



INNOVATING FOR
GLOBAL IMPACT
2007

Telling Our Story

Turning Needs into Opportunities



Lars Thunell

In the pages that follow, you will read about a family in Cameroon that now has electricity at home for the first time in several years. You will also read about new jobs being created in rural Afghanistan, giving people new hope for the future, despite the ongoing conflict. In both cases, the changes flowed from the entrepreneurial vision of our clients: hard-working business people who just needed capital and advice to make their plans concrete.

These and the other stories in this collection demonstrate the power of the private sector—an effective driver of economic growth, job creation, and poverty reduction in the developing world. Yet much more needs to be done. Millions of people in smaller, less developed countries have still not yet shared in the growth that emerging markets have experienced in the past decade.

IFC is in the business of creating opportunity for people to move out of poverty and improve their lives. A member of the World Bank Group, we offer clients a wide range of financial products and advisory services: on one hand, long-term loans, equity, quasi-equity, and structured financing; on the other, business advice, training, and related support. With this integrated package, we offer innovative solutions and are ready to be long-term partners.

IFC is growing for greater development impact. We go where we are needed most: the poorest countries eligible for grants and interest-free public sector loans from the World Bank's International Development Association (IDA), conflict-affected countries, and higher-risk regions and sectors of middle-income countries. As a result of our strong capital base and growth, this year IFC has contributed \$500 million from its net income to IDA to promote private sector development in the poorest countries.

The stories in this booklet reveal how much the private sector can mean to development, whether in the poorest countries such as Burundi and Madagascar, relatively higher income ones such as Peru and Vietnam, or even fast-rising economies such as China, India, and Russia that still have large development challenges. These stories show the progress that comes when forces of entrepreneurship are released for the goals of development, increasing impact through innovation.

A handwritten signature in black ink, appearing to read 'Lars Thunell', written in a cursive style.

Executive Vice President and CEO, IFC

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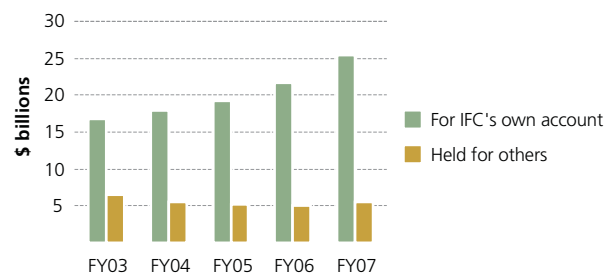
FINANCIAL HIGHLIGHTS

IFC's financial products and advisory services go beyond those that developing country markets and private investors can provide on their own.

IFC is the largest provider of multilateral financing for the private sector in the developing world. In fiscal year 2007, IFC invested \$8.2 billion for our own account and mobilized an additional \$3.9 billion through loan participations, structured finance, and parallel loans. Altogether, we supported 299 investments in 60 countries, typically funding about 25 percent of the total project cost. We also approved 349 advisory projects in 84 countries; total expenditures for advisory services were \$197 million. Our committed portfolio, including off-balance sheet guarantees and risk management products, increased by 18 percent to \$25.4 billion on June 30, 2007, from \$21.6 billion at the end of fiscal year 2006.

Our operations create opportunity for progress in developing regions and sectors and contribute to economic, financial, environmental, and social sustainability.

IFC COMMITTED PORTFOLIO, FY03 TO FY07



IFC'S REACH

An indication of the people touched by IFC's activities

INVESTMENTS, 2006

- Hospital patients treated: 4 million
- Students educated: 350,000
- Electricity customers served: 9.5 million
- Water customers served: 15.3 million
- Micro, small and medium enterprise loans: 5 million
- New phone connections: 53 million
- Local purchases by IFC clients: \$31 billion
- Community development spending by clients: \$250 million

