTGAGE INDUSTRY

IFC is helping establish residential mortgage finance in the region, investing $872 million for housing finance in 34 institutions since 2000. Our work includes setting up shared instruments and procedures across the industry, which can lower costs for banks and their customers as well as allow banks to securitize mortgages and access additional capital. We have engaged with governments in Central Asia to reform mortgage-related legislation, contributing to a new law on mortgages in Uzbekistan and helping reduce transaction costs for property purchases both there and in the Kyrgyz Republic. In Russia, we created a working group of 77 major industry players that has standardized the key terms and conditions of a mortgage loan, as well as drafted a code of ethics for mortgage lenders in conjunction with the country's government. We also partnered with Moody's Investors Service to issue the first Russian-language mortgage glossary.

LATIN AMERICA AND THE CARIBBEAN

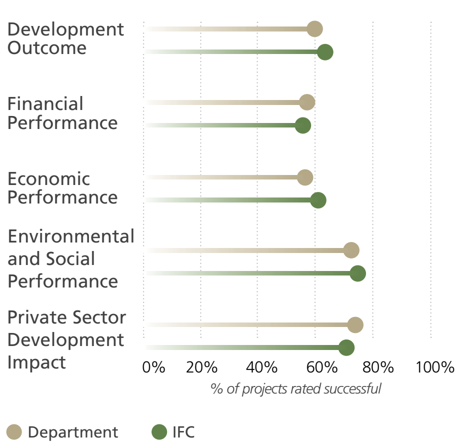
ANTIGUA AND BARBUDA • ARGENTINA • THE BAHAMAS • BARBADOS • BELIZE • BOLIVIA • BRAZIL • CHILE • COLOMBIA • COSTA RICA • DOMINICA • DOMINICAN REPUBLIC • ECUADOR • EL SALVADOR • GRENADA • GUATEMALA • GUYANA • HAITI • HONDURAS • JAMAICA • MEXICO • NICARAGUA • PANAMA • PARAGUAY • PERU • SAINT KITTS AND NEVIS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

FRONTIER COUNTRY OTHER CLIENT COUNTRY

OVERVIEW

The region has seen several years of growth and low inflation. It has also been boosted by sound fiscal policies, high prices for export commodities, and good global financial conditions, including strong growth in trading partners. But inequality and growth rates that trail most emerging regions persist, as well as an investment gap, particularly in upgrading manufacturing competitiveness and infrastructure and in the social sectors. Further reforms are needed for sustainable growth—in pensions, labor, infrastructure, and the financial sector—and some countries are advancing on these fronts. Growth also needs to be achieved while protecting natural resources and biodiversity.

DEVELOPMENT OUTCOME SCORES



PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06	FY07
Financing committed for IFC's account	$1,747	$1,781
Loans	$1,371	$1,229
Equity	$265	$295
Guarantees and risk management	$111	$256
Loan participations signed	$888	$299
Total Commitments Signed	$2,635	$2,080
Committed portfolio for IFC's account	$6,299	$6,780
Committed portfolio held for others (Loan and guarantee participations)	$2,328	$2,005
Total Committed Portfolio	$8,627	$8,785

IFC'S STRATEGY

Helping make markets work for all remains IFC's focus. We work to improve the region's business environment; broaden and deepen access to finance, especially for micro, small, and medium enterprises; and we encourage the sustainable development of physical and social infrastructure, including through innovative public-private partnerships. We seek to partner with companies over the long term, helping them compete globally and set benchmarks for responsible business practices. We work closely with the World Bank and engage with stakeholders from the earliest stages of project development to maximize social and economic benefits. We increasingly take a country-level or regional approach to a sector, such as financial markets, health and education, agribusiness, and general manufacturing. To increase our impact in frontier countries and regions, we are broadening our engagement in the Eastern Caribbean states, Haiti, and Central America.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $1.78 billion for 68 projects in FY07, and we mobilized an additional $1.12 billion through loan participations and structured finance. Excluding projects classified as regional, 6 percent are in frontier countries. Investments are increasing particularly in Peru, Central America, and the Caribbean. The main concentration is in financial markets, infrastructure, and manufacturing; and a significant share of IFC's agribusiness portfolio is located in the region. Our portfolio continues to be healthy and is growing; it is also well diversified across countries and sectors. Our advisory services have been expanding, supporting our investment activities, improving the business environment, and setting benchmarks in corporate governance, environmental, and social standards. Our advisory services have an active portfolio of 117 projects valued at $95 million. Based on value, 61 percent are in frontier markets, with the emphasis on improving environmental and social sustainability (59 percent) and infrastructure (12 percent). Major partners in regional advisory work include Switzerland, the Netherlands, Canada, and the United Kingdom.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	45	54	69	68
Number of countries	16	17	18	14
Financing for IFC's own account	1,218	1,398	1,747	1,781
Loan participations	374	385	888	299

* Includes Avenue Asia.

DEVELOPMENT RESULTS

Overall, our investments in the region have led to significant development results by increasing employment and access to finance. Our projects in the region have had solid development results, in line with IFC's average for every development component. For example, our investments reached over 1.3 million microentrepreneurs in eight countries. We have achieved above-average results in our top industry exposures and our oil and gas transactions. Similarly, our advisory work has led to significant developmental impact, for example, in helping our financial sector clients reach new market segments and making it easier for entrepreneurs to start a business or register it with the government. In Lima, Peru, for instance, we helped reduce business registration time from 60 days to two, resulting in a tenfold increase in new registrations. Peru's government is now taking this effort to the national level.

SUSTAINABILITY

IFC continues to help clients with projects that involve complex environmental and social issues, such as mining in Peru and Guyana, agribusiness and forestry in the Amazon, and labor rights in the Dominican Republic and Haiti. In the extractive industries, we also advise on revenue management and community engagement. This year, we helped the local government of Cajamarca in Peru improve its use of royalties from the Yanacocha mine. We are also supporting new markets in renewable energy.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC focuses on where we add the most value and have mapped out the key sectors that correspond to core country needs, with an emphasis on those with significant impact potential, such as financial markets, infrastructure, agribusiness, and the extractive industries. We work to ensure that the benefits from our investments are widely shared. We have increased our activities in housing finance, support to smaller businesses, and improvements to the business environment. We take a long-term view in addressing the region's development challenges, working not only with client companies but also with governments and the World Bank to help develop a favorable investment climate. We will continue to expand our advisory services to support private sector investments, notably through public-private partnerships and subnational financing for basic infrastructure.

DEVELOPMENTAL REACH

	CY 2005 Portfolio	CY 2006 Portfolio	FY07 New Business Expectations
MSME loans (amount / # of loans)	$4.46 billion / 2.1 million	$9.15 billion / 2.76 million	Average annual portfolio growth SME: 13% Microfinance: 32%
Power generated (# of customers)	3.4 million	35.6 million	900,000
Patients reached	553,774	1.43 million	--
New phone connections	21 million+	4 million	1.4 million
Employment	302,328	283,253	41,421
Local purchase of goods and services	$10.24 billion	$13.36 billion	$810 million
Payments to government	$3.32 billion	$4.5 billion	$136 million

Reach data for select industries; indicator definitions and reporting periods vary somewhat across select industries
+New phone connections created 1996-2005.

LARGEST COUNTRY EXPOSURES

	Portfolio ($ millions)
Brazil	
FY07	1,618
FY06	1,505
Success Rate*	58%
Mexico	
FY07	1,228
FY06	1,093
Success Rate*	69%
Argentina	
FY07	768
FY06	810
Success Rate*	8%

* Percent of tracked companies with successful development results ratings.

EXPANDING ACCESS TO FINANCE

IFC's work on the business enabling environment is creating new market opportunities. Our program of municipal simplification, for example, has helped register 20,000 firms, bringing them into the formal economy and improving their access to finance. We are working in 35 municipalities in eight countries: Brazil, Bolivia, Colombia, Ecuador, Honduras, Mexico, Nicaragua, and Peru. This year we also financed four microcredit projects worth $22 million, supporting over 400,000 microenterprises. Our long-term housing strategy has resulted in $317 million in financing for four projects that represent over 170,000 mortgages. Our advisory work has helped open new markets by completing housing finance diagnostics in El Salvador, Honduras, Nicaragua, and Peru. Our experience in Mexico and Colombia led us to create Peru's first secondary mortgage market company, together with Grupo Credito and Titulizadora Colombiana; this will make home financing affordable for more Peruvians.

BUILDING SUCCESS IN SUSTAINABLE AGRIBUSINESS IN PERU

During seasons when there is no local produce, grocery shoppers around the world can now buy high-quality Peruvian asparagus and table grapes, sustainably produced by Agrokasa, an IFC client since 1999. Our ongoing financing and advisory support have helped this $55 million company achieve double-digit revenue growth. It is seeing bottom-line benefits after adopting a client-focused strategy and deciding to make high social and environmental standards core business values. Agrokasa has created more than 6,000 new, full-time equivalent jobs in rural areas of Peru where most people live below the poverty line. Its committed management team has driven strong adherence to social and environmental standards. Agrokasa and other pioneering firms are setting an example in the agricultural export market that is being emulated elsewhere across Peru, a country that has seen its agricultural exports grow by a factor of five in the last seven years.

MIDDLE EAST AND NORTH AFRICA

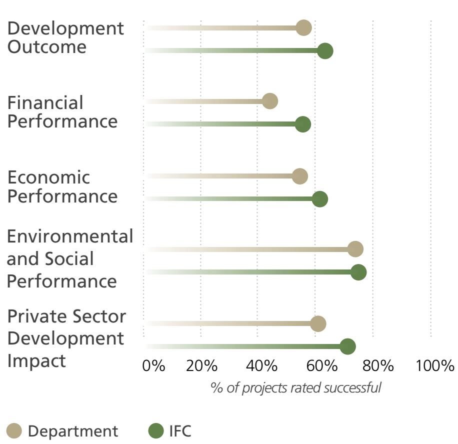
AFGHANISTAN • ALGERIA • BAHRAIN • ARAB REPUBLIC OF EGYPT • ISLAMIC REPUBLIC OF IRAN • IRAQ • JORDAN • KUWAIT • LEBANON • LIBYAN ARAB JAMAHIRIYA • MOROCCO • OMAN • PAKISTAN • SAUDI ARABIA • SYRIAN ARAB REPUBLIC • TUNISIA • UNITED ARAB EMIRATES • WEST BANK AND GAZA • REPUBLIC OF YEMEN

FRONTIER COUNTRY OTHER CLIENT COUNTRY

OVERVIEW

Amid high oil prices, the economies in the region continue to grow at solid rates, averaging 6.2 percent over the past three years. The diverse economies here are increasingly integrating into the global economy, and there are extensive cross-border investments. A number of countries have started to liberalize their traditionally public sector–dominated economies, and abundant liquidity and strengthening financial markets are creating opportunities for private sector growth. Challenges remain significant: many countries are affected by conflict and political instability, the business environment is costly, physical and financial infrastructure remains inadequate, and corporate governance is often weak. There is high youth unemployment in many countries, as job creation has not kept pace with population growth. Women in the region are relatively well educated, yet their participation in the formal labor market is the lowest in the world.

DEVELOPMENT OUTCOME SCORES



PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06*	FY07**
Financing committed for IFC's account	$668	$1,217
Loans	$504	$879
Equity	$100	$205
Guarantees and risk management	$64	$134
Loan participations signed	$0	$210
Total Commitments Signed	$668	$1,427
Committed portfolio for IFC's account	$1,556	$2,477
Committed portfolio held for others (Loan and guarantee participations)	$314	$497
Total Committed Portfolio	$1,871	$2,974

* Includes regional shares of Soco Facility and Veolia AMI investments investments, which are officially classified as global projects. Committed portfolio for IFC's account includes regional share of BAPTFF, officially classified as a global project.
** Includes regional share of Melrose II and Melrose II Expansion investments, which are officially classified as global projects.

IFC'S STRATEGY

IFC is increasing capacity on the ground so that we can better address gaps in the region's markets. Our investment and advisory activities help improve the business environment, broaden and deepen access to finance for small and medium enterprises, encourage private sector participation in infrastructure, and stimulate the housing sector. We also support the cross-border emergence of regional champions as they invest in less developed countries, and we help domestic companies grow and set benchmarks for responsible business practices.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $1.22 billion for 40 projects in FY07, and we mobilized an additional $249 million through loan participations and structured finance. Excluding projects classified as regional, 42 percent are in frontier countries. New clients accounted for 72 percent and South-South investments for 56 percent of investment volume. Our portfolio is spread across the region, with more concentration in the financial, manufacturing, infrastructure, and hydrocarbon sectors. Our advisory services have an active portfolio of 123 projects valued at $48 million. Based on value, 37 percent are in frontier markets, with the emphasis on improving infrastructure (32 percent) and access to finance (31 percent). In advisory services, we are active in 17 countries; we approved 60 new projects in FY07, 32 of them in frontier countries. We spent $17.2 million: 57 percent for projects related to access to finance and value addition to firms, 15 percent on the business enabling environment, and 10 percent on projects for infrastructure, including public-private partnerships. Major partners in regional advisory work include, among others, the United States, Japan, the United Kingdom, Spain, and the Islamic Development Bank.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	18*	21**	29***	40***
Number of countries	7	8	12	12
Financing for IFC's own account	236	315	668	1,217
Loan participations	0	0	0	210

* Includes LNM Holdings.
** Includes BAPTFF and Melrose.
*** Includes Soco Facility, and Violia AMI.
**** Includes Melrose II and Melrose II Expansion.

DEVELOPMENT RESULTS

IFC's activities in the region have generated tangible results, as they increased employment, mobilized additional financing for projects, and provided support to MSMEs, and as investee companies contributed tax revenues. In 2006, our clients had just over 206,000 loans outstanding to MSMEs, and our extractive industries investments generated $772 million in government revenues. Our activities have also helped enhance regulatory reform in the countries across the region. Some of our early projects in the region had weak development outcome ratings relative to IFC's average. Political instability and conflicts led to commercial failure of a number of projects in West Bank and Gaza that relied on mobility of goods and people for their success, with projects in neighboring countries like Jordan also affected, especially in the tourism sector. Our projects performed best in infrastructure and telecommunications, while operations in some small nonbank financial institutions and some small manufacturing businesses had only partly satisfactory performance. The environmental and social performance of our projects in the region was favorable, in line with IFC's average.

SUSTAINABILITY

IFC is helping businesses upgrade their corporate governance so that they are able to attract and retain investment, improve performance, and foster trust among stakeholders. During FY07, we implemented nine corporate governance projects spanning 11 countries, including 92 learning events for 2,488 officers and directors from 946 banks and businesses. We also supported 10 countries in the drafting or adoption of 15 corporate governance regulations, codes, or guidelines. To foster sustainable business development in Jordan, we helped the government implement comprehensive inspection reforms to make requirements and procedures clear and transparent, reduce the time and cost burden of inspections, and reduce duplication among inspectorates.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC has substantially increased investment and advisory services in the region in the last two years, reaching many new clients. This is helping markets work better and helping many companies become more competitive. Going forward, we will increase our focus on infrastructure, on strengthening underdeveloped capital markets, on supporting the development of smaller businesses, and on helping improving corporate governance across the region. We will continue to work on increasing access to finance and management training for women-owned businesses to tap their inherent potential to spur development. Assisting the private sector in postconflict situations will remain a priority, and we will continue to tailor approaches to specific market conditions of our client countries.

DEVELOPMENTAL REACH

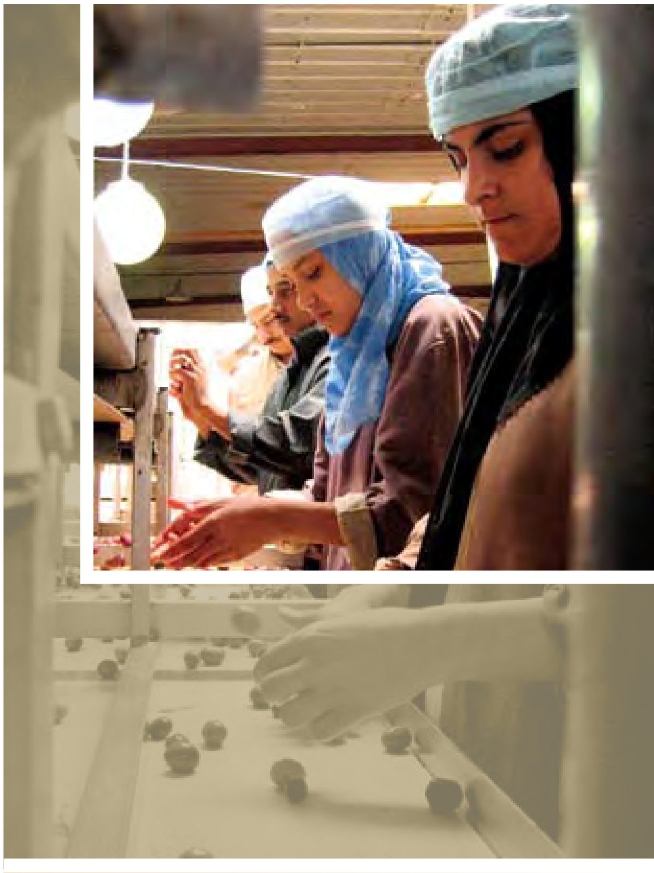
	CY 2005 Portfolio	CY 2006 Portfolio	FY07 New Business Expectations
MSME loans (amount / number of loans)	$1.28 billion / 47,218	$2.32 billion / 206,240	Average annual portfolio growth SME: 20% Microfinance: 34%
Power generated (# of customers)	9.4 million	16.6 million	--
Employment	49,554	72,994	6,764
Local purchase of goods and services	$399 million	$538 million	$327 million
Payments to government	$551 million	$803 million	$94 million

Reach data for select industries; indicator definitions and reporting periods vary somewhat across select industries

LARGEST COUNTRY EXPOSURES

	Portfolio ($ millions)
Pakistan	
FY07	522
FY06	345
Success Rate*	75%
Egypt	
FY07	517
FY06	290
Success Rate*	75%
Oman	
FY07	181
FY06	202
Success Rate*	n/a

* Percent of tracked companies with successful development results ratings.



PAKISTAN: ALTERNATIVE DISPUTE RESOLUTION

Pakistan's smaller businesses face lengthy court processes when there are business and legal disputes. Contract enforcement on average takes 55 procedures and a five- to 10-year litigation process. Courts are backlogged with about 1.5 million cases, a third of them commercial, and some 90 percent are expected to go to trial. To set up an alternative, IFC has helped establish a pilot mediation center, which began work in February 2007. The center is supported by leaders from Pakistan's judiciary and business community. The center has already trained international accredited mediators and has received 20 cases so far.

