99005

IFC AND PRIVATE EQUITY

Development Impact, Financial Returns

International Finance Corporation
World Bank Group

COUNTRIES WHERE IFC-SUPPORTED PRIVATE EQUITY FUNDS OPERATE

Algeria
Argentina
Bangladesh
Belarus
Bosnia and Herzegovina
Botswana
Brazil
Bulgaria
Cambodia
Central African Republic
Chad
Chile
China
Côte d'Ivoire
Croatia
Czech Republic
Democratic Republic of Congo
Egypt
Estonia
Ethiopia
Fiji
Former Yugoslav Republic of Macedonia
Ghana
Haiti
India
Indonesia
Kazakhstan
Kenya
Kyrgyz Republic
Liberia
Madagascar
Mauritius
Mexico
Moldova
Mongolia
Montenegro
Morocco
Nepal
Nigeria
Pakistan
Papua New Guinea
Peru
Poland
Romania
Russian Federation
Rwanda
Samoa
Serbia
Sierra Leone
Slovakia
South Africa
Tanzania
Thailand
Tonga
Tunisia
Turkey
Uganda
Ukraine
Uruguay
Uzbekistan
Vietnam
Zambia

IFC invests $500 million each year in emerging market private equity funds—focusing on the frontier, increasing impact, and improving lives.

CREATING JOBS

ADDING VALUE WITH HANDS-ON ADVICE

RAISING ENVIRONMENTAL, SOCIAL, AND GOVERNANCE STANDARDS

TARGETING FRONTIER MARKETS

PRIVATE EQUITY: A FORCE FOR DEVELOPMENT

Private equity investment in emerging markets stands at approximately $320 billion today—more than ever before, yet still just a tiny fraction of the $2.7 trillion global total.

Building it further is a key part of IFC's mandate of supporting private sector development and creating opportunity where it's needed most.

I say this because 90 percent of the developing world's jobs are created in the private sector, and private equity investment is an especially effective tool in building the dynamic, job-creating companies that drive economic growth. In every industry—manufacturing, services, technology, and others—local entrepreneurs are opening up their shareholding structure to outside investors, which then play an essential behind-the-scenes role in strengthening their privately held firms in ways that bring widespread benefits. This is particularly valuable in many developing countries where risk capital is scarce and institutional capacity is weak. Complementing bank lending, bond markets, microfinance, and other forms of financial products, private equity investment allocates capital effectively, generating returns for investors while helping emerging economies overcome poverty.

Private equity investment allocates capital effectively, generating returns for investors while helping emerging economies overcome poverty.

Jin-Yong Cai
Executive Vice President and CEO

Private equity, in other words, is a high-impact industry. It is one that IFC must continue to help grow, just as we have since we first began to support it in the late 1980s. We must be daring and innovative, focusing on sustainability and making a business case that ultimately will attract far more capital from others than we could ever supply on our own.

As we do, our work in private equity must reflect the four components of IFC's brand: innovation, influence, demonstration, and impact.

Focusing on these points will enable IFC to keep building the private equity industry's strong combination of profitability and development impact throughout the world. Some good progress has been accomplished to date, as the stories in this collection show. But far more remains to be done. It is a challenge that IFC looks forward to taking on, working closely with our many clients and partners across the board to create jobs, increase incomes, and improve living standards around the developing world.

Jin-Yong Cai
Executive Vice President and CEO

IFC'S PRIVATE EQUITY PORTFOLIO

PRIVATE EQUITY is the risk capital that investment funds place in unlisted companies. Often coming with valuable hands-on business advice, it helps investee firms grow over a period of several years, then seeks a profitable exit through public listing or private sale when its job is done.

IFC, a member of the World Bank Group and the world's largest global development finance institution, is one of the biggest players in emerging market private equity.

WHY? Because private equity is not just good for business; it is good for development—bringing innovative products to market, raising environmental, social, and governance standards, and creating jobs that reduce poverty.

$2.7 Billion

*Invested in 153 Private Equity Funds**

* Out of a $3 billion total funds portfolio since 2000

20%

*Annual Returns**

* Pooled nominal internal rate of return as of June 30, 2012 on IFC's vintage 2000-2010 private equity funds

1,100

Companies Supported

15%

Annual Job Creation across Portfolio

584

Jobs Created per Company (on Average)

SOURCE: External consultant's analysis of an IFC-provided dataset

BUILDING SHARED PROSPERITY

IFC and Private Equity: Increasing the Industry's Impact

The developing world has many sharp-eyed entrepreneurs with great business ideas, ready to build first-class companies that will move their economies forward. But a major obstacle often stands in their way: a lack of access to finance. It blocks them from moving ahead, keeping them from hiring workers, increasing incomes, and raising living standards.

Increasing access to finance is one of IFC's biggest priorities. We do it in many ways, working broadly across the financial spectrum—including investing a total of about $500 million a year in private equity funds boldly backing local firms that do not trade on any stock exchange. We target three kinds of funds:

- **Growth Equity Funds** that target fast-growing smaller and mid-size companies with good prospects for eventually going public or being bought out
- **Small Business Funds** to provide capital and advice to SMEs in frontier countries or regions that growth equity funds find difficult to access
- **Venture Capital Funds** for smaller, earlier-stage companies based around either new intellectual property or new business models

In the industrialized world, private equity is sometimes criticized for supporting highly leveraged transactions that bring companies down, leading to job losses. Not so in the developing world, where leverage ratios are much lower. There, banks typically do little cash flow-based lending to growing companies and bond markets are often underdeveloped, increasing the importance of equity.