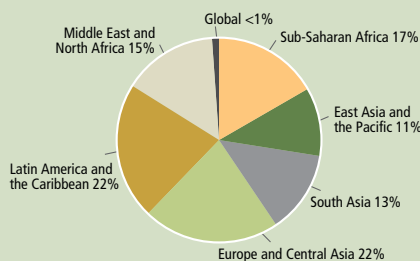
ADVISORY SERVICES, 2002-2006

- Assisted 1,768 banks
- Assisted 40,000 entrepreneurs

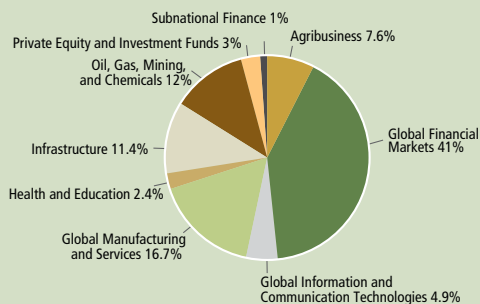
FY07 INVESTMENTS

For IFC's own account as of June 30, 2007: \$8.2 billion

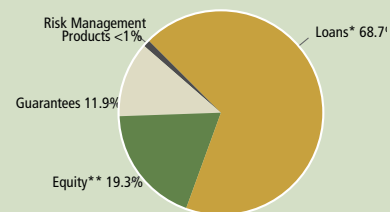
BY REGION



BY INDUSTRY



BY PRODUCT

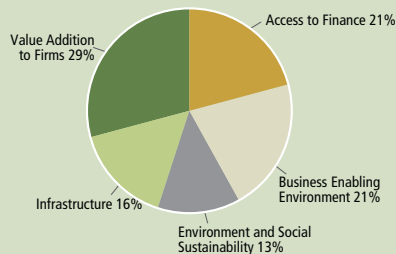


*Includes loan-type, quasi-equity products.
**Includes equity-type, quasi-equity products.

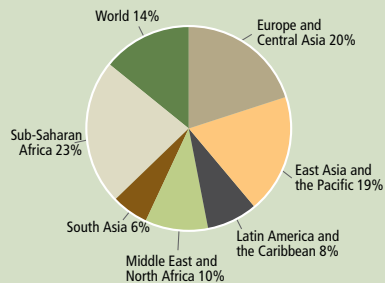
*Some amounts include regional shares of investments that are officially classified as global projects. See regional sections for details.

FY07 ADVISORY SERVICES

EXPENDITURES BY BUSINESS LINE



EXPENDITURES BY REGION





Egypt: This year's top investment climate reformer, according to the IFC/World Bank publication *Doing Business 2008*. Egypt dramatically cut the time and capital needed to start a business—helping entrepreneurs create jobs and fight poverty.

Innovating for Global Impact

2007



Our vision is

that poor people have the opportunity to escape poverty and to improve their lives.

Our purpose is to

- Promote open and competitive markets in developing countries
- Support companies and other private sector partners
- Generate productive jobs and deliver basic services
- Create opportunity for people to escape poverty and improve their lives

Our values are

- Excellence
- Commitment
- Integrity
- Teamwork



Metal worker Julio Solís Torres is one of more than 250,000 Peruvian small-scale entrepreneurs financed by our client Mibanco (see page 22). The fast-growing microfinance institution's small loans have built his business and brightened his family's future.

COMMUNICATIONS FOR THE POOREST

It is the Digital Age—one with fast-evolving information and communications technologies that dramatically change the lives of those able to afford them. But too often the world's poorest people are left behind, locked out by high costs that keep high-speed Internet connections out of reach.

One of the worst-affected regions is East Africa. With less than 1 percent of the world's total bandwidth today, its people pay some of the world's highest prices for online service, largely because theirs is the last part of the continent that does not have an undersea fiber optic cable. The region still relies on expensive satellite-based communications. But in early 2009 the situation will begin to change, thanks to a new IFC-financed undersea cable project. Based on principles of open access and free market competition, it is expected to bring Internet access costs down by as much as two-thirds—making the region more able to compete in the global economy and creating significant opportunities for its people.

Called the East African Submarine Cable System, the \$235 million undersea project links 21 African countries to the rest of the world, reaching approximately 250 million people.

Sponsored by a consortium of 26 telecommunications operators—80 percent of them African companies—it is a project IFC is supporting in close coordination with the World Bank, which is financing a complementary \$424 million system of terrestrial networks.

