WHAT WE DO:
IFC'S OPERATIONS AND RESULTS

IFC provides a unique combination of investment and advisory services to promote the sustainable growth of private enterprises in emerging markets.

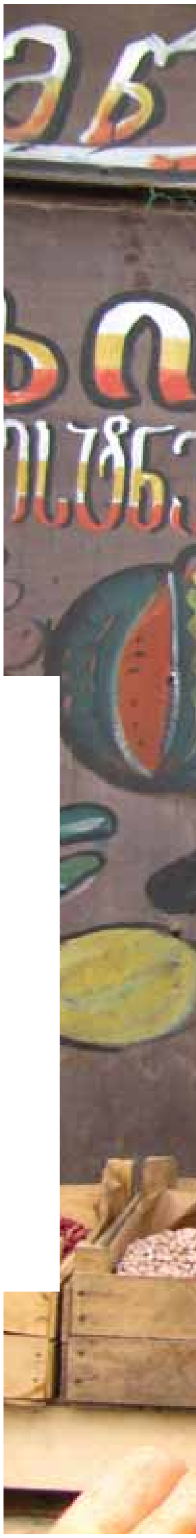
In developing countries, the essential ingredients for private entrepreneurship are often missing. Commercial banks are unable to provide long-term financing to local businesses. Financing dries up entirely in times of national crisis. Businesses lack crucial technical know-how.

IFC delivers what cannot be obtained elsewhere. We offer clients a unique package of products and services aimed at helping local businesses grow quickly and sustainably. We call that special edge our "additionality." It is both the foundation of our decision-making and a key reason that clients choose to work with us.

We provide local currency loans at maturities that otherwise would be unavailable. We provide long-term financing, including equity, even in crisis situations. We make additional funds available by arranging loan syndications and structured finance transactions.

We transfer global expertise to our clients, providing advice that makes them more competitive and steadily improves their business practices. We help create a friendly climate for entrepreneurship by working with the World Bank to advise governments on regulatory reforms.

Our distinguishing trait, ultimately, is the way we measure our own performance—by the tangible ways we improve the lives of people in our client countries.



MAKING A DIFFERENCE

Silvia Baños is a woman of modest means. When she looks at her teenage son, she sees the future. “The only inheritance I can leave him is his career,” she says. “That’s why I do all I can for him to finish his professional studies.” In Mexico, people with university degrees usually earn at least twice as much as those without. But few can afford higher education. Only 2 percent of potential university students in Mexico have access to student loans. IFC is helping change that. Today Baños’ son, Guillermo, is studying communications at one of the country’s top private universities, Universidad Tecnológica de México. He attends classes on loans he received from FINEM, a privately owned student loan institution that obtained its early financing from IFC. Our loan is helping finance the education of more than 1,400 students.

PHOTO: Guillermo Baños applies for a loan that allows him to study at a top private university.

IMPROVING LIVES

IFC stimulates economic growth where it is most urgently needed. In places where the poor might otherwise be left behind, we play a catalytic role. We spur entrepreneurship. We help our clients create jobs. We help ensure that development is not accompanied by high environmental and social costs.

FINANCIAL RESULTS

IFC is the largest provider of multilateral financing for the private sector in the developing world. Our financial performance for FY08 continued its recent strong trend despite the downturn in global markets. Operating income was $1.4 billion in FY08, a decline of $1.2 billion when compared with $2.6 billion in FY07 (as restated). Operating income comprises net income before net unrealized gains and losses on other nontrading financial instruments accounted for at fair value.

In FY08, we committed $11.4 billion for our own account and mobilized an additional $4.8 billion. The total project cost for these investments was $43 billion. Altogether, we supported 372 investments in 85 countries. We also approved 299 new advisory projects in 75 countries. Total expenditures for advisory services were $269 million ($123 million from IFC and $146 million from donors), a 37 percent increase from FY07. IDA projects account for 45 percent of FY08 investments and more than 55 percent of new advisory projects.

There was strong growth across all our product lines. On the balance sheet, the disbursed loan portfolio increased 21 percent to our largest-ever volume of $15.3 billion. The equity portfolio grew by $1.3 billion to $11.0 billion (measured at fair value), and the fair value of IFC's holdings of debt securities amounted to $1.6 billion at June 30, 2008 (up from $0.7 billion at the end of FY07). Guarantees signed at June 30, 2008, totaled $1.9 billion (compared to $1.4 billion at the end of FY07).

IFC's net worth consists of retained earnings, accumulated other comprehensive income, and paid-in capital. Our paid-in capital remains $2.4 billion, while net income of $1.5 billion this year increased retained earnings to $13.2 billion, of which $0.8 billion has been designated for specific Board-approved purposes. Accumulated other comprehensive income was $2.7 billion at June 30, 2008. IFC's net worth at the end of FY08 was $18.3 billion.

Overall, our operating return on average net worth was 9.7 percent in FY08, compared to 21.0 percent in FY07. Net income for FY08, including gains and losses on nontrading financial instruments, was $1.5 billion, compared with $2.5 billion for FY07 (as restated). The main factors in the lower net volume were lower realized capital gains on equity sales, lower income for liquid asset trading activities, and a higher grant to IDA.

IFC's liquid asset portfolios, net of derivatives and securities lending activities, increased by $1.3 billion in FY08 to $14.6 billion. Income from liquid assets, net of allocated funding costs, amounted to $222 million, including $2 million of spread income from market-funded liquid assets, as compared to $320 million and $14 million, respectively, in FY07.

Administrative expenses on the financial statements rose 14 percent to $549 million in FY08, compared to an increase of 11 percent to $482 million in FY07.

The equity investment portfolio continued to contribute most to IFC's profitability. IFC's move to measure more of its balance sheet at fair value beginning in FY08 has made our earnings more volatile, particularly in the current market environment.

