





# their/our story

CHAPTER TWO:

## smart choices

The economic crisis of 2008 spurred IFC to take extraordinary measures to maximize our development impact and create opportunity where it was needed most.

In the earliest days of the crisis, IFC staff members began calling our clients to help them identify steps they could take to minimize their financial risks. We took stock of potential risks in our own portfolio, and acted to ensure that our capacity to advance private sector development would remain strong.

For IFC, 2009 was not business as usual. Our staff worked smarter to help our clients cope with the crisis. Knowing that our clients' needs would be larger than we could provide for on our own, we developed innovative ways to mobilize funds from other sources.

It was clear that the crisis would reach beyond the world's richest nations. We began preparations for a \$3 billion fund to strengthen systemically important banks in emerging-market countries. Other new initiatives to mobilize funding for critical sectors such as trade, infrastructure, and microfinance followed.

Our thinking and planning extend beyond the current crisis. We are also working to help shape the post-crisis world and address long-term challenges, including climate change and water and food scarcity.

*IFC's thinking and planning in response to the current crisis.*



## IFC'S CRISIS-RESPONSE INITIATIVES

In a time of extreme economic turmoil, IFC acted swiftly and creatively to do our part to help repair the damage and build the foundation for a durable recovery.

The financial crisis that began with the collapse of the U.S. subprime mortgage market quickly engulfed countries across the globe as credit markets froze and trade volumes contracted for the first time in 27 years. The result was a major setback for global efforts to reduce poverty.

Recognizing that a strong private sector is vital for job creation in emerging markets, IFC launched a series of initiatives to help private enterprises cope with the crisis. These initiatives are expected to provide significant financing over the next three years, combining IFC funds with contributions mobilized from various sources, including governments and other international financial institutions.

IFC's initiatives have been an important part of the global crisis response. They address both the immediate and long-term needs of the private sector—by helping to restore liquidity, rebuild financial infrastructure, reduce food scarcity, manage troubled assets, and alleviate specific regional difficulties.

## PROVIDING LIQUIDITY SUPPORT

### PARTNERS IN IFC CRISIS INITIATIVES

Countries and regional development banks working with IFC on crisis initiatives as of June 30, 2009:

Countries	Austria, Canada, China, Finland, France, Germany, Japan, Luxembourg, the Netherlands, Saudi Arabia, Sweden, United Kingdom
Regional Development Banks	African Development Bank, Andean Development Corporation, Development Bank of Southern Africa, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, OPEC Fund for International Development

### TRADE

Global trade is expected to decline this year for the first time in decades, dropping by as much as 10 percent. Reduced lending by banks around the world has created a \$300 billion gap in trade finance. That poses a risk to developing countries, which are particularly dependent on trade for economic growth.

IFC responded by expanding our Global Trade Finance Program, tripling its size to \$3 billion. The program provides guarantees for trade transactions in emerging markets. In FY09, the volume of guarantees we provided had already exceeded \$2 billion. The program is expected to support about \$6 billion in additional trade per year. It is active in over 70 countries.

It became clear to us that guarantees alone would not be enough to address the gap in trade finance. So, with the official endorsement of the G-20 member nations, IFC helped launch the Global Trade Liquidity Program, a unique initiative that brings together governments, development finance institutions, and commercial banks to help unlock trade finance in emerging markets. The GTLP, which began operations in May 2009, will initially consist of commitments from governments and other public-sector sources, including \$1 billion from IFC. It is expected to support up to \$50 billion in trade in the developing world.

### INFRASTRUCTURE

Ports, roads, and railways are vital for economic development. So are water, electricity, and Internet connections. But the availability of financing for such infrastructure has declined because of the global crisis. About \$110 billion worth of new privately financed projects risk delay or postponement.

To bridge the gap in available financing for viable, privately funded, or public-private-partnership projects in emerging markets, IFC launched the Infrastructure Crisis Facility. The facility will include debt and equity components providing short- to medium-term financing for infrastructure projects. It also will include Advisory Services to help governments design or redesign public-private-partnership projects.

The ICF is expected to eventually attract around \$10 billion in funding. France plans to contribute €1 billion, and Germany plans to contribute €500 million. IFC will contribute up to \$300 million in equity, and could provide as much as \$2 billion in cofinancing.

### MICROFINANCE

Microfinance has proven to be a critical tool in the fight against poverty by providing opportunity to low-income groups. The expansion of microfinance services—including small loans and money transfers—has allowed poor families to start small businesses and improve the health and education of their children.

The global financial crisis has threatened to restrict the availability of such services as some microfinance institutions encounter difficulty in refinancing their debt, despite the underlying soundness of their portfolios. IFC's Microfinance Enhancement Facility, launched this year, is designed to address that challenge.

The facility is expected to provide refinancing to more than 100 microfinance institutions in up to 40 countries, including 20 of the world's poorest countries. By its sixth year, we expect this facility to reach 60 million microenterprises, with an \$84 billion portfolio.

IFC is contributing \$150 million to the facility. The German development agency KfW has committed \$130 million, and the Austrian Development Bank OeEB has contributed \$25 million. Other like-minded investors have pledged and received approval to make contributions that would take the facility to its targeted size of \$500 million.

The facility is being managed by BlueOrchard Finance, responsAbility Social Investments AG, and Cyrano Management, three of the industry's leading fund managers.



## MADAGASCAR

## Village Phone Project Connects Rural Communities to Wider World

Noro Dina Mamisoa (pictured below), a 38-year-old wife and mother of two, is one of 3,000 mostly rural women in Madagascar who are making a living as “village phone operators,” thanks to the IFC-supported Village Phone Project (pictured). Before Mamisoa became an operator, her remote village of Mahavelona was inaccessible by phone. People had to walk 15 kilometers or take the weekly bus to the closest town to use a phone.

“The Village Phone business really has brought me, my family, and the community a lot of positive things,” says Mamisoa. The project has enabled her to pay for the education of her two children and meet other needs, and has boosted business at the small grocery store she operates.



Since 2008, IFC has worked with the Madagascar subsidiary of Zain, a leading pan-African and Middle Eastern mobile telecommunications company and IFC client, to catalyze economic development through the Village Phone Project. This donor-funded project creates sustainable microenterprises in rural areas by providing entrepreneurs with training, financing, and technical and business support. To date, 1 million people in rural areas of Madagascar have gained telephone access thanks to village phones.

Operators receive equipment to reach Zain's network signal, including a solar panel, which enables them to act as rural pay phones and to recharge cell phones. The project, which has also been implemented in Nigeria, is being replicated in India and Mozambique, and there are plans to bring it to Burkina Faso and the Democratic Republic of the Congo.

Because its main beneficiaries are women in poor areas, the Village Phone Project is addressing the Millennium Development Goal of promoting gender equality and helping to empower women.

## CAPITALIZING BANKS

The global financial crisis reduced the availability of credit in nearly every corner of the world. As private capital flows have declined, even strong banks in developing countries have faced challenges.

The IFC Capitalization Fund is designed to support banks considered vital to the financial system of an emerging market country. By investing in systemically important institutions, the fund aims to speed up economic recovery and boost job creation while reducing the impact of the financial crisis. IFC offers Advisory Services alongside the fund's investments to strengthen private sector development and improve the economic and financial performance of banks.

