

Fact Sheet

World Bank's IFC and private finance for development

What is the IFC?

The International Finance Corporation (IFC) is the private sector lending arm of the World Bank. Its mission is to reduce global poverty and promote shared prosperity by providing direct investments and advisory services to the private sector, promoting open and competitive markets and mobilising additional financial resources for private sector initiatives. The IFC aims to “generate productive jobs and deliver essential services to the poor and the vulnerable.”

The IFC coordinates its activities with the other institutions of the World Bank Group but is legally and financially independent. The IFC's 184 member countries oversee the use and management of resources through a Board of Governors and a Board of Directors. Each country appoints a governor and one alternate. The Board of Governors delegates most powers to a board of 25 directors.¹ In 2013 the World Bank Group adopted a new Group-wide strategy, as well as merging a number of back-office functions previously organised independently by the four main arms of the Bank Group. In particular, the new strategy envisions greater collaboration between the IFC and other arms of the Bank, including IFC participation in setting Country Partnership Frameworks, which will become the main framework agreements between the Bank and borrowing countries from July 2014.² It is not yet known how this will operationally affect the IFC.

Objectives and practices

A review of IFC reports and data covering the fiscal years 2009 to 2013 revealed the scale and scope of the IFC's investments.

Sectors

The main sector for IFC investment is financial markets. This mostly includes commercial banks, as well as other financial institutions. The largest non-financial institution sector for the IFC is infrastructure and the second largest is manufacturing. Many development economists have argued that the process of economic development is driven by gains in productivity in manufacturing,⁴ yet this represents a small proportion of the IFC's commitments.

Instruments

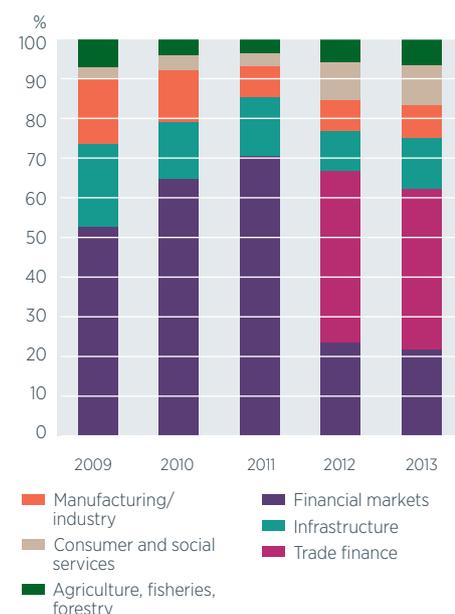
IFC primarily invests through financial intermediaries (commercial banks, financial

IFC key figures

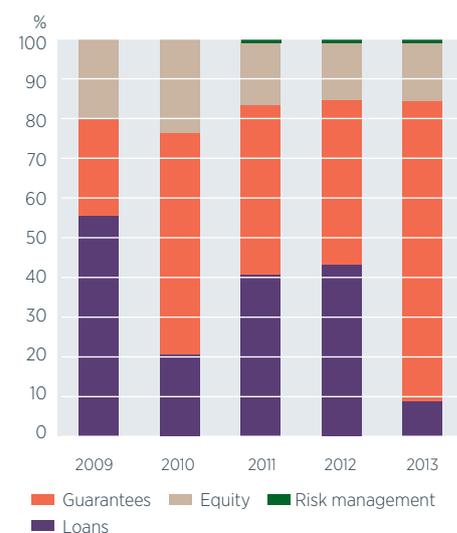
(US\$ billion unless noted otherwise)	2013	2012	2011	2010	2009
Committed portfolio	49.6	45.3	42.8	38.9	34.5
Annual commitments	18.3	15.5	12.2	12.7	10.5
Net income (loss)	1.0	1.3	1.6	1.7	0.2
Total assets	77.5	75.8	68.5	61.1	51.5
Return on average assets (GAAP ⁵ basis)	1.3%	1.8%	2.4%	3.1%	-0.3%
Debt-to-equity ratio	2.6:1	2.7:1	2.6:1	2.2:1	2.1:1