IFC'S FINANCIAL PERFORMANCE HIGHLIGHTS
($ MILLIONS)

	2007	2008
CLIENT SERVICES—OPERATING INCOME	2,269	1,216
Loans and guarantees	235	163
Equity investments	2,200	1,532
Debt securities	6	129
Expenditures for advisory services	(96)	(123)
Expenditures for performance-based grants	-	(27)
Grants to IDA	(150)	(500)
Corporate charges and other	74	43
IFC TREASURY SERVICES—OPERATING INCOME	320	222
IFC OPERATING INCOME	2,589	1,438

Further details on IFC's financial results can be found in IFC's FY08 Financial Statements and Management's Discussion and Analysis, which are published online; visit www.ifc.org/annualreport.

INVESTMENT COMMITMENTS

New investment commitments for IFC's own account amounted to $11.4 billion. This represents an increase of 39 percent compared to $8.2 billion in FY07. IFC also mobilized $4.8 billion.

The largest share of commitments for IFC's own account went to Latin America and the Caribbean (26 percent) and Europe and Central Asia (24 percent). The business sectors with the highest volume of new commitments were global financial markets with 40 percent, followed by infrastructure with 21 percent.

Disbursements for IFC's own account in FY08 were $7.7 billion, up from $5.8 billion in FY07. Loan disbursements were $5.1 billion, and equity disbursements were $1.6 billion. IFC also invested $1.0 billion in debt securities of our client companies.

LOCAL CURRENCY FINANCING

IFC uses local currency financing to help clients mitigate foreign exchange risk and to develop local capital markets. Including equity, IFC provided about a third of our financing and investment in local currency during FY08. Using market-based instruments, IFC provides local currency debt financing in several forms: loans, 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.

IFC has committed more than $5 billion equivalent in local currency using derivatives, for 170 investments in 23 currencies. This form of financing uses long-term derivatives markets, and IFC works closely with market counterparts and government regulators to extend the availability and liquidity of these markets. In FY08, IFC committed its first local currency loans in Argentina, Costa Rica, Ghana, Guatemala, Kenya, and Zambia, and we were particularly active in providing financing in Brazilian reais, Russian rubles, and South African rand.

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 not only enabled IFC's clients to secure attractive long-term local currency financing, but have also been catalysts in expanding numerous domestic markets. Since 2001, IFC has completed 79 domestic market structured transactions in 25 currencies for an exposure of $1.04 billion equivalent; we have assisted in mobilizing more than $4.5 billion equivalent.

INVESTMENT PORTFOLIO

IFC's committed portfolio, including off-balance sheet guarantees and risk management products, increased by 28 percent to $32.4 billion on June 30, 2008, from $25.4 billion at the end of FY07. In addition, we managed $7.5 billion in syndications. At the end of FY08, the committed portfolio included investments in 1,490 companies in 122 countries.

The net increase in the committed portfolio was $6.8 billion after taking into account new commitments, repayments, sales, cancellations, prepayments, write-offs, and translation adjustments. Loan principal repayments and prepayments totaled nearly $2.7 billion, and $463 million in equity investments and debt securities were sold or redeemed.

The total disbursed investment portfolio stood at $21.1 billion at the end of FY08, compared with $16.2 billion at the end of FY07. The disbursed loan portfolio grew by 21 percent, while the disbursed equity portfolio grew by 46 percent.

PRODUCT LINES

LOANS

IFC finances 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, particularly to smaller businesses.

In FY08, we made commitments for $7.37 billion in new loans. Income from loans and guarantees amounted to $1.1 billion in FY08, virtually unchanged from FY07. Total reserves against losses on loans decreased to $848 million at the end of FY08, representing 5.5 percent of the disbursed loan portfolio, down from 6.5 percent at the end of FY07.

EQUITY INVESTMENTS

Equity investments provide the long-term developmental support that entrepreneurs and private enterprises most need, with deliberate assumption of risk as well as participation in gains. These investments also provide opportunities to support reforms, particularly in corporate governance.

IFC risks its own capital by buying shares in companies, other project entities, financial institutions, and portfolio or private equity funds. This is a strategic and expanding part of our portfolio. The equity portfolio grew by $1.3 billion in FY08 (measured at fair value). Equity investments also contribute a significant share of IFC's net income.

We generally subscribe to between five 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 loan, debt, or equity investment characteristics. Our equity and quasi-equity investments are funded from IFC's retained earnings.

Income from our equity investment portfolio declined to $1.7 billion in FY08, from $2.3 billion in FY07. As of June 30, 2008, the estimated fair value of the equity portfolio was $11.0 billion, compared to IFC's original cost less impairment of $4.3 billion. Capital gains realized on equity sales were $1.4 billion in FY08, down from $1.9 billion in FY07.

SYNDICATIONS

IFC's syndicated loan program, the oldest among multilateral development banks, helps increase the flow of private capital to borrowers in emerging markets and creates valuable banking relationships for our clients. Borrowers benefit from longer maturities and from IFC's preferred credit status with regulators, rating agencies, and Basel II. The program grew significantly in FY08, achieving its highest volume ever, with $3.3 billion in new loans signed (compared with $1.8 billion in FY07), comprising 29 syndicated loans, one parallel loan, and participation sales of four loans for IFC's own account—a total of 34 transactions with 47 financial institutions.

Amid global financial instability sparked by the U.S. subprime crisis, syndicated loans are important in helping IFC fulfill its countercyclical role. During FY08, IFC syndicated more than $1.03 billion in credit facilities for bank borrowers in Latin America and Russia, helping maintain their liquidity and enabling continued growth. To compensate for lower appetite among traditional European and North American participants, we have expanded our base to include leading banks from emerging economies. In FY08, 34 percent of participants in IFC syndications were from emerging markets. IFC also adapted the syndications program to enable the sale of existing loan exposure for our own account.

