5

PART 5

HOW WE WORK

Our People & Practices

Our 3,438 employees around the world enhance IFC's impact by delivering innovative solutions to the toughest challenges.

IFC's commitment to alleviating poverty and creating opportunity for the developing world's most vulnerable people is reflected in our corporate culture.

As the need grows for the private sector to take a greater role in spurring development, we think we can do more. To achieve greater development impact, we are adapting, leveraging our strengths, and sharpening our focus on efficiency under a comprehensive change program. We are working more closely with clients and partners, crafting new development goals, and finding new ways to mobilize capital.

Our history shows we learn from experience and take on new challenges. And our staff is better positioned than ever to maximize IFC's development impact. More than half of us are based in developing countries, close to the clients and communities we serve. We are also more diverse than ever—66 percent of our staff is from developing countries.

THE IFC WAY

A strong corporate culture is central to any organization's ability to succeed and adapt to new challenges. The IFC Way is a way of being, defining, and solidifying IFC's culture and brand, and a process that engages staff at all levels and in all regions to inform management decision making. It includes our vision, our core corporate values, our purpose, and the way we work.

OUR VISION

That people should have the opportunity to escape poverty and improve their lives.

OUR VALUES

Excellence, commitment, integrity, and teamwork.

OUR PURPOSE

To create opportunity for people to escape poverty and improve their lives by catalyzing the means for inclusive and sustainable growth, through:

- Mobilizing other sources of finance for private enterprise development.
- Promoting open and competitive markets in developing countries.
- Supporting companies and other private sector partners where there is a gap.
- Helping generate productive jobs and deliver essential services to the poor and vulnerable.

To achieve our purpose, IFC offers development-impact solutions through firm-level interventions (direct investments, advisory services, and the IFC Asset Management Company); by promoting global collective action; by strengthening governance and standard-setting; and through business-enabling-environment work.

THE WAY WE WORK

- We help our clients succeed in a changing world
- Good business is sustainable, and sustainability is good business
- One IFC, one team, one goal
- Diversity creates value
- Creating opportunity requires partnership
- Global knowledge, local know-how
- Innovation is worth the risk
- We learn from experience
- Work smart and have fun
- No frontier is too far or too difficult

The IFC Development Goals

Results matter.

It's no longer enough to trust that economic growth alone will roll back poverty and inequality. In a time of scarce resources across the globe, governments, philanthropic organizations, and development institutions rightfully insist that their funds be used wisely. They want evidence that the poor in developing countries are actually getting what they need most—opportunities to improve their lives.

IFC has long been a standard-setter in measuring development results. We were the first global development bank to report on development results for our entire portfolio. Our stakeholders—including the governments of our 182 member countries—expect continued leadership from us.

So this year, we took an important step forward. Inspired by the Millennium Development Goals, we began testing a concept of IFC Development Goals, which should allow us to integrate results measurement with business strategy. These goals measure the expected contribution of IFC's projects at the time of an investment commitment or an Advisory Services agreement. Regular monitoring will help ensure that the promises implicit in the goals are kept over time. We will also use the information to find ways to use our investments and advisory services more effectively.

This is a pioneering approach—and it is challenging. But we are proceeding with care, to ensure that the goals impose no unreasonable burdens on ourselves or our clients, and that they allow IFC to address the needs of all our client countries, including smaller economies. The first two years will be a period of testing, and we have just completed the first. We identified six preliminary goals—each covering high-priority areas for IFC—and we set clear targets for FY11.

We consider each goal to be representative of IFC's underlying strategy. Even so, the goals cannot capture the full spectrum of IFC's contribution to poverty reduction—and therefore cannot be the sole driver of our development impact strategy. We will consider the goals alongside other indicators of IFC's development impact.

In FY11, our focus was on learning and improving the design of the IFC Development Goals rather than on achieving numerical targets. We explored whether we had set the right goals and numerical targets. We sought extensive feedback from staff across the institution to ensure that the goals become useful tools and a component of IFC's strategy-making process.

We asked our clients to make specific commitments to help IFC expand our development reach. Through the IFC Development Goals, we will track their performance—and ours—in each of the six priority areas. In FY11, we fully achieved our commitment targets for health and education, microfinance loans, and infrastructure.

We plan another full year of implementation testing in FY12. Lessons learned in FY11, together with feedback received from IFC staff, will be used to adjust goals and targets for the coming year. We also plan to solicit feedback from external stakeholders in the fall of 2011. In FY13, we plan to roll out the goals in full.

Our Six Preliminary Goals

Goal	FY11 Reach Targets	FY11 Reach Commitments Obtained	Percent Of Targets Achieved
AGRIBUSINESS			
Increase or improve sustainable farming opportunities	Benefit 62,000 people	1.1 million people	1,787%*
HEALTH & EDUCATION			
Improve health and education services	Benefit 1.69 million people	2 million people	121%
ACCESS TO FINANCE			
a. Increase access to financial services for microfinance clients	Benefit 16.9 million people	22.9 million people	136%
b. Increase access to financial services for SME clients	Benefit 600,000 clients	437,532 clients	73%
INFRASTRUCTURE			
Increase or improve infrastructure services	Benefit 32.8 million people	40.3 million people	123%
MICRO, SMALL, MEDIUM ENTERPRISES			
Help MSMEs to increase their revenues	Increase revenues by $7.46 billion	$2.4 billion	32%
CLIMATE CHANGE			
Increase climate-positive investments	Make 14% of IFC's investments climate-positive	13.7% of investments climate-positive	98%

*Number reflects change in IFC agribusiness strategy that was approved after FY11 target was set.

How We Measure Development Results

Development effectiveness is the guiding principle of IFC's work.

Through our Development Outcome Tracking System, which measures the development effectiveness of our investment and advisory work, we have established ourselves as a leader in development results measurement. DOTS gives IFC a key competitive advantage, because it is critical to understanding how well our strategy is working and whether we are reaching the people and industries that most need our help.

IFC was the first multilateral development bank to report on development results for its entire portfolio, and to have an external firm review the application of methodology and reported results. In FY09, an evaluation of our results-measurement systems by the Independent Evaluation Group found that these systems provide current, unbiased assessments of the development results of IFC investments. It noted that IFC also introduced mechanisms to link incentives to project results through performance awards. "In so doing," the IEG report said, "IFC has been at the forefront of performance measurement related to private sector development among multilateral development banks."

Our evaluation framework for investments reflects the Good Practice Standards for the evaluation of private sector investment operations agreed on by multilateral development banks that comprise the Evaluation Cooperation Group. This year, the group commissioned a benchmarking exercise that found IFC has adopted 93 percent of the standards—more than any other multilateral development bank.

Since 2008, IFC has been reporting on changes in development results for investments compared with the previous year and, for Advisory Services, on the results of in-depth evaluations. We also launched a development results portal (www.ifc.org/results) to supplement information in the printed report. In FY10, we launched DOTS 2, which has improved the way we capture and track development results, fully integrating our system with IFC's investment project cycle and other information systems.

We constantly share our experience with the broader development community, including other multilateral development banks, foundations, and donors. We have fostered the improvement and harmonization of development results measurement among multilateral development banks through the Common Performance Assessment System, a self-assessment exercise led by a different multilateral development bank each year. The World Bank Group—with IFC coordinating inputs relating to private sector operations—led this exercise for the past two years.

WHAT DOTS COVERS

DOTS covers all active projects in IFC's portfolio, for both Investment and Advisory Services.

For Investment Services, DOTS covers—after certain exclusions—1,232 companies under supervision. This report focuses on the 582 out of about 700 investments approved between 2002 and 2007 that are mature enough to be rated. Every year the group of investments we report on shifts by one year. Newer investments are not mature enough to be evaluated, while older ones are less relevant for today's operations and have often already 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, DOTS covers all projects that are active, completed, or on hold, dating back to FY06. At the end of FY11, the supervision portfolio included 642 active projects. This report highlights results achieved as of December 31, 2010, for all projects that were active during the calendar year, as well as the results of 364 projects for which project completion reports were done between calendar year 2008 and calendar year 2010 and for which

How DOTS Works

DOTS allows for real-time tracking of development results throughout the project cycle. At the outset of a project, IFC staff members identify clear, standardized, and verifiable indicators, with baselines and targets. They track progress throughout supervision, which allows for real-time feedback into operations, until project closure.

For Investment Services, the overall development outcome score is a synthesis of four performance categories that are informed by standardized industry-specific indicators. To obtain a positive rating, a project must make a contribution to the host country's development. For Advisory Services, the rating is a synthesis of the overall strategic relevance, effectiveness (as measured by project outputs, outcomes, and impacts), and efficiency of the services.

This report provides the DOTS score—the percentage of projects that have achieved a high rating (in the top half of the rating scale)—for IFC overall and by region and industry group. Data for total development reach are provided by IFC's active portfolio clients, and presented regardless of IFC's investment size. Given that IFC is always a minority investor, these results cannot be attributed solely to IFC, and we have created specific rules to be applied in measuring and reporting development achievements based on the relative magnitude of our investments. These rules, designed to capture the extent to which incremental changes in the reach of a client company should be attributed to IFC, are being monitored in department scorecards this year, in conjunction with the piloting of the IFC Development Goals.

development effectiveness could be assessed.