CREATING OPPORTUNITIES AT SIWA IN EGYPT

In Egypt's remote Siwa oasis, an IFC initiative is promoting ecotourism, sustainable agriculture, women's artisanship, and renewable energy. Under the women's artisanship project, 300 women have built their needlework skills through on-the-job apprenticeships and formal training and are seeing their incomes increase as their products are exported and sold to the international haute couture industry. The unique nature of Siwa and its status as an ecotourism destination provided an opportunity to use tourism to market local products to high-end international tourists. The project is empowering Siwa's population, promoting entrepreneurship, and helping preserve the delicate environmental and cultural balance of a threatened ecosystem.


CREATING OPPORTUNITY
requires global knowledge

IFC OPERATIONS AND RESULTS BY INDUSTRY

IFC brings global expertise to the private sector in a wide range of industries. We offer innovative products and approaches to funding, and we help companies upgrade environmental and social performance.

IFC investments continue to grow in many industries, increasingly alongside advisory work that helps companies, for example, upgrade environmental and social performance, improve corporate governance, meet regulatory standards, build links with local suppliers, or improve relations with their community.

Among departments focusing on IFC's strategic sectors, Health and Education registered the largest increase in FY07 (58 percent), followed by Agribusiness (38 percent), and Global Financial Markets (37 percent), based on financing for IFC's account. Departments with the largest shares of commitments include Global Financial Markets (41 percent); Global Manufacturing and Services (17 percent); Oil, Gas, Mining, and Chemicals (12 percent); and Infrastructure (11 percent). Part of the growth in new commitments for financial markets (over $900 million) can be attributed to the IFC Global Trade Finance Program's more than $750 million in guarantees for trade transactions, almost half of which benefited banks in Sub-Saharan Africa.

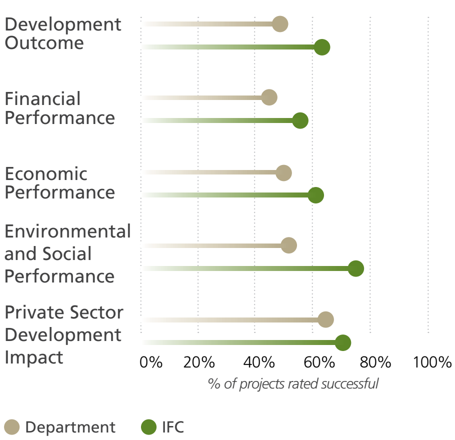
We have made significant progress in measuring our development impact and the sustainability of our investment and advisory projects across industries. The share of our tracked investments with successful development results has been most encouraging in Infrastructure and Global Financial Markets, each with a 78 percent success rate, and in Oil, Gas, Mining, and Chemicals, at 76 percent. These compare to an IFC average of 63 percent across industry departments.

AGRIBUSINESS

OVERVIEW

Agribusiness comprises various functions in the food supply chain for domestic and international markets: production, marketing, logistics, processing, and distribution. Most of the world's poor people still live in rural areas and are directly involved in agriculture, which accounts for 34 percent of GDP on average and employs 64 percent of the labor force in the least developed countries. Food security is still a challenge for the poorest countries. But the demand for food and agricultural products in developing countries is increasing along with population growth and better living standards, even as high energy prices drive up the price of biofuel-related feedstocks and as domestic and international markets remain characterized by protectionism. Meeting this demand while safeguarding scarce natural resources presents a major challenge.

DEVELOPMENT OUTCOME SCORES



PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06	FY07
Financing committed for IFC's account	$456	$628
Loans	$424	$555
Equity	$19	$23
Guarantees and risk management	$13	$50
Loan participations signed	$219	$188
Total Commitments Signed	$675	$816
Committed portfolio for IFC's account	$1,485	$1,698
Committed portfolio held for others (Loan and guarantee participations)	$329	$444
Total Committed Portfolio	$1,814	$2,142

IFC'S STRATEGY

IFC made agribusiness a priority sector this year because of its high potential for a broad development impact. We use investments and advisory services to help the sector meet an increasing demand for food in an environmentally sustainable and socially inclusive way. To spread the benefits from this sector widely, we focus on how supply chains function and support projects with strong links to individual farmers. We also promote the emergence of commodity initiatives that need the support of multiple stakeholders to ensure sustainability. To broaden and leverage our impact on small farmers, we are working with trading companies and financial intermediaries to channel financing and advisory services effectively.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $628 million for 23 projects in FY07, and we mobilized an additional $188 million through loan participations. Excluding projects classified as regional, 27 percent are in frontier countries. We expect that these commitments will provide 87,500 jobs, and reach over 357,100 farmers and 27,600 MSMEs. Our portfolio, with outstanding commitments of $1.7 billion, has started to perform better. Driving improvements are a stricter standard for selecting of clients, a focus on sectors where countries have a comparative advantage, more favorable commodity markets, and the improved growth and stability of emerging countries.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	15	17	21	23
Number of countries	9	13	13	15
Financing for IFC's own account	314	377	456	628
Loan participations	40	53	219	188

DEVELOPMENT RESULTS

IFC projects show the significant potential that agribusiness yields for development: in 2006 our portfolio companies employed 138,893 workers and reached 538,295 farmers and 56,995 MSMEs. Our overall development outcome success rate in the sector has been relatively moderate, but recent results are improving. The moderate success rates reflect an earlier rapid expansion of our portfolio, during which we supported a number of projects that have not been commercially successful, as well as some difficult years in global markets. Our experience demonstrates better results with nonperishable products (beverages, grains, oilseeds, sugar) and with agribusiness infrastructure than with animal products or fresh produce.

SUSTAINABILITY

Agribusiness companies increasingly recognize that the sector relies on a healthy base of natural resources, many of which are at risk. The sector also faces social challenges, including the need to raise labor standards. IFC seeks commercially viable solutions and helps companies set benchmarks of responsible production so that these solutions become widely adopted. In such areas as sequestering carbon, managing watersheds, preserving biodiversity, and producing renewable energy resources, this work can also help generate new income through environmental services. This year we helped ECOM Agroindustrial Corporation raise environmental and social practices among its coffee suppliers in Central America; the aim is to help them gain premium prices for more sustainable products while lowering operational costs and enhancing productivity. The project seeks to move the broader supply chain to exceed minimum compliance standards.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC is helping raise clients' awareness of environmental and social sustainability, and companies that aspire to a high level of social responsibility increasingly seek our assistance. We aim to reach greater numbers of small farmers by increasing their access to targeted financial services, and we working on this with processors and traders as well as financial intermediaries.

DEVELOPMENTAL REACH

	CY 2005 Portfolio	CY 2006 Portfolio	FY07 New Business Expectations*
Employment	122,082	138,893	87,500
Number of farmers reached	494,195	538,295	357,100
Number of MSMEs reached	45,761	56,995	27,600

*Expectations projected through 2012.

FINDING SUSTAINABLE MODELS FOR AGRIBUSINESS IN BRAZIL

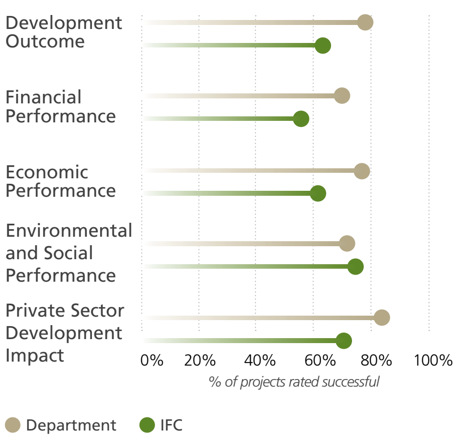
Brazil's natural geographic advantages place it well to help meet growing global demand for foodstuffs, including through soybean and cattle production. The country's expanding activity in these sectors, however, brings itunder heightened scrutiny because of the risk they can pose to the Amazon. For the Amaggi soybean project and the Bertin cattle project, we have helped companies respond to concerns about their environmental and social impacts. Amaggi has improved its environmental and social management systems and joined other initiatives led by industry and nongovernmental organizations to ensure that it is not involved in deforestation. Bertin is developing and implementing procedures to address environmental and social issues in its cattle supply chain, an approach that others are already viewing as a model. We have found that working in complex projects such as these requires a substantial amount of IFC's time and resources, but our impacts on the sustainability of the agribusiness sector as a whole are likely to be significant.

GLOBAL FINANCIAL MARKETS

OVERVIEW

Financial markets are key facilitators of development. Sound financial institutions ensure that an economy's resources are allocated where they are most productive, enhancing development in all other sectors. Financial markets and institutions have been transformed by globalization, market liberalization, and revolutions in information technology. But most financial systems in developing countries still have vulnerabilities, degrees of illiquidity, and a lack of distinct product markets such as long-term finance in local currency, insurance, and derivatives instruments. And access to financial services is still quite limited for large segments of society.

DEVELOPMENT OUTCOME SCORES



PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06	FY07
Financing committed for IFC's account	$2,468	$3,374
Loans	$1,593	$1,818
Equity	$388	$679
Guarantees and risk management	$487	$877
Loan participations signed	$219	$113
Total Commitments Signed	$2,686	$3,487
Committed portfolio for IFC's account	$7,463	$9,448
Committed portfolio held for others (Loan and guarantee participations)	$401	$404
Total Committed Portfolio	$7,864	$9,852

IFC'S STRATEGY

IFC prioritizes investments in the financial sector because it underpins the development of all other sectors. It is also our largest business, accounting for 30 to 40 percent of IFC's new commitments and overall investments each year. We take three approaches to developing the sector: working directly with financial institutions, helping build financial infrastructure such as rating agencies and credit bureaus, and working with the World Bank and development partners to create supporting policy and legal and regulatory frameworks. IFC's investments here include loans, equity, guarantees, and risk management products. Our equity investments, in particular, help strengthen financial institutions through our involvement as a long-term shareholder. We adopt a wholesaling approach to facilitate the development of markets in such developmentally critical areas as housing finance, student loans, energy efficiency financing, and MSME finance. We also provide advisory services to help build efficient financial intermediaries.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $3.37 billion for 128 projects in FY07, and we mobilized an additional $2.13 billion through loan participations and structured finance. Excluding projects classified as regional, 38 percent are in frontier countries. About two-thirds of our financial exposure is to commercial banks, and the remainder is invested in nonbank financial institutions such as leasing, housing finance, insurance, and microfinance companies. Our portfolio, with outstanding commitments of $9.5 billion, has been healthy, with loan loss reserves of 0.4 percent, their lowest level in over eight years.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	79	93	116	128
Number of countries	38	48	49	56
Financing for IFC's own account	1,683	2,183	2,468	3,374
Loan participations	70	28	219	113

DEVELOPMENT RESULTS

IFC's investments in financial markets reach many smaller businesses: in 2006, our clients' outstanding portfolio for small and medium enterprises totaled 719,000 loans for $52.2 billion, and for microfinance, 4.3 billion loans for $5 billion. We have worked extensively on access to housing finance, committing nearly $2.9 billion in FY01-07 in 40 countries to mortgage-providing commercial banks and financial institutions, as well as to secondary mortgage conduits. IFC has supported over 75 individual microfinance institutions and has investments in several funds and holding companies that have attracted significant private capital into the microfinance sector. In FY07, IFC committed $196 million in 26 microfinance projects. In FY07, IFC committed $196 million in 26 microfinance projects. Financial markets are sensitive to market movements, and any volatility has a significant impact on our development outcomes. In recent years, these outcomes have benefited from economic expansion and stable exchange rates in many of our member countries. Following a major portfolio cleanup, the best regional results are in Africa, showing the potential for impact in the least developed countries.

SUSTAINABILITY

Solid environmental and social risk management in the financial sector enhances sustainability for the entire private sector. IFC helps clients capitalize on opportunities to lend with a sustainability focus. Our clients now offer targeted sustainability financing instruments aimed at energy efficiency and renewable energy, cleaner production, corporate governance, sustainable supply chains, gender-based lending, and lending to disadvantaged social groups. This year IFC made a $43 million investment in risk-sharing facilities for commercial banks in China to support up to $100 million in energy efficiency equipment loans, mostly to smaller businesses. The program made a strong start in FY07, with $17 million in loans already disbursed to Chinese businesses.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC has made progress in supporting lending to SMEs, microfinance companies, and housing finance, and we expect to increase activities in these sectors further. In addition, the IFC Global Trade Finance Program expanded in FY07 to a program of $1 billion. IFC issues partial or full guarantees related to trade transactions, and the program has greatly benefited banks in underfinanced markets, particularly in Africa, which accounted for 49 percent of the total volume of guarantees issued in FY07. SMEs have accounted for 71 percent of the total volume of trade finance provided by the local banks through this program.

DEVELOPMENTAL REACH

SME and microfinance reach indicators	CY 2005 [1] Outstanding portfolio	CY 2006 [2] Outstanding portfolio	FY07 New Business Expectations [3]
SME loans (amount / number of loans)	$44.67 billion / 517,000	$52.18 billion / 719,000	23% per year growth
Microfinance loans (amount / number of loans)	$3.77 billion / 3.350 million	$4.95 billion / 4.313 million	40% per year growth

Global Trade Finance Program indicators	FY 2005	FY 2006	FY 2007
Amount/ number of guarantees	-	$267 million / 320	$767 million / 564
SME (by number of guarantees)	-	81.3%	71.0%
Africa (by $ amount)	-	70.0%	49.1%
South-South (by number of guarantees)	-	38.1%	36.0%
Total trade supported	-	$395 million	$1.16 billion

[1,2] Portfolio reach figures represent SME and microfinance subloans issued by IFC portfolio clients in CY 2005 and 2006. 177 and 178 clients were required to report their end-of-year SME and microfinance portfolios in 2005 and 2006, respectively. 142 and 140 clients did so as of June 30, 2006 and 2007, respectively. The missing data were extrapolated.

[3] Average portfolio per year growth figures are based on IFC FY07 commitments for 23 SME and 14 microfinance clients.

SERVING AFRICA'S MICRO, SMALL, AND MEDIUM ENTERPRISES

The MSME sector accounts for 90 percent of the firms in developing countries, typically employing over half the working population. IFC has proven most effective at reaching this sector through financial intermediaries. This year we started a new Africa MSME Finance Program that combines advisory services and financial products to put loans, trade financing, mortgage financing, and other products within reach of small entrepreneurs, who generally have little or no access to finance. Based on lessons from previous efforts, the program is designed to grow flexibly and adapt to market demand. It gives banks a strong incentive to lend to smaller businesses, with interest rate structures adjusting upward or downward depending on whether they meet agreed lending targets. We expect the new program to facilitate an additional 10,000 loans to MSMEs for a total of $200 million over the next five years.

RECOGNIZING LEADERSHIP IN SUSTAINABLE BANKING

Emerging market banks are shifting their focus from avoiding risks to seeking new and better ways to tap the business opportunities offered by sustainable development. The benefits range from higher profitability and market value to a stronger reputation and better image in the community. In June 2007, IFC and the *Financial Times* hosted the second annual Sustainable Banking awards to recognize banks for leadership and innovation in integrating social, environmental, and corporate governance objectives into their business models. A global event, the 2007 awards drew entries from more than 100 banks in 51 countries. The awards highlighted regional leadership for the first time under a new emerging markets category, with winners from Brazil (Banco do Brasil), India (ABN Amro Bank India), the Slovak Republic (Dexia Banka Slovensko), and South Africa (Nedbank).

GLOBAL INFORMATION AND COMMUNICATION TECHNOLOGIES

OVERVIEW

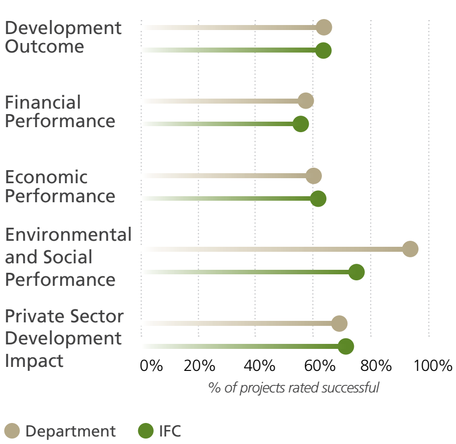
Information and communication technologies are important catalysts of development. They enable communities and local businesses to access important information and make it possible for rural and local markets to integrate with the global economy. The opportunities are significant. A study on the impact of mobile phones in Africa has shown that a 10 percent increase in telephone penetration can lead directly to a direct gain in GDP of 0.6 percent and a substantial multiplier effect on indirect growth, while IFC's anecdotal experience shows that this relationship is even stronger. Investments in mobile telephony over the last decade have been significant, with 75 percent of the global population now covered. With this mobile footprint covering only 30 percent of the world geographically, however, much remains to be done to extend access to rural and less developed areas.

Global Information and Communication Technologies is a joint IFC–World Bank department.

IFC'S STRATEGY

IFC focuses on improving access to information and communication technologies, ensuring that they play a role in development, and helping create innovation in the use of these technologies. Access to telecommunications and IT services is fundamental to closing the digital divide and expanding the reach of development. As other financiers have become active in the mobile sector, IFC has focused investments on frontier and postconflict markets such as the Democratic Republic of Congo, Haiti, Samoa, and Sierra Leone, where the development impact is greatest. In middle-income countries, we now focus on rural access and the Internet's underlying infrastructure—backbone and wireless broadband technologies—as new sources of growth and development impact. We help mainstream industry best practices so that ICT can contribute to a private sector–led business environment. Drawing on the policy and regulatory work of the department's World Bank units, IFC works with other financiers to invest in viable business models that can be replicated in other markets. Because innovation creates valuable intellectual property and establishes skilled jobs in developing countries, IFC is making venture capital investments in IT products, services, and infrastructure companies and is facilitating innovative IT-enabled services, such as mobile banking, that extend access to services to poorer people. These investments are creating world-class companies and helping reverse brain drain, and they have a powerful demonstration effect for entrepreneurs.

DEVELOPMENT OUTCOME SCORES



PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06	FY07
Financing committed for IFC's account	$366	$399
Loans	$299	$376
Equity	$67	$22
Guarantees and risk management	$0	$0
Loan participations signed	$0	$449
Total Commitments Signed	$366	$848
Committed portfolio for IFC's account	$986	$970
Committed portfolio held for others (Loan and guarantee participations)	$67	$469
Total Committed Portfolio	$1,053	$1,439

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $399 million for 17 projects in FY07, and we mobilized an additional $478 million through loan participations and parallel loans. Excluding projects classified as regional, 73 percent are in frontier countries. Over the next five years, we expect that these new commitments will give an additional 12.2 million people telephone connections, create 1,800 new highly skilled jobs in the IT and media sectors, and contribute a total of $2 billion in fiscal revenues and license, spectrum, and numbering fees. Our portfolio, with outstanding commitments of $970 million, has been healthy, with no nonperforming loans, an average net spread of 3.5 percent, and strong rates of return across the board in telecommunications, IT, and media.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	12	12	15	17
Number of countries	9	8	9	16
Financing for IFC's own account	129	200	366	399
Loan participations	0	0	0	449

DEVELOPMENT RESULTS

IFC's investments in this sector have led to tangible development results. Mobile telephone projects have been drivers of strong performance—our clients have added telephone connections for over 79 million customers since 1996, often in the most challenging countries. The sector overall enjoyed solid success rates in line with IFC's average. Although early-stage IT projects are considered relatively risky due to the uncertainty of the underlying business models and market uptake, we are encouraged by the results, which are steadily improving. Since 2000, investments in the IT and media sectors have helped create 17,500 jobs, most of them highly skilled and well-paying.