We are also exploring expanding the reach of the IFC Capitalization Fund by developing parallel funds dedicated to investment in banks in Africa and Eastern Europe in the short term. These parallel funds, which could be expanded to other regions in the medium to long term, may include other international finance institutions and private sector investors.

As banks receiving capital are able to increase lending to their clients, the overall effect is a multiple of the fund size. In smaller economies these amounts will help increase confidence in the banking system and economy, and reduce the impact of the crisis on the poor.

## ADVISORY SERVICES

IFC Advisory Services are playing a prominent role in our response to the financial crisis. Our global expertise and strong on-the-ground presence in developing countries allowed us to move quickly to assist client companies and governments with advice designed to improve access to finance, strengthen corporate governance and risk management, and improve the investment climate.

Our response has been comprehensive. We are working with banks across the globe to advise them on ways to expand lending to micro, small, and medium enterprises. We are advising corporate boards of directors on the best ways to manage risks and cope with the crisis. We are working with governments to address major constraints in the investment climate—for example, by encouraging governments to increase the efficiency of their bankruptcy systems to permit quick recovery by indebted companies. In addition, we are providing advice on trade logistics to support governments' efforts to keep trade flowing.

IFC also is collaborating with the World Bank on several initiatives related to the crisis. In Ukraine, for example, we are working with the government on ways to eliminate features of the tax code that discourage the sale of distressed assets. Removing those obstacles could make it easier for hard-hit regional banks to recover by cleaning up their balance sheets.

## MANAGING TROUBLED ASSETS

IFC has been actively engaged in managing distressed assets following previous financial crises in Asia and Latin America. With this in mind, we are considering ways to use our experience to facilitate troubled-asset recovery for regions and countries in emerging markets that have been significantly affected by the global crisis. These efforts could include both investment support and Advisory Services that focus on enhancing the market environment to reduce the potential for financial crises.

## CRISIS RESPONSE

## Bolstering a Bank's Ability to Grow Amid the Crisis

Banco Continental became Paraguay's largest locally owned bank through innovation, sound management, and a strong balance sheet. Paraguay is one of Latin America's poorest countries, and Continental grew by catering to low- and middle-income customers.

But the global financial crisis threatened to restrict its ability to expand. Paraguay's banking system—like many others in Latin America—is dominated by foreign banks. Local banks often struggle to compete because they lack economies of scale and have higher funding costs than foreign banks.



Continental was strongly capitalized. But IFC recognized that the bank's ability to expand services to small and medium enterprises was constrained—both in the capital, Asunción, and in remote rural areas. The bank lacked institutional investors, and relied solely on individual local shareholders to meet its capital needs for growth.

“We wanted to project solidity and prove to markets and clients that Continental was as solid as international banks,” said Oscar Diesel, the bank's director and one of its shareholders.

In March, IFC was able to mobilize one of its crisis-response initiatives to strengthen Continental's ability to grow and compete. In its first transaction, the IFC Capitalization Fund invested \$20 million in Continental.

Continental, which employs more than 500 people and serves more than 40,000 customers, is now better positioned to continue pursuing its strategy—which includes expanding loans to small and medium enterprises, particularly in economically important sectors such as agribusiness. IFC's involvement also sends a strong signal of confidence for customers and prospective investors in the bank.

The transaction also enables Continental to benefit more broadly from IFC's global expertise. “IFC is helping open doors to us in foreign markets,” said Carlos Moreno, Continental's general manager and a shareholder, “It brings us best practices and lessons learned, which help us compete with the international banks here.”



MICROFINANCE: LIBERIA

## Building a Better Future

Liberia's private sector is stirring back to life after two decades of debilitating civil war, thanks to the resourcefulness of entrepreneurs like Abdulwasii Suleiman (pictured below) and the opportunities IFC is creating for them.

Suleiman recently borrowed \$1,700 from AccessBank Liberia, a new microfinance institution that opened its doors in early 2009, with IFC as a founding shareholder. He used the funds to open his second clothing store in Monrovia and now imports new clothing from Ghana, Nigeria, and Togo for Liberia's wholesale market.



"AccessBank is easy to work with and the interest rate is much better," he says. "To me, it has been a godsend. My future looks much brighter now."

IFC's effort to launch AccessBank Liberia is just one example of the difference we are making in the country. Our approach in Liberia was sequential. First, we provided advisory services designed to strengthen the country's business-enabling environment. Next, we provided advice aimed at improving access to finance. Finally, we invested in Liberian companies.

In July 2008, IFC made its first investment in Liberia in more than 20 years, providing a loan to help rehabilitate and expand Salala Rubber's plantations, boost its processing, and raise employment. IFC is also providing trade finance guarantees to the Liberian Bank for Development and Investment, and is working with the government and private sector to improve the country's business environment.

With 3.8 million people living on just 54 cents a day, Liberia is still one of the world's poorest countries. As part of its strategy to increase support to countries affected by conflict, IFC is committed to doing even more in the country so that Liberians like Suleiman can continue to build a better future.



KENYA

## Nurturing a Promising Entrepreneur in Difficult Times

Oscar Kimani's (pictured at left) Internet-based travel business was just beginning to take off when Kenya was racked by political turmoil following disputed elections in late 2007.

His family's business had burned to the ground in the ensuing mayhem, leaving them scrambling to put food on the table. Riots across the country brought tourism to a virtual standstill, and Kimani's travel business also nearly folded as a result. The future appeared bleak.

"IFC helped me stay alive," Kimani says of those difficult times.

IFC's Small and Medium Enterprise Solutions Center in Nairobi supported Kimani's business by deferring licensing and support fees, providing mentoring, and introducing him to new business opportunities. IFC's support and Kimani's hard work paid off: by the end of 2008, he had paid off all his debts.

Today, TransTech is a thriving business that helps Kenya's travel industry take full advantage of business opportunities on the Internet. Kimani has become a wide-ranging entrepreneur, offering clients a variety of business services, including Web design, information-technology outsourcing, and corporate training. He has also started a forum to help other young entrepreneurs start their own businesses.

Supporting micro, small, and medium enterprises like TransTech is a key pillar of IFC's strategy in Africa, given that such businesses are a significant part of Africa's private sector. IFC reaches these businesses directly through its SME Solutions Centers in Kenya and Madagascar, which provide advice and financing to businesses, and by investing in financial institutions and advising them on how to better serve smaller businesses.

IFC's strategy is paying off. In 2008, we supported clients that provided 1.3 million loans totaling nearly \$91 billion to small and medium enterprises. From the summer of 2007 through the end of 2008, we enabled 62,000 people across the world to receive training under our Business Edge and SME Toolkit programs. As IFC continues to focus on the sector, more budding entrepreneurs like Kimani can pursue their dreams.

"What I had was the vision," Kimani says. "IFC provided me with the means."



INFRASTRUCTURE: PANAMA

# Panama Canal Expansion Proceeds Despite Stormy Weather

As soon as it opened almost a century ago, the Panama Canal changed the game in global trade. The first man-made link between the world's two largest oceans, the Atlantic and Pacific, it allowed export goods to reach key markets faster than ever before. The 80-kilometer waterway is now one of the developing world's most successful infrastructure projects—and in need of major upgrade to accommodate the 21st century's increased traffic and larger cargo ships.

