# Follow the money:

## The World Bank Group and the use of financial intermediaries

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Bretton Woods project

## Contents



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## Executive summary

Just five years after a major international financial crisis the financial sector is now the largest beneficiary of World Bank Group investment. A push for channelling money through the private financial sector is occurring despite the failures of the financial systems of US and European countries in the last five years.

This report should be viewed as a research tool to stimulate debate about how civil society organisations can engage with the increasing support being given to the financial sector. With detailed information on IFC financial sector investments it allows civil society to discuss ways forward.

Donors, international financial institutions and elites in developing countries are pursuing so-called financial deepening, which is one component of financialisation – the increasing importance of financial markets, financial motives, financial institutions and financial elites in the operation of the economy. It is a step change in the way financial institutions interact with the rest of the economy which has major implications for long-run economic development, including transforming the functioning of households and the productive parts of the real economy.

While the World Bank and its private sector arm the International Financial Corporation (IFC) are leaders in this area, they are not the only public institutions that promote financial deepening or provide finance to the private financial sector in developing countries. A host of development finance institutions now operate in this fashion, including Brazil's Banco Nacional de Desenvolvimento Econômico e Social (BNDES) and the China Development Bank. The UN's Green Climate Fund plans to use this model. It is also likely the new development bank being proposed by Brazil, Russia, China, India and South Africa (BRICS) will use this method.

From 2005, there was both a large increase in the IFC's overall portfolio and an increase in the percentage of new commitments going to financial intermediaries (FIs). In the wake of the 2008 financial crisis, the IFC rapidly increased its support to the financial sector, especially trade finance. The IFC accountability mechanism released an audit into the social and environmental outcomes of the IFC's investment in FIs in February 2013. It concluded that: "The result of [the] lack of systematic measurement tools is that IFC knows very little about potential environmental or social impacts of its [financial market] lending." Communities in Honduras, Cambodia, India and Uganda have complained about negative impacts of FI investments ranging from water pollution, to land grabs, to torture and murder of farmers. This has led civil society groups to demand a new World Bank Group strategy for investments in the financial sector.

Between July 2009 and June 2013 the IFC invested $36 billion in FIs. This is three times as much as the rest of the World Bank Group invested directly into education and 50% more than into health care. The IFC justifies its investments in the financial sector because they "spur economic growth" that will then lead to positive development outcomes. The IFC's portfolio of FI investments shows a concentration of funding in commercial banking rather than in small and medium enterprises (SMEs). Funding is also skewed to upper-middle-income countries such as Russia, Brazil, China and Turkey, despite the poor living predominantly in low-income and lower-middle-income countries. Additionally, at least $2.2 billion worth of public money from the IFC was channelled through secrecy jurisdictions because of their attractive low-tax, low-regulation environments.

When assessing the development impact of investing in FIs, the IFC uses either reach indicators (the number of clients) or purely financial indicators (such as return on invested capital and return on equity). While an increasing number of public institutions are channelling capital into the financial sector there remain large risks from this approach for overall development efforts.

The IFC has not proven the effectiveness of the FI model and should do so before commitments on such a massive scale are acceptable. The onus is on the IFC to show that investing in FIs leads to direct and tangible positive results for people's livelihoods in developing countries. The broader question remains unanswered: Is this a valuable use of development resources? An expansion of investments in FIs at the expense of direct investments should only be done with clear proof that they have a greater positive development impact than direct investments. A preferable alternative model to consider development impact would include better client choice, stronger measurement, and more independent reporting and evaluation.

Given the trend towards bolstering the financial sector with international public resources, it is important to grapple with the nature of FIs, their potential environmental and social risks, and question what development impacts they have for people living in developing countries. This report sets out three possible approaches for civil society to achieve this calling for: stronger rules, different operators and new tools based on different mandates and ownership models.

The international development finance environment is currently fixated upon the use of the private financial sector as development actors, without fully thinking through the implications of this. Though use of the private financial sector as a channel of development finance is controversial, the fact remains that it is growing. Each national context, where different amounts of financial liberalisation have occurred and variable levels of governmental interest in sustainable and pro-poor development exist, will determine the best fit of approaches and strategies. Yet, unifying civil society positions and demands as much as possible can enable successful challenges to the underlying systems of international finance.

## 1. Introduction

**Just five years after a major international financial crisis driven by unsustainable activities by the financial sector, this sector is now the largest beneficiary of World Bank Group investment.**

$36 billion

IFC investment in financial intermediaries between July 2009 and June 2013; three times as much as the rest of the World Bank group invested in education and 50% more than it invested in health care

The World Bank Group's 2013 strategy says "private sector resources and expertise are critical to achieve the two goals" of ending extreme poverty by 2030 and boosting shared prosperity.[1] The World Bank, a public body, invests directly in the private sector through the International Finance Corporation (IFC), its private sector arm. The IFC has a large portfolio of investment across a range of economic sectors, however, the largest portion has been and still is invested in the financial sector. The pre-crisis thinking about the need to increase the role of the financial sector has remained unscathed within the IFC; this report aims to analyse the implications of this thinking and present some ideas for civil society groups working on international finance.