The funds IFC supports help fill this gap. Our private equity portfolio investees report 21 percent average annual revenue growth. Increasing their market shares and employee head count as they grow, many are evolving into national, regional, and even global players.

Private equity funds are the way to reach these fast-growing companies that typically are not yet on any bank's radar. And as the commercial private equity industry has become well established in key middle-income countries, since 2007 IFC has focused on the poorer countries in the World Bank's International Development Association (IDA). In the poorest countries, we are often the first private equity investor.

IFC has been the pioneer in emerging market private equity since the late 1980s, helping it grow in that time from fringe market to mainstream asset class. We choose our partners carefully for maximum impact, focusing on innovation and frequently supporting first- and or second-time fund managers, strengthening their role in the markets, and helping them attract more capital from others.

HOW IFC BUILDS PRIVATE EQUITY FUNDS

Our role is not just to invest, but to build this high-impact industry in four key ways:

1 SETTING STANDARDS

- *Showing that sustainability is good business*
- *Holding client fund managers to high environmental, social, and governance standards*

2 MOBILIZING CAPITAL

- *Being a first mover*
- *Adding a trusted stamp of approval that attracts others*

3 PUSHING THE ENVELOPE

- *Testing the frontiers with funds for new countries and sectors*
- *Supporting first-time fund managers with strong local presence*

4 CREATING KNOWLEDGE

- *Monitoring results and impacts*
- *Sharing lessons learned*

PRIVATE EQUITY AND CLIMATE CHANGE

Crisis and Response

Climate change is the biggest challenge to development today. It is one that requires both government leadership and large-scale private sector action—and is a core strategic priority for IFC. In fiscal year 2012 alone, we invested more than $1.6 billion in climate-related projects.

Bringing the capital, expertise, and innovation needed to help foster low-emission growth, private equity funds are a key component of IFC's overall response to climate change within the World Bank Group. We have committed about $340 million in 17 climate-focused funds. In December 2012, IFC invested $75 million in **IFC Catalyst Fund**, a fund of funds which will allow investors to participate in IFC's continuing investment program in private equity funds focused on providing growth capital for companies that enable resource efficiency and develop low-emissions products and services in emerging markets.

Our portfolio includes the ZAR750 million ($90 million) **Evolution One Fund** that is leading the way for cleantech and renewable energy investments in Southern Africa. It is financing some of South Africa's first grid-connected solar photovoltaic and onshore wind independent power projects and other innovative companies in the waste management and agribusiness sectors. The fund has so far leveraged ZAR4.6 billion (approximately $500 million) of investment that will deliver an initial 232 MW of new grid-connected capacity to power South Africa's low-carbon future.

One of our newest investments is in the **Armstrong South East Asia Clean Energy Fund**. A $150 million Singapore-based private equity fund, it brings early-stage development capital to small-scale infrastructure projects

in Thailand, Indonesia, the Philippines and other emerging markets in the region. The first clean energy fund dedicated to Southeast Asia, it expects to make up to 15 investments by 2017, targeting projects using commercially proven technology to generate up to 10 MW of renewable power per project from solar, wind, and mini-hydro sources.

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JOB CREATION

Fast-growing companies create jobs.

Private equity helps them do so—faster, in many cases, than other unlisted firms that lack this kind of support.

The average rate of job creation in IFC-supported funds since 2000 has been 15 percent across the portfolio, well in advance of regional rates of job growth of 2–3 percent.

While small companies have the highest rates of job growth (approximately 18 percent), it is the mid-size companies with more than 300 employees at time of entry that create the largest number of jobs. This is why our portfolio focuses on growth equity funds, which have the greatest opportunity for job creation and sustained growth.

Increasingly this job-creating growth capital focuses on expanding companies that are moving beyond their traditional markets, in the process helping integrate regional economies. South-South investment is now an important driving force, as African, Indian, and Latin American companies, for example, expand into neighboring countries or even each other's markets.

We emphasize our catalytic role, using our reputation in the markets to attract more capital from others. Then once these funds are successful enough to attract a strong following, we see our role as completed and move on to find the next generation of funds to back.

IFC-SUPPORTED PRIVATE EQUITY FUNDS

INVESTMENTS WITH HIGHEST JOB CREATION

(2011-2012)

REGION	COMPANY	COUNTRY	JOBS CREATED	FUND/ IFC INVESTMENT
East Asia/ Pacific	Belle International (Footwear)	China	116,000 (2012)	CDH China II/ $18MN (2005)
Latin America/ Caribbean	Arcos Dorados* (Restaurants)	Brazil	22,352 (2011)	DLJ South American Partners/ $20MN (2007)
Africa	Equity Bank, Ltd. (Financial Services)	Kenya, Uganda, Tanzania, Rwanda, South Sudan	5,521 (2012)	Aureos East Africa Fund/ $4MN (2003); Helios Investors Fund I $20MN (2006)
South Asia	MedPlus Health Services* (Pharmacies)	India	4,253 (2011)	PeepulCap Fund II/ $20MN (2006)
Europe/ Central Asia	Migros (Retail)	Turkey	3,500 (2012)	Turkish Private Equity Fund II/ €20MN (2007)
Middle East/North Africa	Buzzichelli Maroc (Fabricated Metals)	Morocco	900 (2012)	Capital North Africa Venture Fund/ $6.7MN (2007)

*Exited in 2011; thus no 2012 jobs data available.

