IFC MISSION STATEMENT

IFC's mission is to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people’s lives.
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Foreword

As we publish our third Sustainability Report, we can be proud of our progress. In the past couple of years, the advance of sustainability as a core operating principle within IFC has been remarkable. In 2001, we launched a corporate-wide sustainability training program. In 2002, we partnered with two other organizations to promote the business case for sustainability with the publication of Developing Value. In 2003, we launched a realignment of our internal resources to ensure that our social and environmental expertise is mainstreamed into all operational activities of our investment departments. In 2004, we started to overhaul the policy architecture which governs the way in which IFC—and over two dozen Equator Banks—commit to engage on social and environmental issues. So in three years, we have planned, implemented, and reviewed—a cycle of continuous improvement any institution should be proud of.

Most important, we see our clients doing much the same. They spend far less time debating the pros and cons of corporate social responsibility, and far time more practicing it. As more markets become subject to global competition, companies recognize that global standards of performance are the norm. Sustainability is about competition and long term profit. Companies with poor corporate governance will not survive. Nor will those that are profligate with raw materials. Nor those who fail to build trust with stakeholders who influence their business—workforces, regulators, and the communities in which they operate. Many factors affect a company’s ability to turn a profit, and they all need to be managed effectively if that profit is to be sustained.

To help clients with that challenge, we need to tailor and refine our products and services accordingly. This report testifies that there is a wide range of offerings on show. While we are proud of the manner in which we have moved sustainability to the center of our business strategy and the pace at which we have innovated, we are also aware that there is a tremendous amount of work still to be done. We have important initiatives underway that must be followed through—implementing the new safeguard and disclosure policies; building on the progress we have made in supporting small and medium enterprises (SMEs) and microfinance; rolling out technical assistance and advisory services to ensure that they become an integral part of our investments. Then there are the challenges ahead—our work on sustainability with the financial sector, with the Equator Banks, and providing leadership to socially responsible investors, making good on our renewable energy commitment, developing an approach to human rights, launching a new gender initiative, and continuing to help our clients tackle HIV/AIDS in their communities. Within IFC, we must continue the mainstreaming of our social and environmental capacity across the Corporation and improve diversity in our workplace—something we are looking at carefully in our recruitment process.

To conclude, I hope that this report has something for all readers. Those who seek rapid change will find many new initiatives and programs described. Those who seek reassurance that we are spending sufficient time learning and sharing our experiences will find evidence that these processes are alive and well in the Corporation. Sustainability is here to stay, and IFC will continue to provide leadership, assist clients, and contribute to poverty reduction in the countries and communities affected by our investments.

Peter Woicke
Executive Vice President, IFC
Introduction

Since taking up my post in January 2004, I have seen how sustainability has become part of IFC’s strategic fabric. Some argue that we have been “doing sustainability” for many years, while others see it as a recent arrival, but nobody questions its existence. Sustainability is a belief in the way that development can be achieved. Yet, like many beliefs, it is not easily characterized, prompting some to debate its various forms. Sustainability, corporate social responsibility, the triple bottom line, ethical business—all hail from the same conviction. We have chosen the term sustainability because it is so encompassing. Given the breadth of work IFC undertakes around the world, it suits us well.

As this report shows, there are many ways to practice what you believe. I am excited by the range of sustainability initiatives underway at IFC and the way they have energized our staff, clients, and stakeholders. Some will be outstanding successes, others will need restructuring, and some may fail. However, more important to us is that the ideas and innovation continue to flow. Leadership on sustainability cannot be achieved by being comfortable 100 percent of the time. We must take some calculated risks, celebrate our achievements, learn from mistakes, and share the lessons of our experience.

Updating our safeguard and disclosure policies is an example of this approach. We will never meet the expectations of each individual stakeholder, but we endeavor to recognize, respect, and respond to their concerns. Leadership involves as much listening as talking. IFC welcomes opportunities for constructive engagement with those who can help us further our mission of poverty reduction though sustainable private sector investment.

The big initiatives, such as IFC’s policy overhaul, the Equator Principles, or the BTC Pipeline project, will always receive the lion’s share of attention. We have therefore devoted considerable space in this report to these aspects of our work, but I urge you to look at the dozens of other sustainability activities described within these pages. IFC’s ability to engage across a broad spectrum of projects, clients, sectors, and countries is our core strength and we work hard to maintain it.

Our approach to sustainability is a challenging one. Internally, we continue to look at our procedures, staff, and corporate footprint. Externally, we seek ways to influence behavior and markets. To help us with this task, this report includes a number of actions where we will report on progress via our Web site, www.ifc.org/enviro. We are honest enough with ourselves to see where we have fallen behind our own expectation curve—for example, in quantifying the carbon footprint of our portfolio—and will need to prioritize these aspects accordingly as we move forward.

In closing, I would like to return to the basics of what will make sustainability work. Of thirty-four services listed in IFC’s 2004 Client Survey, “environmental and social knowledge” scored 71 percent in terms of importance to our clients—a healthy percentage. Clients ranked “perceived stamp of approval for environmental, social and corporate governance matters” several places higher. The top-ranking service, scoring 97 percent, was IFC’s understanding of its clients and partnering with them for the long term. Clearly the depth of the relationship, and the trust that stems from it, is just as important in the business context as it is for any other aspect of our lives.

The same principle applies to sustainability. We are looking for partners, be they clients, shareholder countries, or civil society organizations, who have an interest in engaging in sustainability for the long term. If we do our job well, the results on the ground will speak for themselves.

I hope you enjoy reading the report.

Rachel Kyte
Director, Environment and Social Development Department
2004 Sustainability Snapshot
The Year’s Highlights and Challenges

Record Financial Performance
IFC achieved a record financial performance in FY04 with operating income reaching $982 million, an 86 percent increase over the previous year. In the year 217 new projects were approved, representing over $5.6 billion of investment. New business was distributed widely across sectors, with investments more than doubling in Sub-Saharan Africa. Contributions from donors to all of IFC-managed technical assistance programs reached $90 million during FY04. Nearly one third of IFC staff now work in donor-funded operations. See www.ifc.org/ar2004

Mainstreaming Social and Environmental Expertise
As part of IFC’s mainstreaming initiative, we continue to integrate our social and environmental capacity into IFC’s core business functions. Over 60 percent of IFC’s social and environmental specialists are now co-located within investment departments and regional offices. This shift allows our specialists to engage at an earlier stage of the project processing cycle, resulting in better integration of the financial and nonfinancial services that IFC offers its clients. We also continue to recruit, with eight new positions in the Environment and Social Development Department coming on line during FY05. See page 40 or www.ifc.org/enviro

Safeguard Policy Update
IFC is in the process of updating its Environmental and Social Safeguard Policies. Regional multi-stakeholder consultations have commenced on the draft of IFC’s new Policy and Performance Standards on Social and Environmental Sustainability. IFC embarked on the update process following a review of its existing safeguard policies by its Compliance Advisor/Ombudsman (CAO) in 2003. The draft Performance Standards are expected to address key gaps and provide greater clarity for private sector clients and other stakeholders. See page 36 or www.ifc.org/policyreview

Equator Principles
The Equator Principles, a voluntary set of social and environmental standards based on IFC’s policies and guidelines, have been adopted by 28 financial institutions (including three emerging market banks) since 2003. These Equator Banks are estimated to have arranged about 80 percent of global project finance lending in 2003, sending a strong signal to the market on the importance of nonfinancial risks in project finance. This builds on a decade of IFC experience in working with over 400 emerging market financial institutions to apply social and environmental standards to their investments. See page 13 or www.ifc.org/equatorprinciples and www.equator-principles.com

Extractive Industries Review
In 2004, the World Bank Group reached the culmination of an intensive, independent three-year review of its role in oil, gas, and mining projects—the extractive industries. Recommendations being implemented during FY05 will help IFC achieve higher standards on governance, transparency, revenue management, and community consultation to improve poverty reduction around extractive industry investments. The World Bank Group has committed to an average growth rate of 20 percent per year over the next five years in its annual financial commitments for renewable energy and energy efficiency projects. See page 35 or www.worldbank.org/ogmc and www.worldbank.org/eirresponse
BTC Pipeline
One of IFC’s most challenging projects is the 1,760-km Baku-Tbilisi-Ceyhan (BTC) Pipeline, a world-class oil pipeline through Azerbaijan, Georgia, and Turkey, led by a consortium of international oil companies with US$3.6 billion in total project costs. Projects in high-risk environments, and of the scale of BTC, present complex social and environmental challenges. BTC has become a test for IFC’s ability to mobilize communities, clients, and partner institutions to work toward achieving sustainable project outcomes. See page 32 or www.ifc.org/btc

Gender Entrepreneurship
Women comprise the majority of the world’s poor yet are less likely to access business credit than men. This means that promoting gender equality and women’s private sector participation is essential for IFC to enhance its development impact. As such, IFC is mainstreaming its focus on gender with the establishment of Gender Entrepreneurship Markets (GEM) in FY05, a program that will seek to advance gender equality and women’s business opportunities in emerging markets. See page 20 or www.ifc.org/gem

Sustainable Business Assistance Program
The Sustainable Business Assistance Program (SBAP) is a joint IFC/donor-funded program comprising four different facilities that catalyze socially and environmentally responsible business. The facilities finance strategic interventions in key areas where the demonstration of sustainable business practices offers potentially significant benefits. Donor commitments to SBAP approximately doubled to US$3.56 million in FY04, with the number of active projects increasing from 38 to 82 in the same period. See page 17 or www.ifc.org/enviro

IFC Against AIDS
Ninety-five percent of those living with HIV/AIDS reside in the developing world. The magnitude of this impact on productivity and long term economic growth creates a strong business case for IFC to work with its client companies to combat the disease. During FY04, the IFC Against AIDS program gained pace, with 15 client initiatives spanning 17 countries, a training program targeted at African Small and Medium Enterprises, and the addition of two new staff based in Africa. See page 22 or www.ifc.org/ifcagainstaids

IFC’s Corporate Footprint
This is the third year in which IFC is reporting on its corporate footprint—the impact of our physical facilities on the environment, on staff and their families, and on the local communities in which we work and live. We are increasing our efforts to monitor our own energy use, recycling, and procurement practices, and improve our local community outreach in Washington and in our offices around the world. In FY05, we will extend our corporate greening efforts with the appointment of a dedicated footprint officer to devise a strategic plan for our corporate footprint-related activities. See page 44.
Sustainability as a Business Strategy

IFC regards sustainable development as a process rather than a single event, phase, or goal. Sustainable development entails constant adaptation to changing circumstances—both risks and opportunities—in communities, institutions, markets, and, of course, the global environment. Specifically, it requires a perpetual and sophisticated recalibration of how well we, as an organization, produce an internal “good”—profitability—while we aim toward the creation of more and better public “goods” such as healthy ecosystems, thriving societies, stable nations, and productive economies.
Our mandate is to encourage this dynamism within the context of five strategic priorities:

- Investing in low-income, high-risk countries or regions ("frontier markets") where the private sector faces a challenging investment climate and paying special attention to the needs of small businesses

- Developing domestic financial markets through investments, capacity building for institutions, and innovative financial products

- Building long-term partnerships with clients, helping them emerge as regional and global market players, and promoting sustainable business practices

- Promoting private sector investment in infrastructure, health, and education, especially by addressing investment constraints, encouraging public-private sector partnership and providing innovative financing and advice, and developing projects at the regional, state, and city levels

- Providing leadership, both for firms and for financial institutions, on environmental, social, and corporate governance issues by helping improve their performance.

As this report details, in the past year IFC witnessed an unprecedented amount of activity along three dimensions: improving our own performance and capacity, collaborating with our clients and partners on innovative projects and policy initiatives, and helping set reform agendas and catalyze progress among firms and markets in general.

Catalyzing Broader Progress on Sustainable Development

An increasing number of companies, financial institutions, and investors are looking to IFC for leadership on sustainability. They look to IFC to develop and implement new metrics on sustainability, enhance reporting, and set standards for project finance in emerging markets. The challenge ahead is for IFC to continue innovating in ways that help the private sector realize the many opportunities that sustainability offers their business.

As a multilateral financial institution serving the private sector, IFC has changed the way it does business in order to meet client expectations. While our traditional role has been to enforce minimum standards and ensure that the private sector activity of our clients does not lead to social and environmental harm, today we note that our clients are aware of, and committed to, the broader value of corporate responsibility. We will continue to monitor our clients’ performance while recognizing that both the playing field and the rules of the game are rapidly evolving.

Among the vehicles fostering this evolution is the UN Global Compact, under which thousands of companies worldwide have come together in support of basic principles on human rights, labor, the environment, and anticorruption (see IFC and The Global Compact, p. 56). We also recognize that companies around the world are now reporting voluntarily on nonfinancial aspects of their business, with many following guidelines established by the Global Reporting Initiative. IFC’s experience and guidance on these issues may become increasingly influential.

Toward Better Sustainability Performance

We are devoting a great deal of time and energy to process improvements so that we can operate more effectively in this changing global business landscape. In this vein, IFC is undertaking a comprehensive overhaul of the environmental and social safeguard policies and guidelines that have guided our work on sustainability since 1998 and have constituted the minimum standards that IFC clients must satisfy to access our funding.

IFC’s new approach to sustainability will be to establish performance standards that build on our minimum expectations by providing clients with a solid framework to manage business risks and promote consistent improvements in their sustainability performance. We see project appraisal as an entry point from which a long partnership can develop—and we hope to use this mutual engagement as an opportunity to encourage a change in approach to social and environmental stewardship. The process of drafting our new policy and performance standards is ongoing at publication of this report as we consult widely with stakeholders and experts.
Investment in financial intermediary (FI) projects now accounts for roughly 40 percent of IFC’s total portfolio, making IFC well placed to play a leadership role in encouraging its FI clients to pursue sustainable lending and investment practices. IFC continues to build on its relationship with over 400 regional and local banks, as well as with 120 private equity funds in emerging markets which have been applying our social and environmental standards for many years. And we are now supporting the Equator Banks in applying these standards to global project finance.

By working through FIs, IFC can support transactions significantly smaller than those we finance directly, with an important aggregate impact on business growth in our client countries. In FY04, IFC committed $641 million in investments that targeted SMEs through microfinance institutions, leasing companies, banks, and credit bureaus. Since 2002, IFC has worked to strengthen the capacity of FI clients through our Sustainable Financial Markets Facility (SFMF). Funded by IFC and donors with a total target value of $15 million, SFMF is IFC’s vehicle for providing training and best practice guidance to FIs on sustainable banking and finance, in partnership with local and regional organizations. FI clients attend sustainability training and implement social and environmental management systems in accordance with IFC policies and guidelines.
Through strategic partnerships and network building with local and regional organizations, IFC has now extended its reach beyond its FI client base to impact more broadly on financial markets. Through SFMF, in November 2004, IFC co-hosted the First “International Conference on Sustainable Finance in Emerging Markets” with the Center for Sustainability Studies of the Fundação Getulio Vargas Business School in Brazil. The conference gathered together the world’s foremost specialists in the field of sustainable finance to discuss how the financial sector’s investment and lending practices can minimize social and environmental impacts, while fostering sustainable development in emerging markets. IFC is also collaborating with the UN Global Compact (see p. 56) to help extend the compact’s reach beyond private sector firms to financial markets.

Moving forward, IFC is implementing an integrated program to identify value-adding sustainability opportunities in private equity fund portfolios, as well as developing a program for sustainable portfolio investment (see box on SRI in Emerging Markets, p. 12).

Sustainability Training
SFMF convenes Competitive Business Advantage (CBA) workshops that build the business case for sustainable finance by improving financial institutions’ understanding of the social and environmental risks and opportunities faced by companies in emerging markets. With a focus on banks, leasing, and insurance companies, training is tailored to meet local market needs by equipping managers with the skills to identify investment opportunities in new areas, such as cleaner production and renewable energy. It is also designed to develop social and environmental management systems, in compliance with IFC policies and guidelines, to enhance FI nonfinancial risk management. In collaboration with regional partners such as the African Institute of Corporate Citizenship, the Lagos Business School, the Association for Sustainable and Responsible Investment in Asia (AsrIA), and the Union of Arab Banks, we have expanded our training programs worldwide with over 200 financial institutions participating in the past year.

