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IFC AND EMERGING MARKET PRIVATE EQUITY

IFC believes that you need a private sector to develop anything. We go in believing that we can get a decent return from these markets. The whole objective is to get commercial proof of concept and then let the private sector take over.[1]

—David Wilton, Chief Investment Officer and Manager, IFC Global Private Equity

David Wilton, chief investment officer at the International Finance Corporation's (IFC) Private Equity and Investment Funds Group (the "Funds Group") looked south out his office window onto Pennsylvania Avenue in Washington, DC. The White House, Congress, the State Department and the rest of the office buildings housing the World Bank Group were all a short walk away.

Mindful of his proximity to some of the world's most influential institutions, Wilton reflected on his own group's decade-long history, and the critical role it had played in developing the nascent, yet rapidly expanding industry of emerging and frontier market private equity as he prepared to meet with Jin-Yong Cai, the newly appointed executive vice president and CEO of IFC. In many ways, Jin-Yong's appointment reflected a gradual trend within the IFC of shifting the organization's management focus toward frontier markets, as these fast growing countries assumed a greater and greater role in the global economy. Jin-Yong would be the first Chinese national to act as CEO of the IFC, and only the second ever CEO from an emerging market. All other previous CEOs were either European or American. Jin-Yong had asked Wilton to brief him on the history and activities of the Funds Group up to this point, and to outline the group's changing strategy as the industry matured. Jin-Yong wondered, "We already have a great private

[1] All information in this case is based on interviews with David Wilton and Teresa Barger and chapter 1 of "Private Equity in Emerging Markets: The New Frontiers of International Finance" authored by David Wilton, edited by Prof Darek Klonowski published by Palgrave Macmillan in fall 2012, and materials retrieved from www.ifc.org/funds. Interviews were conducted in August 2012.

Michael Kennedy, Debra McCoy, Professor William Meehan and Professor Paul Pfleiderer prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

equity and direct equity platform, but was there more to be done? How could IFC foster further economic development through indirect private equity investing and direct equity investing?"

Formed in 2000, the Private Equity Funds Group had begun as an effort to consolidate a relatively disordered collection of private equity investments IFC had made during the 1990s. While most of IFC's activities involved making *direct* equity and debt investments, the Funds Group invested as a Limited Partner (LP) in private equity funds targeting emerging market countries, ceding control of the investment decisions to independent General Partners (GPs) who then made investments in businesses located in developing countries. Since then, the group had helped to legitimize and grow the emerging market private equity asset class, building a portfolio of 180 funds with total dollar commitments of $3.6 billion, having invested in roughly 10% of all newly formed emerging market private equity funds since 2000. By 2012, the group was making new investments of nearly $400 million to $500 million annually in roughly 20 funds. The portfolio included funds focused on Africa, East Asia, South Asia, Eastern Europe, Latin America and the Middle East.

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The group had performed extremely well under Wilton's stewardship. The internal rate of return (IRR) on the Funds Group's investments had averaged 22.5 percent since 2000, exceeding both US and EU private equity indices. Equally remarkable was that first-time managers ran many of the funds in which the group invested. Frequently considered a highly speculative and uncertain investment in developed markets, these "first-time-manager" funds had averaged a surprising 24.0 percent IRR since 2000.

However, the impressive performance and the growth of the industry in the previous decade raised many new questions for the Funds Group's future and IFC in general. As one of the world's most important development finance institutions (DFIs), IFC's ultimate goal was to make itself obsolete through the development of the private sector and the eradication of global poverty. With the industry clearly on the path to greater and greater prominence in the future of global financial markets, Wilton was now faced with the larger question regarding the role of IFC in emerging market private equity. Wilton believed strongly that private equity could be a highly effective facilitator of economic growth in emerging and frontier market countries, and he hoped the Private Equity Funds Group would continue to play a critical role as both a financier and advocate for the industry, as it had over the past decade. One of IFC's continuing goals is to achieve proof of concept to attract commercial investors and, with rising amounts of commercial capital entering the emerging market private equity sector including major Private Equity Industry players such as Carlyle and KKR, [2] IFC had to consider where it still had a role to play, and how its capital could be best allocated to meet its fundamental purpose of ending poverty and advancing economic development.

THE INTERNATIONAL FINANCE CORPORATION (IFC)

The World Bank Group

The International Finance Corporation (IFC) is one of five constituent organizations of the World Bank Group. The other organizations include the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), which provide sovereign loans and grants to middle-income and low-income governments; the Multilateral Investment Guarantee Agency (MIGA), which provides political risk insurance to developing country investors; and the International Centre for Settlement of Investment Disputes (ICSID), which helped settle investment disputes between international lenders and borrowers.

The World Bank Group was formed in 1944 by the Bretton Woods economic conference (the conference also established the International Monetary Fund). The Bank was initially conceived and funded by 32 allied nations as a vehicle to help Western European countries like France and England rebuild in the wake of the destruction caused by World War II. While the bank continued to act as a financier of last resort in the wake of war and natural disasters, the size and scope of the institution's activities had grown immensely since its founding, and by 2012 it was recognized as the most powerful DFI in existence, employing a staff of over 9,000, including many economists, social scientists, and investment professionals from more than 168 countries.

188 "member countries"—nearly every sovereign nation in the world—were responsible for the funding and leadership of the group, and functioned in a capacity similar to shareholders in a publicly traded corporation. The member countries chose a board of directors that developed the Bank's policies and strategic vision. Twenty five executive directors,[3] appointed by the board, oversaw the day-to-day operations of the Bank.

The International Finance Corporation (IFC): A Brief History

The International Finance Corporation was commonly billed as the World Bank's "private sector investing arm" and its mission was to focus on private sector development in poor countries. In 2011, the organization managed a total portfolio of more than $56 billion, and accounted for about one-third of all private sector lending to developing countries by DFIs in 2011.

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[2] Chassany, A-S, (2012), "KKR Said to Consider Investing in Africa, Following Carlyle." Bloomberg News. Retrieved 28 August, 2012 from http://www.bloomberg.com/news/2012-08-24/kkr-said-to-consider-investing-in-africa-following-carlyle.html.

[3] Each of the five largest shareholders—France, Germany, Japan, the United Kingdom and the United States—appointed a permanent executive director, while other member countries elect the remaining 20 directors.

Former World Bank president Robert L. Garner initially advocated the idea for a World Bank division specifically dedicated to private sector development. The Bank officially founded IFC in 1956 and the group's first investment came in 1957, when it loaned Siemens AG $2 million to help an affiliate of the company establish a electrical equipment manufacturing center in Brazil. In the 1960s and 1970s, under the leadership of Robert McNamara, the technocratic former US defense secretary, IFC expanded its capital resources and escalated the depth and breadth of its reach in developing nations. Initially focused only on lending, in the 1980s IFC began making equity investments and providing advisory services to businesses.

In 1981, IFC officer Antoine van Agtmael coined the phrase "emerging markets," partly in an effort to re-brand developing countries to financial investors with a more attractive sounding label. Soon after, IFC acted as an anchor investor for a new global "emerging markets" public equities fund, helping to kick-start the a trend of ever-increasing participation of emerging market companies in international financial markets.

By almost every measure, IFC was the largest financial investment presence in emerging markets. In the year ended June 30th, 2012, IFC was invested in more than 576 projects in 103 countries for a total dollar volume of $20.4 billion, $15.5 billion of which came from the organization's own capital. Of that $15.5 billion, $3.7 billion was invested in Latin America and the Caribbean, $2.9 billion went to Europe and Central Asia, $2.7 billion went to sub-Saharan Africa, $2.2 billion went to the Middle East and North Africa, $2.5 billion went to East Asia and the Pacific, and $1.3 billion went to South Asia. (See **Exhibit 1** for a more detailed summary of IFC's lending activities.)

IFC ran three core businesses: Investment Operations, which included lending and equity investing; Advisory Services; and IFC Asset Management Company.

Investment Operations

Investment Operations, the largest group within IFC, made both loans and equity investments to companies in developing economies, with lending activities comprising the bulk of the portfolio—in the year ended June 30th 2012, IFC made nearly $6.7 billion in new loans and $2.3 billion in new equity commitments. IFC Private Equity Funds Group accounted for 20-25 percent of the equity investment portfolio, or $400 to $500 million annually. In the previous 20 years, IFC's average annual return on its equity portfolio had exceeded 20 percent.

Advisory Services

IFC's Advisory Services division provided consulting services to businesses operating in emerging markets on financial access, sustainability, and partnerships with governments. The group's expenditures in the year ended June 30th, 2012 were $197 million.

Asset Management Company

Formed in 2009, IFC's Asset Management Company (AMC) was a wholly owned subsidiary of IFC. The AMC did not access IFC's capital, but instead mobilized and managed capital from outside institutional investors. The AMC then invested alongside IFC, utilizing the institution's due diligence and investment evaluation process. As of June 30th, 2012, the AMC had approximately $4.5 billion in assets under management in four funds.

THE PRIVATE EQUITY AND INVESTMENT FUNDS GROUP

IFC's involvement in the private equity industry had its genesis in the late 1980s and early 1990s. At the time, IFC was attempting to bridge the gap between rich world investors and emerging market companies by creating country funds on the established exchanges of New York and London, and then channeling the money to companies listed on smaller emerging market exchanges. Pleased with the success of the publicly listed investments, IFC decided to investigate ways to encourage private equity investment, and by the late 1990s, had invested nearly one eighth its balance sheet in private equity funds. However, toward the end of the decade, IFC noticed that fund investments were significantly underperforming IFC's *direct* equity investments, raising some doubts about the wisdom of hiring a third party manager to make equity investments in a country when IFC could simply do so on its own. Teresa Barger, a former director at IFC, recalled, "There was a lot of skepticism about private equity funds in general, and it mainly had to do with the concern that we were creating our own competition locally by setting up a country fund when we wanted to make equity investments ourselves in that country."