IFC's \$32.5 million investment in the undersea cable project is part of a larger commitment to financing communications breakthroughs in Africa and other low-income regions.

Five especially challenging countries—the Democratic Republic of Congo, Madagascar, Malawi, Sierra Leone, and Uganda—will also receive increased mobile phone service under a \$614 million IFC-financed project sponsored by Celtel, a leading pan-African mobile company. With costs coming down dramatically, the mobile phone industry has revolutionized communications for millions of poor people in Africa, making it a major investment priority for IFC there and in other frontier regions.

But for all the gains of recent years, vast needs remain unmet: at least 70 percent of the world's surface still lacks telecom access, leaving major challenges ahead. Financing well-targeted projects can make a major difference. In May 2006, for example, IFC took part in the biggest foreign direct investment in Haiti's history: a \$260 million network buildout by an Irish-owned mobile communications company, Digicel. With this financing in place, the company added more than 1 million subscribers in its first year, quadrupling the percentage of Haitians owning a mobile phone.

CONNECTING THE WORLD



Even though student demand is high, this youth training center in Burundi often must close because of high Internet access costs. But a new IFC-financed fiber optic cable brings those costs down, putting Africa on the digital map.

REBUILDING FROM CONFLICT

This was the year Haji Nasrullah came home—home to Kandahar, one of Afghanistan’s remotest, most unstable provinces.

After years of refugee life in Pakistan, he was ready to return to his trading business in a country ravaged by more than 25 years of war. Kandahar had once been world-famous for its grapes and pomegranates and could be again, he thought, if only it could gain better entry into today’s far more competitive international marketplace.

This was also a year of decision for Lebanon’s Abchee brothers, owners of their country’s most popular grocery stores. The surprise 2006 conflict with Israel had crippled their company, ADMIC. With no local bank willing to meet its financing needs, they suddenly had to consider the unthinkable: shutting it down.

IFC helps clients like these find solutions, even on the far frontiers of the global economy, where private capital and expertise are still in short supply. The challenges vary, but the goal is always the same: creating opportunities to improve the lives of people directly affected by conflict—people like Haji Nasrullah.

Once back in Kandahar, he noticed how significantly conditions had improved for local grape producers. His wholesaling business soon began buying more of their raisins, and he joined an IFC training project that increased the productivity of 400 farmers. Then he went on an IFC-sponsored trade mission to India, discovering new export possibilities that could help put Kandahar back in business.

“Before, I had three full-time employees and would hire about 25 day laborers,” he says. “Now I have 10 full-time employees, and because of the increase in production I sometimes have to hire as many as 60 laborers. Security is still an issue that worries many people, but economically, Afghanistan has changed. There are far more opportunities now.”

In Lebanon, IFC stepped in with a \$20 million financing package for the Abchee brothers’ company. Its stores are not only still open as a result, but growing stronger with IFC’s advice on corporate governance. The package is part of the \$275 million that IFC pledged for private sector development alongside the World Bank at Lebanon’s January 2007 donor conference in Paris.

Afghanistan and Lebanon are just two of the many conflict-affected countries and regions where we now work, rebuilding the private sector through \$55 million in advisory services projects and a \$1.6 billion investment portfolio.

“IFC’s support will help us move forward at a time when other financiers are wary of investing in an environment perceived as high risk.”

—Michel Abchee, Chairman and CEO, ADMIC, Lebanon

HELPING COMPANIES BOUNCE BACK



Wholesaler Haji Nasrullah—here shown in India on an IFC-sponsored trade mission—opens new markets for farmers isolated in Afghanistan's troubled Kandahar Province.

RAISING INCOMES

For all its remarkable progress in recent years, India still has more than 300 million poor people today—more than any other country. Helping them participate in the global economy is one of the world’s greatest development challenges.

Meeting that challenge is a complex process, one with many agents of change. Among the most effective: India’s socially responsible investors—companies like Cairn India that support local communities in their areas of operation, manage outreach programs with business discipline, and carry a strong commitment to results.