SUSTAINABILITY

Environmental and social risks from the information and communication technology sector are limited and can be avoided or mitigated by following generally recognized performance standards, guidelines, and design criteria. IFC helps clients meet these standards when the client does not already have an adequate environmental management system in place. For example, in Turkey, IFC has helped Avea, one of the country's largest mobile telephone operators, implement environmental, health, and safety standards that meet international best practice. This includes an emergency response plan to prepare staff for natural disasters such as fires and earthquakes.

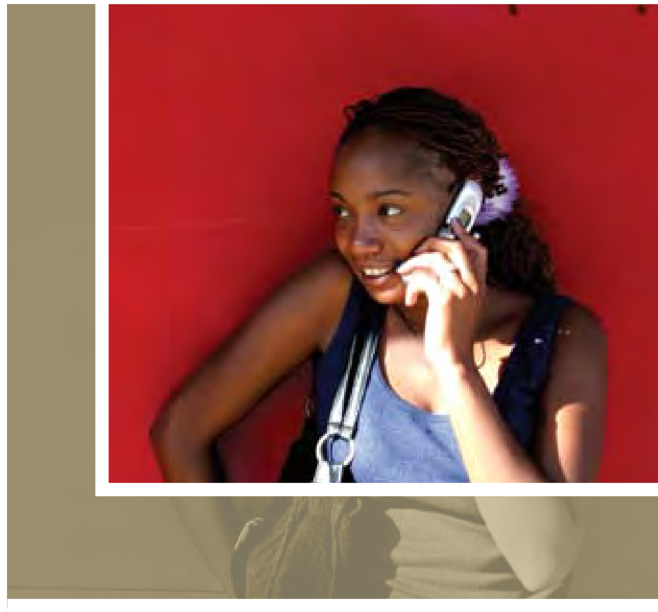
WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

There are enormous opportunities for businesses in developing countries to use ICT as a springboard to introduce new services and move beyond established business models. Hence we are committed to continuing our focus on extending access, in particular to frontier markets and postconflict countries, and in supporting the application of these technologies for development. As we are starting to see the benefits of our long-term commitment to invest in ICT projects, we will also continue to strengthen our relationships with global strategic sponsors and investors, helping transfer successful models across emerging markets. Around 10 percent of our clients are prepaying our loans, a good indicator that we can move toward riskier investments in less developed markets, where we can make the biggest difference.

DEVELOPMENTAL REACH

	Actuals up until 2005	CY 2006 Portfolio	FY2007 New Business Expectations*
IT and media employment	45,000	53,114	-
New IT and media employment (between 2000 and 2005 for CY05, and between 05 and 06 for CY06 figures)	17,500	9,916	1,800
Total phone connections	93 million	121 million	-
New phone connections (between 1996 and 2006 for CY05, and between 2005 and 2006 for CY06 figures)	79 million	53 million	12.2 million
Payment to government (taxes and fees)	-	-	$2 billion

*Expectations projected for end 2011.



TRANSFORMING MOBILE COMMUNICATIONS IN HAITI

IFC has helped finance the largest foreign investment to date in this impoverished island nation: a $260 million network build by Digicel, the Caribbean's largest mobile operator. We first provided a $15 million loan as part of a $64 million debt facility, then a further $15 million loan to finance the expansion of Digicel's network. Before Digicel Haiti launched commercial operations in May 2006, the country's mobile penetration was estimated at 4.4 percent. Already, mobile penetration has grown to more than 15 percent, and Digicel has more than a million subscribers. Our investment has brought a remarkable change in the communications landscape. Mobile coverage has quadrupled, and Digicel has made mobile telephony affordable by lowering the price of a handset from $120 to as low as $20. Alongside user-friendly features, such as per second billing and roaming capabilities in more than 70 countries, a unique remittance system enables the Haitian diaspora to buy phones and airtime for friends and relatives at home.

INCREASING CELLULAR ACCESS IN AFRICA

IFC has supported Celtel in expanding its business in the Democratic Republic of Congo, Madagascar, Malawi, Sierra Leone, and Uganda, helping modernize telecommunications and increase access in regions with low penetration. In the DRC and Sierra Leone, our financing is helping postconflict countries rebuild their communications infrastructure, providing a basis for future economic growth. By mobilizing loans from international commercial banks—including the first IFC loan participations by three South African banks—we have encouraged investor confidence in other sectors of these high-risk countries. The five subsidiaries employ more than 2,000 staff, over 95 percent of whom are Africans, including the majority of their management teams. Better cellular access also helps create employment indirectly in a wide range of industries.

GLOBAL MANUFACTURING AND SERVICES

OVERVIEW

The manufacturing and services sectors account for 40 percent of developing countries' GDP. Overall, the sector has been growing at an average of 9 percent in recent years, three times the rate in high-income countries. Driven by GDP and income growth, the demand for manufacturing products and services in developing countries has increased significantly, and they generally require capital intensive investments. These sectors encompass a wide range of industries, including building materials, forest products, retail, tourism, metals, transport equipment, electronics, pharmaceuticals, and textiles. Developing countries gain from higher investment levels, which bring better management and technology, higher-quality products, better wages, higher profits, and improved social and environmental performance. These sectors drive significant growth opportunities, through job creation and extensive supply chains and distribution networks.

DEVELOPMENT OUTCOME SCORES

PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06	FY07
Financing committed for IFC's account	$1,218	$1,375
Loans	$1,070	$1,180
Equity	$147	$179
Guarantees and risk management	$2	$16
Loan participations signed	$404	$495
Total Commitments Signed	$1,623	$1,870
Committed portfolio for IFC's account	$4,699	$5,210
Committed portfolio held for others (Loan and guarantee participations)	$1,509	$1,696
Total Committed Portfolio	$6,209	$6,905

IFC'S STRATEGY

IFC invests and advises where we can make the most difference for clients and sectors. In middle-income countries, we focus on frontier regions and on helping local second-tier companies move to the next level of competitiveness and improve their access to capital markets. With larger companies, we accompany financing with expertise that ranges from political risk mitigation to ways of improving management and technical performance, governance, and social and environmental sustainability. We support an increasing number of South-South investments, helping emerging market firms expand regionally or globally. In frontier countries, we provide companies with long-term financing where local sources of funding are unavailable and help strengthen business practices.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $1.38 billion for 46 projects in FY07, and we mobilized an additional $495 million through loan participations. Excluding projects classified as regional, 48 percent are in frontier countries. Roughly 70 percent of our commitments were in building materials, retail, hotels, and forest products. The main recipient countries were widely dispersed, with China, India, Egypt, Uruguay, Yemen, Colombia, and Turkey accounting for almost 50 percent of commitments. In some of the most difficult frontier markets, particularly those with weak financial sectors, we made small direct investments in local businesses with experienced sponsors and also provided ongoing advisory services. The outstanding portfolio is $5.2 billion and includes 427 projects. As of end 2006, portfolio companies reported sales of $42.6 billion, employment of 414,500 workers, and profits of $3.3 billion. They paid taxes of $1.1 billion and undertook local purchases worth $24.6 billion.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	53	48	44	46
Number of countries	32	24	22	26
Financing for IFC's own account	1,239	1,275	1,218	1,375
Loan participations	332	635	404	495

DEVELOPMENT RESULTS

Macroeconomic contractions and devaluations, particularly in Brazil, and increased competition and falling prices in textiles have led to moderate development results for IFC's general manufacturing projects. A third of our investments did not achieve high development outcomes due to low profitability: but most of these companies continue to contribute to their countries' economies. Our results were strongest in South Asia and Southern Europe. Africa has the weakest results, measured by the number of projects. This reflects a large proportion of small projects, often with inexperienced sponsors that have lacked technical support to develop their businesses. Taking into account IFC's disbursed investment amount, however, our overall development outcome improves to 67 percent, with Africa's results only slightly below the average. In East Asia, some IFC investments have suffered because final product prices failed to keep up with higher costs for raw materials, a problem affecting several metals projects in China, for example.

SUSTAINABILITY

IFC clients increasingly seek help to strengthen labor practices, improve relationships with communities, and lower carbon emissions. IFC also helps clients adopt systems that ensure sound environmental and social management, enhancing their brand and improving productivity, processes, and operational stability. This year, we worked with the Arab Yemen Cement Company to improve the design of a new plant for lower greenhouse gas emissions. We supported clients investing in forestry, including Sonae Novobord in South Africa and Khai Vy Corporation in Vietnam, to upgrade environmental management and boost rural employment. In Azerbaijan we helped a new food retail chain establish an environmental, health, and safety function and develop good practices in fire safety and food hygiene.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC clients have made great strides in adapting to a changing world economy. They are putting capital to its most productive use, creating benefits for shareholders, lenders, workers, consumers, government, communities, and the environment. Our clients differentiate themselves through proactive management of their sustainability impacts. Assisting smaller clients in difficult and small frontier countries continues to be a challenge, but we are making inroads. We have developed a system for efficient processing of small direct investments and aim to build on this experience. To broaden our impact, we increasingly collaborate with the World Bank.

ENGAGING ALONG THE SUSTAINABLE FORESTRY SUPPLY CHAIN

In recent years, IFC has substantially increased its investments in sustainable forestry projects around the world. IFC supports sustainable businesses along the entire forest supply chain, from plantations to production of pulp, paper, tissue, furniture and other goods. In these engagements, we seek to play a global leadership role by ensuring that our projects set an example of environmental and social stewardship, and we aim to select projects that pilot innovative approaches to revitalizing forests, reducing pollution and recycling waste. We work to ensure that our projects draw on sustainably managed forests and are designed in accordance with best available technologies. IFC has committed $203 million in loans in the forest sector this year, including projects in India (West Coast Paper Mills), Nigeria (Star Paper Mills), Pakistan (Packages Limited), and Uruguay (Orion Pulp Mills).

REPUBLIC OF YEMEN: GREENFIELD CEMENT PLANT

IFC has contributed significantly in providing and mobilizing long-term funds for a large, capital-intensive investment to support a $250 million greenfield cement plant in eastern Yemen, one of the poorest parts of the country. IFC's investment will mitigate perceived country risks for potential participating colenders. IFC has also provided technical advice that will result in energy cost savings as well as help reduce carbon emissions through better use of local materials. IFC will ensure the project's compliance with World Bank Group environmental, social, and safety policies and guidelines.

DEVELOPMENTAL REACH

	CY 2005 Portfolio	CY 2006 Portfolio	FY2007 New Business Expectations*
Employment	477,788	414,517	44,100
Local purchase of goods and services	$15.35 billion	$24.58 billion	$4.3 billion
Net income	$3.21 billion	$3.29 billion	$1.1 billion
Net sales	$55.03 billion	$62.57 billion	$10.9 billion
Taxes paid	$1.66 billion	$1.1 billion	$430 million

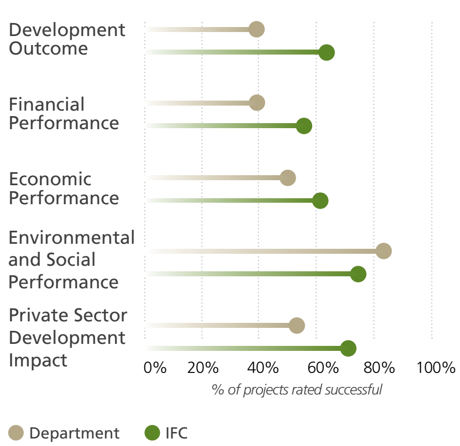
*Expectations projected for 2012.

HEALTH AND EDUCATION

OVERVIEW

The high private sector and social returns to investing in health and education have been well documented in most developing countries. Education is an important driver of social mobility and underpins a country's economic growth and technological advancement, and private higher education in many countries increasingly caters to lower- and middle-income households. Likewise, good health is fundamental for children to learn and for adults to lead productive working lives. But public resources have not been able to meet quality or quantity needs of the health and education sectors. The private sector plays a growing role in providing, and in some cases financing, these services in developing countries, complementing the public sector. In poorer countries, reliance on the private sector tends to be greater, as the public sector is often unable to deliver essential services. Many governments are now seeking to broaden the private sector's role as a way to reach underserved groups, increase efficiency, and promote innovation.

DEVELOPMENT OUTCOME SCORES



PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06	FY07
Financing committed for IFC's account	$126	$199
Loans	$119	$79
Equity	$7	$91
Guarantees and risk management	$0	$28
Loan participations signed	$0	$0
Total Commitments Signed	$126	$199
Committed portfolio for IFC's account	$302	$466
Committed portfolio held for others (Loan and guarantee participations)	$8	$6
Total Committed Portfolio	$310	$472

IFC'S STRATEGY

IFC uses financing and advisory services to help clients in these strategic sectors expand and improve operations, introduce new means of delivering services, and move into new markets within and across national boundaries. Our global expertise is highly valued, particularly as health and education remain predominantly local businesses. We play a significant role in providing long-term financing—still unavailable to many health and educational institutions—and mobilizing financing from other investors. We invest in local companies—including K-12 schools, higher education institutions, hospitals and clinics, laboratories, and companies that provide services to health and education institutions—that have the potential to grow and generate significant development impact. We work with emerging regional or global players, such as hospital groups and universities, that can innovate and improve the quality of services. We also channel financing to smaller clients and student financing through risk-sharing arrangements with financial intermediaries. Our advisory services help clients with business development, fire and life safety, and corporate governance.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $199 million for 17 projects in FY07, and we mobilized an additional $28 million through structured finance. Excluding projects classified as regional, 48 percent are in frontier countries. We expect that our new commitments will reach 5.2 million patients and 684,000 students. Our portfolio, with outstanding commitments of $466 million, has performed well for the past two years. Driving performance are an increase in capital gains from our equity investments and the much-improved performance of our loan portfolio.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	5	8	10	17
Number of countries	4	6	7	13
Financing for IFC's own account	41	81	126	199
Loan participations	0	0	0	0

DEVELOPMENT RESULTS

IFC began investing in health and education in the late 1990s; hence we have only a small sample of projects that are sufficiently mature to assess the overall impact. The development results of these early projects have been weak, mainly due to problems with project sponsors. We have, however, gained significant global expertise in appraising projects and are better able to advise clients on the content and scope of their projects. We are adapting by providing more advisory services, conducting better project screening, and helping install sound management principles and teams. Our more recent results have improved. We find that our investments are more successful where regulatory environments are predictable and there are strong links with local communities. Last year, our clients reached close to 2.4 million patients and 320,000 students.

SUSTAINABILITY

Environmental and social risks in the health and education sectors may appear limited, but they can imply significant impacts for occupants, visitors, and host communities. The most important include life and fire safety standards for public buildings, medical waste management, occupational health, and safety and hygiene for health projects. IFC's support sets an example of how these potential risks can be managed responsibly and helps build the capacity of local teachers, doctors, and nursing staff in the market. We help clients meet our standards and advise on energy use and efficiency, hygiene standards, and disease prevention, so that companies can better protect lives and the environment. Clients we helped improve fire and life safety this year include Dar Al Fouad Hospital in Egypt and Saudi German Hospital.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC aims to realize the enormous development potential of the health and education sectors. We are learning from past experience and improving the quality of our investments; despite challenges, we remain committed to these sectors. Reaching lower- and middle-income households and less developed regions remains an important goal. Going forward, we will scale up our investments, focus on emerging regional and global providers, and use new instruments, such as risk-sharing facilities, to reach smaller players and greater numbers of students. An important way to benefit poor and middle-income households is by helping them access quality and affordable health care, for example, through health insurance and better delivery mechanisms. We also aim to work with institutions seeking to move down-market with lower-cost but still high-quality services, and we will support public-private partnerships in both health and education.

DEVELOPMENTAL REACH

	CY 2005 Portfolio	CY 2006 Portfolio	FY2007 New Business Expectations *
Number of patients reached	2.36 million	3.98 million	5.16 million
Number of students reached	324,444	353,011	684,000
Taxes paid	-	$7.62 billion	$14.55 billion

*Expected results by project lie between CY 2009 and 2012.

SAUDI GERMAN HOSPITALS GROUP EXPANDS REGIONALLY

Private health institutions are generally local businesses in emerging markets, but some larger groups are expanding across borders. This can boost access for underserved populations, raise the quality of care, and establish benchmarks for best practices. In 2007, IFC partnered with Saudi German Hospitals Group, one of the largest private health care providers in the Middle East and North Africa, to establish tertiary care hospitals in Egypt and Yemen. The hospital group seeks to improve health care across the region, especially in poorer, non-Gulf states. The need is acute: the World Health Organization ranks Egypt 114 and Yemen 141 out of 188 countries on health status. Before this investment, there was no quality tertiary hospital in Yemen, and about 120,000 Yemenis travel abroad for care annually, at a cost of $300-400 million. The hospitals will also offer better employment opportunities to local professionals, helping reduce brain drain in the health care industry.

GHANA: INNOVATIVE FINANCING FOR PRIVATE SCHOOLS

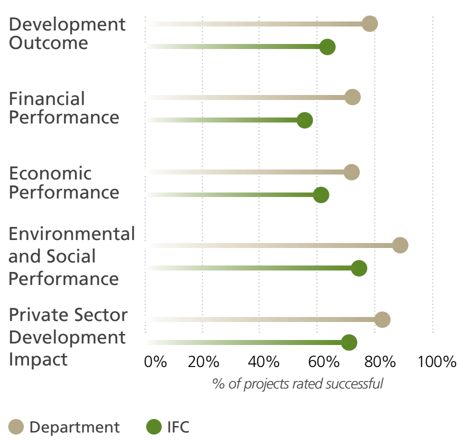
The poor quality of public primary education in Ghana has created enormous demand for private schools. Private schools, which have been shown to produce better educational outcomes, have seen enrollment grow by 22 percent a year in Accra since 2003—more than twice as fast as public schools. But much demand remains unmet, largely because schools have little access to affordable, long-term financing and little training in financial management. IFC's help with strategic planning, self-evaluation, and human resource management is allowing private schools to strengthen operations, enhance the quality of education they offer, and reach more students. We are working with a local bank that has thus far provided financing of $1.8 million in local currency to 13 schools serving 6,000 students, and a similar program was recently introduced in Kenya. The objective is to build a lasting market for commercial financing of private schools. This in turn supports a higher objective—helping reach the Millennium Development Goal of universal primary education by 2015.