In 1997, Barger was a part of IFC's Credit Review Department, which gave final approval on the organization's investment proposals. Barger, along with a handful of colleagues, focused on private equity fund investments as well as other financial sector deals. She recalled her dissatisfaction with both their performance and their reporting:

> We had the largest portfolio of emerging markets funds anywhere in the world, and I thought what was going on in IFC in the funds area was pretty disorganized. There were investments being made in funds from 12 different departments within IFC, so no department actually knew how the instruments worked. No one learned from past mistakes in structuring. And in terms of portfolio management, what was asked of these various fund managers to report to IFC varied among the 12 different departments.

In an effort to better assess and understand IFC's portfolio of private equity funds, Barger and a team of four others developed, in their spare time, a computerized reporting system for fund investments (The system they developed would eventually form part of iDesk, an electronic data management system still used by IFC in 2012.) While in the midst of standardizing the reporting procedures for private equity funds, Barger recalled, "I thought it would be a great idea if we got our fund managers together to talk to each other and learn from each other, because they were, at that point, effectively amateurs. Almost none of the managers really had much background in the asset class."

Barger organized a series of annual conferences to convene fund managers in one place. After several successful conferences and internal discussions, in 2000, IFC created a dedicated department named IFC Private Equity and Investment Funds Group and appointed Barger as head of the newly formed department.

Barger's first task in assembling the Funds Group was collecting and organizing as much information as possible about the state of the fund investments. Barger noted that disorganization in data collection and evaluation made it easier for improper conduct and poor performance to go unnoticed:

> At IFC at the time and I think perhaps still today, there was a cultural bias toward making new investments and against watching the ones you have in portfolio. When I took over in 2000, we had $1 billion of investments in 100 funds, and the legal documents on each investment were a mess. We spent the first year reconstructing the binders on each fund.
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> We had forensic audits of errant fund managers. We had lawsuits. We had all sorts of renegotiations and investigations. There was a guy who ran a fund in Slovenia. He didn't tell any of his investees that his fund had a 10-year life. When I approached him in year 8 or 9, I said, "Well that's great you're fully invested, but you've never divested one position." Then I found out he had never told his investees that his fund had a finite life, and, being totally unfamiliar with private equity, they had no idea he was not offering permanent capital.

Barger noted that some at the IFC viewed private equity due diligence on funds as easier or faster, because it involved evaluating fund managers with short track records rather than an entire company with an operating history. This perceived lack of due diligence rigor might have caused some IFC staff to view private equity funds as an easy way to conveniently reach capital deployment targets, which inevitably led to sub-optimal investment decisions. Barger recalled: "We used to call funds made with little diligence 'stocking stuffers.' So if it looked like you were coming up short on your volume targets for the end of the year, you'd start looking around for a fund to put money in."

Barger wanted to catalog the entirety of the private equity industry within a country and then evaluate which managers were best: "My view was that we should assess all of the managers available in either the country or region and then choose the best ones on the basis of our strategy in that geography or sector, but the general modus operandi was simply to be opportunistic and choose from among the managers who showed up at our offices."

Concurrently, Barger and her colleagues also renegotiated many of the contracts with the fund managers they felt were out of line with market expectations. She recalled:

> We began to introduce ourselves to the fund managers and understand who they were. We assigned investment officers to specific funds and then began to get all the documents together, the LP Agreements, the Subscriptions Agreements, side letters and the like. Then we set about renegotiating some of these contracts, because most of the elements in LP agreements were negotiated by people who didn't know how the instrument worked and did not know what market practice was. How could they? Funds were being negotiated by 12 different regional and sector Departments and knowledge was not concentrated in any one group.

In an effort to bring more consistency to LP and shareholder agreements, Barger and her team developed a template document called the "Ideal Term Sheet," which featured generic fee structures and basic shareholding obligations that IFC expected out of their funding agreements. The document became both a reference point for potentially disadvantageous contracts, as well as an amendable research document that team members could update with newer information as the group matured and learned from experience. Simultaneously, Barger and her team then focused on developing a standardized quarterly reporting system for fund managers so that the entire portfolio could be updated and analyzed on a more regular schedule. The reporting process helped generate a clearer picture of the group's investments and guarded against redundancies between funds and other groups in IFC.

Prior to joining the Funds Group, David Wilton oversaw private equity investments made by the World Bank Group's pension fund, and as such was very familiar with the industry and its growing exposure to emerging markets. Barger tapped Wilton to oversee the group's ongoing investment activities while the investment team conducted its assessment of the group's performance. He recollected, "We carried on investing about $150 - $200 million a year, in the first few years, just to keep the practice going, but that represented quite a drop from what they had been previously investing while we took the time to look at the portfolio and tried to figure out what had gone wrong."

Lessons from the 1990s

Assessing the Opportunity

After completing their review of the legacy private equity portfolio prior to the group's formation, Wilton and his team concluded that the investments had performed relatively poorly mainly because of an overestimation of private equity demand, or "deal flow" and a related failure on the part of the group to properly evaluate and select General Partners (GPs), or fund managers. Wilton pointed out that although high growth in many emerging markets had produced many companies that were in need of capital, in many cases they wanted passive equity, not activist equity, which was inherent to the private equity business model:

> In the '90s, IFC had confused demand for equity finance with private equity deal flow. They had looked at different countries and said, 'There's an equity funding gap. There is more demand for equity finance than is available. Therefore, let's try private equity.' We backed funds in countries where there really wasn't enough deal flow to be selective. We had done single-country funds in a number of places back in the 1990s without realizing that there was not necessarily any relationship between an equity funding gap and private equity deal flow.

Wilton had developed a basic criteria for assessing the viability of a private equity industry within a given country, "In my simple mental model of private equity there are a series of building blocks which affect the supply of suitable deal flow and the options available to fund managers to create return on equity." In Wilton's opinion, the three fundamental "building blocks" to a healthy private equity industry were (1) the size and growth of an economy, (2) the presence of a critical mass of businesses motivated to surrender control or influence and (3) structural factors such as functional legal and banking systems. (See **Exhibit 2**)

The second condition – the motivation of business owners to accept 3rd party capital – was the most idiosyncratic and frequently overlooked element within a country, because it often depended on non-economic factors. Wilton elaborated on the most common situations in which emerging market business owners were typically willing to entertain the idea of selling part of their business to outsiders:

- Growth and expansion capital – Capital used to fund expansion into a new geography or to take advantage of a market opportunity (or possibly, to respond to a clear competitive threat).
- Generational changes – In many emerging markets, successful businesses of many sizes have a history of family-based ownership and management. Occasionally, when the principal owner or manager of the business dies or otherwise wishes to relinquish control of the company, opportunities for outside investment can arise.
- Distressed situations – Emerging market companies facing bankruptcy or other financial difficulties may want to liquidate themselves rapidly in order to preserve some value for the owners.
- Non-core business sales – Many of the largest companies in emerging market economies are large corporate conglomerates that own several businesses that may bear little operational similarity to one another. In search of cash, many of these conglomerates may wish to sell off smaller entities to interested buyers.

- Privatizations – Many emerging market governments, especially those whose history includes controlling autocracies that have exerted a heavy influence on a country's economy, operate companies that are more typically left to the private sector in developed nations. These companies are frequently plagued by corruption, mismanagement, and bureaucratic inefficiency. Occasionally, governments adopting capitalistic reforms to state-owned enterprises will privatize these entities by selling them to private sector bidders.

To assess a given country's deal flow, Wilton and his team would examine indicators of economic liberalization (such as factors included in the World Bank's 'ease of doing business index') and capital and trade flows. They would also do field research in order to identify local conditions that might lead to selling motivations (for example, if a large family who owned a business conglomerate wanted to spin out some non-core assets).

Wilton pointed out that many of the companies that would ostensibly be candidates for private equity investment were family-run and inexperienced with respect to developed market corporate financing practices. Hence, they were extremely reticent to sell influential stakes to outsiders. Agreements around a minority equity stake could frequently lead to disagreements and mistrust, and IFC's internal assessment found that returns on minority positions in the 1990s were systematically below returns on majority equity positions. Wilton explained:

> Many companies weren't willing to sell equity that gave any realistic control or influence rights to outsiders. They weren't under enough competitive pressure that they wanted an interfering external shareholder. They were happy with passive equity, but someone who had any sort of ability to influence them or boss them around was generally unacceptable.
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> We saw a couple of Indian funds managed by smart, well-connected investors. They bought smallish stakes in good companies and got a board seat, but they had no real influence or control. Being smart investment bankers, they had structured exits in place, which is a liability to the company's ownership. So, as these companies became more successful the majority would say to the outsider on the board, 'I've got dirt under my fingernails and you're wearing French cuffs. I don't think I'm going to share the upside that I have created. I don't think I'm going to share this.' Then they'd find a way to play with the accounting and use transfer pricing, asset stripping or the like to take asymmetric benefits. In the 1990s minority equity failed fairly consistently to get a proportionate share of the upside.

Similar outcomes could result when the investments did not perform well. Frequently, a company management team, wary of provisions in the shareholder agreements, would resort to accounting gimmicks and legal evasiveness rather than openly discussing issues. Wilton added that this surprised private equity practitioners accustomed to doing business in developed markets: "The private equity guys would say, 'You're not missing the targets by much. We weren't going to enforce [those shareholder provisions].' But they really didn't have a close enough relationship for that understanding to be there. Whereas if they had been more present on the ground, they would have had more trust."