Some types of projects are not tracked by DOTS. The most typical exclusions are projects at early stages of the project cycle, projects that are expansions of existing ones, projects that are split into several investments, small projects that form parts of larger programs, and certain financial products such as rights issues and some swaps. Historically, we have not tracked trade finance projects, and have focused instead on tracking performance indicators for our overall trade finance program. Because of the growing importance of trade finance in our work, however, we expect to begin tracking trade finance projects in FY12.

INVESTMENT RESULTS

IFC's overall development outcome rating for FY11 was 67 percent, four percentage points lower than FY10. Even so, our performance exceeded our long-term target of 65 percent.

We provide development outcome scores for three overarching industry groups: Infrastructure and Natural Resources; Financial Markets; and Manufacturing, Agribusiness, and Services. Ratings are also given to sub-groups and regions.

Among the three overarching industry groups, Infrastructure and Natural Resources showed a slight improvement over last year. Financial Markets and Manufacturing, Agribusiness, and Services registered slight declines.

Several macro-level trends contributed to lower development results over the past year, most significantly the events in the Middle East and North Africa, and the economic challenges from the European debt crises.

These trends affected industry results in the following ways:

- The Financial Markets industry group declined six percentage points to 67 percent, as client banks faced nonperforming loans and increased selectivity in lending procedures. The Funds sector was also affected by the financial crisis, as portfolio companies faced difficulties.
- Manufacturing, Agribusiness, and Services decreased to 63 percent in FY11 from 67 percent the year before. Deteriorating results for projects related to non-metallic mineral products contributed to the weaker performance of the manufacturing sector, which dropped to 59 percent. In the Consumer and Social Services sub-group, weaker performance of new projects in health care and wholesale and retail trade drove the declining score. The sub-group score for Agribusiness and Forestry fell three percentage points to 70 percent, primarily because of deterioration in the pulp and paper sub-sectors.
- In the Infrastructure and Natural Resources group, intense market competition and challenging regulatory environments contributed to the lower score of the Telecommunications and Information Technologies sub-group, which fell to 64 percent from 70 percent.

Results for several regions were also negatively affected:

- In the Middle East and North Africa, political turmoil and the economic crisis played an important role in the decline of development outcome scores, which fell to 56 percent from 70 percent in FY10. Political disturbances led to disruption of financial flows, severely affecting clients in the financial sector.

- In South Asia, poor financial performance of new investments in the sub-groups of Manufacturing, Agribusiness and Forestry, and Consumer and Social Services drove down the score to 72 percent from 79 percent in FY10. South Asian clients saw cost pressures on key inputs resulting in lower-than-expected margins. Further, growth of some companies via acquisitions led to an adverse impact on their balance sheets that was magnified by the financial crisis.
- In Sub-Saharan Africa and Latin America and the Caribbean, results deteriorated slightly. The score for Sub-Saharan Africa fell to 63 percent from 66 percent. In Africa, new Telecom and IT investments were affected by an unstable environment and market competition. Performance in Latin America slipped to 74 percent from 77 percent, mostly because of the heavy impact of the global crisis on Mexico, which recovered slowly. Mexico's housing, hospitality, and consumer goods industries were especially hard hit by the crisis. This was reflected in the poor performance of new investments in the real sector.
- The development results score for Eastern Europe and Central Asia, which had declined in FY10 to 66 percent as a result of the crisis, declined further to 60 percent in FY11. This was caused mostly by the effect of the European debt crisis on the peripheral southern European countries, where the financial markets, manufacturing, and consumer and social services sectors were especially affected. In addition, Central Asian projects have had relatively low development results to date, as the majority of projects are in IDA and post-conflict countries and were carried out at a time when IFC had limited implementing and supervisory capacity on the ground. On the other hand, Eastern Europe saw a post-crisis rebound in economic activity; improvements were recorded in the financial markets and the Manufacturing, Agribusiness and Services sectors.

However, there were positive developments on a number of fronts:

- Infrastructure and Natural Resources consolidated last year's good performance, with 75 percent of projects rated high. The DOTS score of the Infrastructure industry group sector rose to 77 percent, recovering from last year's drop. The improvement primarily reflected stronger performance of investment projects in the Transportation and Sub-National Finance sub-group, mainly in Eastern Europe. The Oil, Gas, and Mining sub-group continued to have strong development impact, with a DOTS score of 83 percent–notably above the IFC average.
- At the regional level, the positive performance of Manufacturing, Agribusiness, and Services in Sub-Saharan Africa was particularly noteworthy. Growing consumer demand spurred by economic growth and careful selection of projects drove the FY11 DOTS score of the region up 21 percentage points to 71 percent. It should be noted, however, that the small number of projects amplifies this effect. In Africa generally, newer investments in Manufacturing and in Consumer and Social Services performed well, thanks to strong economic growth and careful selection of projects.
- The DOTS score for East Asia improved across all industry groups to 76 percent, an increase of four percentage points over FY10 and a 12-point increase over FY09. Better selection of projects in the Financial Markets and Infrastructure sectors contributed to higher performance among newer investments, especially in China and the Philippines.

How Our Clients Expand Job Opportunities

IFC clients provided 2.4 million jobs in 2010, more than at any time since we began tracking the number four years ago. Our data suggest that a majority of clients—66 percent—either added jobs or kept their payrolls stable from 2008 to 2010.

The largest increase came in East Asia and the Pacific, which added 67,000 jobs. IFC clients in Europe and Central Asia added 61,000 jobs, while clients in the Consumer and Social Services sector added over 50,000.

The number of women employed by IFC client companies also increased between 2008 and 2010. Data from 615 clients across all regions and industry sectors show that those clients employed over 630,000 women in 2010, or 31 percent of their workforce. Clients for whom we have three years of data—293 in all—added nearly 35,000 jobs for women, representing a net 14 percent increase in female employment.

Evidence from case studies suggests that IFC investments have an additional, indirect effect on job creation, which extends well beyond the 2.4 million jobs directly provided by clients. For example, a case study found that when IFC invested in an agricultural producer, that company ramped up business with growers, suppliers, distributors, and transporters. The case study suggested that IFC's investment in Egypt's Wadi Group helped create 88 direct jobs and five times as many indirect jobs.

ADVISORY SERVICES RESULTS

IFC's Advisory Services development-effectiveness results registered their best-ever performance in 2010. Sixty-seven percent of advisory projects that closed during the year and could be assessed for development effectiveness were rated high at the end of the year.

IFC's system for measuring development effectiveness for Advisory Services was established in September 2007. In each Annual Report since then, we have reported results for the previous fiscal year. This year, for the first time, we are reporting results by calendar year. That provides more recent results and also aligns the Advisory Services reporting system with that of Investment Services.

To provide historical context for our results, we are comparing our 2010 performance with the rolling average of our performance over the calendar years 2008 through 2010. When compared with that average, Advisory Services results in 2010 were better in every business line and every region except for Sub-Saharan Africa.

The 2010 results represented an increase of four percentage points over the rolling average of 63 percent. They are based on a review of 179 completion reports filed between January 1 and December 31, 2010. Of those, 139 could be assessed for development effectiveness. The rolling average is based on a review of 507 completion reports filed between January 1, 2008, and December 31, 2010. Of those, 364 could be assessed for development effectiveness.

Projects that could not be assessed for development effectiveness were excluded from the analysis, because they were non-client facing projects or their outcome and impact results had not been achieved by the review dates. Grassroots Business Initiative projects are also excluded from the review, as these projects are now managed by the Grassroots Business Fund, a separate entity from IFC.

These results reflect real changes on the ground for our clients. Through our Investment Climate business line, we supported 72 reforms in 44 countries from July 2009 through June 2010—many of them to simplify regulation and generate investment. Projects in our Public-Private Partnerships business line helped our government clients sign 15 contracts with private operators. These transactions are expected to improve access to infrastructure and health services for over 12 million people, mobilize $1.6 billion in private investment, and yield $1.6 billion in fiscal benefits to governments.

The Access to Finance business line helped our financial intermediary clients to provide 3.4 million microfinance loans, 1.9 million housing loans, and 700,000 loans to small and medium enterprises while helping support the creation of four new credit bureaus. Many of these results reflect work conducted in conjunction with IFC Investment Services.

Our Sustainable Business line helped our clients attract $288 million in additional financing and generate $419 million in revenues by supporting over 9,000 farmers, micro, small, and medium entrepreneurs, and other organizations.

Joint Investment and Advisory Projects Yield Better Results

IFC increasingly has combined advisory and investment products to deliver better services for our clients and improve development results.

A study we completed this year showed that linked advisory and investment operations had a significantly higher probability—between 13 and 15 percent—of achieving high development results than standalone advisory or investment operations. Linking investment with advice delivered benefits for riskier operations, such as those in more challenging environments, for small and medium operations, and those with medium to high credit risk at the onset of a project.

We also found that advisory and investment operations that were designed simultaneously with shared objectives yielded better results. That's because such joint operations provide an effective mechanism to strengthen client commitment and capacity, to help improve project design and project supervision, and to manage local stakeholder relationships.