These dynamics are playing out today in one of India’s poorest states, Rajasthan, where IFC financing is helping Cairn develop a world-class oil field. The more than \$2 billion project will greatly reduce India’s reliance on foreign oil and create significant new employment in a remote desert area with few other opportunities. It is also working to fulfill the hope it brings to surrounding towns and villages that had never before seen this level of foreign investment.

Bringing its experience from working in other developing countries with larger oil companies such as BP and ExxonMobil, IFC is assisting Cairn with a broad-based local supplier and community development program aimed at helping the many local residents directly employed by the oil project.

The ongoing effort includes the establishment of a new Enterprise Center whose training and information help local small and medium enterprises win contracts with the Cairn project and other ventures in the region, while also providing vocational training to low-skilled members of the tribal communities. A related dairy development project is aimed at increasing the incomes of local milk producers—to date the project is working with over 150 small farmers in this desert region where selling several liters of milk per day is one of the few stable sources of income now available. And a mother-child health care initiative is reaching 30 villages, building the capacity of local health workers, village councils, and nongovernmental organizations while also raising awareness of the prevention of communicable diseases.

After advising Cairn on community development issues and providing a grant to design the project, IFC is now also helping finance these programs, which are being carried out in partnership with respected local and international NGOs. The work is based on a commitment to respect, relationships, and responsibility in dealing with local stakeholders, bringing mutual benefits to all sides for the next several years.

“IFC’s sustained support to Cairn’s long-term capital needs helps provide confidence to our other investors. Its expertise on environmental and social management has been equally important to us.”

—Sir Bill Gammell, Chairman, Cairn India

FOREIGN INVESTMENT, LOCAL DEVELOPMENT



Responsible development of local oil fields brings benefits to Rajasthan—
home to some of India's poorest people.

THE WOOD PRODUCTS INDUSTRY

What are sustainable businesses?

They are the ones that use the planet's resources wisely, considering not just the needs of today's consumers but those of future generations as well—and often standing as market leaders as a result.

In the wood products industry, sustainable business means balancing forests' current and future economic value with enduring commitments to social responsibility and environmental stewardship. This is the kind of forestry that brings new hope and new jobs to poor communities, while also reducing pollution, replanting unproductive land, and showing skeptics that incorporating these values is good for business. It is a growth industry for IFC.

We have financed more than \$1 billion of sustainable wood product projects in recent years. We work along the entire supply chain: from plantations to producers of furniture, tissue, paper, and other goods. In the past five years, our forestry projects have created almost 90,000 new jobs in communities where unemployment is high and economic opportunities are few. They have brought reliable new income for some 126,000 poor farmers in India, 30,000 farmers in China, and thousands more around the world. IFC promotes strong production and manufacturing standards to protect workers and the environment, as well as encouraging independent certification and adherence to voluntary codes of conduct.

In India, Andhra Pradesh Paper Mills has used our \$40 million investment to nearly double its capacity, building a state-of-the-art paper factory in 2005. No longer dependent on natural forests, it now gets all its pulpwood from more than 30,000 local families who receive its seedlings and technical support to develop new plantations on their waste and marginal lands. This allows them to earn up to \$374 per acre of pulpwood—almost three times what they would earn from growing rice. This approach helped the fast-growing company increase profits by 23 percent in the past year.

Vietnam's Khai Vy Corporation has grown from entrepreneurial start-up to world-class furniture maker in just 12 years. Employing almost 8,000 people, it sells to France's Carrefour, Metro of Germany, and other top international retailers. Many of these buyers are attracted by the fact that much of Khai Vy's wood comes from suppliers certified by the Forest Stewardship Council, a respected international body promoting responsible management of the world's forests. IFC has provided \$6 million in financing and advisory services to support Khai Vy's growth and help it increase its environmental, social, and corporate governance standards.

Projects in this industry are sometimes controversial. But it is an area where IFC aims to play a critical global leadership role, ensuring that our projects set an example of social and environmental stewardship and take innovative approaches to raising incomes, revitalizing forests, and recycling waste.

DRIVEN BY SUSTAINABILITY



Use of environmentally friendly wood helps makes Vietnamese furniture exporter Khai Vy Corp. a rising star in international markets.