In Wilton's opinion, in 2000 only the BRIC countries plus South Africa had sufficiently large economies and internal demand to support a healthy private equity industry. In other countries, if the funds made an effort to be more selective with their investments, the capital was often not deployed, which restricted their returns. According to Wilton:

> While they'd been selective, which is good, they hadn't invested all the money, but investors had been paying a full fee load on money that was never invested. So, the drag on the net return was huge. Alternatively, you had guys who, in the last 18 months of the fund's life, realized they hadn't invested the money and panicked, and just threw the money out the door, neither of which is a healthy scenario.

Initially, to overcome this selectivity problem, IFC decided to back regional funds rather than country funds in all but the BRICs and South Africa. This had the advantage of expanding the deal pool but the disadvantage of distancing the fund managers from individual markets.

Since 2000, private equity deal flow had expanded considerably and IFC began to back more country funds. There were now over twenty countries with enough deal flow to support dedicated country funds with varying scales. With a growth in the number of country funds, managers could embed themselves in local markets, which improved the quality of the business.

Selecting Managers

A second conclusion of the analysis of the legacy portfolio was that IFC had backed far too many substandard fund managers. As a pension fund investor, Wilton understood the critical importance of selecting the right fund managers with whom to invest. He concluded that in order to foster more selectivity for deals and fund managers, IFC needed to be much more rigorous in surveying markets to identify all the possible funds before committing to any, and to have a better understanding of what was going to drive returns market by market. He explained:

> The top quartile of private equity fund managers are the ones that really produce the returns everybody finds attractive. To identify these guys you really have to be fairly selective and take the time to understand the entire landscape and who all the players are. Then you focus on whom you would like to invest with. IFC hadn't been doing that because there had been no organized effort to really identify all the potential GPs and then make selections of ones we really liked.

Wilton pointed out that operating a private equity fund successfully in developing economies necessitated a different skill set than in developed markets in the US and Europe. Developed market funds prioritized "deal skills" such as investment banking and a sophisticated understanding of financial instruments. In contrast, developing economy private equity investments were typically structured much more simply – often with no leverage at all. In this scenario, returns came more from the growth of the profitability of the company itself rather than financial leverage, meaning that management and operational skills that would help improve the performance and efficiencies of portfolio companies were much more highly valued. Wilton explained:

> If you're in the US or Europe, most money is going to be made with leverage plus multiple expansion and some bit of growth, so investment banking skills are useful. In emerging markets, you really did have to look each country and say, 'How, in this country, is the money going to be made?' Most of the time, the answer was, 'With extremely little leverage.' So you have to make the money by growing the company and improving the margins. If you're trying to grow companies, the type of GP who's helpful is someone who's actually got some operating experience, or who's been a consultant or an entrepreneur, who can actually help and advise the owners of the company.

In the early period of backing funds in the 1990s, IFC relied mostly on its preexisting connections and relationships within countries – generally, commercial and investment bankers – to start individual funds. Wilton, who emphasized the critical role of in-depth knowledge of local economic and cultural conditions in seeking out GPs, steered the funds group toward seeking out teams with more established in-country business backgrounds. He explained:

> In my experience private equity is a very local business, so the ability to be local is important. Each market has its own networks for sourcing transactions, its own quirks in due diligence and its own approach to operating businesses. Someone local, both physically and culturally, will have better access to potential vendors through belonging to local networks; be better placed to understand the reputations of vendors and the particular nuances of the local market such as family ties in companies up and down the supply chain; be better able to identify talented local managers and convince them to leave comfortable and prestigious positions in more established firms for the higher risk/reward of a private equity backed firm. You might assume the distribution network and the supply chain are there and just part of the business, but it could be the case that this particular part of the distribution network is only there because somebody went to school with somebody, or married someone's sister. Very importantly, someone local will be better positioned to understand cultural factors which will assist in forming a close working partnership during the holding period which can be used to enforce the shareholders' agreement independent of legal channels. In countries where the legal system doesn't work, you've got to find informal, relationship-driven ways of enforcing the contracts, and if you're bringing enough value to the table, fewer people will feel like cheating you. With a financier you can 'reinterpret the deal,' with a partner you stick to the deal, written and unwritten.

While for Wilton, local knowledge and operating experience trumped all other determinants of a GP's potential, he also acknowledged the need to tailor the skills of fund managers to local conditions as much as possible. He elaborated:

> There are variations across the markets that you need to be aware of. There are differences in how you make the money. At one end of the spectrum, you've got South Africa, which has got reasonably sophisticated equity and debt capital markets. There, the leverage is higher than in all the other emerging markets;

> therefore, some investment banking skills make sense in a fund manager. If you're going to Brazil or Russia, there's a lot of fragmented industries and consolidation opportunities, so someone who's got some M&A skills is probably going to be useful there. In a pure growth market – say like India or China – that's not going to be so useful.

Wilton also emphasized the importance of caution regarding reputational risks and political connections, which could be particularly prevalent in many emerging market countries. "Politically sourced transactions are risky," noted Wilton. "If a first-time fund manager's primary motivation is to acquire capital for a deal driven by a government connection or other non-economic reason, that was nearly always a red flag." To guard against such risks, the Funds Group coordinated with IFC's local offices that ran background checks on the reputations and political risks of potential GP partners.

The fund group's vast geographic exposure also helped to mitigate idiosyncratic risks among managers. Wilton explained:

> We don't look so much macro top down, we look micro bottom up. If we feel there is enough deal flow in a country to support private equity on a selective basis, we look for a manager that's got all the things we think are necessary to take advantage of the opportunity. So far, that strategy has worked in our favor. Our returns are ahead of the top quartile of the index from a much more diversified base. And the advantage to being very diversified is you've got some protection in the event of a shock. If I were only investing in a couple of countries, I'd be quite focused on the macro picture, but because I'm very diversified, I don't really have to weight the macro so heavily.

Developing a New Asset Class

IFC's roots as a lender rather than an equity investor generated some reluctance and internal skepticism toward investment into private equity funds. Until 2007, the group was effectively "fenced off" from the rest of IFC. Wilton recalled: "The funds team, initially, was in a little bubble until 2007. We were doing a bit over $200 million a year in new investments. Then, in 2006, the portfolios started to come out of the J-curve.[4] In 2006, it was clear that it was working out, and also the development results were good. There was substantial job creation going on."

Once the group had begun to realize some success, they were integrated more into the rest of IFC and given an increase in their annual capital allowance. In keeping with an organization-wide mandate, the group also increased its field presence, establishing offices abroad closer to the fund managers themselves. Wilton detailed: "Now, we're doing around $400 to $500 million a year. Policies were relaxed so that more people could initiate a transaction. Then, along with the

[4] In private equity jargon, the term "J-curve" refers to a commonly observed phenomenon where a fund's IRR is negative for the first several years as investors disburse to pay for acquisitions and costs without receiving much, if any, cash back. As the fund exits investments and returns cash to investors, the IRR improves, forming a J-shaped curve.

rest of IFC, we globalized. So, we went from having everybody in Washington to now having only one third of the staff in Washington."

Capitalizing on Reform

Since the group had begun its formalized investment in 2000, Wilton had been encouraged by the output growth of many emerging market countries as well as the private equity industry. As the decade advanced and his group began making more and more investments, he began to see the emerging market private equity opportunity broaden to newer geographies. (See **Exhibit 12**) Wilton recalled, "By about 2004, one of my colleagues came back from Morocco saying, 'I think there's enough deal flow.' I was skeptical, but, I thought, 'Fine. I'll take a look.' And on a small scale, there was. Now, you probably have 20 to 25 countries where there's enough deal flow for a dedicated country fund."

Wilton identified two broad secular trends that had resulted in relatively sustained growth in most, though certainly not all, emerging and frontier market countries in recent years: (1) deregulation of domestic markets in the 1990s, and (2) reduction in trade barriers and an increase in global capital flows (i.e. globalization) in the 2000s.

Many emerging market countries had histories of despotic governments whose regimes exercised a major influence over a country's economy and were often plagued by high levels of corruption and a general lack of economic opportunity. While similar governments still persisted in many countries, the 1990s saw a general push toward greater democratization and a lifting of many stifling rules and regulations that constrained entrepreneurship. Wilton pointed to the Franklin Institute's Economic Freedom of the World (EFW) report as evidence of the trend and its positive effect on growth in emerging market nations. (See **Exhibit 3**)

The general lowering of trade barriers and the increase in international capital flows also helped create better economic conditions in many countries. As a percent of GDP, trade flows (imports plus exports) grew 41 percent, 86 percent, and 110 percent, respectively, in Brazil, China, and India in the decade ended in 2008. Wilton felt that these globalizing trends helped expose domestic industry to international competition: "Greater exchange of goods and investment capital heightened the need for improved business practices and created opportunities for regional and international expansion. In turn, owners of companies became increasingly open to partnership with, or sale to, third parties with the skills to help grow their companies." Wilton explained:

> The shift to market based economies in the 1990s encouraged larger, better managed companies to develop and create growth, while Globalization created both opportunities and pressures that made owners of companies increasingly open to both selling businesses and bringing in active third party investors to help grow companies, improve efficiency and acquire surplus assets. In closed economies business owners tend to not focus on a core business and use spare cash flow to diversify, creating conglomerates. They are also less aware of foreign

> standards of efficiency and seek offshore expansion less actively. In this less competitive environment they see less need for external advice.[5]

First Time Managers

One major pillar of IFC's strategy in developing the emerging market private equity industry had yielded somewhat counterintuitive finding in the previous decade. Due in part to the organization's development mandate, more than 54 percent of the funds backed by IFC Funds Group were run by first-time "rookie" managers. To many professional investors, this figure would be shockingly high. Money managers, particularly in developed markets, viewed first-time investment teams with extreme skepticism for the simple reason that with no track record, their ability to deliver return on investment was all but impossible to evaluate. When compared with experienced investors with years of performance data, they generally received little or no investment.

