OUR PEOPLE + PRACTICES

IFC'S COMMITMENT TO ALLEVIATING POVERTY AND CREATING OPPORTUNITY FOR THE DEVELOPING WORLD'S MOST VULNERABLE PEOPLE IS REFLECTED IN OUR CORPORATE CULTURE.

Our history shows we learn from experience and take on new challenges. 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—nearly two-thirds of our staff hail from developing countries.

THE IFC WAY

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, Teamwork, and Diversity

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

exciteD

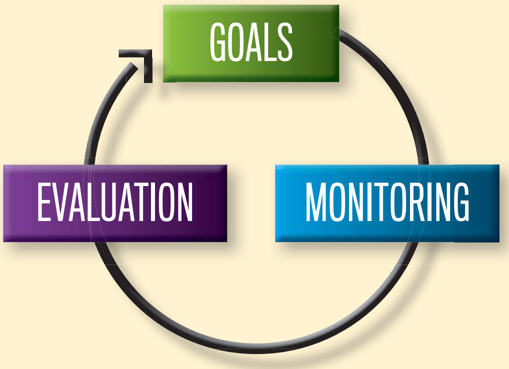
Excellence Commitment Integrity Teamwork Diversity

How We Measure Development Results

Measuring the results of our work is critical to understanding how well our strategy is working—and whether IFC is reaching people and markets that most need our help.

Our results-measurement system helps drive IFC strategy and operational decision-making. It features three mutually reinforcing components: the IFC Development Goals, a monitoring system to measure development results, and a system to evaluate the outcomes and impact of our activities. Besides development results, we also track IFC's "additionality"—the distinctive advantages and benefits of our involvement in a project.

This deliberate and systematic approach allows us to track progress of our projects throughout their life cycle and incorporate lessons learned into our operations so we can improve future goal-setting and project design. It is integral to IFC's efforts to become more results-focused and to increase transparency and accountability to stakeholders.



THE IFC DEVELOPMENT GOALS

The IFC Development Goals are targets for reach, access, or other tangible development outcomes that projects signed or committed by IFC are expected to deliver during their lifetime.

Some of these goals are still in the testing phase. But they are increasingly being used as a strategic management tool. In formulating their FY13–15 strategies this year, for example, most IFC departments didn't just set targets for investment commitments and advisory work. They also discussed IDG targets.

The goals have also proved useful in encouraging our staff to work across departments and advisory business lines, adopting cross-cutting and programmatic approaches to enhance our development impact.

The IFC Development Goals are not intended to cover every project. Yet we agree that the goals need to cover a significant share of IFC's business to be useful as a strategic management tool. We aim for the goals to cover most of our activities. We will use our monitoring and evaluation systems to verify whether results promised by the IDGs materialize over time.

We received positive feedback about the goals from external stakeholders at an outreach event in September last year. Based on their recommendations, we made some changes to the goals and indicators. We also made modifications to reflect what we have learned after two years of testing. Discussions continue on how to account for other priority areas of IFC's work—such as investment climate—without adding undue complexity.

To address concerns that the goals could create a skewed focus on projects with larger reach figures at the expense of projects in smaller countries with a more challenging business environment, we are testing an approach that could be used to provide appropriate weighting to projects in smaller and poorer countries.

Moreover, to capture the extent to which IFC can claim credit for incremental changes in the reach of a client company, contribution rules are being monitored in department scorecards, in conjunction with the piloting of the IFC Development Goals. These rules are based in part on the relative magnitude of our investments and their specific type—whether they are debt or equity, for example.

IFC moved two goals from testing to full implementation in FY13—the IDGs for health and education and for financial services. In addition, we are developing specific targets for the IDG on economic growth. Other IDGs are expected to go live in FY14.

The IFC Development Goals

1: Agribusiness
Increase or improve sustainable-farming opportunities

2: Health and Education
Improve health and education services

3: Financial Services
Increase access to financial services for individuals, microenterprises, and SME clients

4: Infrastructure
Increase or improve infrastructure services

5: Economic Growth
Increase the value added by IFC clients to their respective country's economy

6: Climate Change
Reduce greenhouse-gas emissions

MONITORING AND TRACKING RESULTS

We use our Development Outcome Tracking System to monitor the development results of IFC's investment and advisory services. Among international financial institutions focused on private sector development, DOTS is the leading system for measuring development results.

For Investment Services, DOTS covers—after certain exclusions—1,535 companies under supervision. This report focuses on 668 out of about 720 investments approved between 2003 and 2008, which are mature enough to be rated and recent enough to be relevant. The FY12 ratings reflect our clients' 2011 data and performance. Every year, the group of investments we report on shifts by one year. The report also addresses the current reach of all active investments in IFC's portfolio. Reach indicators measure the number of people reached by IFC clients or the dollar benefit to particular stakeholders, regardless of IFC's investment size.

DOTS does not typically track certain projects, including projects that are expansions of existing ones, split projects, and certain financial products such as rights issues.

IFC was the first multilateral development bank to report on development results for its entire portfolio, and have them assured by an external firm. With the rollout of a DOTS framework for the Global Trade Finance Program this year, we are the first institution to start measuring the development results of trade finance not only at the program level but also at the project level.

For Advisory Services, DOTS covers all projects that are active, completed, or on hold, dating back to FY06. The FY12 ratings are defined as a review of 166 completion reports filed in 2011, of which 133 could be assessed. The rolling average is based on a review of 529 completion reports filed in calendar years 2009 through 2011, of which 414 were assessed. Projects that could not be assessed for development effectiveness were non-client-facing—or their outcome and impact results had not been achieved by the review date.

EVALUATING RESULTS

Systematic evaluation is essential for enhancing the development impact of our investment and advisory services by feeding lessons learned back into projects and strategy. By revealing the factors for success or failure, evaluations can help us understand what we need to do more of—and less of—to achieve our mission.

In the past, our evaluations focused on advisory projects. IFC is implementing a new evaluation strategy that encompasses both investment and advisory projects, in a way that aims to maximize opportunities for learning. The new strategy has four primary objectives: (1) credibly articulate IFC's development impact; (2) learn how to maximize the effectiveness of IFC interventions; (3) provide useful business intelligence to clients and partners; and (4) exchange knowledge with external actors.

In particular, the new strategy will focus attention on the poverty-reduction effects of our

How IFC Monitors Results

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

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, industry, and business line.

For Investment Services, the overall DOTS score is a synthesis of four performance areas (financial, economic, environmental and social performance, and broader private sector development impacts) that are informed by standardized industry-specific indicators, comparing actual results against expectations. To obtain a high rating, a project must make a positive contribution to the host country's development.

For Advisory Services, the overall DOTS score or development-effectiveness rating is a synthesis of the overall strategic relevance, efficiency, and effectiveness (as measured by project outputs, outcomes, and impacts). At project completion, intended results are compared with achieved results. Some results—medium-term outcomes and longer-term impacts—may be unknown at project completion but can be examined post-completion.

work that typically cannot be captured by monitoring and tracking alone.

IFC has been conducting formal self-evaluations across its operations since 2005, and our investment in evaluation has been growing steadily ever since. Evaluations are undertaken at project, programmatic, and/or thematic levels, as well as at the level of donor-funded facilities, countries, and regions.

Most evaluations are led by external evaluation experts, supervised by IFC evaluation specialists, and draw on best-practice approaches. Evaluations are planned and implemented in partnership with staff across IFC, and integrated into project and program design early in the lifecycle whenever possible.

The new evaluation strategy complements the work of the Independent Evaluation Group (see page 30)—which reports directly to IFC's Board of Directors and is charged with providing its own assessments and lessons of experience. IEG's evaluations incorporate findings from IFC's own monitoring and evaluations. IFC's evaluation staff works closely with IEG to discuss work programs, share knowledge, and align efforts whenever possible.