STRUCTURED AND SECURITIZED PRODUCTS

IFC uses structured and securitized products 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. We use our expertise in structuring and our international triple-A credit rating to help clients diversify funding, extend maturities, and obtain financing in their currency of choice. Through such transactions we mobilized a total of $1.9 billion for clients in FY08, including $459 million from our own account. Half of transactions were for clients in Africa and the Middle East, with 70 percent of the total in local currency.

We worked in new markets, including Bangladesh, Lebanon, Rwanda, Tunisia, the United Arab Emirates, and the West Bank and Gaza, as well as with repeat and new clients in established markets. IFC has evolved as a leading innovator, meeting client needs and promoting development of domestic credit markets. Through these products, IFC provides financing in underserved markets and priority sectors and mobilizes long-term local currency financing. This year in the Middle East, for example, we created a novel risk-sharing facility that expanded SMEs' access to finance and supported the sector's recovery from the conflict in Lebanon, helped students access loans through an innovative risk-sharing facility in the West Bank and Gaza, and merged Islamic and modern finance to achieve the first Sharia-compliant securitization of mortgages in the Persian Gulf region.

TRADE FINANCE

The IFC Global Trade Finance Program extends and complements banks' capacity to deliver trade financing by providing risk mitigation in challenging markets. During FY08, IFC issued over $1.4 billion in guarantees to support more than 2,000 individual trade transactions. We have issued $2.5 billion worth of guarantees for more than 3,000 individual transactions since the program began in 2005. We now provide risk coverage for 122 banks across 61 countries and territories, including Burundi, Gambia, Nepal, Nicaragua, Tajikistan, and the West Bank and Gaza. IDA countries—most of them in Africa—accounted for 51 percent of the total volume of guarantees issued in FY08. Trade involving small businesses represented 70 percent. IFC also offers support to client banks through training and advisory services. In FY08, over 500 bankers from 148 banks attended training, and seven banks received specialized advisory services. The agriculture sector is a focus going forward, through products such as commodities pre-export finance and import finance for agricultural products. In FY08, 28 percent of the guarantees issued supported this critical sector.

IFC'S CARBON DELIVERY GUARANTEE: A NEW PRODUCT FOR CLIMATE-FRIENDLY INVESTMENT

IFC helps companies maximize their potential for clean energy, including by generating and selling carbon credits. The Clean Development Mechanism of the Kyoto Protocol allows companies to sell these credits, known as certified emission reductions, in global commodity markets when they reduce their output of environmentally harmful substances. One of IFC's innovative products is the carbon delivery guarantee, which helps sellers access a wide range of potential buyers by mitigating country and project risk. Through this new financial product, IFC acts as an intermediary by facilitating delivery of carbon credits from companies in developing countries to buyers in the developed world. For sellers, IFC attempts to achieve an attractive and transparent price; for buyers, we eliminate the risk of not receiving the promised carbon credits.

During FY08, IFC signed innovative carbon delivery guarantee agreements with two chemicals companies: Rain CII Carbon in India, the largest producer of calcined coke in the world, and South Africa's Omnia, one of the country's leading fertilizer producers. The investments underlying these transactions will reduce greenhouse emissions equivalent to 12.5 million tonnes of carbon dioxide over the estimated life of the assets.

ADVISORY SERVICES

IFC provides advice to governments, private companies, and industry sectors on how to grow businesses sustainably as well as to create a positive investment climate. Advisory work complements IFC's investment operations and plays a key role in markets with nascent investment opportunities. This work, funded in partnership with governments and other donors and through client contributions, is the lead instrument for IFC operations in many countries, especially those that are emerging from conflict. IFC provides advisory and investment services sequentially or in combination, depending on the needs of a country or client.

We have organized our advisory work in five business lines that correspond with our operational strategy: business enabling environment, access to finance, corporate advice, environmental and social sustainability, and infrastructure (see p. 90 for more information on the business lines).

IFC's experience has shown that combining advisory work with investments enhances both profitability and development impact. Hence we increasingly provide integrated solutions for clients; about 27 percent of advisory services were aligned with IFC investments.

In FY08, our project implementation expenditures for advisory services were $152 million in 97 countries. The largest shares of advisory activity went to Sub-Saharan Africa (28 percent) and Europe and Central Asia (20 percent). The most active business lines were corporate advice (27 percent) and access to finance (25 percent).

Donor governments provide the largest share of contributions, but IFC's contribution has increased, using part of our retained earnings, as has fee income from clients. We have established pricing guidelines for our advisory work based on two guiding principles. First, where possible, all clients should make some contribution, to demonstrate commitment. Second, cost-sharing is determined according to the nature of the product or service—the extent to which a public good, with benefits beyond the individual client, is being created.

FUNDING FOR ADVISORY SERVICES
($ MILLIONS)

Source	FY07	%	FY08	%
IFC	95.6	50%	123.1	46%
Donor and other*	94.9	50%	145.6	54%
Total	190.5	100%	268.7	100%

* Other includes client fees and investment income

OPERATIONS

IFC PERFORMANCE STANDARDS

Our performance standards have rapidly become a globally recognized best practice for environmental and social risk management. (See p. 107 for details of their adoption by financial institutions.) Applying the standards since April 2006 has not significantly increased IFC's cost of doing business or the time we need to process investments. Clients indicate that the strong environmental and social risk framework provides a reason to engage with IFC, and in certain markets it gives IFC a clear competitive advantage. In a survey we conducted 18 months after the standards were implemented, 72 percent of clients that IFC had asked to meet requirements of the standards indicated that the cost in meeting them would not impact their decision to return to IFC for financing.

During FY08, 282 investments approved by IFC's Board applied the performance standards as an initial screen. Of these, 143 in the real sector were deemed to involve potential significant adverse impacts, or limited impacts, resulting in the in-depth application of some or all of the performance standards. An additional 29 investments were considered to involve minimal or no impacts. Our 110 investments with financial intermediaries were processed under a new procedure designed to enable IFC to determine the appropriate standard, local law, or exclusion requirements in an institution's operations, depending on the riskiness of its portfolio. See also "Engaging with Stakeholders" (p. 116).