CLEAN AIR IN CHINA

Sichuan Dazhou Steel Corporation is a leading metallurgical firm in China, a country with some of the worst air pollution in the world.

With 5,000 employees, Sichuan Dazhou is the largest industrial company in its home city. It is in the process of restructuring its production lines in order to become a key coking base for all of southwest China. Its management knew that doing so would require installing new technologies that would lower its electricity costs but was unsure how to finance them.

Then it met Industrial Bank, an IFC client based in Fuzhou that is fast emerging as China's pioneer in sustainable banking.

The result: a three-year, \$2.1 million-equivalent local currency loan for new energy-saving equipment that will dramatically reduce the company's CO₂ emissions—and strengthen its bottom line. The Industrial Bank loan came as part of an innovative risk-sharing and advisory services program for Chinese financial institutions and utilities that IFC manages with support from Finland and the Global Environment Facility.

Industrial Bank's energy efficiency loan portfolio has grown from zero to almost \$41 million in less than a year, making it one of the program's most active participants. The resulting projects it is financing for Dazhou Steel and others will help reduce CO₂ emissions by more than 5 million tons, the equivalent of taking 534,000 taxis off China's roads each year. They also help position the sophisticated midsized bank in China's highly competitive banking world, enabling it not only to attract high-quality clients interested in energy efficiency upgrades but also earn global recognition.

Soon after completing a \$2 billion IPO this year, Industrial Bank became the first Chinese financial institution to be honored at the prestigious *Financial Times* Sustainable Banking Awards. Along with global sustainability leaders such as HSBC, Citigroup, and ABN-AMRO, Industrial Bank shows how the goals of business and development can go hand in hand, underscoring one of IFC's core principles.

“As a national commercial bank, we have a responsibility to provide suitable and competitive financial products that support and promote development of the energy-saving and environmental protection industries in China,” says Industrial Bank Vice President Dekang Chen.

A shareholder in Industrial Bank since 2004, IFC has also helped the bank restructure its loan approval process and improve its credit underwriting procedures for energy efficiency loans. IFC has also provided the bank with a risk-sharing facility that helps it grow comfortable with entering the energy efficiency market, then continue on its own when our support is no longer needed. Over the past year, more than 80 of the bank's employees have received energy efficiency financing training provided by IFC. Supported by IFC's knowledge and financial support, the bank can now make many more loans like the one to Dazhou Steel as it builds a new brand across China: Green Corporate Banking Services.

IFC's RISK-SHARING FACILITY CLEARS THE WAY



Liyong Zhu, head of corporate banking at China's Industrial Bank, is IFC's partner in financing clean air upgrades.

CLEAN WATER, GOOD SCHOOLS

A steady source of clean water the chance to get a good education. They are two things every child deserves—and examples of the basic human needs the private sector can meet with high quality at affordable prices, for lower-income groups, complementing the role of government.

With no pipes reaching their home, Philippine parents Patricio and Fe Lagaspi often had to walk long distances through Manila to find water for their family or buy it in expensive bottles. “Now we just get it straight from the faucet, and it’s ready to drink,” says Fe.

Lower-income parents in Ghana had a similar problem: few alternatives to overcrowded state-run schools whose teaching rarely helped their children get decent jobs. Alberta Quartey, head of Accra’s Alsyd Academy, remembers meeting a determined construction worker intent on sending his child to her private school. “He said, ‘I don’t want my son to be like me. I am investing in his future.’ And he struggled to pay a little bit every month so that his child would get a better education and better opportunities than he had,” she recalls.

Private initiative is critical in expanding the basic services such as infrastructure and education that improve poor people’s quality of life. Encouraging it is a top priority for IFC.

Since it began operating in 1996, privately owned Manila Water has given the Lagaspis and more than 500,000 others access to clean water. The profitable, socially responsible firm has also helped reduce incidences of diarrhea from 850,000 to below 25,000 per year. IFC’s more than \$100 million of financing over the years has helped the firm expand its coverage.

On the education front, IFC is helping African banks learn to lend to African private schools, opening up a potentially vast new source of financing for one of the world’s great development needs.