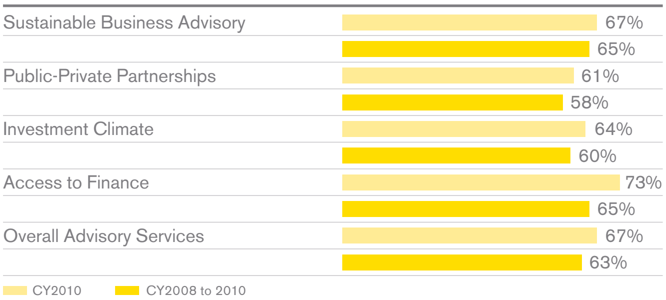
DEVELOPMENT OUTCOME: INVESTMENTS

Performance Category	General Indicators and Benchmarks	Examples of Specific Indicators Assessed Against Targets
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 implemented on time and on budget
Economic Performance	Returns to society, e.g., economic returns at or above 10 percent	Number of connections to basic services, loans to small enterprises, people employed, tax payments
Environmental and Social Performance	Project meets IFC's Performance Standards	Improvements in environmental and social management, effluent or emission levels, community development programs
Private Sector Development Impact	Project contributes to improvement for the private sector beyond the project company	Demonstration effects (other firms replicating a new approach, product, or service), linkages to other private companies, corporate governance improvements

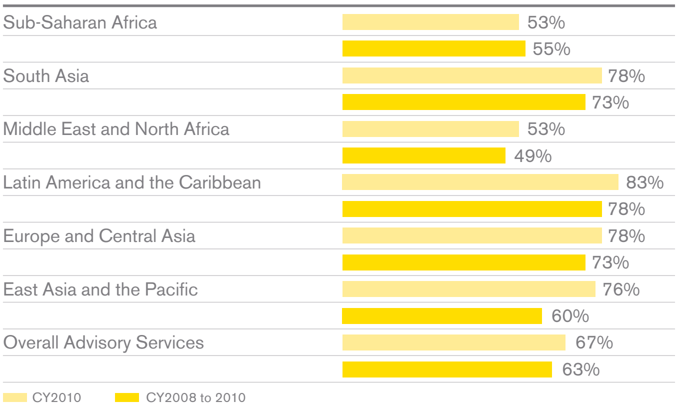
DEVELOPMENT OUTCOME: ADVISORY SERVICES

Performance Category	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 operations	Cost-benefit ratios, project implemented on time and on 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

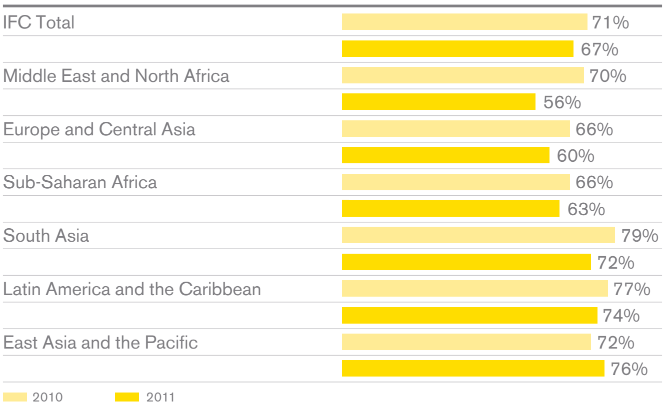
DEVELOPMENT RESULTS BY ADVISORY SERVICES BUSINESS LINE % Rated High



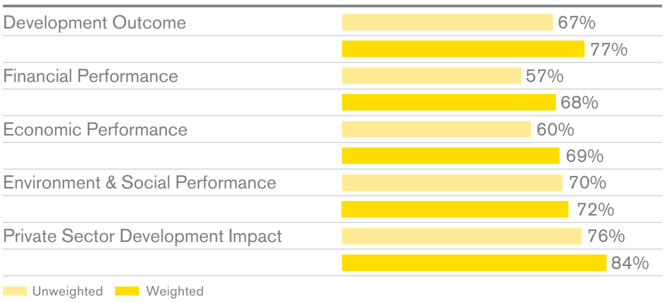
ADVISORY SERVICES DEVELOPMENT RESULTS BY REGION % Rated High



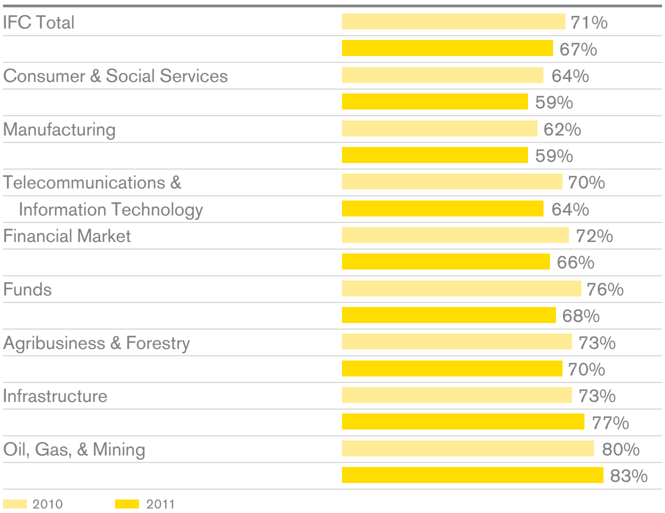
DEVELOPMENT OUTCOME BY REGION, FY11 VS. FY10 % Rated High



DEVELOPMENT OUTCOME BY PERFORMANCE AREA, FY11 % Rated High



DEVELOPMENT OUTCOME BY INDUSTRY, FY11 VS. FY10 % Rated High



FY10 data have been recalculated following an internal reorganization that resulted in the creation of new industry categories and the elimination of others.

DEVELOPMENT REACH BY IFC'S INVESTMENT CLIENTS

	Portfolio CY09	Portfolio CY10	New Business Expectations FY11[4]
Investments			
Employment (millions of jobs)	2.2	2.4	0.2
Microfinance loans[1]			
Number (million)	8.5	8.0	24.7[5]
Amount ($ billions)	10.79	12.62	13.73[5]
SME loans[1]			
Number (million)	1.5	1.7	1.0
Amount ($ billions)	101.32	127.82	49.12
Customers reached with services (millions)			
Power generation[2]	57.4	41.9	12.8
Power distribution	29.4	32.0	0.3
Water distribution[3]	26.6	20.1	0.4[6]
Gas distribution	15.7	17.2	NA
Phone connections	169.3	179.7	7.4
Patients reached	7.6	7.5	2.6
Students reached	1.4	1.0	0.5
Farmers reached	2.1	2.5	1.2
Payments to suppliers and governments			
Domestic purchases of goods and services ($ billions)	38.02	39.51	7.47
Contribution to government revenues or savings ($ billions)	20.08	20.28	6.44

1 In many cases, results also reflect contributions from IFC Advisory Services.

2 IFC has revised its methodology for estimating residential power customers served. Estimates for past years have been revised accordingly.

3 CY09 water figure has been corrected. It included 7 million customers of sewage services.

4 New Business figures for all reach indicators other than infrastructure or telecom are reported as targets and not increments.

5 For FY11, expected Microfinance reach includes one project in South Asia that accounts for 12 million loans and $4.2 billion of outstanding portfolio, by March 2016.

6 In FY11, in addition to water distributed, we also expect to reach 1.6 million sewerage and wastewater customers.

A Comprehensive Change Initiative

Confronting the world's most difficult development challenges—hunger, joblessness, conflict, and climate change—requires the private sector to be more engaged than ever. It also requires IFC to adapt to the rapidly changing needs of our clients.

These clients and partners, totaling just over 2,700, are dispersed among more than 100 developing countries in nearly every time zone. They need quick decisions from us, and a deeper understanding of local needs and conditions. We are evolving to better serve our clients' changing needs and extend our reach to those that need us most—in smaller and poorer countries.

In FY11, we initiated a comprehensive change strategy to strengthen IFC's ability to deliver greater development impact while remaining financially robust.

The strategy builds on the significant benefits brought on by decentralization at IFC, which allowed us to more than double the number of investment projects in IDA countries, and produced a steep increase in new investments.

We began by moving IFC decision-making authority closer to those clients. In September 2010, we opened an Operations Center in Istanbul, Turkey, from which we serve clients in the Middle East and North Africa, Southern Europe, and Central Asia. We shifted more industry expertise and support functions from our headquarters in Washington, D.C., to local offices around the world. Now we are strengthening our Knowledge Management infrastructure to ensure that our global expertise continues to grow. Our client surveys show that IFC's global expertise is a key competitive advantage.

We expect our new strategy to improve our effectiveness in several specific areas we are monitoring—including the time it takes to process an investment, the satisfaction of our clients, and the development-impact ratings of our projects.