However, the performance of first-time managers over the previous decade had been surprisingly strong. From 2000 to 2011, the internal rate of return (IRR) for funds led by rookie managers was 24.0 percent, compared to 18.3 percent for the portfolio as a whole. As Wilton noted, "We thought we were taking a very big risk, and it turns out we weren't taking such a big risk at all. The return on the first time funds is actually running slightly ahead of the total portfolio." (See **Exhibit 4**) Wilton believed that the strong success of the first time funds was attributable to an early mover advantage:

> There is nothing magical about first time funds. What it boils down to is that in a less competitive market, instead of having only a few days to look over the documents and then making a decision, you might have more than six months to kick the tires and figure out exactly where the bodies are buried. That means these first time funds are able to avoid making mistakes of haste.

Risk Management

Despite the measurable improvement in local economic conditions, many money mangers and institutional investors were still highly reluctant to consider investing in emerging market private equity funds. While emerging market macroeconomic and political risks were certainly still very real, Wilton believed that many investors tended to underestimate the maturation of the private equity industry over the previous decade, especially compared to the anemic growth in debt-ridden developed countries. As an industry advocate, Wilton frequently cited three basic "myths" that typically discouraged investors from considering emerging and frontier market private equity funds:

> Three widely held misperceptions are that (1) the minority positions common in emerging markets private equity are too risky due to lack of proper legal systems, governance and transparency; (2) emerging markets private equity faces constrained exit opportunities and therefore emerges slowly from the J-Curve; and

[5] Wilton, D. (2012) "Private Equity in Emerging Markets: The New Frontiers of International Finance"

(3) small companies are risky and it is too risky to compound small company risk with emerging markets risk.[6]

Minority Positions

The Funds Group's initial portfolio analysis was ostensibly bearish with respect to minority investment, due to the previously described disdain for active investors that existed in many countries unfamiliar with developed market corporate finance practices. Although the conclusions were somewhat tepid regarding the effectiveness of minority equity investments, the group still felt they would be an essential feature of the industry going forward. Wilton noted that growth capital had been by far the most common selling motivation for emerging market companies in the past decade. As a result, controlling interests were offered only occasionally: "Initially, we decided we didn't like minority positions. But in reality, in most emerging markets, they were all that were available. So, you can't go around being fussy, saying, 'We want control."

The Funds Group felt that a solidly formed partnership (where the investor has a good working relationship with the investee and influence over decision making) was critical to ensuring a successful minority investment. Whereas minority investors in the US and Europe could be content to hold a single seat on the board of shareholder directors who would merely act as a passive source of strategic advice for management, IFC expected the emerging market relationship to be of much higher value-addition. Wilton elaborated: "We started to see that actually some of the minority investing was working, particularly with investment teams with the right skills. They could both help the company grow and the relationship could keep the contract together. So, we changed our minds after a bit of learning."

Exit Opportunities

A perceived lack of effective liquidation opportunities was a major deterrent to many would-be emerging market investors. With very few exceptions, stock markets in developing countries were either nonexistent or extremely underdeveloped, offering little opportunity for a company to orchestrate a share listing of any appreciable size. Consequently, most exits in emerging market private equity were accomplished via mergers and trade sales – the acquisition of one company by a larger company within the same industry – which could take much longer to execute and were less readily available for many industries, since they required the presence of an interested acquirer.

Despite these difficulties, IFC had found that it was possible to profitably exit investments within a reasonable time frame. Since 2000, IFC's funds had successfully exited more than 250 investments (minority and majority positions), of which over 120 were accomplished via a trade sale. The median IRR on trade sale exits was over 15 percent. Moreover, despite the lack of developed capital markets, more than 50 investments exited via an initial public offering, returning over 40 percent on average. (See **Exhibit 6**).

Wilton also pointed out that the average holding period for the exited investments was 4.8 years, evidence that countered the argument that emerging market funds took longer to exit the J-curve.

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[6] Wilton, D. (2011) "Experiences Investing in Emerging Market Private Equity," *The International Finance Corporation.* Retrieved 1 September 2012 from www.ifc.org.

A further examination of the IRR on funds by vintage year also showed that funds formed in 2007 and 2006 had yielded double-digit returns by 2011, despite the turmoil in the global economy and financial markets.

Small Companies

Emerging market private equity funds invested much more regularly in small and medium sized enterprises (SMEs) than their developed world counterparts, which, according to Wilton, increased their riskiness in the eyes of many investors: "Many investors who already were in China or India were reluctant to invest more widely as they were fearful of combining small company risk in smaller economies with emerging market risk." IFC held the view that private equity funds investing in smaller businesses was a promising opportunity in emerging markets. Wilton elaborated, "Though in the West, small business private equity doesn't really exist, in emerging markets, it's much more normal because of the high rate of revenue growth. Companies can start as small businesses and migrate toward becoming larger, more successful companies relatively quickly."

While the data did indicate that smaller investments were riskier then larger ones, Wilton pointed out that this pattern was only recognizable at the extreme end of the spectrum. In IFC's experience, while investments of less than $2 million had failure rates of roughly 20 percent to 25 percent, compared to 5 percent to 7 percent for deals larger than $10 million, the failure rates for deals of $2 million to $10 million were only slightly higher—7 to 10 percent on average. According to Wilton, "You have to go to a very small investment size before things break down. So, we don't really think small companies are much of a problem." (See **Exhibit 8**)

Funds focused on growth equity have historically invested around 40 percent of their capital in SME's, and have performed well in recent years, returning above 20 percent annually on average. Growth equity funds have also made a considerable contribution to job growth. Wilton explained: "In terms of the development impact, there's large job growth – about 15 percent, on average, inside these companies, whereas the rate of job growth in the underlying economies would be more like three to four percent."

Wilton also noted that most of the private equity funds backed by IFC focused on companies that were not highly leveraged and whose business models catered to the domestic market, rather than exports, which was encouraging from the perspective of developing a retail consumer market within a local economy. An analysis of the portfolio found that 72 percent of the fund's portfolio companies identified the domestic market as their target market, while only 5 percent named "industrialized markets" as their primary target. (See **Exhibit 9**)

EMERGING MARKET PRIVATE EQUITY AND DEVELOPMENT

By 2012, IFC could justifiably claim the lion's share of credit for creating and developing an industry that was racing toward greater and greater relevance in the global financial system. However, as Wilton thought about the next decade, he began to imagine the different roles IFC could play with respect to both private equity and emerging markets. Wilton knew that the strategies and approaches pioneered by IFC until this point would need to change along with the quickly evolving industry.

The largest changes were likely to be a byproduct of IFC and the industry's increasingly visible success. More and more, institutional investors and established private equity investors were raising funds dedicated to investment in emerging market businesses. Additionally, *local* pension funds and money managers were slowly attaining some relevance as capital providers. Wilton commented:

> So far, we haven't needed to watch the capital inflows. Going forward, we're going to have to watch the dry powder much more carefully. If you look at total amount of capital sitting out there in pensions, endowments, and in sovereign wealth funds, it's huge relative to the scale of emerging market private equity.
>
> Additionally, particularly in Latin America but also in Africa, pensions and long term savings institutions in these countries are getting deregulated and professionalizing, and are beginning to provide domestic capital to these domestic private equity firms. That's very positive, because it means the local groups can rely on local money, which is going to be much more sticky than foreign money.

On the investment side, the early mover advantages were diminishing. Wilton did not believe the strong performance of first-time fund managers would be sustainable as markets developed. As these markets matured, and competition for deals increased, IFC fully expected the risks associated with rookie managers to more closely resemble their counterparts in developed markets. However, for the time being, the group fell back on the development mandate of IFC to remain strongly committed to first-time funds. As Wilton said, "Being IFC, we back a lot of first time managers until they've got enough commercial support where they don't need us, and we go off and find the next guy."

Needed Reform

While Wilton felt that investors were too fixated on the risks of emerging market private equity, he also acknowledged the limited scale of the opportunity:

> If every investor decides to move into this asset class at the same time, it's going to blow up. Charts showing fundraising to GDP or committed capital to GDP as an indication of market penetration are misleading because they don't adjust for the higher leverage in the US and Europe, so they overstate how much more emerging market countries can absorb. With continued policy reforms and capital market development there is room for a lot more growth, but the implication that you can just drop in a lot more money and the markets can absorb it is misleading.

Wilton also pointed out that while the liberalizing economic and trade reforms of the 1990s and 2000s had yielded many benefits, many more reforms and advances to emerging market countries' legal systems, capital markets and regulatory environments were needed in order for the high growth to continue:

> There really hasn't been a whole lot of further reform. I think we might be getting to the limits of what those two sets of reforms can create. The fact that the legal

> systems don't work is a risk. You can manage that risk by getting a local party who can add value, but its also a big constraint on scale. If the legal system doesn't work, whom can you contract with? Probably just people you know and your friends and family. If the legal system works, I don't need to know you and I can still contract with you. So, until they fixed the legal systems, there will be a constraint on scale.

Likewise, Wilton felt the banking systems and debt capital markets needed to become more supportive of lending to growth companies. According to Wilton, "These countries have come a long way since the '80s, but they sure haven't come *all the way* to a market economy. They need to develop even more inclusive and efficient institutions, rather than exclusive or appropriative institutions."