Source: IFC annual reports 2009-2013

Sector focus IFC



Use of different instruments



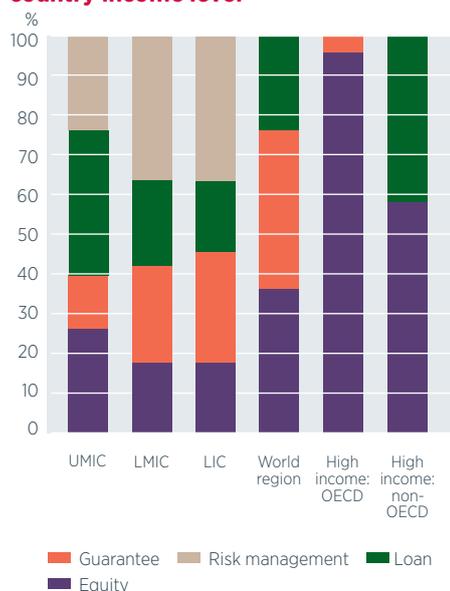
markets, trade finance and to a lesser extent private equity funds) making up 59% (\$41 billion). The remaining 41% (\$28 billion) is through direct investments. The vast majority of investments were via loans (this does not include parallel or syndicated loans, but only loans from the IFC's own account). Guarantees have nearly trebled due to an increase in trade finance, which is classed as a guarantee. Equity investments (including direct stakes in companies, as well as investment through limited partnerships, private equity funds or hedge funds) have been fairly consistently around \$2 billion a year. Risk management is minimal for all years. The IFC also manages over \$2 billion in syndicated loans a year.⁵

Regions

The majority of investment by region went to Latin America (25%), followed by Europe and Central Asia (20%), Sub-Saharan Africa (18%), East Asia and Pacific (15%), Middle East and North Africa (13%) and South Asia (9%). In Latin America, investments increased from \$2.7 billion in 2009 to \$4.8 billion in 2013. Over the same period, investments in Sub-Saharan Africa increased from \$1.7 billion to \$3.5 billion and in Europe and Central Asia from \$2.1 billion to \$3.2 billion.

The IFC does not provide a full breakdown of their commitments by country income level, but does provide a figure for the level of

Estimated commitment distribution by country income level¹⁰



commitments to International Development Association countries.⁶ Over the last five years, commitments in IDA countries have increased in nominal terms by 50% but as a percentage of the IFC's overall commitments they dropped from 42% to 36%.⁷

A significant proportion of IFC investments are in upper middle-income countries (such as Brazil and China). Figures on the breakdown of the distribution of the world's poorest show that 16.7% live in upper middle-income countries, 57.7% in lower middle-income countries, and 25.7% in low-income countries.⁸ Questions have been raised about whether the IFC is effectively targeting poverty and development impact.⁹

In terms of the IFC's main country exposures, its annual reports between 2009 to 2013 show that India had consistently the highest amount of investment from the IFC's committed portfolio in 2009 rising from \$3.3 billion to \$4.45 billion in 2013 (9% of the global portfolio). Brazil has consistently been the second largest destination. At the end of FY 2013, the IFC had \$2.6 billion invested in the country. Investment in China currently totals \$3 billion (6% of the global portfolio). IFC investments in BRIC countries make up 24% of the IFC's global portfolio. IFC investments in Turkey currently total \$2.8 billion (6% of the global portfolio) whilst in Russia they are \$2.1 billion (4% of the global portfolio). In Latin America, the IFC's largest country exposures at the end of FY 2013 were in Brazil, Mexico (\$1.5 billion) and Colombia (\$947 million).

How does the IFC determine development impacts?