INVESTMENT RESULTS

Development results for IFC investment operations remained essentially stable in FY12, after a decline in the previous year that had been driven mainly by effects of the global and European financial crisis and events in the Middle East and North Africa. The overall development outcome score—68 percent—continued to exceed IFC's long-term target of 65 percent.

Underlying regional and sector ratings also remained nearly stable. Success rates in IDA countries rose to 65 percent, up from 59 percent last year, driven primarily by stronger performance of IDA projects in Central Asia and the Middle East and North Africa. IDA countries represent a challenging business environment, so IFC often makes investments in combination with advisory services. Analysis has shown that the combination increases the chances of achieving good development results.

Although overall regional changes were marginal, underlying trends varied. Development results in financial markets across Sub-Saharan Africa and South Asia improved. In the former, this was driven by a more strategic programmatic approach in the sector. In both regions, ratings of manufacturing declined. South Asia's manufacturing sector was affected by the economic slowdown in India, which hurt clients' bottom lines.

In Europe and Central Asia, ratings of projects in Central Asia improved significantly—by 29 percentage points, which also drove up IDA results. This was driven mainly by greater strategic focus. Ratings in the Middle East and North Africa also stabilized, primarily because of positive performance in manufacturing, services, and financial markets. Political and economic uncertainty in the region, however, continues to adversely affect clients' financial performance, especially in Egypt and Tunisia.

Ratings of projects in East Asia and the Pacific improved because of better performance of new projects in financial markets in the Philippines, and stronger performance of existing projects across manufacturing, agribusiness, and services in China.

In Latin America and the Caribbean, development results in Mexico improved as the U.S. economy recovered. However, some early-stage projects in extractive industries and in financial services exhibited some project-specific challenges, resulting in a slight overall decline in performance.

Clients continued to achieve significant development impact through their reach. In Sub-Saharan Africa, the number of farmers reached increased by almost 50 percent in calendar year 2011—to 380,000, or 20 percent of IFC's total. In Europe and Central Asia, the number of loans to micro, small, and medium enterprises rose to over 2.6 million from 1.1 million. In Asia, such loans increased to 11 million from 3.4 million. In Latin America and the Caribbean, 13 million customers obtained water connections, a 37 percent increase over the previous year. In the Middle East and North Africa, our clients provided 17 million phone connections—20 percent of the IFC total.

Sectoral ratings remained virtually stable. The most significant changes were in the scores for the telecommunications, media, and technology sector and the oil, gas, and mining sector, which declined. Success rates for telecommunications, media, and technology projects declined by eight percentage points to 56 percent. Success rates for oil, gas, and mining projects dropped by 14 percentage points to 69 percent.

Within the telecommunications, media, and technology sector, performance declined most in East Asia and the Pacific and in South Asia, reflecting the riskier nature of the venture-capital-type information-technology investments. In oil, gas, and mining, poor success rates of new projects—and successful projects leaving the rating cohort—in Sub-Saharan Africa and Latin America drove down the performance.

Clients in these sectors, however, continued to expand their reach. IFC clients in oil, gas, and mining provided about 22 million gas connections—almost a 30 percent increase over the previous year. These clients generated $6 billion in tax revenues, more than clients in other sectors, and provided over 100,000 jobs.

Indirect job creation could be much higher. Several studies conducted by IFC showed that indirect jobs—in the supply chain or distribution network—are often a multiple of the direct jobs provided. A study of an IFC client in Ghana showed that for every mining job provided by the client, 28 jobs were supported throughout the economy.

Success rates rose for projects in financial markets and funds because of better performance of existing projects in the rated portfolio. This might reflect the effects of stronger

Expanding Our Insights into Job Creation

IFC is conducting a study to better understand how the private sector creates jobs. The findings will be used to influence our own strategy for private sector development. They will also inform the World Bank Group's *2013 World Development Report on Jobs*.

We know some things about job creation, but we still don't know enough about what works best in what circumstances. For example, what types of activities—direct investments, efforts to strengthen supply chains, improving access to finance, infrastructure, or the investment climate—are most likely to have the largest effects on job creation? How do these different activities affect different societal groups, including women, young people, and the poor?

The results will be available in December 2012. Here are some preliminary findings:

Companies face four main obstacles to job creation:

- *Access to finance*—particularly for micro, small, and medium enterprises.
- *Access to infrastructure*—particularly, reliable power in lower-income countries.
- *Investment climate*—complicated and costly laws and regulations can impede business creation and expansion.
- *Education and skills*—a lack of adequately trained workers can impede hiring.

The indirect impact of IFC's client companies can be significant, but difficult to measure:

IFC's clients directly provided 2.5 million jobs in 2011.

- Yet the indirect effects of their work can be large—for example, every job provided by an IFC gold-mining client in Ghana supported jobs for 28 others in the wider economy.
- These indirect benefits vary by country and industry.

More information about the study is available at: www.ifc.org/jobcreation.

banking supervision—at least in Europe—in the face of the crisis. The improved performance of banks nearly doubled the number of SME loans that our clients provided—to 3.3 million. The number of microfinance loans provided increased to nearly 20 million from 8 million.

Projects in agribusiness and forestry improved in most regions. The rating for the manufacturing sector rose, mainly because of projects in East Asia. In terms of reach, the manufacturing, agribusiness and services sectors directly provided over 1 million jobs, approximately 30 percent of which went to women. Clients also expanded their reach to 12 million patients this year, an increase of almost 70 percent.

DOTS PERFORMANCE CATEGORIES: INVESTMENT SERVICES

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 or the weighted-average cost of capital	Economic return on invested capital, number of connections to basic services, loans to small enterprises, people employed, tax payments
Environmental and Social Performance	Project meets IFC's Performance Standards	Environmental and social management systems, 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

DOTS PERFORMANCE CATEGORIES: ADVISORY SERVICES

Performance Category	General Indicators and Benchmarks	Examples of Specific Indicators Assessed against Targets
Strategic Relevance	Potential impact on local, regional, national economy	Alignment with country strategy
Efficiency	Returns on investment in advisory operations	Cost-benefit ratios, project implemented on time and budget
Effectiveness	Outputs, outcomes, and impacts. Project contributes to improvement for the client, the beneficiaries, and the broader private sector	Improvements in operations, investments enabled, increase in revenues for beneficiaries, cost savings from policy reforms

ADVISORY SERVICES RESULTS

Development effectiveness ratings for IFC Advisory Services increased for the third consecutive year in FY12. Seventy-two percent of advisory projects that closed during the year and that could be assessed for development effectiveness were rated high. This represents an increase of five percentage points over the rolling average of our performance from FY10 through FY12.

Ratings were better in every business line, and significant improvements were made in a number of regions—Europe and Central Asia, Sub-Saharan Africa, and South Asia. The Middle East and North Africa region experienced lower ratings, largely attributable to the political turmoil and economic crisis. Ratings also improved for operations in IDA and fragile and conflict-affected situations—climbing to 74 percent and 77 percent from 68 percent and 73 percent, respectively, over the three-year rolling average.

Behind these ratings lie record numbers of people benefiting from the kinds of market transformations we help to catalyze and accelerate. Our Investment Climate business line assists client governments in implementing reforms that improve the business environment and encourage and retain investment, thereby fostering competitive markets, growth, and job creation. These projects, many undertaken in collaboration with other parts of the World Bank Group, supported 56 reforms in 33 countries in 2011 (33 in 20 IDA countries; 15 in nine fragile and conflict-affected situations).