INFRASTRUCTURE

OVERVIEW

Infrastructure is central to economic growth, better living standards, and broader development. Basic services such as water, sanitation, and electricity improve health and social welfare, and they are essential for modern industry and commerce. Companies cannot compete when they are burdened with high-cost, unreliable, or low-quality infrastructure. Transport infrastructure (roads, ports, railway, airports) and services (shipping, airlines) are necessary for domestic and international trade. Yet infrastructure remains inadequate in many developing countries. The investment needs are immense: estimates range from 5.5 to 9 percent of GDP, well beyond what the public sector alone can meet. Engagements in frontier countries have long lead times and require time-intensive structuring efforts. Infrastructure sectors also need more efficient management, which is often lacking in the public sector.

DEVELOPMENT OUTCOME SCORES



PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06	FY07
Financing committed for IFC's account	$955	$936
Loans	$779	$789
Equity	$127	$134
Guarantees and risk management	$48	$13
Loan participations signed	$383	$50
Total Commitments Signed	$1,338	$985
Committed portfolio for IFC's account	$3,382	$3,727
Committed portfolio held for others (Loan and guarantee participations)	$1,739	$1,332
Total Committed Portfolio	$5,121	$5,059

IFC'S STRATEGY

IFC has made infrastructure a priority because of its impact on living standards and its role underpinning the development of all other sectors. We support a number of initiatives to develop commercially viable projects, and we make direct investments. We provide advisory services to help governments develop regulatory frameworks that facilitate public-private partnerships and private sector investments in infrastructure, and we provide expertise and analysis to prepare transactions such as privatization of power utilities and railways in Africa or wind power projects worldwide. We focus our efforts where the needs are greatest: helping to connect the underserved and working in difficult country environments. In the transportation and energy sectors, IFC balances a development role with support for activities to reduce greenhouse gas emissions.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $936 million for 29 projects in FY07, and we mobilized an additional $93 million through loan participations and structured finance. Of these projects, 43 percent are in frontier countries. We expect our new commitments in 2007 to serve, directly or via third parties, 21.5 million electricity consumers and 2.2 million water consumers and to transport over 10 million airline and 9.2 million railway travelers in 2010. Our portfolio, with outstanding commitments of $2.2 billion, has been healthy, with utility and international transport sectors driving strong overall economic and financial performance.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	26	23	34	29
Number of countries	12	15	19	16
Financing for IFC's own account	847	598	955	936
Loan participations	388	156	383	50

DEVELOPMENT RESULTS

IFC's infrastructure investments have benefited many people in developing countries. Last year alone, companies in our portfolio delivered power directly to 9.5 million customers and supplied water to 15.3 million customers, mostly households where a number of individuals benefit from the services. Our client companies in power generation enabled 124 million customers to receive electricity. Some 269 million vehicles drove on roads built or maintained by our clients, and 46.4 million passengers traveled on our clients' airlines. Ports we invested in also helped facilitate international trade.The development results of our infrastructure investments have been higher than the IFC average. The best performing sectors are utilities and internationally oriented transport sectors, such as ports and air transport. Domestically oriented transport sectors, such as roads and railways, have produced weaker financial and economic results, as they are more exposed to national economic risk.

SUSTAINABILITY

Infrastructure projects can carry social and environmental risks, such as resettlement and economic displacement of local communities. In such cases, IFC works with clients to ensure that affected communities are not only compensated but also share in the opportunities created by new or improved infrastructure. We also help clients improve environmental and social management in such areas as energy efficiency, waste management, and labor standards. In Cameroon, IFC identified an opportunity to use Dutch donor funds to help AES Sonel, an electric utility, combat river blindness, a disease prevalent in areas around the company's plants and reservoirs. In Mexico, IFC is working with Petstar, a plastics recycling company, to improve the welfare of waste pickers and reduce the incidence of informal child labor.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC has increased investments in the sector, where historically we have had a high concentration in Latin America and, to a lesser extent, East Asia and the Pacific. Though the share of other regions in new commitments has increased since 2003, more needs to be done to meet infrastructure demand in less developed areas of Africa, the Middle East, and South Asia. Long lead times and the need for time-intensive project development and structuring efforts are a serious impediment to infrastructure development in frontier countries, and we are exploring new approaches to help address this constraint. Public-private partnerships remain a priority, and we will work closely across the World Bank Group to put in place suitable regulatory frameworks, as well as to ensure that public sector participation in these partnerships is appropriately structured. We will also identify new approaches to continue our leadership in helping address climate change.

DEVELOPMENTAL REACH

	CY 2005 Portfolio	CY 2006 Portfolio	FY2007 New Business Expectations *
Power generated: (# of customers)	65.2 million	124 million	21.5 million
Power distribution: (# of customers)	11.2 million	9.5 million	2.3 million
Water distribution (# of customers)	8.9 million	15.3 million	2.2 million
Airport passengers	10 million	13.2 million	10.7 million
Airline passengers	16.3 million	46.4 million	15 million
Container ports/moves	3.3 million	4.9 million	700,000
Cargo/grain ports (tons)	10.1 million	13.4 million	--
Roads – number of vehicles	309.1 million	269.3 million	266.3 million
Railway passengers	--	2.4 million	9.2 million
Rail Freight (tons)	--	200.2 million	3.7 million
Gas distribution (number of customers)	--	10.6 million	--
Gas throughput (billion cubic meters)	--	--	25.4
Waste recyling (tons)	--	--	30,000
Payments to government	--	$4.849 billion	--

*Expectations projected for 2010.

RELIEVING ELECTRICITY SHORTAGES IN PAKISTAN AND UGANDA

Uganda has experienced power shortages and a sharp rise in electricity tariffs due to reliance on expensive diesel-based power. To help, IFC is leading a group of investors to finance the Bujagali hydropower project, one of the largest private sector investments in Africa's power sector to date. It will allow Uganda to meet electricity demand and retire expensive diesel plants when the plant is commissioned in 2011. By substituting thermal power, the project will reduce greenhouse gas and other pollutant emissions. IFC, the World Bank, and MIGA have worked closely together and with the company, Uganda's government, and the regulator over several years to help create the conditions that make this project feasible.

In Pakistan, IFC is investing $125 million in KESC, the power utility that supplies electricity to Karachi, the country's industrial and commercial hub. This will help KESC connect new residential and business customers to the grid, eliminate power shortages, reduce distribution losses, and lower carbon emissions. The project is expected to demonstrate the benefits of privatizing the power sector in Pakistan and the region.

IMPROVING EAST AFRICA'S RAIL NETWORK

IFC has played a major role in the privatization of the Kenya Railways Corporation and the Uganda Railways Corporation, which together form a critical component of East Africa's transportation infrastructure. The joint concession is expected to benefit neighboring countries as well by increasing transportation efficiency, reducing pressure on the regional road network, and stimulating regional trade and economic growth. IFC's loan of $22 million and up to $10 million in a subordinated loan will be used to rehabilitate, operate, and maintain the railway assets, which a private company will manage under a 25-year concession. The project illustrates IFC's increasingly successful collaboration with the World Bank—both IBRD and IDA—in large-scale development projects.

OIL, GAS, MINING, AND CHEMICALS

OVERVIEW

The oil, gas, mining, and chemicals sectors are important for many of the poorest countries. They hold enormous development potential but also well-recognized challenges. They can yield large tax and royalty revenues to governments and create valuable jobs in remote regions, business for local suppliers, links to downstream industries, infrastructure that can be used by others, and a range of local community programs. Engagements in these sectors are also highly complex. They require diligent environmental management, while revenues have to be managed and used well to maximize benefits. Companies need to take sensitive and inclusive approaches that generate sustainable benefits for local communities. The global growth in energy demand coincides with increased awareness of the potential consequences and risks of climate change. Greater efficiency in energy use and production and an increase in the use of natural gas offer opportunities to reduce greenhouse gas emissions.

Oil, Gas, Mining, and Chemicals is a joint IFC–World Bank department.

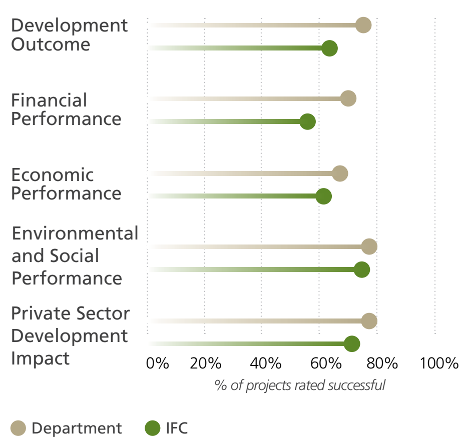
IFC'S STRATEGY

IFC engages in these sectors when we can add value, helping countries leverage their resources for development impact in ways that go beyond what the market might normally provide. In addition to providing financing, we work with investors and others to enhance the benefits of projects we support. For example, we help strengthen investors' capacity to manage environmental and social issues; we support the growth of related local businesses; and we work to address relevant governance issues. We give particular focus to early engagement in a project's life cycle, to local companies, to projects in Africa, and to gas investments.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $984 million for 22 projects in FY07, and we mobilized an additional $481 million through loan participations. Excluding projects classified as regional, 44 percent are in frontier countries. We expect that our new commitments will generate strong development benefits, including over $410 million in government revenues and around $631 million in locally sourced goods and services. Our portfolio, with outstanding commitments of [$xx billion], continues to perform well. One key factor contributing to this performance is the high prices and margins the industry has seen in recent years.

DEVELOPMENT OUTCOME SCORES



PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06	FY07
Financing committed for IFC's account	$788	$985
Loans	$684	$802
Equity	$94	$183
Guarantees and risk management	$9	$0
Loan participations signed	$347	$481
Total Commitments Signed	$1,135	$1,465
Committed portfolio for IFC's account	$2,304	$2,675
Committed portfolio held for others (Loan and guarantee participations)	$1,024	$1,192
Total Committed Portfolio	$3,328	$3,867

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	22	22	24	22
Number of countries	4	12	16	14
Financing for IFC's own account	659	478	788	984
Loan participations	300	205	347	481

"We are in the business of helping all partners—companies, governments, and communities alike—derive tangible benefits from the private sector investments we support. Doing good business and doing good for people go hand in hand."

– Somit Varma, Director, Oil, Gas, Mining, and Chemicals

DEVELOPMENT RESULTS

IFC investments have consistently generated positive development outcomes, with the strong results largely driven by significant financial and economic benefits. In 2006 alone, companies in our portfolio generated an estimated $8.8 billion in revenues to local and national governments and created or preserved over 100,000 direct and indirect jobs. They also spent over $252 million on community development programs and purchased over $6.7 billion in goods and services domestically, in many cases through linkage programs IFC had set up with small local firms.

SUSTAINABILITY

IFC helps extractives projects achieve broad local support through careful mitigation of environmental and social impacts, including proactive engagement with affected communities to ensure that benefits are felt locally. We help clients handle the diverse impacts of these complex projects, such as protecting the water supply and biodiversity, reducing greenhouse gas emissions, and managing resettlement and economic displacement. We also help broaden the positive impact of our projects through programs to link local businesses with IFC projects. In the Guyana Goldfields exploration project, for example, we have helped assess impact on biodiversity from the proposed mining development, so that this can factor into project planning.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

IFC is making good progress in promoting sector sustainability and transparency in the projects we support. We are helping increase transparency at the local government level by raising awareness of revenues in the community and strengthening local capacity to assess and spend resources effectively. An ongoing challenge is to track development and poverty impacts beyond direct project outcomes; we propose to review our approach and supplement it through in-depth project studies. Our experience in complex projects in the extractive industries has proved useful to other sectors, and we now apply some of the same principles to all high-risk projects. To help promote sustainable energy solutions, we have increased our activities in renewable energy and energy efficiency.

DEVELOPMENTAL REACH

	CY 2005 Portfolio	CY 2006 Portfolio	FY2007 New Business Expectations *
Employment	66,828	100,211	11,500
Outlays for community development programs	$241.1 million	$252.4 million	$31.8 million
Local purchase of goods and services	$2.3 billion	$6.7 billion	$631.5 million
Payments to government	$5.3 billion	$8.8 billion	$410.7 million

*Expectations projected for end of calendar year 2007.

PROMOTING TRANSPARENCY

IFC is making progress at promoting transparency in the oil, gas, and mining sectors at the national and project levels. Sponsors of all projects IFC has supported in the last two years have agreed to disclose material payments to the government. At the national level, the World Bank Group is working to promote transparency in many of the 28 countries that are participating in the Extractive Industries Transparency Initiative. Nigeria is one example where implementation is well-established and beginning to show clear results, through a transparent and comprehensive disclosure of audited petroleum revenues and payments, as well as a public debate on the findings of a 2006 report from the transparency initiative and its recommendations for improvement.

SUPPORTING COMMUNITY DEVELOPMENT

This year IFC committed $10 million and raised $2 million from the Norwegian government to launch CommDev, a program that engages and empowers local communities and governments around our investments in extractive industries. Working with stakeholders is critical to the projects' success and to sustaining development beyond the life of a well, pipeline, or mine. Hence CommDev is an integral component of each World Bank Group extractives project, helping ensure value-added support beyond the compliance requirements of IFC investments and World Bank loans. It works with local and regional governments, building capacity to manage royalty flows; identifies ways to integrate local smaller business into the supply chain of our client companies; and helps set up community foundations as well as programs on the environment, gender, and HIV/AIDS. In Guatemala, for example, CommDev is funding a community-based committee, representing a broad array of stakeholders, to monitor the environmental impact of the Marlin mine. In Guinea, it is working with the government and industry to establish a unified framework for long-term community development in the country's mining regions, based on international best practice.

PRIVATE EQUITY AND INVESTMENT FUNDS

OVERVIEW

Private equity funds play an important role in deepening capital markets, as they provide financing to companies, including start-ups, small businesses, high-growth companies, and turnarounds, that are not served adequately by traditional lenders. For the mid-market and SME clients in emerging markets where IFC invests, private equity focuses on growth, efficiency, transparency, and governance to create value. Successful managers facilitate the growth of companies through involvement in improving company operations, and these high-growth companies create higher than average employment growth. Record levels of capital have been raised in recent years for a select few emerging markets that have seen sustained high growth, high liquidity, and improving returns after poor results in earlier years. But the overall penetration of private equity as a percentage of GDP in emerging markets remains low compared to developed markets.

DEVELOPMENT OUTCOME SCORES

PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06	FY07
Financing committed for IFC's account	$273	$250
Loans	$0	$0
Equity	$273	$250
Guarantees and risk management	$0	$0
Loan participations signed	$0	$0
Total Commitments Signed	$273	$250
Committed portfolio for IFC's account	$958	$1,071
Committed portfolio held for others (Loan and guarantee participations)	$0	$0
Total Committed Portfolio	$958	$1,071

IFC'S STRATEGY

IFC has been a pioneering investor in private equity and alternative assets in emerging markets. As global capital flows to some emerging markets have increased, we have been sharpening our focus on adapting the private equity business model to the characteristics and challenges of underserved and frontier markets, using a combination of advisory and investment support to improve access to equity finance and build local asset management industries. We seek to be an early supporter of fund managers that subsequently attract ample commercial support and "graduate" from IFC as first-rate regional fund managers. We negotiate fund terms and take a role on fund advisory committees, helping improve governance and transparency to international standards, as well as the investor friendliness of funds in which we invest. We also ensure that funds in which we invest adopt IFC's environmental and social standards. This range of IFC activities makes funds more attractive to investors. Going forward, we will increase our support to growth equity funds, to back companies that stimulate job creation; small business funds, to reach more deeply into the frontier; venture capital funds, to support this nascent sector; sustainability funds; and industry-focused funds, such as those focusing on infrastructure or agribusiness.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $250 million for 14 projects in FY07. Excluding projects classified as regional, 47 percent are in frontier countries. This year's new investments are expected to support 56 high-growth companies and 73 MSMEs and generate higher job growth than the relevant regional average, totaling over 10,000 new jobs. About 40 percent of the new investments are frontier funds, and around 76 percent of the fund managers we work with are based in client countries. The investment portfolio grew to $1.7 billion for 149 projects in FY07.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	12	12	15	14
Number of countries	5	7	6	7
Financing for IFC's own account	171	181	273	250
Loan participations	0	0	0	0

DEVELOPMENT RESULTS

IFC activities in the sector have produced tangible development results. Over the last seven years, IFC-supported funds have provided capital and management expertise in more than 300 companies, and they are expected to support an additional 200 companies by the end of these funds' lives. Over half the companies supported have been SMEs, and employment growth has on average been 3.7 times higher than the relevant regional employment growth rate. Some 22 percent of fund investee companies are located in frontier countries. In total, these funds have mobilized $12.9 billion of equity and quasi-equity in emerging markets. Our early fund investments had poor results, mirroring the experience of private investors in the early 1990s. In 2000, we reviewed our approach, centralized these investments in one specialized department, and took a more structured approach, working mainly with experienced fund managers. This led to better results: post-2000 funds have performed better, measured by both development impact and financial indicators, than pre-2000 funds.

SUSTAINABILITY

Fund managers understand the value of sound corporate governance and environmental and social management. These influence a company's commercial success and help determine whether fund managers can achieve a good sale through a public offering or to a private buyer. IFC supports private equity funds with advisory services that help them manage business risk and opportunities resulting from their investee companies' sustainability performance. For example, we provided training this year in IFC's new performance standards and business risk management to Asian Lion Fund, which targets investments in mining companies in Southeast Asia.

WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

With improved results and more experience, we are now able to work increasingly in underdeveloped countries, including frontier markets, and with less experienced local managers to help develop the sector. This creates a shift in the balance of the development impact of our funds. Working with experienced fund managers increases the chances of supporting companies that will become successful, with a larger impact on the ground through job creation. Working with credible but less experienced managers and in underdeveloped countries is expected to create fewer jobs but have a larger impact on market development. Taking this approach, we go where we are needed most.

DEVELOPMENTAL REACH

	CY 2005 Portfolio *	CY 2006 Portfolio *	FY2007 New Business Expectations**
Number of emerging managers	26	37	10
Number of supported investee companies	192	299	138
Numbers of MSMEs reached	106	164	73
New jobs	57,259	60,576	10,050
Number of investee companies with frontier exposure	35	66	58
Number of high-growth investee companies	77	89	56

*Calculations are based on new business committed between 2000 and the respective year, and not on the total portfolio of projects.
**Expectations are projected for 2012.