A \$5.3 billion expansion project to double the canal's capacity by 2014 had counted on commercial banks providing extensive financing. IFC provided \$300 million alongside the Inter-American Development Bank and others as part of a \$2.3 billion package from development finance institutions that filled the financing gap. A key part of IFC's global commitment to strengthening infrastructure, the effort will create up to 7,000 construction jobs for local workers. It will also generate \$13 billion in revenues earmarked for new government development programs—vital in a country where 40 percent of the people are poor.

With infrastructure needs growing and financing options shrinking, IFC is taking this experience global. Our new Infrastructure Crisis Facility and other initiatives will support high-priority projects, ensuring that key efforts like the Panama Canal expansion can move forward as planned.

the IFC  
ADVANTAGE

*IFC has a global platform in trade finance, which has been particularly important during the crisis.*



## TARGETED REGIONAL INITIATIVES



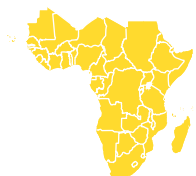
### EMERGING EUROPE

IFC is part of a group of large international financial institutions that pledged to provide up to €24.5 billion to support the banking sectors in Central and Eastern Europe and to finance lending to businesses hit by the global crisis. The institutions include the European Bank for Reconstruction and Development, the European Investment Bank, the International Bank for Reconstruction and Development, and the Multilateral Investment Guarantee Agency. Under the Joint IFI Action Plan, they pledged to provide rapid, large-scale, and coordinated financial assistance to promote lending to the real sector, particularly to small and medium enterprises. The financial support will include equity and debt finance, credit lines, and political risk insurance. IFC is expected to contribute up to €2 billion through crisis-response initiatives in such sectors as banking, infrastructure, and trade, as well as through traditional investments and Advisory Services.



### LATIN AMERICA AND THE CARIBBEAN

The LAC Multilateral Crisis Initiative was organized to pool global financing from public and private sources and to scale up crisis-response initiatives. Along with IFC, participating in the initiative are the International Bank for Reconstruction and Development, Andean Development Corporation, Caribbean Development Bank, and Inter-American Development Bank. Together they pledged to provide up to \$90 billion to support the private sector in Latin America and the Caribbean. IFC's contribution to the initiative will be \$7.9 billion over two years.



### AFRICA

The Joint Action Plan for Africa is designed to leverage additional financing, protect important ongoing programs, and support investment-ready initiatives. IFC and the other World Bank Group institutions joined an alliance of IFIs led by the African Development Bank to support development activities in Africa. Other participants include the European Investment Bank, Dutch development finance institution FMO, and German development agency KfW and its private sector arm DEG. Under the plan, commitments to the region will be increased by at least \$15 billion over the next two to three years. IFC will contribute at least \$1 billion in additional funding over the next two years.

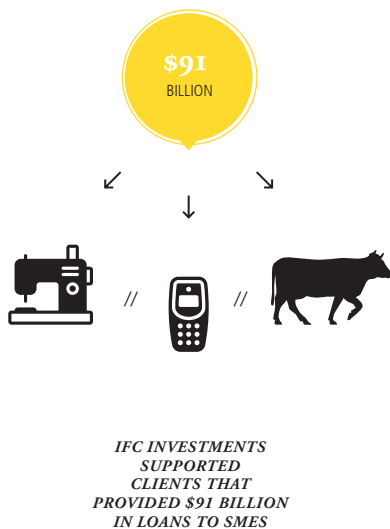


## MAXIMIZING OUR DEVELOPMENT IMPACT



## WORKING *to* INCREASE PRODUCTIVE JOBS

For the world's poor, getting a job in the formal sector is the best route out of poverty. Yet the global economic crisis could destroy up to 50 million formal jobs worldwide this year, according to the International Labor Organization.



Helping the private sector generate productive jobs is a central objective for IFC. That goal guides every aspect of our activities—including our crisis-response initiatives to capitalize banks, revive global trade, support financing for infrastructure, and sustain credit to microfinance institutions. It also guides our more routine work in developing countries—improving the investment climate, extending access to finance, financing essential infrastructure, and supporting the growth of small and medium enterprises.

SMEs, as the ILO has noted, “are increasingly responsible for the creation of the majority of jobs throughout the world, and can help create an environment for innovation and entrepreneurship.” Supporting SMEs is a strategic priority for IFC. In 2008, IFC supported clients that provided nearly \$91 billion in loans to small and medium enterprises.

Moreover, our ongoing work with supply-chain linkages helps large firms increase the impact of their investments by securing local jobs through their supply chains and procurement activities. Our work to improve the investment climate may have the biggest impact overall, because SMEs have been shown to suffer the most from poor investment climates. Easing business-entry regulations can result in an increase in jobs.

The pace of job creation tends to be a popular gauge of private sector development, but measuring it precisely is a formidable task—even for national governments. In measuring indicators of our development impact, IFC keeps track of the number of jobs in companies in which we are an investor, and of the changes over time. In 2008,

our clients employed about 2.1 million people, including more than 500,000 in manufacturing and services and more than 400,000 in infrastructure, telecommunications, and information technology.

This information typically does not tell us whether our investments have resulted in job creation, since other factors also affect employment levels. Still, some of our data suggest that IFC investments provide new employment opportunities. For example, businesses supported indirectly through IFC-supported investment funds provided nearly 740,000 jobs in 2008, of which more than 300,000 were added after the funds started investing. Measuring the impact of our work is a high priority for IFC, and we are constantly refining our measurement systems, including beginning to disaggregate employment data by gender.

IFC also recognizes that job creation must be socially and environmentally sustainable. A key objective of the United Nations’ Millennium Development Goals is achieving full and productive employment and decent work for all, including women and young people. IFC this year significantly expanded our collaboration with the ILO on the Better Work program. The program, which began in Cambodia in 2001, helps governments and companies achieve compliance with international labor standards through market incentives. It has since been expanded to Haiti, Jordan, and Vietnam in an effort to improve the lives of about 1.2 million workers.



their story

Vietnam

## Something Borrowed: Small Loan Boosts Bridal Business in Hanoi

Hanh Vu (pictured below) is 28 years old, with two university degrees and a background in fashion design. Four years ago, she gave up her job in a government ministry to go into business for herself. Hanh wanted to open up a bridal gown shop in Hanoi, but her limited capital meant that she could only afford a small shop and two sewing machines.



IFC was able to help her grow her business through its client Techcombank, which gave Hanh one of its first new loans for small businesses. Thanks to a lot of hard work and determination, Hanh was able to turn her career dream into a business that now has two showrooms and two production facilities.

IFC provided advisory services and a loan to Techcombank to help it expand its portfolio of small and medium enterprises. Techcombank then launched Vietnam's first fast loans in the fall of 2008. Since then, it has provided some 1,350 fast loans to micro, small, and medium enterprises in the local market. The Vietnamese government has designated development of the private sector, which is dominated by small businesses, as a main tenet of its poverty-reduction strategy.

Hanh now plans to open three more showrooms and a production facility in an industrial zone in Thanh Hoa, her home province south of Hanoi. Business has grown to the point that she now oversees a staff of 125 skilled workers. With a carefully trained eye on Vietnam's social and economic developments, Hanh is also looking to triple her product line to include evening gowns under her own label.

the IFC  
ADVANTAGE

*IFC has a strong focus on micro, small, and medium enterprises, which are vulnerable segments and key engines of employment generation in most developing countries.*

## EXPANDING JOB OPPORTUNITIES *for* WOMEN

Women remain a largely untapped resource in developing countries, and the lack of formal employment opportunities for them represents a key challenge to the countries' economic growth and social prosperity.