In some of our client private schools in Ghana, parents pay as little as \$10 per term to give their child an improved education. IFC’s risk-sharing facility with a local bank and related advisory services are expanding these schools, which have a combined enrollment of 6,000 and long waiting lists. To date, they have received a total of \$2.9 million in loans from our partner institution, the Trust Bank, with no defaults. With this financing, the schools are upgrading their facilities, hiring more teachers, and reaching more students.

The model is now also being used in Kenya with one of Africa’s top commercial microfinance institutions, K-Rep Bank. Among the early borrowers: a private school in Kibera, one of the developing world’s largest slums. Like clean water, education is something that can be privately financed—in ways that are good for business, and good for development.

A BETTER FUTURE FOR CHILDREN



THE AFRICAN POWER SECTOR

There are 250 million people living without access to electricity in Sub-Saharan Africa.

It seems like a problem without a solution—a complex, difficult challenge that has lingered for decades, one that neither the public nor the private sector can meet alone.

But IFC is making promising breakthroughs on just this sort of challenge, working closely with the World Bank and other partners to design and finance landmark transactions—helping both those who can be reached by power lines and the far larger number that cannot.

In Cameroon, the national electricity grid will add roughly 50,000 connections a year for the next 15 years under private utility AES Sonel's new expansion program that IFC is financing. Many of these connections will be in the homes of people living in parts of the country that were previously unserved.

“We went for years without electricity,” says one new customer, Fopam Thomas. “We would go into our houses at around 7 pm. But now, since we have light, there's activity in the neighborhood—and, you know, electricity brings joy as well as development.”

One of the largest private infrastructure projects to date in Africa, the \$340 million upgrade culminates a process that began in 2001, when the government sold a controlling stake in its electric utility Sonel to the AES Corporation of the United States as part of a World Bank Group-supported privatization process. IFC acted as the government's lead privatization advisor.

IFC has also financed path-breaking electricity generation projects in Senegal and Uganda. Projects like these can have an immediate impact in African economies: in Cameroon, the cost of a new connection for AES Sonel's low-income customers has been cut by two-thirds, and electricity-related fatalities have been reduced by more than 40 percent.

But the poorest of the poor rarely have power connections. For lighting, they often rely on kerosene lamps, which can be both costly and hazardous. For them, IFC and the World Bank are uniting on a new initiative to make inexpensive, small battery- and solar-powered lighting systems much more widely available.

Called Lighting Africa, the initiative is inspired by the “bottom of the pyramid” marketing strategies that have proved so successful in industries such as mobile phones and microfinance. It is beginning with a grant competition to support design of the innovative new business models that will be required. A market clearly exists: low-income Africans, who currently spend \$17 billion a year on fuel-based lighting, are showing keen interest in low-cost, high-quality, and alternative lighting products. Lighting Africa is working to engage the international lighting industry in this new market area, which could then be supported with subsequent IFC financing channeled through local financial institutions. To date more than 350 companies have expressed interest in the initiative.

TURNING ON THE LIGHTS



Cameroon's Fopam Thomas (center) and his family went years without electricity—until IFC helped a privatized utility bring it to their home.

MICROFINANCE

Microfinance has arrived. It has built a clear track record as a critical tool in the fight against poverty and has begun entering the financial mainstream. Yet it still reaches less than 20 percent of its potential market among the world's 3 billion or more poor.

Much more private investment is needed to take these numbers higher, allowing far more poor people to gain the financial services they need to build a better life. This is where IFC steps in: backing promising microfinance institutions early on—before private investors recognize the business potential—and then staying on as long as needed to help them grow stronger.

This was our role in what is today one of Latin America's largest microfinance banks, Mibanco in Peru.

When we began financing it in 2001, Mibanco was a small institution that had held a banking license for only three years. The Peruvian banking system was also experiencing significant downturns at the time, losing access to credit from many international banks. Our early show of support sent a strong signal to other investors.

Since then, IFC has provided \$41 million in three rounds of financing. This has helped Mibanco increase its number of clients from roughly 60,000 to more than 250,000 while maintaining excellent loan repayment rates. Most of these borrowers had never before been able to access banking services.