Since 2005, the IFC compiles an annual 'scorecard' containing mostly volume targets such as commitments in IDA countries, or the

number of South-South investment targets. It does not include development impact. A process was started in late 2009 to develop a set of IFC development goals (IDGs) in reaction to criticism in a 2011 independent evaluation on the IFC's lack of poverty focus. The IDGs are "targets for reach, access, or other tangible development outcomes that projects signed or committed by IFC are expected to deliver during their lifetime". Although officially still in 'testing phase', two of the targets – on health and education (IDG2) and financial services (IDG3) – were formally implemented in July 2013.¹¹ The goals do not include an explicit poverty focus, as they do not specify which element of a population is supposed to benefit from IFC projects. According to the most recent IFC Road Map,¹² an annual strategic plan, the IFC is working to align IDGs with World Bank Corporate Scorecard indicators.

The IFC's development results measurements systems¹³

Since 2005, the IFC has used the Development Outcome Tracking System (DOTS) to track the development impact of all its investments at approval and throughout their cycle ("allowing for real-time feedback into operations"). Prior to a project being approved, a number of quantitative and qualitative indicators in four performance areas (financial, economic, environmental and social, and private sector development) are set. They define the project's expected development impact. Then, each year until the project is finished, the achievement of each indicator is assessed and the four performance components are rated by the IFC investment staff. On the basis of these internal ratings, a synthesis rating is assigned to the overall development outcome according to a six-point scale. DOTS ratings are given for both investment projects and advisory service work. As part of the economic impact, IFC's DOTS system includes impacts on stakeholders affected by the project beyond the project company itself, such as consumers, suppliers, workers, government and host communities.

IFC projects usually have both qualitative and quantitative indicators. Typical quantitative indicators for the direct effects of operations are: financial returns (e.g. return on equity, return on investment etc.); employment (e.g. number of jobs created, expenditure on training, wages etc.); and access by populations to basic services (e.g. phone lines). The results are aggregated from these indicators to form the reporting base for the IDGs and corporate scorecard.

Post project completion evaluation systems

The World Bank Group's Independent Evaluation Group (IEG) completes an ex-post evaluation of a random sample of completed projects. This is to validate the

internal ratings compiled by staff. The IEG is an arms-length evaluation body that reports directly to the World Bank Group president, but it is not independent of the Bank itself. The IEG validates all completion reports, but only conducts an in-depth evaluation of about 25% of the project ratings.¹⁴ On top of project rating validation, the IEG undertakes sector-wide and thematic evaluations, as well as portfolio-wide evaluations.

A 2012 independent evaluation of World Bank Groups results and performance by the IEG also covered the IFC. It found that IFC investments with good development outcome ratings dropped from 73% in 2006-08 to 68% in 2009-11, but noted that this was not a statistically significant change. However, IFC investments in the poorest countries "have seen a steep decline in performance", dropping from 73% to 52%.¹⁵

Questions about the system's independence, effectiveness

Critiques have been made about the way the IFC goes about measuring its own effectiveness.¹⁶ They can be broken down into a number of categories:

- Poor design:** This affects both the indicators chosen for the scorecard and the IDGs, as well as the individual indicators chosen for each project. This may include low levels of project ambition or poor proxy indicators being used because of a lack of data. Additionally, on indicators such as jobs it is very difficult to measure net job effects, especially to take account of second order impacts.¹⁷
- Quality of ratings and evaluations:** Ratings depend on high-quality data, which is difficult and costly to obtain. IFC staff have a personal incentive to rate their own projects highly, as their annual variable salary increases depend in part on DOTS ratings of their projects.¹⁸ In fact, the IEG has consistently down-rated projects on average, showing a regular upward bias in ratings. The IEG conducts few field visits for its project ratings validations, relying mostly on desk studies.
- Lack of independence:** Overall there is a criticism that more independence is needed in the process for determining whether impacts and outcomes have been achieved.
- Failure to consider distributional effects:** Until now, the IFC has avoided any measurement of the distributional impact of its work. So it is not known whether any service improvement is benefitting the rich or the poor in each country. There have been worries that cream-skimming by the private sector might even leave public systems in areas such as health and education worse off after the IFC's investment.