Our Access to Finance business line helps to increase the availability and affordability of financial services for individuals and micro, small, and medium enterprises by working with financial intermediaries to design and test new business models, and strengthening their risk-management systems. In partnership with IFC Investment Services, IFC Advisory Services worked with 88 financial intermediary clients that provided over 7.6 million microfinance and SME loans (63 percent in IDA countries, up from 57 percent last year), totaling $31.9 billion. Joint Investment and Advisory Services activities also supported eight clients that provided 40,000 housing finance loans, totaling $1.4 billion.

Our Public-Private Partnerships business line helps client governments design and implement PPP transactions in infrastructure and other basic services. In 2011, we helped clients sign five contracts with private operators (60 percent of them in IDA countries), which are expected to improve access to infrastructure and health services for over 16 million people, in addition to mobilizing nearly $5 billion in private investment.

Our Sustainable Business Advisory business line works with companies to adopt environmental, social, and governance practices and technologies that create a competitive edge. In 2011, we provided capacity-building to over 245,000 people (77 percent of them in IDA countries), including farmers, entrepreneurs, and SMEs management.

Addressing the Global Food Crisis through Advisory Services

Advisory services are an important part of IFC's response to the global food crisis. IFC is harnessing the contributions of all four of our advisory business lines for greater impact. We support the agribusiness and food processing sectors along the full value chain, both directly to companies and governments and indirectly through intermediaries (for example, traders or financial institutions). Highlights for 2011 include:

- Our Investment Climate business line supported regulatory reform in Armenia that eliminated Soviet-era standards that restricted firms from adopting global food-safety standards throughout their production processes. These improvements increase the competitiveness of locally produced agricultural goods and boost internal food security. Similar reforms were supported in Moldova and Ukraine. This business line is developing an Africa Agribusiness Strategy and will be rolling out similar strategic exercises in other regions.
- Our Access to Finance business line helped develop and launch nine standard agri-insurance products into the Ukrainian market, enhancing farmers' access to finance by fulfilling collateral requirements for working-capital loans: more than 2,500 agri-insurance contracts were issued with a notional value of almost $800 million.
- Our Public-Private Partnerships business line helped the Indian state of Punjab design and launch a PPP to allow a private firm to build, own, and operate a 50,000-metric-ton storage facility for wheat to feed people living below the poverty line. As a result of these improved storage facilities, 500,000 of India's poorest are expected to receive better nutrition each year. The success of this project is expected to lead to its replication on a wider scale, both within India and beyond.
- Our Sustainable Business Advisory business line worked with a sugar mill in North India to strengthen the client supply chain through intensive training and capacity-building of the company's extension workers and farmers. More than 2,000 farmers were trained on new agronomy practices. On average, yields increased by more than 70 percent in the second year from baseline levels. The company is now scaling up to reach more farmers, and IFC is engaging with other sugar companies on productivity, water efficiency, and other activities.

THE IFC DEVELOPMENT GOALS

Goal	FY12 IDG Target	FY12 IDG Commitments	Percent of Target Achieved
Increase or improve sustainable-farming opportunities	Benefit 365,000 people	1.03 million people	283%
Improve health and education services	Benefit 1.68 million people	9.32 million people	555%
Increase access to financial services for individuals and microfinance clients	Benefit 15.85 million people	32.84 million people	207%
Increase access to financial services for SME clients	Benefit 1.17 million people	1.54 million people	132%
Increase or improve infrastructure services	Benefit 19.25 million people	32.81 million people	170%
Reduce greenhouse-gas emissions	Reduce by 1.70 million metric tons of CO_2 equivalent per year	1.79 million metric tons	105%

Note: Data on "IDG Commitments" in this table reflect both investment and advisory operations and are subject to specific rules that prorate IFC's contribution to our clients' achievements (see page 18). The IDG on greenhouse emissions was piloted in the South Asia and Eastern Europe and Central Asia regions, so data here refers to these two regions only.

DEVELOPMENT REACH BY IFC'S INVESTMENT CLIENTS

	Portfolio CY10	Portfolio CY11	New Business FY12
Investments			
Employment (millions of jobs)[1]	2.4	2.5	0.2
Microfinance loans[2]			
Number (million)	8.0	19.7	10.5
Amount ($ billions)	12.62	19.84	10.63
SME loans[2]			
Number (million)	1.7	3.3	0.9
Amount ($ billions)	127.82	181.25	29.60
Customers reached with services			
Power generation (millions)	41.9	41.9	4.7
Power distribution (millions)[3]	49.4	49.2	0.9
Water distribution (millions)	20.1	34.3	6.4
Gas distribution (millions)[4]	17.2	22.4	NA
Phone connections (millions)	179.7	172.2	1.4
Patients reached (millions)	7.5	12.2	11.1
Students reached (millions)	1.0	0.9	1.2
Farmers reached (millions)	2.5	3.3	1.1
Payments to suppliers and governments			
Domestic purchases of goods and services ($ billions)	39.51	49.84	4.18
Contribution to government revenues or savings ($ billions)	20.28	21.73	5.71

CY10 and CY11 portfolio data are not strictly comparable, because they are based on a changed portfolio of IFC clients. The values for FY12 new business are incremental, that is, target minus baseline. Unlike the IDG figures, they do not apply contribution rules.

1 Portfolio figures for employment include jobs provided by Funds, while New Business figures include jobs that are expected to be added by Funds.

2 In many cases, results reflect also contributions from IFC Advisory Services. Portfolio reach figures represent SME and microfinance outstanding loan portfolio of IFC clients as of end of CY10 and CY11, for MSME-oriented financial institutions/projects. 222 and 268 clients were required to report their end-of-year SME and microfinance portfolios in CY10 and CY11, respectively. 195 and 252 clients did so for CY10 and CY11, respectively. The missing data were extrapolated.

3 In FY12, IFC adjusted its methodology to better estimate the numbers of residential individuals reached in these sectors.

4 One client in East Asia and the Pacific contributed 20.4 million of Gas Distribution customers in CY11.

INVESTMENT SERVICES DOTS SCORE BY PERFORMANCE AREA, FY12 % Rated High

	Unweighted	Weighted
Development Outcome	68%	72%
Financial Performance	51%	60%
Economic Performance	60%	66%
Environment & Social Performance	69%	70%
Private Sector Development Impact	76%	79%

INVESTMENT SERVICES DOTS SCORE BY INDUSTRY, FY11 VS. FY12 % Rated High

	2011	2012
IFC Total	67%	68%
Infrastructure	77%	76%
Funds	68%	73%
Agribusiness & Forestry	70%	72%
Financial Markets	66%	70%
Oil, Gas & Mining	83%	69%
Manufacturing	59%	63%
Consumer & Social Services	59%	57%
Telecommunications & Information Technology	64%	56%

INVESTMENT SERVICES DOTS SCORE BY REGION, FY11 VS. FY12 % Rated High

	2011	2012
IFC Total	67%	68%
East Asia and the Pacific	76%	80%
South Asia	72%	73%
Latin America and the Caribbean	74%	72%
Sub-Saharan Africa	63%	64%
Europe and Central Asia	60%	61%
Middle East and North Africa	56%	60%

ADVISORY SERVICES DOTS SCORE BY BUSINESS LINE % Rated High

	FY2010 to FY2012	FY2012
Overall Advisory Services	67%	72%
Access to Finance	68%	78%
Investment Climate	70%	71%
Public-Private Partnerships	52%	53%
Sustainable Business	69%	74%

ADVISORY SERVICES DOTS SCORE BY REGION % Rated High

	FY2010 to FY2012	FY2012
Overall Advisory Services	67%	72%
East Asia and the Pacific	65%	64%
Europe and Central Asia	77%	100%
Latin America and the Caribbean	79%	75%
Middle East and North Africa	48%	30%
South Asia	77%	85%
Sub-Saharan Africa	65%	78%