Technical Assistance & Capacity Building
The African Institute of Corporate Citizenship’s (AICC) Center for Sustainable Investing, funded by IFC and launched in June 2004, is a focal point for research and networking on sustainable finance in Africa, and is IFC’s main partner for delivery of training and technical assistance to FI clients in the region. In FY04, we worked with the Center to provide consulting support to Africa Bank on its social and environmental management system and annual sustainability reporting. The project improved the bank’s transparency with measurable business benefits, serving as a case study for other emerging market banks as they start to focus on the Global Reporting Initiative, and best practices for disclosure. SFMF is also providing a range of services to private equity investment funds, for instance, working with Tuninvest, a Tunisian investment fund, to identify value-adding social and environmental performance opportunities in its portfolio of 17 Tunisian companies from the agriculture, light manufacturing, and retail sectors. We have since provided a grant to Tuninvest to implement cleaner production projects in two of these companies.

Best Practice Resources
To highlight the market relevance of sustainability issues, IFC disseminates best practice publications to target senior decision makers in emerging market financial institutions. Our Market Intelligence Briefs (MIBs) are distributed free of charge via e-mail to subscribers and analyze diverse topics such as sustainable finance activities and trends in Brazil, and carbon trading opportunities for emerging market FIs. Through strategic partnerships with other development banks, business schools, industry associations, and grassroots organizations, IFC is successfully disseminating its knowledge resources and supporting partners to develop regional expertise to share across the global financial sector. For example, IFC recently partnered with UNEP-FI to co-finance a publication on Sustainable Finance in Sub-Saharan Africa and currently provides a quarterly supplement on sustainability issues for the Union of Arab Banks newsletter, which is distributed to over 6,000 bankers in the Middle East.
SUSTAINABLE AND RESPONSIBLE INVESTMENT (SRI) IN EMERGING MARKETS

As the links between sustainability performance and business competitiveness become better understood, SRI is starting to gain visibility in the mainstream investment management community. To better understand the prospects for SRI in emerging markets, IFC commissioned a study of SRI trends in FY04. The report, Toward Sustainable and Responsible Investment in Emerging Markets, found that, of $2.7 trillion under SRI fund management worldwide, less than 0.1 percent is in emerging market assets. This indicates vast growth potential for SRI in developing countries, as well as huge opportunities to do good. The significance of SRI is that it has the potential to increase the volume and quality of domestic and international portfolio investment in emerging market companies that operate to high corporate governance, social, and environmental standards—a win-win outcome for business growth and sustainable development.

With the Association for Sustainable and Responsible Investment in Asia (AsrIA), and close involvement with the UN Global Compact’s “Who Cares Wins” initiative, SFMF is taking steps to develop SRI in emerging markets by conducting extensive market research and increasing awareness among institutional investors and pension fund and mutual fund managers. IFC worked with AsrIA to research the potential for developing SRI in Asian emerging markets, publishing a report in FY04 to share insights with global investors, and is also helping BOVESPA—the Sao Paulo stock exchange—to develop a “Sustainability Index” of publicly listed Brazilian companies. The Index will help stimulate Brazil’s nascent SRI industry and serve as an example to other emerging markets.

Emerging Market Bank Adopts Sustainability Agenda

In FY05, IFC provided a US$50 million credit line to Brazilian bank Banco ABN AMRO Real to support sustainability-targeted, long term on-lending. Banco Real is Brazil’s fifth-largest private bank, with US$19.2 billion-equivalent in total assets as of December 2003.

The credit line will support two forms of sustainability-related activities: the first tranche of US$25 million will be used for medium- to long-term funding for environment-related projects and companies; the second tranche of US$25 million will make medium- to long-term funding available to companies.
that meet predetermined corporate governance thresholds and commit to improve their practices within an agreed timeframe. Banco Real will be the first bank to use IFC’s sustainability methodology to help make credit decisions for transactions funded by a credit line.

In addition to the credit line, IFC’s Environmental Business Finance Program is providing Banco Real with an additional US$1 million in loan financing and technical assistance for an on-lending program that will benefit SMEs with investment projects that target climate change, biodiversity loss, land degradation, and persistent organic pollutants (POPs).

The Equator Principles

The Equator Principles—a voluntary set of social and environmental standards based on IFC’s Safeguard Policies—have been adopted by 28 financial institutions since 2003, including three emerging market banks. They send an overwhelming signal to the market that nonfinancial risk management is now a core attribute of project finance. The Equator Banks are estimated to have arranged about 80 percent of global project finance lending in 2003.

With IFC policies at the heart of the Equator Principles, we have a genuine stake in ensuring that these standards are understood and implemented within each financial institution. We will continue to offer training and guidance to the Equator institutions on applying our social and environmental performance standards.

The Equator Principles have demonstrated the readiness of the financial sector to take a lead in nonfinancial risk management. The principles are affecting other areas of these banks’ operations, with some adapting these social and environmental standards to corporate lending or exploring ways to promote sustainable and responsible investment (SRI). With momentum gathering in this area, we hope that the work on the principles will help IFC promote sustainability in new markets and with new financial players.

**INSURANCE—IMPROVING RISK MANAGEMENT AND SUSTAINABILITY PERFORMANCE**

IFC’s Insurance Services Group works in close collaboration with our industry, social, and environmental specialists to ensure that IFC offers a cohesive approach to business risk management. To support this growing role, the Insurance Services Group is conducting research to highlight the critical importance of risk management issues in IFC’s business case for social and environmental sustainability. The objective of the study is to quantify the relationship between IFC’s work with clients on improving the sustainability of projects and the corresponding measurable benefits achieved from better risk management and lower insurance costs. By comparing average industry insurance loss numbers with similar data from IFC projects, we aim to demonstrate the advantage of cutting-edge social and environmental sustainability performance in contributing to a stronger bottom line for our clients.

**The Equator Banks**

As of December 2004, a total of 28 financial institutions, including three emerging market banks, have adopted the Equator Principles.

| ABN AMRO Bank | Eksport Kredit Fonden |
| Banco Bradesco | HSBC |
| Banco Itaú | HVB Group |
| Banco Itaú BBA | ING |
| Bank of America | KBC |
| Barclays | Microcredito Centrale |
| BBVA | Mizuho Corporate Bank |
| Calyon | Rabobank Group |
| CIBC | Royal Bank of Canada |
| Citigroup | The Royal Bank of Scotland |
| Credit Lyonnais | Standard Chartered Bank |
| Credit Suisse Group | Unibanco |
| Dexia Group | WestLB |
| Dresdner Bank | Westpac |

For more information: [www.equator-principles.com](http://www.equator-principles.com), [www.ifc.org/equatorprinciples](http://www.ifc.org/equatorprinciples)
IFC has accepted the challenge of ensuring that our investments do more than simply improve a company’s balance sheet. We strive to make ourselves a valued partner by helping clients adopt practices that strengthen their business while simultaneously enhancing the development impact of the investment. To most effectively catalyze the kind of changes we seek, IFC has undertaken a broad spectrum of initiatives to ramp up the resources we can make available to clients on the technical assistance and advisory fronts.
We provide tailored guidance to companies through programs on corporate governance, HIV/AIDS, and gender. We provide support to clients through our Sustainable Business Assistance Program (SBAP), for instance, on community development, energy efficiency, and cleaner production, and have a network of 11 SME development facilities around the globe. Our SME Linkage Program links small businesses to larger projects to stimulate local supply networks for products and services. All serve as a means of operationalizing IFC’s end goal to promote sustainable private sector development—locally, nationally, and regionally.

Working with Small and Medium Enterprises
SME development is a core component of IFC’s corporate strategy. SMEs account for over 90 percent of firms in some economies and can contribute significantly to a country’s GDP. In emerging markets, however, SMEs commonly face barriers to finance, or may be held back by a business environment where larger, uncompetitive firms dominate the market. Supporting small business growth is essential for long term economic growth—allowing small firms to thrive and become larger firms, increasing market competition and innovation, and most importantly, creating sustainable jobs.

IFC leverages support for SMEs through investments in local financial intermediaries and private equity partners, also strengthening SME business skills so they can qualify for credit. We also maintain a strong presence in low-income countries and regions through our network of Project Development Facilities (PDFs) (see box p. 18), which allows us to work closely with SME clients on an ongoing basis and build support of the local business community and policy makers. Through the PDFs, IFC works with SMEs to promote good corporate governance and build management capacity, to improve the business environment, to address HIV/AIDS, and to promote opportunities for women.

Linking SMEs to IFC Investment Projects
Linkage programs are a tangible example of our SME work in catalyzing market growth around our larger investments. We do this by linking SMEs to our larger companies as suppliers, in order to increase local SME participation in the project and to bring additional benefits to the surrounding communities. At the same time, these programs may reduce costs to IFC’s clients by simplifying procurement processes and, in the case of production inputs, improve quality control as a result of their proximity to suppliers.

IFC’s SME Linkages Program aims to strengthen local supply and distribution networks in two main ways: (i) by improving local SME business skills to qualify businesses for contracts to sell goods and services that generate sustainable sources of income; and (ii) by facilitating access to finance for local suppliers. To date, IFC has implemented linkage programs in 14 countries tied to more than $1 billion in IFC investments. We have leveraged $4.7 million for our own account in linkage technical assistance, with contributions of more than $12 million from private sponsors and other sources.

One linkage success can be seen in Tanzania, where an IFC-supported linkage program is allowing subsistence farmers and micro-enterprises to benefit from a secure local market for their sugarcane as they become suppliers to an IFC client, Kilombero Sugar Company. Since the program was established in 2002, results have been encouraging—the number of sugarcane farmers has increased from 2,760 to over 5,000 and annual sugarcane sales have more than doubled to 450,000 tonnes. The success of this program has mobilized more than $1 million from donors to help finance roads and bridges, strengthen farmers associations and microfinance groups, and develop agriculture and business training for local SMEs. Now, IFC is accelerating small business development, and almost 7,000 farmers could see their incomes increase by becoming sustainable suppliers to Kilombero. Building on Kilombero’s success, IFC is looking to replicate the program in up to nine new agribusiness linkage projects through the Africa Project Development Facility. Another good example of IFC’s linkage work is the BTC Pipeline project (see p. 32).
Supporting Social Enterprises at the Grassroots

Whether it is a cooperative of organic honey farmers in Africa, women’s self-help organizations in South and East Asia, or indigenous crafts enterprises in Latin America, IFC has witnessed increasing efforts by nonprofit entities to encourage business development as a means of improving the lives of their disadvantaged members and reducing dependence on donor funding. IFC has been working through its regional SME facilities to transform these socially driven, income-generating projects into sustainable businesses by strengthening management capacity, quality control, access to local and international markets, and in some cases by raising capital. Building on the success of these projects, IFC established a new program in FY04 to assist nongovernmental organizations (NGOs) and grassroots business organizations (GBOs).

IFC’s Strengthening Grassroots Business Initiative

Launched jointly with the World Bank, IFC’s Strengthening Grassroots Business Initiative (SGBI) aims to have a catalytic impact through funding and technical assistance to strengthen enterprises creating sustainable economic opportunities for poor and marginalized people in Latin America, Africa, and Asia. In Africa, IFC is supporting a South African company, Roundabout Outdoor Ltd., to construct “Playpumps” in Mozambican primary schools. Playpumps are innovative devices that serve as both children’s merry-go-rounds and sources of rural water supply. Installed above water wells at rural schools, the pumps harness the energy of children at play to supply villages with 1,400 liters of clean drinking water an hour. Local microenterprises manufacture the pumps at an average cost of $7,000 each, and commercial advertising sales, half of which is focused on HIV/AIDS awareness, support the pumps’ maintenance. With over 500 pumps benefiting communities across South Africa, IFC’s loan and grant financing of $125,000 and $90,000, respectively, will provide 30 playpumps to supply free, potable water to over 23,000 people in Mozambique, and test whether the concept can moved to a broader commercial model.

TOURISM: A TARGET SME SECTOR

IFC committed $50 million to tourism projects in FY04. While this represents a small percentage of the total portfolio, it is an influential sector in terms of impact: both in terms of generating local employment and business opportunities and on the host environment and communities. IFC has increased support in recent years for small, innovative tourism initiatives through regional SME programs, where tourism is a target sector. For example, in Cambodia, Vietnam, and Lao PDR, we are supporting a unique approach to e-commerce that makes it possible for around 300 small hotel owners to market their properties and compete for business with larger hotels. This initiative, which serves nearly 30 cities and towns across the region, was started by IFC’s Mekong Private Sector Development Facility, and in two years it has created Web portals in all three countries. Travelers book online, and booking commissions, ranging from 15 to 40 percent, filter back to cover local overheads through local hotel and guesthouse associations and tour operators. Worldhotel-link.com (WHL) is now replicating the project’s success through IFC’s SME programs in other regions.

Development Opportunities for Indigenous Peoples

Due to geographical remoteness, cultural and language barriers, and historical discrimination, Indigenous Peoples are frequently overlooked by mainstream markets and financial institutions. They often lack access to credit due to the fact that their informal economies and distance from markets result in higher perceived financial risk. Indigenous Peoples are also vulnerable to change resulting from large development projects, particularly from the extractive industries, due to their frequent proximity to biodiversity hotspots and dependence on mineral resources. Consequently, IFC is exploring partnerships with indigenous
groups, the mining industry, donors, and the SRI community to assess the business dimensions of Indigenous Peoples’ enterprise development. Beyond the initiatives underway through our regional SME programs (see box, p. 18) and Grassroots Business Initiative, IFC is appraising the concept of a dedicated financing facility to develop business services to indigenous communities, in conjunction with US Tribes and Canadian First Nations, and donors.

IFC’s Social and Environmental Facilities

The Sustainable Business Assistance Program (SBAP) is a joint IFC donor-funded program to facilitate socially and environmentally responsible business. Established in 2002, the program is managed by IFC’s Environment and Social Development Department, and comprises four distinct but synergistic facilities. These facilities provide a platform for making highly selective, strategic interventions in key areas where the demonstration of sustainable business practices offers potentially significant benefits to clients and the societies in which they operate. SBAP funding enables IFC and its clients to go well beyond standard compliance requirements on projects.

FY04 saw a successful second year of operations for SBAP. Expenditures rose 120 percent, from $1.62 million in FY03, the first year of operations, to $3.56 million in FY04. The number of active projects increased from 38 to 82, and related project implementation costs rose to $2.25 million from $476,000. Despite the dramatic increase in projects processed during FY04, non-project-related costs, in terms of staff and other resources, remained steady. The 2004 SBAP Report to Donors can be found at: http://www.ifc.org/ifcext/enviro.nsf/Content/Publications

Corporate Citizenship Facility (CCF) promotes corporate social responsibility in IFC client companies. CCF focuses on helping IFC clients to seize opportunities and avoid risks arising from environmental and social areas relevant to their business, and to engage effectively with local stakeholders. Project examples can be found on p. 30.

Environmental Opportunities Facility (EOF) finances innovative projects that promote local environmental benefits. To this end, EOF provides catalytic funding for projects in areas such as water,

“IFC’s Social and Environmental Facilities

The Sustainable Business Assistance Program (SBAP) enables IFC and its clients to go well beyond standard compliance requirements on projects.”
wastewater and solid waste management, pollution reduction or abatement, sustainable resource use, and eco-efficiency/cleaner production. Project examples can be found on pp. 26, 27.

Environmental Business Finance Program (EBFP) works to develop a sustainable market for SMEs whose activities benefit the global environment (renewable energy and energy efficiency; ecotourism; sustainable agriculture and agro-forestry; and certified fishing). Project examples can be found on p. 29.

Sustainable Financial Markets Facility (SFMF) provides advisory and technical assistance to enhance the social and environmental impact of financial intermediaries and the broader financial sector in IFC member countries, and promote increased private sector investment in emerging markets. Project examples can be found on p. 12.