Recent policy changes and the way forward

Safeguards

The IFC sustainability framework “promotes sound environmental and social practices, encourages transparency and accountability, and contributes to positive development impacts. IFC’s Performance Standards have become globally recognized as a benchmark for environmental and social risk management in the private sector.” The sustainability framework was first created in 2006 and was revised in 2012, following a multi-year consultation process.¹⁹ Key changes include: the categorisation of financial intermediaries (FI) projects according to risk; a requirement for free prior and informed consent (FPIC) from indigenous peoples in certain situations; the addition of protection for migrant workers; strengthened transparency on greenhouse gas emissions; the disclosure of extractives project contracts; and the promise of more project-level information. The IFC proposed a review of experiences with this updated framework after five years of implementation.

Transparency

A new disclosure policy was agreed in 2012 alongside the new sustainability framework.²⁰ It does not allow disclosure of ‘commercially sensitive’ information, which includes all the financial details of a project such as rates of return, financial incentives, deal structures or profit repatriation. ‘Commercially sensitive’ information may also include non-financial information such as sub-clients, contractors, project details, or other contractual relationships. For the first time, the new policy promises to “provide periodic updates on the investment”, which includes development results information “as the results become available” which should include interim results and final ratings of the development success of the individual projects. These are prepared annually and are now being posted online.

Accountability

The Office of the Compliance Advisor Ombudsman (CAO) is the main mechanism for communities impacted by IFC projects to hold the IFC accountable. The CAO was

established in 1999 and reports directly to the president of the World Bank Group. It handles both conflict resolution and compliance, including assessments of IFC violation of its own performance standards. However, it has no formal power to demand actions or project changes.²¹

Tax issues

The IFC issued a policy²² on the use of offshore financial centres in October 2011. It provides that: “IFC will only undertake an investment after it has satisfied itself that the structure of the transaction is legitimate and not designed to be used for tax evasion, tax abuse or other illegitimate purpose”. However, this has been criticised because it fails to limit the use of tax havens.²³ The IFC also provides no public information about its assessment of a transaction and justification for finding it legitimate.

Sectors and development outcomes

- **Energy:** The IFC is subject to the World Bank Group’s new energy sector directions paper agreed in July 2013.²⁴ The paper provides for the funding of coal-fired power generation only in “rare circumstances”. It proposes a strong push for natural gas-related energy infrastructure and extraction, as well as for large hydropower projects.
- **Water:** The Bank Group as a whole has consistently pushed market solutions for water. The IFC does not have a specific strategy paper for water but in its strategic road map for 2013-2015 it specifically added water as one of the infrastructure sectors for which it would try to address constraints to growth.²⁵
- **Health and education:** “IFC has expanded the scope of its PPP work to include health and education.”²⁶ The IFC is increasingly collaborating with IDA for joint projects in these areas. Additionally, the IFC is funding a significant expansion of private sector health operations, both patient facing and health operations such as diagnostic facilities. Civil society has criticised this approach as potentially leading to cream-skimming (private sector taking only the most profitable patients) and potentially undermining universal health

coverage through diversion of financing and human capacity.²⁷ In private education, IFC is funding across the range in terms of low-fee private schools, high-fee schools and adult/vocational education.²⁸ The two former areas have been heavily criticised in terms of effectiveness of use of development resources.

- **Climate change:** The IFC is increasing its volume of blended finance in the climate change field.²⁹ Most of this blended finance is delivered through private sector projects associated with the Climate Investment Funds, World Bank-hosted trust funds related to financing the climate change adaptation and the mitigation needs of developing countries. The IFC has also done work in “climate-smart agriculture”.³⁰
- **Carbon finance:** The IFC did extensive analytical and advisory work on setting up the infrastructure for carbon trading along with other parts of the World Bank Group, and in getting financial institutions ready and willing to trade in carbon credits. It also hosts a number of carbon finance funds/facilities.³¹ For example, the IFC Post-2012 Carbon Facility “helps address post-2012 market uncertainty faced by climate-friendly projects eligible under the Clean Development Mechanism by creating a pathway to market”. The World Bank did not release its annual report on the state of carbon markets in 2013 saying “current market conditions invalidate any attempt and interest to undertake such analysis”.³²

