

WORKING WITH PARTNERS

IFC's success in fostering private sector development reflects our many innovative partnerships with governments, foundations, and civil society.



IFC maximizes the results we can produce by collaborating with others who share our objectives. Collaboration helps us achieve what we could not on our own. It allows us to pool our resources and capitalize on the competitive advantages of each of our partners. It lets us share knowledge and helps improve the design and implementation of programs.

In FY08, we teamed with a range of partners to tackle the highest-priority challenges on the development agenda—including the food crisis, climate change, and aid to conflict-affected countries. Our donor partners helped finance the expansion of IFC's advisory operations, making a record \$211 million contribution.

Corporate philanthropies and foundations also increased their contributions to this work, accounting for 5 percent of all donor contributions to IFC's advisory work. And we continued to build our cooperation with financial institutions that have adopted the Equator Principles for sustainable development.





MAXIMIZING OUR IMPACT

IFC strives to obtain the best development outcomes by working in partnership with a wide array of entities—donor governments, charitable foundations, international organizations, nongovernmental organizations.

Pakistan's mountainous north is one of the world's more remote, inaccessible places, and a place where most people live in poverty. IFC, through a long-term partnership with the Aga Khan Development Network that spans many countries, is helping change the situation. Together we have helped create profitable, sustainable enterprises that are improving lives. We invested jointly in the First Microfinance Bank of Pakistan, which offers small loans, savings accounts, and other financial products that are helping more than 50,000 people across the country work their way out of poverty. IFC's funds have also helped the bank build capacity and upgrade its management information systems. Zubaida Khanum, a typical client in northern Pakistan, uses earnings from the small food business her FMB loan helped finance to provide her children with better clothes, education, and health care.



PHOTO: Micro loans from an IFC client have allowed Zubaida Khanum to run a small food business.

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IFC's many partnerships extend our influence on private sector development, and working together also strengthens our partners' prospects for success in emerging markets. We make it clear to partners how their funds—and ours—are being invested, and we place a priority on tracking and learning from the development results of our engagements. Governments, foundations, and other donors and partners recognize the contribution that IFC makes to their own efforts—and the amount of collaborative work we do has increased as a result.

SETTING STANDARDS FOR SUSTAINABLE DEVELOPMENT

IFC plays a leading role in setting global standards for sustainable private sector development. This work extends far beyond our clients and involves many of our partners. We are working with participants at all levels of the global supply chain to achieve a broad consensus on standards that will advance social and environmental best practices. As commodity prices have soared, we have focused on raising standards for export sectors that pose the biggest social and environmental risks, including palm oil, soy, sugar, cocoa, and cotton. We have also joined forces with the International Labour Organization to improve labor standards and competitiveness across global supply chains. Our "Better Work" program with the ILO is being introduced in the apparel industries in Jordan, Lesotho, and Vietnam and is expected to benefit more than 800,000 workers. In addition, we are working to establish standards for microfinance lending. We are also helping develop a variety of innovative indexes—among other things, to measure the performance of emerging markets with respect to sustainable development and to promote gender-based business opportunities.

FINANCIAL COMMITMENTS TO IFC ADVISORY SERVICES (US\$ MILLIONS EQUIVALENT)

SUMMARY	FY07	FY08
Governments	75.71	164.53
Institutional/ Multilateral Partners	30.39	33.82
Private Partners/ Foundations	6.28	12.37
Total	112.38	210.72

WORKING WITH THE DONOR COMMUNITY

IFC continued strategic partnerships with the donor community this year, collaborating on shared priorities for development. Donor partners play a key role, allowing us to expand and improve our advisory work. Partnerships include cooperation through trust funds and joint projects; IFC also serves as an implementing agency to some of our partners.