Our Staff

IFC's employees are diverse. 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 104 offices in 95 countries. More than half of us—56 percent—are based in field offices, an increasing percentage that reflects our commitment to decentralization. Most IFC staff also hail from developing countries, 65 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	FY04	FY12
Washington, D.C.	1,291 (57%)	1,670 (44%)
Field Offices	963 (43%)	2,093 (56%)
Total IFC Staff	2,254	3,763

NATIONAL ORIGINS–ALL FULL-TIME STAFF

National Origins	FY04	FY12
Developed Countries	963 (43%)	1,327 (35%)
Developing Countries	1,291 (57%)	2,436 (65%)
Total	2,254	3,763

NATIONAL ORIGINS–ALL STAFF AT OFFICER LEVEL AND HIGHER

National Origins	FY04	FY12
Developed Countries	647 (53%)	1,040 (43%)
Developing Countries	584 (47%)	1,381 (57%)
Total	1,231	2,421

GENDER–ALL FULL-TIME STAFF

Gender	FY04	FY12
Male Staff	1,121 (50%)	1,781 (47%)
Female Staff	1,133 (50%)	1,982 (53%)
Total	2,254	3,763

GENDER–ALL STAFF AT OFFICER LEVEL AND HIGHER

Gender	FY04	FY12
Male Staff	844 (69%)	1,426 (59%)
Female Staff	387 (31%)	995 (41%)
Total	1,231	2,421

WE WORK IN

104

OFFICES IN 95 COUNTRIES.

65%

OF IFC STAFF HAIL FROM DEVELOPING COUNTRIES.

56%

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. Washington-based employees 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, 2011 to June 30, 2012, the salary structure (net of tax) and average net salaries/benefits for World Bank Group staff were as follows:

Grades	Representative Job Titles	Minimum ($)	Market Reference ($)	Maximum ($)	Staff at Grade Level (%)	Average Salary/ Grade ($)	Average Benefits ($)[a]
GA	Office Assistant	25,100	32,600	42,400	0.0	43,090	24,152
GB	Team Assistant, Information Technician	31,700	41,200	57,700	0.6	42,136	23,617
GC	Program Assistant, Information Assistant	39,100	50,900	71,300	9.5	53,698	30,098
GD	Senior Program Assistant, Information Specialist, Budget Assistant	46,200	60,100	84,200	7.9	67,671	37,929
GE	Analyst	62,100	80,700	113,000	9.8	76,179	42,698
GF	Professional	82,500	107,300	150,200	19.6	98,249	55,069
GG	Senior Professional	111,300	144,700	202,500	31.6	135,238	75,801
GH	Manager, Lead Professional	151,700	197,200	245,900	17.7	187,019	104,824
GI	Director, Senior Advisor	202,200	264,500	303,300	2.8	244,806	137,214
GJ	Vice President	271,800	304,500	340,900	0.4	302,422	169,508
GK	Managing Director, Executive Vice President	298,600	338,600	372,400	0.1	292,656	177,705

Note: Because World Bank Group (WBG) staff, other than U.S. citizens, usually are not required to pay income taxes on their WBG 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.

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

Our Governance

Our Place in the World Bank Group

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, 2012, IFC's paid-in capital of about $2.4 billion was held by 184 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 $126 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. The President of the World Bank Group is also President of IFC.

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, received a salary of $365,948, net of taxes. There are no executive incentive compensation packages.

Standing from Left to Right: Rogerio Studart, Brazil; Ingrid Hoven, Germany; Agapito Mendes Dias, Sao Tome and Principe; Merza Hasan, Kuwait; Piero Cipollone, Italy; Jorg Frieden, Switzerland; Vadim Grishin, Russia; Marie-Lucie Morin, Canada; Shaolin Yang, China; Marta Garcia Jauregui, Spain; Hekinus Manao, Indonesia; Sid Ahmed Dib (Alt), Algeria; Rudolf Treffers, Netherlands; Konstantin Huber, Austria; In-Kang Cho (Alt), South Korea; Hassan Ahmed Taha, Sudan; Mukesh N. Prasad, India.

Seated from Left to Right: Ian Solomon, United States; Felix Camarasa, Argentina; Ambroise Fayolle, France; Susanna Moorehead, United Kingdom; Abdulrahman Almofadhi, Saudi Arabia; Anna Brandt, Sweden; Renosi Mokate, South Africa; Nobumitsu Hayashi, Japan.

Photo: Frank Vincent/WB Photolab

EXECUTIVE DIRECTORS	(ALTERNATE)
Abdulrahman M. Almofadhi	Ibrahim Alturki
Anna Brandt	Jens Haarlov
Felix Alberto Camarasa	Varinia Cecilia Daza Foronda
Piero Cipollone	Nuno Mota Pinto
Agapito Mendes Dias	Mohamed Siekieh Kayad
Ambroise Fayolle	Anne Touret-Blondy
Jorg Frieden	Wieslaw Leonard Szczuka
Marta Garcia-Jauregui	Juan Jose Bravo Moises
Vadim Grishin	Eugene Miagkov
Merza H. Hasan	Ayman Alkaffas
Nobumitsu Hayashi	Yasuo Takamura
Ingrid G. Hoven	Wilhelm Michael Rissmann
Konstantin F. Huber	Gino Alzeta
Hekinus Manao	Dyg Sadiah Binti Abg Bohan
Renosi Mokate	Muhtar Mansur
Susanna Moorehead	Stewart James
Marie-Lucie Morin	Kelvin Dalrymple
Mukesh N. Prasad	Kazi M. Aminul Islam
Ian H. Solomon	Sara Aviel
Rogerio Studart	Vishnu Dhanpaul
Hassan Ahmed Taha	Denny Kalyalya
Javed Talat	Sid Ahmed Dib
Rudolf Treffers	Stefan Nanu
John Henry Whitehead	In-Kang Cho
Shaolin Yang	Bin Han

OUR MEMBER COUNTRIES–STRONG SHAREHOLDER SUPPORT

Capital Stock by Country

Grand Total	100.00%
United States	24.01%
Japan	5.95%
Germany	5.43%
France	5.10%
United Kingdom	5.10%
Canada	3.43%
India	3.43%
Italy	3.43%
Russian Federation	3.43%
Netherlands	2.37%
174 Other Countries	38.32%

Accountability

INDEPENDENT EVALUATION GROUP

The Independent Evaluation Group generates lessons from evaluations to contribute to IFC's learning agenda. Independent of IFC management and reporting directly to IFC's Board of Directors, IEG aims to strengthen IFC's operational performance and inform strategy and future directions.

IEG's evaluation system is designed to accommodate a wide variety of investment operations and technical assistance and advisory services operations. IEG continuously assesses and improves the quality of IFC's evaluation policies, practices, and instruments to ensure that they remain relevant to evolving corporate and stakeholder success standards and learning needs. It independently validates IFC's self-evaluation ratings.

In FY12, IEG validated 45 percent of eligible IFC investment projects, and 78 percent of eligible advisory projects. IEG communicates these final ratings to IFC staff and aggregates them in its annual evaluation of World Bank Group results and performance, which includes a sample of IFC investment and advisory projects.

In its FY12 report *Results and Performance of the World Bank Group*, IEG commented on IFC's unique capabilities and constraints in addressing the needs of the private sector via the World Bank Group's Country Assistance Strategy framework. In the second phase of IEG's evaluation of the Bank Group's response to the global economic crisis, IEG concluded that IFC maintained broadly constant levels of investment and response initiatives. It found that IFC somewhat overestimated the potential adverse effects of the crisis and recommended that IFC review its stress-test methodology to optimize its strategy for future crises.

Another major evaluation this year covered youth employment. IFC focuses on job creation regardless of beneficiary age, so IEG recommended that in countries where youth employment has been identified as an issue, IFC and the Bank Group should adopt a comprehensive youth strategy and categorize its data by age, so that the effects on youth specifically can be seen.