ACTIVE STRUCTURING AND SUPERVISION

IFC's management of our funds portfolio instills comfort in many commercial investors who invest alongside IFC. Recently, we led investors in improving the quality of a fund management team by convincing the fund manager to bring in new senior local staff. As a result, an expected loss was turned into a modest gain. In another case, we supported a fund manager in restructuring a fund and introducing a parallel listed vehicle, a novel structure in emerging markets that would help raise needed funds but had raised concerns among investors about a potential conflict of interest. We provided legal advice and suggestions that improved the structure and transparency of the proposed new structure, helping align the interests of investors in the two vehicles. This gave comfort to existing investors and helped the manager raise the fund successfully, with minimal disruption.

CONNECTIONS WITH OTHER IFC ACTIVITIES

Homex, Mexico's home development company, has provided affordable entry-level and middle-income housing for more than 100,000 families to date. Zephyr-Nexxus Mexico Fund I, a private equity fund for midsize companies, invested in Homex in 1999 and helped the company's strong performance and its successful initial public offering in New York and Mexican stock exchanges in 2004. IFC's Private Equity and Investment Funds Department introduced this fund manager to Su Casita, a mortgage lender in which IFC's Financial Markets Department had invested. This relationship increased the availability of mortgage loans for affordable housing and complemented IFC's work on primary and secondary mortgage markets in Mexico.

SUBNATIONAL FINANCE

OVERVIEW

As many developing countries decentralize their government structures, local governments are being entrusted to provide infrastructure services such as water and sanitation, waste disposal, energy, and transportation. Efficient and reliable infrastructure improves living standards and enables local businesses to thrive and compete. Local governments are often in a better position to assess demand, foster local participation, and be responsive and accountable to their citizens. Their management capabilities and regulatory frameworks are still catching up with the new responsibilities, however, and raising funds in local capital markets is often difficult.

A new joint IFC–World Bank subnational finance department was created this year, building on the previous work of the Municipal Fund. This enables us to meld IFC transaction experience and World Bank experience in working with municipalities and state-owned enterprises so that we can deliver well-targeted interventions.

PROJECT FINANCING AND PORTFOLIO ($ millions)

	FY06	FY07
Financing committed for IFC's account	$52	$75
Loans	$0	$50
Equity	$0	$25
Guarantees and risk management	$52	$0
Loan participations signed	$0	$0
Total Commitments Signed	$52	$75
Committed portfolio for IFC's account	$48	$148
Committed portfolio held for others (Loan and guarantee participations)	$0	$0
Total Committed Portfolio	$48	$148

IFC'S STRATEGY

Since 2003, IFC has been helping local governments gain access to financing for basic infrastructure services, and helping develop local capital markets in the process. This year, this pilot effort became a full department for IFC and the World Bank. This new approach allows us to provide funds and advisory services to local governments and to selected national and subnational public utilities that meet our financial and governance criteria. Employing credit guarantees and risk-sharing facilities, among other financial products, we encourage local investors to finance subnational projects, generally in local currency. Drawing on World Bank expertise in project processing and assistance to governments, we also now work with nationally owned utility enterprises.

NEW BUSINESS AND PORTFOLIO

Investment commitments reached $75 million for two projects in FY07. To date we have made eight subnational transactions for a total of $285 million. In aggregate, these projects catalyze over $800 million in infrastructure investments for municipalities in Latin America, Sub-Saharan Africa, Eastern Europe, and East Asia. Over the next five years, we expect to invest in projects that will help 30 subnational clients improve their financial performance and sustainability. We also plan to assist several hundred smaller local governments through financial intermediary investments, which we expect to benefit more than 20 million people.

COMMITMENTS

	FY04	FY05	FY06	FY07
Number of projects	1	0	4	2
Number of countries	1	0	4	2
Financing for IFC's own account	50	0	52	75
Loan participations	0	0	0	0

DEVELOPMENT RESULTS

Subnational finance is a relatively new line of business for IFC; operations are not yet sufficiently mature to evaluate their results fully. One early example is the IFC-funded Bus Rapid Transit system in Guatemala City, which has reduced commuting times and increased the availability and safety of public transportation. Our local currency loan to Russia's Chuvash Republic will provide all-weather access to markets and services for rural communities and help the republic extend the life of its existing road assets.

SUSTAINABILITY

Since local governments are usually responsible for providing water, sewerage, and solid waste services, many of the subnational projects we finance result in positive environmental and social impacts. For example, this year IFC made a $50 million investment in PNOC-EDC, an integrated geothermal steam and electricity producer in the Philippines. This will enable development of new energy projects and lower the country's dependence on imported fossil fuels. The project is also expected to improve the efficiency and competitiveness of the country's geothermal sector. IFC is helping the company improve its corporate governance and social environmental risk management.

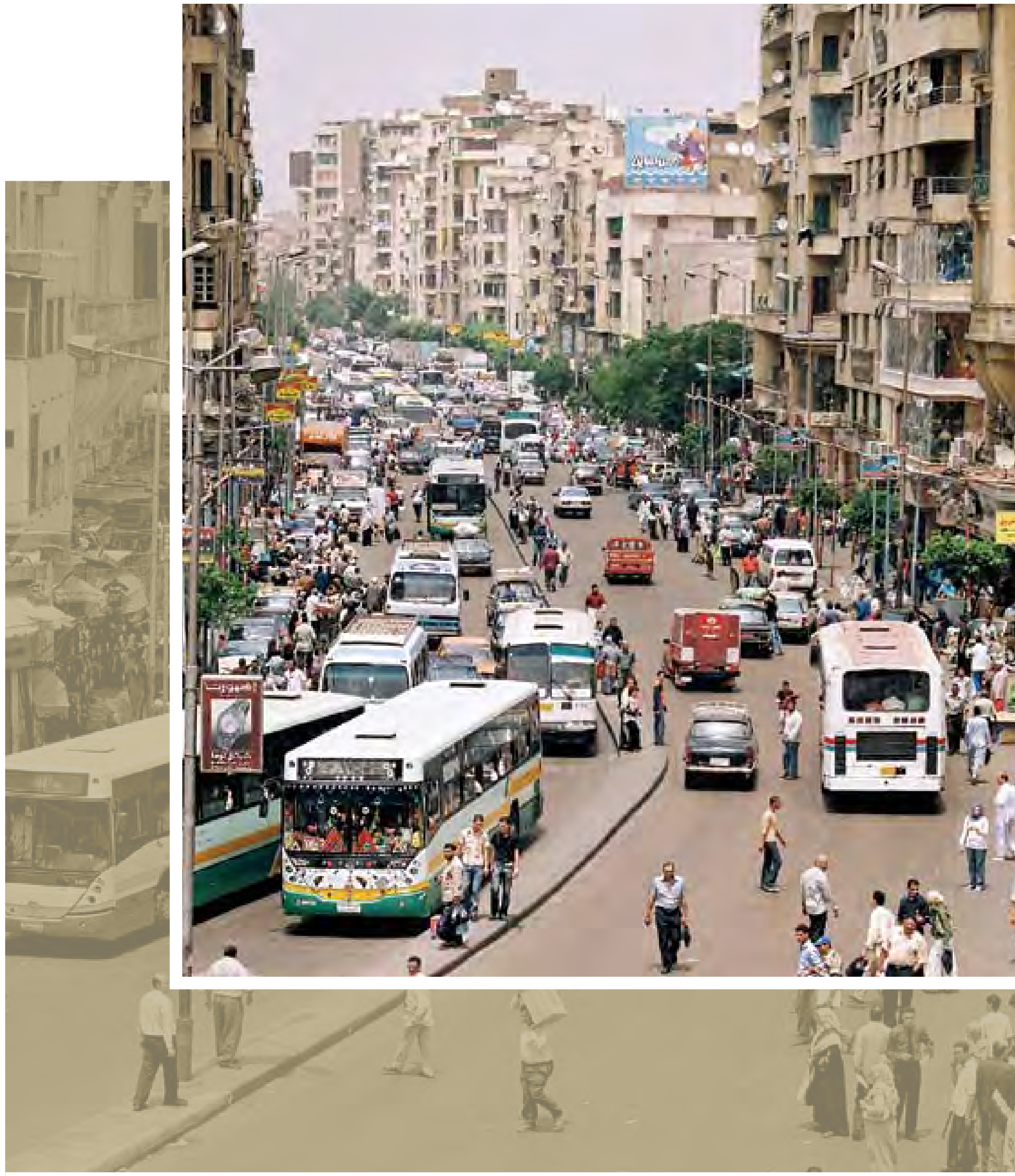
WHAT WE HAVE ACHIEVED, AND WORK STILL TO BE DONE

The World Bank Group plans to scale up work at the subnational level, and we are setting up a dedicated facility for advisory services in partnership with the World Bank and other donors. This will help municipalities improve their creditworthiness and prepare viable projects, with a focus on frontier countries.

DEVELOPMENTAL REACH

	Actuals as of June 2007 *	FY2007 New Business Expectations**
Power customers	--	2.5 million
Water and sewerage customers	830,000	--
Transport and road customers	150,000	50,000
Other customers served	70,000	--

*For FY07 portfolio, figures are best estimates.
**Expectations projected for end 2012.



MUNICIPAL FINANCE FOR INFRASTRUCTURE

The Chuvash Republic, a small frontier region of Russia, has worked with the World Bank Group to build a reputation for fiscal responsibility and access financing to upgrade its rural infrastructure. The republic's progressive budget management attracted IBRD loans in 2002 and made it a solid candidate in FY07 for a partial credit guarantee under the joint IFC/World Bank subnational financing program. Our guarantee of the republic's bond issue, equivalent to $35.1 million, helped raise the capital needed to repair miles of neglected roads and corroded water pipes as well as renovate aging hospitals and schools. The republic plans to raise further capital for infrastructure, and we are planning a second investment to support its road modernization program, as well as similarly structured transactions in other regions of Russia to help meet the country's development needs.

CREATING OPPORTUNITY
with integrated solutions

IFC advises businesses and governments to support the private sector. Especially in frontier markets, this helps us address basic challenges and prepare the way for private investment and growth.

IFC Advisory Services is a growing and dynamic business. This part of our work has grown nearly 30 percent a year, reaching $197 million this year. By design, advisory projects are less sensitive to many of the risks that constrain IFC's investment work. Those same risks also contribute to the demand that makes advisory services the lead instrument for IFC in many countries.

IFC is working to integrate advisory work more closely with investments. We are also enhancing coordination with the World Bank, which leads in providing broader policy advice to governments in such critical sectors as financial market development and reform of the infrastructure sectors.

IFC had advisory work active in 97 countries during FY07, and projects in frontier countries represent 62 percent of the value of new approvals. Of the 35 conflict-affected member countries, IFC has advisory projects committed in 23, including Afghanistan, Haiti, Liberia, Nigeria, and Rwanda. Advisory Services employs over 1,100 full time staff, a 125 percent net growth since FY02.

The work is organized into five business lines: Business Enabling Environment, Access to Finance, Environmental and Social Sustainability, Infrastructure, and Value Addition to Firms.

BUSINESS ENABLING ENVIRONMENT

WHAT WE DO

IFC's advisory services are helping client countries improve their investment climate. In a work program coordinated through a joint IFC–World Bank–MIGA vice presidency, our efforts focus in four areas: regulatory simplification (in business registration, licensing, taxation, collateral, access to land, and trade facilitation); subnational expansion of the Doing Business project; alternative dispute resolution; and investment policy and promotion. In FY07, we were active in 76 countries through 221 advisory projects, with expenditures of $18.4 million. The largest share of this work was in Sub-Saharan Africa (22 percent) and East Asia and the Pacific (22 percent); 60 percent of projects were in frontier markets.

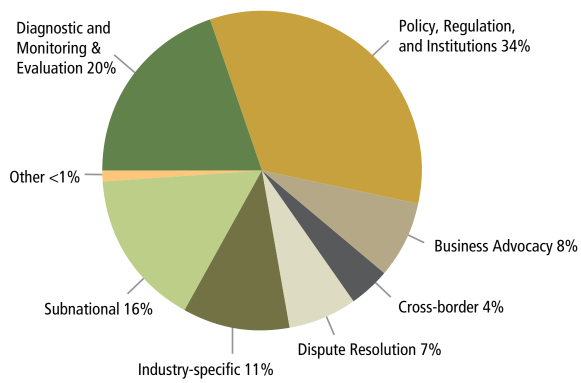
HOW WE DO IT

We advise on design and implementation of reforms at the national and subnational level. In January 2007, MIGA's Board decided to integrate its advisory work into FIAS, the Investment Climate Advisory Service, a multidonor facility of IFC and the World Bank that has global expertise in attracting foreign investment to developing countries. IFC is also a founding member of the Investment Climate Facility for Africa, a public-private partnership to catalyze reform in Africa, and of the Bangladesh Investment Climate Fund.

HOW WE MEASURE SUCCESS

- In Lima, Peru, we helped cut the time required to register a new business from more than 60 to about six days and helped combine five separate inspections into one. In 2006, over 8,500 businesses registered with the municipality, a 653 percent increase over 2005.
- In Kenya, we helped eliminate 110 unnecessary business licenses and simplify eight others in 2006. The reform effort targets private sector concerns: it simplifies or eliminates 23 of the 26 licenses that businesses have found most burdensome.
- In Sierra Leone, we helped lower the cost of starting a business from about $1,500 to a $50 filing fee. We also helped simplify customs, introducing risk-based inspections for traded goods.
- In the Balkans, IFC piloted a new approach to measuring results, comparing our alternative dispute resolution clients with a control group that used the court system between 2005 and 2007. While 93 percent of the alternative dispute resolution cases were settled within two weeks at an average cost of 500 euros, some 60 percent of the court cases took three to five years at a cost of more than 3,000 euros.

FY07 EXPENDITURES



DOING BUSINESS PROJECT INSPIRES 109 REFORMS

Since its launch in 2004, the Doing Business project has evaluated progress with regulatory reforms in 178 countries. A joint product of IFC and the World Bank, it has inspired 109 reforms, 53 of which are complete and yielding benefits to businesses. A third are taking place in Africa, which *Doing Business 2007* identified as the region with the sharpest increase in reforms. The top reformer in 2006 was Georgia, followed by Romania, Mexico, China, and Peru. FIAS and IFC Advisory Services experts are assisting the governments of Azerbaijan, Burkina Faso, Egypt, and three dozen other countries in expanding reforms and focusing these reforms on the creation of new jobs.

ACCESS TO FINANCE

WHAT WE DO

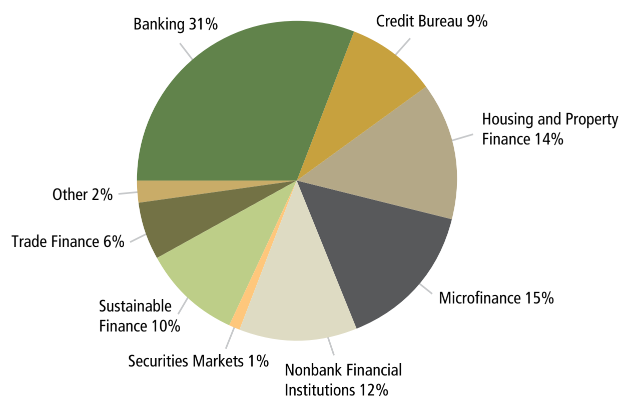
IFC's advisory services expand the availability of financial services to micro and small businesses and low-income households. Projects and programs cover banking, credit bureaus, housing and property finance, insurance, microfinance, municipal finance, securities markets, and trade finance.

HOW WE DO IT

IFC provides advisory services at two levels:

- Institution-building for individual banks and nonbank financial institutions. This includes advice on expanding lending to small businesses, credit underwriting, risk management, and product development.
- Improving the enabling environment. This involves legal and regulatory advice, awareness-raising events, market studies, and other sector development work.

FY07 EXPENDITURES



HOW WE MEASURE SUCCESS

- Projects in banking for smaller businesses generated $74 billion in new investment financing and helped improve access to finance for 1.2 million small and medium business owners in 2006.
- Microfinance advisory services have generated over $4.6 billion in new investment financing to over 2.3 million microentrepreneurs in 2006.
- Leasing advisory services generated, from 2003 to 2006, $17.5 million in IFC financing to leasing companies and over 37,000 leasing transactions worth $688 million in Central and Eastern Europe.
- IFC helped create or improve credit bureaus in eight countries, resulting in 9.3 million credit inquiries and helping generate an estimated $4.7 billion in new investment financing in 2006.

INTEGRATING ADVISORY SERVICES WITH INVESTMENTS

About half of IFC's investments are with finance institutions that serve small businesses, and over 70 percent of our advisory services focus on these clients. As of December 2006, IFC's clients held about 5 million small business loans worth over $57 billion. IFC's strategy is to integrate investment and advisory work through efforts that began in Africa in 2005-2006, expanded to Latin America last year, and are now spreading to Asia. An independent evaluation recently found that from 2003 to 2006 IFC achieved greater outreach when investment and advisory services were provided as a combined service to clients.

ENVIRONMENTAL AND SOCIAL SUSTAINABILITY

WHAT WE DO

IFC develops and tests innovative environmental and social business models. With our support, these business models become commercially viable and deliver environmental and social benefits in the areas of biodiversity, carbon finance, cleaner technologies, corporate social responsibility, sustainable energy, and sustainable investing. In FY07, 22 of our 39 sustainability-related projects were in frontier markets.

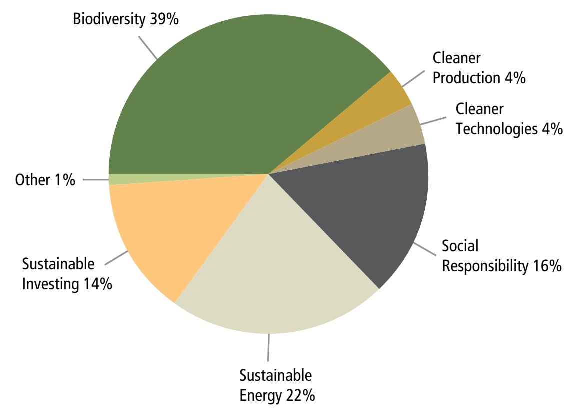
HOW WE DO IT

IFC helps demonstrate that sustainability is good business. We train financial institutions on how to achieve social and environmental benefits and work with environmental consulting firms in clean production and energy efficiency. IFC also promotes sustainable business by building the capacity of NGOs and entrepreneurs to deliver services for local communities, particularly around extractive industries, and by supporting income-generating activities around areas with outstanding biodiversity such as rainforests in Brazil, coral reefs in Indonesia, and a nature reserve in the Kyrgyz Republic.