IFC also administers the following environmental facilities:

**Carbon Finance Facility**—to purchase GHG emission reductions

**Global Environment Facility (GEF)**—to address global environmental concerns.
Strengthening Business through Good Corporate Governance

Good corporate governance is essential to long term private sector growth in developing countries. It is also at the core of sustainability, since companies that have effective structures and processes for direction and control are more likely to manage their social and environmental responsibilities well.

IFC incorporates governance analysis in its investment appraisals and helps lead global dialogue on corporate governance in emerging markets. Our Corporate Governance Department has developed a Web-based methodology to provide staff with tools to evaluate the governance of potential clients and help improve their practices. The curriculum has also been used by the Netherlands Development Finance Company (FMO) and the Inter-American Investment Corporation, among others.

IFC staff provide guidance to regulators, stock markets, members of boards, and other corporate governance advocates, as well as to client companies. IFC has co-sponsored the Latin America Corporate Governance Roundtable with OECD since 2000 and provides support to similar roundtables in Asia, Eurasia, and Russia. IFC houses the secretariat for the "Private Sector Advisory Group of the Global Corporate Governance Forum," a joint effort of the World Bank Group, OECD, and donor countries, to improve policy and practices in emerging markets. At the local level, IFC staff manage the corporate governance work of the Private Enterprise Partnership in the former Soviet Union and of the China Project Development Facility. In addition, in FY04 IFC staff helped more than 40 companies and financial institutions review and enhance their corporate governance practices. Such efforts aim to increase the attractiveness of the emerging markets as an investment destination.

Building Local Management Capacity

As part of its overall push to enhance private sector activity in its member countries, IFC is working to build the capacity of universities in emerging markets to offer world class business education opportunities. Through the newly created Global Business School Network, IFC has partnered with leading international business schools such as Columbia, Harvard, and the University of Pennsylvania (Wharton) in the United States, INSEAD in France, and the London Business School in the U.K.

IMPROVING CORPORATE GOVERNANCE IN UKRAINE

Galnaftogaz is a leading petroleum distributor in western Ukraine with ambitious plans to increase the company’s share of the Ukrainian market to 10 percent by 2008 and reposition the company as a national chain. The cost of expansion is high, and access to finance for Ukrainian companies is difficult—poor transparency and governance mean that foreign investors are unwilling to take risks in the Ukrainian market. Galnaftogaz approached IFC’s Ukraine Corporate Governance Project for assistance in improving the company’s internal documentation and financial practices as a first step. The company has gone much further by developing one of the first private sector corporate governance codes in Ukraine. Improvements to Galnaftogaz’s practices have reduced investment risk in the company and may enable it to access debt financing for its ambitious $90 million expansion project.

“As we realized that investors are becoming increasingly concerned about corporate governance, we decided to improve our governance practices and turned to IFC for assistance.”

Chief Analyst Andriy Khudo
Gender Equality

Promoting gender equality is an international development priority and one of the Millennium Development Goals (see IFC and MDGs, p. 54). Given that women comprise the majority of the poorest 1.3 billion people who subsist on less than $1 a day, increasing women’s participation in the private sector in emerging markets is essential to reducing poverty.

To address the legal, regulatory, and cultural impediments that often restrict women’s access to jobs and credit, IFC will be implementing a gender mainstreaming program during FY05.

Gender Entrepreneurship Markets (GEM) will advance the business case for gender equality. The program will target opportunities for women entrepreneurs through our work with financial intermediaries and SMEs, provide advisory and best practice assistance on delivering profitable financial services and business support to women, and address gender barriers in the business environment. The primary focus of the program for the first two years is Africa, through a “Women Mean Business in Africa” initiative. At the inception of the program, three gender specialists will be based at headquarters in Washington, and one in the field.

As part of our broader efforts to mainstream gender expertise at IFC, our policy framework and project evaluation tools are being aligned to address gender issues. IFC is also working in partnership with other organizations to promote best practices and quantify bottom-line benefits to clients in supporting women in their business. Gender issues and business opportunities will be incorporated in IFC training, and in our good practice materials as we develop a Global Directory of Women’s Business Associations as a resource for IFC clients and staff.

IFC’S CLIENT LEADERSHIP AWARD

IFC’s Client Leadership Award recognizes a highly successful corporate client who has made a significant contribution to sustainable development. We spotlight companies that fully endorse IFC’s values and go beyond basic compliance to demonstrate excellence in management commitment and corporate governance, environmental practices, and socioeconomic development.

In 2004, IFC awarded its first annual Client Leadership Award to Celtel International B.V., a pan-African provider of cellular telephone services and an IFC client for more than 10 years. Celtel provides affordable cellular services to over 4 million people in Africa, and its business is growing by roughly 50 percent each year. The company has invested more than $600 million in mobile phone operating companies in 13 countries, including Chad, the Democratic Republic of Congo, Sierra Leone, Sudan, and Kenya. IFC’s investments have helped the company to modernize networks and increase mobile phone usage, as well as increase competition, which has led to lower tariffs and increased local private participation in the telecoms sector.

Celtel has achieved its business goals while committing to strong corporate governance and community development. Operating in some of the world’s most difficult markets, Celtel is committed to transparency and high standards of ethics and integrity. The company has embraced HIV/AIDS as a business and community issue and has worked with IFC Against AIDS on its HIV policy for workers and their families. Celtel has also supported schools and health clinics, started a community phone initiative, and installed solar panels for recharging phone handsets.

“The winner of IFC’s Client Leadership Award should be a company that sets the gold standard for its peers anywhere in the world, a company that is a role model for others, regardless of sector, region, or country.”

Peter Woicke

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Peter Woicke
SUPPORT FOR WOMEN ENTREPRENEURS IN SOUTH AFRICA

IFC is providing $150,000 in grant funding in FY05 to scale up the Women Entrepreneurship Program it initiated in South Africa in 2002. The program targets viable women-owned SMEs and offers high-quality training, mentoring, marketing advice, and assistance in developing a business plan to help secure loans from local banks. Run by IFC’s Africa Project Development Facility, the program has trained 45 women in its pilot phase, and supporting partners include the Amalgamated Bank of South Africa, the University of Pretoria, and the South African Department of Trade and Industry.

CINEARTS AFRIKA

In FY04, IFC extended a $250,000 grant to CineArts Afrika to help fund its general budget and business plan. The founder of this Kenyan film company, Jane Murago-Munene, first approached IFC in 1997 for help in accessing finance to buy production equipment. Since then, the company has produced films to raise awareness on critical development issues, such as gender and HIV/AIDS. As part of IFC’s new gender program in FY05/6, CineArts Afrika will produce a video/TV series on African women entrepreneurs.

“We are also partnering with external parties, establishing an Advisory Board comprising successful women business owners and women ministers, and developing a film series on African women entrepreneurs (see CineArts Afrika box, above).
Helping Companies Fight HIV/AIDS

Across the globe between 35 and 42 million people now live with HIV/AIDS—95 percent of whom reside in the developing world. Given the anticipated impact of the disease in inhibiting productivity and long term economic growth, IFC is helping clients to mitigate the impact of HIV/AIDS on their businesses. The IFC Against AIDS program helps IFC clients analyze the risks that the disease presents to their business and provides guidance on establishing education, prevention, and care programs for workforces and surrounding communities.

In FY04, IFC Against AIDS provided guidance to a beverage company in Nigeria, a forestry company in South Africa, and a microfinance bank in Kenya. A cellular telephone company operating in 13 African countries received guidance to refine its HIV policy and develop an AIDS action plan, including anti-retroviral treatment for employees and dependents (see Client Leadership Award, p. 20). IFC’s program also provided customized tools to support HIV/AIDS workplace policies and community programs for a mining company in Madagascar, a tea company in Kenya, a cotton manufacturer in Zambia, and an electricity company in Jamaica.

SMEs are particularly vulnerable to HIV/AIDS due to the devastating impact the disease can have on their small workforces. Increased absenteeism and lower productivity can jeopardize their very survival—one study in South Africa found that HIV/AIDS is one of three factors causing 80 percent of bankruptcies in SMEs’ first year of operation. To help address these challenges, IFC Against AIDS launched a training program for African SMEs in FY04 in cooperation with the Africa Project Development Facility. To date, 70 small businesses in South Africa, Kenya, Mozambique, and Tanzania have participated in the training program, which works intensively with the businesses over a year and encourages networking with other parties, local governmental and nongovernmental organizations, to support their needs after the program is complete. A program will be developed for India during FY05. For more information, see www.ifc.org/ifcagainstaids
BEST PRACTICE GUIDANCE ON HIV/AIDS FOR THE MINING SECTOR

IFC’s new HIV/AIDS Guide for the Mining Sector provides mining companies with advice on strategies to manage and mitigate the impact of HIV/AIDS—detailing processes for prevention in the workplace, mitigation programs to stem new infections, and care programs to provide holistic support to workers affected by HIV/AIDS. Based on IFC’s experience in southern Africa, the guide provides information, tools, and case studies for stakeholders and organizations working in the region’s mining communities. It addresses emerging mining companies, trade unions, contractors, and service providers, as well as larger companies with established HIV/AIDS programs and their partners.

In focusing on the mining sector, the guide aims to support a key business driver in southern Africa, an industry that is also one of the hardest hit by HIV/AIDS. At the same time, it provides a model for other industries, including oil and gas, transportation, and construction.

Developed with the support of $300,000 from the Canadian Trust Fund, IFC officially launched the guide at World AIDS Day 2004. The guide is part of the IFC Against AIDS program tools and is available free of charge at: www.worldbank.org/ogmc/wbmining-hivaidstoolkit.htm

“IFC’s new HIV/AIDS Guide for the Mining Sector provides mining companies with advice on strategies to manage and mitigate the impact of HIV/AIDS—detailing processes for prevention in the workplace, mitigation programs to stem new infections, and care programs to provide holistic support to workers affected by HIV/AIDS.”
IFC is positioned to make its most significant environmental impact through commercial investments that are geared to serve major sustainability goals. We work across many sectors in pursuit of these goals, encouraging private sector investment in renewable energy and energy efficiency, cleaner production, greenhouse gas emissions reduction, environmental infrastructure, and sustainable natural resource management, including agribusiness, forestry, and ecotourism.

In addition to investing IFC’s own capital, we make funding available as a private sector implementer through the Global Environment Facility (GEF), through our specialized social and environmental business facilities (SBAP), and regional SME facilities. These investments highlight the alignment of IFC activities and resources across the Corporation and how we leverage them to achieve high sustainability impact through building markets for sustainable resource use.

Part of the challenge as we align this internal work will be measuring our sustainability impact—for example, how to quantify our cumulative contribution to renewable energy and energy efficiency through our investments in financial intermediaries or how to assess the carbon footprint of our portfolio. Our approach to measuring the contribution of our investments to sustainability goals will evolve in response to these challenges.

In this section, we provide a thematic overview of our work in sustainable energy, water and sanitation, biodiversity, and natural resource management.
Sustainable Energy and Industrial Efficiency

Since 1990, IFC has taken an active role in promoting sustainable energy in emerging markets, financing projects that provide clean, reliable power for industry and communities. During this time, we have committed US$767 million to renewable energy projects and US$93 million to energy efficiency projects—21 projects in 11 countries worldwide. Most of these projects are run-of-river hydropower, with other investments in geothermal, biomass cogeneration, wind, energy service companies, and financial intermediaries.

In FY04, our active, mainstream investment portfolio in renewable energy and energy efficiency projects totaled US$227 million, nearly 20 percent of IFC’s entire power portfolio. This includes 11 sustainable energy projects with US$123 million in support from the GEF, and other co-financing of US$108 million; it also includes a large portfolio of off-grid and grid-connected solar photovoltaic projects. IFC is also actively developing the carbon finance market for greenhouse gas emission reductions with companies in emerging markets and buyers in industrialized countries.

As announced at the 2004 International Conference on Renewable Energies in Bonn, Germany, the World Bank Group has committed to an average growth rate of 20 percent per year over the next five years in its annual financial commitments for renewable energy and energy efficiency projects. This will increase investments in this sector to over $400 million per year; the target will be reviewed on a regular basis.

Carbon Finance

IFC’s activities in carbon finance support the Kyoto Protocol, which calls upon industrialized nations to reduce their greenhouse gas (GHG) emissions. Now ratified by Russia, this global climate pact will come into force in 2005.

IFC manages the IFC-Netherlands Carbon Facility (INCaF), through which it purchases GHG emission reductions (also called carbon credits) from projects in Latin America, Asia, and Africa. A second facility, the Netherlands European Carbon Facility (NECaF), in collaboration with the Government of the Netherlands and the World Bank, enables the purchase of carbon credits from projects in Central and Eastern Europe. Launched in August 2004, this facility brings US$80 million in funds under IFC management for the purchase of carbon credits. We are also designing and delivering value-added financial products that will leverage IFC’s ability to take long term credit risk in emerging markets and help unlock latent financial value in contracts to purchase carbon credits.

During FY05, IFC’s Carbon Finance Unit expects to commit some $20-30 million in four to six projects. This is expected to include about $9 million for Balrampur Chini Mills, an IFC client in India, to purchase credits that will be created by the company’s use of sugarcane waste to generate 40 MW of electricity.

Renewable Energy

IFC provides direct investments, co-finances programs with financial intermediaries, and leverages donor funds to support renewable energy projects, especially those that commercialize new technologies. In FY04, IFC helped develop an initiative, funded by the GEF, to provide up to US$54 million for the development of stationary fuel cell applications in developing countries. IFC continued to administer the Photovoltaic Market Transformation Initiative (PVMTI) to
develop examples of successful sustainable and replicable business models in the photovoltaic sector in India, Kenya, and Morocco. Looking ahead, a GEF grant funding of US$725,000 is being used to develop the regulatory, legal, and contractual framework necessary for the development of wind power projects in Russia. Another technical feasibility study funded by GEF is examining the potential for Externally Fired Combined Cycle (EFCC) technology using bagasse as fuel.

Energy Efficiency and Cleaner Production

IFC works directly with clients in the power, infrastructure, and manufacturing sectors to develop energy efficiency and cleaner production opportunities. By providing technical support and innovative financing, IFC helps clients improve their operational efficiency by optimizing resource use. This approach, which reinforces good business practice, is the fundamental principle behind cleaner production. In this way, IFC enhances its sustainability impact across our investment portfolio while responding to clients’ competitive needs.

The bottom line impact from these efforts can be startling. In FY04, IFC helped a Chinese fiberboard producer reduce its trimming allowances, increasing its salable output by 6 percent. While consumption of raw material and energy remains the same, we expect these improvements to increase the company’s annual profits by 20 percent. In Indonesia, IFC financed a cogeneration facility for a textile plant that has reduced the plant’s energy consumption by 7.5 megawatts despite the fact that the plant is expanding its operations. This energy efficiency solution puts enough electricity back on the grid to power 30,000 households.

On a smaller scale, in FY04 our Environmental Opportunities Facility (EOF) supported innovative projects that deliver local environmental benefits. For example, in FY04, EOF made a US$600,000 equity investment in TurboTech Precision Engineering in India, a company that produces an Energy Conservation Turbine that generates electricity at a fraction of the cost of power from the national grid. This small, low-price steam turbine has the potential to bring distributed cogeneration to businesses throughout India, greatly reducing the emission of carbon dioxide and sulphur dioxide per kWh consumed.

AN INNOVATIVE MIX OF HYDRO AND SOLAR POWER

In FY04, IFC supported a path-breaking renewable energy project that matches hydropower and solar power for the first time anywhere in the world. Cagayan Electric Power and Light Company (CEPALCO), the third largest electric utility in the Philippines, was considering increasing its fossil fuel generation to meet growing energy demand. Instead, IFC facilitated a $4 million grant from GEF to keep the project green by developing a solar photovoltaic plant to enhance the capacity of CEPALCO’s existing 7 MW run-of-river hydroelectric facility. The project, the largest grid-connected solar photovoltaic installation in the developing world, demonstrates the economic viability of matching two inherently complementary technologies—solar with reliable hydropower—to supply electricity to the grid. The project also has demonstration potential for developing state-of-the-art renewable energy projects in a developing country context. The project began commercial operations in September 2004.
Local Commercial Lending for Sustainable Energy

IFC has developed a range of credit facilities, operated through local FIs, which mobilize local capital investment for energy efficiency and cleaner production improvements in SMEs. IFC is presently managing financing facilities to support FI lending for energy efficiency improvements and environmental SMEs with a total lending capacity of over $300 million. These facilities are generating new financial products and financing models that IFC has begun rolling out across the emerging market world. Through its Sustainable Financial Markets Facility (SFMF), IFC is applying the experiences of these pilot efforts to mainstream environmental finance products in IFC’s core financial markets business.