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

IFC PERFORMANCE STANDARDS

1. **Social and Environmental Assessment and Management System** Underscores the importance of conducting integrated assessment and effective community engagement, and of managing social and environmental performance throughout the life of an investment.
2. **Labor and Working Conditions** Ensures that the pursuit of economic growth through job creation and income generation is balanced with protection of workers' basic rights.
3. **Pollution Prevention and Abatement** Mitigates the higher levels of air, water, and land pollution that increased industrial activity and urbanization often generate.
4. **Community Health, Safety, and Security** Minimizes risks and impacts on the health, safety, and security of local communities as a result of project activities.
5. **Land Acquisition and Involuntary Resettlement** Protects and improves the livelihoods of displaced persons when resettlement is unavoidable. Covers consequences from loss of shelter, income, or livelihoods due to project-related land acquisition.
6. **Biodiversity Conservation and Sustainable Natural Resource Management** Protects biodiversity and promotes sustainable management and use of natural resources.
7. **Indigenous Peoples** Ensures that the development process fosters full respect for indigenous peoples.
8. **Cultural Heritage** Protects cultural heritage from adverse impacts of project activities and supports its preservation.

For more information, see http://www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards

PORTFOLIO MANAGEMENT

IFC monitors compliance with investment agreements, visits sites to check on project status, and helps find solutions where concerns arise. To strengthen supervision, we have portfolio management units in all investment departments. This helps identify concerns 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 informed of project developments, consulting them or seeking their consent when needed.

We continuously track our portfolio's development results, including financial, economic, and environmental and social performance.

IFC has been calculating an environmental and social risk rating (ESRR) for applicable investments since 2000. The 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-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 a methodology that allows us to disaggregate data on performance and risk components for all investments following the standards. We give an ESRR to investments that have some degree of risk (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 82 percent of the portfolio, including investments with no expected risk (category C) and investments that have not passed their first reporting milestone (normally after 14 months). We do not update ESRRs on investments that have no remaining IFC funding.

Research at IFC since 2003 finds that there is a positive and significant correlation between environment and social risk and credit risk in IFC's investments. Our most recent research, in 2006, indicated that around 85 percent of loan investments with an ESRR of 4 (high risk) also carry a high credit risk rating. In the case of equity investments, research has shown that IFC investments that are assessed to have less environmental and social risk also yield significantly higher rates of return on investment.

TREASURY SERVICES

IFC funds its lending by issuing bonds in international capital markets and has been the first multilateral institution to issue bonds in the local currencies of many emerging markets.

Most of IFC's lending is denominated in U.S. dollars, but we borrow in a variety of currencies to diversify access to funding, reduce borrowing costs, and develop local capital markets. Because most loans IFC makes 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 our lending. New borrowings in the international markets totaled $5.99 billion equivalent in FY08.

Liquidity Management

Liquid assets on the balance sheet totaled $14.6 billion on June 30, 2008, compared with $13.3 billion a year earlier. Most liquid assets are held in U.S. dollars, with small euro and Japanese yen balances. The level of these assets is determined with a view to ensuring sufficient 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 FY08, 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 48 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 1.4 to 1, well within the limit of 4 to 1 prescribed by our financial policies.

IFC's paid-in capital, retained earnings, and general loan loss reserves constitute our 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 client 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.

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 holistic 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, with more of our operations close to clients. Risk management also allows us to guard against downturns, so that we can continue our work and provide financing in markets that are experiencing crises. IFC is managing risks to protect our capacity to lend and invest, both to IDA country borrowers and those in middle-income countries who are returning to IFC as private lenders pull back from riskier markets. Details of our risk management are discussed in the Management's Discussion and Analysis, online at www.ifc.org/annualreport.

ASSESSING THE RISKS OF CLIMATE CHANGE

Climate change presents challenges to IFC, both to understand the vulnerability of our own investment portfolio and to help companies in developing countries adapt. Investments potentially at risk include hydropower stations and companies that rely on agricultural and timber supplies, making them particularly exposed to rising temperatures, changes in the timing and amount of rainfall, and the impact of severe storms.

To enhance our understanding and contribute to broader knowledge in the development community, IFC is working with selected clients in Asia and Sub-Saharan Africa to examine in depth the possible impact of climate change on their operations and explore strategies to adapt. We will look at risks to IFC during the expected time an investment is on our books, as well as risks to the client over the life of a project.

We will assess the availability of data for climate modeling, the applicability of climate models for a particular location, and the relevance of specific climate variables. We aim to assess the potential impact of climate change on financial returns and to identify options for adaptation, such as new insurance products, that could help reduce the most significant risks.

DEVELOPMENT RESULTS

IFC's Development Outcome Tracking System—known as DOTS—measures the development effectiveness of our investment and advisory work.

Beginning with last year's report, IFC is the first multilateral development bank to report on current development results for its entire portfolio and to have an external firm review the application of its methodology and reported results, as part of assurance for nonfinancial aspects of our reporting. This year, we are also reporting on changes to development results for investments as compared to last year, and, for advisory services, on the results of in-depth evaluations. During FY08 we also launched a development results portal (www.ifc.org/results) to supplement information in the printed report.

IFC's evaluation framework for investments aligns with good practice standards for private sector evaluation agreed among multilateral development banks.

HOW WE MEASURE RESULTS

DOTS allows for real-time tracking of results throughout the project cycle. Staff identify clear, standardized, and monitorable indicators, with baselines and targets, at the outset of a project. They then track progress throughout supervision, which allows for contemporaneous feedback into operations. For investments, the overall development outcome is a synthesis of four performance areas that are informed by achievement of industry-specific indicators. For advisory services, it is a synthesis of the overall strategic relevance, effectiveness (as measured by project outputs, outcomes, and impacts), and efficiency of the advisory operation. To obtain a high development outcome rating, a project must make a positive contribution to the host country's development.