CREATING JOBS THROUGH FINANCIAL INCLUSION

Kenya's Equity Bank Ltd is not just a bank. It is a transformational force in East Africa, a model case for the powerful combination of profitability, social responsibility, and development impact.

IFC-supported private equity investment helped it get there.

Based in Nairobi, **Equity Bank** now has more than 8 million customers—more than any other bank in Africa.

Committed to championing "the socioeconomic prosperity of the people of Africa," it targets underserved populations in Kenya, Uganda, South Sudan, Tanzania, and Rwanda: micro, small and medium enterprises, small-scale farmers, women entrepreneurs, youth, and others. Innovation drives its strategy, including a cutting-edge mobile banking system reaching more than 2 million people, many living in rural areas far beyond the reach of its branch network.

CEO James Mwangi leads the bank. A key member of IFC's CEO Financial Inclusion Forum, he turned what was once a small, technically insolvent home loan institution into a regional powerhouse, financing job creators at every turn.

"Entrepreneurship provides us with an opportunity to turn around our continent," Mwangi said in being named World Entrepreneur of the Year in 2012 by Ernst & Young. "Africa's biggest challenge is poverty. Entrepreneurs create wealth, and wealth is the cure for poverty."

A key turning point came in 2007, when London-based private equity house **Helios** became Equity Bank's single largest investor, taking a 24.5 percent stake. Focused exclusively on private equity and growth investments in Africa, Helios's first Africa fund had been launched with IFC support the year before. That fund provided $51 million of Helios's $178 million overall investment in Equity Bank—strengthening its capital base, adding international prestige, and paving the way for future expansion.

LEFT CEO James Mwangi—here holding his 2012 World Entrepreneur of the Year award—has built Equity Bank Limited into one of developing world's most innovative and inclusive financial institutions.

Cross-border growth followed in 2008 with the acquisition of Uganda Microfinance Ltd., whose shareholders included the IFC-supported **Aureos East Africa Fund**. Since then Equity Bank has brought its full-service financial services package into four other African markets, and is now considering entering several others as well. IFC has provided a loan of KSh 8.3 billion ($100 million) to support Equity Bank's lending to small and medium businesses, agricultural projects, and women entrepreneurs in the region.

EQUITY BANK LTD

A transformational force

8MN+

Customers

2MN+

Mobile Banking Users
(419% Increase Since 2011)

6,000+

Agents Attracting Deposits
(In Addition to 150 Branches)

IFC INVESTMENT

$20 MN in Helios Investors Fund I *($304MN, 2006)*
$4 MN in Aureos East Africa Fund *($40MN, 2003)*

SMEs: ANCHORS OF EMPLOYMENT

Creating jobs—where the Arab Spring began

A frustrated Tunisian fruit-seller's self-immolation in December 2010 sparked a wave of outrage across the Middle East and North Africa, driven in large part by widespread joblessness. At the core sat a paradox: the region's labor force is one of the fastest-growing in the world, needing to create up to 75 million new jobs in the next decade just to keep up with population growth and bring down unemployment. Yet its key sources of jobs—micro, small, and medium enterprises—show the world's lowest access to finance.

It is a fundamental issue that must be addressed.

In large part, this means helping the region's promising smaller companies reach their full potential. Tunisia's Altea Packaging, for example, now has 680 direct employees, more than seven times as many as it did the day we first met it. And it is preserving those jobs today, despite its region's economic downturn. This is not counting the important positive impact this industry is bringing to the agribusiness sector in the North African region in terms of added value packaging, allowing those companies to meet international packaging standards and to boost exports. Risk capital and hands-on advice from our local partner TunInvest have been one of the keys to its success.

The region's private equity pioneer, **TunInvest** has been investing profitably in SMEs since 1994. With our support, in 1998 it put $1.9 million into a small, loss-making Tunisian manufacturer called Cogitel, then put it on a path to renewed profitability. Seeing an even brighter future ahead, this insightful Tunisian investment group then helped Cogitel grow further through acquisitions and new ventures, ultimately folding it into a new holding company called

ABOVE Now part of regional leader Altea Packaging, Tunisia's Cogitel is thriving despite the challenging economic conditions in Tunisia.

Altea Packaging that received a fresh $19.5 million in 2006. Today Altea employs 680 workers at subsidiaries in Tunisia, Algeria, and Egypt. It is MENA's flexible packaging leader, outselling its closest competitor each year by a factor of five.

But MENA has 1.1 million SMEs. It needs many more success stories like this one. IFC is thus investing up to €15 million in TunInvest's newest private equity fund, its largest ever in the MENA region. This is part of the $2.6 billion we invested in MENA in fiscal 2012—our countercyclical vote of confidence in the region and its many job-creating entrepreneurs.