Market Development for Energy Technologies

IFC also leverages its market knowledge and visibility in the energy efficiency sector to develop new markets for emerging technologies with substantial environmental benefits. The IFC/GEF Efficient Lighting Initiative (ELI) established IFC as an innovative leader in this area. ELI has achieved substantial market growth in seven developing country markets while creating a self-sustaining product certification institute. The institute works with the support of the lighting industry to inform consumer choice and provide quality assurance for new efficient lighting technology. Building on ELI, IFC continues to play a role in the renewable and energy efficiency markets by providing leadership that facilitates government, NGO, and industry collaboration to support market development and improve the accessibility of energy-saving technologies. In 2004, IFC launched initiatives to support stationary fuel cells and light-emitting diodes for households presently dependent on fuel-based lighting.

ELI SUCCESS STORIES

The innovative Efficient Lighting Initiative targeted the market development for efficient lighting in Argentina, the Czech Republic, Hungary, Latvia, Peru, the Philippines, and South Africa. Tailored to local conditions in each country, with a focus on long term market growth, the program has achieved impressive results over three years. In Peru, annual sales of compact fluorescent lamps (CFLs) increased 20-fold, from 250,000 to 5 million per year. In Argentina, the price of CFLs dropped eightfold due to ELI-inspired industry promotion and competition; in South Africa, sales of CFLs increased 123 percent. In addition, ELI has yielded a variety of self-sustaining market activities, as exemplified by the three electric utilities in Argentina that now offer CFLs to their customers. This service is funded through “rental” fees paid through the customers’ utility bills in an amount that is less than the value of the energy cost savings they get from using the bulbs. The ELI experience demonstrates IFC’s role as a market leader able to coordinate the shared interests of multiple entities and channel resources in a manner that truly moves—and even transforms—markets.

ELI spotlights IFC’s “honest broker” role in leveraging multiple entities and resources to transform nascent markets for energy efficient technology.
## World Bank Group Renewable Energy and Energy Efficiency Commitments (millions of U.S. dollars)*
(To the end of FY2004)

<table>
<thead>
<tr>
<th>Renewable Energy Sources</th>
<th>Total</th>
<th>Energy Efficiency and District Heating</th>
<th>Hydropower Greater than 10MW</th>
<th>Solar, Wind, Geothermal, Sustainable Biomass &amp; Hydropower Less than 10MW</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Direct investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>IBRD/IDA b</td>
<td>6,001</td>
<td>3,154</td>
<td>1,157</td>
<td>1,690</td>
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<tr>
<td>IFC c</td>
<td>860</td>
<td>563</td>
<td>204</td>
<td>93</td>
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<tr>
<td>GEF d</td>
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<td>n.a.</td>
<td>698</td>
<td>362</td>
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<td><strong>Financing that leverages investments</strong> e, f</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>MIGA g</td>
<td>428</td>
<td>113</td>
<td>311</td>
<td>5</td>
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<tr>
<td>IBRD Carbon Finance</td>
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<td>19</td>
<td>36</td>
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<tr>
<td>Special Financing</td>
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<td>n.a.</td>
<td>20</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
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<td><strong>3,849</strong></td>
<td><strong>2,405</strong></td>
<td><strong>2,183</strong></td>
</tr>
</tbody>
</table>

n.a. Not Applicable

* The commitment amounts provided in this table differ from the amounts provided in the World Bank Group publication “Renewable Energy for Development: The Role of the World Bank Group.” The changes are due to corrections made in the classification of some projects and also due to the dataset’s being updated to June 30, 2004.

b Loan and Credit Board approvals in 45 countries up to World Bank Group FY2004.

c Mainstream investment portfolio. The value of these investments is measured at gross original commitment levels (IFC equity and loans) and excludes the value of any associated financing within the transactions (that is, sponsor equity, other co-financing, and GEF co-financing or carbon finance).

d GEF Council co-financing commitments for 98 projects implemented or to be implemented by the World Bank Group. This includes all climate change projects approved by the GEF Council for work program entry.

e For renewable energy, the following have been grouped together:
- OP6—Promoting the Adoption of Renewable Energy by Removing Barriers and Reducing Implementation Costs;
- OP7—Reducing the long term Costs of Low Greenhouse Gas Emitting Energy Technologies; and STRM (Short Term Response Measures).

f For energy efficiency the following have been grouped together:
- OPS—Removal of Barriers to Energy Efficiency and Energy Conservation;
- OP11—Promoting Environmentally Sustainable Transport.

- Carbon Finance Business (CFB) and MIGA financing leverages mainly private sector investments—they do not directly invest in a project. CFB typically leverages five to six times the value of the carbon emission reductions purchases in investments. Figures since CFB inception in 2000.

- Note that IFC Carbon Finance Business amounts are not included in this table, as the commitments have not yet been made.

- Figures state gross coverage for investments. Guarantees in support of US$2.3 billion of investments in renewable energy.


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### CEMENT SUSTAINABILITY ROUNDTABLE

The energy-intensive production process of the cement industry means that it is a significant contributor to carbon dioxide emissions, one of the principal gases responsible for climate change. With the establishment of the Cement Sustainability Initiative (CSI) in 2003, the industry is starting to address its environmental responsibilities through emissions reporting, use of alternative fuels, and improved health and safety practices. In June 2004, IFC and the CSI of the World Business Council for Sustainable Development co-hosted a roundtable event in Washington, D.C., to discuss the key sustainability issues affecting the cement sector. Delegates included CSI members from large cement multinationals, IFC portfolio clients operating at the regional level, Equator Banks, and representatives from the World Bank Group. Discussion topics included climate change, safety, disclosure and reporting, and limestone biodiversity management. For more details, see [www.ifc.org/ifcext/enviro.nsf/Content/cement1](http://www.ifc.org/ifcext/enviro.nsf/Content/cement1)
Biodiversity and Natural Resource Management

IFC’s investments must always meet our minimum criteria for safeguarding the environment, but there are many opportunities for companies to increase profits and reduce operating risks while helping to conserve nature’s biodiversity. New markets are emerging for businesses to use biodiversity in a sustainable way, such as in ecotourism and sustainable wood and agricultural products. Specialists in IFC’s Environmental Finance Group work closely with our investment departments to enhance biodiversity benefits in mainstream projects such as extractive industry investments. We also establish innovative partnerships with civil society organizations and have access to funding for biodiversity projects through the Global Environment Facility.

For example, in FY04, IFC provided a $1.6 million GEF grant for a private sector initiative that aims to preserve more than 90,000 hectares of sensitive marine and coastal habitat in the Philippines, including coral reefs, mangroves, and tropical forest. The funding will be provided to the El Nido Foundation, a nonprofit organization that will collaborate with 19 local communities to mitigate threats to the marine ecosystem, including illegal fishing, overfishing, and sedimentation.

Also in FY04, IFC approved a $6.6 million GEF grant for the Marine Aquarium Market Transformation Initiative (MAMTI) to shift the marine aquarium trade toward certified sustainable practices. Where fishermen in the Philippines and Indonesia have traditionally used cyanide to catch fish for the pet trade—with a devastating effect on coral reefs—this initiative will help them to adopt sustainable net-based practices. Through point-of-sale campaigns and other public education methods, the initiative will help to convince consumers in the United States to purchase certified fish, as opposed to those caught with cyanide. If successful, MAMTI’s goal is to convert over 15 percent of the global supply in marine ornamentals to certified sustainable practices.

Our collective experience with clients on protecting and enhancing biodiversity in emerging markets provides valuable lessons that we have collated in a Biodiversity Good Practice Guide due to be launched in FY05. The guide reflects IFC’s evolving expectations relating to biodiversity and natural resource management, particularly in light of our new Performance Standards, and provides detailed analysis for companies working in emerging markets on how to realize biodiversity opportunities in their business. See www.ifc.org/enviro

ECOLODGES: EXPLORING OPPORTUNITIES FOR SUSTAINABLE BUSINESS

This first publication produced by IFC’s new Environmental Business Finance Program summarizes the results of research into the sustainability of ecologues. Ecolodges are of particular interest to the sustainable development community, because they are small businesses that can generate positive economic returns in highly rural biodiversity areas. The report is a useful resource for donors, financiers, and ecologe owners on the growth of ecotourist market and associated sustainable business opportunities. See www.ifc.org/ebfp
THEME 1: SUSTAINABLE FORESTRY

Deforestation is occurring at an alarming rate around the world with serious environmental consequences including biodiversity loss, increased flooding and landslides, and rising carbon emissions due to “slash and burn” farming techniques. Sustainable forestry management is an approach that protects forests while harnessing their potential for economic growth. In line with the World Bank’s revised forestry strategy, IFC is working through its regional SME and SBAP to promote responsible forestry practices at the sector and company levels.

At the sector level, IFC is working with the World Wildlife Fund (WWF) and committed clients to develop a competitive, sustainable wood trade in Indonesia, Africa (Ghana and Gabon) and Latin America (Bolivia, Honduras, Nicaragua, and Peru). Many of our forestry clients want to demonstrate high levels of corporate responsibility in their sourcing of wood because it can determine their access to international markets. These programs help forestry managers, sawmills, furniture manufacturers, and buyers capitalize on the business potential for producing certified wood products for export. By promoting sustainability throughout the supply chain—from community-run forests to retail outlets—we hope to stimulate market supply and demand for certified wood products and demonstrate the business case for sustainable forestry to other timber producers and manufacturers.

At the company level, adopting sustainable forestry practices is already boosting international business for some of IFC’s clients in Russia. IFC’s Northwest Russia Forest Investment Project has contributed to turning the timber company Progress into the largest wood harvesting business in the region, with 1,000 employees and annual revenues in 2002 of $11 million. The company’s reputation for good corporate governance, sustainable forestry management, and environmentally sound wood harvesting has enabled it to develop valuable contacts with European sawmills and pulp companies. In Brazil, the Environmental Opportunities Facility granted $125,000 to Precious Woods, a forest products company, certified by the Forest Stewardship Council, to develop new business lines in non-forest timber products and botanicals. The project also improves the company’s operating efficiency with a biogas plant that recycles waste wood chips to generate electricity.

Beyond the forestry sector itself, there are other ways IFC promotes sustainable resource management. In Guatemala, IFC, through its Corporate Citizenship Facility (CCF), is working with a mining company and with communities to develop a forest nursery project, run by local residents, where seedlings are used for compulsory reforestation activities in connection with the Marlin gold mine. The project combines company needs (reforestation of the mine site) and community needs (economic opportunities) in a sustainable business approach.
THEME 2: WATER AND SANITATION

The demand for clean water in the developing world is staggering. In many countries the private sector is stepping into the breach to provide basic services to communities. IFC is working with a number of clients to finance water services through mainstream investments, in addition to work through our sustainable business facilities, SME and grassroots programs.

In the Philippines, an IFC client, Manila Water Company (MWC), is one of two private companies providing water and sanitation services to Metropolitan Manila since utility privatization in 1997. MWC serves over 4.7 million residents in the city, and under the company’s watch, many poor and underserved consumers now enjoy lower prices and improved access to water services. IFC has made two investments in MWC to support the company’s capital expenditure programs; these have reduced system losses from water leaks and bad connections from 63 percent to 46 percent. The company now provides 24-hour water service to 87 percent of the consumers within its central distribution network, compared to just 26 percent when it took over the concession.

IFC is supporting an American company, WaterHealth International (WHI), to roll out its commercial model for decentralized water purification systems in the developing world. With low capital expenditures and operating costs, the company can provide drinking water to communities at an annual cost of $2 per person. Through its Environmental Opportunities Facility, IFC is providing a $1.2 million equity investment to WaterHealth to help expand its operations in Ghana, India, Mexico, and the Philippines (see EOF, p. 17).

In addition, IFC and the World Bank have established the Municipal Fund, a joint initiative to make investments in municipalities, municipal entities, and other tiers of local government, without taking sovereign guarantees. The objective is to strengthen municipalities’ ability to deliver key infrastructure services, such as water and sanitation, by improving their access to private capital markets. Following a groundbreaking investment in a municipal water company in Tlalnepantla, Mexico last year, IFC collaborated with the African Development Bank to provide a partial credit guarantee to the city of Johannesburg for a bond issue in the South African capital market that will help finance high-priority infrastructure investments in water services, energy, and roads.
Large, complex projects in high-risk environments, such as the Baku-Tbilisi-Ceyhan (BTC) Pipeline development, make up a small proportion of IFC’s overall portfolio yet receive the largest amount of scrutiny—both externally by concerned parties, and internally in terms of staff time and resources required for social and environmental supervision. Generating good project outcomes requires extensive consultation to involve all stakeholders in the decision-making process—from the project sponsor and local communities, to financial partners, governments, and international NGOs. Accommodating all these interests involves complexity and trade-offs, and remains one of the challenges of development for IFC.
Project Overview

The 1,760 km BTC Pipeline is a multibillion-dollar oil pipeline through Azerbaijan, Georgia, and Turkey, led by a consortium of international oil companies. IFC and the European Bank for Reconstruction and Development (EBRD) are spearheading a group of lenders providing $2.6 billion in financing.

Despite the high level of commitment demonstrated by the project sponsors, regional investment projects of the scale of BTC present complex social and environmental challenges. In this atmosphere of increasing expectations, BTC has become a test case for IFC’s ability to mobilize communities, clients, and partner institutions toward sustainable project outcomes. Three IFC social and environmental specialists worked almost full-time on the BTC project for nearly two years, and two specialists continue to work full-time on the project.

Community Consultation and Disclosure

Project disclosure and transparency remain a controversial issue in extractive industry projects, as affected communities rightly demand forums for public consultation and greater access to project information. At IFC’s request, the project sponsors and governments released the Production Sharing Agreements (PSA) and the Host Government Agreement (HGA) in order to inform civil society and reduce misinformation regarding the project. Additionally, the BTC consortium and IFC have conducted extensive consultation with a wide range of potentially affected and interested parties. In this ongoing process, we engaged communities, local and national authorities, and NGOs through face-to-face discussions and formal meetings. A multi-stakeholder consultation program was conducted in all three countries, together with EBRD, and attended by more than 800 locally affected people. The process provided a number of lessons on improving facilitation and mediation between diverse interest groups.

The BTC project generated probably the largest, most comprehensive set of Environmental and Social Impact Assessment (ESIA) documentation ever released by an IFC client—46 volumes with more than 11,000 pages. IFC worked with BTC to ensure that the findings of the assessment were articulated meaningfully to affected parties, distributing 100,000 nontechnical summaries in relevant languages, and took the step of producing a detailed public response to comments received in the 120-day disclosure period for the impact assessment, prior to consideration of the project by IFC’s Board.

Resettlement and Compensation

The pipeline traverses 17,700 individual land parcels with a total of 60,000 landowners involving complex land tenure systems across three countries. IFC and BTC worked to ensure there was no physical displacement of any households along the entire 1,760 km pipeline route.

IFC provided substantial guidance to BTC on the Resettlement Action Plan and the preparation of the user-friendly summary documents known as the Guide to Land Acquisition and Compensation (GLAC). Over two and a half years, BTC consulted every current land user, including all villages within 2 km of the pipeline and those villages within 5 km of construction camps and facilities. Although groundbreaking, the process would have greatly benefited from
improved communication between consultation teams to disseminate real-time lessons. The use of independent NGOs to assist in the land acquisition process was effective and could be replicated in other projects.

The GLAC proved to be a valuable document in consultation and disclosure. Less than 2 percent of affected landowners have raised issues or complaints related to land compensation, indicating that local people are aware of, and satisfied with, compensation rates that are higher than local market rates. On projects that have numerous landowners and complicated land tenure systems, clients should be encouraged to provide a GLAC as best practice.