IEG prepared several notes that summarize its findings. These included notes on extractive industries in IFC-supported projects and lessons regarding South-South investments. In addition, IEG made several presentations to European development institutions, focusing on private investment. Consistent with corporate transparency procedures, IEG's reports are publicly disclosed on its website: http://ieg.worldbankgroup.org.

IN FY12, IEG VALIDATED IFC EVALUATION RATINGS FOR

45%

OF ELIGIBLE INVESTMENT PROJECTS AND

78%

OF ELIGIBLE ADVISORY PROJECTS.

OFFICE OF THE COMPLIANCE ADVISOR/OMBUDSMAN

The Office of the Compliance Advisor/Ombudsman is the independent recourse 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 fostering greater public accountability of IFC and MIGA.

CAO fulfills three complementary roles—it provides dispute resolution between affected communities and IFC clients, it ensures IFC's compliance with relevant environmental and social standards, and it delivers independent advice to the President and IFC senior management. In doing so, it enables people's concerns about IFC activities to be addressed quickly and effectively, and provides public assurance that systemic weaknesses in IFC projects are identified and addressed.

Since CAO was established in 1999, the office has addressed 103 complaints related to 68 IFC projects in 35 countries. This year, CAO handled more complaints and requests for audits than in any previous year—33 cases in all. The increase is attributable in part to CAO's improved accessibility and stronger outcomes delivered in recent years.

CAO is nearing completion of its compliance investigation of 188 IFC financial sector investments involving 63 clients—out of a sample of 844 made between 2006 and 2011. This work aims to provide assurance about IFC's social and environmental performance when investing through third-party entities. CAO's report, expected in the first quarter of FY13, will assess whether the business activities IFC supports through the financial sector are aligned with IFC's values of being socially and environmentally sound.

SINCE 1999, CAO HAS ADDRESSED

103

COMPLAINTS RELATED TO 68 IFC PROJECTS IN 35 COUNTRIES.

CAO appraised 10 IFC projects this year to assess whether an audit of IFC's performance is merited. Of these, one—an electricity privatization project in Kosovo—is being audited by CAO. CAO is monitoring IFC's response to two audits in the agribusiness sector.

In its dispute resolution work, CAO settled a complaint from landowners in Georgia affected by the BTC Pipeline in less than six months, closed a case in Turkey regarding labor relations in the manufacturing industry, and is monitoring implementation of agreements related to one oil palm case in Indonesia. CAO is also facilitating 10 collaborative dispute resolution processes in Cambodia, Cameroon, Indonesia, Nicaragua, Papua New Guinea, and Uganda.

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

Partnerships

FORMING PRODUCTIVE PARTNERSHIPS

IFC works with governments, foundations, and other multilateral organizations to foster innovative partnerships to reduce poverty and improve people's lives. In a time of economic turbulence, budget constraints, and emerging development challenges, that work is more important than ever.

Our partners increasingly look to us for thought leadership, convening power, and clear evidence of development impact. We deliver that in all aspects of our work. In FY12, IFC and our donor partners worked together to address the world's most urgent development challenges, including food security, small and medium enterprises, infrastructure, fragile and conflict-affected states, climate change, gender, and inclusive business.

We conduct regular bilateral consultations with our donor partners, and host other events to maximize our cooperation with specific partners and the donor partner community. These events include the annual IFC Donor Breakfast in the fall and the annual World Bank Group Donor Forum in the spring.

Our donor partners work seamlessly with us across our three businesses. Our collaborative approach emphasizes the power of long-term partnerships, maintains a focus on results measurement and efficiency, and provides appropriate visibility for donor partners.

WORKING WITH DONOR PARTNERS

IFC has had a long and productive association with donor partners, particularly in Advisory Services. Increasingly these partners are also pursuing private sector investment opportunities to make public money go further—through donor-funded investments.

Donor governments, foundations, and other multilateral organizations committed more than $300 million to IFC Advisory Services in FY12. New donors included The MasterCard Foundation and Germany's Federal Ministry for Economic Cooperation and Development, or BMZ.

During FY12, our partners committed a further $460 million for donor-funded investments. These funds helped finance several IFC special initiatives, including the Global Agriculture and Food Security Program.

Here are a few highlights of our FY12 work with donor partners:

- *The United Kingdom's Department for International Development, or DFID*, contributed more than $210 million to IFC's three businesses. The funds supported our advisory work in the areas of investment climate and access to finance. They also supported IFC investments in small and medium enterprises, and climate-related investments of the IFC Asset Management Company.
- *Switzerland's State Secretariat for Economic Affairs* was a leading contributor to IFC Advisory Services in FY12, providing more than $57 million. Switzerland's contributions mostly supported IFC's work on investment climate, access to finance, and climate change.
- *The Netherlands' Ministry of Foreign Affairs* and IFC renewed a commitment to work together on shared priority areas, including fragile and conflict-affected areas, climate change, inclusive business, and food security. For nearly 10 years, the Netherlands and IFC have collaborated successfully within the Netherlands-IFC Partnership Program.
- *Austria* and IFC renewed their commitment to enhance collaboration in Eastern Europe and Central Asia, with a special focus on investment climate, access to finance, renewable energy, and climate change. IFC works closely with both Austria's Federal Ministry of Finance and the Development Bank of Austria, or OeEB.
- *Japan's Ministry of Finance* committed funding for IFC's Inclusive Business Models group and continues to fund operations in East Asia and the Pacific. This will enable IFC to find new ways to reach people at the base of the economic pyramid.
- *Canada's Department of Finance*, *the Netherlands' Ministry of Foreign Affairs*, and *the U.S. Agency for International Development* supported IFC's work in the Global Agriculture and Food Security Program, while DFID supported the Global Small and Medium Enterprise Facility. This work illustrates some of the multi-donor initiatives that IFC is leading to address global development challenges.
- *Korea's Ministry of Strategy and Finance* contributed funding to support operations of the Global SME Finance Forum—a collaborative knowledge-sharing platform housed at IFC. The agreement between Korea and IFC reflects the growing relationship between the Korean government and the World Bank Group. Korea, a former IDA country and IFC recipient, became an official donor to IFC and has taken a leading role in the G-20 process since the Seoul Summit in 2010.
- *The MasterCard Foundation* committed $37.5 million to Advisory Services to fund the Partnership for Financial Inclusion in Sub-Saharan Africa. This partnership aims to deliver financial services to more than 5 million people without bank accounts, by helping new microfinance institutions grow, by using mobile technology, and by broadening the knowledge base of what works in financial inclusion.
- *The Bill & Melinda Gates Foundation* and IFC are developing an innovative payments system in

DONOR PARTNERS COMMITTED MORE THAN

$300

MILLION TO ADVISORY SERVICES IN FY12 AND AN ADDITIONAL $460 MILLION FOR DONOR-FUNDED INVESTMENTS.

Bihar, one of India's poorest and most populous states. The system will enable individuals to receive government payments for health programs, using accounts held with banks or other payment service providers. The Gates Foundation provided IFC with initial funding and then scaled up the prototype system by investing an additional $2.6 million.

This year, IFC performed well in multilateral aid assessments conducted by Australia, the Netherlands, and the United Kingdom. These partners assess the performance and development impact of multilateral organizations to inform future funding decisions.