To address this challenge, IFC tries to increase viable work opportunities for women through a dedicated Gender Unit and through investments. In 2008, IFC's clients employed more than 361,000 women across all regions and industries. Women constitute nearly 30 percent of the workforce of the clients for which we have data by gender.

Employment opportunities for women have been highest in the health sector, where women account for 59 percent of the total workforce. Women also are significantly represented in jobs in education and the textile sector, although opportunities remain scarce in traditionally male-dominated industries such as oil, gas, mining, construction, heavy industries, and utilities.

In Europe and Central Asia, women constitute more than 40 percent of our clients' workforce. But among our clients in Africa, the Middle East, and South Asia, the proportion of women in the workforce is less than 20 percent. Studies have shown that countries' per capita incomes rise with increased participation by women in the labor force.

IFC's investment in TRG Pakistan illustrates our commitment to help provide employment opportunities for women where they are most needed. TRG, a leading business-services company, taps educated, English-speaking populations, and it employed nearly 2,300 women in Pakistan and the Philippines as of December 2008. Moreover, IFC microfinance investments in the Middle East and North Africa reached almost 500,000 women borrowers.

ENFIDHA AIRPORT

## Maximizing Development Impact in a Time of Crisis



Tunisia's desert landscapes, Roman ruins, and golden beaches have made it one of Africa's top tourist destinations, providing employment for about 15 percent of the country's population. IFC has worked to make that an enduring success, helping to finance the construction of a modern airport capable of bringing in 7 million tourists a year.

As the global economic crisis spread in 2008 and 2009, private financing for the Enfidha Zine El Abidine Ben Ali International Airport became much harder to obtain. TAV Airports, the Turkish company building the airport, needed loans with a longer term than commercial banks would provide. Only a fraction of the €250 million in syndications could be placed. Legal agreements suddenly needed to be rewritten.

The situation called for innovation and agility—and IFC responded to the call. We initially provided €135 million in loans with maturities up to 20 years, making it easier for TAV's Tunisian subsidiary to reconcile its repayment obligations with its steep up-front construction costs. When syndication became difficult, we helped bring in major development finance institutions—the European Investment Bank, the African Development Bank, French development bank PROPARCO, and the OPEC Fund for International Development.

In the words of Julien Thureau, Managing Director and Head of Infrastructure Project Finance at Société Générale CIB, one of the lead syndication arrangers, "The success of this syndication in very challenging market conditions is a great achievement. It allows Société Générale to keep on supporting its clients around the world, highlights the importance of collaboration between international commercial banks and IFIs in emerging markets, and illustrates the leading role that IFC can play in fostering such cooperation."

IFC also helped clarify the legal agreements, making the project more attractive to investors. Those amendments were negotiated with the Tunisian government in just 30 days—a record for a public-private-partnership project—reflecting the goodwill IFC enjoys in the country.

Enfidha airport, one of the largest in Africa, is set to open in October 2009, with the latest technology and facilities capable of accommodating 18 aircraft. It is expected to generate 500 permanent jobs at the airport, and indirectly spur the creation of up to 25,000 jobs in the tourist resort of Monastir and nearby areas. In a time of crisis, its ability to attract financing owed much to the participation of IFC, *Project Finance* magazine said.



## LATIN AMERICA

## Supporting the First Liquefied Natural Gas Project

On November 14, 2008, just a few days after the Dow Jones Industrial Average had suffered its worst week in history amid a global financial meltdown, the first disbursement from IFC and our partners went out to the \$4 billion Peru Liquefied Natural Gas project, Latin America's first LNG export facility.

Against the odds of deteriorating credit markets and slumping commodity prices, IFC helped conclude the financing within a tight timeline and with unchanged terms.

The project includes a liquefaction plant and a marine loading terminal on Peru's central coast, as well as a new 408-kilometer pipeline that will connect to an existing pipeline network east of the Andes, where it will receive gas from the Camisea fields.



Given the project's size and long construction and commissioning time, together with the perception of developing country risks, the company needed to borrow money well beyond maturities of 10 years—something unavailable solely from commercial banks or bond markets.

While Peru's economic outlook had improved considerably, commercial lenders remained cautious about committing long-term funding of the magnitude required without some political risk cover. Only multilateral development banks such as IFC and export credit agencies could make this landmark project a reality by giving commercial banks the necessary comfort to agree to maturities as far out as 14 years. IFC went beyond even that, contributing a \$300 million loan with a 17-year maturity to the project's total \$2 billion loan package.

Peru LNG is the largest foreign direct investment in the country's history and is expected to make Peru a net hydrocarbon exporter after operations begin in 2010. Along with the upstream Camisea project supplying the gas, the LNG project will support economic growth in some of the country's poorest regions.

### PLAYING *a* KEY ROLE *in* DEVELOPMENT FINANCE

As credit declined amid the global downturn, IFC found smart ways to maximize our ability to support emerging-market businesses that most needed help.

The crisis diminished commercial banks' appetite for lending, which traditionally had been IFC's primary means of mobilizing resources from third parties to serve the needs of clients in emerging markets. In response, IFC provided a way for development finance institutions and international finance institutions to quickly scale up their investments—by allowing them to participate in syndicated parallel loans.

Under the new approach, IFC uses our existing syndication platform as well as our deal-structuring expertise and global presence to identify investments, perform due diligence, and negotiate loan documents, sharing those benefits with other DFIs and IFIs. IFC's global origination capacity and deal-structuring skills attracted DFIs to join us in our investments, helping fill some of the financing gap caused by the retrenchment of commercial lenders.

For example, we were able to provide \$100 million in financing to Pantaleon, a Guatemalan producer of sugar and ethanol, by partnering with four DFIs in a syndicated parallel loan. IFC provided Pantaleon a total of \$50 million in debt and equity, while the DFIs—France's PROPARCO, Germany's DEG, the Netherlands' FMO, and the Inter-American Investment Corporation—provided an additional \$50 million. IFC will act as agent for the life of the loan.

The coordinated approach allowed both borrowers and DFIs to save time and costs while also providing our clients with better access to financing. In FY09, DFIs and IFIs accounted for 17 percent of the \$2.2 billion IFC mobilized through loan syndications. IFC is one of the first multilateral development banks to adopt this new approach. Our success underscores the pioneering role we continue to play in development finance.

### INCREASING *our* OPTIONS *for* FINANCING DEVELOPMENT

In April 2009, we launched our largest-ever bond issue to help finance lending to private enterprises in developing countries. The \$3 billion bond issue was heavily oversubscribed by top-quality global investors, generating an order book in excess of \$4 billion.

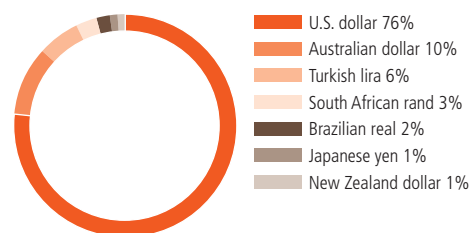
The overwhelming demand for IFC's 10th annual global bond issue—at a time of great uncertainty in financial markets—was an affirmation of IFC's premier standing in credit markets and the strong record IFC has established for global bond issuance.

The issue attracted orders from 88 leading financial institutions. Investors from Asia bought 36 percent of the bonds, while investors in the Americas took 40 percent and those in Europe and the Middle East took 24 percent.