Community Investment and Business Linkages

IFC has helped BTC develop a Community Investment Programme (CIP) to help local communities benefit from socioeconomic opportunities. Engaging with implementing partners and local NGOs and with the active participation of communities, the CIP has developed a variety of projects in Azerbaijan, Georgia, and Turkey related to community healthcare, microfinance, upgrading of local infrastructure, agricultural support, and energy efficiency. Successful linkage projects have provided technical assistance to 30 SMEs in Azerbaijan which have received $50 million in new supplier contracts to BTC. A new initiative is the mobile “Energy Bus” equipped with inexpensive renewable energy and energy efficiency products to benefit rural communities in Azerbaijan and Georgia. The bus, supported by IFC, British Petroleum, and the Organization for Security and Co-operation in Europe (OSCE), demonstrates solar water heaters, sawdust heaters, wind-powered generators, and biogas units to produce cooking gas. IFC will assist local enterprises in manufacturing these products by helping them to raise funds from local microfinance institutions.

Continuing Challenges

Despite the efforts undertaken to date, many challenges remain for the BTC project. Civil society lodged 14 separate complaints to IFC’s Compliance Advisor/Ombudsman during FY04 regarding social and environmental aspects of the project. These complaints raise concerns over the effects of the BTC pipeline development on sensitive natural areas and natural resources, including water sources along the pipeline route; on aspects relating to pipeline safety and construction, including disruption and damage to property and services and inadequate mitigation measures; on the actual and potential impact of oil spills and other potential negative project impacts on local communities; and concerns related to information sharing, consultation, loss of income, and compensation. IFC will continue to work with the CAO, BTC, and affected stakeholders to resolve outstanding issues. For full details of these complaints, see www.cao-ombudsman.org. For more information on the BTC Pipeline, see www.ifc.org/BTC
REVISING OUR APPROACH TO EXTRACTIVE INDUSTRIES

A three-year independent review of the World Bank’s role in the extractive industries solicited inputs from a wide range of stakeholders—governments, civil society, industry, and academics—on key issues facing the World Bank Group in oil, gas, and mining. The Extractive Industries Review’s findings revealed that our projects had a strong track record of positive economic impacts in terms of generating tax revenue, jobs, technology transfer, and the introduction of higher social and environmental standards. Nevertheless, the central message that emerged from the process was that the World Bank Group must improve its approach on three levels: at the country level, by helping to ensure that governments make the best energy choices and manage project revenues wisely; at the sector level, by ensuring full implementation of our social and environmental standards; and at the project level, by placing greater emphasis on local community concerns.

While the World Bank Group will continue to help its member countries to develop extractive industries, we will also work actively with governments, stakeholders and other investors to ensure greater focus in a number of key areas. IFC’s Board has agreed on the steps necessary to move forward and will be monitoring implementation of these measures with our management.

Good Governance Indicators
To ensure a shared understanding of development goals, we will develop more explicit ways of measuring how extractive industry projects impact the poor. We will agree with stakeholders on good governance indicators in the assessment and design of projects, and use those indicators to track and report on progress.

Revenue Transparency
To ensure the transparency of project revenues, we will immediately begin requiring disclosure of revenue figures for all new major extractive industry projects. We are already working with several countries, such as Azerbaijan, Kyrgyzstan, and Nigeria, to do so through the Extractive Industries Transparency Initiative.

Cleaner Energy Alternatives
To ensure that the governments of poor nations are offered cleaner energy alternatives, we will increase our lending for natural gas projects, and, as announced at the 2004 International Conference on Renewable Energies in Bonn, Germany, the World Bank Group has committed to an average growth rate of 20 percent per year over the next five years in its annual financial commitments for renewable energy and energy efficiency projects. IFC, as a part of the World Bank Group, will contribute toward the achievement of this objective. We are also stepping up our leadership role to develop a broader agenda on renewable energy—one that includes policy reform, research, and financing.

Meaningful Consultation
To protect the interests of local people directly affected by extractive industry investments, we will only support projects in which the affected communities, including indigenous peoples, are engaged through meaningful consultation that is timely, well-informed, and uncoerced, and that leads to broad community support.

For more information, see www.worldbank.org/ogmc and www.worldbank.org/eirresponse

“…the central message that emerged from the process was that the Bank Group must improve its approach on three levels: at the country level, by helping to ensure that governments make the best energy choices and manage project revenues wisely; at the sector level, by ensuring full implementation of our social and environmental standards; and at the project level, by placing greater emphasis on local community concerns.”
As we learn from our experience and face new challenges, we are evolving IFC’s policies and internal review processes to deepen our sustainability capabilities, improve our service to clients, and increase our accountability to stakeholders.

Updating Our Standards
IFC’s social, environmental, and governance standards are the building blocks of our approach to sustainability and are embodied in IFC’s Safeguard Policies, Environmental, Health and Safety Guidelines, and Disclosure Policy. Together these provide a framework to help our clients manage project risks, account for stakeholder interests, and maximize the development impact of our investments. To ensure that the projects we finance continue to meet evolving sustainability expectations, IFC embarked on a review of our Safeguard Policies in FY04 in line with recommendations by the Compliance Advisor/Ombudsman.

From Safeguards to a Sustainability Policy
With current policies serving as a baseline for minimum standards, the safeguards will be recast as IFC’s Policy and Performance Standards on Social and Environmental Sustainability. The draft policy underpins IFC’s corporate commitment to sustainability, and includes social and environmental Performance Standards that equip clients with a new generation of risk management tools. The draft policy is supported by a set of Guidance Notes, further supplemented by IFC’s good practice publications, to help IFC and clients apply the standards to operations.
Emphasis on Social Goals
The draft Performance Standards place increased emphasis on social goals, integrating social and environmental impact assessment and providing new, comprehensive treatment of labor and working conditions and community health and safety. Significantly, the labor standard articulates worker rights in accordance with the International Labour Organization (ILO) Core Labor Standards. This is an example of how human rights have been incorporated in the new policy (see box, p. 39). The draft standards also cover in detail major environmental concerns, such as biodiversity and climate change.

Improved Risk Management for Clients
The draft Performance Standards encourage IFC’s clients to address sustainability issues in their business strategy, such that operational risks are identified and managed upfront rather than on an ad-hoc, reactive basis. We also hope to better assist clients in capitalizing on social and environmental opportunities that enhance business profitability and benefit local communities.

Consultation on the New Policy
To obtain feedback on the content and applicability of the draft Performance Standards, we have endeavored to consult broadly with clients and stakeholders during 2004, holding regional consultations in Rio de Janeiro, Manila, Nairobi, and Istanbul. Given the relevance of our policies to other parties, we have also met with conservation groups, NGOs, trade unions, industry, the Equator Banks, the SRI community, and partner institutions to solicit their input.

Toward a Global Benchmark
In updating our policies, IFC recognizes its responsibility in maintaining an effective global benchmark for the private sector in emerging markets. IFC standards will need to evolve to meet new sustainability challenges, and we will continue to work with our partners in the wider financial sector as they incorporate non-financial risks into business decision-making. Further information is available at: www.ifc.org/policyreview

At a Glance: IFC’s Policy and Performance Standards on Social and Environmental Sustainability

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Updating IFC’s Environmental Guidelines

IFC’s policy review includes an ambitious two-year program to update the Environmental, Health and Safety Guidelines, which address our expectations for managing industrial impacts, specifically pollution prevention and control. The 73 guidelines cover a wide range of activities from oil, mining, and chemicals, to forestry and wind energy conversion. They are used by industry, regulators, academics, and financial institutions worldwide in addition to our clients as a source of reference on environmental performance.

IFC is consulting with technical experts to maintain the high standard and applicability of the guidelines across the market sectors we finance. The update will incorporate cleaner production and good management practices and will encourage industry performance in line with internationally accepted emissions and effluent standards to reduce overall loading to the environment. The process will streamline the guidelines for our clients and improve their applicability to projects, and provide performance benchmarks and indicators, thus improving their utility to the diverse community of external users. For more information on the guidelines update, see www.ifc.org/ehsguidelinesupdate

Improving Transparency and Disclosure

A critical element of IFC’s approach to sustainability is reflected in our approach to transparency. We know that disclosure builds trust, promotes efficiency and accountability, and enhances the development impact of our investments. Since IFC last updated its Policy on Disclosure of Information in 1998, public expectations concerning the level of transparency of publicly owned institutions and the private sector have increased. We are, therefore, reviewing our Disclosure Policy in close consultation with clients, industry groups, civil society, and government.

Balancing Confidentiality with Transparency

This review of our disclosure policy requires respecting the legitimate business confidentiality of our clients while fostering a culture of transparency and greater openness. The draft policy clarifies the roles and responsibilities of both IFC and clients regarding disclosure. It also elaborates general principles to guide our work, given the dynamic nature of the business climate in which IFC operates and our need to respond to unforeseen circumstances.

Reporting on Impacts and Development Outcomes

The draft Disclosure Policy acknowledges the importance of financial and nonfinancial reporting and the impact this has on performance—in particular, how such reporting can be used to assess IFC’s development outcomes. This means a renewed commitment to being open about our activities to the widest audience, facilitating inputs from affected communities, stakeholders, and the public. The draft policy also makes clear our clients’ obligations to inform and consult affected communities and other local stakeholders on issues of concern, impact mitigation, and project monitoring. It reflects a view that building trust through disclosure and consultation can deliver tangible benefits to clients by reducing project risks and enhancing outcomes. For more information on the Disclosure Policy review see www.ifc.org/disclosurereview
IFC AND HUMAN RIGHTS

IFC has provided guidance to companies for many years on how they can support human rights in their business operations. For example, IFC has encouraged clients to empower women and to provide healthcare to workers and clean water to communities. IFC, along with private sector companies and their stakeholders, have begun to understand that such services, community investments, and hiring policies have a human rights dimension that should be respected and supported. The challenge in this process is to identify the appropriate boundary between public and private responsibility, because human rights conventions were originally drafted to be applied principally by governments, not private parties. This conundrum is at the heart of the current business and human rights debate.

The exception to this boundary is the set of human rights that address the rights of workers, where employers clearly have a role to play in respecting and promoting labor rights. As attention to working conditions and respect for labor rights extend further and further down supply chains, and as emerging market companies strive to become global players, these companies will increasingly be expected to demonstrate that they are meeting international labor standards. We are providing more detailed requirements and guidance for clients on this issue by adopting a draft Performance Standard specifically on labor issues, accompanied by a Guidance Note and further Good Practice Notes to help clients interpret the international standards and apply them in their business.

IFC has chosen to weave other human rights principles into our draft Performance Standards (rather than prepare a stand-alone human rights Performance Standard). For example, several of the draft Performance Standards specifically address vulnerable groups that are often subject to discrimination. In some cases, clients may be asked to disaggregate their evaluation of project impacts and adopt differentiated mitigation and benefit-sharing measures as necessary to ensure that vulnerable persons are not discriminated against during project development and operation. The Performance Standard on Land Acquisition and Involuntary Resettlement, for example, reflects human rights considerations from a right-to-housing perspective.

As the discussion on private sector responsibility for human rights evolves, IFC will continue to engage with a wide range of actors to help develop practical tools that aid businesses in understanding their responsibilities in this area. For example, we are providing funding to the Danish Institute for Human Rights to develop a Web-based version of the Institute’s human rights compliance assessment tool for business. We are also participating in a project led by the International Business Leaders Forum to develop an introductory guide to human rights impact assessment for business, with inputs from business and NGOs. IFC will use lessons learned from these collaborations and from addressing human rights issues in the projects it funds to develop a tangible methodology for companies to address human rights in a way that adds value to their business and furthers IFC’s development goals.
Mainstreaming IFC’s Environmental and Social Expertise

To meet our goal of differentiating IFC from other lending institutions through our sustainability services, we are mainstreaming the principles and competencies that guide the work of our 40 social and environmental specialists throughout IFC’s investment departments. There are many challenges to reorienting the Corporation along these lines, but we hope this process of decentralization and co-location will better equip us to accomplish our development mission.

During 2004, we co-located over 60 percent of specialists in industry or regional departments. These “mainstreamed” social and environmental staff are engaged more frequently at all stages of the project cycle. This shift is allowing our specialists to engage at an earlier stage on projects, resulting in better integration of the financial and nonfinancial services that IFC offers clients. Mainstreaming has also resulted in our social and environmental specialists playing a more active role in business development for IFC, particularly in regional offices. This upstream involvement makes it easier for IFC to make the business case for sound social and environmental management, as opposed to relying solely on compliance requirements.

Sustainability Learning for IFC Staff

The Sustainability Learning Program (SLP) is designed to familiarize our investment staff with IFC’s many in-house resources to enhance the added value of an investment and the rationale behind a sustainable business approach for clients. Practical exercises and case studies are used to highlight specific ways that IFC can build better business by improving clients’ ability to identify social and environmental risks and opportunities. During FY04, 226 of our staff participated in sustainability training, joined at each session by NGO representatives, executives from IFC client companies, and industry experts. We are developing an updated training program for FY05 for selected IFC field offices, in addition to sessions for Washington-based staff.

Sharing Best Practice

Capturing the cumulative years of IFC’s project experience, knowledge, and lessons learned is essential to improving our work quality and development impact. As part of our commitment to learning and knowledge sharing, we continue to gather and disseminate sector-specific guidance, topical research, and good practice on sustainability issues relevant to the private sector.

Good Practice Publications

We have highlighted earlier in this report some examples of publications on sustainability-related issues, such as IFC’s new HIV/AIDS guide for mining companies, research on ecotourism business viability, and SRI in emerging markets. IFC also produces a regular series of Good Practice Notes written by our social and environmental specialists to guide clients and the wider private sector. Previous publications cover issues such as the workplace impacts of HIV/AIDS and Harmful...
Child Labor, Resettlement, Community Development, and Public Consultation. In FY04, we produced Addressing the Social Dimensions of Private Sector Projects to guide companies seeking to analyze the impact of their operations on communities. Social assessment is presented as an integral part of IFC’s environmental assessment process and as a tool for companies to identify value-adding opportunities that go beyond traditional mitigation measures to deliver broad development benefits. New in FY05 is IFC’s Biodiversity Good Practice Guide (see p. 29), and a series on labor and workplace practices.

Currently, we are ramping up our knowledge-building capacity to improve internal coordination and communication with the addition in 2005 of two new knowledge management officers based in the Environment and Social Development Department. They will help us to better capture IFC’s institutional learning to benefit staff and clients and to inform other stakeholders as they seek to understand IFC’s approach to sustainable development.

Evaluating IFC’s Development Impact

IFC’s Operations Evaluation Group (OEG) is responsible for the post-evaluation function within IFC and reports to IFC’s Board. OEG’s work aims to: (i) help provide accountability for achievement of IFC’s objectives; (ii) identify lessons from past experience to improve IFC’s operational performance and achieve better development results; and, (iii) help reinforce corporate objectives and values among staff. IFC’s self-evaluation system is based on guidelines established by OEG and provides feedback on the effects that IFC-funded projects have on companies, their financiers and clients, workforces, the environment, governments, and communities. For about half of IFC’s portfolio of five-year-old projects, evaluation teams examine the extent to which approval expectations and objectives were met, and why there were material variances. OEG independently validates the ratings, findings, and lessons which are then used to help inform decisions related to new projects.

Evaluating Sustainability Across the Board

Lessons learned from evaluated projects touch on many aspects of sustainability, including the projects’ environmental and social effects and their economic and financial viability. Completed self-evaluations are often the focus of management meetings chaired by a senior IFC portfolio or credit officer, and provide the material for informal presentations to IFC staff. In 2003, an evaluation of IFC’s investment in a best-practice Brazilian mining company showcased the company’s assistance to local communities, including programs to improve their skills and clean up their environment. Also in Brazil, a privately owned and operated road project was a success commercially and economically since it relieved congestion, but a spike in fatalities was an unanticipated impact. IFC learned that pedestrian and driver road safety awareness programs must be a component of future road projects.