Created from nonprofit Acción Comunitaria del Perú to make small loans to low-income borrowers, Mibanco is both a major commercial success story and a significant force in Peru's broader poverty reduction efforts. The only microfinance bank in Peru with a prime A credit rating, it reports a 30 percent annualized return on equity and is growing ever more successful at fulfilling its founding mission. It has broadened its product range to include longer-term microenterprise loans with accompanying business training, home improvement loans and 20-year mortgages, and farm credit, and it recently began offering the poor affordable insurance coverage. When it launched a specialized loan program for rural women artisans' collectives, 23,000 women participated over two years with zero defaults.

IFC now has more than \$600 million invested worldwide in microfinance institutions such as Mibanco that together reach roughly 3.5 million small-scale entrepreneurs. We have directly financed more than 50 micro-lenders worldwide. Last year they made more than \$8 billion in loans that help people create jobs, raise their incomes, and afford better housing, health care, and education for their families. Supporting these institutions not just once or twice but over the long term is just one of the ways we make a difference.

“IFC has helped open doors for us because investors thought that Mibanco was too risky. Its involvement has impressed other investors and helped us diversify our funding sources.”

—Rafael Llosa, Managing Director, Mibanco, Peru

MORE PRODUCTS, MORE PEOPLE



SMALL BUSINESS FINANCE

Small-scale entrepreneurs are the future of Africa.

Given a chance, they will take risks, build companies, and create jobs—driving economic growth, especially in the poorest countries. But the big established banks rarely lend to them, sensing too much risk, too little reward.

The result is a serious financing gap—one IFC fills by introducing proven models and partners in small business lending for local investors to adopt and use on their own.

In Madagascar (per capita income: \$290), we helped launch two new microfinance institutions this year, AccessBank and MicroCred, that are lending to the country's smallest businesses. But increasing financing at the next level of the economy—the country's most promising small and midsized companies—required a different approach.

Andriamampandry Rateojanahary runs SEDICO, a family-owned textbook printing and editing business launched by his father, Maxime, the country's leading author of education books. A skilled businessman trained in France, Andriamampandry worked with his father to build SEDICO into a trusted supplier of UNICEF, the Ministry of Education, and others. By 2006 the firm had more than 50 employees and could no longer keep up with client demand. It was ready to expand, but was held back by its lack of access to finance.

Knowing local banks' reluctance to lend to firms of this size, IFC has not only helped develop the local leasing industry, but brought in South Africa's leading small and medium enterprise finance specialist, Business Partners, and mobilized capital for it to invest using the same approach it has applied in South Africa for more than 20 years:

- Making decisions based on firms' cash flow, not collateral
- Complementing investments with advice on management, marketing, and other key business functions
- Sharing in clients' growth, receiving higher returns as their revenues increase

The model works in South Africa, and is working in Madagascar—Business Partners' first foreign market. Its new five-year, \$220,000-equivalent local currency loan is taking SEDICO to a new level, allowing it to tap new markets and build its reputation as one of Madagascar's top small businesses. Business Partners has backed 11 such firms since opening its fund in January 2007.

But the bigger change will come when the large, mainstream banks grow more comfortable with this market. To encourage their entry, IFC and the World Bank's International Development Association (IDA) arm now provide partial risk coverage on new local currency small business loans and related advisory services, helping them build a profitable new business line they will soon be able to continue without our support. BNI-Crédit Agricole Madagascar and BFV-Société Générale have already made approximately \$14 million in new loans as a result, reaching more than 700 smaller businesses. Between the Business Partners fund, the new microfinance institutions, the leasing initiative, and the efforts with the two larger banks, working closely with IDA, IFC has generated more than \$27 million this year in new local financing for smaller businesses in Madagascar.

THE IMPACT OF LOCAL LOANS



Entrepreneurs Andriamampandry and Maxime Ratoejanahary, putting people to work in Madagascar.

BUILDING BANKS

Strong supervisory boards, untainted by conflicts of interest, holding management accountable to shareholders ... an unshaken commitment to transparency and disclosure of information ... effective risk management systems.