ALTEA PACKAGING

A North African leader

680

Workers at Altea Packaging Today

190

Workers at Altea Packaging's Predecessor Firm when TunInvest First Invested (1998)

40,000

Tons/year of Installed Capacity Today at Altea Packaging (the Largest in North Africa)

$750MN

Assets under Management at AfricInvest-TunInvest Group

IFC INVESTMENT

$4.6 MN in TunInvest International Sicar *($13.5MN, 1998)*
$5 MN in Maghreb Private Equity Fund I *($23MN, 2000)*
$15 MN in Maghreb Private Equity Fund II *($124.2MN, 2006)*
€15 MN in Maghreb Private Equity Fund III *(€96MN, 2011)*

HANDS-ON ADVICE

Private equity fund managers bring more than money.

They also build their investee firms' value with advice on business strategy—often bringing years of experience that helps their portfolio companies reach the next level.

Active long-term partners, private equity funds help their companies in a variety of ways, often improving:

- **Organizational Structure**
- **Management Support**
- **Recruitment & Succession Planning**
- **Market Positioning**
- **New Product & Partner Development**
- **Technology & Supply/ Distribution Chain Choices**
- **Mergers & Acquisitions**

Fund representatives usually join the board of their investee business, improving governance and becoming closely involved with overseeing strategy and financial reporting.

This is one of the reasons private equity is an effective tool for IFC's private sector development mission. The capital we commit to these funds also helps catalyze general partners' in-depth sector knowledge and business acumen for growth companies in emerging markets. Many bring extensive international industry networks, giving these companies access to market intelligence, industry experts, and general contacts that might otherwise be hard to obtain.

DRIVING EQUITY RETURNS

Private equity's combination of capital and strategic advice adds value in four key ways that drive financial returns as well as development impact:

1. **EFFICIENCY GAINS**
2. **REVENUE GROWTH**
3. **IMPROVED ACCESS TO CREDIT**
4. **INCREASED VALUATION MULTIPLES**

INVESTING IN INNOVATION

China is transitioning into a more innovative, technology-driven economy, opening opportunities for growth-stage investors bringing both knowledge and capital.

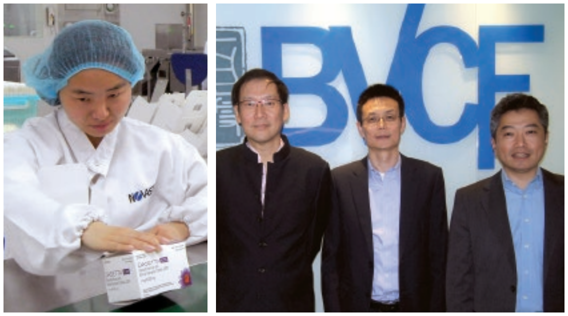
Nantong, a mid-size industrial city in Jiangsu province, is a major gateway for the globalization of innovative Chinese companies. Among them: the emerging international pharmaceutical firm **Novast Laboratories**.

Led by Dr. Guohua Zhang, who returned to China in 2004 after a successful career with a major U.S. pharmaceutical company, Novast is seen as setting the standard for Chinese pharma companies aiming to develop drugs for regulated foreign markets. Its state-of-the-art manufacturing site is the first U.S. FDA-approved facility in China. It is also the first Chinese pharmaceutical company to develop and manufacture U.S. FDA-approved drugs for sale in the United States, launching its first four products there in 2012 and on target to introduce a total of 15 by mid-2013.

Gaining a foothold in such a hotly contested global market is no small feat. It requires just the right partners to navigate through the capital-intensive R&D, product development, and manufacturing phases. For Novast, those partners were Chinese private equity fund **BVCF** and its longtime investor, IFC.

As early as 2004, IFC was looking for the right local fund manager to help develop China's life sciences industry; seeking one with the right combination of industry expertise and local and global market knowledge and networks. In 2005 we chose BVCF, a specialized life sciences investment firm founded by Dr. Zhi Yang, who holds a PhD in molecular biology and biochemistry from Harvard University and helped build several successful life sciences companies in the U.S. before returning to China in 2005.

In 2007 IFC backed BVCF's second fund, which then sourced, led, and syndicated the financings for Novast.



ABOVE Hands-on support from IFC-backed Chinese private equity firm BVCF has helped build pharmaceutical firm Novast into a global player.

Dr. Yang serves as chairman of Novast and with his BVCF colleagues provides hands-on guidance to Novast management. This support has included developing financing and corporate strategies, facilitating strategic relationships with global companies, and introducing prestigious international investment firms.

Novast has received funding from its lead investor BVCF (formerly known as the BioVeda China Fund), and other major international co-investors that BVCF brought in such as NEA, Lilly Asian Ventures, SAIF, Sequoia Capital, and Goldman Sachs. In 2012, Novast received a $20 million equity investment and a new strategic cooperation agreement from prestigious Eli Lilly and Company.

Novast has currently created 295 jobs, half of them held by female workers. Bolstered by the capital invested by BVCF and its co-investors, it is well on its way to a bright future.