FINANCIAL COMMITMENTS TO IFC ADVISORY SERVICES

(US$ Millions Equivalent)
[Unaudited figures]

Governments	FY11	FY12
Australia	8.02	1.57
Austria	22.98	25.55
Canada	33.27	5.63
Denmark	4.47	0.96
Finland	2.27	0.13
France	0.20	0.03
Germany	0.00	0.60
Ireland	1.10	1.51
Italy	10.00	0.00
Japan	8.95	9.48
Korea	2.00	1.00
Luxembourg	2.25	0.00
Netherlands	25.62	42.37
Norway	6.08	4.85
South Africa	0.78	0.00
Spain	2.68	0.00
Sweden	10.59	12.38
Switzerland	7.15	57.15
United Kingdom	16.20	69.94
United States	6.83	14.14
Total	171.42	247.28

Institutional and Private Donors	FY11	FY12
BNDESPAR		3.00
CTF		0.80
Disney Worldwide Services, Inc.		0.05
European Commission	10.32	8.90
Gates Foundation	0.33	2.57
GEF	2.99	
Inter-American Development Bank		1.00
Islamic Development Bank	3.00	
Kauffman Foundation	0.37	0.05
MasterCard Foundation		37.45
TMEA	9.42	
UN Agencies	0.05	0.25
Total	26.47	54.08

DONOR FINANCIAL COMMITMENTS TO IFC ADVISORY SERVICES

(US$ Millions Equivalent)

Summary	FY11	FY12
Governments	171.42	247.28
Institutional/ Multilateral Partners	31.64	10.95
Private Partners/ Foundations	0.70	43.13
Total	203.76	301.36

WORKING WITH OTHER DEVELOPMENT INSTITUTIONS

Development institutions play a critical role in spurring the private sector to help improve lives and reduce poverty.

They have a track record of success in difficult environments. They provide capital when private markets become risk-averse. They provide advice that strengthens markets and makes private sector development inclusive and sustainable. In times of crisis and uncertainty, when private capital retreats, their work is indispensable.

Over the last decade, institutions such as IFC have quadrupled their financing of the private sector in developing countries—to more than $40 billion. Every dollar invested by these institutions unlocks $12 of investment from others.

For these reasons, IFC has teamed up with an array of multilateral and bilateral private sector development institutions, pooling resources to expand our reach and maximize our impact. By collaborating, we can share knowledge and design more efficient programs. Our partners, in turn, benefit from IFC's leadership position.

Collaboration has been critical in our response to global economic turbulence, allowing us to swiftly launch new initiatives to boost trade finance, recapitalize banks, and spur infrastructure investment. Recently, we joined forces with 30 development institutions to produce a study—*International Finance and Development through the Private Sector*—that makes the case for closer cooperation between the public and private sectors.

In collaboration with several development institutions, we developed a Global SME Finance Initiative to help expand the availability of financing for small and medium enterprises—a priority for the Group of 20 leading industrial and developing economies. In the Middle East and North Africa, we are working with several development institutions—including the Islamic Development Bank, the European Investment Bank, and the German development institution KfW—to address some of the region's biggest challenges.

Through the Master Cooperation Agreement, we have expanded our formal co-financing arrangements with as many as 15 development finance institutions. The agreement, which details how such institutions work together to co-finance projects led by IFC, supplements commercial finance made scarce by the crisis. We have also helped establish the Corporate Governance Development Framework, a common set of guidelines that have been implemented by 29 development finance institutions.

Collaboration among development banks is particularly important in new areas such as climate finance. We are working with a wide range of banks on harmonizing our approach to greenhouse-gas accounting and the definition of climate-related investments as a category.

Managing Risks

PORTFOLIO MANAGEMENT

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

Before making any investment, IFC carries out broad due diligence, including integrity due diligence, to ensure that the project meets all IFC standards in a number of areas—including social and environmental standards, anticorruption, corporate governance, and tax transparency. IFC also applies heightened scrutiny of projects involving offshore financial centers. 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 potential problem 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.

IFC'S DEBT-TO-EQUITY RATIO WAS

2.7:1

AT THE END OF FY12, WELL WITHIN THE LIMIT PRESCRIBED BY OUR FINANCIAL POLICIES.

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.

TREASURY SERVICES

IFC funds lending by issuing bonds in international capital markets. We are often the first multilateral institution to issue bonds in the local currencies of emerging markets. Most of IFC's lending is denominated in U.S. dollars, but we borrow in a variety of currencies to diversify access to funding, reduce borrowing costs, and help develop local capital markets. IFC's borrowings have continued to keep pace with our lending. New borrowings in the international markets totaled the equivalent of more than $11.5 billion in FY12.

LIQUIDITY MANAGEMENT

Liquid assets on IFC's balance sheet totaled nearly $29.7 billion as of June 30, 2012, compared with $24.5 billion a year earlier. Most liquid assets are held in U.S. dollars. The exposure arising from assets denominated in currencies other than U.S. dollars are hedged into U.S. dollars to manage currency risk. The level of these assets is determined with a view to ensure sufficient resources to meet commitments even during times of market stress.

FY12 BORROWING IN INTERNATIONAL MARKETS

Currency	Amount (USD equivalent)	Percent
U.S. dollar	7,795,454,541	68.1%
Australian dollar	2,089,827,167	18.2%
Japanese yen	376,547,000	3.3%
Turkish lira	334,829,244	2.9%
Norwegian krona	290,788,182	2.5%
New Zealand dollar	266,000,000	2.3%

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.

Under our economic capital framework, IFC must maintain a minimum level of total available resources (including paid-in capital, retained earnings net of designations, 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 FY12, the total resources required were $1.5 billion, while total resources available were $19.2 billion. IFC's debt-to-equity ratio was 2.7:1, 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

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 the corporate integrity of all of the activities our Investment and Advisory Services support 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, inquiring into the background of potential partners and their stakeholders—including sponsors, management, and owners.

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.

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

Sustainability has been a key pillar of IFC's strategy for more than a decade. It brings real value to our clients by helping them manage risks, be more efficient, and remain competitive in global and regional markets.

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, concern for the welfare of communities, consultation with indigenous peoples, and respect for key issues relevant to business and 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 a 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

IFC's Sustainability Framework reflects our long-standing commitment to sustainable development. It helps protect people and the environment, broadens our development impact, and promotes accountability.

The framework is made up of the Policy on Environmental and Social Sustainability, which defines our responsibility in supporting project performance in partnership with clients; the Performance Standards (see page 14), which define clients' responsibilities for

IFC's Sustainability Framework

	Responsibilities		Implementation Tools
IFC	Sustainability Policy	Access to Information Policy	Environmental and Social Review Procedures
Client	Eight Performance Standards		Guidance Notes Environmental, Health, and Safety Guidelines Good Practice Materials

managing environmental and social risks; and the Access to Information Policy, which articulates IFC's commitment to transparency.

Following an 18-month global consultation process, IFC updated the framework. Revisions, which went into effect on January 1, 2012, to reflect the evolution in good practice concerning environmental and social risk management that should be addressed at the company level, as well as developments in IFC's changing business model. They strengthen 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 (see page 41) represents a major shift from the 2006 Policy on Disclosure of Information and aligns IFC with the World Bank's Access to Information Policy. More information is available at http://www.ifc.org/sustainability.

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 14).

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 direct investments that have some degree of risk, as reflected by their environmental and social categorization, as A, B, or C. Projects involving financial intermediaries are rated FI-1, FI-2, or FI-3, depending on the level of risk within the portfolios of these financial institutions.

For projects with moderate to significant risk, 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. This risk 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 environmental and social 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 for FY12 was 5.6 percent—lower than the 6 percent target.

IFC INVESTMENT PROJECT CATEGORIES

A:	Business activities with potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented.
B:	Business activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures.
C:	Business activities with minimal or no adverse environmental or social risks and/or impacts.
FI:	Business activities involving investments in FIs or through delivery mechanisms involving financial intermediation. This category is further divided into:
	FI-1: when an FI's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
	FI-2: when an FI's existing or proposed portfolio is composed of, or is expected to be composed of, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.
	FI-3: when an FI's existing or proposed portfolio includes financial 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 its 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 Performance Standards on Environmental and Social Sustainability? 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 Investment Information, 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, social, and environmental performance, as well as information on factors that might materially affect the enterprise. Project site visits are scheduled to verify that environmental and social 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 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 striving to benefit communities wherever we have offices. That is our footprint commitment.