So far, we have achieved progress on several fronts:

- *To speed up investment processing times,* we have nearly doubled the number of IFC managers with decision-making authority to approve certain types of projects, and reduced paperwork and duplication in investment processes.
- *To streamline our interaction with our clients,* we have identified about 650 IFC senior staff who will serve as relationship managers for all our clients and partners.
- *To focus on areas in which we can provide the greatest value,* we consolidated our five Advisory Services business lines into four (see page 68).
- *To make more effective use of the skills of our staff,* we introduced a new performance-management framework, strengthened our leadership-development programs, and greatly increased the number of participants in them.
- *To strengthen our focus on development impact,* we introduced the IFC Development Goals (see page 79).

An encompassing change program such as ours is a complex undertaking—and we intend to proceed thoughtfully and deliberately, testing each aspect of the program and making the modifications necessary to ensure broad success as we move forward.

OUR PERFORMANCE-MANAGEMENT FRAMEWORK

People are IFC's most important asset. As we decentralize our organization, we are intensifying our effort to build a global cadre of professionals who bring the full spectrum of global, local, and technical expertise to our clients.

In FY11, we strengthened our performance-management system by introducing a new objective-setting process that better aligns individual performance objectives with corporate priorities. We also improved the format in which staff members specify their objectives, making them more specific, measurable, and time-bound.

These enhancements partly reflected feedback from IFC's 2009 Staff Survey, in which staff members expressed a desire for better career-development support, and stronger linkages between corporate and individual performance objectives.

Our Staff

IFC's employees are diverse. And they are our most important asset. Representing more than 140 countries, our staff brings innovative solutions and global best practices to local clients.

We work in 102 offices in 92 countries. More than half of us—55 percent—are based in field offices, an increasing percentage that reflects our commitment to decentralization. Most IFC staff also hail from developing countries, 66 percent in all, a diversity that enriches our perspective and underscores our focus on areas where private sector development can have the biggest impact.

WHERE WE WORK

Location	FY11	FY04
Washington, D.C.	1,536 (45%)	1,291 (57%)
Field Offices	1,902 (55%)	963 (43%)
Total IFC Staff	3,438	2,254

NATIONAL ORIGINS–ALL FULL-TIME STAFF

National Origins	FY11	FY04
Developed Countries	1,185 (34%)	963 (43%)
Developing Countries	2,253 (66%)	1,291 (57%)
Total	3,438	2,254

NATIONAL ORIGINS–ALL STAFF AT OFFICER LEVEL AND HIGHER

National Origins	FY11	FY04
Developed Countries	932 (43%)	647 (53%)
Developing Countries	1,261 (57%)	584 (47%)
Total	2,193	1,231

GENDER–ALL FULL-TIME STAFF

Gender	FY11	FY04
Male Staff	1,631 (47%)	1,121 (50%)
Female Staff	1,807 (53%)	1,133 (50%)
Total	3,438	2,254

GENDER–ALL STAFF AT OFFICER LEVEL AND HIGHER

Gender	FY11	FY04
Male Staff	1,303 (59%)	844 (69%)
Female Staff	890 (41%)	387 (31%)
Total	2,193	1,231

WE WORK IN

102

OFFICES IN

92

COUNTRIES

66%

OF IFC STAFF HAIL FROM DEVELOPING COUNTRIES

55%

ARE BASED IN FIELD OFFICES

COMPENSATION

IFC's compensation guidelines are part of the World Bank Group's framework. The international competitiveness of compensation is essential to our capacity to attract and retain a highly qualified, diverse staff. The salary structure of the World Bank Group for staff recruited in Washington, D.C., is determined with reference to the U.S. market, which historically has been globally competitive. Salaries for staff hired in countries outside the United States are based on local competitiveness, determined by independent local market surveys. Based on the World Bank Group's status as a multilateral organization, staff salaries are determined on a net-of-tax basis.

VARIABLE PAY PROGRAMS

IFC's variable pay programs consist of several components, including recognition, annual, and long-term performance awards that support IFC's high-performance culture. These awards are designed to encourage teamwork, reward top performance, and support IFC's strategic priorities.

BENEFITS PROGRAMS

IFC provides a competitive package of benefits, including medical insurance and a retirement plan. Employees based in Washington, D.C., are covered by Aetna, contracted through an open procurement process. Other staff members are covered by Vanbreda, an international health care provider. Medical insurance costs are shared—75 percent is paid by IFC and 25 percent by the insured.

IFC's pension is part of the World Bank Group plan, based on two benefit components: first, years of service, salary, and retirement age; second, a cash savings plan, which includes a mandatory contribution of 5 percent of salary, to which IFC adds 10 percent annually. Legacy pension benefits from earlier World Bank Group pension plans include termination grants and additional cash payouts.

STAFF SALARY STRUCTURE* (WASHINGTON, D.C.)

During the period July 1, 2010, to June 30, 2011, the salary structure (net of tax) and average salaries and benefits for World Bank Group staff were as follows.

Grade	Representative Job Titles	Minimum ($)	Market Reference ($)	Maximum ($)	Staff at Grade Level (%)	Average Salary/ Grade ($)	Average Benefits ($)**
GA	Office Assistant	24,700	32,100	41,720	0.0	35,476	18,837
GB	Team Assistant, Information Technician	31,690	41,200	57,680	0.6	42,363	22,495
GC	Program Assistant, Information Assistant	39,140	50,900	71,260	10.1	53,020	28,154
GD	Senior Program Assistant, Information Specialist, Budget Assistant	45,470	59,100	82,750	8.1	65,098	34,567
GE	Analyst	59,700	77,600	108,630	9.5	75,445	40,061
GF	Professional	79,000	102,700	143,790	19.0	97,035	51,526
GG	Senior Professional	106,460	138,400	193,750	31.8	133,718	71,004
GH	Manager, Lead Professional	146,980	191,100	246,950	17.5	185,140	98,309
GI	Director, Senior Advisor	195,530	255,800	293,300	2.9	242,597	128,819
GJ	Vice President	261,640	293,030	328,120	0.4	292,586	155,363
GK	Managing Director, Executive Vice President	287,370	325,890	358,420	0.1	353,077	165,583

Note: Because World Bank Group staff, other than U.S. citizens, usually are not required to pay income taxes on their World Bank Group compensation, the salaries are set on a net-of-tax basis, which is generally equivalent to the after-tax take-home pay of the employees of the comparator organizations and firms from which WBG salaries are derived. Only a relatively small minority of staff will reach the upper third of the salary range.

* These figures do not apply to the U.S. Executive Director and Alternate Executive Director, who are subject to U.S. congressional salary caps.

** Includes medical, life, and disability insurance; accrued termination benefits; and other nonsalary benefits.

Our Governance

The World Bank Group is a vital source of financial and technical assistance to developing countries. Established in 1944, its mission is to fight poverty with passion and professionalism, for lasting results.

IFC is one of five members of the Bank Group, though it is a separate legal entity with separate Articles of Agreement, share capital, financial structure, management, and staff. Membership in IFC is open only to member countries of the World Bank. As of June 30, 2011, IFC's share capital of about $2.4 billion was held by 182 member countries. These countries guide IFC's programs and activities.

IFC works with the private sector to create opportunity where it's needed most. Since our founding in 1956, we have committed more than $111 billion of our own funds for private sector investments in developing countries, and we have mobilized billions more from others.

In working toward a world free of poverty, we collaborate closely with other members of the Bank Group, including:

- *The International Bank for Reconstruction and Development,* which lends to governments of middle-income and creditworthy low-income countries.
- *The International Development Association,* which provides interest-free loans—called credits—to governments of the poorest countries.
- *The Multilateral Investment Guarantee Agency,* which provides guarantees against losses caused by noncommercial risks to investors in developing countries.
- *The International Centre for Settlement of Investment Disputes,* which provides international facilities for conciliation and arbitration of investment disputes.

OUR BOARD

Each of our member countries appoints one governor and one alternate. Corporate powers are vested in the Board of Governors, which delegates most powers to a board of 25 directors. Voting power on issues brought before them is weighted according to the share capital each director represents.

The directors meet regularly at World Bank Group headquarters in Washington, D.C., where they review and decide on investments and provide overall strategic guidance to IFC management. Robert B. Zoellick is President of IFC and the other World Bank Group institutions; he also serves as Chairman of the Boards. Lars H. Thunell is IFC's Executive Vice President and Chief Executive Officer, and oversees IFC's overall strategy and operations.

EXECUTIVE COMPENSATION

The salary of the President of the World Bank Group is determined by the Board of Directors. The salary structure for IFC's Executive Vice President and CEO is determined by positioning a midpoint between the salary structure of staff at the highest level, as determined annually by independent U.S. compensation market surveys, and the salary of the World Bank Group President. The compensation of our executive leadership is transparent. IFC's Executive Vice President and CEO, Lars Thunell, receives a salary of $358,420, net of taxes. There are no executive incentive compensation packages.

Standing from left to right: Susanna Moorehead, United Kingdom; Konstantin Huber, Austria; Piero Cipollone, Italy; Felix Alberto Camarasa, Argentina; Abdulrahman M. Almofadhi, Saudi Arabia; Merza H. Hasan, Kuwait; Shaolin Yang, China; Pulok Chatterji, India; Jorg Frieden, Switzerland; Ian H. Solomon, United States; Jim Hagan, Australia; Dyg Sadiah Binti Abg Bohan (alternate), Malaysia; Nobumitsu Hayashi, Japan; Rudolf Treffers, Netherlands; Ingrid G. Hoven, Germany; Rogerio Studart, Brazil; Ambroise Fayolle, France.