HOW WE MEASURE SUCCESS

- Since 2003, IFC has helped establish lending targeted to energy efficiency in six Central European countries. Through the end of 2006, the program had generated energy savings equivalent to $30 million per year and reduced carbon emissions by 52,800 tons a year.
- In India, Kenya, and Morocco, IFC has helped develop the market for solar energy products with advice, equity investments, and loans to businesses. Through July 2006, we helped businesses install 28,000 solar systems for families. The effort is reducing carbon emissions by 10,900 tons annually.
- IFC provided funding to develop a Corporate Sustainability Index on behalf of Brazil's Bovespa stock market. The first of its kind in the region, the index rose 34 percent in its first year, outperforming the market's 32 percent rise. As of December 2006, the market capitalization of the indexed stocks was $374 billion.
- In Vietnam, IFC has helped improve farming practices and raise incomes for bamboo farmers and rural people. Training conducted through mid-2006 led to the planting of 533 hectares and the creation of 140 jobs in new bamboo processing centers, with pay averaging about three times the per capita income in the area.

FY07 EXPENDITURES



GOING GLOBAL WITH CLEAN, AFFORDABLE DRINKING WATER

One important way IFC measures success is by replicating and expanding initiatives in which we played a defining role. In 2002, a start-up company with a robust, energy-efficient, and low-cost water purification technology approached IFC for funding. We provided advice and funding that helped the company redefine its approach from selling equipment to selling water. Today, 500 WaterHealth International systems deliver clean water to an estimated 500,000 people in the Philippines, Sri Lanka, and rural India. These businesses are staffed by villagers and funded by local banks. Users pay just $2 a year for clean water. WaterHealth International recently raised $11.3 million with new investors and is poised to accelerate its expansion.

INFRASTRUCTURE

WHAT WE DO

IFC extends development impact by improving access to basic services in road infrastructure, telecommunications, water and energy utilities, health, and education. Our advisory work in this area is closely coordinated with our investments.

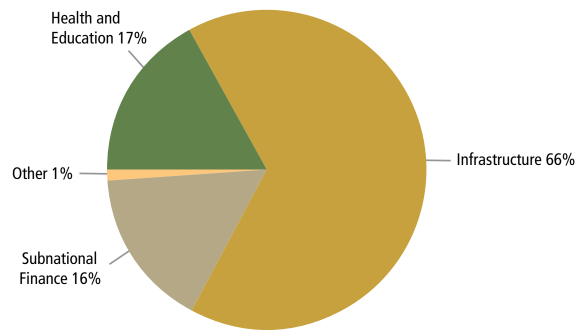
HOW WE DO IT

IFC provides advisory services to national and municipal governments for structuring and implementing private sector participation in ways that balance the interests of investors with public policy considerations. In doing so, we help governments achieve policy objectives and create investment opportunities, both for IFC and for our fellow investors in industrialized and developing countries. This year, we completed 14 advisory projects, including work in Romania's health sector, rural electrification in the Philippines, Nigeria's Abuja Airport, the Jeddah desalination plant and Hajj Airport Terminal in Saudi Arabia, a logistics hub in Panama, telecommunications in Kenya, and Jordan's main airport. Another 11 projects are ongoing.

HOW WE MEASURE SUCCESS

- Our advisory services laid the groundwork for mobilizing $1.4 billion in private investment.
- Our advice generated $640 million in concession fees and other payments to governments from public-private partnerships in infrastructure.
- One project brought electricity to 60,000 households in the Philippines. The government decided to introduce private sector participation in power generation in an effort to reduce the subsidy burden and improve reliability. IFC was hired as advisor to develop contractual rules and enable private participation. In October 2006, we successfully concluded the first full-scale transaction for the island of Masbate. The new private provider was selected through a competitive tender based on the lowest price and has entered into 15-year power supply agreements with rural electric cooperatives.

FY07 EXPENDITURES



PUBLIC-PRIVATE PARTNERSHIPS

Many developing countries are establishing innovative partnerships, combining elements of private capital and expertise with well-defined and limited public funding, to address bottlenecks and infrastructure and deliver essential public services. IFC's ability to tap both our global experience in infrastructure and the public policy expertise of the World Bank positions us uniquely to support member countries in developing these solutions. This support comes both through IFC investments in public-private partnerships and through our advisory work for developing, tendering, and implementing such arrangements. IFC has over 30 ongoing advisory mandates to help government implement PPPs, with Africa and the Middle East being the most active regions. In FY07, we concluded eight such mandates, which are expected to lead to $1.5 billion in investment.

VALUE ADDITION TO FIRMS

WHAT WE DO

IFC helps private firms enhance their competitiveness and productivity, and we promote the growth of small businesses through the development of supply chains. Our programs also help clients improve corporate governance and prevent and treat HIV/AIDS in their workforce and local communities. We are active in developing grassroots organizations and business associations, and we work on many fronts to expand economic opportunities for women.

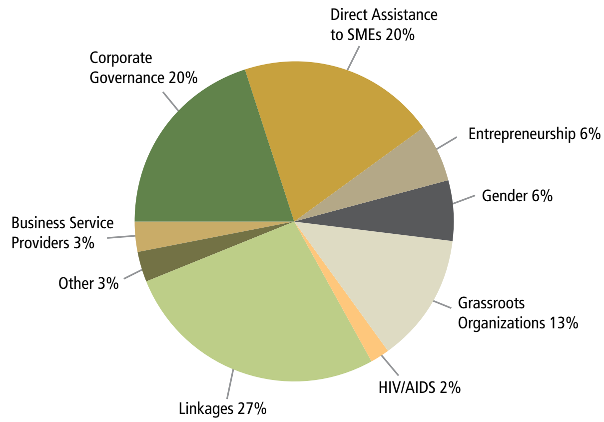
HOW WE DO IT

IFC's advisory service specialists work with investment teams to provide value-added services such as supply chain linkages or corporate HIV/AIDS programs. IFC has also developed tools and products, especially for small business development, that are used in combination with other projects. These include a range of training programs for new entrepreneurs.

HOW WE MEASURE SUCCESS

- In corporate governance, IFC has assisted 7,983 companies in Eastern Europe and Central Asia, mobilizing $631 million in investment between 2000 and 2006. In the Middle East, company directors from 1,995 firms were trained between 2005 and 2007.
- IFC's Linkages Program enabled small businesses to win contracts from IFC clients worth an estimated $300 million in 2006.

FY07 EXPENDITURES



- Through its SME management training product, Business Edge, in 2006 IFC trained 9,998 entrepreneurs in Yemen; 3,895 in the Mekong region; and 11,534 in China.
- Some 22 projects are helping our client companies respond to HIV/AIDS. These are linked to $911 million in IFC investments in nine countries; the programs reach 88,000 employees, with total community outreach estimated at 640,000 people.

HELPING LOCAL BUSINESSES ACCESS E-PROCUREMENT

In December 2005, ExxonMobil turned to IFC for support in expanding its e-procurement system, an initiative to reach local suppliers. IFC used its Enterprise Center in Chad, a program developed in partnership with the local chamber of commerce, to address poor Internet access, low computer literacy, and language barriers. To date, 53 local firms have submitted bids resulting in 16 contracts worth over $30 million. The e-procurement effort is part of a larger local business opportunity project that includes assessment of potential suppliers, training, and mentorship. The results of this partnership are promising: the average local contract has grown from $100,000 in 2004 to $800,000 in 2007.

CREATING OPPORTUNITY
through a range of partnerships

IFC's impact on development reflects broad and innovative collaboration with partners, including governments, foundations, and civil society.

IFC works with a wide range of partners and through many different channels to maximize our impact on private sector development. We value the skills, experiences, and insights that each of our partners brings to the table. By collaborating, we maximize the positive impact of our work as well as pool and leverage resources, all while capitalizing on the competitive advantages of each partner.

We strive to demonstrate to all of our partners how funds are being invested and what results these investments bring. Proper measurement of results also improves program design and implementation. IFC employs the latest thinking and approaches in evaluation methodology, and we benchmark our activities against the leaders in the field.

Sharing knowledge and maintaining an ongoing, strategic dialogue with partners are also at the core of what we do. We work with academic institutions—partners from emerging markets include the University Católica in Peru, the Institute for Microfinance Research in India, China's Agricultural University—as well as with nonprofit organizations such as the Poverty Action Lab and the Grameen Foundation. Each year we host an international conference on results measurement that brings together leading experts in the field, including donor governments, multilaterals, academics, consulting firms, civil society, and foundations.

Our work with partners on knowledge-sharing and research this year included a global contest on best practices for evaluating business enabling projects that we launched jointly with the U.K. Department for International Development and German Technical Cooperation. Each year, more than 5,000 partners in 175 countries from Afghanistan to Zimbabwe collaborate in developing our yearly *Doing Business* report.

WORKING WITH GOVERNMENTS

Donor governments support our advisory services with a regional or thematic focus. Over the years, these partners have played a key role in the development of our advisory services, helping us become a global leader and innovator in private sector development.

In FY07, governments contributed $75.71 million to our advisory services, allowing us to begin 349 new advisory projects. Demand for these services remains high, and although we earmark a portion of our retained earnings to this work each year, government partners continue to play an essential role. Austria's Finance Ministry, the Flanders region of Belgium, and the European Agency for Reconstruction became new IFC donor partners in FY07.

TARGETED HELP FOR WOMEN

In February 2007, IFC and the World Bank, under the auspices of the German Federal Ministry for Economic Cooperation and Development, launched the World Bank Group Gender Action Plan, which targets women's economic empowerment. It covers a wide range of economic sectors that are crucial to women's participation in private sector development, including agribusiness, the financial sector, and infrastructure—energy, transport, and water and sanitation. The $24.5 million, four-year initiative will intensify IFC and the Bank's gender work, with a focus helping improve women's access to financial services, labor, land, and product markets. It draws half its funds from the World Bank Group and half from donor governments, including Canada, Germany, Norway, and the United Kingdom.

Governments are strategic partners for IFC: we encourage them to have an ongoing dialogue with us and become involved in project or program development. We also maximize results when we have a long-term engagement with these partners. Other innovative approaches include joint research and staff sharing or exchanges. For example, our partner SECO, the Swiss Secretariat for Economic Affairs, and our advisory services in Sub-Saharan Africa make joint use of staff and facilities, ensuring close cooperation and better program design and implementation across the region.

An increasing number of governments have opted to enter into partnership agreements with IFC. In FY07, we signed an agreement with Luxembourg, and others are in place with the European Commission, Japan, the Netherlands, Norway, and Switzerland. With the Netherlands' Ministry of Foreign Affairs we are developing a new framework agreement that will give IFC a greater role in allocating our partners' resources across regions and business lines.

We encourage our government partners to "untie" their trust funds—giving us flexibility in the hiring of consultants beyond those from the donor country—as this increases the effectiveness of advisory services. Already, Austria, Ireland, Luxembourg, and the Netherlands have done so. Some other governments, including Spain and the Flanders and Wallonia regions of Belgium, are taking a phased approach and introducing greater flexibility into their trust fund arrangements with us.

IFC AND SECO: PARTNERING FOR GREATER IMPACT

One of our most intensive partnerships has been with SECO for projects that promote corporate governance. Switzerland's expertise in banking has helped the projects generate a positive impact in companies, banks, and national regulatory agencies. The partnership has trained professors and introduced corporate governance curricula at 75 universities, helping ensure that the next generation of business leaders understand and promote good corporate governance. The partnership has led to the adoption of Ukraine's first corporate governance code and has helped the Central Bank of Russia develop its corporate governance regulations. This work has helped companies access more than $1.3 billion in additional financing through better corporate governance.

"Visa International is committed to extending the efficiencies of electronic payments to communities and economies around the world. When coupled with the judicious use of credit, electronic payment systems can play a critical role in helping small business grow. The development of strong credit bureaus is vital to that process."

Christopher Rodrigues, Former President and CEO, Visa International

FINANCIAL COMMITMENTS TO IFC ADVISORY SERVICES (US$ MILLIONS EQUIVALENT)

Governments	FY06	FY07
Australia	26.98	11.37
Austria	2.86	3.35
Belgium	0.65	2.69
Canada	11.24	2.98
Denmark	0.94	2.77
Finland	2.69	4.78
France	4.64	1.29
Greece	0.04	0.00
Iceland	0.24	0.16
Ireland	1.30	2.45
Japan	4.80	2.62
Kuwait	0.00	2.00
Luxembourg	0.46	2.49
The Netherlands	13.91	15.24
New Zealand	2.50	0.31
Norway	7.22	5.14
Slovenia	0.00	0.30
South Africa	0.63	0.63
Spain	1.20	3.00
Sweden	8.82	1.69
Switzerland	17.35	7.48
United Kingdom	29.82	0.99
United States	6.50	0.51
Cape Verde*	0.00	0.57
Nigeria*	0.00	1.40
Rwanda*	0.00	0.50
Total	**144.79**	**76.71**

Unaudited figures.
*Client governments' contributions.

We are also taking a more strategic approach in reporting to government partners. In FY07, we launched a brochure series for major partners. The brochures cover the full range of the relationship with IFC and are being made available in the languages relevant to the specific partner.

We coordinate with other international financial institutions, multilateral organizations, and bilateral donor agencies by holding regular strategic discussions on such items as our regional strategies and private sector development initiatives. In FY07, our peer community of international financial institutions also attended the World Bank Group's annual Donor Forum. Examples of collaboration with governments and multilaterals in FY07:

- We launched a project to help develop access to securities markets products in Sub-Saharan Africa, with initial grant funding from Sweden to be supplemented by in-kind contributions from IFC and World Bank.
- A joint project concluded with the Finnish government, which has led to $400 million in actual or planned investment in the forestry sector of northwest Russia.
- IFC agreed with the United Kingdom's DFID and the European Commission to serve as an implementing agency for the Bangladesh Investment Climate Fund.
- With KfW, we launched the Microfinance Initiative for Asia, which builds on our successful partnership in Africa and Eastern Europe and aims to commit $1 million in support of microfinance over the next three years.
- We worked with the International Labour Organization to develop a program for better labor standards in global supply chains for various industries.

We are expanding our work with nongovernmental donors. Visa International is the first corporate donor to establish a trust fund with IFC; this supports our work to establish credit bureaus in developing countries alongside the governments of Australia, Italy, Netherlands, Norway, New Zealand, and Switzerland. Similarly, in FY07 we teamed with BP in Azerbaijan and Georgia. Our financial expertise enabled BP to set up a $15 million finance facility in Azerbaijan that will help entrepreneurs access financing and start new businesses.

"At IFC we value our partnerships, and we are committed to creating strong synergies and to maximizing the impact of our joint efforts on private sector development."

Edward Nassim VICE PRESIDENT, EUROPE, AFRICA, AND THE MIDDLE EAST

FINANCIAL COMMITMENTS TO IFC ADVISORY SERVICES (US$ MILLIONS EQUIVALENT)

SUMMARY	FY06	FY07
Governments	$144.79	$75.71
Institutional/ Multilateral Partners	$31.32	$30.39
Private Partners/ Foundations	$4.21	$6.28
Total	$180.32	$112.38

Unaudited figures. FY06 donor government contributions were higher due to the launch of a number of new programs with three-to-five year cycles as well as the replenishment and renewal of several existing programs.

WORKING WITH FOUNDATIONS

Foundations have emerged as a key source of funding for international development, and many organizations have a vision for social change that complements IFC's efforts to reduce poverty in emerging markets. In FY07, our work in this area included projects with:

- The Asia Foundation, developing a business environment scorecard for Cambodia's provinces and municipalities.
- The Bill and Melinda Gates Foundation, jointly funding research on ways to improve health care in Africa.
- The IBM International Foundation, designing a new business management platform to deliver interactive tools, online collaboration, and educational content for small businesses in the developing world.
- The Jolie-Pitt Foundation, launching pilot projects to help farmers in the Mekong region reduce their use of harmful pesticides and better preserve crops after harvest.
- The Kauffman Foundation, developing a report on women's entrepreneurship, in particular initiatives that promote women business owners' access to finance.
- The Lex Mundi Pro Bono Foundation, analyzing investor protections and contract enforcements in 175 countries and conducting a study on transparency in government.

Going forward, we will focus on long-term partnerships with foundations that are active in our client countries. We aim to develop partnerships focusing on innovative product development.

PARTNERING WITH THE GATES FOUNDATION ON HEALTH CARE IN AFRICA

Sub-Saharan Africa is not on track to meet the three Millennium Development Goals on health by 2015. The region has the highest maternal mortality and almost half the world's deaths of children under age five, while diseases—especially HIV/AIDS, malaria, and tuberculosis—pose major threats to health. Hence IFC and the Bill and Melinda Gates Foundation launched a $3.5 million initiative in September 2006 for research to determine the business models that provide health services to poor people. The work builds on findings that the region's poorest people already seek out private health services more often than public services. Through this partnership, we hope to raise understanding of the value of the private sector in Africa's health care market and find ways to help it grow.

"Private health care has the potential to play an important role in improving health in Africa. Through this initiative, IFC can help identify new ways to assist African families and communities that are unable to access public sector health services."

Joe Cerrell, Director of Global Health Advocacy
Bill and Melinda Gates Foundation

WORKING WITH CIVIL SOCIETY

IFC engages with civil society to ensure that the beneficiaries of projects derive the greatest possible development impact. Civil society offers a complementary perspective to IFC's core constituency of private enterprises, and dialogue brings broader expertise and a respected voice to the table. Nongovernmental organizations also help us design and implement projects, bringing in-depth knowledge to the table.