In FY08, donor partners entrusted us with their highest contributions to IFC advisory services to date, with \$211 million—an increase of 87 percent from FY07. Some 78 percent came from donor governments, while foundations, institutional, and private partners contributed 22 percent. With this support, we were able to start work on 299 new projects. The largest share of donor contributions went to the South and East Asia regions, with a combined 36 percent of total funding to IFC.

Donor partners' continued support has allowed us to continue programs in several regions during FY08. Donors that initiated or intensified their cooperation with IFC this year include Austria, the European Commission, Finland, the Inter-American Development Bank, Norway, and the United States.

Three main challenges have marked the international development agenda this year: the food crisis, climate change, and aid to conflict-affected countries.

On the food crisis, IFC is working with the World Bank Group and the United Nations, focusing mainly on the agribusiness supply side. We also began a strategic dialogue with our donor partners, and will continue stepping up our collaboration.

To address climate change, we have joined with donor partners to catalyze the private sector. With our Nordic donor partners—Denmark, Finland, Iceland, Norway, and Sweden—we organized the first high-level, multistakeholder meeting on climate change in the region. We also organized a workshop with our Norwegian partners to scale up clean energy investments worldwide and discuss the role IFC could play.

For conflict-affected countries, IFC established a \$50 million global trust fund that will allow us to move swiftly to help with reconstruction. Efforts include rapid diagnostics and support for several priorities: a stronger investment climate; assistance to SMEs and related institutions; and more private sector participation in infrastructure. Ireland and Norway have already pledged their support to an additional trust fund aimed at helping conflict-affected countries in Sub-Saharan Africa.

GOVERNMENTS' FINANCIAL COMMITMENTS TO IFC ADVISORY SERVICES (US\$ MILLIONS EQUIVALENT)

Governments	FY07	FY08
Australia	11.37	3.27
Austria	3.35	15.75
Belgium	2.69	1.47
Canada	2.99	2.16
Denmark	2.77	2.92
Finland	4.77	10.86
France	1.29	0.03
Iceland	0.16	0.55
Ireland	2.45	4.41
Italy	0.00	0.51
Japan	2.62	2.93
Kuwait	2.00	0.00
Luxembourg	2.49	1.93
The Netherlands	15.24	22.68
New Zealand	0.31	1.23
Norway	5.14	10.28
Slovenia	0.30	0.00
South Africa	0.63	0.62
Spain	2.00	1.47
Sweden	1.69	5.59
Switzerland	7.48	12.11
United Kingdom	0.99	57.55
United States	0.51	6.20
Cape Verde*	0.57	0.00
Nigeria*	1.40	0.00
Rwanda*	0.50	0.00
Total	75.71	164.53

Unaudited figures.

*Client governments' commitments.

NOTE: This is a corrected version of a chart published in IFC's annual report on Oct. 1 2008. That chart contained erroneous data for Iceland and omitted data for Italy.

TACKLING THE INVESTMENT CLIMATE IN BANGLADESH

IFC, the U.K. Department for International Development, and the European Commission established a partnership in 2007 to strengthen the investment climate in Bangladesh. IFC serves as implementing agency for the Bangladesh Investment Climate Fund, jointly funded by DFID and the EC. This is the largest country program focusing on a single IFC advisory services business line—the business enabling environment. In FY08, the first projects got underway: already the fund has helped the government establish a commission to oversee regulatory reforms, develop an economic zones policy that promotes more private sector participation, and set up a private-public forum that makes recommendations for improving the country's business and investment climate.

WORKING WITH FOUNDATIONS

IFC's partnership with foundations, corporate philanthropies, and private donors is steadily increasing. In FY06, these partners contributed 2 percent of total donor contributions to IFC; in FY08, their share increased to 5 percent. To maximize the impact of this collaboration, we foster long-term strategic partnerships through dialogue, coordination, and knowledge-sharing.