BVCF

The first private equity and growth capital investment firm specializing in the Chinese life sciences industry

45%+

IRR for BioVeda China Fund I (as of March 2013)

20%

IRR for BioVeda China Fund II (as of March 2013)

4

Areas of Focus:

BIOPHARMA (40%-60%)

MEDICAL TECHNOLOGY (10%-20%)

HEALTHCARE SERVICES (10%-15%)

INDUSTRIAL BIOTECH (10%)

IFC INVESTMENT

$4.7 MN in BVCF I *($25MN, 2006)*

$10 MN in BVCF II *($90MN, 2008)*

DISRUPTIVE DEVELOPMENT

U.S.-style venture capital comes to Mexico, targeting a new generation of high-tech entrepreneurs.

New York Times columnist Thomas L. Friedman is the world's authority on globalization, read—and trusted—the world over. In February 2013 he was in Monterrey, Mexico, once again seeing the legions of poor he had often seen before.

"They've been there for decades," Friedman wrote.

Then he added something else.

"What is new, though," Friedman went on, "is that this city, Mexico's Silicon Valley, now also has a critical mass of young, confident innovators trying to solve Mexico's problems by leveraging technology and globalization."

Among those he cited was Andrés Muñoz, whose Cancun-based cleantech start-up **Fricaeco** makes innovative solar water heaters. Designed for the large low-income market that can't afford to heat water by gas or electricity, they are the first of many renewable energy products being commercialized by Fricaeco, which Muñoz founded in 2010.

Or consider Fernando Luege, who at 18 became the youngest Mexican ever to receive a U.S. patent. Eight years later, he heads an online reputation management firm, **Ondore**. It helps major Mexican companies such as Televisa and international creative agencies such as Ogilvy monitor themselves and their clients on social media and Web sites, then sift the data to make better brand management decisions.

Until recently, techsters like this would have been shut out by Mexico's lack of early-stage financing. But things changed in 2008. Determined to start a domestic venture capital (VC) industry, the government turned to Paul Ahlstrom, a Spanish-speaking Utah investor with more than $400 million invested in U.S. start-ups, and Rogelio de los Santos, his partner in Monterrey.

ABOVE Alta Ventures Mexico targets emerging entrepreneurs like Andrés Muñoz and Andrés Muñoz Sr. of solar water heater producer Fricaeco and Fernando Luege of online reputation management firm Ondore.

The result was **Alta Ventures Mexico Fund**, bringing money and guidance to promising new companies. Its first investor was IFC.

In 2011 the fund sold an early investee, Rhomobile, to Motorola Systems for three times cost, shortly after investment. Deal flow since has been strong, including investing $900,000 and opening lucrative new distribution channels for Fricaeco, and taking a $1.5 million stake in Ondore while providing technical architecture guidance that dramatically improved its performance.

"We're not just looking for innovation; we're looking for disruptive innovation—the kind whose products are vastly superior to others in the same markets," Ahlstrom says. "It's what will allow Mexico to compete on a global level, driving long-term job growth and turning it into one of the world's next great economies."

ALTA VENTURES MEXICO FUND

Risk capital for early-stage companies with breakthrough potential in Mexico

$70MN

Raised

59.8%

Net IRR (2012)

30

Leading Mexican Industrialists Investing, Co-investing, and Providing Valuable Contacts

50

Jobs Created per Investment (on Average)

3

Products:

SEED CAPITAL: $50K-$500K

ENTREPRENEURIAL CAPITAL: $500K-$5MN

GROWTH CAPITAL: $5MN-$10MN+

IFC INVESTMENT

$10 MN in Alta Ventures Mexico *(2010)*

$18.7 MN in the related Alta Growth Capital Fund for high-potential SMEs outside the technology sector *($75MN, 2007)*

$15 MN in the follow-on Alta Growth Capital II *($150MN, 2012)*

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE STANDARDS

IFC's client fund managers clearly recognize the business value of environmental and social (E&S) management and high corporate governance standards in their portfolio companies.

It is not just a way to manage risks. It is an opportunity to build value.

Typically, IFC-supported funds integrate sound E&S analysis into their pre-investment due diligence and post-investment portfolio management of investee firms, working as partners to add value through sustainability. Often this investor input is the first force in helping investee companies become more people- and planet-friendly.

To support this trend, IFC has partnered with Switzerland's SECO to create an online **E&S Management Toolkit** for fund managers. It guides users through the environmental and social tasks of each phase in parallel with the financial aspects. At each phase, it lays out key tasks that need to be addressed, as well as resources and document templates needed to ensure they are addressed satisfactorily.

We also lay out clear responsibilities for our fund managers to comply with the eight **IFC Performance Standards** defining clients' roles and responsibilities for managing their projects in a sustainable way. We help clients build their E&S Management Systems as needed, then monitor their funds' performance and suggest refinements where necessary.

The results are not just good for the environment and local communities; they are also good for the bottom line: leading to cost savings through new efficiencies in use of energy, land, and other resources as well as product distribution and waste disposal. This helps reduce the day-to-day environmental impact and costs of investees, while also providing for productivity gains.

Along with E&S, IFC-supported private equity funds also adopt international best practices for transparency and corporate governance of their portfolio companies, thus fostering knowledge and skills transfer and building lasting on-the-ground impact.