This report provides the percentage of investments that have achieved a high rating—in the top half of the rating scale—for IFC overall and for specific departments. We describe departmental performance, compared with the IFC average, as follows:

Strong .... 10% or more above
Above average .... 5 - 10% above
Solid .... within 5% of the average
Moderate .... 5 - 10% below
Weak .... 10% or more below

DEVELOPMENT OUTCOME: INVESTMENTS

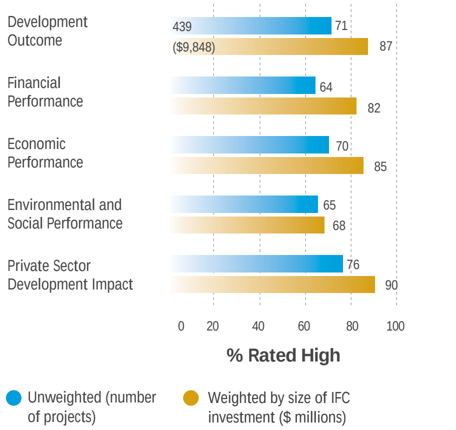
Performance area	General indicators and benchmarks	Examples of specific indicators assessed against targets
Economic performance	Returns to society, e.g. economic returns at or above 10%	Numbers for connections to basic services, loans to small enterprises, people employed, tax payments
Financial performance	Returns to financiers, e.g. financial returns at or above weighted average cost of capital	Return on invested capital, return on equity, project cost implemented on time and on budget
Environmental and social performance	Project meets IFC's performance standards	Improvements in environmental and social management, effluent or emission levels, community development outlays
Private sector development impact	Project contributes to improvement for the private sector beyond the project company	Number of companies replicating innovations by IFC's client company; changes in laws, regulations, or corporate governance

For advisory projects, we report on the percentage of projects that have received a high rating—in the top half of the rating scale (highly successful, successful, or mostly successful) for IFC overall and for the five advisory business lines.

DEVELOPMENT OUTCOME: ADVISORY OPERATIONS

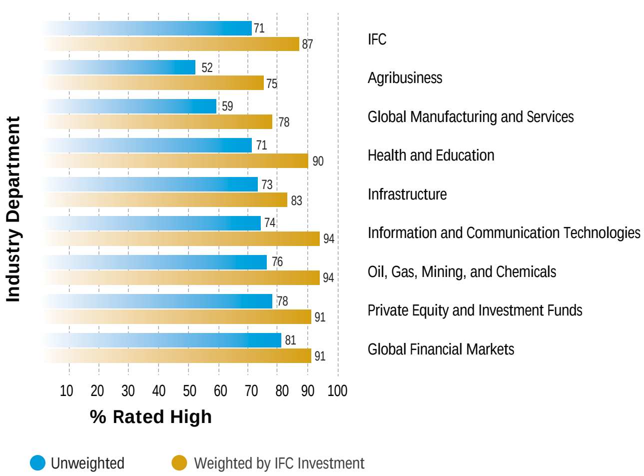
Performance area	General indicators and benchmarks	Examples of specific indicators assessed against targets
Strategic relevance	Potential impact on local, regional, national economy	Client contributions, alignment with country strategy
Efficiency	Returns on investment in advisory operation	Cost-benefit ratios, project implemented on time and budget
Effectiveness	Project contributes to improvement for the client, the beneficiaries, and the broader private sector	Improvements in operations, investments enabled, jobs created, increase in revenues for beneficiaries, cost savings from policy reforms

IFC'S DEVELOPMENT RESULTS FOR INVESTMENTS

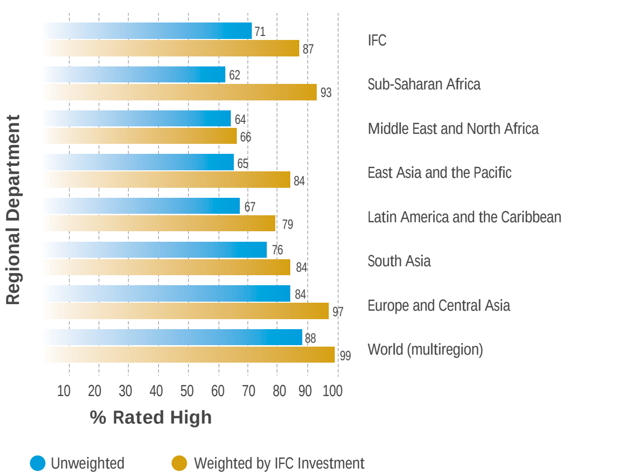


DOTS data as of June 30, 2008, for projects approved in calendar 1999-2004
Bars at the top include the number of rated projects for the unweighted series, and total IFC investment rated ($ millions) for the weighted series

IFC'S DEVELOPMENT RESULTS BY INDUSTRY



IFC'S DEVELOPMENT RESULTS BY REGION



INVESTMENT RESULTS

IFC's development results improved substantially compared to last year, with the percentage of investments with high development outcomes rising from 63 to 71 percent this year. This improvement is evident in all regions and nearly all industries, and in part it reflects improving economic conditions and investment climates.

Results weighted by IFC's investment volume were even stronger, with the percentage of projects with high development results increasing from 81 percent in FY07 to 87 percent in FY08. Weighted results are higher in all regions and industries, but particularly in Sub-Saharan Africa, East Asia and the Pacific, agribusiness, information and communication technologies, and manufacturing and services. This indicates that, on average, larger investments and companies perform better. This is due in part to a higher risk profile for small businesses and investments, and in part to the fact that larger companies have economies of scale, often with better management and corporate governance, and thus find it easier to overcome difficult business environments.