Though the asset class had gained legitimacy, the problem of global poverty was certainly far from solved. Wilton began to contemplate the obstacles hindering economic development, and how IFC should use private equity to overcome them. Venture capital for very early stage businesses was a possibility, although Wilton was skeptical:

> For venture capital to work properly, you need a pretty demanding set of of preconditions. You need a concentration of intellectual property such as a university system or a military industrial complex. You need angel investors to help people get underway. You need a culture where you can go make a mistake and recover if you lose money and carry on and try again. Then, once you pass all those tests, you need a large economy for your successful investments to be able to scale and pay for the investments that fail as only two or three out of ten are going to survive.

However, in Wilton's view, investments in smaller, established businesses could be both a financially and developmentally successful area for IFC to participate. In a study of job creation out of IFC's investments, the organization found that while larger and mid-cap companies produced more jobs than smaller companies in countries with higher levels of income and growth, SMEs were effective at generating employment in more impoverished frontier countries since they tended to invest in the fastest-growing companies. IFC's own statistic used to measure development impact of its investments – the Development Outcome Tracking system (DOTS) – also showed that the Funds Group's portfolio had generated a strong development impact, performing above IFC average in direct investments. By supporting smaller faster growing companies the portfolio had, at the underlying investee company level, supported over 50% SMEs by number at the time of initial investment and created jobs at an annual rate of 15.3%.

Moreover, private equity funds helped IFC invest in companies and sectors of the economy that were not always accessible from a direct investment standpoint. The Funds Group indirectly backed over 2,000 companies, and only about 5% of IFC's direct equity investments had any overlap with these businesses. Manufacturing companies accounted for only 14% of IFC's direct equity investments, versus 44% in portfolio companies indirectly financed by the Funds Group. (See **Exhibit 13**)

Wilton began thinking broadly again about the large pool of money that had yet to find its way into the developing world, the growing sophistication of the emerging market private equity industry, and the ways that IFC could help connect the two. A variety of ideas were potentially viable, starting with growth equity and small business funds. The group would also have to monitor both the political and microeconomic drivers of deal flow in each market, as they had previously seen how rapidly these types of factors could change within a country. Industry-wide conditions, such as the amount of dry powder available for investment, would also need to be monitored closely.

As Wilton contemplated his meeting with Jin-Yong, he thought about how to describe his group's work and role in advancing the IFC and World Bank Group's global development goals. Wilton noted matter-of-factly, that in order to help facilitate the industry and economic growth, "The standard private equity model can only take you so far. We really want to get into the less developed markets. We are always looking for places where we can do something new."

Exhibit 1:
IFC key figures / lending activities, 2012 summary:

FY12 COMMITMENTS
Dollar amounts in millions

Total	$15,461.76 (100.00%)
By Industry	
Trade Finance	$6,003.67 (38.83%)
Financial Markets	$3,371.33 (21.80%)
Infrastructure	$1,447.43 (9.36%)
Consumer & Social Services	$1,374.82 (8.89%)
Manufacturing	$1,021.30 (6.61%)
Agribusiness & Forestry	$1,020.92 (6.60%)
Oil, Gas & Mining	$490.55 (3.17%)
Funds	$484.28 (3.13%)
Telecommunications & Information Technology	$247.45 (1.60%)

By Product	
Loans[1]	$6,667.88 (43.13%)
Guarantees[2]	$6,401.66 (41.40%)
Equity[3]	$2,281.91 (14.76%)
Risk-management products	$110.30 (0.71%)

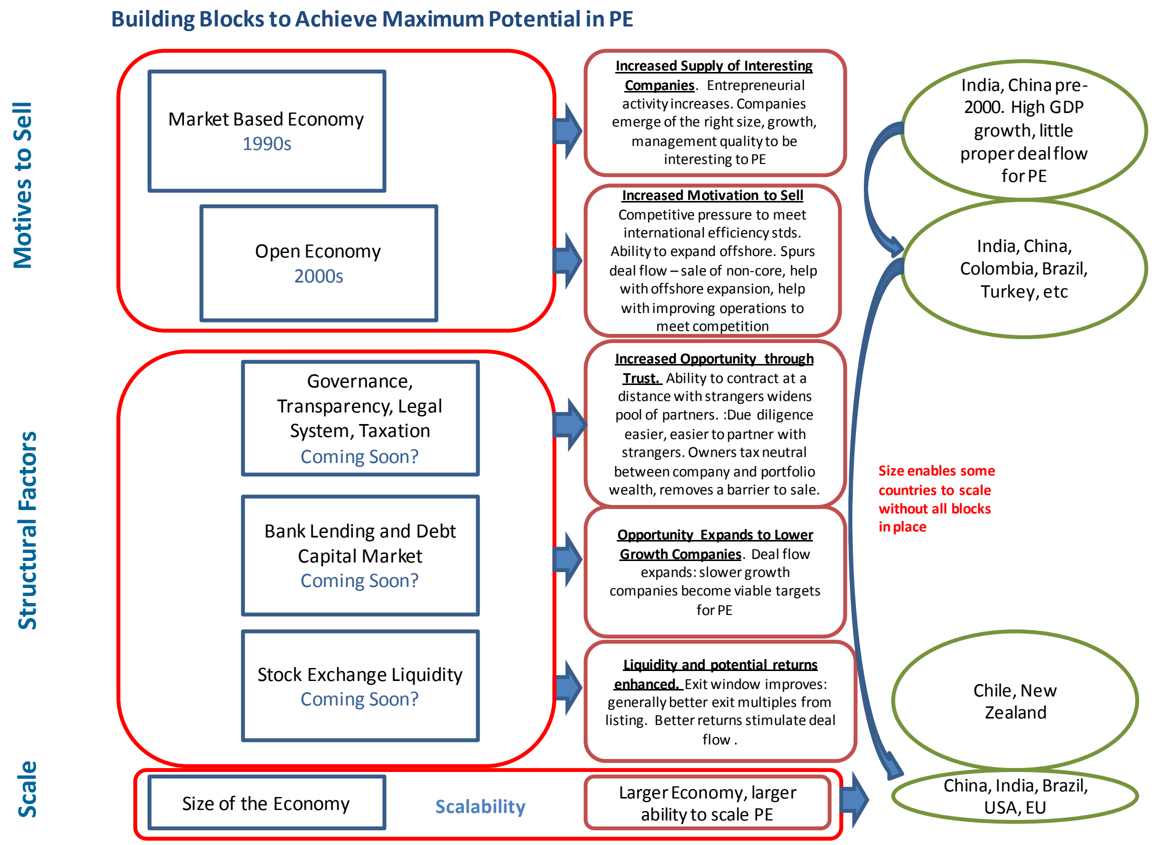
1 Includes loan-type, quasi-equity products.
2 Includes trade finance.
3 Includes equity-type, quasi-equity products.

By Region	
Latin America and the Caribbean	$3,679.79 (23.80%)
Europe and Central Asia	$2,915.37 (18.86%)
Sub-Saharan Africa	$2,733.25 (17.68%)
East Asia and the Pacific	$2,548.15 (16.48%)
Middle East and North Africa	$2,209.71 (14.29%)
South Asia	$1,312.16 (8.49%)
Global	$63.31 (0.41%)

Some amounts include regional shares of investments that are officially classified as global projects.

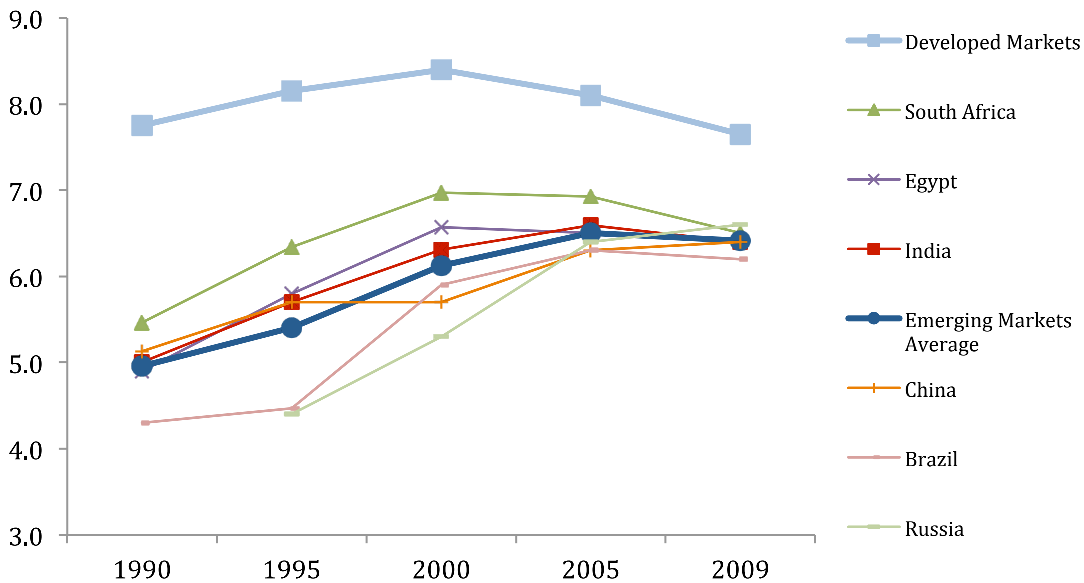
Source: IFC 2012 annual report, reprinted with permission