Putting Lessons into Action

Project evaluation is also the building block for other OEG evaluation products, including recent special studies such as country impact assessments for Brazil and China, two of IFC’s biggest client countries; sector studies on extractive industries and private sector power generation; and thematic studies on investment climate and IFC’s assistance to SMEs. Every year, these studies and OEG’s Annual Review of IFC’s Evaluation Findings go to the Board’s Committee on Development Effectiveness (CODE) with recommendations for IFC management that are drawn from recurring findings. For example, OEG’s Extractive Industries Evaluation (which fed into the Bank Group’s broader Extractive Industries Review) made strong recommendations related to revenue management, mine closure, prerequisites for funding projects in countries with poor governance, and improving community consultation. Another example was OEG’s finding that poor environmental performance at the project level was closely linked to ineffective regulatory enforcement, often the case in frontier countries, and was the main driver of below-average development outcome ratings in these countries. In response, IFC is considering changing its operational environmental risk rating system to weight project environmental supervision priorities accordingly.

Dynamic Evaluation Framework

IFC’s current practice is to evaluate selected projects once, at early project maturity, but this practice is now changing. Plans are in place to assess development outcome prospects annually for every committed project and to monitor specific expected project impacts. These changes, and IFC’s intention to reward staff for achieving above-average developmental results, shows that IFC is committed to mainstreaming sustainability within its operations. OEG has committed to review its existing evaluation guidance and ratings criteria (Web site: http://www.ifc.org/ifcext/oeg.nsf/Content/xpar) for 2005 to ensure that IFC’s rapidly evolving corporate standards for sustainable development are coherently embodied in the evaluation scope and ratings standards.
Compliance Advisor/Ombudsman

The Compliance Advisor/Ombudsman is an independent post that reports directly to the President of the World Bank Group with the aim of enhancing the development impact and sustainability of IFC (and MIGA) projects. The CAO responds to complaints from project-affected communities in order to improve social and environmental outcomes and to promote greater institutional accountability.

The CAO’s broad mandate as an ombudsman, auditor, and advisor means it has flexibility in responding to a complaint relating to an IFC project, finding practical solutions where possible, and engaging parties in constructive dialogue. The CAO’s independence and impartiality help foster the trust of local communities, NGOs, and IFC’s clients, and its independence from IFC’s management allows the CAO to provide objective advice to improve IFC’s work.

Since 1999, the CAO has received a total of 28 complaints. Ten of these are being assessed; seven were investigated and recommendations made; five have been rejected; two are involved in large, multiparty mediation; two were closed because the project was dropped or canceled; and two were closed as they could not be pursued further. Complaints have touched on such issues as the adequacy of: consultation and information sharing; compensation or other measures to offset loss of income; protective measures for water resources; mitigation measures more generally; and public safety provisions.

In FY04, the CAO continued to work on, and resolve, a complaint related to the COMSUR/Don Mario Gold Mine in Bolivia, and received 15 new complaints.

HOW DOES IFC EVALUATE A PROJECT’S DEVELOPMENT OUTCOME?

The development outcome is a bottom-line assessment of a project’s success on the ground, relative to what would have occurred without the project. In OEG’s 2004 Annual Review, covering a sample of 1995–1997 investment approvals, 58 percent of operations made positive contributions to development based on the top three ratings on a six-point scale from highly successful to highly unsuccessful. The overall rating is determined by the relative importance of four underlying indicators for each project:

Private Sector Development: 72% Success Rate
IFC projects contribute to private sector development by creating sustainable enterprises capable of attracting finance. Projects tend to have demonstration effects, linkages to suppliers or customers, and/or bringing technology and know-how transfer, training, or increased competition. Some projects also bring about improvements in the regulatory or enabling environment, or improve corporate governance. A high proportion (72 percent) of evaluated projects made such positive contributions.

Environmental, Social, Health and Safety Impacts: 64% Success Rate
IFC assesses a project’s impacts on its physical environment and social, cultural, and worker health and safety issues addressed by our safeguard policies. The project’s environmental, social, and health and safety effects were satisfactory or excellent in 64 percent of cases. Low ratings were due to material performance shortfalls, which, however, were usually corrected during the life of the project.

Economic Sustainability: 61% Success Rate
IFC rates a project’s economic sustainability on its contribution to economic growth as measured by its economic rate of return (ERR), taking into account net gains or losses by nonfinanciers, nonquantifiable impacts, and contributions to widely held development objectives such as direct poverty reduction, social or gender equality, and regional or rural development. Overall, 61 percent of the evaluated projects were judged to be economically sustainable.

Project Business Success: 39% Success Rate
A project’s business success, or financial sustainability, is a strong determinant of its wider development impacts. In the real sector, IFC compares returns to the company’s cost of capital. In the financial sector, IFC considers how the project contributed to the intermediary’s profitability, financial condition, and business objectives. Project business success scored lowest at 39 percent of evaluated projects. This figure reflects the commercial, country, and global business climate risks IFC and its investment partners face. Even when a project does not meet IFC’s high standards, typically people other than the project financiers (who get paid last) tend to benefit and companies may still be sustainably servicing their debt.
A PROJECT WITH A HIGHLY SUCCESSFUL DEVELOPMENT OUTCOME

The project was a two-year capital expenditure program to rehabilitate and expand a recently privatized water and sewerage system in a major capital city.

**Project Business Performance: Excellent.** The project was completed below budget and on time. Capacity increased by 26 percent, resulting in nearly 1 million new water customers and about 400,000 additional sewerage customers in a city of 9.4 million people. The company has been operating profitably throughout the IFC investment period.

**Economic Sustainability: Excellent.** The project made available a reliable, 24-hour, clean water supply for the first time in many disadvantaged neighborhoods. The project’s economic return of 36 percent reflected taxes paid and the consumer surplus. Also, company employees benefited from secure employment, improved working conditions and better pay. They could also own company shares.

**Environmental Impacts: Satisfactory.** Without the project, the adverse impacts on health associated with unsafe water would have remained a burden to people’s lives and the economy. The project helped the company work toward full compliance with local environmental obligations.

**Private Sector Development: Excellent.** The project engaged several contractors with a total of about 11,000 workers; some of these were SMEs set up by former employees. The provision of water enabled the establishment of schools and clinics in areas the company served.

14 of which related to the BTC pipeline project. Four of these have been rejected and 10 are under assessment. One other complaint received and resolved in FY04 related to the Konkola Copper Mine in Zambia. In its advisory role, the CAO continues to actively stimulate debate and internal action on matters such as IFC’s approach to human rights.

During FY04, the CAO released an independent water study of the Yanacocha Gold Mine in Peru. The study’s objective was to evaluate whether the quantity of water available for human consumption and agriculture is adversely affected, and whether the quality of water has changed in ways that could make it unsafe for humans, livestock, and wild flora and fauna. The CAO hired independent hydrologists to carry out the work, which was innovative, in that local people—veedores (observers)—performed the monitoring and verification of water data collection. While the study is completed, follow-up work is still continuing as the community works to address the issues and problems raised. The study provides important lessons learned for IFC regarding best practices and participatory planning.

This study, the CAO’s 2003–4 Annual Report, and full details of complaints received, their status, and assessment are available at www.cao-ombudsman.org.

A PROJECT WITH AN UNSUCCESSFUL DEVELOPMENT OUTCOME

The project was a renovation and upgrading of a company’s meat processing plants, aiming to enhance the quality of export products, expand the product range, and improve hygiene standards.

**Project Business Performance: Unsatisfactory.** The project failed financially, having been unsuccessful in positioning the company to expand into the domestic market at a critical time when export markets collapsed. The project helped improve the company’s overall efficiency, but the firm remained exposed to raw material price volatility, given that the dominant domestic operators controlled cattle supply.

**Economic Sustainability: Unsatisfactory.** The company benefited from an export subsidy, which helped its owners and financiers more than other members of society. A cattle disease outbreak overseas caused the company to restructure and reduce its labor force by closing two old plants in low-income areas.

**Environmental Impacts: Satisfactory.** The project created high safety standards for employees at one plant. Management ensured compliance with IFC environmental guidelines and local regulations, including air emissions, safety, and hygiene.

**Private Sector Development: Partly Unsatisfactory.** The project failed to stimulate a large-scale modernization of the domestic meat processing industry, which continued to be dominated by fragmented and inefficient operators who often violate hygiene standards.

… local people—veedores (observers)—performed the monitoring and verification of water data collection.”
As part of our commitment to sustainable development, IFC tracks and manages the impact of our physical facilities on the environment, on staff and their families, and on the local communities in which we work and live. This is the third year we have reported on IFC’s corporate footprint.
Over the past year, IFC has undertaken new greening initiatives, community outreach, and staff development programs, in addition to continuing to improve our footprint in areas previously identified. Some of IFC’s facility operations are managed by the World Bank’s General Services Department (GSD), which jointly facilitates IFC’s engagement in some footprint activities. As part of our efforts to improve our footprint performance, IFC is recruiting a dedicated Footprint Officer in 2005. This member of staff will work full time on a one-year pilot basis to help integrate priority greening activities at IFC, and implement methods to improve staff awareness.

Energy Emissions
Management of energy use in office buildings often depends on the burning of fossil fuels, resulting in emissions that contribute to climate change. Monitoring our energy usage at IFC headquarters is a key priority, and an engineering team has worked diligently to improve our operating strategy for saving energy.

Such efforts began when IFC opened its headquarters building in 1997. Major initial improvements led to IFC’s earning the U.S. Environmental Protection Agency’s (EPA) Energy Star Rating for 1999 and 2001, and we continue to identify further energy efficiency improvements. IFC has a load shedding program in place for saving electricity costs by reducing consumption. This is accomplished by several means including managing building temperature setpoints, temporary equipment shutdown, and cogeneration of electricity when fuel oil prices are sufficiently low. Four large gas-powered water heaters are kept at peak efficiency using a flue gas analyzer; this reduces the amount of unburned gas entering the atmosphere as well as maintenance costs. IFC’s annual cost of utilities per square foot for the past 3 years has averaged 33 percent below comparable commercial buildings in downtown Washington, D.C., according to industry standard data from the Building Owners and Managers Association. In light of this achievement, IFC has applied for EPA's Energy Star Rating for 2004. IFC’s office equipment is also Energy Star-certified wherever possible.

In FY04, renewable energy constituted 8 percent of total energy usage at IFC headquarters, up from 6 percent in FY03. IFC’s source for renewable energy is wind power, acquired through a local utility company, generating quantifiable environmental benefits. Reductions of sulfur dioxide, nitrogen oxides, and carbon dioxide emissions are quantified for the utility’s customers in the form of green certificates or “tags” that are certified by Green E, an independent organization that monitors electricity generated by renewable energy projects. Beginning in fiscal year 2005, the World Bank announced it will purchase renewable energy for all of its electricity usage at its Washington, D.C. offices from WindCurrent, a Maryland-based company that sells wind power to the mid-Atlantic power grid. This purchase will represent enough electricity to power almost 8,000 average homes a year, and is equivalent to eliminating the carbon dioxide emissions of more than 10,000 cars a year or planting roughly 15,000 acres of trees, according to U.S. EPA figures. Produced using conventional electricity sources, including coal and natural gas, this would have generated an estimated 60,000 tons of carbon dioxide emissions.

Water, Waste, and Recycling
We have installed new recycling containers throughout our headquarters buildings to capture recyclable paper, glass, plastic, and aluminum, recycling 63 tons of paper material and 7.3 tons of glass, plastic, and aluminum during FY04. IFC is also following the World Bank in using recycled toner cartridges and environmentally friendly restroom supplies. In FY04, IFC reduced total water usage by 1,095 cubic feet (CCF), reducing average water usage employee by 1.07 CCF (see “Environmental Facts and Figures,” p. 46).

DONATING EXCESS OFFICE SUPPLIES TO BENEFIT LOCAL SCHOOLS
In October 2003, IFC’s Environment and Social Development Department (CES) assembled a team to explore ways of reducing its own environmental footprint. The Footprint Reduction Team began by focusing on excess supplies, energy consumption, printing services, and paper reduction. Through the World Bank’s “Recycle Excess Office Supplies” program, the team has donated ten boxes of excess supplies to benefit two local D.C. high schools, Cardozo and Bell, in addition to staff donations of books, software, and three computers with monitors. With assistance from volunteer Bank Group staff, students at the high schools prepare a “business plan” to cover inventory, pricing, and sales to local nonprofit organizations. The Footprint Reduction Team continues to work with IFC and World Bank colleagues to achieve similar success in other areas.
Staff Travel

Thousands of commuting World Bank Group staff have an impact on local air quality in the Washington, D.C. area, as well as on carbon emissions globally. To reduce the number of cars on the road, IFC has, since 2003, provided an incentive plan for staff by offering subsidies for public transportation on Metrorail and Metrobuses for their daily commute. Over 450 IFC staff members are registered for the incentive. In conjunction with the World Bank, IFC has also enabled its staff to join a program to reduce the use of their own vehicles for local personal and business travel by providing easy access to a fleet of shared vehicles for carpooling, with the normal application fee being waived for IFC staff.

Procurement

IFC and the World Bank have identified opportunities to support sustainable practices in our cafeteria and catering for meetings and conferences. In FY04, IFC’s food services stopped serving several species of seafood considered to be harvested unsustainably: shark, marlin, orange roughy, Chilean sea bass, monkfish, and sailfish. The percentage of coffee sold in IFC’s cafeteria in FY04 that was organic, fair-traded, and shade-grown increased to about 40 percent from 25 percent the previous year. In

Environmental Facts and Figures*

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<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
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<tbody>
<tr>
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<td>1,800</td>
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<tr>
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Volume of Waste Produced

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Recyclables (Mixed Paper)

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Paper Use

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Water

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Power

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Thermal Energy**

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CO₂

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<td>945</td>
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<tr>
<td></td>
<td>1,062</td>
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* Several of the figures quoted in this table have been adjusted to reflect corrections.
** In 2002, the winter session in Washington, D.C. was unseasonably warm, resulting in 23% fewer heating days and lower than normal usage of natural gas for heating purposes.
addition, 15 percent of vendors to IFC’s cafeteria are small and minority-run businesses. Procurement from these vendors represents approximately 12 percent of IFC’s total cafeteria purchases.

Of IFC’s total building operating budget for products and services, 32 percent goes to small, minority, or women-owned businesses, and approximately 10 percent of our construction subcontractors represent small or minority-owned businesses. IFC’s contractors use only paints that contain no volatile organic components and are environmentally safe. In working with suppliers, IFC includes environmental requirements in its Requests for Information, Requests for Proposals, and contracts, similar to those in use at the World Bank.

Human Resources
As for any company or institution, a key stakeholder for IFC is its staff. We are fortunate to have a diverse workforce with employees from 126 different countries; each member brings his or her own unique perspective and skills to the Corporation. IFC is committed to creating a respectful and supportive work environment, nurturing strong leaders, mobilizing diversity and inclusion, and developing a global IFC workforce. IFC currently has a total of 2,231 staff, with 1,287 (58 percent) at headquarters in Washington and 944 (42 percent) in 86 country offices around the world. Since FY99, IFC’s staff body has increased by 20 percent, reflecting the growth of our SME and technical assistance work in the field. IFC’s human resources management is directly linked to our business strategy and based on fostering a culture of high performance, accountability, and learning to deliver on IFC’s goals. Our 2003 Staff Survey shows that morale is high, with staff acknowledging IFC’s improved managerial capacity in fostering open discussions, and improved teamwork across groups. And IFC staff indicated an overall 92 percent satisfaction rate in working for the World Bank Group.

Enhancing Diversity and Inclusion
Diversity and gender issues remain a focus of IFC’s recruitment and professional development efforts—particularly for the higher ranks of the Corporation. Women account for 50.3 percent of the workforce at IFC. At the officer level and above, 31.4 percent of positions are held by women, and we intend to increase this percentage through promotions and new recruitment. Developing country nationals are 57.3 percent of our overall workforce, and account for 47.4 percent of positions at the officer level and above. We are proud of our record to date, but acknowledge that improvements are possible.