IFC PERFORMANCE STANDARDS

1. **ASSESSMENT AND MANAGEMENT OF ENVIRONMENTAL AND SOCIAL RISKS AND IMPACTS**
2. **LABOR AND WORKING CONDITIONS**
3. **RESOURCE EFFICIENCY AND POLLUTION PREVENTION**
4. **COMMUNITY, HEALTH, SAFETY, AND SECURITY**
5. **LAND ACQUISITION AND INVOLUNTARY RESETTLEMENT**
6. **BIODIVERSITY CONSERVATION AND SUSTAINABLE MANAGEMENT OF LIVING NATURAL RESOURCES**
7. **INDIGENOUS PEOPLES**
8. **CULTURAL HERITAGE**

ADDING VALUE WITH SUSTAINABILITY

The China Environment Fund focuses on cleantech investments—balancing environmental, social, and financial returns.

IFC has been its partner since 2007.

The **China Environment Fund (CEF)** is a good example of sustainability-driven private equity investing.

Profiled in a recent Harvard Business School case study, it has twice earned fund manager **Tsing Capital** China's Corporate Citizen of the Year award and also been ranked as one of China's best venture capitalists by *Forbes China*. Its track record of success shows how commercial concerns linked to environmental and social standards offer win-win opportunities for all, demonstrating how private equity can be a powerful driver of growth and change.

Founder Don Ye launched the fund in 2002 upon his return to China after 12 years in the U.S., where he worked at IT and venture capital firms in Silicon Valley. The asset management company of Beijing's Tsinghua University, China's science and technology leader, wanted to pursue early opportunities when cleantech was still at a very early stage in the country, and saw Ye as the man to open the field.

The first two CEFs were small. But in 2007 IFC entered into CEF III, helping it attract $228 million and develop an E&S Management System based in part on the IFC Performance Standards. Implementing the ESMS, the funds screen potential investees' E&S risks during the due diligence process, using internationally reputable consultants and raising corrective actions when needed as part of the terms of investment. Post-investment monitoring and advising are also regularly performed, further improving the future exit options for investees such as:

PHOTOS Headed by Silicon Valley veteran Don Ye, the China Environment Fund is building a portfolio of successful green companies, including organic farming leader Tony's Farm.

- **Beijing Goldenway Bio-Tech Co.,** whose proprietary microorganism technology processes kitchen waste into two key products for sustainable agriculture, protein feed and microbial fertilizer additives, and is now backed by Goldman Sachs and others.
- **Tony's Farm,** an early leader in organic farming in China, producing certified organic vegetables for individual and corporate clients.

The fund's manager, Tsing Capital, was selected as the Responsible Investor of the Year in Asia by *PE Asia*. With IFC's continued support, it has successfully raised a fourth fund of $257 million.

CHINA ENVIRONMENT FUND

Doing well by doing good

3

Areas of Focus by Stage:

EARLY STAGE

GROWTH/EXPANSION STAGE

LATE STAGE

50

Jobs Created per Investment (Target)

7

Areas of Focus by Industry:

RENEWABLE ENERGY

ENERGY EFFICIENCY

SUSTAINABLE AGRICULTURE

SUSTAINABLE TRANSPORTATION

ENVIRONMENTAL PROTECTION

NEW MATERIALS

CLEANER PRODUCTION

IFC INVESTMENT

$15 MN in China Environment Fund III *($228MN, 2007)*
$20 MN in China Environment Fund IV *($257MN, 2011)*

CREATING CORPORATE GOVERNANCE

Since 2007, over 50 percent of the funds supported by IFC have been in the world's poorest countries.

The Leopard Haiti Fund is one of them—making the business case for transparency.

The road to recovery is long and hard in Haiti, requiring private sector solutions to create jobs and reduce poverty.

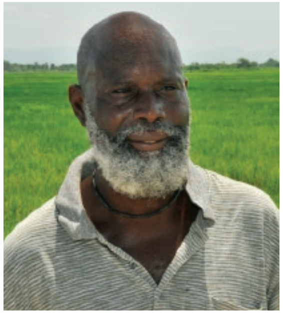
Local entrepreneurs are essential players in moving the country forward from the devastation of the 2010 earthquake, but are typically starved for capital and knowledge. To fill the void, IFC has helped launch the country's first institutional-quality private equity vehicle, blending investment with advice for maximum impact.

Launched in 2012, the $20 million **Leopard Haiti Fund** is a catalyst for change—run by respected international fund managers who understand the value of corporate governance and are committed to building it in local SMEs and larger growing businesses.

It is a challenging mandate, but one for which fund manager Leopard Capital brings just the right global experience. Based in Bangkok, its shareholders include famed contrarian Marc Faber, named one of the World's Five Wisest Investors by Bloomberg.

Amid the global financial crisis in 2008, Leopard went to the markets with the world's first private equity fund for Cambodia, raising $34 million despite the downturn. The three exits since then have achieved a gross IRR of 36 percent, increasing the firm's appetite for other frontier markets like Haiti, where it now has a strong local presence.

While investees will typically be family-owned and locally oriented at first, the fund will require all



ABOVE Creating jobs for the Haitian people.

to create boards of directors and operate with full transparency, increasing their appeal to future foreign investors. IFC's global corporate governance team has a long track record of helping improve the governance of family-owned firms in poor countries, and will be sharing it widely in Haiti.