Using natural resources efficiently is an important part of that commitment. Electricity use in IFC's headquarters in Washington, D.C., accounts for about 20 percent of the carbon emissions generated by IFC's internal operations worldwide. By setting targets, we have steadily reduced our electricity consumption per workstation over the years, lowering it to 5,646 kilowatt hours per workstation. That reflects a 20 percent decline since 2008—and it means we achieved our target three years ahead of schedule.

We are also working to reduce waste generated by our business operations. In FY12, none of our headquarters' waste went to landfills. Instead, 306,930 pounds of paper, metals, plastic, cardboard, bulbs, and batteries were recycled, and 43,217 pounds of office supplies and furniture were donated to local charitable organizations. In addition, 594,559 pounds of waste was processed at a local waste-to-energy facility, helping provide power to local communities.

More than half of IFC's global carbon footprint is from air travel. Our new telepresence centers helped staff reduce air travel, helping our sustainability objectives. More than 4,400 video conferences were held this year, up 20 percent from FY11. These tools allow us to carry out the vital functions of our business while avoiding the environmental impact of travel.

IFC is committed to being a leader in corporate sustainability and to inspiring other companies to reduce their environmental footprint. In FY11, carbon emissions from IFC's global internal business operations totaled 44,650 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 a 10-megawatt biomass project in India that primarily uses stalks from cotton production, red gram, soybean, and rice husks. The Rake Power VCS project, owned by IFC client Shalivahana Green Energy Limited, will enable farmers to get a better price

FY11 CARBON EMISSIONS INVENTORY FOR IFC'S GLOBAL INTERNAL BUSINESS OPERATIONS

Metric Tons of Carbon Dioxide Equivalent

Total Emissions	44,649.55 (100%)
Business Travel	29,918.00 (67.0%)
Electricity	11,992.90 (26.9%)
Purchased Steam	44.43 (0.1%)
Water Chiller Electricity	209.44 (0.5%)
Refrigerants	1,300.65 (2.9%)
Mobile Sources	759.33 (1.7%)
Stationary Combustion	424.81 (1.0%)

IFC's FY11 carbon emissions totaled approximately 44,650 metric tons of carbon dioxide equivalent (tCO_2e), which includes emissions from carbon dioxide, methane, and nitrous oxide.

for their agricultural products and will create opportunities for rural people to collect and transport biomass.

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 more likely to enjoy a robust license to operate.

IFC's new Access to Information Policy, which came into effect this year, will improve our ability to communicate our development impact and how we manage environmental and social risk. Increased transparency about our projects and investments will allow for more informed dialogue and feedback.

Under the policy, IFC will disclose more project-level 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 puts a greater emphasis on results reporting, consistent with World Bank Group objectives.

While IFC maintains provisions to protect commercially sensitive, deliberative, and confidential information, stakeholders may now pursue an independent two-stage appeals mechanism to challenge decisions not to disclose particular information.

IFC believes that greater transparency can improve business performance and promote good governance. 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, visit www.ifc.org/disclosure.

OUR ENGAGEMENT WITH CIVIL SOCIETY

IFC systematically seeks feedback from stakeholders. It's critical to our ability to deliver results.

When we reviewed our Sustainability Framework—an 18-month process that ended last year—we engaged with stakeholders, including civil society organizations in more than 16 countries. The input received helped us institute a new Access to Information Policy.

Three years ago, we began a dialogue with stakeholders on our annual report, a process that has provided substantive feedback on the material issues covered in the report. Our stakeholder panel comprises representatives from civil society, the private sector, and foundations. Each year since instituting the panel, we have begun engagement earlier in our annual report process in order to better incorporate the panel's feedback.

IFC also continues to work 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.

This increased—and ongoing—engagement has allowed us to form a more continuous feedback loop with our stakeholders.

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, 2012, 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:

Environmental and social performance and impacts of IFC's activity

<table>
<tr><th>Material Areas</th><th>Statements</th><th>Indicators</th></tr>
<tr><td>IFC Policy</td><td>"The IFC Development Goals" (p. 18)
"IFC's Sustainability Framework" (pp. 36–37)</td><td></td></tr>
<tr><td>Development effectiveness of investments and advisory services</td><td>"Advisory Services Results" (p. 23)</td><td>Investment projects Rated High (p. 3): 68%; and detailed values by industry (p. 25, and p. 29 on the flip side of this report), by region (p. 25, and p. 29 on the flip side of this report), and by performance area (p. 25); and weighted and unweighted scores (p. 29 on the flip side of this report)
Advisory Projects Rated High (p. 3): 72%; and detailed values by business line (p. 25) and by region (p. 25)</td></tr>
<tr><td>Environmental and social ratings</td><td>"IFC Performance Standards" (p. 14)
"Environmental and Social Risk Management" (p. 37)</td><td>FY12 Commitments by Environmental and Social Category (p. 28 on the flip side of this report):
<table>
<tr><th>Category</th><th>Commitments ($ millions)</th><th>Number of projects</th></tr>
<tr><td>A</td><td>931</td><td>17</td></tr>
<tr><td>B</td><td>3,629</td><td>153</td></tr>
<tr><td>C</td><td>6,975</td><td>267</td></tr>
<tr><td>FI</td><td>3,340</td><td>120</td></tr>
<tr><td>FI-1</td><td>140</td><td>2</td></tr>
<tr><td>FI-2</td><td>410</td><td>11</td></tr>
<tr><td>FI-3</td><td>37</td><td>6</td></tr>
<tr><td></td><td>15,462</td><td>576</td></tr>
</table></td></tr>
<tr><td>Engagement in the poorest countries</td><td>"Global Results" (p. 26 on the flip side of this report)
Section of "Sparking Growth and Opportunity in the Poorest Countries" including "Since 2005, our investments in IDA countries [...] that virtually devastated the economy." (pp. 52–53 on the flip side of this report)
Section of "The growing importance of South-South Investment" including "It's also a strategic priority for IFC [...] helped raise environmental and social standards" (p. 64 on the flip side of this report)</td><td></td></tr>
<tr><td>Climate change</td><td>Section of "Addressing Climate Change, an urgent priority" including "In FY12, IFC invested [...] were climate-related" (p. 43 on the flip side of this report)</td><td>Commitments in Climate-related investments for FY12 (p. 3): $1,621 million</td></tr>
<tr><td>Financial inclusion</td><td>Section of "Pioneering Local-Currency Finance" including "Recognizing the risk this presents [...] and CFA francs over the next decade" (p. 49 on the flip side of this report)
Section of "Why Trade Finance Matters for Development" including "We think trade finance [...] a 23 percent increase over FY11" (p. 65 on the flip side of this report)
Section of "Freeing up Capital for Development in Emerging Markets" including "We are a significant backer of private equity funds in emerging markets [...] nearly a third of all jobs provided by our clients" (p. 62 on the flip side of this report)</td><td>Number and amounts of microfinance loans and SME loans for CY11 (p. 24)
<table>
<tr><th>Type of loans</th><th>Number of loans (millions)</th><th>Amount ($ billions)</th></tr>
<tr><td>Microfinance</td><td>19.7</td><td>19.84</td></tr>
<tr><td>SMEs</td><td>3.3</td><td>181.25</td></tr>
</table></td></tr>
<tr><td>Evaluation of IFC's activity</td><td>"Independent Evaluation Group" (p. 30)</td><td></td></tr>
</table>