In FY05, IFC will increase staff recruitment from leading universities in developing countries, and target high-caliber professionals from Africa and Asia, particularly women. We are expanding our participation in job fairs worldwide, as well as undertaking recruitment missions to the Middle East, Japan, and Europe. We are mainstreaming diversity and inclusion across IFC’s staff training, performance management, and career development programs, including diversity and cultural competency training in our Leadership Program for new managers. Promoting diversity will remain a continuing priority for IFC, with appropriate milestones and monitoring of progress.
Staff Ethics
The World Bank Group has an Office of Ethics and Business Conduct (EBC), which is responsible for ensuring staff awareness of the institution’s core values and ethical standards. The EBC advises staff on actions that might constitute misconduct or clarify gray issues and provides training on ethics awareness and integrity. IFC is committed to fostering a workplace free of harassment and intimidation, where all staff can work together in an atmosphere of trust and openness where differences are respected. Harassment on any basis—including but not limited to race, gender, religion, nationality, color, sexual orientation, disability or age—is unacceptable. Staff are expected to conduct themselves in accordance with the high ethical standards of honesty and integrity articulated in the institution’s Code of Professional Ethics. IFC managers receive training on ethics and forms of harassment, including sexual harassment.

Performance and Pay
IFC actively seeks to maintain equity in terms of diversity in its salary distributions; the key groups we examine are women and staff from developing countries. A comparison index is offered for average salaries at the managerial level and entry-level officer level in IFC across gender and nationality lines (see right). For each category, the chart demonstrates deviation from the corporate average represented by a value of 100.

IFC’s Staff Performance Awards program recognizes and awards outstanding staff contributions that lead to improved results for our clients and greater work effectiveness for IFC as a whole.

Community Outreach at Headquarters
IFC has always maintained a commitment to supporting local communities where our staff live and work. In addition to encouraging staff to volunteer in outreach activities, IFC devotes corporate energy and resources to supporting a variety of World Bank Group community outreach programs. These efforts build a sense of community among our staff and increase recognition of the World Bank Group, the third largest employer in the Washington area, as a good corporate citizen.

For the second consecutive year, the World Bank Group was ranked by the Washington Business Journal as being one of the top 25 most generous corporate philanthropists in the Washington, D.C., metropolitan area, raising over $450,000 through charitable giving and events in FY04. Including the Bank Group’s corporate contribution, a total of $700,000 was awarded to 172 local nonprofit organizations in the Washington area, including selected international agencies.

Most of the Bank Group’s outreach activities focus on the education and rehabilitation of less fortunate people in the Washington area. Our Community Connections Fund distributes funds to the neediest organizations in the area based upon consultation with...
CULTURAL OUTREACH

Since 1997, IFC’s Cultural Outreach Program has been committed to bringing the world’s many cultures to IFC headquarters, presenting renowned and emerging international artists in various fields of the performing arts including music, dance, theater, and film. The program has grown steadily since its inception and currently presents an average of 20 performances a year. We also partner with various initiatives where the performing arts can contribute to raising awareness on social issues. In this past year we have worked alongside the diversity and disability programs to present the “Children of War” play and the “Blind Dancers of India” to name a few. Events are always free.

Community Outreach in the Field

Building on the success of our “A Chance to Work” program in Washington, IFC’s Legal Department has extended the program to IFC’s field offices. Programs underway in Egypt and Russia are enjoying much success. In Cairo, IFC has partnered with one of its clients, the Mansour Group, and USAID to establish a community development and microfinance NGO called the LEAD Foundation. LEAD administers the Cairo “A Chance to Work” program, which trains disadvantaged Cairo residents to fill needs identified in certain industries. Thus far, the program has placed 30 interns in the automotive repair and plumbing fields, and all participants have found permanent employment.

In Moscow, the program targets young adults who have come of age from Russia’s orphanages. IFC works together with the Russian Union of Industrialists and Entrepreneurs to identify companies that can host interns in clerical fields. Moving forward, we are actively pursuing the creation of similar programs through our offices in Manila, Philippines and in Kiev, Ukraine.

FOME ZERO HUNGER

Last year, IFC established a key role in the Brazilian government’s Fome Zero (Zero Hunger) program, providing a $300,000 grant to two nonprofit groups that developed a database, call center, and Web site to provide information on the needs of 1,000 of Brazil’s poorest municipalities to private companies willing to fund anti-poverty projects. This year, on the initiative of administrative staff in our offices in Brazil, IFC became a program participant.

We granted $50,000 for a project in Brejao now piping potable water to more than 1,300 people in a rural area. In Setubinha, IFC granted $20,000 to fund a laboratory for pathological testing in a newly built clinic. Ganjeiro municipality will receive $10,000 for modern agricultural machinery to harvest sisal hemp, a project that could benefit 500 people. And in Aimores, IFC granted $10,000 to support agricultural assistance for small-scale farmers.

For the administrative staff who spearheaded IFC efforts, Fome Zero continues to be a rewarding and challenging experience and provides a better understanding of IFC’s operations and mission. See www.fomezero.org.br
### OPERATIONAL RESULTS SUMMARY, FY 04

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>New projects committed</td>
<td>217</td>
</tr>
<tr>
<td>Total financing committed</td>
<td>$5.63 billion</td>
</tr>
<tr>
<td>Financing committed for IFC’s own account</td>
<td>$4.75 billion</td>
</tr>
<tr>
<td>Total committed portfolio*</td>
<td>$17.9 billion</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans as a % of committed portfolio</td>
<td>74%</td>
</tr>
<tr>
<td>Equity as a % of committed portfolio</td>
<td>20%</td>
</tr>
<tr>
<td>Structured finance products (includes guarantees) as a % of committed portfolio</td>
<td>5%</td>
</tr>
<tr>
<td>Risk management products as a % of committed portfolio</td>
<td>1%</td>
</tr>
</tbody>
</table>

* Includes off-balance-sheet products, such as structural finance and risk management products; for IFC’s own account as of June 30, 2004.

### RESOURCES AND INCOME, FY04

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Operating income</td>
<td>$982 million</td>
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<tr>
<td>Net income</td>
<td>$993 million</td>
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<tr>
<td>Paid-in capital</td>
<td>$2.4 billion</td>
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<tr>
<td>Retained earnings</td>
<td>$5.4 billion</td>
</tr>
<tr>
<td>Borrowings for the fiscal year</td>
<td>$3.0 billion</td>
</tr>
<tr>
<td>Net worth</td>
<td>$7.8 billion</td>
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### COMMITMENTS BY REGION, FY04

<table>
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<tr>
<th>Region</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East and North Africa</td>
<td>236</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>1,583</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>405</td>
</tr>
<tr>
<td>East Asia and the Pacific</td>
<td>763</td>
</tr>
<tr>
<td>South Asia</td>
<td>514</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>2,030</td>
</tr>
</tbody>
</table>

**TOTAL $5,633**

1 Includes BTC pipeline, which is officially classified as a global project

### INVESTMENT PORTFOLIO BY REGION, FY04

<table>
<thead>
<tr>
<th>Region</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Middle East and North Africa</td>
<td>1,156</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>6,076</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>1,603</td>
</tr>
<tr>
<td>East Asia and the Pacific</td>
<td>2,897</td>
</tr>
<tr>
<td>South Asia</td>
<td>1,529</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>4,554</td>
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</table>

**TOTAL $17,938**

1 Includes BTC pipeline, which is officially classified as a global project
2 Includes regional share of LNM Holdings Investment, which is officially classified as a global project

Note: All numbers reflect rounding.
COMMITMENTS BY PRODUCT, FY04
Includes IFC’s account and syndications (millions of U.S. dollars)
TOTAL $5,633

COMMITMENTS BY STRATEGY, FY04
Includes IFC’s account and syndications (millions of U.S. dollars)

* Not including information and communications
** SME investments derived from all industry sectors
Financial consists of finance and insurance, and funds. Infrastructure consists of utilities and transportation.
COMMITMENTS BY SECTOR, FY04
Includes IFC’s account and syndications (millions of U.S. dollars)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Amount ($ millions)</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Finance and insurance</td>
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<tr>
<td>Utilities</td>
<td>739</td>
<td>13.1%</td>
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<tr>
<td>Oil, gas, and mining</td>
<td>630</td>
<td>11.2%</td>
</tr>
<tr>
<td>Information</td>
<td>312</td>
<td>5.5%</td>
</tr>
<tr>
<td>Industrial and consumer products</td>
<td>295</td>
<td>5.2%</td>
</tr>
<tr>
<td>Transportation and warehousing</td>
<td>249</td>
<td>4.4%</td>
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<tr>
<td>Nonmetallic mineral product manufacturing</td>
<td>238</td>
<td>4.2%</td>
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<tr>
<td>Collective investment vehicles</td>
<td>207</td>
<td>3.7%</td>
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<tr>
<td>Pulp and paper</td>
<td>206</td>
<td>3.7%</td>
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<tr>
<td>Chemicals</td>
<td>200</td>
<td>3.5%</td>
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<tr>
<td>Primary metals</td>
<td>173</td>
<td>3.1%</td>
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<tr>
<td>Agriculture and forestry</td>
<td>166</td>
<td>2.9%</td>
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<tr>
<td>Wholesale and retail trade</td>
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<tr>
<td>Food and beverages</td>
<td>123</td>
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<tr>
<td>Textiles, apparel, and leather</td>
<td>75</td>
<td>1.3%</td>
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<tr>
<td>Health care</td>
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<tr>
<td>Accommodation and tourism services</td>
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<td>0.9%</td>
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<tr>
<td>Plastics and rubber</td>
<td>37</td>
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<tr>
<td>Professional, scientific, and technical services</td>
<td>36</td>
<td>0.6%</td>
</tr>
<tr>
<td>Construction and real estate</td>
<td>25</td>
<td>0.4%</td>
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<tr>
<td>Education services</td>
<td>10</td>
<td>0.2%</td>
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<tr>
<td><strong>Total Commitments</strong></td>
<td><strong>5,633</strong></td>
<td><strong>100%</strong></td>
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STAFF TIME DEVOTED TO ENVIRONMENTAL AND SOCIAL REVIEW, FY2004

<table>
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<tr>
<th>Activity</th>
<th>Staff Hours</th>
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<tbody>
<tr>
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<td>28,705</td>
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<tr>
<td>Supervision of portfolio projects</td>
<td>16,729</td>
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</table>
GROWTH OF ENVIRONMENTAL AND SOCIAL STAFF, FY2004

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Staff</th>
<th>Spending ($millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>8</td>
<td>2.0</td>
</tr>
<tr>
<td>1996</td>
<td>21</td>
<td>3.5</td>
</tr>
<tr>
<td>1998</td>
<td>42</td>
<td>5.1</td>
</tr>
<tr>
<td>2000</td>
<td>70</td>
<td>9.3</td>
</tr>
<tr>
<td>2002</td>
<td>84</td>
<td>11.7</td>
</tr>
<tr>
<td>2004</td>
<td>99</td>
<td>12.5</td>
</tr>
</tbody>
</table>

ENIRONMENTAL AND SOCIAL STAFF AND TRAINING, FY2004

<table>
<thead>
<tr>
<th></th>
<th>FY02</th>
<th>FY03</th>
<th>FY04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total IFC staff</td>
<td>2,231</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff in specialized environmental and social business unit</td>
<td>99</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff receiving training in environmental and social issues during fiscal 2004</td>
<td>226*</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* The FY 04 number is lower than the previous year as the Sustainability Learning Program has been expanded to a more comprehensive training thus requiring staff to be trained in smaller groups.

SNAPSHOT OF DEVELOPMENT IMPACT
Commitment of IFC’s account and syndications (percentages)

<table>
<thead>
<tr>
<th>Category</th>
<th>FY02</th>
<th>FY03</th>
<th>FY04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Priority sector commitments</td>
<td>77</td>
<td>76</td>
<td>64</td>
</tr>
<tr>
<td>Financial sector</td>
<td>34</td>
<td>50</td>
<td>33</td>
</tr>
<tr>
<td>Frontier country commitments¹</td>
<td>22</td>
<td>22</td>
<td>22</td>
</tr>
<tr>
<td>Commitments with projected high impact²</td>
<td>47</td>
<td>58³</td>
<td>61</td>
</tr>
<tr>
<td>Positive contribution to development⁴</td>
<td>61³</td>
<td>57</td>
<td>58</td>
</tr>
</tbody>
</table>

¹ Excludes firms in regional and global projects. IFC considers countries “frontier” if they are low income, as defined by the World Bank, or high risk, with a rating of 30 or below or unrated by Institutional Investor.
² For criteria, see p. 16 of the 2004 IFC Annual Report.
³ Adjusted number
⁴ For discussion, see p. 65 of 2004 IFC Annual Report.

BREAKDOWN BY ENVIRONMENTAL AND SOCIAL CATEGORY OF FY 2004 COMMITMENTS

<table>
<thead>
<tr>
<th>Category</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>FI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of committed projects</td>
<td>10</td>
<td>95</td>
<td>59</td>
<td>62</td>
</tr>
<tr>
<td>Amount committed ($ millions)</td>
<td>375,830,000.00</td>
<td>2,334,923,959.75</td>
<td>704,853,549.78</td>
<td>1,277,371,810.84</td>
</tr>
</tbody>
</table>

Note: Category A projects have significant potential for adverse environmental or social impacts; Category B projects have less significant or more manageable impacts; Category C projects have minimal or no environmental or social impacts; and financial intermediaries are treated separately.
IFC and the Millennium Development Goals

The increased commitment of the international community to poverty reduction and sustainable development was evidenced by the adoption of the Millennium Development Goals (MDGs) in 2000 by the 189 UN member states. The World Bank Group is playing a lead role in efforts to meet the eight goals, which aim to achieve measurable improvements in people’s lives by 2015.

IFC’s Strategy Aligned to Contribute to MDGs

Sustainable development is explicit in IFC’s mission—we promote private sector investment in emerging markets to catalyze economic growth necessary for poverty reduction. A central theme of IFC’s development strategy is to invest in frontier markets—low-income and high-risk countries—where there are little or no foreign capital flows. This strategy is increasing IFC operations in countries where progress toward meeting the MDGs has been limited to date. IFC’s pioneering demonstration effect in these markets is likely to catalyze FDI from other investors. Recent IFC evaluation studies show a strong correlation between improving a country’s investment climate and its progress toward meeting the MDGs: in the 1990s, 77 percent of IFC approvals and 84 percent of net FDI were concentrated in countries that are now expected to have a likelihood of achieving the goals. The success of IFC’s frontier interventions, together with coordinated World Bank Group efforts to improve investment climates, are likely to be key elements in helping these countries meet their MDG targets (see chart below).

In addition, IFC’s strategic focus on “high-impact” sectors—domestic financial markets; infrastructure; health and education; information and communication technology; and SME development—complements our frontier strategy by promoting strong local business growth, generating employment, and furthering human development goals.

COUNTRIES WITH BETTER INVESTMENT CLIMATES ARE MORE LIKELY TO ACHIEVE THE MDGs

![Chart showing correlation between investment climate and MDG achievement]
IFC Sustainability Report 2004

GOAL 1  ERADICATE EXTREME POVERTY AND HUNGER

Private sector development is now recognized as one of the most important engines for improving the lives of the poor. IFC’s investment activities are strategically prioritized to deliver the greatest poverty reduction impact—for example, by supporting small businesses that generate most new jobs in an economy, and by supporting infrastructure projects that improve people’s mobility and access to basic services, such as potable water. Recognizing that investments in companies are not always sufficient to effect change, IFC has greatly enhanced its ability to provide technical assistance and advisory services, mostly through grant funding, that are specifically targeted at the neediest.

GOAL 2  ACHIEVE UNIVERSAL PRIMARY EDUCATION

Since 2000, IFC has had a dedicated Health and Education Department that invests primarily in private secondary and tertiary institutions. The schools in which IFC invests alleviate strain on the public sector to deliver in these areas. IFC’s policies prohibit use of child labor in any project in which we invest.

GOAL 3  PROMOTE GENDER EQUALITY AND EMPOWER WOMEN

IFC contributes to this goal by supporting and promoting the role of women in private sector development in emerging markets. We support the advancement of women entrepreneurs and women in education and training through IFC investments, advisory services, and technical assistance. We launched a gender mainstreaming program in 2004. We support gender equality in our policies and in our approach to projects.