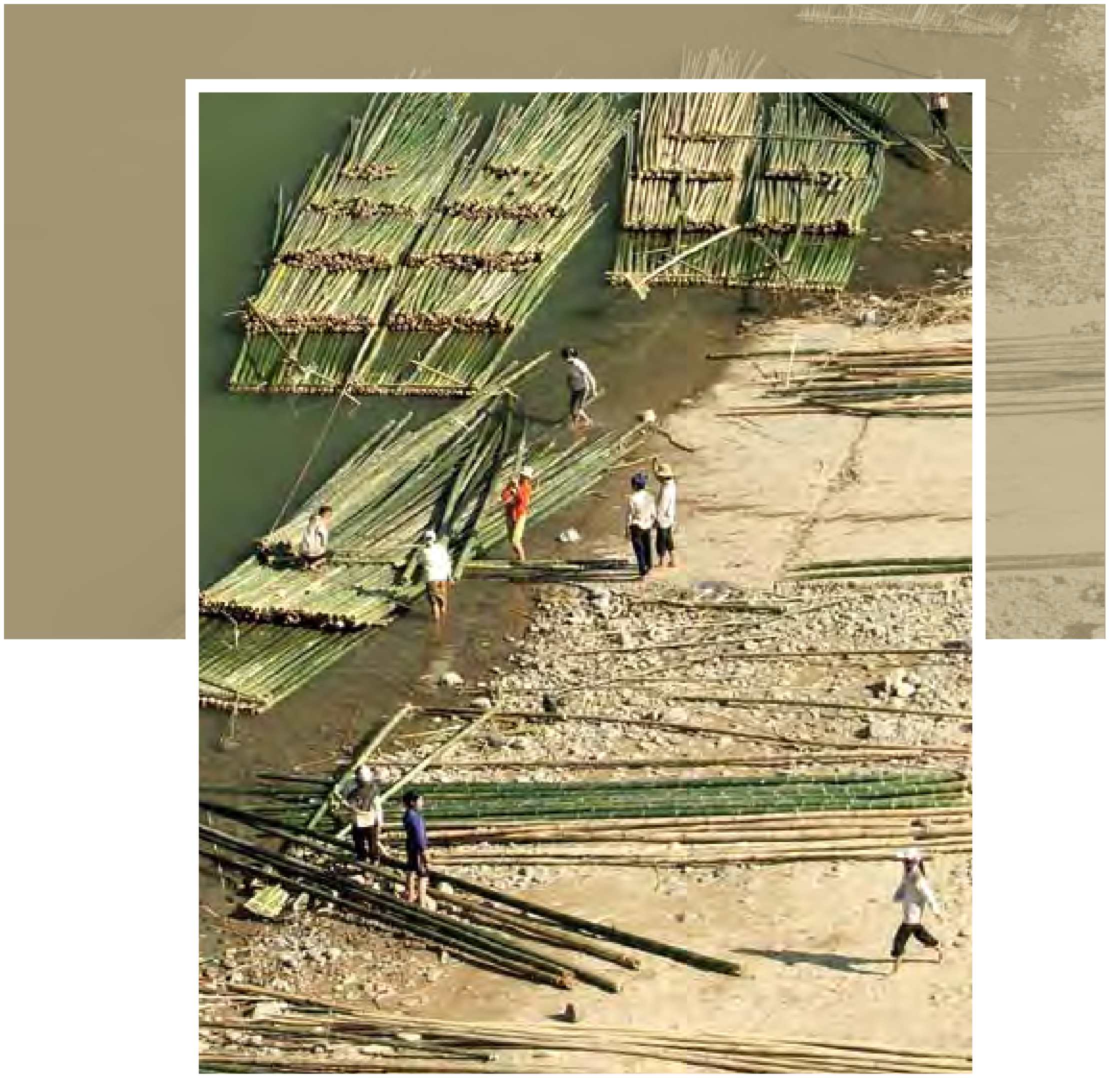
Highlights of our work with civil society in FY07 include cooperation with the Rainforest Alliance and other partners to help 8,000 coffee growers in Central America and southern Mexico improve their income and make their business more sustainable through higher production standards and links with international buyers. We teamed up with Oxfam Hong Kong to develop a niche market for sustainable tourism in Cambodia and the Lao PDR. We also shared an award from the UN-Habitat/Dubai Municipality with the International Crane Foundation for our joint wetland conservation work in Vietnam. We worked with the World Resources Institute to quantify the market at the base of the pyramid, as detailed in the new publication *The Next 4 Billion,* and with the International Business Leaders Forum to develop a human rights impact assessment.

PROMOTING SUSTAINABLE FORESTRY WITH WWF

IFC and the World Wildlife Fund's Global Forest Trade Network are helping forest communities in Bolivia become competitive and responsible lumber providers to leading firms. In Southeast Asia's Mekong region, IFC and WWF are helping 70 furniture companies source wood and manufacture with more sustainable practices, connect with international buyers, and gain certification from the Forest Stewardship Council, a stakeholder-owned system for responsible management of the world's forests that WWF is championing. IFC is helping client companies invest in forestry in ways that move the demand for certified wood closer to the suppliers. Discussions are even underway to export plentiful but lesser-known timber species from WWF-certified forestry projects in Latin America to producers in the Mekong region.

"We welcome the opportunity to deepen our collaboration with IFC by taking advantage of the complementary strengths of our respective organizations. IFC's expertise in finance and business development, coupled with the GFTN's ability to assist companies throughout Latin America in producing quality products from well-managed forests for the discerning global marketplace, should prove a powerful combination for the pilot project countries, and in the future, other Latin American countries."

Steve Gretzinger
GFTN's Latin American Coordinator
World Wildlife Fund



CREATING OPPORTUNITY
begins at IFC

HOW WE WORK

A concern for people—stakeholders, local communities, employees and their famillies—is fundamental to good business, at IFC and in our client companies.

In IFC's line of business—creating opportunity through private sector development—diligence, responsibility, and passion define business results. Success comes from commitment to best practice in every aspect of our operations, be it in our governance, accountability to our stakeholders, our focus on sustainability, or investment in our staff.

Managing our diverse and expanding operations effectively requires sound organizational structures and principles: good governance and leadership within IFC and in cooperation across the World Bank Group; attention to detail in monitoring and evaluating our investments and advisory services throughout their life cycle; and dedication to working responsibly with clients and other stakeholders to ensure transparency, accountability for our actions, and a commitment to continuous improvement.

Sustainability is central to our business strategy and a vital part of our operations in offices worldwide. Managing our environmental and social footprint in our day-to-day activities is an important part of living our mission and being consistent with what we ask of our clients.

Above all, converting our work into significant development impact happens because of the people at IFC. We are committed to recruiting, rewarding, and training the best and most dedicated staff. By mobilizing our most valuable resource, our people, we continuously push for greater impact in reducing poverty and improving lives.

GOVERNANCE

IFC is an international organization established in 1956 to further economic growth in its developing member countries by promoting private sector development. It is part of the World Bank Group, which also includes the International Bank for Reconstruction and Development and the International Development Association (which together constitute the World Bank), the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes. It is a legal entity separate and distinct from the other Bank Group institutions, with its own Articles of Agreement, share capital, financial structure, management, and staff. Membership in IFC is open only to member countries of the World Bank. As of June 30, 2007, IFC's entire share capital was held by 179 member countries.

Member countries guide IFC's programs and activities. Each country appoints one governor and one alternate. Corporate powers are vested in the Board of Directors, 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 investments and provide overall strategic guidance to IFC management.

Robert B. Zoellick is President of IFC and the other World Bank Group institutions: the International Bank for Reconstruction and Development, the International Development Agency, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes. Mr. Zoellick also serves as chairman of the boards. Lars H. Thunell is IFC's Executive Vice President and CEO and leads the Corporation's overall strategic directions.

WORKING ACROSS THE WORLD BANK GROUP

Effective coordination and cooperation with our fellow organizations in the World Bank Group—the World Bank and MIGA—is a key corporate goal for IFC. This allows IFC to play an integrated role in delivering on broader World Bank Group objectives, supporting growth and alleviating poverty. We also benefit from synergies with our Bank Group counterparts.

Coordination begins at the strategic level, as we increasingly work with the World Bank on joint Country Assistance Strategies. At the advisory and project level, we coordinate in such critical areas as business environment reform; public-private partnerships to improve and expand the delivery of basic services, including water and sanitation, energy, education, and health; and financial market development. In Lima, for example, work by the Bank on land registries is complemented by IFC's detailed advisory work and financing to support development of mortgage finance markets.

IFC can play an investment role in a number of sectors where World Bank engagement focuses on policy. Reflecting these complementary roles, IFC and World Bank staff work side by side in several units:

- The joint Bank/IFC/MIGA vice presidency focuses on financial and private sector development, in which we collaborate to strengthen the business environment, enhance SMEs' access to finance, and improve corporate governance. This vice presidency houses the IFC/Bank Doing Business project and FIAS, a joint IFC/Bank/MIGA advisory service, which together play key roles in business environment reform, documenting challenges and helping governments address them.
- Joint IFC/World Bank departments focus on information and communication technologies and on oil, gas, mining, and chemicals.
- A new joint subnational finance department focuses on investments in key infrastructure sectors.

We recognize that where there are synergies there can also be conflicts of interest—and we manage this risk through a mechanism modeled on best practice from the private sector.

COMPENSATION

IFC's compensation guidelines are part of the World Bank Group's framework. The international competitiveness of compensation is essential to our capacity to attract and retain highly qualified, diverse staff in jobs subject to international recruitment. The salary structure of the World Bank Group for staff recruited in Washington is determined with reference to the U.S. market, which historically has been globally competitive. This competitiveness is reviewed every four years. Salaries for staff hired in offices and countries outside the United States are based on local competitiveness, determined by independent local market surveys.

Based on the World Bank Group's status as a multilateral organization, staff salaries are determined on a net-of-tax basis.

EXECUTIVE COMPENSATION

The salary of the President of the World Bank Group is determined by the Board of Directors. The salary structure for IFC's Executive Vice President and CEO is determined by positioning a midpoint between the salary structure of staff at the highest level, as determined annually by independent U.S. compensation market surveys, and the salary of the World Bank Group President. The compensation of our executive leadership is transparent. IFC's President, Robert Zoellick, receives a salary of $420,930 net of taxes; and IFC's Executive Vice President and CEO, Lars Thunell, receives a salary of $324,610 net of taxes. There are no executive incentive compensation packages.

PERFORMANCE AWARD PROGRAMS

IFC makes a number of performance awards each year to recognize and reward individuals and teams for superior performance and results. Performance metrics emphasize both development effectiveness and financial performance. Awards range from on-the-spot payments of up to $400, to as much as 15 percent of salary for outstanding annual results and as much as 20 percent of salary for long-term outstanding contributions by staff in investment operations. A maximum of 25 percent of staff may receive performance awards each year, with most individual awards falling in a range of 5-10 percent of annual salary. The average individual award in FY07 was about $8,300. The Executive Vice President and CEO and the members of IFC's Management Group do not receive performance awards or any other form of variable compensation.

"IFC and its Board work together to ensure that the Corporation helps further economic development by encouraging the growth of productive private enterprise in member countries."

W. Paatii Ofosu-Amaah **VICE PRESIDENT AND CORPORATE SECRETARY**

PARTNERING ON LEARNING: IFC–WORLD BANK COLLABORATION ON PRIVATE EDUCATION IN AFRICA

IFC and the World Bank are partnering to undertake an impact evaluation of IFC's Kenya Private Schools Advisory Services and Financing Program, using a control group approach to address such questions as:

- Does the program improve the sustainability of participating schools?
- Does the program increase access to education for the target student population?
- Does the program improve educational outcomes?

A simpler version of this evaluation is being conducted in Ghana, and our plan is to use these evaluations as IFC rolls out its schools support programs in additional countries in Sub-Saharan Africa.

ACCOUNTABILITY

Three independent units oversee IFC and increase our accountability.

COMPLIANCE ADVISOR/OMBUDSMAN

The CAO audits compliance with IFC's social and environmental policies, guidelines, procedures, and systems; advises the World Bank Group's president and management on our environmental and social policies; and, as ombudsman, answers complaints by people who are affected by projects in which we are involved and who seek fair resolutions.

In 2006-2007, the CAO updated its operational guidelines to clarify the processes that underpin its three distinct roles. Since its inception in 1999, the CAO has received 65 cases. The CAO Ombudsman received all of these as external complaints, except for two compliance audits that were requested by IFC senior management and the World Bank Group President. More information about the CAO, including the revision of the operational guidelines, can be found at www.cao-ombudsman.com.

INDEPENDENT EVALUATION GROUP

Since 1996, IFC's private sector operations have been evaluated by the Independent Evaluation Group, an independent unit that reports to IFC's Board of Directors through the World Bank Group Director-General, Evaluation. Although independent, IEG is not isolated from IFC staff—there are many opportunities for us to learn from IEG's work and to incorporate recommendations that we believe will contribute to the achievement of our development mandate. For example, IEG works closely with our staff to ensure that they understand and correctly apply our evaluation methodology for private sector investment projects. IEG also participates in many of our training programs in Washington and the field to raise staff awareness of evaluation findings and to convey lessons from experience.

During FY07, we benefited from four IEG evaluation reports that addressed specific aspects of our operations. These reports will be publicly available in FY08 and will provide civil society, governments, industry, and others with the same IEG analysis that contributes to our strategic directions. One example is IEG's 10-year review of IFC's development effectiveness, which has already begun to inform our activities at the country level.

We have also worked closely with IEG to develop our new evaluation methodology for advisory services projects. The implementation of this project evaluation pilot benefited greatly from IEG's validation of the first 171 self-evaluations we completed.

IEG publishes a wide range of information on its Web site at www.ifc.org/IEG.

INTERNAL AUDITING DEPARTMENT

IAD provides objective assurance and advice to help the World Bank Group enhance risk management, control, and governance, as well as to improve accountability for results. Assurance services are generally initiated by IAD, while advisory services are generally initiated by internal client requests. Advisory services are conducted primarily to answer specific questions aimed at improving risk management, control, or governance processes. Typical advisory services include analyzing controls built into systems under development, providing recommendations for analyzing operations, assisting in fraud and corruption investigations, and raising awareness of internal control activities.

INTEGRITY AND CONFLICT RESOLUTION

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

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

The following telephone hotlines are anonymous, toll-free, staffed 24 hours a day, and multilingual.

- The Ethics Helpline. Calls can relate to issues of any scale, such as staff misconduct, discrimination, or conflicts of interest. See www.worldbank.org/ethics.
- The Department of Institutional Integrity hotline. The department investigates allegations of fraud and corruption in World Bank Group operations and allegations of misconduct. See www.worldbank.org/integrity.

WORKING RESPONSIBLY

IFC is committed to working with clients and other stakeholders to achieve our shared goals of reducing poverty and improving lives through private sector development. We recognize that we need to be transparent in our operations and to set an example of good governance, with high standards for ourselves as well as for our clients. We have developed internal processes that help us ensure transparency, accountability for decisions and impacts, support to people, and consistency with what we ask of clients. We are also committed to continuous improvement through learning and knowledge-sharing.

ENGAGING WITH STAKEHOLDERS

As a global multilateral finance institution with operations in many regions and sectors, IFC has an impact on a diverse range of stakeholders. In addition to client companies, our stakeholders range from communities and nongovernmental organizations at the project level, to governments and civil society at the global level. The extent to which we engage with particular groups varies depending on the issues at hand, the stakeholders most directly affected by our operations, and the opportunities offered by collaboration.

Through investments and advisory services, we engage with clients, partners, and communities. We draw on feedback to identify issues of importance to stakeholder groups, and we frequently adapt our strategies and procedures in response. Feedback includes an annual client survey and ongoing engagement with stakeholders, including representatives of civil society, local communities affected by a specific project, industry associations, governments, other international finance institutions, and the academic community.

Disclosure Inquiries in FY07	
Full disclosure	19
Partial disclosure	3
No disclosure	7
Total	**29**

IFC discloses information about investment projects prior to their approval as part of a commitment to transparency and accountability. Sharing information strengthens public trust in IFC and our clients. Following adoption of our updated Disclosure Policy in 2006, we have established a demand-driven system for disclosure inquiries, in addition to enhanced project disclosure for all proposed investments. We aim to provide all or part of any requested information within 30 days or explain why the request has been delayed or denied. For members of the public who feel that an initial request for project information has been unreasonably denied or that our policy has been incorrectly applied, we have established a complaints mechanism. Complaints are reviewed by the Disclosure Policy Advisor, who reports directly to IFC's Executive Vice President and CEO. For full information, see www.ifc.org/disclosure.

ACCOUNTABILITY IN DECISION MAKING

We manage investments closely throughout their life cycle. This involves a number of processes: finding appropriate sponsors who will be partners with us; managing and mitigating risk along the way; monitoring and measuring results; and ensuring accountability for decisions taken throughout the project cycle. This year we moved more decision-making authority to the field, allowing our regional offices to be more responsive to client needs and local conditions.

COMMITMENT TO CONTINUOUS IMPROVEMENT

Our ability to learn and improve the way we work is crucial to our long-term success and lasting development impact. IFC produces analysis and good practice material to support clients, other practitioners, and staff. We also develop and publish lessons from our investments and advisory projects. We seek to create a culture in which experiences where things did not run smoothly are an opportunity to learn with and from our clients, partners, and stakeholders.

Learning Before

Before we make an investment or launch a new initiative, we use lessons from previous projects and the expertise of staff to evaluate the proposed course of action. Peer review meetings, for instance, have become a formal part of our environmental and social review procedure, allowing our specialists to pool their knowledge. Similarly, formal decision points, such as the investment review meeting, allow senior staff to contribute insights based on a wide understanding of the organization's history in specific industries and regions.

IFC INVESTMENT CYCLE

1

BUSINESS DEVELOPMENT

Guided by IFC's strategic goals and development objectives at the country and sector level, our business development staff identify suitable investments. An initial conversation with the client helps us understand their needs and determine whether there is a role for IFC.

2

EARLY REVIEW

Staff prepare a description of the proposed investment, IFC's role, the anticipated contribution to development and benefits to stakeholders, and any potential dealbreakers. Lessons from previous engagements are considered and, in some cases, a preappraisal visit is conducted. IFC senior management then decides whether to authorize appraisal.

3

APPRAISAL (DUE DILIGENCE)

The investment team assesses the full business potential, risks, and opportunities through discussions with the client and visits to the project site. Questions include: Is the investment financially and economically sound? Can it comply with IFC's social and environmental Performance Standards? Have lessons from prior investments been taken into account? Have disclosure and consultation requirements been met? Can IFC help the client further improve sustainability and development results?

4

INVESTMENT REVIEW

Based on assessment of expected financial, economic, environmental, and social performance, the project team makes recommendations to its departmental management, which decides whether to approve the investment. Expected development results are identified by stakeholder group, and appropriate results indicators are identified for tracking. The team and departmental management must be confident that the client is able and willing to meet IFC's standards and work with us to improve the sustainability of their enterprise.

5

NEGOTIATIONS

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

6

PUBLIC NOTIFICATION

A Summary of Proposed Investment for the project and the environmental and social review, where applicable, are posted on IFC's Web site before the project is submitted to the Board for review. The SPI presents the anticipated development impact and IFC's expected contribution to bring it about. The length of the disclosure period is determined by the environmental category of the project, as outlined at www.ifc.org/projects.

Learning During

During the implementation phase, monitoring is used to make adjustments as well as transfer lessons from one investment to another. Communities of practice are emerging as a very useful tool for IFC staff to share information, transfer lessons, and replicate successful models across the World Bank Group.

Learning After

IFC increasingly evaluates investments and advisory projects internally after completion to capture lessons. Lessons learned from the BTC and Chad-Cameroon pipelines were published this year in collaboration with the clients involved. We also use the evaluation of new business models to improve their future application. SmartLessons, a new initiative in our advisory operations, is aimed at dramatically scaling up the exchange of lessons by staff for staff, with the long-term goal of making these available to our partners and the wider public. Lessons are also continuously developed and integrated into the training of new staff. Case studies used in training increasingly cover all aspects of doing business in a sustainable way.