Our U.S.-dollar global bond offering is a key element of IFC's funding strategy. It provides a market benchmark, both for IFC's other borrowing and the structured products we arrange for our clients.

In FY09, we also launched a \$3 billion short-term debt-issuance program to increase our options for funding an array of development activities while also strengthening our cash-management capacity and providing investors with a safe new vehicle for short-term investment. The new Discount Note Program gives IFC additional means of financing short-term lending to clients—including those that borrow under the Global Trade Liquidity Program.

#### FY09 BORROWING ON INTERNATIONAL MARKETS





## The Grassroots Business Fund

Grassroots businesses are nonprofit or for-profit enterprises in developing countries that use private sector approaches to help large numbers of the poor gain access to markets, affordable goods and services, and innovative financial products.

In July 2008, after four years of incubation in IFC, the Grassroots Business Fund was formally established as an autonomous not-for-profit entity, with financial backing from IFC and other private and public partners. As an independent organization, GBF has enhanced opportunities to work with external partners, and has greater flexibility to support grassroots businesses through investments and grants.

GBF provides a combination of long-term capital, capacity-building, and commercial discipline to help grassroots businesses deliver high development impact while moving toward financial sustainability. During its incubation at IFC, and since it became independent, GBF's activities have helped provide basic social services to nearly 1.7 million people and supported over 400,000 direct beneficiaries at the base of the pyramid. GBF currently has a portfolio of 14 projects in 10 countries, with nearly 60 percent of this portfolio in Africa.

In collaboration with the Aspen Network of Development Entrepreneurs, GBF has established itself as a leading player in the area of results measurement and impact reporting for social entrepreneurship.

For more information, visit [www.gbfund.org](http://www.gbfund.org).



GRASSROOTS  
BUSINESS FUND

### BUILDING PARTNERSHIPS to EXTEND our REACH

Creating opportunity requires partnership, especially in a time of crisis. In FY09, we leveraged more funds from more sources than ever before, cementing our partnership with bilateral, multilateral, and philanthropic organizations.

Partnerships helped increase the resources available to address the leading development challenges—including the food crisis, climate change, and aid to conflict-affected countries. We mobilized more than \$5 billion for our crisis initiatives during the year, and expect that number to grow in coming years. In addition, our donor partners made record commitments of \$251 million to support our Advisory Services (see page 114 for details about our work with partners).

the IFC  
ADVANTAGE

*IFC is an effective conduit of funds to the private sector in developing countries, with every dollar of capital leveraging approximately \$17.50 of project costs, and generating about \$11.50 of benefits over and above project costs.*

### IFC'S PROGRAM for CONFLICT-AFFECTED STATES in AFRICA

IFC has implemented a program to give the people of fragile, strife-affected African countries a chance at better lives through economic growth led by the private sector.

This multidonor initiative responds to the need for both immediate and long-term support for such countries, recognizing that they can slide back into the downward spiral of violence without jobs, stable businesses, and open commerce.

Launched in 2008, the five-year, \$25 million program for Conflict-Affected States in Africa deploys private sector development tools aimed at improving the business environment, rebuilding financial markets and institutions, strengthening small and medium enterprises, and fostering private participation in infrastructure improvements.

IFC's financial sector focus, for instance, has centered on supporting banks, reestablishment of trade finance, and microfinance. IFC has established new microfinance banks in Angola, the Democratic Republic of the Congo, and Liberia. In Liberia, IFC is also building on a long-standing equity investment to strengthen the capacity of the Liberian Bank for Development and Investment.

The program leverages IFC's global experience and local presence. Challenges include finding the right risk balance between boldness in reforms, political constraints, and limits in technical capacity. Priorities include incorporating protections for investors into investment law reforms to show the countries are "open for business" again.

The initial focus is on four conflict-affected countries: the Central African Republic, the Democratic Republic of the Congo, Liberia, and Sierra Leone. It will expand later to other conflict-affected African countries.

The program operates in close cooperation with IFC's SME Ventures program, a five-year, \$100 million initiative to provide Advisory Services and risk capital to small and medium enterprises in eight nations, including the four conflict-affected African countries. Initial funding for the Africa program was provided by Ireland, the Netherlands, Norway, and IFC.



## ADDRESSING IMMEDIATE *and* LONG-TERM RISKS

### PROVIDING KNOW-HOW TO HELP BUSINESSES MANAGE RISKS

In many emerging-market countries, the scarcity of capital isn't the only obstacle to private sector development. A shortage of technical know-how can also be a serious impediment—especially in an economic crisis.

IFC is playing an important role in removing such obstacles, providing an array of Advisory Services that help clients identify risks and remedies quickly while also working to establish a healthy business environment and address long-term challenges such as climate change and access to credit. In doing so, we are helping to build a more stable foundation for private enterprise once the financial crisis ends.

As the crisis spread, IFC developed new advisory programs to support the financial sector. One of those programs is designed to help financial institutions manage nonperforming loans, either by restructuring them or removing them from their books. Another helps financial institutions improve their risk-management practices in the areas of governance, asset-liability and liquidity management, capital adequacy, and credit risk.

We also increased our advisory work with credit bureaus that help lenders identify clients with excessive levels of debt, and we stepped up our activities to promote financial literacy and standards for responsible lending. In the countries of Eastern Europe and Central Asia, which have been particularly hard hit by the crisis, we are working to promote the development of a distressed-asset market. There and elsewhere around the world, we also have helped boards of directors play a stronger corporate-governance role by providing risk-management training.

Across the globe, IFC conducted workshops and seminars to promote awareness of best practices. In the Middle East and North Africa, we held a series of conferences featuring lessons IFC has learned from our work with banks in the region. In South Asia and East Asia, we organized several workshops called “Managing Risks in Good Times and Bad” to help banks in the region learn how to identify and address risks. The workshops attracted senior managers from regional financial institutions, rating agencies, and audit and consulting firms.

IFC, in partnership with the World Bank, also is working to improve the investment climate in emerging markets—for instance by providing technical support to help countries improve their bankruptcy systems to cope with the growing number of companies that are becoming insolvent as a result of the crisis. Through the *Doing Business* project, we also are expanding our advisory work concerning regulatory reforms involving investor protection, contract enforcement, and court systems.

Economic crises tend to expose vulnerable populations—the poor, the hungry, the exploited—to even greater dangers. For that reason, IFC believes it is even more important for projects to be sustainable. We are applying our Performance Standards on Environmental and Social Sustainability. We also are helping our clients find ways to tackle climate change by investing in new business models for clean energy, carbon finance, and environmentally sound technologies. That approach will help lower operational costs for our clients over time.

## Climate change has major implications for many developing countries.

For example, a one-meter rise in sea levels could cause Egypt to lose 13 percent of its agricultural land. It could destroy 28 percent of the wetlands that now sustain Vietnam's fisheries industry and buffer coastal cities from storms, according to the World Bank.

For that reason, mitigating climate change is a strategic priority for IFC. We work to promote climate-friendly investments—such as in solar power and in cleaner energy and production technologies designed to improve energy efficiency and reduce waste. In FY09, for the first time in our history, more than half of our power-sector investments were in renewable energy. In FY09, we invested \$1.03 billion in 55 renewable-energy and energy-efficiency projects, and

we aim to significantly increase our clean-energy investments over the next few years. For more information on our renewable energy and efficiency investments, please visit [www.ifc.org/ifcext/sustainability.nsf/Content/ClimateChange](http://www.ifc.org/ifcext/sustainability.nsf/Content/ClimateChange).