Seated from left to right: Eugene Miagkov (alternate), Russia; Anna Brandt, Sweden; Hassan Ahmed Taha, Sudan; Agapito Mendes Dias, São Tomé and Principe; Marie-Lucie Morin, Canada; Javed Talat, Pakistan; Marta Garcia-Jauregui, Spain; Renosi Mokate, South Africa.

EXECUTIVE DIRECTORS	(ALTERNATE)
Abdulrahman M. Almofadhi	(Ibrahim Alturki)
Anna Brandt	(Jens Haarlov)
Felix Alberto Camarasa	(Varinia Cecilia Daza Foronda)
Pulok Chatterji	(Kazi M. Aminul Islam)
Piero Cipollone	(Nuno Mota Pinto)
Agapito Mendes Dias	(Mohamed Siekieh Kayad)
Ambroise Fayolle	(Anne Touret-Blondy)
Jorg Frieden	(Michal Krupinski)
Marta Garcia-Jauregui	(Juan Jose Bravo Moises)
Vadim Grishin	(Eugene Miagkov)
Jim Hagan	(In Kang Cho)
Merza H. Hasan	(Ayman Alkaffas)
Nobumitsu Hayashi	(Yasuo Takamura)
Ingrid G. Hoven	(Ruediger Von Kleist)
Konstantin Huber	(Gino Alzetta)
Hekinus Manao	(Dyg Sadiah Binti Abg Bohan)
Renosi Mokate	(Mansur Muhtar)
Susanna Moorehead	(Stewart James)
Marie-Lucie Morin	(Kelvin Dalrymple)
Ian H. Solomon	(vacant)
Rogerio Studart	(Vishnu Dhanpul)
Hassan Ahmed Taha	(Denny Kalyalya)
Javed Talat	(Sid Ahmed Dib)
Rudolf Treffers	(Tamara Solyanyk)
Shaolin Yang	(Ciyong Zou)

OUR MEMBER COUNTRIES–STRONG SHAREHOLDER SUPPORT

Capital Stock by Country

Grand Total	100.00%
United States	24.03%
Japan	5.96%
Germany	5.44%
France	5.11%
United Kingdom	5.11%
Canada	3.43%
India	3.43%
Italy	3.43%
Russian Federation	3.43%
Netherlands	2.37%
172 Other Countries	38.26%

Accountability

INDEPENDENT EVALUATION GROUP

The Independent Evaluation Group contributes to IFC's learning agenda and is a vital part of its accountability structure.

IEG is an independent unit within the World Bank Group. It evaluates IFC's work in private sector development, reporting directly to IFC's Board of Directors. IFC's management cannot alter IEG findings or prevent their release. This independence allows IEG to strengthen accountability and make recommendations based on lessons of experience.

In 2010, IEG realigned the responsibilities of its department for private sector evaluation to cover the operations of the World Bank and the Multilateral Investment Guarantee Agency, in addition to those of IFC.

For the first time, IEG evaluated the relevance and effectiveness of IFC's poverty focus and identified gaps and opportunities for addressing poverty and distributional issues in IFC's strategies, operational projects, and results (see page 62). Among IEG's findings was that IFC is on the right track in its poverty focus, including its priorities on frontier areas and strategic sectors such as infrastructure, agribusiness, health and education, and financial markets.

However, the group recommended that IFC reduce its concentration to just a few countries and products. Other major IEG evaluations this year covered the World Bank Group's activities in agriculture and agribusiness, its response to the global economic crisis, and its safeguards and sustainability policies. IEG also produces an annual report on World Bank Group results and performance, which includes the performance of a representative sample of IFC investment and advisory projects. For IFC, IEG found that 73 percent of investment projects achieved mostly successful—or better—development outcomes, on a three-year rolling-average basis. IEG found that 64 percent of advisory projects evaluated in FY08–10 had successful development effectiveness ratings. Among the business lines, Access to Finance had the highest proportion of successful projects and Infrastructure the lowest.

In 2010, the World Bank Group Board expressed its interest in strengthening follow-up to IEG's recommendations and asked IEG to lead a reform process to reduce ambiguity and make its recommendations specific. IFC is working with IEG in this process, which will also provide more systematic feedback to management and IEG on implementation and inform the Board of the status of implementation. IEG's reports and information on its methodology are available at www.ifc.org/ieg.

SINCE FY2000, CAO HAS HELPED RESOLVE

82

COMPLAINTS RELATED TO

55

DIFFERENT IFC PROJECTS IN

29

COUNTRIES.

OFFICE OF THE COMPLIANCE ADVISOR/ OMBUDSMAN

The Office of the Compliance Advisor/Ombudsman is the independent accountability mechanism for IFC and the Multilateral Investment Guarantee Agency. Reporting directly to the World Bank Group President, CAO responds to complaints from people affected by IFC and MIGA projects, with the goal of enhancing social and environmental outcomes and strengthening the public accountability of IFC and MIGA.

Since CAO was established in FY2000, the office has helped address 82 complaints related to 55 different IFC projects in 29 countries. Most important, CAO has enabled IFC as an institution to respond quickly and effectively to citizens' concerns and ensure that their voices are heard and acted upon. CAO has also been a source of advice on systemic issues to the President and IFC senior management.

In its Ombudsman role, CAO has pioneered professional dispute resolution in the private sector at a time when many judicial systems around the world are starting to develop alternative avenues to traditional litigation. CAO's work has also focused on building frameworks where many IFC clients and communities can jointly make decisions to resolve their concerns in a practical and effective way.

CAO's compliance work has provided independent oversight that helps IFC's management to address critical performance issues, and ensures that IFC consistently meets its standards and honors its commitments. CAO's audit of IFC's investments in the palm oil sector in Indonesia led to a global consultation that gathered recommendations from multiple stakeholders to inform IFC's strategy for the sector (see page 63). This year, CAO launched a compliance review of IFC's social and environmental assurance for its financial sector portfolio. This work will help ensure that the business activities IFC supports through the financial sector are aligned with IFC's values of being socially and environmentally sound.

In FY11, CAO worked on 24 cases related to 29 different IFC projects in 16 countries. Of these, 11 were new complaints accepted by CAO, and 13 were carried over from previous years. CAO closed five cases, after facilitating settlement, and released three compliance appraisals and one audit

IN FY11, CAO WORKED ON

24

CASES RELATED TO IFC PROJECTS IN

16

COUNTRIES.

of IFC. More information is available at www.cao-ombudsman.org.

INTERNAL AUDITING

The Internal Auditing Department helps the World Bank Group achieve its mission by providing objective assurance and advice to add value; enhance risk management, control, and governance; and improve accountability for results. The department conducts its work in all organizational activities (including trust-funded operations) in accordance with the International Standards for the Professional Practice of Internal Auditing promulgated by the Institute of Internal Auditors.

Auditing work primarily focuses on determining whether the Bank Group's risk management, control, and governance processes provide reasonable assurance that significant financial, managerial, and operating information is accurate, reliable, and timely; resources are acquired economically and used efficiently; assets are safeguarded; the organization's actions are in compliance with policies, procedures, contracts, and applicable laws and regulations; and business objectives are achieved.

Managing Risks

PORTFOLIO MANAGEMENT

Portfolio management plays a key role in ensuring that IFC investments result in successful, environmentally sustainable private sector enterprises.

Before making any investment, IFC carries out broad due diligence, including integrity due diligence on the sponsors and principals, to ensure that the project meets all IFC standards with regard to society and the environment, combating money laundering and the financing of terrorism, anticorruption, corporate governance, and tax transparency. IFC also applies heightened scrutiny to projects involving offshore financial centers, in order to assess the legitimacy of the proposed structures. Such broad due diligence has long been standard for IFC projects.

IFC monitors compliance with investment agreements, visits sites to check on project status, and helps identify solutions to address potentially problematic projects. We also track the development outcomes of projects with respect to environmental and social performance. These supervision processes are performed by portfolio units largely based in field offices. IFC management oversees supervision by reviewing the entire investment portfolio on a quarterly basis. The portfolio management process is supported by a credit-risk rating system. Banks participating in IFC loans are kept regularly informed of project developments. IFC consults or seeks their consent as appropriate.

When financial difficulties arise, IFC management determines specific reserves against loan losses on the basis of portfolio reviews and recommendations by portfolio management units and in accordance with policies and methods approved by IFC's external auditors. For projects with severe problems, the Special Operations Department determines the appropriate remedial actions. It seeks to negotiate agreements with all creditors and shareholders to share the burden of restructuring so problems can be worked out while the project continues to operate. In exceptional cases, when the parties reach an impasse, IFC takes all necessary and appropriate measures to protect our interests.

CAPITAL ADEQUACY AND FINANCIAL CAPACITY

We assess our capital adequacy by measuring our growth needs and the risk profile of current and projected investments against the established minimum capital adequacy for these needs. The minimum capital requirement is determined using IFC's risk-based economic capital approach, which differentiates the capital required for assets based on statistical measures of risk.