Our analysis finds that economic conditions and the investment climate in our client countries are major contributors to strong or weak results. Notably, IFC investments approved in the late 1990s in Latin America—including some early ones in this year's cohort—were affected by the 2001 Argentine crisis, whereas more recent results from the region look much stronger. IFC has also achieved strong results in Europe and Central Asia, where several countries were among the strongest reformers in recent years, according to IFC and the World Bank's annual Doing Business report, which compares the ease of doing business in 178 economies worldwide. Conversely, moderate results in Africa and the Middle East, particularly in small-scale manufacturing and services, are attributable in part to poor investment climates. In response, IFC has adjusted its strategy, substantially increasing advisory services to help improve business environments.

DEVELOPMENT REACH BY IFC'S CLIENT COMPANIES

Investments	CY 2006 Portfolio	CY 2007 Portfolio
Employment Provided*	694,380	1,918,040
Microfinance loans		
Number	4.3 million	7.0 million
Amount	$5.0 billion	$7.9 billion
SME loans		
Number	0.7 million	1.0 million
Amount	$52 billion	$86 billion
Customers reached with services:		
Water distribution	15.5 million	18.2 million
Power distribution	9.5 million	11.4 million
Gas distribution	10.6 million	8.2 million
Phone connections	121.4 million	138.0 million
Patients reached	5.7 million**	5.5 million**
Students reached	353,000	675,500
Local purchases of goods and services*	$29.1 billion	$54.3 billion
Contribution to government revenues or savings	$14.4 billion	$17.3 billion

* Selected departments only
**Includes just over one million patients in a hospital chain in India, in which IFC has a 1.3% equity stake.
Some CY06 data have been revised.
Data for 2007 (but not 2006) includes employment by companies in health and education (47,315) and supported through funds (601,774), and contribution to government revenues or savings by companies supported through agribusiness ($747 million) and information and communication technologies ($ 955 million).

WHAT DOTS COVERS

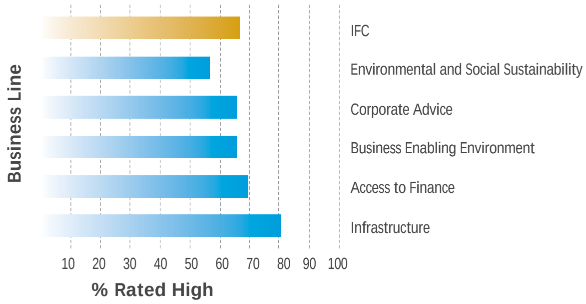
IFC's Development Outcome Tracking System covers all active projects in our portfolio, for both investments and advisory services. The process starts by setting initial objectives, using standard indicators by industry or business line, and tracking achievements throughout the project cycle until closure.

- For **investments**, DOTS covers all 1,272 companies in supervision, and this report focuses on 439 investments approved between 1999 and 2004 that are mature enough to be rated. Every year the cohort of investments we report on shifts by one year. Newer investments are not mature enough to be evaluated, whereas older ones are less relevant for today's operations and may already have closed. We also address the current reach of all active investments in IFC's portfolio. Reach indicators measure the number of people reached by goods and services provided by IFC clients, or the dollar benefit to particular stakeholders affected by the activities of IFC clients.
- For **advisory services**, this report focuses on projects for which completion reports were prepared between June 2007 and June 2008. We also address results from supervision reports of current projects. The periods for which these results are reported differ by business line and specific area.

ADVISORY RESULTS

Overall, 67 percent of advisory projects had high development results in FY08; these results are pending further validation by the Independent Evaluation Group. The recently completed advisory services client survey showed that 77 percent were satisfied with the quality of advisory services provided by IFC, with the satisfaction levels even higher (88 percent) among clients who paid for these services.

IFC'S DEVELOPMENT RESULTS FOR ADVISORY SERVICES



RESULTS: AN INTEGRATED VIEW

Going forward, IFC's results reporting will help stakeholders understand how our investments and advisory work fit together. In infrastructure, for example, IFC makes direct investments and advises governments on private sector participation in infrastructure services. Our FY08 investments and advisory projects will combine to mobilize over $2 billion, reach 61 million customers, and provide revenues or savings of $16.5 billion for host governments. IFC's active infrastructure portfolio in CY07 mobilized private investments of $10 billion, which reached 431 million customers, and contributed $5.4 billion to government revenues or savings.