Subsidised finance (blended finance)

For the first time, the IFC put in place a board level policy agreement in May 2013 to expand its use of blended finance.³³ Currently, the IFC uses blended finance in only three thematic areas: climate change-related projects; small and medium-sized enterprise (SME) finance; and agribusiness and food security. From 2009 until mid-2013, the IFC invested approximately \$225 million of concessional funds for investment and advisory projects using a blended finance approach, although it has pledged of about \$1.2 billion for use in concessional lending. Approximately half of blended finance funds have been channelled through financial intermediaries.

Endnotes

- 1 Voting power based on capital stock: largest member countries: US (22.4%), Japan (5.5%), Germany (5.1%), France (4.7%), UK (4.7%), Canada (3.2%), India (3.2%), Italy (3.2%), Russia (3.2%), Netherlands (2.2%), Belgium (2.2%), Australia (1.8%), China (1.7%), 171 other members (37%). This shareholding structure has political implications for how the IFC approaches its work, because the eight largest high-income country shareholders alone hold a voting majority, allowing them to dictate preferences and policy choices.
- 2 For more details, see World Bank Group Strategy, World Bank, October 2013, https://openknowledge.worldbank.org/bitstream/handle/10986/16095/32824_ebook.pdf?sequence=5
- 3 Generally Accepted Accounting Principles
- 4 See for example *Bad Samaritans*, Ha-Joon Chang, 2008, Random House.
- 5 Includes B loans, A loan participations and parallel loans. The IFC acts as arranger and either lets another bank lend directly or lends on behalf of another bank to the IFC client. The IFC does not bear the financial risk in these cases.
- 6 IDA countries are those that are eligible to borrow from IDA. This includes some lower-middle income countries. Further details available at <http://www.brettonwoodsproject.org/2011/11/art-569234/>.
- 7 IDA-eligible country commitment numbers reported in the 'Scorecard' section of each IFC annual report.
- 8 *Where Do The World's Poor Live? A New Update*, Andy Sumner, IDS Working Paper 393, June 2012, <http://www.ids.ac.uk/files/dmfile/Wp393.pdf>.
- 9 *Assessing International Finance Corporation's (IFC) Poverty Focus and Results*, Independent Evaluation Group, World Bank, April 2011, <http://ieg.worldbankgroup.org/evaluations/assessing-international-finance-corporations-ife-poverty-focus-and-results>.
- 10 Country income level breakdowns are not provided by the IFC, so these were constructed using the IFC project database for all projects that had projected board dates between 1 July 2008 and 30 June 2013 and were classified as either 'Active' or 'Completed'. Project data downloaded from <https://finances.worldbank.org/dataset/IFC-Investment-Services-Projects/efin-cagm> on 14 February 2014. Country income classifications as per World Bank methodology, data come from <http://siteresources.worldbank.org/DATASTATISTICS/Resources/CLASS.XLS> downloaded on 14 February 2014. As board dates may not equate to approval dates or disbursement dates and approved amounts may not be committed in the final investment negotiation, these figures must necessarily be viewed as estimates.
- 11 <http://www.brettonwoodsproject.org/2012/07/art-570779/>. The IDG website is at: http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IDG_Home/IFCDevelopmentGoals/