Beyond our investments, IFC makes a significant contribution through our Advisory Services. Our expertise in climate-change mitigation is particularly relevant for middle-income countries. We also seek to maintain our leadership in environmental sustainability through such initiatives as the Equator Principles (see page 111).

Carbon finance is a key pillar of IFC's climate-change strategy. IFC helps companies get more value for their carbon credits by guaranteeing delivery to buyers in developed countries, and can also structure loans against future revenues from such credits.

### HELPING BUSINESSES MITIGATE *and* ADAPT to CLIMATE CHANGE



## Supporting the Solar Industry in Emerging Markets

IFC is helping clients in developing countries maximize access to electricity while minimizing greenhouse emissions through support for renewable energy sources such as solar power.

Solar PV—the use of photovoltaic (PV) cells, panels, or modules—is the main method of converting the sun’s energy to electricity. This growing industry has great long-term potential, but the technology is still a high-cost, niche solution.

The solar PV industry is dependent on the market in a few developed countries (Germany, Japan, Spain, and the United States), where it is subsidized. Its traditional manufacturing bases in Europe, Japan, Taiwan, and the United States have been shifting to Asian emerging-market countries, such as China, which now produces 27 percent of solar PV.

IFC’s strategy is to promote development of the solar industry in emerging markets, helping to reduce costs so that the industry can become competitive. IFC investments will help scale up the supply chain to drive the cost of solar PV energy down to “grid parity,” the point at which it can compete with conventional sources of power.

In FY09, IFC made a \$50 million equity investment in Russian polysilicon producer Nitol Solar for its new manufacturing plant in southeastern Siberia. Polysilicon is an essential input for solar PV cells and has been in short supply globally. IFC’s investment helps address this shortage as well as support Russia’s renewable energy sector.

IFC also approved a \$50 million investment in Suntech Power Holdings Company, Limited, the largest manufacturer of solar PV cells in China. By providing long-term quasi-equity capital, which is difficult to access in the current market environment, IFC will help the company expand, supporting development of the solar PV market in China. More than half of IFC’s power projects committed during the year were renewable energy projects.

Over the next few years, IFC plans to deploy \$100 million to \$150 million annually in direct solar investments, mobilize two to three times that amount from other financial institutions, and provide another \$100 million to \$150 million through a venture-capital-type equity facility. IFC is committed to tripling its investments in renewable energy and energy-efficiency projects across all technologies, from \$1.1 billion invested from FY05 to FY07 to \$3.3 billion from FY09 to FY11.



### IFC’S ROLE IN REDUCING WATER SCARCITY

Each morning, more than a billion people wake up without clean water to drink. The scarcity of clean water poses a risk not only to our health, but also to our food supply, our ecosystems, our economic growth, and our security.

In emerging markets, governments alone cannot provide the estimated \$180 billion a year needed to finance water and sanitation projects in the next two decades or so. They are recognizing that infrastructure development will depend on public-private partnerships. IFC is helping to foster a growing number of such partnerships by assisting with project design and developing innovative financing solutions.

For example, IFC partnered with WaterHealth International, a private company that brings clean drinking water to more than 1.5 million underserved users in Ghana, India, Mexico, the Philippines, and Sri Lanka. IFC’s initial investment was expanded with an additional \$15 million commitment in FY09, and helped catalyze \$29 million in equity financing from private investors.

Water is at risk because we tend to overuse it. Water-efficiency practices are still limited in agriculture and industry, which represent 90 percent of total freshwater use. In a joint undertaking with our partners, IFC is developing a water-scarcity response framework to support efficient investment by governments and companies looking to prioritize strategies for addressing water scarcity issues.

IFC is a founding member of the Water Footprint Network, which aims to establish a common methodology that can be used by the public and private sectors to measure the volume of water needed for the production of goods and services by individuals, institutions, and the inhabitants of entire countries.

In addition, IFC is working with leading academics and experts to identify innovative technology and business models to supply clean water to underserved markets in developing countries. The idea is to overcome barriers to growth for companies in the sector, develop investment opportunities, and explore potential partnerships between World Bank Group stakeholders and other partners, such as multilateral financial institutions and commercial banks.





smart choices

## DEVELOPMENT FINANCE

*Promoting Cleaner Production*

The expansion of manufacturing, agriculture, and vital services such as health and education brings many benefits to developing countries. But the cost of progress can sometimes be higher than it needs to be—in both economic and environmental terms.

IFC is helping lower those costs and improve clients' competitiveness through our \$20 million Cleaner Production Lending Pilot program. We provide fast-track loans to help our clients make more efficient use of raw materials, energy, and water by improving operational processes, services, and products. Reducing waste helps companies save money not only on raw materials and other production inputs but also on waste-disposal costs. Moreover, cleaner production systems reduce greenhouse emissions, benefiting local communities while helping mitigate climate change.

In the second half of 2008, IFC helped one of Turkey's largest steel manufacturers—Assan Demir—increase energy efficiency at its aluminum plant in Tuzla. We provided a \$4 million loan to help the company minimize heat loss in the plant's melting and casting furnaces, as well as to recover and recycle waste heat. The project will reduce furnace temperature in casting operations, saving energy and reducing emissions.

"IFC's Cleaner Production loan provided a quick solution for financing our ongoing investment needs, which are shaped by global priorities such as energy efficiency," says Adnan Sen, a company executive. "This also shows how IFC can accelerate things when it puts its full weight behind a program."

In addition, IFC agreed to provide a \$3 million Cleaner Production loan for JK Paper, India's second-largest producer of branded printing and writing paper, to finance a series of energy and water-efficiency improvements in the states of Orissa and Gujarat. The improvements are expected to result in a significant reduction in water and electricity consumption, and a decline in carbon dioxide emissions.

IFC set up the Cleaner Production program in 2007 to encourage our clients to undertake cleaner production investments and to demonstrate the financial viability and environmental benefits of such projects. Under the program, we provide debt financing ranging from \$250,000 to \$5 million per project. The loan transaction occurs swiftly, thanks to a more streamlined process. Loan recipients also get access to IFC's technical and environmental specialists, who can provide a variety of Advisory Services. The program has been so successful that IFC is considering expanding it.

smart choices

## PROVIDING KNOW-HOW

*Tracking Greenhouse Emissions*

IFC has developed and is testing a methodology that can help us, and various stakeholders, better understand the implications of greenhouse emissions related to our investments. The approach is based on the widely used carbon accounting methodology for private business that was established by the World Business Council for Sustainable Development and the World Resources Institute. We are also working with the World Bank and with other multilateral financial institutions to define approaches to carbon accounting that meet the financial sector's needs.

IFC plans to measure the emissions of our new real-sector investments, which represent around 60 percent of our activity, to be followed in subsequent years by our corporate lending and financial sector investments. The pilot applies to new projects that enter the project processing cycle as of February 2009. Our portfolio should be fully covered in about six years. We will share results and lessons learned with other multilateral institutions and partners that have adopted the Equator Principles.





their four story

EGYPT

## *The Gift of Sight from Hospital's Outreach*

Saleh Zaki Khalifa developed cataracts in both eyes. As his eyesight dimmed, the 49-year-old blacksmith became unable to work to provide for his three young children.