IFC'S DEBT-TO-EQUITY RATIO WAS

2.6:1

WELL WITHIN THE LIMIT OF

4:1

PRESCRIBED BY OUR FINANCIAL POLICIES.

Under our economic capital framework, IFC must maintain a minimum level of total available resources (including paid-in capital, retained earnings net of designations, and certain unrealized gains and total loan loss reserves) equal to total potential losses for all on- and off-balance-sheet exposures estimated at levels IFC believes to be consistent with maintaining a triple-A rating.

Our method of calculating capital adequacy is in line with industry best practices and is configured to provide adequate capital backing for a triple-A rating.

IFC's capital adequacy thresholds are more demanding than a triple-A rating requires. Yet we have historically exceeded our minimum capital requirements by a wide margin.

As of the end of FY11, the total resources required amounted to $14.4 billion, while total resources available stood at $17.9 billion. IFC's debt-to-equity ratio was 2.6:1, well within the limit of 4:1 prescribed by our financial policies.

IFC's paid-in capital, retained earnings net of designations and certain unrealized gains, and total loan-loss reserves constitute our total resources available. This financial capacity serves to support 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 global market downturns, while retaining the capacity to preserve our triple-A rating and play a countercyclical role.

IFC AND CORPORATE INTEGRITY

When companies operate with demonstrable integrity and with good governance, they are generally seen as posing fewer risks to their stakeholders.

Companies that address governance and integrity issues in their operations contribute to increased and fair competition, leading to open and transparent markets. Open and transparent markets in turn contribute to sustainable development and inclusive growth.

Promoting corporate integrity is an important element of IFC's effort to promote sustainable private sector development. Strong corporate integrity and good governance by our clients can lead to long-term profitability of investments, which in turn can increase IFC's opportunities for a favorable exit of our equity investments. Working to ensure corporate integrity through the application of internal procedures also helps us manage financial and reputational risks.

Corruption undermines public trust in open markets and the rule of law, and adds to the cost of doing business in most developing nations. IFC's initiatives to enhance openness and competition, and to promote stronger corporate governance and integrity systems, have proven to be effective tools in combating corruption.

IFC's due-diligence processes and procedures are the first line of defense against corruption in our projects. We continue to improve our information-gathering and analytical capabilities—among other things, by adopting a more comprehensive database for inquiring into the background of potential partners and their stakeholders.

Our anticorruption stance is incorporated into the legal framework governing our investments. Under the World Bank Group sanctions process, persons or entities found to have engaged in corrupt, fraudulent, coercive, collusive, or obstructive practices in an IFC project can have their names published on a public website, and may be debarred from World Bank Group financing.

The World Bank Group's investigative unit, the Integrity Vice Presidency, is responsible for investigating allegations of fraud and corruption in IFC projects. The Vice Presidency's annual report can be found on the World Bank's website. A list of debarred firms is also available on the World Bank's website.

IFC participates in the cross-debarment agreement between the World Bank Group and other leading multilateral banks. Under the agreement, entities sanctioned by one participating development bank may be cross-debarred by the others for the same misconduct. The accord helps ensure a level playing field for all firms competing for multilateral development bank projects.

Working Responsibly

IFC'S APPROACH TO SUSTAINABILITY

IFC believes that sound economic growth, driven by private sector development, is crucial to poverty reduction. In our investments, operations, and advisory services across the globe, we consider four dimensions of sustainability—financial, economic, environmental, and social.

The financial sustainability of IFC and our clients ensures that together we can make a long-term contribution to development.

The economic sustainability of the projects and companies IFC finances means they are contributing to host economies.

Environmental sustainability in our clients' operations and supply chains helps protect and conserve natural resources, mitigate environmental degradation, and address the global challenge of climate change.

Social sustainability is supported through improved living and working standards, poverty reduction, concern for the welfare of communities, and respect for key human rights.

IFC is committed to ensuring that the benefits of economic development are shared with those who are poor or vulnerable, and that development takes place in an environmentally sustainable manner. We also see sustainability as an opportunity to transform markets, drive innovation, and add value to our clients by helping them improve their business performance.

IFC'S SUSTAINABILITY FRAMEWORK AND POLICY REVIEW

IFC's Sustainability Framework reflects our longstanding commitment to sustainable development. It applies to all of our investments and underpins our approach to environmental and social risk management.

It is made up of the Policy on Environmental and Social Sustainability, which defines our responsibility in supporting project performance in partnership with clients, the IFC Performance Standards (see page 72), and the Access to Information Policy. Taken together, these three documents help protect people and the environment and promote

IFC's Sustainability Framework

transparency and accountability. They contribute to our development impact. They provide guidance to help clients avoid and mitigate environmental and social risks and impacts—as a way of doing business sustainably.

This year, after an extensive 18-month global consultation with hundreds of stakeholders, we launched our revised Sustainability Framework. The revised framework strengthens IFC's commitment to critical issues such as climate change, gender, business and human rights, and client capacity-building. Environmental and social categorization has been amended to more effectively align with the World Bank and other development financial institutions and to better capture the wide range of risks in financial intermediary operations.

Based on our experience, we have also provided better guidance to our clients on the application of the Performance Standards to different types of projects and business activities. The new Access to Information Policy represents a major shift from the 2006 Policy on Disclosure of Information and aligns IFC with the World Bank's Access to Information Policy (see page 100).

ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

As part of our commitment to sustainability, IFC works with clients to avoid, minimize, or compensate for the environmental and social risks and effects of their projects. We monitor clients' environmental and social performance throughout the life of IFC's investment and help identify opportunities to improve it.

When a project is proposed for financing, IFC conducts a social and environmental review as part of its overall due diligence. It takes into account the client's assessment of the project's impact as well as its commitment and capacity to manage it. The review also assesses whether the project meets IFC's Performance Standards (see page 72). Where there are gaps, we and the client agree on an Environmental and Social Action Plan to ensure the standards are met over time.

In accordance with IFC's Sustainability Framework, we rate investments that have some degree of risk, as reflected by their environmental and social categorization, as A, B, C, or FI. FI projects involve financial intermediaries. Following an update of the Sustainability Framework, we introduced sub-categories for FI projects to better indicate the level of risk within the portfolios of these financial institutions.

An environmental and social risk rating is given and updated, usually once a year, by our environmental and social specialists, and is based on reports provided by clients and site visits. We conduct site visits after IFC financing is committed and disbursed. The rating is an essential source of information for IFC management. It also enables our specialists to better prioritize their efforts during supervision. The frequency of visits depends on an investment's risk rating and its performance against the agreed environmental and social action plan.

To strengthen IFC's environmental and social risk management, we focus on reducing the environmental and social knowledge gap in IFC's portfolio by increasing our supervision of clients. The gap refers to the percentage of companies in IFC's portfolio for which we have not received updated information on environmental and social performance within the past two years. The knowledge gap was reduced from 4.4 percent in FY10 to 3.1 percent in FY11.

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 whose portfolios entail the following sub-categories of risk:
	FI-1: Expected to include substantial exposure to business activities with potentially significant adverse social and environmental impacts that are diverse, irreversible, or unprecedented.
	FI-2: Expected to include exposure to business activities with limited adverse social or environmental impacts that can be readily addressed through mitigation measures. This sub-category may also include exposure to a very limited number of business activities with potentially significant adverse social and environmental impacts that are diverse, irreversible, or unprecedented.
	FI-3: Expected to include exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.

The Cycle of an IFC Investment Project

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

1 BUSINESS DEVELOPMENT

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

2 EARLY REVIEW

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

3 APPRAISAL (DUE DILIGENCE)

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

7 BOARD REVIEW AND APPROVAL

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

8 COMMITMENT

IFC and the company sign the legal agreement for the investment. This includes the client's agreement to comply with the requirements of IFC's Sustainability Framework, to immediately report any serious accident or fatality, and to provide regular monitoring reports. The legal agreement also formalizes the client's Environmental and Social Action Plan.

9 DISBURSEMENT OF FUNDS

Funds are often paid out in stages or upon completion of certain steps documented in the legal agreement.

4

INVESTMENT REVIEW

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

5

NEGOTIATIONS

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

6

PUBLIC DISCLOSURE

Upon completion of due diligence on environmental and social matters, review summaries and action plans are issued. These documents describe key findings and list actions to be taken by the client to close any significant compliance gap. The documents, as well as a Summary of Proposed Investment, are posted on IFC's website before being submitted to the Board for review. The length of the disclosure period is determined by the category of the project.

10

PROJECT SUPERVISION AND DEVELOPMENT-OUTCOME TRACKING

We monitor our investments to ensure compliance with the conditions in the loan agreement. The company submits regular reports on financial, and social and environmental performance, as well as information on factors that might materially affect the enterprise. Project site visits are scheduled to verify that E&S requirements are met. Ongoing dialogue allows IFC to help clients solve issues and identify new opportunities. We also track the project's contribution to development against key indicators identified at the start of the investment cycle.

11

EVALUATION

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

12

CLOSING

We close our books on the project when the investment is repaid in full or when we exit by selling our equity stake. In some cases, we may decide to write off the debt. Our goal is to help the client develop practices and management systems that support a project's sustainability and that will continue long after our involvement has ended.