- 12 <http://www.ifc.org/wps/wcm/connect/1d30b9004028f151b28fff23ff966f85/Road+Map+FY14-16+redacted.pdf?MOD=AJPERES>
- 13 For a more detailed description, please see *Investing in private sector development*, by Sarah Bracking and Ana Sofia Gahno, published by Norwegian Church Aid, http://www.kirkensnodhjelp.no/Documents/Kirkens%20N%c3%b8dhjelp/Publikasjoner/Ymse%20publikasjoner/NCA_report_investing_in_private_sector_development.pdf; IFC presentation of this material is at http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IDG_Home/Monitoring_Tracking_Results/Tracking_System/
- 14 See "IEG Data and Ratings", Independent Evaluation Group, World Bank Group, <http://ieg.worldbankgroup.org/ieg-ratings>, accessed on 19 February 2014.
- 15 Further details, including the IEG explanations for the decline, are available at <http://www.brettonwoodsproject.org/2013/02/art-572003/>.
- 16 *Investing in private sector development*, by Sarah Bracking and Ana Sofia Gahno, published by Norwegian Church Aid, http://www.kirkensnodhjelp.no/Documents/Kirkens%20N%c3%b8dhjelp/Publikasjoner/Ymse%20publikasjoner/NCA_report_investing_in_private_sector_development.pdf
- 17 The IFC's own research has described these problems: *IFC Jobs Study: Assessing private sector contributions to job creation and poverty reduction*, IFC, January 2013, <http://www.ifc.org/jobcreation>.
- 18 <http://www.brettonwoodsproject.org/2013/04/art-572265/>
- 19 For more details, see <http://www.brettonwoodsproject.org/2011/09/art-568878/>
- 20 IFC Access to Information Policy, 1 January 2012, http://www.ifc.org/wps/wcm/connect/CORP_EXT_Content/IFC_External_Corporate_Site/IFC+Projects+Database/Projects/AIP+Policy+in+Detail/.
- 21 <http://www.cao-ombudsman.org/howwework/2012OperationalGuidelinesUpdate.htm>
- 22 http://www.ifc.org/wps/wcm/connect/a6aebd-8048023f8e9556fd86f8f2f9d6/IFC_OF_C_Policy.docx?MOD=AJPERES
- 23 <http://www.brettonwoodsproject.org/2012/02/art-569573/>
- 24 <http://www.brettonwoodsproject.org/2013/10/world-bank-energy-directions-going-gas/>
- 25 IFC Road Map FY13-15, p2, <http://www1.ifc.org/wps/wcm/connect/87c9800046b649beaa04abb254bfb7d4/Road+Map+FY13-15.pdf?MOD=AJPERES>.
- 26 IFC Road Map FY13-15, p 15, <http://www1.ifc.org/wps/wcm/connect/87c9800046b649beaa04abb254bfb7d4/Road+Map+FY13-15.pdf?MOD=AJPERES>.
- 27 *Health insurance in low-income countries: Where is the evidence that it works?*, Joint NGO briefing paper, Oxfam Briefing Paper No. 112, 7 May 2008, http://www.oxfam.org/sites/www.oxfam.org/files/bp112_health_insurance_0805.pdf.
- 28 Low-fees school example: Bridge International Academies, fees on average \$72 per annum (see <http://ifcext.ifc.org/ifcext/spiwebsite1.nsf/651aeb16abd09c1f8525797d006976ba/2354398b8630c4d085257c140067863f?OpenDocument>); high-fees school example: Brookhouse Schools Limited, fees \$15,000 per annum (http://ifcext.ifc.org/ifcext/spiwebsite1.nsf/projectdisplay/spi_dp25173).
- 29 <http://www.ifc.org/wps/wcm/connect/c65f320049ff-81891c9fd21a6199c1f/Climate%2BBusiness%2Bin%2Ba%2Bnutshell%2BJan+2013.pdf?MOD=AJPERES>
- 30 <http://climatechange.worldbank.org/content/climatesmart-agriculture-and-world-bank-facts>
- 31 <http://www.ifc.org/wps/wcm/connect/6efd38804a9e309d8e73fe9e0dc67fc6/IFC+Carbon+Finance+Products.pdf?MOD=AJPERES>
- 32 <http://www.brettonwoodsproject.org/2014/03/world-banks-climate-change-crusade-rhetoric-reality/>
- 33 <http://www.brettonwoodsproject.org/2013/06/art-572886/>

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