GOAL 4  REDUCE CHILD MORTALITY

IFC’s Health and Education Department makes financing available to private sector hospitals and health clinics in our member countries. IFC’s many investments in water and wastewater service providers are instrumental in bringing international best practices to the fight against waterborne diseases, a major contributor to child mortality globally.

GOAL 5  IMPROVE MATERNAL HEALTH

IFC’s participation in financing hospitals and health clinics contributes to governments’ ability to improve maternal health. In certain cases, IFC will access grant funding to assist clients in making basic health care available to communities in the vicinity of their operations. This contributes to both Goals 4 and 5.

GOAL 6  COMBAT HIV/AIDS, MALARIA, AND OTHER DISEASES

The IFC Against AIDS program helps companies navigate risks to their business arising from the prevalence of HIV/AIDS in many of IFC’s member countries. The program makes funding available to provide training and technical assistance to companies as they devise strategies to raise awareness, promote prevention, and, if necessary, provide treatment to employees and the wider community. In addition, IFC’s investments in water and wastewater service providers help bring international best practices to the fight against waterborne diseases. Additionally, we support our clients in implementing antimalarial programs as part of community development activities.

GOAL 7  ENSURE ENVIRONMENTAL SUSTAINABILITY

IFC’s in-house expertise on private sector environmental and social sustainability is unrivaled among development institutions and international banks. We require our investments to undergo comprehensive environmental and social appraisal and report annually on a list of key indicators, including local emissions to air and water. IFC makes grants available to companies pioneering, for instance, biodiversity conservation; actively stimulates the carbon finance market; and provides assistance to companies developing innovative environmental technologies for renewable energy and energy efficiency, pollution abatement, sustainable natural resource management, and water and wastewater services, among others.

GOAL 8  DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT

IFC works with companies, communities, governments, the financial sector, and non-governmental organizations to raise awareness and build partnerships to promote sustainable development through the private sector in emerging markets.

For more information on the Millennium Development Goals, see www.developmentgoals.com

IFC Sustainability Report 2004 55
IFC and the Global Compact

The UN Global Compact is a voluntary corporate citizenship network that unites the private sector with other stakeholders in support of social and environmental principles to meet the challenges of globalization.

The Global Compact has become an important aspirational statement for over 2,000 companies and stakeholders worldwide on their roles in society and their responsibilities as essential actors in the development process. These companies demonstrate how effective, profitable business can be responsible, sustainable business by sharing the core values of development—respect for human rights, respect for workers, protection of the environment, partnership with communities, and engagement with the companies’ neighbors.

In the past year, IFC and the Global Compact have held a series of conversations and have begun to collaborate more closely. Both the Global Compact and IFC are eager to see the Compact’s principles become more widely known in emerging markets, and see them as the starting point for industry-specific efforts toward good practice standards that are meaningful and stimulate the race to the top on corporate citizenship.

IFC participated in the production of “Who Cares Wins: Connecting Financial Markets to a Changing World” and took part in the UN Global Compact business leaders summit in June 2004. A strategic planning meeting in September 2004 laid the groundwork for greater collaboration between IFC and the Global Compact in 2005 to extend its reach to financial markets and help the compact become truly global.
Is IFC part of the World Bank Group?
Yes, the International Finance Corporation is the private sector investment arm of the World Bank Group. In addition to IFC, the Bank Group consists of: the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA), which together provide low-interest loans, interest-free credit, and grants to developing countries; the Multilateral Investment Guarantee Agency (MIGA), which provides political risk insurance (guarantees) to investors in and lenders to developing countries; and the International Centre for Settlement of Investment Disputes (ICSID), which settles investment disputes between foreign investors and their host countries. IFC shares the primary objective of all World Bank Group institutions: to improve the quality of the lives of people in its developing member countries. For more details, see www.worldbank.org

What does IFC do?
Established in 1956, IFC is a multilateral institution that complements the World Bank’s support for public sector projects by providing financing and technical expertise to the private sector in developing countries in order to spur economic growth. Today, IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world: it assumes equal commercial risks alongside other private investors, helps companies mobilize capital from international financial markets, and provides advisory and technical assistance services to businesses and governments. IFC has over 2,200 staff, with close to 1,000 based in 86 field offices around the globe. See www.ifc.org

Who are your shareholders, board, and management?
IFC’s shareholders are its 177 member countries that collectively determine policies and approve investments. IFC’s five largest shareholders, with 45 percent share capital, are the United States, Japan, Germany, France, and the United Kingdom. The remaining 55 percent is held by the other member countries. Voting is in proportion to the number of shares held. IFC’s corporate powers are vested in its Board of Governors, to which member countries appoint representatives. The Governors delegate power to the Board of Directors, which is composed of the Executive Directors of the IBRD, and represents IFC’s member countries. All projects go to the Board for review and approval. The President of the World Bank Group is also IFC’s president. IFC’s Executive Vice President is responsible for overall management of day-to-day operations. IFC is legally and financially autonomous with its own Articles of Agreement, share capital, management, and staff.

If IFC is a development institution, why do you seek to profit on your investments?
IFC operates on a fully commercial basis, sharing the same risks as other investors. We have to profit from our investments to remain financially sustainable as a development finance institution. Our equity and quasi-equity investments are funded from our total capital and retained earnings, while for lending operations, IFC carries out public borrowing or private placements in international financial markets. IFC works in frontier markets with inherent higher risks, but our conservative approach to financial risk limits our exposure. IFC retains a triple-A credit rating, which allows us to borrow money from financial markets and lend it at market rates to clients, in some cases as a “lender of last resort” where other financing options are unavailable. IFC’s profits increase our capital cushion and our ability to channel funds into other development projects and initiatives that promote sustainability.

Are there projects IFC will not finance under any circumstances?
IFC’s “Exclusion List” prohibits the financing of projects involving certain activities, production, or trade in certain goods. The list includes: forced labor/harmful child labor; weapons and munitions; alcoholic beverages (excluding beer and wine); tobacco; radioactive materials; unbonded asbestos fibers; PCBs; pharmaceuticals or pesticides/herbicides subject to international phaseouts or bans; ozone-depleting substances subject to international phaseout; gambling and casinos; wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species (CITES); logging activities in primary tropical moist forest; drift net fishing. For our full Exclusion List, see www.ifc.org/ifcext/enviro.nsf/Content/IFCExclusionList

How much money can IFC provide in a single investment?
To ensure the participation of investors and lenders from the private sector, IFC limits the total amount of own-account debt and equity financing it will provide for any single project. For new projects the maximum is 25 percent of the total estimated project costs, or, on an exceptional basis, up to 35 percent for small projects. For expansion projects, IFC may provide up to 50 percent of the project cost, provided its investments do not exceed 25 percent of a company’s share capital. IFC investments typically range from $1 million to $100 million and, on average, for every $1 of IFC financing, other investors and lenders provide over $5.
STAGES OF THE IFC PROJECT CYCLE

1. Business Development
   - IFC investment strategy
   - Dialogue with the prospective client
   - Project eligibility with IFC investment criteria

2. Early Review
   - Review of basic project information
   - Project categorization
   - Pre-appraisal visits by IFC investment staff
   - Identification of risks and opportunities
   - Internal management decision regarding IFC’s interest in financing the project
   - Agreement with client to proceed to appraisal (mandate)

3. Appraisal
   - Detailed evaluation of the project, including social, environmental, social and governance aspects
   - Initial discussion of financing terms, including conditionalities
   - Consultation and disclosure

4. Investment Review Meeting
   - IFC management review of project terms and considerations
   - Continuing negotiations with the client regarding terms and conditions of financing

5. Board Approval
   - Consideration of the project by the IFC Board of Directors

6. Commitment
   - The signing of the legal documents specifies the terms and conditions under which IFC will finance the project

7. Disbursement
   - Disbursement occurs according to the terms and conditions contained in the legal documentation

8. Supervision
   - IFC monitors the performance of all active projects in its portfolio to ensure compliance with environmental, social and other conditions
Report Commentary

Corporate Citizenship Company

Commentary for IFC Sustainability Report 2004

The Corporate Citizenship Company is a specialist consultancy working with major international corporations. IFC commissioned us to provide external commentary on this, its third sustainability report. IFC management prepared the report and is responsible for its contents. We have sole responsibility for this statement.

Our role was to review whether the report provides a complete view of the institution and its activities, whether the material issues are included and whether it demonstrates IFC being responsive to the demands of its stakeholders. Our work has not extended to checking data or independent verification of otherwise unaudited information.

A sustainability report should show how an organisation impacts on society at large, looking at the social, economic and environmental concerns of people with a stake in its operations. It should explain how crucial decisions are made and conflicting interests of different stakeholders balanced. It needs to be honest about shortcomings, and show that the organisation is learning and improving.

In our view, this report presents IFC’s principles and its five strategic priorities in relation to sustainability clearly and up front. It includes important policy commitments and makes good use of case studies that help readers to understand IFC activities.

This said, we believe that future reporting should be strengthened by providing greater context to the organisation’s activities and its relationships with national governments, which are its shareholders. Such reports should provide insights into how IFC deals with challenging management issues and responds to pressing concerns of stakeholders. Strategic priorities and case studies should be supported by better information about the overall impacts of the institution and its investments. In addition, targets for future performance should be laid out clearly.

We commend the thinking behind the development of this third sustainability report. The foundations of an excellent approach are in place. Moving ahead, we look forward to IFC providing more information about its management and governance and about its overall impacts, target setting and performance against key indicators.

The Corporate Citizenship Company

www.corporate-citizenship.co.uk

January 5, 2005
### Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>AICC</td>
<td>African Institute of Corporate Citizenship</td>
</tr>
<tr>
<td>APDF</td>
<td>Africa Project Development Facility</td>
</tr>
<tr>
<td>AsrIA</td>
<td>Association for Sustainable and Responsible Investment in Asia</td>
</tr>
<tr>
<td>BTC</td>
<td>Baku-Tbilisi-Ceyhan</td>
</tr>
<tr>
<td>CAO</td>
<td>Compliance Advisor/Ombudsman</td>
</tr>
<tr>
<td>CBA</td>
<td>Competitive Business Advantage</td>
</tr>
<tr>
<td>CCF</td>
<td>Corporate Citizenship Facility</td>
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<td>CEPALCO</td>
<td>Cagayan Electric Power and Light Company</td>
</tr>
<tr>
<td>CES</td>
<td>IFC’s Environment and Social Development Department</td>
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<tr>
<td>CFLs</td>
<td>compact fluorescent lamps</td>
</tr>
<tr>
<td>CIP</td>
<td>Community Investment Programme</td>
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<tr>
<td>CITES</td>
<td>Convention on International Trade in Endangered Species</td>
</tr>
<tr>
<td>CODE</td>
<td>Committee on Development Effectiveness</td>
</tr>
<tr>
<td>CSI</td>
<td>Cement Sustainability Initiative</td>
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<tr>
<td>EBC</td>
<td>Office of Ethics and Business Conduct</td>
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<td>EBFP</td>
<td>Environmental Business Finance Program</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>ELI</td>
<td>IFC/GEF Efficient Lighting Initiative</td>
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<tr>
<td>EOF</td>
<td>Environmental Opportunities Facility</td>
</tr>
<tr>
<td>ESIA</td>
<td>Environmental and Social Impact Assessment</td>
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<tr>
<td>FI</td>
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<tr>
<td>FMO</td>
<td>Netherlands Development Finance Company</td>
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<td>FY</td>
<td>fiscal year</td>
</tr>
<tr>
<td>GBO</td>
<td>grassroots business organization</td>
</tr>
<tr>
<td>GEF</td>
<td>Global Environment Facility</td>
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<td>GEM</td>
<td>Gender Entrepreneurship Markets</td>
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<tr>
<td>GLAC</td>
<td>Guide to Land Acquisition and Compensation</td>
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<td>GMS</td>
<td>Global Manufacturing and Services Department</td>
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<td>GSD</td>
<td>General Services Department</td>
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<tr>
<td>HGA</td>
<td>Host Government Agreement</td>
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<td>IBRD</td>
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<td>IDA</td>
<td>International Development Association</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>ILO</td>
<td>International Labour Organization</td>
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<td>INCaF</td>
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<td>IT</td>
<td>information technology</td>
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<tr>
<td>MAMTI</td>
<td>Marine Aquarium Market Transformation Initiative</td>
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<tr>
<td>MDG</td>
<td>Millenium Development Goal</td>
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<td>Netherlands European Carbon Facility</td>
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<td>nongovernmental organization</td>
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<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
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<td>OEG</td>
<td>Operations Evaluation Group</td>
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<td>Organization for Security and Co-operation in Europe</td>
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<td>Project Development Facilities</td>
</tr>
<tr>
<td>POP</td>
<td>persistent organic pollutants</td>
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<td>PSA</td>
<td>Production Sharing Agreements</td>
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<tr>
<td>PVMTI</td>
<td>Photovoltaic Market Transformation Initiative</td>
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<td>Sustainable Business Assistance Program</td>
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<td>Sustainable Financial Markets Facility</td>
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<td>SGBI</td>
<td>Strengthening Grassroots Business Initiative</td>
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<td>SLP</td>
<td>Sustainability Learning Program</td>
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<td>SME</td>
<td>small and medium enterprise</td>
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<tr>
<td>SPI</td>
<td>Summary of Proposed Investment</td>
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<tr>
<td>SRI</td>
<td>sustainable and responsible investment</td>
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<tr>
<td>TA</td>
<td>technical assistance</td>
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<td>UNEP</td>
<td>United Nations Environment Programme</td>
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<td>United Nations Environment Programme-Financial Institutions</td>
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<td>WHI</td>
<td>WaterHealth International</td>
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<td>WWF</td>
<td>World Wildlife Fund</td>
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IFC’S SOCIAL AND ENVIRONMENTAL PRINCIPLES

To help us pursue IFC’s mission in day-to-day business, we are guided by our environmental and social development principles. The principles describe our vision of environmental and social sustainability, consistent with IFC’s Mission and the World Bank Group’s pursuit of the Millennium Development Goals. We rely on these principles to ensure fairness and consistency in the application of our policies and guidelines when confronted with variables such as country context, sponsor capacity, and project factors. By adhering to these principles, we demonstrate international good practice and leadership, and influence industry sectors and markets. We believe that implementing these principles will support IFC’s effort to continuously improve its business practices, institutional activities, and development outcomes of individual investments.

Joint Responsibility
We value working with responsible investment partners whose approach and initiatives provide opportunities to jointly apply and promote our sustainability vision. We acknowledge that our performance success is dependent on our partners’ ability to achieve their business objectives.

Outcome Orientation
We systematically identify environmental and social risks as well as opportunities arising from our investments. We aim to minimize risks of adverse impacts and maximize opportunities for positive development outcomes, ideally through our early and ongoing engagement.

Area of Influence
We recognize that our investments may result in significant environmental and social impacts beyond their physical boundaries. We consider such impacts in the area of influence of our investment in a pragmatic manner and from a cumulative and strategic impact perspective.

Capacity and Knowledge
We focus on capacity building and knowledge transfer when we invest through corporations and financial institutions, with a view to enabling these institutions to ascertain and manage the environmental and social risks and opportunities associated with their operations.

Balancing Interest
We promote opportunities to improve living standards and working conditions for local populations, particularly those directly affected by our investment. We also strive to protect and conserve the natural environment. Thus, we recognize the need for a sustainable balance between environmental and human needs, and actively support integrated conservation and development initiatives.

Resource Efficiency
We support, and actively seek to identify, opportunities to promote the responsible and efficient use of energy and natural resources.

Shared Accountability
We promote transparency to improve efficiency of process and accountability for decisions, and to achieve better development outcomes.

Stakeholder Engagement
We promote consultation and dialogue to help understand the diversity of opinions and aspirations of stakeholders, and to achieve a fair and equitable resolution of conflicting needs to maximize the development outcomes.

Implementation and Learning
We strive to learn from our implementation of our principles and proactively engage our colleagues and clients to enhance their awareness of, and commitment to, these business principles and our institutional environmental and social sustainability objectives.