"I can't work. I can't even walk by myself," says Khalifa, who lives in a small village north of Cairo. "My 12-year-old son Mustafa leads the way for me."

When he was first diagnosed last year, Khalifa went to a hospital but could not afford the \$370 needed for surgery. With Khalifa unable to work, the family's sole income came from his wife, whose job paid barely enough to cover the rent on their apartment.

Help came from the IFC-supported Magrabi Hospital in Cairo (pictured here). Khalifa was examined during one of Magrabi Hospital's "caravan" outreach programs that send medical staff to poor areas in Egypt three times a week to examine 300 to 400 people at each site. The programs focus on responding to eye diseases early enough to prevent blindness.

Magrabi's staff informed Khalifa that doctors would operate on him. The prognosis was optimistic.

"I was very relieved when I found out they could help me see again, because it means I will be able to support my family again," Khalifa says. He would also have the pleasure of watching his children grow up.

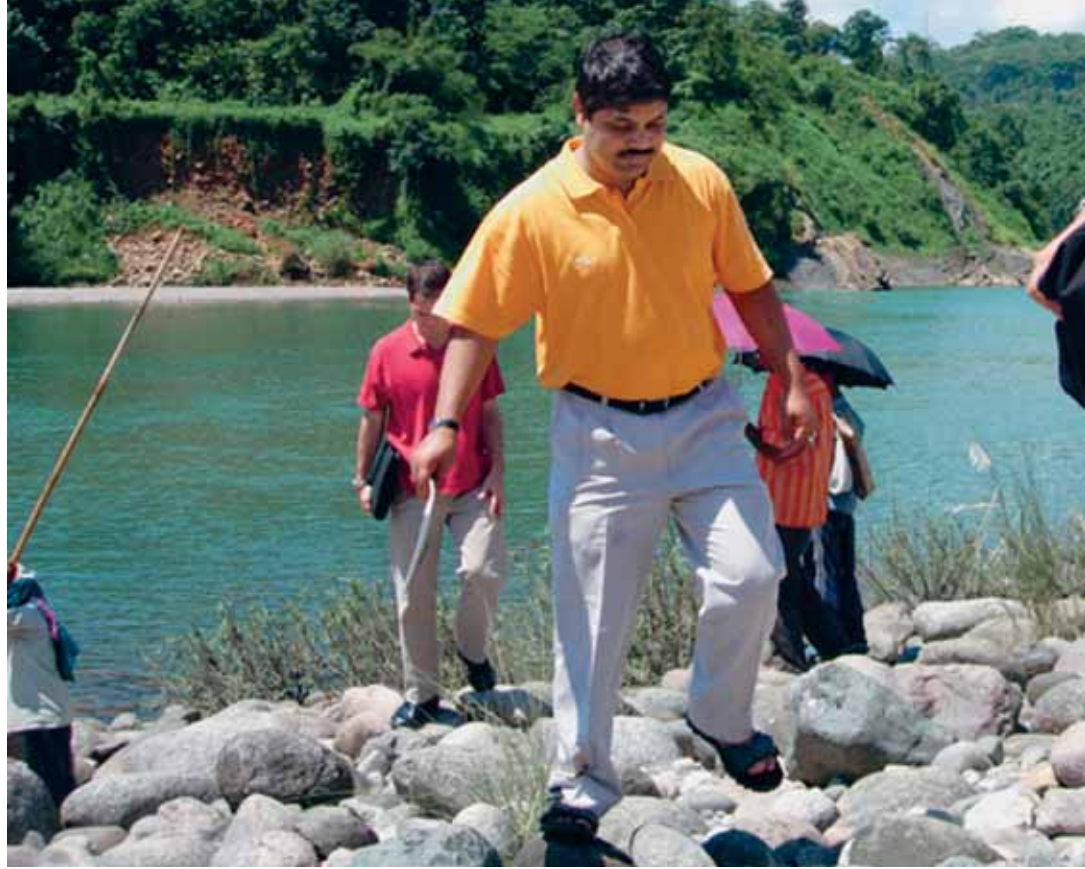
In 2008, IFC provided a \$45 million financing package to Saudi Arabia's Magrabi Hospitals to partially finance its expansion plans, including eye hospitals and referral centers in Egypt and an eye hospital in Yemen. The new, low-cost hospitals offer half a million eye exams and 50,000 surgeries a year while creating 1,000 new jobs for skilled medical professionals.

Magrabi also provides free and low-cost community health services to poor rural populations through the Al-Noor Magrabi Foundation. Magrabi's "caravan" eye camp goes from village to village in the more remote areas, where medications are provided free of charge and cases requiring surgery are referred to the Magrabi Hospital in Cairo. IFC financing supports the hospital, which in turn supports the Al-Noor Magrabi Foundation.



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MAINTAINING  
a SUSTAINABLE  
BUSINESS MODEL



IFC hasn't been immune from the effects of the global financial crisis. The decline of equity markets throughout the world has reduced our profits, limiting our ability to grow our investments. In response, IFC has taken several steps to make sure that our capital is used where it can do the most good and our long-term capacity to serve our clients remains as strong as ever.

IFC is maintaining a sustainable business model by controlling costs, strengthening management of our portfolio and other risks, and finding creative ways to increase our efficiency and adapt to new challenges. We have moved closer to our clients and decentralized our decision making to serve them better. We have also made stronger use of our adaptive corporate culture—and the diverse talents of our staff—to increase our effectiveness during the crisis.





### STREAMLINING IFC'S CORPORATE DECISION-MAKING PROCESS

Meeting the changing needs of our clients—while carefully managing risks—requires IFC to make decisions that are both swift and prudent. In FY09, IFC's Management Group took several steps to improve the speed and effectiveness of its decision making concerning IFC's operations and human resources while also strengthening its ability to identify and address risks.

The Management Group strengthened three committees—the Corporate Risk Committee to discuss and decide policies concerning financial, operational, legal, environmental, social, and corporate-governance risks; the Corporate Operations Committee to review and clear investment and Advisory Services projects and to set policies; and the Human Resources Committee to set policies pertaining to human-resources management. Each consists of five to seven members of the 10-member Management Group. IFC Executive Vice President and CEO Lars Thunell is chairman of all three committees.

The structure makes more efficient use of the time and expertise of members of the Management Group, improving both the speed and effectiveness of decision making. The Corporate Operations Committee, for example, usually meets twice a week and considers routine investment proposals on a non-objection basis. Under that system, proposals are considered approved if no objections are raised. The three committees sometimes refer to the Management Group matters that require the consideration of the entire group—especially in instances where the actions being considered could have broader implications for IFC or the World Bank Group.

### DECENTRALIZING TO SERVE OUR CLIENTS

IFC is moving closer to clients so that we can better serve their needs in a rapidly changing world. Business opportunities are expanding fast in the low- and middle-income countries we serve. At the same time, our clients and other partners expect swift and nimble decision making. IFC has recognized that we need to build more capacity outside our Washington, D.C., headquarters to be able to offer solutions for clients and ensure sustainable private sector development.

Today, more than half our employees are based in country offices across the globe, and our presence in the world's most fragile economies has increased significantly since 2004. Investment decisions are increasingly being made at the local level. In FY08, we began delegating authority for many project decisions to field staff in our Asia regional departments; building on this experience, we rolled out the approach to all IFC regions in FY09. The change is significant: last year, 37 percent of IFC commitments were led by investment officers in the field—up from 20 percent in 2006. Average processing time for an IFC transaction has been cut by a third since 2001.