During FY08, highlights of our joint work included:

- ▶ Working with Bill and Melinda Gates Foundation to study the current scope and future potential of private health care in Africa.
- ▶ Developing a training program and toolkit with the Reuters Foundation to help journalists in emerging markets report on corporate governance issues more effectively.
- ▶ Convening a meeting of foundation, academic, and IFC monitoring and evaluation practitioners, with the German Marshall Fund of the United States, to discuss innovations in results measurement.
- ▶ Cooperating with the Global Alliance for Improved Nutrition to provide financial and advisory support to companies seeking to improve infant nutrition in Latin America.
- ▶ Participating, with the BBVA Microfinance Foundation, in investments in emerging Latin American microfinance institutions to increase access to finance for the poor.

IFC AND THE GATES FOUNDATION: PARTNERS TO STRENGTHEN AFRICA'S PRIVATE HEALTH CARE

In FY08, IFC published *The Business of Health in Africa: Partnering with the Private Sector to Improve People's Lives*, a report that expects spending on health in Sub-Saharan Africa to double over the next decade. Partly financed by the Bill and Melinda Gates Foundation, the report finds that the private sector plays a significant role in health care for people in the region. The findings have encouraged IFC and our partners to mobilize up to \$1 billion over the next five years for investments and advisory services that will boost socially responsible health care in Africa. IFC's strategy for the sector includes an equity investment vehicle for health care entrepreneurs and businesses, partnership with local financial institutions to improve access to long-term debt for health care organizations, and advisory services to build the capacity of local financial intermediaries and health care companies. IFC will also expand our life sciences team in the region, support public-private partnerships for education of health care workers, and encourage the development of health insurance companies. To improve the business environment, we will work with governments to reform private health care regulation, expand public-private partnerships, and support country assessments. IFC will produce a biannual report on the region's investment climate for health care.

WORKING WITH NONGOVERNMENTAL ORGANIZATIONS

IFC engages with nongovernmental organizations in several ways. We maintain an ongoing dialogue on many aspects of our work, strategy, and policies, and we are collaborating on a variety of initiatives.

IFC convened a Labor Advisory Group in FY07, bringing together labor specialists from civil society, academia, trade unions, and the private sector to provide feedback on the implementation of our labor performance standard and other initiatives on labor rights. IFC also has an external advisory group for extractive industries, with representatives from civil society and industry who continue to provide perspectives on IFC and World Bank activities in this area.

With the World Bank, IFC is consulting stakeholder organizations to develop a new framework for civil society relations. The new IDA/IFC Secretariat has also begun a dialogue with civil society to seek input into the World Bank Group's strategy and work on private sector development in IDA countries.

In recent years, IFC has initiated strategic partnerships with NGOs at the operational level, producing better projects and greater development impact. Examples include collaboration with the WWF Global Forest Trade Network to promote sustainable forestry, joint work with the Rainforest Alliance to assist coffee growers in Central America and southern Mexico, and projects with Oxfam Hong Kong to develop sustainable tourism in Cambodia and the Lao PDR. IFC also works in partnership with WWF to promote better agricultural management practices: we participate in sustainability roundtables in a number of industries, such as palm oil, soybeans, and sugar cane.

PARTNERING WITH CIVIL SOCIETY IN BRAZIL

IFC is helping Brazil's beef industry grow while raising environmental and social standards. When we first considered supporting Bertin, the country's second-largest meat processor, some stakeholders worried that the company's expansion could aggravate deforestation, pollution, and agrarian violence in the Amazon region. IFC and Bertin held a year-long consultation with local people and built partnerships with NGOs to address concerns. Under the terms of IFC's loan, Bertin is ensuring that its beef does not come from recently deforested land. It has agreed to improve its wastewater treatment and obligates its suppliers not to buy from farmers convicted of wrongdoing in land acquisition. With IPAM and Aliança da Terra, IFC and Bertin have launched a project that promotes land titling. With the World Bank, we have helped set up a sustainable beef working group that brings together major Brazilian meat packers, NGOs, associations, and banks. We also participate in a forum that promotes cooperation for sustainable development of the Amazon. With IFC's help and the watchfulness of stakeholders, Bertin is becoming a standard-setter for sustainable development in the region.