Responsible business behavior and additionality

Material Areas	Statements	Indicators
Food security	"Strengthening Food Security in Developing Countries" (p. 46 on the flip side of this report)	
Access to health care and education	"Helping the Poor Obtain Better Education and Health Care" (p. 47 on the flip side of this report)	
Responsible business	Section of "Expanding Economic Opportunities for Women" including "Women are a powerful source of economic growth [...] a quarter of which will be women-owned" (p. 56 on the flip side of this report) Section of "Who benefits?" including "Our projects are helping address climate change [...] seven new stress-tolerant seed varieties for local farmers to use" (pp. 4–5) "Sustainable Business" (p. 10)	
Mobilization	Section of "The Power of Mobilization" including "Our record of strong and consistent profitability [...] In FY12, we mobilized $2.7 billion in syndicated loans" (p. 61 on the flip side of this report)	
Governance	"IFC and Corporate Integrity" (p. 35)	
Corporate footprint	"Our Footprint Commitment" (pp. 40–41)	Carbon Emissions (p. 40): 44,650 tCO_2 equivalent in financial year 2012

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

1. the Indicators were prepared in accordance with the reporting criteria applicable in 2012 (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. 28 on the flip side of this report) and Development effectiveness of investments and advisory services (p. 25) 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 the 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 and their reliability.
- We reviewed the content of the Annual Report to identify key statements regarding the sustainability areas listed above.
- At the corporate level, we conducted interviews with more than 25 persons responsible for reporting to assess the application of the Reporting Criteria or to substantiate the Statements.
- At the 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, or survey results.
- 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. Within the scope of work covered by this statement, we did not participate in any activities with external

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.

stakeholders, clients, or local IFC offices nor did we conduct testing or interviews aimed at verifying the validity of information related to individual projects.

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 presents sustainability information on its own impact and on environmental and social risks, impacts and outcomes of projects it financed directly or through financial intermediaries. This level of disclosure is in line with that of other multilateral development banks. A specific effort is made by IFC to assess its development results, notably through its Development Outcome Tracking System (DOTS) and the preparation and testing of IFC Development Goals (see p. 18).

COMPLETENESS

The Indicators' reporting perimeter covers most relevant IFC activities. The perimeters actually covered by each indicator have been indicated in the comments next to the data in the Annual Report. In particular, regarding DOTS ratings, the Development Outcomes' ratings of IFC's Trade Finance investments are not currently reported. With the growing importance of Trade Finance activities in IFC's portfolio, IFC started the rollout of a DOTS framework to rate the development results of Trade Finance to prepare a future disclosure.

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 on p. 66 on the flip side of this report).

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 IFC would benefit from further formalizing the reporting tools and internal controls for the indicator related to "Climate-related investments" and for the Environmental and Social component (E&S) of the investment services' development outcome. In particular, the process related to updating E&S risk evaluations should be better formalized to ensure that in all cases the most up-to-date information is being used to rate projects on their E&S performance.

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 20, 2012

The Independent Auditors
ERNST & YOUNG et Associés

ERNST & YOUNG
Quality In Everything We Do

Eric Duvaud
Partner, Cleantech and Sustainability

LETTER TO THE BOARD OF GOVERNORS

The Board of Directors of IFC has had this Annual Report prepared in accordance with the Corporation's by-laws. Jim Yong Kim, President of IFC and Chairman of the Board of Directors, has submitted this report with the audited financial statements to the Board of Governors. The Directors are pleased to report that for the fiscal year ended June 30, 2012, IFC expanded its sustainable development impact through private sector investments and Advisory Services.

Stakeholder Review Panel Statement on 2012 Annual Report

Three years ago, IFC piloted its first stakeholder review panel on the 2010 Annual Report. The engagement helped identify issues of concern to external stakeholders and contributed to a process of mutual learning and understanding for both IFC and the panelists. Currently, the panel comprises eight experts who provide IFC with diverse external perspectives to improve the reporting of its complex work—including its dilemmas, opportunities, and results—in the Annual Report.

BACKGROUND

This year, in response to feedback from last year's panel, IFC deepened the engagement with the panel in several key respects: (1) rather than identifying an additional set of material issues, the panel refined the material issues developed by IFC and its board; (2) it engaged with two Directors (Bill Bulmer, Director of IFC's Environment, Social, and Governance Department; and Nigel Twose, Director, Development Impact) and one Vice President (Jingdong Hua, Vice President, Treasury, Syndications, and Information Technology) from IFC on lines of work important to several material issues; and 3) it engaged with IFC earlier on the report by reviewing the draft outline. In addition, IFC sought feedback from the panel about ways to improve the value of the panel process going forward.

IFC retained a neutral facilitator to manage the process. The panel consists of experts who serve one-year terms with the possibility of one-year renewals. They participated in two conference calls and an all-day meeting to refine material issues, suggest improvements to the draft outline and first draft, and to assess IFC's responsiveness by reviewing the near-final report. The panel did not approve or endorse the 2012 Annual Report but did approve this stakeholder panel letter. Most panel members opted to be recognized for their service through a modest honorarium. Beyond reimbursement of travel expenses to some panelists, there were no other payments to panelists.

PANELISTS

The panel comprises the following experts:

- Arvind Ganesan, Director, Business and Human Rights, Human Rights Watch
- Marina Gorbis, Executive Director, Institute for the Future
- Daniel Kress, Deputy Director, Health Economics, Bill & Melinda Gates Foundation
- Sabine Miltner, Managing Director, Sustainability, Deutsche Bank AG
- Shalini Nataraj, Vice President, Programs, Global Fund for Women
- Ruth Rosenbaum, Executive Director, Center for Reflection, Education and Action (CREA)
- Faiza Shaheen, Senior Researcher, New Economics Foundation
- Ken Wilson, Executive Director, The Christensen Fund

MATERIAL ISSUES

The following material issues were identified by IFC and refined by the panel:

- Promoting Inclusive Growth and Human Development
- Jobs
- South-South Investment and Trade Finance
- Climate Change
- Mobilizing Funds through IFC's Asset Management Company and Syndications Business

OVERALL FEEDBACK

The panel appreciated the tone and forthrightness of the IFC team—in particular, the Directors and Vice President who spoke about their work and shared their insights, and the Director in charge of producing the Annual Report, Bruce Moats. Panel members serving for several years observed that they have learned a great deal about IFC, enabling more nuanced and focused feedback. Panel members expressed their willingness to improve the stakeholder process in order to ensure the panel continues to add value to IFC.

Panel members applaud IFC's efforts to track and measure outcomes, especially current efforts to measure development impacts; they encourage IFC to expedite this work. The panel also supports IFC's work and approach of providing advice and guidance to the private sector to operate more sustainably, ethically and transparently. These practices are examples of how IFC innovates through experimentation by gathering lessons learned, asking for feedback and advice, and refining the practices and processes. The panel encourages IFC to include these types of stories in the report in addition to project-related work.

The Panel thought that the new section in the front of the report describing the achievements over the past five years—under the leadership of outgoing EVP and CEO Lars Thunell—provided a clearer description of IFC's strategies, role, and achievements than in prior reports. IFC should continue the practice of discussing current year's activities within a longer time horizon and including a summary of key results and learnings from IFC's strategic plan and evolving business model.

SPECIFIC RECOMMENDATIONS

- Material issues should have a longer life and be tied to both lessons learned and results to create a compelling story of IFC's annual work.
- Results should be based on more than one year's worth of data in order to share insightful lessons learned, trends, and impacts.
- IFC faces many contradictory forces in its portfolio around issues of less carbon-intensive growth, inclusive growth that reaches women and the very poor, and the capital intensity of jobs. IFC should describe how these issues are interconnected, and how it addresses these dilemmas, more explicitly.
- This year's report provided a more comprehensive description of key lines of work, particularly Advisory Services; the panel encourages IFC to continue this approach.