Exhibit 2:
Private Equity industry Building Blocs



Source: IFC internal analysis, reprinted with permission

Exhibit 3:
Heritage EFW Index of Economic Freedom, Selected Countries



Source: IFC, reprinted with permission

Exhibit 4
Performance Data, IFC PE Funds Group

	IRR as of March 2009 (simple average %)	Development Impact Score Highly Suc = 3 HighlyUn S = -1	1st Time Funds %	IDA % (<$1000 GDP per capita)	Average Deal Quality Score Max = 1 Min = 0
Top 10%	46.6%	2.10	53%	27%	0.97
Bottom 10%	-38.3%	0.14	53%	13%	0.17

The Same

More Top 10% in the Frontier

Sample: 2009 150 Funds currently in IFC portfolio, excluding those in the J-curve

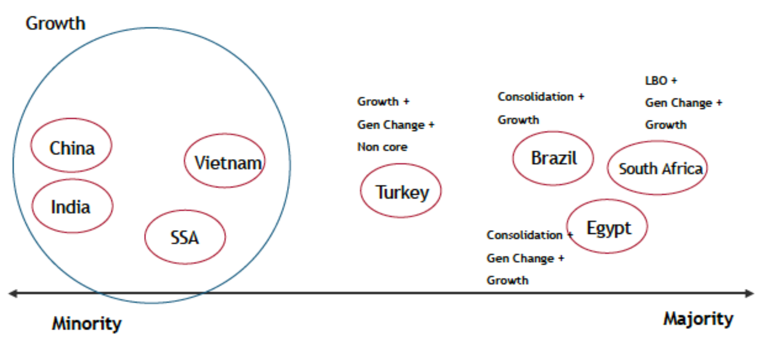
Source: IFC, reprinted with permission

Exhibit 5
IFC analysis of selling motivations

Prevalence of Minority Positions
Minority/Majority Driven by Motivation of Sellers

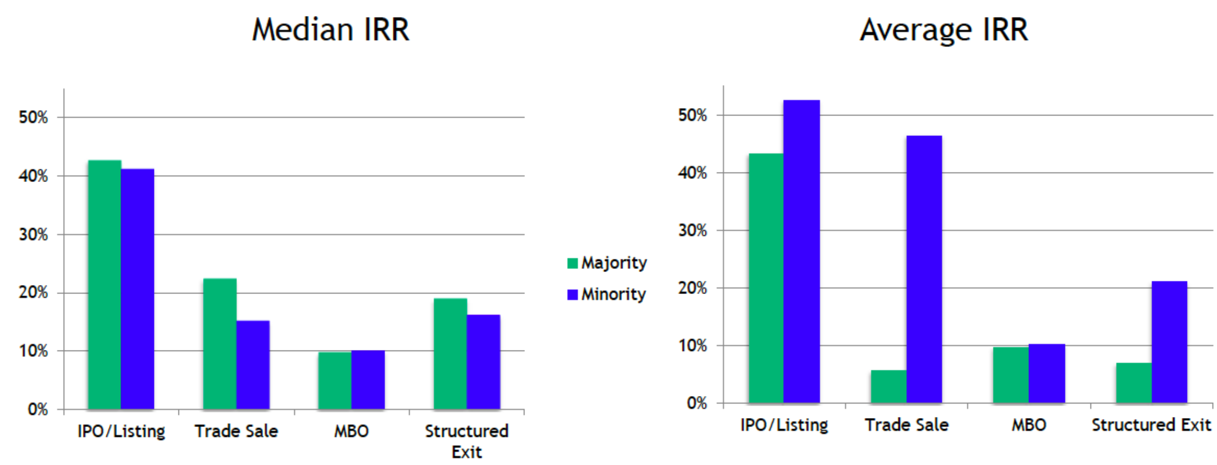
Positive Motivation to Sell	- Strong growth situation - Pre-Listing Clean-Up - Geographic Expansion	Minority Minority Minority
Neutral Motivation to Sell	- Generational Change -Conglomerate focusing on Core Business selling non-Core - Privatization	Majority Majority Majority
Negative Motivation to Sell	- Distressed business - Distressed owners	Majority Majority

Motivation of Sellers Differs Across Countries



Source: IFC, reprinted with permission

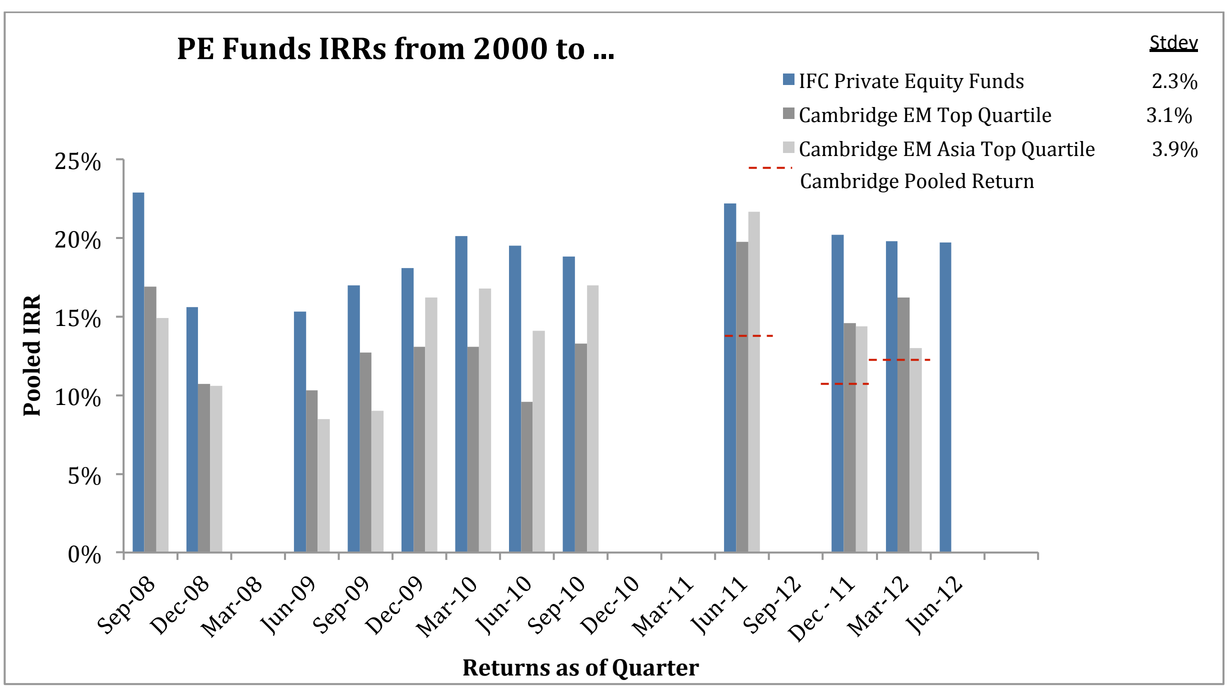
Exhibit 6:
Data on Exits, IFC Funds Group



Sample: 2009 Exits of 61 majority positions and 251 minority positions from IFC invested funds

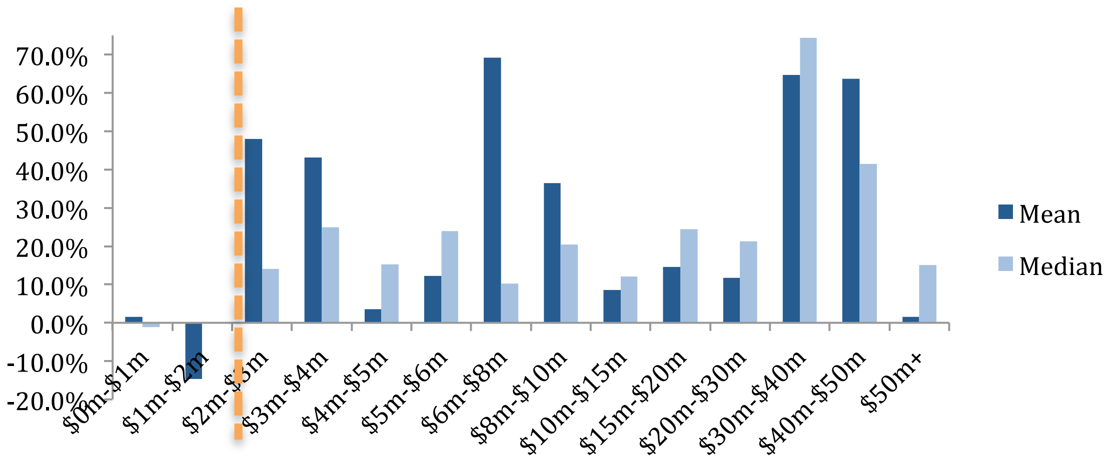
Source: IFC, reprinted with permission

Exhibit 7
Performance Data by Vintage Year, IFC backed Funds



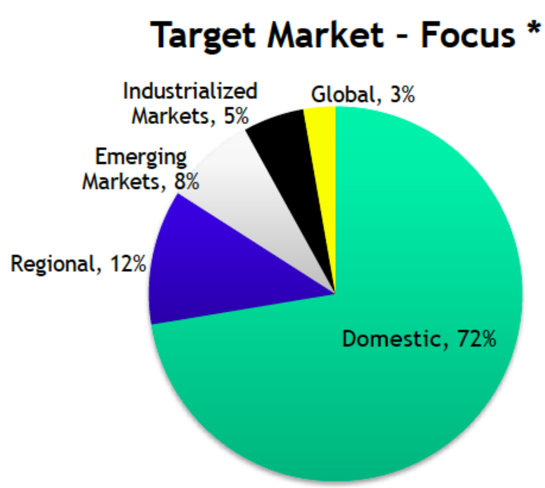
Source: IFC, reprinted with permission

Exhibit 8:
Small Company Performance



Source: IFC, reprinted with permission

Exhibit 9:
Portfolio Company Focus of IFC backed Funds:



Source: IFC, reprinted with permission

Exhibit 10:
IFC Financial Statements

IFC FINANCIAL HIGHLIGHTS Dollars in millions, for the years ended June 30*	2012	2011	2010	2009	2008
Net income (loss)	$ 1,328	$ 1,579	$ 1,746	$ (151)	$ 1,547
Grants to IDA	$ 330	$ 600	$ 200	$ 450	$ 500
Income before grants to IDA	$ 1,658	$ 2,179	$ 1,946	$ 299	$ 2,047
Total assets	$75,761	$68,490	$61,075	$51,483	$49,471
Loans, equity investments, and debt securities, net	$31,438	$29,934	$25,944	$22,214	$23,319
Estimated fair value of equity investments	$11,977	$13,126	$10,146	$ 7,932	$10,979
Key Ratios					
Return on average assets (GAAP basis)	1.8%	2.4%	3.1%	-0.3%	3.4%
Return on average capital (GAAP basis)	6.5%	8.2%	10.1%	-0.9%	9.6%
Cash and liquid investments as a percentage of next three years' estimated net cash requirements	77%	83%	71%	75%	62%
Debt-to-equity ratio	2.7:1	2.6:1	2.2:1	2.1:1	1.6:1
Total resources required ($ billions)	$ 15.5	$ 14.4	$ 12.8	$ 10.9	$ 10.4
Total resources available ($ billions)	$ 19.2	$ 17.9	$ 16.8	$ 14.8	$ 15.0
Total reserve against losses on loans to total disbursed loan portfolio	6.6%	6.6%	7.4%	7.4%	5.5%

*See Management's Discussion and Analysis and Consolidated Financial Statements for details on the calculation of these numbers: http://www.ifc.org/FinancialReporting

IFC OPERATIONAL HIGHLIGHTS Dollars in millions, for the years ended June 30	2012	2011	2010	2009	2008
New Investment Commitments					
Number of projects	576	518	528	447	372
Number of countries	103	102	103	103	85
For IFC's own account	$15,462	$12,186	$12,664	$10,547	$11,399
Core Mobilization*					
Syndicated loans[1]	$ 2,691	$ 4,680	$ 1,986	$ 1,858	$ 3,250
Structured finance	–	–	$ 797	$ 169	$ 1,403
IFC initiatives & other	$ 1,727	$ 1,340	$ 2,358	$ 1,927	–
Asset Management Company	$ 437	$ 454	$ 236	$ 8	–
Public-Private Partnership mobilization[2]	$ 41	–	–	–	–
Total core mobilization	$ 4,896	$ 6,474	$ 5,377	$ 3,962	$ 4,653
Investment Disbursements					
For IFC's own account	$ 7,981	$ 6,715	$ 6,793	$ 5,640	$ 7,539
Syndicated loans[3]	$ 2,587	$ 2,029	$ 2,855	$ 1,958	$ 2,382
Committed Portfolio					
Number of firms	1,825	1,737	1,656	1,579	1,490
For IFC's own account	$45,279	$42,828	$38,864	$34,502	$32,366
Syndicated loans[4]	$11,166	$12,387	$ 9,302	$ 8,299	$ 7,525
Advisory Services					
Advisory Services program expenditures	$ 197.0	$ 181.7	$ 166.4	$ 157.8	$ 130.8
Share of program in IDA countries[5]	65%	64%	62%	52%	49%

*Financing from entities other than IFC that becomes available to client due to IFC's direct involvement in raising resources.
1 Includes B-Loans, Parallel Loans and A-Loan Participation Sales (ALPS).
2 Third-party financing made available for public-private partnership projects due to IFC's mandated lead advisor role to national, local, or other government entity.
3 Includes B-Loans and Agented Parallel Loans.
4 Includes B-Loans, A-Loan Participation Sales (ALPS), Agented Parallel Loans, and Unfunded Risk Participation (URP).
5 All references in this report to percentages of advisory program expenditures in IDA countries and fragile and conflict-affected areas exclude global projects.

Source: IFC 2012 Annual Report, reprinted with permission

Exhibit 11:
IFC List of Shareholder Countries and Voting Power

INTERNATIONAL FINANCE CORPORATION

CONSOLIDATED STATEMENT OF CAPITAL STOCK AND VOTING POWER

as of June 30, 2011

(US$ thousands)

	Capital stock		Voting power	
Members	Amount paid	Percent of total	Number of votes	Percent of total
Afghanistan	$ 111	*	361	0.01
Albania	1,302	0.05	1,552	0.06
Algeria	5,621	0.24	5,871	0.24
Angola	1,481	0.06	1,731	0.07
Antigua and Barbuda	13	*	263	0.01
Argentina	38,129	1.61	38,379	1.59
Armenia	992	0.04	1,242	0.05
Australia	47,329	2.00	47,579	1.97
Austria	19,741	0.83	19,991	0.83
Azerbaijan	2,367	0.10	2,617	0.11
Bahamas, The	335	0.01	585	0.02
Bahrain	1,746	0.07	1,996	0.08
Bangladesh	9,037	0.38	9,287	0.38
Barbados	361	0.02	611	0.03
Belarus	5,162	0.22	5,412	0.22
Belgium	50,610	2.14	50,860	2.11
Belize	101	*	351	0.01
Benin	119	0.01	369	0.02
Bhutan	720	0.03	970	0.04
Bolivia	1,902	0.08	2,152	0.09
Bosnia and Herzegovina	620	0.03	870	0.04
Botswana	113	*	363	0.02
Brazil	39,479	1.67	39,729	1.65
Bulgaria	4,867	0.21	5,117	0.21
Burkina Faso	836	0.04	1,086	0.04
Burundi	100	*	350	0.01
Cambodia	339	0.01	589	0.02
Cameroon	885	0.04	1,135	0.05
Canada	81,342	3.43	81,592	3.38
Cape Verde	15	*	265	0.01
Central African Republic	119	0.01	369	0.02
Chad	1,364	0.06	1,614	0.07
Chile	11,710	0.49	11,960	0.50
China	24,500	1.03	24,750	1.02
Colombia	12,606	0.53	12,856	0.53
Comoros	14	*	264	0.01
Congo, Dem. Rep. of	2,159	0.09	2,409	0.10
Congo, Republic of	131	0.01	381	0.02
Costa Rica	952	0.04	1,202	0.05
Côte d'Ivoire	3,544	0.15	3,794	0.16
Croatia	2,882	0.12	3,132	0.13
Cyprus	2,139	0.09	2,389	0.10
Czech Republic	8,913	0.38	9,163	0.38
Denmark	18,554	0.78	18,804	0.78
Djibouti	21	*	271	0.01
Dominica	42	*	292	0.01
Dominican Republic	1,187	0.05	1,437	0.06
Ecuador	2,161	0.09	2,411	0.10
Egypt, Arab Republic of	12,360	0.52	12,610	0.52
El Salvador	29	*	279	0.01
Equatorial Guinea	43	*	293	0.01
Eritrea	935	0.04	1,185	0.05
Estonia	1,434	0.06	1,684	0.07
Ethiopia	127	0.01	377	0.02
Fiji	287	0.01	537	0.02
Finland	15,697	0.66	15,947	0.66
France	121,015	5.11	121,265	5.02
Gabon	1,268	0.05	1,518	0.06
Gambia, The	94	*	344	0.01
Georgia	1,380	0.06	1,630	0.07
Germany	128,908	5.44	129,158	5.35
Ghana	5,071	0.21	5,321	0.22
Greece	6,898	0.29	7,148	0.30
Grenada	74	*	324	0.01
Guatemala	1,084	0.05	1,334	0.06
Guinea	339	0.01	589	0.02
Guinea-Bissau	18	*	268	0.01
Guyana	1,392	0.06	1,642	0.07
Haiti	822	0.03	1,072	0.04
Honduras	495	0.02	745	0.03
Hungary	10,932	0.46	11,182	0.46
Iceland	42	*	292	0.01
India	81,342	3.43	81,592	3.38
Indonesia	28,539	1.20	28,789	1.19
Iran, Islamic Republic of	1,444	0.06	1,694	0.07
Iraq	147	0.01	397	0.02
Ireland	1,290	0.05	1,540	0.06
Israel	2,135	0.09	2,385	0.10
Italy	81,342	3.43	81,592	3.38
Jamaica	4,282	0.18	4,532	0.19
Japan	141,174	5.96	141,424	5.86
Jordan	941	0.04	1,191	0.05
Kazakhstan	4,637	0.20	4,887	0.20
Kenya	4,041	0.17	4,291	0.18
Kiribati	12	*	262	0.01
Korea, Republic of	15,946	0.67	16,196	0.67
Kosovo	1,454	0.06	1,704	0.07
Kuwait	9,947	0.42	10,197	0.42
Kyrgyz Republic	1,720	0.07	1,970	0.08
Lao People's Dem. Rep.	278	0.01	528	0.02
Latvia	2,150	0.09	2,400	0.10
Lebanon	$ 135	0.01	385	0.02
Lesotho	71	*	321	0.01
Liberia	83	*	333	0.01
Libya	55	*	305	0.01
Lithuania	2,341	0.10	2,591	0.11
Luxembourg	2,139	0.09	2,389	0.10
Macedonia, FYR of	536	0.02	786	0.03
Madagascar	432	0.02	682	0.03
Malawi	1,822	0.08	2,072	0.09
Malaysia	15,222	0.64	15,472	0.64
Maldives	16	*	266	0.01
Mali	451	0.02	701	0.03
Malta	1,615	0.07	1,865	0.08
Marshall Islands	663	0.03	913	0.04
Mauritania	214	0.01	464	0.02
Mauritius	1,665	0.07	1,915	0.08
Mexico	27,589	1.16	27,839	1.15
Micronesia, Fed. States of	744	0.03	994	0.04
Moldova	1,192	0.05	1,442	0.06
Mongolia	144	0.01	394	0.02
Montenegro	1,035	0.04	1,285	0.05
Morocco	9,037	0.38	9,287	0.38
Mozambique	322	0.01	572	0.02
Myanmar	666	0.03	916	0.04
Namibia	404	0.02	654	0.03
Nepal	822	0.03	1,072	0.04
Netherlands	56,131	2.37	56,381	2.33
New Zealand	3,583	0.15	3,833	0.16
Nicaragua	715	0.03	965	0.04
Niger	147	0.01	397	0.02
Nigeria	21,643	0.91	21,893	0.91
Norway	17,599	0.74	17,849	0.74
Oman	1,187	0.05	1,437	0.06
Pakistan	19,380	0.82	19,630	0.81
Palau	25	*	275	0.01
Panama	1,007	0.04	1,257	0.05
Papua New Guinea	1,147	0.05	1,397	0.06
Paraguay	436	0.02	686	0.03
Peru	6,898	0.29	7,148	0.30
Philippines	12,606	0.53	12,856	0.53
Poland	7,236	0.31	7,486	0.31
Portugal	8,324	0.35	8,574	0.36
Qatar	1,650	0.07	1,900	0.08
Romania	2,661	0.11	2,911	0.12
Russian Federation	81,342	3.43	81,592	3.38
Rwanda	306	0.01	556	0.02
Samoa	35	*	285	0.01
Sao Tome and Principe	439	0.02	689	0.03
Saudi Arabia	30,062	1.27	30,312	1.26
Senegal	2,299	0.10	2,549	0.11
Serbia	1,803	0.08	2,053	0.09
Seychelles	27	*	277	0.01
Sierra Leone	223	0.01	473	0.02
Singapore	177	0.01	427	0.02
Slovak Republic	4,457	0.19	4,707	0.19
Slovenia	1,585	0.07	1,835	0.08
Solomon Islands	37	*	287	0.01
Somalia	83	*	333	0.01
South Africa	15,948	0.67	16,198	0.67
Spain	37,026	1.56	37,276	1.54
Sri Lanka	7,135	0.30	7,385	0.31
St. Kitts and Nevis	638	0.03	888	0.04
St. Lucia	74	*	324	0.01
Sudan	111	*	361	0.01
Swaziland	684	0.03	934	0.04
Sweden	26,876	1.13	27,126	1.12
Switzerland	41,580	1.75	41,830	1.73
Syrian Arab Republic	194	0.01	444	0.02
Tajikistan	1,212	0.05	1,462	0.06
Tanzania	1,003	0.04	1,253	0.05
Thailand	10,941	0.46	11,191	0.46
Timor-Leste	777	0.03	1,027	0.04
Togo	808	0.03	1,058	0.04
Tonga	34	*	284	0.01
Trinidad and Tobago	4,112	0.17	4,362	0.18
Tunisia	3,566	0.15	3,816	0.16
Turkey	14,545	0.61	14,795	0.61
Turkmenistan	810	0.03	1,060	0.04
Uganda	735	0.03	985	0.04
Ukraine	9,505	0.40	9,755	0.40
United Arab Emirates	4,033	0.17	4,283	0.18
United Kingdom	121,015	5.11	121,265	5.02
United States	569,379	24.03	569,629	23.59
Uruguay	3,569	0.15	3,819	0.16
Uzbekistan	3,873	0.16	4,123	0.17
Vanuatu	55	*	305	0.01
Venezuela, Rep. Boliv. de	27,588	1.16	27,838	1.15
Vietnam	446	0.02	696	0.03
Yemen, Republic of	715	0.03	965	0.04
Zambia	1,286	0.05	1,536	0.06
Zimbabwe	2,120	0.09	2,370	0.10
Total June 30, 2011	$ 2,369,396	100.00+	2,414,896	100.00+
Total June 30, 2010	$ 2,369,396	100.00+	2,414,896	100.00+