Other highlights of our work in FY08:

- ▶ With the World Business Council for Sustainable Development, we developed a Measuring Impact Framework to assess the contribution of private businesses to economic and broader development goals in societies in which they operate.
- ▶ With the Global Reporting Initiative, we promoted a standardized approach to sustainability reporting in emerging markets to help companies improve performance.
- ▶ With the World Bank and ImagineNations Group, we launched the Global Public-Private Partnership for Youth Investment to help improve the lives of young people, especially adolescent girls and young women, through their economic advancement and social inclusion.
- ▶ We established IFC's Grassroots Business Initiative as an independent NGO and investment fund. With ongoing financial support from IFC and such other partners as the Omidyar Network and the Netherlands' FMO, it will continue to bring business know-how and risk capital to the grassroots business sector.
- ▶ We engaged with One World Trust on a profile of IFC in the forthcoming *Global Accountability Report*.

WORKING WITH FINANCIAL INSTITUTIONS

IFC continues to act as the key technical and strategic resource for financial institutions in developed and emerging markets. IFC is sharing experience and lessons learned in applying our performance standards, using our convening power to promote knowledge sharing across the global financial industry.

The Equator Principles: A Global Benchmark

In financial markets worldwide, IFC's performance standards have been catalyzing the swift convergence of environmental and social standards for cross-border investment. To date, 61 banks and financial institutions, including 11 from emerging markets, have adopted the Equator Principles, which were updated to refer to the new performance standards in 2006. The principles are estimated to cover nearly 90 percent of global cross-border project finance. During FY08, 29 of the Equator institutions provided 53 percent of new syndications in IFC investments. In addition, 32 export credit agencies from OECD countries and 15 European development finance institutions are benchmarking their private sector projects against the performance standards. Within the World Bank Group, MIGA has recently adopted the performance standards for its operations; and a number of other multilateral institutions are looking to achieve "Equator equivalence" in their policy updates. In May 2008, IFC convened the second Community of Learning Event for Equator Banks, export credit agencies, and other bilateral and multilateral financial institutions.

Tracking Greenhouse Gas Emissions

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

Subject to approval from our Board, IFC proposes to measure the emissions of our new real sector investments from the start of FY09, to be followed in subsequent years by our corporate lending and financial sector investments. Investments will be tracked annually; with the turnover in our portfolio, the approach should enable full coverage after about six years. We will share results and lessons learned with other multilateral institutions and partners that have adopted the Equator Principles. For more information on the footprint of IFC's portfolio, visit our climate change Web site, <http://www.ifc.org/ifcext/sustainability.nsf/Content/ClimateChange>.

GEMLOC: BUILDING BOND MARKETS IN DEVELOPING COUNTRIES

IFC has a key role in GEMLOC—the Global Emerging Markets Local Currency Bond Fund, which the World Bank Group initiated this year to help develop local currency bond markets so that they can attract more local and global institutional investors. The effort will establish local currency debt markets in developing countries as a separate asset class, measured against a new index of performance. In cooperation with the data and index provider Markit, IFC has developed a transparent index of emerging market local currency bonds. Launched in April 2008, the index offers investors transparent data on 20 countries, and will soon add more. Inclusion in it is based on market size and a set of criteria, developed by the ratings, research, risk, and policy advisory company CRISIL in collaboration with IFC, that assess the investment climate. The new index and underlying criteria set out guidelines countries can use to implement reforms that improve their index weight and attract additional investment; the program also offers advisory services to countries with a strong commitment to such reforms. A leading fixed-income investment manager, PIMCO, is also developing strategies to promote investment in these markets. The initiative responds to many governments' requests for help in strengthening bond markets as a way to support sustainable growth. It has a sunset provision of 10 years, when Bank Group involvement will cease and the private sector is expected to be fully engaged.