Hallmarks of top financial institutions worldwide, these are key characteristics that enable them to operate more effectively and attract investment more easily than their competitors. In the former Soviet Union, IFC corporate governance advisory teams build the abilities of promising midsized local banks' abilities in just these areas. Strengthened by this support, they can then become industry role models and attractive acquisition targets for foreign investors—whose capital, technology, and management skills then allow them to lend more money, faster, and in more parts of their countries, especially in high-impact areas such as small and medium enterprise loans and mortgages.

In Georgia, an IFC corporate governance project funded by Canada began working with Bank Republic in 2004. The bank's forward-minded management team was looking for ways to expand, and recognized the importance of good corporate governance as a means to that end. "We knew we were preparing the ground for potential foreign investment," says the bank's chairman, Lasha Papashvili. "Our partnership with IFC opened completely new horizons for us."

After 14 months of intensive collaboration with IFC, in September 2006 Bank Republic became Georgia's first financial institution bought by a major Western European bank. Its new owner is France's Société Générale, which has cited the improved corporate governance as a key factor in its decision to invest and launch Bank Republic on a major expansion drive.

Larger headlines were made in April 2007, when Belgium's KBC Bank completed the largest foreign investment in Russian banking history: buying a controlling stake in IFC's equity investee and borrower Absolut Bank for approximately \$1 billion. IFC's Swiss-funded banking corporate governance team had worked comprehensively with Absolut for two years. Among the changes made as a result:

- Publicly disclosing the bank's ownership structure
- Adding its first independent board member
- Reorganizing its credit approval process
- Other moves that supported KBC's investment at an attractive price (3.8 times book value).

One of Russia's fastest-growing banks, Absolut is now rapidly increasing its presence outside of Moscow, with IFC retaining an important role as a minority shareholder and long-term lender. As in Georgia, the combination of IFC's advisory services and investment is helping a rising local bank set new standards—and lend more to the entrepreneurs and home owners who need its financing to drive change in the local economy.

THE VALUE OF CORPORATE GOVERNANCE



IFC Client Leadership Award

IFC's annual award recognizes innovation,
operational excellence, and commitment to sustainable development.



IFC Client Leadership Award

The recipient of this year's IFC Client Leadership Award is Manila Water Company, a successful private water and wastewater concessionaire in the Philippines that is making considerable contributions to sustainable development (*see page 18*). Over 98 percent of its customers today have a 24-hour water supply, up from 26 percent in 1997, and more than a million urban poor people now have clear, safe, and affordable drinking water.

IFC has provided a total of \$90 million in loans and \$15 million in equity to support the company's network rehabilitation and expansion, helping transform an inefficient public utility into a world-class operation. By incorporating the needs of the poor into innovative programs, Manila Water has demonstrated that water privatization can succeed economically and improve water quality and efficiency while expanding service into poor communities.

CREDITS

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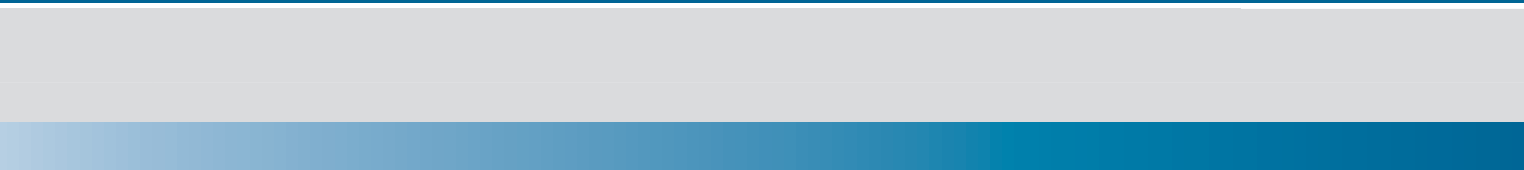


The IFC Difference

We are *global*. For more than 50 years we have focused on the private sector in developing countries, gaining broad knowledge of industries and markets.

We are *local*—with a full-time presence in more than 80 countries, and roughly half of our 3,100 employees based in the field.

With this combination, we help clients find innovative solutions to some of the world's most difficult problems—in business and development.



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