Upcoming IFC-sponsored governance workshops will expose local SMEs to global best practices in this critical area, building the value proposition of this groundbreaking fund that is also supporting the growth of private equity in Haiti by hiring and training local staff. Other investors include FMO of the Netherlands and the Inter-American Development Bank's Multilateral Investment Fund.

LEOPARD HAITI FUND

Providing capital, raising standards

$20MN

Dollars Raised in July 2012 (First Closing)

$75MN

Goal Set by the Leopard Haiti Fund

4

Key Industries Targeted:

FOOD PROCESSING

TOURISM

AFFORDABLE HOUSING

RENEWABLE ENERGY

IFC INVESTMENT

$8.5 MN in Leopard Haiti Fund *(Target $75MN, 2012)*

FRONTIER MARKETS

The poorest countries have many high-potential businesses. They need capital to expand, but local bank and bond markets rarely touch them, and other forms of investment are hard to find from existing sources.

IFC is filling the gap, innovating to bring private equity to the frontier.

IFC does not just invest in other people's funds. Our role is to redefine the boundaries of private equity, extending its reach with profitable, high-impact funds that create jobs at investee firms.

Wherever possible in frontier markets, we do this by supporting growth equity funds. Studies show their investments (typically sized at $5 million or more) that unlock the potential of mature mid-size companies generally have the highest impact, eventually leading to significant success stories. One example is the **Aureos Africa Fund**, whose portfolio of established players from Ethiopia, Ghana, Kenya, Nigeria, Senegal, and Tanzania has several potential pan-African market leaders.

But this higher-end model goes only so far. The poorest countries often have few companies of that size. They have a great need for well-managed small business funds—investing $1 million or less at a time in firms that are too big for microfinance but too small for mainstream investors, while also providing hands-on advice.

IFC helped pioneer this model in 2004 as a founding shareholder in **Business Partners International (BPI)**. Transferring proven knowledge from South Africa's leading SME finance specialist to other African countries, BPI has now created a successful Kenya fund and launched others in Madagascar and Rwanda, drawing additional IFC support and donor funding for advisory services each time. Another upcoming BPI SME fund will target Southern African countries.

Extending this approach further, IFC has created **SME Ventures**, a family of new, locally managed funds in Bangladesh, the Central African Republic, the Democratic Republic of Congo, Liberia, Nepal, and Sierra Leone. Also blending capital and advice, its investments are usually structured as loans with upside potential. Interest rates on loans can be linked to the investees' revenues, return on investment, or internal rate of return, allowing investors to be compensated in accordance with each transaction's risk profile.

Using these two approaches, IFC's frontier market funds bring private equity where it is needed most: in the world's poorest countries.

FRONTIER MARKETS
TWO MODELS

1 GROWTH EQUITY
AUREOS AFRICA FUND

SIZE	*$381MN ($40MN from IFC)*
TARGET	*Growing Mid-Size Companies in Africa*

18 COMPANIES IN PORTFOLIO

24% INVESTEE REVENUE GROWTH*

***Source:** Engagement in Africa, The Abraaj Group, 2013

2 SMALL BUSINESS FUNDS
BPI KENYA SME FUND

SIZE	*$14.1MN ($5MN from IFC) + Donor-funded Advisory Services*
TARGET	*Local SMEs*

67 COMPANIES IN PORTFOLIO

33% INVESTEE REVENUE GROWTH*

***Source:** Independent study commissioned by the Kenyan Ministry of Trade and the World Bank, 2012

GROWTH EQUITY

Madagascar is one of Africa's poorest, most difficult markets—overlooked by most fund managers, especially amid the ongoing political strife that has dampened the economy since 2009.

I&P's investment in Newpack tells a different story.

Frontier market conditions are extremely challenging. But they are also ones in which specialized private equity house **I&P Management** thrives. Working from four offices (Mauritius, Madagascar, Ghana, and Côte d'Ivoire) the group is both earning good returns for its investors and strengthening the economy by building up local SMEs. One of them is Madagascar's **Newpack**, a fast-growing manufacturer of cardboard packaging.

In 2008, I&P acquired Newpack from its founder, who had developed the firm into the local market leader but was ready to retire after 20 years.

Seeing bright opportunities ahead, the new owners quickly took a hands-on stance, bringing in new management and spearheading changes in strategy. Considerable focus went to greening the ISO 9001–certified production line of cardboard boxes that Newpack clients use in shipping. Cutting water and electricity costs and making more efficient use of the key raw material—paper—these and other environmental and social upgrades added the equivalent of 5 percent of revenues by 2010 at modest cost.

The old Newpack had been almost entirely domestic. But when the 2009 ouster of Madagascar's president tightened the local market, I&P revitalized the firm, keeping it strong at home and growing internationally competitive for the first time. Today's Newpack is a rising regional player; exports to other Indian Ocean island states such Mauritius, Seychelles, and Reunion now represent 20 percent of sales.

ABOVE Fast-growing Newpack now competes regionally, not just nationally.

Founded in 2002, I&P Management is en route to achieving triple bottom line results in Madagascar: strong financial returns, positive environmental impact, and a clear contribution to poverty reduction by sustaining employment despite political instability and economic slowdown. On average, Newpack staff is paid 31 percent above the national minimum wage today.