LEARNING AND USING RESULTS

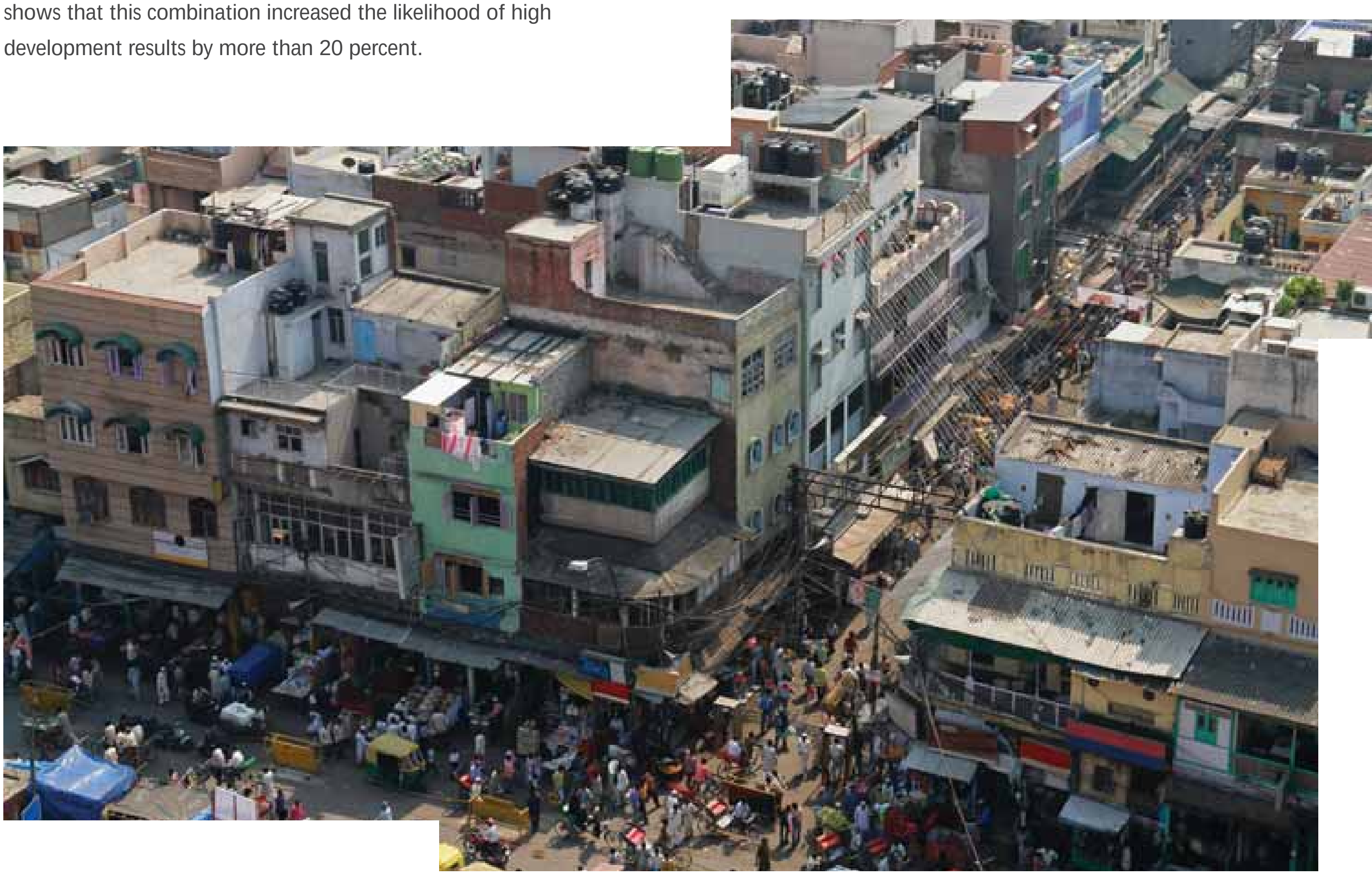
IFC uses development results to inform our strategy, operations, and incentives at all levels. At the strategic level, results are incorporated in departmental and corporate strategy sessions; results are also reviewed and discussed at the portfolio level. Teams responsible for an individual investment or advisory project are also required to specify in project documents how lessons learned are being applied.

Assisting SMEs

IFC has revamped its approach. We focus on providing support to SMEs through financial intermediaries, which proves much more effective. In Sub-Saharan Africa, we used to reach about 50 enterprises through direct investments, at considerable cost to IFC; last year, by comparison, financial intermediaries IFC had invested in provided over 220,000 loans to micro, small, and medium enterprises Following a review and cleanup of the portfolio, our financial markets investments in Africa now have strong development results. These now frequently combine investments with advisory services, and a recent IEG evaluation of financial intermediaries supporting SMEs in frontier markets shows that this combination increased the likelihood of high development results by more than 20 percent.

Reaching underserved groups in IDA countries and frontier regions

To work in the places where IFC is needed most and to improve our results, we increasingly direct investments and advisory services toward IDA countries and frontier regions—the poorer, less developed areas of middle-income countries. IFC today has a much higher share of portfolio in IDA countries, especially among newer investments, than do foreign investors in general. Our investments need partners—other investors typically put up at least $3 for every $1 from IFC—and this can pose a challenge in difficult environments. IFC's advisory services are even more heavily concentrated in IDA countries, as they are often needed as a first step that improves the likelihood of success when investing in these environments. Our advice often focuses on addressing gaps in access to infrastructure or financial services in IDA countries, and on helping investment clients there incorporate local SMEs in their supply chain. IFC also tracks investments in frontier regions, where our investments are increasing as well.



IFC's countercyclical role

When country conditions deteriorate, IFC needs to be ready to step in. Our analysis shows that during country crises, when foreign investors tend to withdraw, IFC increases its exposure. We continue to support strong projects and sponsors that would ordinarily have access to financing, but who suddenly find themselves without it. IFC has had strong results in Russia and Turkey, for example, where we were able to play this countercyclical role.

AFTER A CRISIS, IFC INVESTS AND GETS BETTER RESULTS

17 country crises between 1994 and 2001

- IFC increased exposure: 12 countries (71%)
  Foreign investors increased exposure: 5 countries (29%)
- IFC's development results for investments approved:
  - three years before a crisis: 41% rated high
  - during crisis year: 45% rated high
  - three years after a crisis: 67% high

ENHANCING RESULTS MEASUREMENT

Adjusting development results for risk

IFC seeks to move into countries, regions, and sectors where we are needed most, often where risk is highest and prospects for success are lowest. We are considering how best to adjust our results to reflect the inherent risk when comparing results; this will help ensure that weaker prospects for high development results are not a disincentive to engage in more difficult areas where IFC is most needed.

Harmonizing results measurement within and beyond IFC

- **Within IFC**, we have made much progress in standardizing the measurement framework and the indicators to compare and aggregate results across projects. Doing this across sectors remains a challenge. We are studying how we can further harmonize results indicators between investments and advisory services to present a full picture of IFC's results. During FY09 we plan to introduce a new system, DOTS-2, that will cover both investments and advisory services.