* Less than .005 percent

\+ May differ from the sum of the individual percentages shown because of rounding

The notes to the Consolidated Financial Statements are an integral part of these statements.

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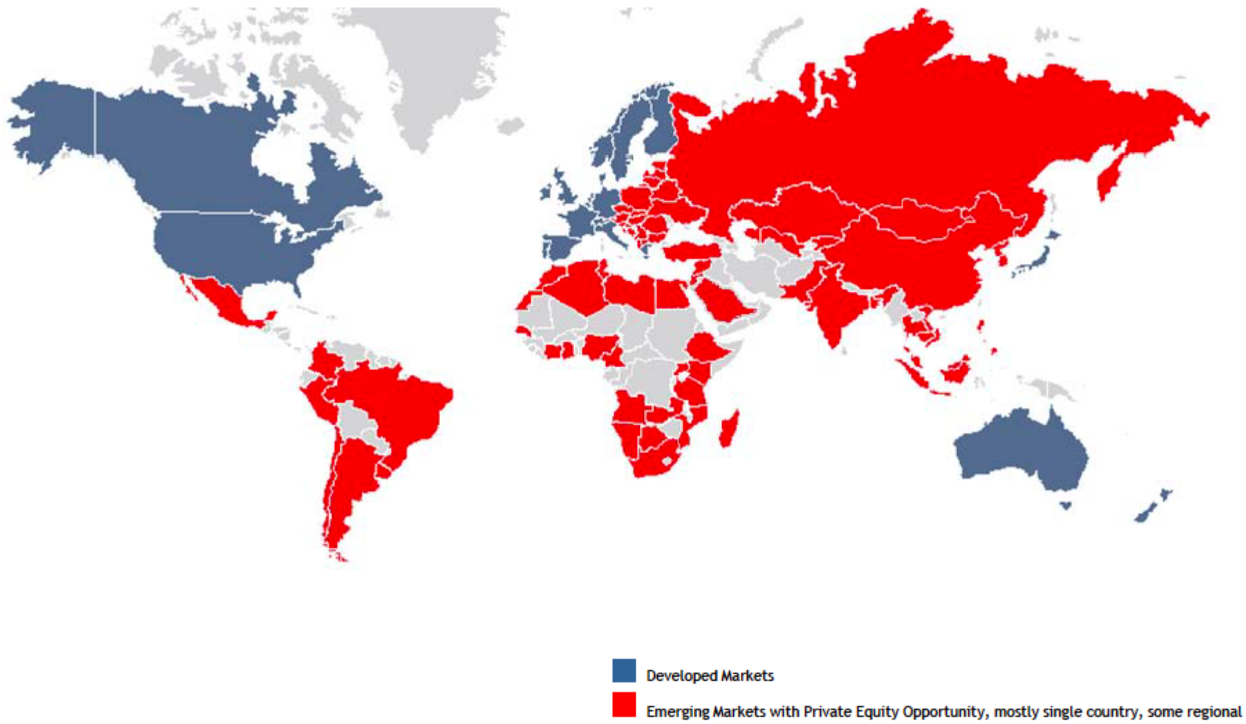
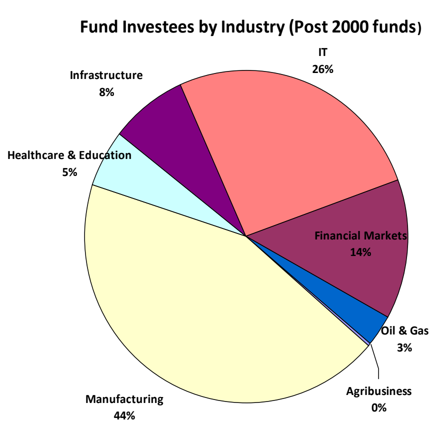
Exhibit 12:
IFC Analysis of Emerging Market Private Equity Geography



Source: IFC, reprinted with permission

Exhibit 13:
Sector Breakdown, Private Equity Fund Portfolio Companies vs. IFC Direct Investments



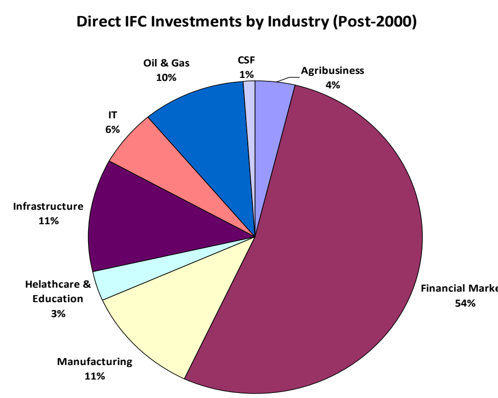


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Exhibit 14:
IFC Investee Companies, Job Creation Analysis

Jobs By Type of Company	SME	Non-SME	Total
# of Companies	235	284	519
Total Jobs Created	26,679	276,656	303,335
Average Jobs Created per Company	114	974	584
Job Growth Rate	18.3%	12.9%	15.3%

Cost per Job by Type of Company	SME	Non-SME	Total
IFC share of total investment	$117,000,000	$321,000,000	$438,000,000
IFC commitment per job Created	$4,385	$1,160	$1,444
Total Investment by Funds	$946,000,000	$3,320,000,000	$4,266,000,000
Fund Investment per Job Created	$35,459	$12,000	$14,064

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