What We Don't Invest In

IFC does not finance projects with substantial activity in one or more of the following areas:

- Production or trade in any product or activity deemed illegal under host-country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone-depleting substances, polychlorinated biphenyls, wildlife, or products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora.
- Production or trade in weapons and munitions.
- Production or trade in alcoholic beverages (excluding beer and wine).
- Production or trade in tobacco.
- Gambling, casinos, and equivalent enterprises.
- Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which IFC considers the radioactive source to be negligible and/or adequately shielded.
- Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting in which the asbestos content is less than 20 percent.
- Drift-net fishing using nets in excess of 2.5 kilometers in length.

For more information about the IFC Exclusion List, or to learn more about the treatment of financial intermediaries, microfinance institutions, and trade finance projects, please visit http://www.ifc.org/ifcext/disclosure.nsf/Content/IFCExclusionList.

OUR FOOTPRINT COMMITMENT

At IFC, we operate our business in a way that aligns with what we ask of our clients on environmental and social sustainability. We strive to reduce the environmental impact of our day-to-day activities while working to benefit communities wherever we have offices. That is our footprint commitment.

An important part of that commitment is the efficient use of natural resources. Electricity use on average accounts for 35 percent of IFC's global greenhouse-gas emissions. In our headquarters this year, we reduced electricity consumption per workstation by an average of 7 percent to 5,934 kilowatt hours per workstation. We did so by adjusting thermostat settings, installing LED bulbs, and making other technology upgrades.

We are also working to reduce waste generated by our business operations. In our headquarters, we diverted 49 percent (or 440,507 pounds) of our waste from the landfill through a combination of recycling and composting and donation of unneeded office supplies to local charitable organizations.

More than half of IFC's global carbon footprint is from air travel. In FY11, we invested in three high-definition videoconferencing centers, as an alternative to air travel. These are located in Washington, D.C., Hong Kong, and Istanbul. More than 3,500 video conferences were held this year, up 27 percent from FY10. Eight percent of our training portfolio is now available online, up from just 1 percent in 2007. These tools allow us to carry out the vital functions of our business while avoiding the environmental impact of travel.

Since FY09, IFC has used a Web-based data management system to collect and calculate our global carbon emissions inventory from internal operations. In FY10, carbon emissions from IFC's global internal business operations totaled 43,378 metric tons of carbon dioxide equivalent. IFC has collected and reported data on our global carbon footprint since FY07.

IFC continues to be carbon-neutral for our global corporate operations. To offset our carbon footprint, IFC purchased carbon credits from the Danish Carbon Fund Lahore Compost project, an industrial composting facility. The facility will sequester methane emissions, create local jobs, and produce compost to address declining agricultural yields in local communities.

OUR NEW ACCESS TO INFORMATION POLICY

As a global, multilateral finance institution with operations in many regions and sectors, IFC affects a diverse range of stakeholders. Transparency and accountability are fundamental to fulfilling our development mandate. Transparent organizations are better able to manage reputational risks and are more likely to enjoy a robust license to operate. Feedback from stakeholders helps promote strong development outcomes.

IFC's new Access to Information Policy is the next step toward becoming an even more transparent organization. Approved by the Board in May, the new policy represents a major shift in policy and aligns IFC with the principles in the World Bank's Access to Information Policy. IFC will disclose more project-level environmental, social, and development-outcome information during all stages of our projects. The new environmental, social, and development impact disclosure requirements will also apply to investments made through financial intermediaries—an important and growing area of IFC's portfolio. This policy shift will put a greater emphasis on results reporting, consistent with World Bank Group objectives.

IFC will continue to maintain provisions to protect commercially sensitive, deliberative, and confidential information. However, stakeholders may pursue an independent two-stage appeals mechanism to challenge a decision not to disclose particular information.

IFC believes that communication and reporting can also help improve business performance. Systematic performance and results reporting fosters a continuous feedback loop, which can improve IFC's project performance and outcomes. Greater transparency also promotes good governance.

The new Access to Information Policy will complement the stakeholder engagement requirements in IFC's Performance Standards. This new regime will allow IFC to more effectively and systematically communicate our development impact in the long term. We hope that over time the changes will result in better project outcomes, increased awareness on the part of affected communities, and stronger relationships with stakeholders.

For more information, see www.ifc.org/disclosure.

OUR ENGAGEMENT WITH CIVIL SOCIETY

IFC engages with civil society, including nongovernmental organizations, both institutionally and in project implementation. We maintain an ongoing dialogue about many aspects of our operations, strategy, and policies, and we collaborate on a variety of initiatives.

IFC works with the World Bank Group's Civil Society Team to reach out to civil society on a regular basis. The Compliance Advisor/Ombudsman, in collaboration with IFC project teams, also maintains close contact with local communities, civil society organizations, and other stakeholders through its work.

IFC has made concerted efforts to engage with civil society in the context of its policy reviews. During the course of the review of its Sustainability Framework, which began in 2009 and ended this year, we engaged with stakeholders, including civil society organizations in more than 16 countries. We also consulted with civil society on our work with financial institutions and to develop a strategy for engagement in the palm oil sector (see page 63).

These policy reviews represent one of the most concerted efforts to date to systematically engage with civil society to gather input on IFC's operations, using a combination of Web tools—e-mail, blogs, live Web chats, and the Policy Review website—as well as teleconferences and face-to-face consultations.

FY10 CARBON EMISSIONS INVENTORY FOR IFC'S GLOBAL INTERNAL BUSINESS OPERATIONS

Metric Tons of Carbon Dioxide Equivalent

Total	43,378 (100%)
Electricity	14,113 (32.5%)
Air Travel	26,371 (60.8%)
Onsite Fuel	625 (1.4%)
Vehicle Fuel	629 (1.4%)
Refrigerant	912 (2.1%)
Steam	595 (1.4%)
Chilled Water	132 (0.3%)

IFC's FY10 carbon emissions totaled approximately 43,378 metric tons of carbon dioxide equivalent (tCO_2e), which includes emissions from carbon dioxide, methane, and nitrous oxide.

Independent Assurance Report on a Selection of Sustainable Development Information

Further to the request made by IFC, we performed a review on a selection of sustainable development information in the Annual Report for the financial year ending June 30, 2011, including quantitative indicators ("the Indicators") and qualitative statements ("the Statements"). We selected statements that were deemed to be committing, of particular stakeholder interest, of potential reputation risk to IFC, together with statements on corporate responsibility management and performance. The Indicators and the Statements are related to the following material areas:

	Material Areas	Statements	Indicators
Environmental and social performance and impacts of IFC's activity	IFC's Sustainability Policy	"IFC's Sustainability Framework and Policy Review" (p. 96)	
	Development effectiveness of investments and advisory services	"How We Measure Development Results" (p. 81) "What DOTS Covers" (p. 81) "Advisory Services Results" (p. 84)	Investment projects Rated High (p. 59): 67%; and detailed values by industry (p. 13 and p. 86), by region (p. 13 and p. 86), and by performance area (p. 86); and weighted and unweighted scores (p. 13) Advisory Projects Rated High (p. 59): 67%; and detailed values by business line (p. 85) and by region (p. 85)
	Climate change	"Alleviating Uncertainty in Carbon Markets" (p. 35)	Commitments in Energy Efficiency and Renewable Energy (p. 59): $1,671 million
	Engagement in countries served by the International Development Association (IDA)	"Our Work in IDA Countries" (p. 52)	
	Water security	"Ramping Up Our Effort to Address Water Scarcity" (p. 56)	
	Financial inclusion	"Creating Opportunity at the Base of the Economic Pyramid" (p. 50) "Reaching the Poor with Responsible Microfinance" (p. 54)	Number and amounts of microfinance loans and SME loans (p. 86) Type of loans / Number of loans (millions) / Amount ($ billions) Microfinance / 8 / 12.62 SMEs / 1.7 / 127.82
Additionality of IFC's activity	Partnerships	"Working with the Donor Community" (p. 74)	
	Environmental and social ratings	"IFC Performance Standards" (p. 72)	Commitments by Environmental and Social Category (p. 12): Category / Commitments ($ millions) / Number of projects A / 554 / 10 B / 2,975 / 133 C / 5,445 / 246 FI / 3,212 / 129 12,186 / 518
Exemplary business behavior	Response to the financial crisis	"Stimulating Trade Flows in Tough Markets" (p. 28) "Financial Markets" (p. 70)	
	Corporate footprint	"Our Footprint Commitment" (p. 100)	Carbon Emissions (p. 101): 43,378 tCO_2 equivalent to financial year 2010
	Innovation	"Bringing the Internet to the 'Other 3 Billion'" (p. 22) "Promoting the Use of Clean Technology" (p. 25)	
	Food security	"Easing the Threat of Volatile Food Prices" (p. 53)	
	Corruption	"IFC and Corporate Integrity" (p. 95)	
	Accountability	"Independent Evaluation Group" (p. 92) "Improve Standards for the Palm Oil Sector" (p. 63)	

Our review aimed to provide limited assurance[1] that:

1. the Indicators were prepared in accordance with the reporting criteria applicable in 2011 (the "Reporting Criteria"), consisting in IFC instructions, procedures and guidelines specific for each indicator, a summary of which is provided in the Annual Report, for the indicators related to Commitments by Environmental and Social Category (p. 72) and Development effectiveness of investments and advisory services (p. 81) and on IFC's website; and
2. the Statements have been presented in accordance with "IFC's Policy on Disclosure of Information," which is available on IFC's website[2] and the principles of relevance, completeness, neutrality, clarity and reliability as defined by international standards.[3]

It is the responsibility of IFC to prepare the Indicators and Statements, to provide information on the Reporting Criteria and to compile the Annual Report.