GROWING COMMUNITIES OF PRACTICE

Two networks connecting World Bank Group staff have proved particularly effective for shared learning:

- BEEnet, a community of practice for over 300 practitioners working on reforms of the business enabling environment.
- The SME Finance Network, over 150 staff working to increase access to finance for micro, small, and medium enterprises.

Both use virtual platforms and network meetings to connect practitioners worldwide. BEEnet's 10 best practice toolkits present operational recommendations for IFC task managers and have become industry standards for other development practitioners.

7

BOARD OF DIRECTORS' REVIEW AND APPROVAL

The proposed investment is submitted to IFC's Board for consideration and approval through regular or streamlined procedures. "Streamlined" means that Board members review the documents but do not meet to discuss the investment. This option is available to smaller, low-risk projects, which can be approved by IFC management under delegated authority. (The due diligence process and public disclosure remain the same in all cases.) Each investment to be approved should have a clear role for IFC and a positive expected development impact, reflecting our commitment to social, environmental, economic, and financial sustainability.

8

COMMITMENT

IFC and the company sign the legal agreement for the investment. This includes the client's agreement to comply with applicable Performance Standards and reporting requirements (for example, to report any serious accident or fatality immediately), including regular monitoring reports. The legal agreement will also covenant the client's action plan.

9

DISBURSEMENT OF FUNDS

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

10

SUPERVISION

IFC monitors investments to ensure compliance with conditions in the loan agreement and to track development results. The company submits regular reports on financial as well as social and environmental performance and on key development indicators, and information on other factors that might materially affect the enterprise. Ongoing dialogue during supervision allows IFC to support clients, both in solving issues and in identifying new opportunities.

11

EVALUATION

To supplement ongoing tracking and help improve operational performance, each year IFC investment staff carry out more in-depth evaluations of a representative, random sample of investments that have reached early operating maturity, typically five years after approval. These evaluations are then validated by IFC's Independent Evaluation Group.

12

CLOSING

We close our books when the investment is repaid in full, when we exit by selling an equity stake, or, in rare cases, when we have to write it off. We make an assessment of the investment's development results up to that point. But our goal is to help the client reach a high level of sustainability, with benefits that continue long after our involvement has ended.

CARING FOR THE ENVIRONMENT

Sustainability is a central focus in our work with clients. IFC also considers it an integral part of our day-to-day work in offices worldwide. Our commitment extends to the individual and collective decisions we make as staff. We consider it part of living our values and business strategy, as well as being consistent with what we ask of our clients. We also see direct benefits from strengthening our reputation, stimulating creativity and staff morale, and identifying cost savings.

In FY07, we continued to improve our impacts on the environment and on local communities affected by our headquarters and regional offices. Highlights included:

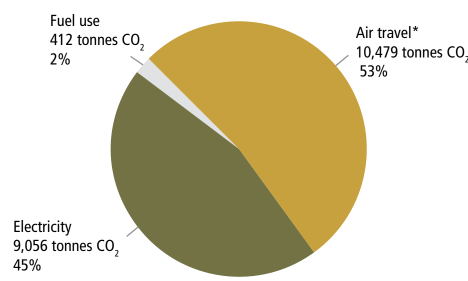
- Assigning environmental footprint champions in more than half of field offices and conducting the first study of these offices' impacts
- Launching awards to recognize individuals and offices that have taken steps to demonstrate IFC's commitment to sustainability
- Extending IFC's carbon-neutral commitment to cover 50 percent of field offices

Since June 2006, IFC has offset 100 percent of carbon emissions for our headquarters facilities and for operational travel from headquarters, through renewable energy certificates and carbon credit purchases. We are also improving sustainability at headquarters by using higher-content recycled paper and energy-efficient lighting and recycling electronic equipment and supplies.

For full information on these activities, visit www.ifc.org/footprint.

FY07 CARBON EMISSIONS

For headquarters building and travel by Washington-based staff



*Air travel emissions are based on the number of miles flown by World Bank Group staff. IFC's share is based on our percentage of total staff.

IFC ADVISORY SERVICES CYCLE

1 BUSINESS DEVELOPMENT

Guided by IFC's strategic goals and development objectives, IFC advisory and investment staff respond to client demands for advice. In addition, donor governments, other partners, and member country stakeholders look to IFC to help address market and governance failures affecting the private sector.

2 EARLY REVIEW

Advisory staff prepare a brief concept document describing IFC's role, the intended result of the project, a description of the planned intervention reflecting lessons from other projects, and a high-level budget. Leadership from the relevant region and Business Line decide if the concept should go ahead.

3 APPROVAL

Advisory staff prepare a detailed project proposal reflecting peer review from relevant Bank Group staff. The document also includes standardized measures of project results: outputs, outcomes, and impacts. Use of standard measures allows aggregation of results across similar projects over time. The proposal also includes a detailed budget and planned sources of financing from donor governments, other partners, and clients. Leadership from the relevant region and Business Line decide if the project should be approved.

4 IMPLEMENTATION / SUPERVISION

Project management signs an agreement with the client. Implementation is carried out by either IFC staff or contractors managed by IFC or IFC's partners. Supervision reports are prepared semiannually. These include performance ratings regarding project spending, project timeline, and achievement of planned results. Regional and Business Line leaders review their portfolios periodically.

5 PROJECT COMPLETION

When a project ends, the transaction leader submits a Project Completion Report. This provides a rating of performance regarding project spending, project timeline, and achievement of planned results. The form includes a development effectiveness rating using the same scale as applied to investments. IEG reviews a sample of these reports for independent evaluation.

6 EVALUATION

Measurement of results occurs throughout the life of the project. In addition, IFC engages external experts in cross-cutting program reviews and coordinates experimental design evaluations led by external experts, such as the MIT Poverty Action Lab. IEG also includes advisory programs in its annual work program for evaluation.

OUR STAFF

IFC has exceptional people.

What makes IFC staff different? Their passion and commitment to improving people's lives and reducing poverty. IFC staff pursue these goals by promoting open and competitive markets and providing investment and advisory support to private sector clients. They seek to create opportunities and progress in emerging markets.

IFC invests in staff by providing the tools and learning programs that improve their ability to assist clients in meeting environmental, social, and corporate governance standards and to identify opportunities through sustainability. IFC also rewards staff based on the development impact and financial performance of their projects.

IFC's success is due to the tireless efforts of its most important asset—our people. None of our good work can happen without high-quality, committed staff.

WHO WE ARE

IFC staff are your neighbors in cities around the world. We work in 78 countries and represent 138 nationalities. Today 51 percent of our staff are in field offices, up from 32 percent in FY01.

Diversity is one of IFC's greatest strengths. It enriches our perspectives, allows for fresh ideas, and helps us respond more effectively to clients and stakeholders. Over the last few years, IFC has increased the representation of people from developing countries, who now represent 63 percent of staff.

WHERE WE WORK

WASHINGTON, D.C., VS. FIELD STAFF (END OF FY07)

Field Offices	Washington	Total
1,584	1,550	3,134
51%	49%	

REGIONAL ORIGINS

ALL FULL-TIME STAFF

Developed (Part I) Countries	Developing (Part II) Countries	Total
1,164	1,970	3,134
37%	63%	

ALL STAFF AT OFFICER LEVEL AND HIGHER

Developed (Part I) Countries	Developing (Part II) Countries	Total
809	939	1,748
46%	54%	

GENDER DISTRIBUTION

ALL FULL-TIME STAFF

Women	Men	Total
1,636	1,498	3,134
52%	48%	

ALL STAFF AT OFFICER LEVEL AND HIGHER

Women	Men	Total
647	1,101	1,748
37%	63%	

HOW WE ARE CHANGING

We are growing. IFC's staff increased by 51 percent from FY02 to FY07, from 2,068 to 3,134 staff. The core job stream of investment staff represents 18 percent of IFC's workforce and has increased by 77 percent, from 325 to 576 staff, since FY02. The fastest-growing areas of IFC's business, advisory services, has grown from 405 staff in FY02 to 1,073 in FY07, and it now accounts for 34 percent of the workforce.

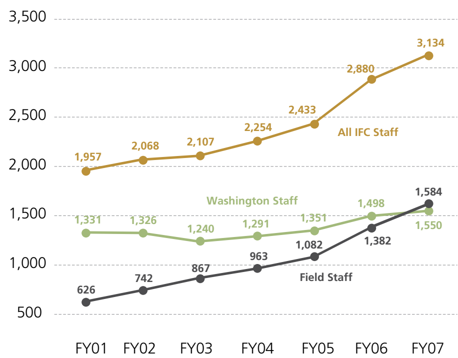
We are going local. IFC's workforce profile is substantially different from six years ago. The decentralization of IFC staffing is not new; it started to increase gradually in FY01. The number of field-based investment staff has nearly tripled in the past five years, from 98 to 276 staff, with 48 percent of IFC's investment staff and 51 percent of managers in investment departments now based in the field. About 870 advisory service staff, more than 80 percent, are based in the field.

IFC's large-scale recruitment drive in the last two years has allowed us to strengthen and diversify our talent pool—and diversity of staff is a key priority for IFC. As a result of FY06-07 recruitment efforts, IFC substantially improved diversity in the profile of selected staff on whom the Board has asked us to report. (The following figures are limited to professional-level staff on the administrative budget.)

- Staff representation from developing countries, at officer level and higher, increased from 42 to 50 percent
- Officer-level female staff increased from 38 to 41 percent
- Sub-Saharan African and Caribbean regional representation of staff on international contracts: increased from 7 to 9 percent, the equivalent of 36 net staff members

One key challenge is retention of staff whose knowledge and experience are highly valued in the global marketplace. The competition for skilled finance and investment talent in emerging markets is at a historic high, and compensation is rising as a result. Hence IFC's turnover of investment officers is now 7.7 percent a year, up from 3.5 percent in FY05. Some 39 percent of investment officers hired at entry level in fiscal years 1998 to 2001 have already left IFC.

WORKFORCE TRENDS SINCE FY01



INVESTING IN IFC STAFF

IFC provides a wide range of benefits and professional development opportunities. We strive to create an environment that enables staff to perform their best.

Health Care

IFC provides staff with comprehensive medical insurance. Washington-based staff are covered by Aetna, contracted through an open procurement process. Other staff are covered by the international health care provider La Garantie Medicale et Chirurgicale, or GMC. Medical insurance costs are shared, with 75 percent paid by IFC and 25 percent paid by the individual.

Pension Management

IFC's pension is part of the World Bank Group plan. One component is a defined benefit based on the years of service as a participant, salary, and retirement age. A second component, the cash savings plan, includes a mandatory contribution of 5 percent of each staff member's salary, to which IFC adds 10 percent annually. Legacy pension benefits from earlier World Bank Group pension plans include termination grants and additional cash payouts.

Professional Development

IFC takes learning seriously. All new staff attend a mandatory set of core courses that emphasize our mission, values, and diversity and inclusion. Other courses include credit, core skills, and leadership development. An increasing number of offerings are held in the regions. In FY07, 60 percent of corporate-sponsored learning opportunities were in the field. Many eLearning courses are also available on demand anywhere in the world.

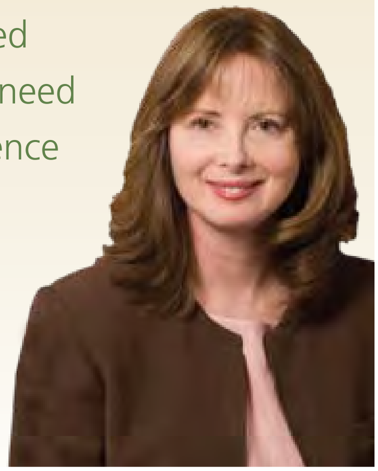
"Our people are the source of IFC's success. We strive to build a high performance organization to enable our staff to make a real difference with our clients and in the lives of those less fortunate."

Dorothy Berry **VICE PRESIDENT, HUMAN RESOURCES AND ADMINSTRATION**

STAFF PARTICIPATION IN TRAINING

Core Skills Areas	Completions	8,218
	Hours	67,198
Credit	Completions	740
	Hours	45,969
Leadership Development	Completions	191
	Hours	6,714
Total Course Completions		**9,149**
Total Hours of Learning		**119,881**

"From its beginnings in our Legal Department, A Chance to Work has given IFC and our partners a way to help neighbors—disadvantaged people who need work experience to transform their lives."



Jennifer Sullivan **GENERAL COUNSEL**

REACHING OUT TO LOCAL COMMUNITIES

IFC's employees help their communities in a number of ways. This year, for example, staff in Istanbul got involved at a center for disabled children, donating medical equipment and furniture for a playroom and sponsoring a holiday party. They also made donations and frequent visits to an orphanage and a shelter for victims of domestic abuse. In Washington, staff volunteer at public schools, and IFC experts met this year with teachers to discuss how global warming can be approached with students. IFC also invites the public to free cultural performances and films at headquarters. In Russia, A Chance to Work continues to gain momentum: this IFC program helps orphans gain job skills through paid internships with private companies. Today 30 private companies are participating, two of which have become donors to the effort as part of a commitment to corporate social responsibility. Through FY07, 114 of 140 interns had secured permanent jobs, and 38 had entered universities to continue their education.

Life Is More Than "9 to 5"

IFC encourages staff to give back to their communities. Staff are given time off each year for volunteer work. They devoted 562 community service days during FY07. There is an annual Community Connections Campaign, which this year raised $209,000 for various charities, with 48 percent of headquarters staff participating. The World Bank Group matched this with an additional 50 percent.

In addition to encouraging extracurricular volunteering, some IFC managers have led group outreach events at local soup kitchens, food banks, and homeless shelters to help those less fortunate.

Staff are also active in their communities in areas beyond IFC's support. They volunteer in schools, churches, mosques, synagogues, community centers, and nonprofit organizations. This commitment to helping people is integral to who we are and why we work at IFC.

FURTHER INFORMATION ONLINE

IFC's Web site, www.ifc.org, provides comprehensive information on every aspect of the Corporation's activities, including contact information for offices worldwide, news releases and features, extensive data on results measurement, disclosure documents for proposed investments, and key policies and guidelines affecting IFC and its client companies.

The online version of the IFC Annual Report 2007, at www.ifc.org/annualreport, provides downloadable PDFs of all materials in this volume and translations as they become available. The site includes the following additional information:

- Listings of FY07 investments and advisory projects
- IFC's active investment portfolio as of June 30, 2007
- IFC's Board of Governors
- IFC's Board of Directors and their voting power

OUR VISION is that poor people have the opportunity to escape poverty and to improve their lives.

OUR VALUES are excellence, commitment, integrity, and teamwork.

OUR PURPOSE is to:

- Promote open and competitive markets in developing countries
- Support companies and other private sector partners
- Generate productive jobs and deliver basic services
- Create opportunity for people to escape poverty and improve their lives

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World Bank Group

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IFC Annual Report 2007

Summary of external assurance statement and commentary on nonfinancial aspects of the report

Introduction

IFC has commissioned The Corporate Citizenship Company to provide IFC's management with external assurance and commentary on certain nonfinancial aspects of its 2007 Annual Report, specifically the portions contained in pages nine to 96, described below, that are intended to address sustainability and development outcome results. IFC's management has prepared the report and is solely responsible for its content. Our objectives were to review specific aspects of its content and presentation as identified below, to conduct selected checks of underlying corporate records, and to provide this statement, for which we have sole responsibility, all in accordance with instructions from IFC's management and the terms of reference we signed with IFC. We also tested the Development Outcome Tracking System (DOTS) that IFC uses for assessment of the economic, social, and environmental effects of its investments and advisory services.

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

Our opinion

In our opinion, having reviewed relevant underlying IFC systems, the sustainability and development outcome aspects of the Annual Report provide a fair and balanced representation of the progress IFC is making in carrying out its stated commitments, as set forth in the text sections "IFC's Contribution to Development" and "Our Strategic Approach." We have relied entirely on data and information provided by IFC, except where we expressly state to the contrary in our note on the assurance process, published on IFC's Web site. Where we have identified material gaps in available performance data and stakeholder views, these are noted below in our Commentary. In reviewing DOTS, described on page 16, nothing came to our attention to suggest that the methodology agreed by the multilateral development banks (referred to on page 18) had not been applied, nor that information had been materially misstated.

In forming our opinion and making our comments, we have referred to the principles underlying the international assurance standard AA1000 (www.accountability21.net), notably those concerning materiality, completeness, and responsiveness. We have also referred to the reporting guidance for content and the principles for defining quality contained in GRI's G3 sustainability reporting guidelines (www.globalreporting.org). Our methodology for testing the DOTS system is presented in our note on the assurance process.

Commentary

IFC has chosen for the first time to combine its sustainability report and its report to donors within its annual report to demonstrate the centrality of sustainable development, including development outcomes, to IFC's objectives and strategies. We believe that this approach, when further refined, could be considered a model for other institutions or companies that are seeking to present sustainability considerations as being core to their businesses.

Such reports should explain how an institution impacts society, taking account of the key economic, social, and environmental concerns of its stakeholders. Reports should show how crucial decisions are made and differing interests balanced. They should be honest about shortcomings. On this basis, we believe the sustainability aspects of IFC's fully integrated 2007 Annual Report, together with IFC's efforts to report on the development outcomes of its activities, mark a step forward from the previous sustainability report for fiscal year 2005.

As IFC's internal systems for monitoring environmental and social impacts and supervising projects, including the DOTS development indicators, are embedded and strengthened, we would expect the quality of data and indicators to improve year on year.

On page 20, IFC has made progress in meeting its 2005 commitment to report on the implementation of its Performance Standards, and on its Web site, which is outside the scope of this assurance, it is making steps toward reporting the volume of business to which individual standards are being applied. We welcome IFC's commitment to begin publishing the carbon footprint of its portfolio, as stated on page 14.

IFC cannot report on projects in detail for reasons of client confidentiality. However, we believe the sustainability aspects would be more comprehensive if the report detailed IFC and its clients' approaches to managing challenging projects during the year.

IFC regularly requires or recommends that clients for its investments and advisory services undertake stakeholder engagement, and our research has found IFC itself to be responsive to a wide range of stakeholders. However, we believe IFC's responsiveness would be better reflected if this report addressed more directly the views of diverse stakeholders. For example, some audiences may not readily accept IFC's view that private sector investment automatically benefits development, particularly in such sectors as oil, gas and chemicals or the private provision of education and water.

In our opinion the materiality of the content is strong, reflecting that IFC's greatest impacts are generated through its investments and advisory services. However, this report aspires to follow the Global Reporting Initiative, and it would be both more in keeping with the GRI guidelines and more complete if it were to cover in greater detail IFC's own operational impacts. For example, it should provide more data on employee and community engagement, detail compliance with World Bank Group policies on integrity and corruption, and discuss procurement processes.

The Corporate Citizenship Company
22 August 2007