- **Beyond IFC:** Our results measurement framework has been considered best practice among multilateral development banks. During FY08, IFC has shared our experience with the broader development community. For example, we organized results measurement conferences to exchange views with foundations and donors. We also responded to the task of developing private sector indicators for how institutions manage for development results; the indicators were published in the March 2008 COMPAS report (online at http://www.ifc.org/ifcext/devresultsinvestments.nsf/Content/Our_peers).

In-depth evaluations to assess impacts

Assessing long-term impacts from IFC's activities, including their impact on poverty, is difficult for both investments and advisory services. For example, at the time an advisory project closes, its impact has often not yet materialized.

To provide more in-depth assessment for advisory services, in FY08 IFC completed 20 external evaluations. We started 23 experimental or quantitative evaluations, eight of which were completed this year. For example, a quasi-experimental evaluation showed that IFC's advisory services on privatization of dialysis in Romania resulted in 29 million euros of private sector investment to upgrade public health infrastructure between 2005 and 2008, while the quality of service for patients improved markedly.

For investments, IFC is also launching several case studies to understand our clients' development impact in more depth. We are working in collaboration with clients and will report these findings publicly.

PROJECT-LEVEL REPORTING

There is growing interest in project-level reporting on the development results of IFC-financed investments. External interest is driven by a number of factors, including a desire to understand project sponsor performance against development outcome targets, particularly for more high-profile investments where sponsors, and IFC for its part, may have committed to outcomes of importance to local communities. IFC senior management has also expressed interest in better understanding issues and options around such reporting.

During FY09, parallel to a three-year independent review of the sustainability and disclosure policies, IFC will carefully review how we and our clients report project-level results information. Any change in policy will reflect consultation with clients as well as external stakeholders, our Board of Directors, colleagues from across the World Bank Group, and other multilateral institutions.

CONNECTING THE DOTS

WHO BENEFITS FROM IFC PROJECTS AND HOW

IFC-supported firms make a wide range of contributions in developing countries. Their growth and success benefit employees and their families, local communities, suppliers and other business partners, and the customers who buy what they produce. These firms also generate significant tax revenues for national and local governments. In many cases they are using IFC's funding and advice to upgrade environmental performance, strengthen corporate governance, and improve their management systems and adherence to industry standards. Often these firms help broadly stimulate the private sector, benefiting competitors and new entrants as well.

For most IFC investments (84 percent), benefits to society exceeded profits to the financiers. In fact, we analyzed a representative sample of 63 projects, and for every dollar of project costs (in total $7.75 billion, of which IFC had financed 13 percent), our clients generated almost a full extra dollar (about 88 cents) in value added over and above the costs—and these benefits were evenly split between investors and other stakeholders. We hope that the projects IFC approved this fiscal year—with total project costs of $43 billion—will show similarly strong results.

Employees

Last year, IFC's clients provided hundreds of thousands of jobs. This includes 700,000 in manufacturing and services, 380,000 in agribusiness, and 120,000 in oil, gas, mining, and chemicals.

- IFC's investment in one of the first private cement plants in a North African country resulted—directly and indirectly—in the creation of over 2,000 jobs.
- Support for an Eastern European beverage manufacturer resulted in a near doubling of its workforce: from 4,000 in 2004 to 7,000 in 2006.

Customers

In 2007, IFC's clients:

- Had a portfolio of 8 million loans to micro, small, and medium enterprises totaling $94 billion. Of these, about 7 million loans were for microfinance.
- Provided basic utilities to over 184 million customers; this includes water distribution to 18 million people, power generation and distribution to 158 million, and gas distribution to 8 million.
- Provided 50.6 million new phone connections.
- Provided health services to 5.5 million patients and education to 675,500 students.
- IFC's investment in a private Asian university helped 700 students graduate, 270 of them last year. About 70 percent had jobs within three months, 20 percent continued their education, and 4 percent started their own business.

Environment

Many of IFC's clients are helping address climate change and advancing environmental and social sustainability.

- IFC recently helped a Latin American ceramic tile company modernize its plant. Harmful emissions have been reduced, improving air quality and lowering energy costs by 22 percent; the company also plans to use fully treated wastewater for its manufacturing.
- IFC helped a North African company become the world's first carbon black manufacturer to obtain ISO 14001 certification for environmental management.

Local Communities

Local communities can be affected positively or negatively by projects, and IFC's policies, processes, and performance standards require our clients to avoid or mitigate potential negative impacts and to help them enhance positive ones. Many of IFC's clients have active programs to support the surrounding community. For example, last year our clients in oil, gas, mining and chemicals alone spent $115 million on community development programs.

- A South Asian oil and gas client spent $1.16 million on community development programs, partnering with IFC to fund a local economic development program that includes skills training, local supplier development, and health components.

Suppliers

In 2007, IFC's clients generated millions of dollars for local suppliers; this includes $47.2 billion in manufacturing and services and $7.1 billion in oil, gas, and mining. Agribusiness clients reached 806,000 farmers.

- An agribusiness client engaged 180 Eastern European farms to supply apples.

Government

Last year, IFC's clients generated billions of dollars in government revenues; this includes $9.2 billion from oil, gas, mining, and chemicals activities; $2.2 billion from manufacturing and services; and $4.0 billion from infrastructure.

- A telecommunications client in Eastern Europe has paid its host government over $10 million in taxes and telecommunication fees since 2006.

Private Sector

IFC's activities help companies and other private sector partners in developing countries address the constraints to private sector growth.

- IFC's investment in a global bank's foray into finance targeted to sustainability in Latin America resulted in three other local banks undertaking similar credit activities in the region last year.
- IFC's investment in a private equity fund in Asia has helped spur its outstanding performance; since 2005, the fund manager has been able to raise three subsequent funds totaling over $2 billion, with very high participation from commercial investors.

Financiers

Profits are essential for private companies to be sustainable and to attract more investment—in the company itself and through demonstration effects in other companies.

- IFC helped transform a leading Middle Eastern pharmaceutical client into a global company, with profit margins multiplying to five times the industry average.