It is our responsibility to express a conclusion on the Indicators and the Statements based on our review. Our review was conducted in accordance with ISAE 3000, International Standard on Assurance Engagements from IFAC.[4] Our independence is defined by IFAC professional Code of Ethics.

NATURE AND SCOPE OF OUR REVIEW

We performed the following review to be able to express a conclusion:

- We assessed the Reporting Criteria, policies and principles, with respect to their relevance, their completeness, their neutrality, their clarity and their reliability.
- We reviewed the content of the Annual Report in order to identify key statements regarding the sustainability areas listed above.
- At corporate level, we conducted interviews with more than 30 persons responsible for reporting in order to assess the application of the Reporting Criteria or to substantiate the Statements.
- At corporate level, we implemented analytical procedures and verified, on a test basis, the calculations and the consolidation of the Indicators.
- We collected supporting documents for the Indicators or Statements, such as reports to the board of directors or other meetings, loan contracts, internal and external presentations and reports, studies or results of survey.
- We reviewed the presentation of the Information and the Indicators in the Annual Report and the associated notes on methodology.

LIMITATIONS OF OUR REVIEW

Our review was limited to the Statements and Indicators identified in the table above and did not cover other disclosures in the Annual Report.

Our tests were limited to document reviews and interviews at IFC's headquarters in Washington, D.C. We did not participate in any activities with external stakeholders, clients, or local IFC offices.

INFORMATION ABOUT THE REPORTING CRITERIA AND THE STATEMENT PREPARATION PROCESS

With regards to the Reporting Criteria and the Statement preparation policies and principles, we wish to make the following comments:

Relevance

IFC publishes an integrated Annual Report and involves stakeholders in an effort to identify materiality topics (p. 105), which are discussed throughout the Annual Report. IFC presents sustainability information on its own impact and the environmental and social risks, impacts and outcomes of projects financed directly or through financial intermediaries that is comparable to other multilateral development banks. A specific effort is made by IFC to assess its development results, notably through its Development Outcome Tracking System (DOTS).

Completeness

The Indicators reporting perimeters aim to cover all relevant IFC's activities. The perimeters actually covered by each indicator have been indicated in the comments next to the data in the Annual Report.

Neutrality and clarity

IFC provides information on the methodologies used to establish the Indicators in the comments next to the published data or in the related sections and is available on the IFC website (links listed p. 106).

Reliability

We would like to note that IFC has made progress in strengthening internal controls related to "Development effectiveness of advisory services" and "Carbon Footprint". However, we note that for the indicator related to "Investments in renewable energy and energy efficiency", IFC would benefit from further strengthening and formalizing the reporting tools and internal controls.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that:

- the Indicators were not established, in all material aspects, in accordance with the Reporting Criteria;
- the Statements were not presented, in all material aspects, in accordance with "IFC's Policy on Disclosure of Information" and the principles of relevance, completeness, neutrality, clarity and reliability as defined by international standards.

Paris-La Défense, France, August 11, 2011

Quality In Everything We Do

The independent auditors
ERNST & YOUNG et Associés
Climate Change and Sustainability Services

Eric Mugnier
Partner

1 A higher level of assurance would have required more extensive work.
2 http://www.ifc.org/ifcext/disclosure.nsf/content/disclosure_policy.
3 ISAE 3000 from IFAC, Global Reporting Initiative (GRI), or AA1000 Accountability Standard.
4 ISAE 3000: "Assurance Engagement other than reviews of historical data," International Federation of Accountants, International Audit and Assurance Board, December 2003.

Stakeholder Review Panel Statement on 2011 Annual Report

This year, IFC convened its second stakeholder review panel on its Annual Report. In response to feedback from the previous panel, IFC expanded the panel's role and improved the process. As a result, the panel was better able to assess IFC's responsiveness to its feedback and to offer further suggestions about the report's structure, tone, and completeness. IFC is committed to continue improving the process based on feedback from this year's panel.

Overall, the panel recommended that IFC organize the report around key themes instead of seeking to report on all aspects of the business. It also encouraged IFC to continue to highlight lessons learned and identify areas in which it can expand its role or do a better job. Going forward, the panel suggested that IFC report on changes in material issues in successive Annual Reports—and highlight the progress in policy and in reporting that has resulted from stakeholder engagement over time.

One of this year's highlights, according to panel members, was the opportunity to engage directly with IFC staff members who lead work on two of the material issues identified. The panel deepened its understanding of IFC's innovative approaches on policy issues ranging from food security and land rights to the role of women as drivers of economic growth. In the longer term, the panel urged IFC to broaden the impact of its Performance Standards, particularly on Advisory Services projects, and increase the scope of its approach on gender.

PANELISTS

The panel consisted of the following experts:

- Aron Cramer, President and CEO, Business for Social Responsibility (BSR)
- Arvind Ganesan, Director, Business and Human Rights, Human Rights Watch
- Sabine Miltner, Group Sustainability Officer, Deutsche Bank Group
- Shalini Nataraj, Vice President, Programs, Global Fund for Women
- Ebele Okobi-Harris, Director, Business & Human Rights Program, Yahoo!
- Carol Peasley, President and CEO, Centre for Development and Population Activities (CEDPA)
- Ruth Rosenbaum, Executive Director, Center for Reflection, Education and Action (CREA)
- Kenneth Wilson, Executive Director, The Christensen Fund

STAKEHOLDER PANEL PROCESS

IFC retained a neutral facilitator to manage the process. The panel participated in a conference call at which members identified six material issues. They participated in an all-day meeting to review how IFC incorporated the material issues into the first draft of the report and to offer suggestions to improve the structure, content, and completeness of the report. Finally, the panel reviewed the near-final draft to assess how IFC responded to the feedback from the meeting. The panel was not asked to approve or endorse the 2011 Annual Report. It did, however, approve this statement. Most panel members opted to be recognized for their service through a modest honorarium. Beyond reimbursement of travel expenses, there were no other payments to panelists.

MATERIAL ISSUES

The panel identified the following six material issues:

- Food security and how it intersects with energy, water, and land rights
- Women as drivers of economic growth
- IFC's evolving role as a development bank and its relationship with IFIs and the private sector
- IFC's role in climate change and energy
- IFC's use of information technology as a strategy to support economic growth
- IFC's role in shaping policy for private sector development, and standard-setting to strengthen economic governance and accountability

FEEDBACK ON ANNUAL REPORT

Specific Panel Feedback	IFC's Response	Panel's Assessment of IFC's Response
Describe what makes this year unique or different.	Added a new "Key Events" section describing what was accomplished during the reporting year.	Improves report; should be a focus going forward.
Too many organizing principles–not clear which ones drove the structure and content of report; material issues should be one of the significant organizing principles.	Added new section–Looking at Our Work through Multiple Lenses–in introductory pages; it covers material issues and explains how the report is organized. All material issues were addressed in report.	New section is helpful; continue focus on organizational structure next year, and find stronger ways to anchor stories within that structure.
Strengthen discussion of gender to highlight innovative projects and how the focus on gender is being mainstreamed in IFC's work overall.	Text on gender was revised to emphasize how IFC supports women as drivers of economic growth in all aspects of its activities. Additional stories incorporated, focusing on the role of women.	Revisions and inclusion of stories strengthened gender in the report. Deepening approach next year would continue to illustrate IFC's commitment.
Expand discussion of IFC's Performance Standards in light of significant changes approved this year.	Updated Sustainability Framework discussed in three sections, including new text in the "Influence" section.	New section and text improved report. Providing additional context for changes would make discussion more complete.
Expand discussion of lessons IFC learned in FY11.	"Lessons Learned" section expanded.	Revisions strengthened report; going forward, embedding information about lessons throughout report would be beneficial.

Stay Connected
Web and Social Media Resources

IFC's website, www.ifc.org, provides comprehensive information on every aspect of our activities. It includes contact information for offices worldwide, news releases and feature stories, data on results measurement, disclosure documents for proposed investments, and key policies and guidelines affecting IFC and our client companies.

The online version of the IFC Annual Report 2011 provides downloadable PDFs of all materials in this volume and translations as they become available. It is available at www.ifc.org/annualreport. The website also provides more information on sustainability, including a Global Reporting Initiative index.

IFC also uses social media to communicate with a wide range of audiences. Through various social-media channels, we discuss IFC's strategic direction, engage with stakeholders and the public, share knowledge and ideas, and help identify solutions to key issues related to private sector development.

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www.facebook.com/IFCwbg

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Social Media Index
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