As part of our decentralization, we aim to put the right people in the right place, making sure that knowledge and skills are deployed where they are most needed. Many senior employees have moved to field offices, and we are working to make such moves attractive for staff with high potential. We are also hiring a growing number of our staff locally and improving their options to build a career at IFC. Both at headquarters and in the field, we are improving our methods for sharing knowledge and lessons learned.

Our decentralization is making IFC more efficient while enhancing our risk management. It is helping us tailor approaches to the specific needs of countries and frontier markets, and increasing our ability to have a positive impact on the development of emerging economies.

NOT BUSINESS AS USUAL



AVERAGE PROCESSING TIME FOR AN IFC TRANSACTION HAS BEEN CUT BY A THIRD SINCE 2001.



NUMBER OF IFC COMMITMENTS LED BY OFFICERS IN THE FIELD UP FROM 20% IN 2006.

### IMPROVING BUSINESS PROCESSES

The global crisis highlighted the need for IFC to serve our clients better, faster, and more efficiently. In July 2008, IFC's Management Group made business process improvement a top corporate priority.

IFC's Business Process Improvement initiative seeks to improve client satisfaction by simplifying our processes, reducing the time it takes for a project to get approved, and increasing the predictability of our decision making. It is designed to improve staff satisfaction by eliminating unnecessary procedural steps and establishing clear accountability in roles. Finally, it is intended to increase our operational efficiency and enable us to do more with less.

Over the next two years, IFC's goal is to raise client satisfaction with our responsiveness to their needs—we aim to reduce project processing time to 141 days from 241 days. We also intend to reduce direct staff costs for each investment commitment—by an average of \$10,000. In addition, we aim to double the percentage of IFC client-facing staff members who express satisfaction with our processes.

IFC Advisory Services also are improving business processes. The idea is to improve process efficiency across Advisory Services by reducing by 30 percent the number of steps from project conception to approval. Simplified processes are expected to improve project quality and ensure more cohesive implementation.

More improvements are being rolled out. Among them is a first in IFC history—authorizing IFC managers to approve a select category of deals, which could speed up processing of over 30 percent of IFC's project pipeline. Another improvement involves reducing the number of people whose approval is needed for a deal, while still ensuring quality control and risk management.

### ORGANIZATIONAL AGILITY—HOW IFC AND OUR STAFF ADAPTED TO THE CRISIS

As the global crisis unfolded, we swiftly shifted our human-resources strategy to respond to new market conditions and business needs. Having expanded our workforce by more than 50 percent in the previous five years, we turned our attention in FY09 to organizational agility—making sure the talents of IFC's staff were deployed where they were needed most.

IFC's work force expanded, but at a slower pace than in prior years, and with a view to filling critical skills gaps that were opened up by the crisis. In particular, IFC focused on hiring high-level specialists in financial restructuring, equity, and portfolio and risk management. In Advisory Services, we began to focus on hiring mid-career experts in the areas of access to finance and investment climate.

Improving staff productivity, efficiency, and flexibility was another top priority. IFC provided staff training linked to the global crisis—on such subjects as restructuring and portfolio and risk management. We also provided training for investment officers to help them learn from IFC's experience in past economic crises.



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LOOKING AHEAD —  
A LONG-TERM PLATFORM  
FOR DEVELOPMENT

As the global crisis subsides, financial institutions in developed countries could experience increased regulation and reduced appetites for risk.

That could hurt the supply of capital to emerging markets over the longer term. Demand for IFC's services, as a result, is likely to increase in line with the growing importance of developing countries in the global economy. Because we are the only multilateral development bank focused exclusively on private sector development, our proven track record and deep knowledge base in providing finance and Advisory Services could provide the best long-term platform for advancing the private sector in developing countries.





smart choices

#### MOVING FORWARD

## *Applying the Lessons of Experience*

IFC constantly strives to improve operations and the delivery of our products and services — by reviewing our activities to assess what worked and what did not, and by evaluating our readiness for difficult conditions.

In the fall of 2007, at the first sign of a crisis in financial markets, IFC's Management Group began to develop a comprehensive strategy to allow us to better serve our clients during adverse conditions. The strategy laid the foundation for IFC's crisis-response initiatives and for our heightened focus on portfolio and risk management as the crisis spread.

To ensure that we used our capital judiciously, IFC reduced the average duration of loans by doing more short-term trade-finance transactions and fewer senior loans while maintaining the level of our equity investments. We also increased our capacity to manage projects requiring workouts, hiring several more investment officers for our Special Operations Department. More broadly, we imposed tighter budget controls while reducing the pace of hiring.

We learned several lessons from our experience over the last year, and we will apply them to our decision making. Here are some of them:

- IFC should make greater use of mezzanine financing instruments, such as convertible loans, which better protect us from a sudden market downturn.
- IFC needs to create better incentives for staff to make equity sales and establish better communications with those clients and governments that object to equity sales.
- In times of high liquidity, IFC should focus on investments in which the unique role we play can be reflected in the pricing.
- Decentralization of our staff has brought us closer to our clients and given us much better information on their conditions in times of stress, allowing us to be more responsive.
- IFC needs organizational agility to align our staffing strategy with changes in business strategy.
- In times of crisis, the demand for risk capital exceeds IFC's limited resources — highlighting the need to mobilize additional financing to complement IFC's funding.







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**A HISTORIC STEP:  
IFC ASSET MANAGEMENT COMPANY**

IFC's track record of delivering strong profits *and* development impact has long provided an additional benefit—helping other investors recognize the advantages of investing in developing markets.

Beyond responding to the global crisis, making smart choices means building on IFC's proven business model to expand our reach.

In 2009, we launched our first wholly-owned subsidiary—IFC Asset Management Company—to mobilize capital from outside IFC's traditional investor pool. IFC Asset Management Company will serve as a private equity fund manager investing capital on behalf of investors who have never before had access to IFC's transaction pipeline. The company's purpose is to offer strong financial returns to its investors while achieving distinct development impact in the emerging markets where it invests.

IFC Asset Management Company's aim is to create a cooperative relationship among IFC, our investors, and our clients. IFC co-invests in funds managed by the company,

aligning interests and increasing our investment capability. IFC clients, meanwhile, benefit from a broader offering of IFC products, and a new class of investors will for the first time enjoy access to IFC's unparalleled investment expertise in developing and frontier markets, as well as our record of strong equity returns in these markets.

As an initial step, the company is managing the new IFC Capitalization Fund—jointly funded by \$2 billion from the Japan Bank for International Cooperation and \$1 billion from IFC. Its first transaction occurred in March with a \$20 million commitment to Paraguay's Banco Continental. Several more investments are expected to be completed in 2009.

The company will also manage a new \$1 billion general private equity fund that will allow investors to co-invest

alongside IFC in transactions in Africa, Latin America, and the Caribbean. The company will manage other fund initiatives as they are developed.

In May, IFC named Gavin Wilson as the company's first CEO. Wilson, a British national, was previously a Managing Director in the Investment Banking Division at Goldman Sachs in London, where he spent the last 13 years. He began his career at McKinsey & Company and joined the World Bank Group in 1988, working in the Bank's Africa Region and then for six years in IFC's Corporate Finance Services Department. He subsequently served as a Special Advisor at the Bank of England before joining Goldman Sachs. He has worked in more than 50 countries.