I&P MANAGEMENT

Building Newpack, the packaging industry leader in Madagascar

250+

Employees
(13% Annual Growth)

€9.4MN

In Revenues
(12% Annual Growth)

IFC INVESTMENT

€7MN in I&P Capital II *(€37.3MN, 2007)*
€10MN in I&P Capital III *(€94.8MN, 2011)*

SMALL BUSINESS FUNDS

Tapping the entrepreneurial energy of fragile and conflict-affected states

Entrepreneurs face a special dilemma in the poorest, most conflict-affected countries—where microfinance abounds, but private equity is all but unknown.

They drive job creation and economic growth, but are stuck in the middle: too big for microfinance, too small for commercial banks, and having few ways to build the management skills or industry knowledge they need to grow.

Responding to this dilemma, IFC has created the **West Africa Ventures Fund**, a specialized vehicle for small businesses in war-torn Sierra Leone and Liberia with $40 million in investment capital and $2.2 million in grant-funded advisory services to offer. Managed by Nigeria's **Unique Venture Capital**, it is one of five such funds in our SME Ventures program.

The fund's goal is to provide a full integrated package of investment and advice. All investees are currently upgrading their skills through Business Edge, IFC's affordable SME management training platform that is delivered commercially in 38 countries. In the future, the advisory package will also include training in corporate governance as well as environmental and social standards.

Sierra Leone's Lilian Ada Lisk invested roughly $835,000 of her own funds to revamp an ailing bottled water company called **Intrapex Ltd.**, but still needed help building its Grafton Water brand. In December 2011, our West Africa fund invested $450,000 for a 35 percent equity stake along with an additional $50,000 preferred shares transaction, then helped her find an experienced new general manager and advised on renovation of her factory in Freetown.

Today Intrapex is the market leader in Sierra Leone, creating 50 jobs of its own and another 40 at its distributors.

ABOVE Herbal tea producer Morvigor *(top left)* and bottled water firm Intrapex Ltd. are backed by IFC's West Africa Ventures Fund.

Another investee, **Morvigor Ltd.**, is fast building an herbal tea business using leaves of Sierra Leone's Moringa plant. Owner Eva Roberts had won a national business plan competition for the idea, but had little way to proceed until she attracted our fund's $300,000 debt/equity package in December 2011 that allowed her to obtain production technology from China. It too is number one in its market, employing 16 people at its factory, and supporting another 50 jobs through wholesalers and retailers.

It's a start—building businesses from the bottom up in difficult environments that others too often ignore.

SME VENTURES

Small Business Solutions Where They're Needed Most

FUND	TARGET SIZE	IFC INVESTMENT	GRANT SUPPORT	FUND MANAGER
West Africa Ventures Fund (LIBERIA, SIERRA LEONE)	$40MN	$13.6MN	$2.2MN	Unique Venture Capital (NIGERIA)
Central Africa Ventures (CENTRAL AFRICAN REPUBLIC, DEMOCRATIC REPUBLIC OF CONGO)	$25MN	$12MN	$3.7MN	XSML (NETHERLANDS) and Cenainvest (CAMEROON)
SEAF Bangladesh Ventures	$20MN	$12MN	$2.3MN	SEAF (USA) and VIPB (BANGLADESH)
Business Oxygen (BO2) (NEPAL)	$14MN	$7MN	$0.6MN	Bank of Kathmandu and Beed Management (NEPAL)

WOMEN'S INVESTMENT FUNDS

Next on the agenda

Women entrepreneurs are changing the face of the global economy, helping sustain job creation and economic growth. In fact, women represent the largest emerging market. It is estimated that women-owned entities represent over 30 percent of registered businesses worldwide.

According to the *Harvard Business Review*, women control about $20 trillion in global consumer spending. That's a growth market bigger than India and China combined, and projected to reach $28 trillion by 2014.

But all too often, women, who already face societal and cultural barriers as well as unfavorable business and regulatory environments, also find it more difficult than men to gain access to finance. Empowerment of women is one of the most effective ways to reduce inequality and facilitate economic growth.

Developing countries cannot achieve sustainable growth without the active participation of women. Women entrepreneurs are critical to economic growth and job creation—and to IFC's strategy. As part of its commitment to the G20 Financial Inclusion agenda, IFC aims to provide loans through financial intermediaries to 3.1 million SMEs worldwide by 2013 and to expand financial services to 58.4 million microfinance clients, of which almost 50 percent are women. For example, IFC's Banking on Women program is supporting access to finance and building technical capacity for women through global and regional financial institutions.

ABOVE Women entrepreneurs are a key force for change in emerging markets.

IFC is now considering a women's investment fund program that would seek to invest in women-owned businesses globally through private equity funds. The program would help SMEs in India and Africa and mid-cap companies in Southeast Asia. Working through experienced fund managers with regional and corporate banking experience, it would also help improve corporate governance and train women entrepreneurs to grow their companies and create more jobs. The goal: contributing to the development of women-owned businesses as a sub-asset class in their own right, and encouraging more investors to look at investments through a gender lens.

IFC AND PRIVATE EQUITY

Development Impact, Financial Returns

PHOTOGRAPHY

John McNally/IFC
Jason Larkin/Panos Pictures
Sara King/IFC
(front cover)

World Bank, IFC (inside cover)

World Bank (page 2)

World Bank, IFC, and Inter-American Development Bank (page 6)

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