The IFC justifies its investments in the financial sector because they "spur economic growth", though this has been contested by many researchers. The IFC also says the financial sectors allows it to expand its "reach and development impact in our target markets". The financial sector, also called financial intermediaries (FIs), are essentially go-betweens, taking IFC resources and reinvesting them in projects, people, and businesses. The FI then takes the decision about the use of what were public resources, determining who gets it and where it is spent. The IFC claims lending to FIs has led to the creation of around 100 million jobs.[2]

### FIs and their questionable development impact

There is a lack of clarity about the causal link between IFC investment in an FI and improvements in poor people's livelihoods in developing countries. In February 2013 the IFC's accountability mechanism, the Compliance Advisor Ombudsman (CAO), published an audit which found that the IFC was not doing assessments of "whether the [environmental and social] requirements are successful in doing no harm" and indicated that "the result of this lack of systematic measurement tools is that IFC knows very little about potential environmental or social impacts of its [financial market] lending." While overall the World Bank Group has a mandate for poverty reduction and procedures to ensure responsibility for impacts of its investments, in the case of the IFC investment in FIs, this mandate and responsibility is abdicated in favour of the FI's own judgements and systems.

While the IFC does not have a full idea of the impact of its lending, several high-profile cases highlight what can go wrong, and how harm can come to people and the environment. Communities in Honduras, Cambodia, India and Uganda have complained to the CAO about negative impacts of FI investments ranging from water pollution, to land grabs and murder of farmers (see Box 3).

Given the growing World Bank Group focus on the private sector and the increasing proportion of the IFC budget going to FIs, this report intends to stimulate debate on the role of FIs and how civil society organisations can propose alternative models. Specifically it aims to:

1. Provide detailed information on IFC investments in FIs in terms of location, size and financial instrument;
2. Consider the development impact of investment in FIs, given that the IFC's mandate is to reduce poverty;
3. Discuss ways forward for civil society given the increasing focus on the financial sector from a range of institutions, including the UN's Green Climate Fund, the G20, and more.

Failure to fully understand the changing nature of international cross-border flows, and its increasing concentration in the finance industry, will put civil society far behind the real discussions shaping global development finance. This report should be a tool for civil society organisations to analyse and collaborate on developing effective strategies to influence the nature and type of investments in FIs and by default in the private sector - of which FIs play an increasing role in today's globalised economy. By the very nature of FI lending, there are many 'black boxes' areas that are unclear with a lack of accurate available information. This report does not attempt to provide definitive answers about the WBG FI lending or recommendations. Instead this

**Box 1: What is a financial intermediary (FI)?**

A financial intermediary (FI) is a third-party financial entity, such as a bank, insurance company, microfinance institution, or private equity fund. Support to FIs comes from the International Finance Corporation (IFC), the part of the World Bank Group that invests in the private sector.

report should be seen as a contribution to civil society discussions engaging with this complex issue. It aims to help civil society ask the right questions.

**Structure of this report**

**Part 2** of the report looks at the background and trends of the majority of international financial institutions to increase their FI lending and what this means for key issues, such as gender, human rights and the environment.

**Part 3** of this report delves into data analysis on the IFC's FI investments between July 2009 and June 2013. It finds that the IFC concentrated its lending to private commercial banks and for financing of trade. Due to the 'black box' nature of the IFC's financial sector investments the conclusions in this section can only be initial observations.

**Part 4** makes observations on how the IFC currently judges the development impact of its FI investments. It then proposes a possible alternate model to guide and judge the development impact of lending to FIs, exploring new criteria based on client choice, development impact indicators and third-party verification.

**Part 5** looks at potential approaches civil society can take to work on FIs. It puts forward three options for how to take this work forward in the future. The aim again is to stimulate informed discussion rather than to provide answers. It also frames some important discussion questions to be addressed in the future.

## 2. Background

**An increasing number of public institutions are channelling capital into the financial sector, but there are large risks to the environment, communities and overall development efforts.**

The types and varieties of cross-border financial flows have proliferated in the last decade. No longer are flows to developing countries neatly divided into aid, loans, and foreign investment. Increasingly flows are bridging public-private divides and being channelled via financial intermediaries (FIs) – third party financial institutions.

This push for channelling money through the private financial sector is occurring despite the failures of the financial systems of the US and European countries in the last five years. Donors, international financial institutions and elites in developing countries are pushing so-called financial deepening. This process involves liberalising financial markets, developing capital markets and introducing more complex financial instruments. Often playing a part in this are unregulated financial institutions and investors, such as hedge funds and private equity funds. This financial deepening is one component of financialisation – the increasing importance of financial markets, financial motives, financial institutions and financial elites in the operation of the economy.[3] It is a step change in the way financial institutions interact with the rest of the economy and the amount of speculation that occurs.[4] The increasing size and power of the financial sector has major implications for long-term economic development, including transforming the functioning of households and the productive parts of the real economy.

**Broader perspective – BRICS, infrastructure and climate**

While the World Bank and the IFC are leaders in this area, they are not the only public institutions that promote financial deepening or provide finance to the private financial sector in developing countries. A host of development finance institutions (DFIs) now operate in this fashion, including some bilateral development banks in rich countries, for example the FMO in the Netherlands, as well as national development banks in emerging market countries, such as Brazil's Banco Nacional de Desenvolvimento Econômico e Social (BNDES) and the China Development Bank.

Channelling funds through FIs is also on the increase. Analysis in section 3 of this report shows that the IFC, now makes more than 60% of its annual commitments in the financial sector rather than directly in projects. This trend is replicated among regional development banks and bilateral development finance institutions. It may also be used by the new development bank being proposed by Brazil, Russia, India, China, and South Africa (BRICS). The so-called BRICS Bank is expected to have a capital base of $50 billion and is still being designed.[5] It is widely expected that the BRICS Bank will invest directly in private sector projects, using the model that the Brazilian national development bank BNDES employs for overseas investment. It is not clear how the BRICS Bank will partner with the financial sector of BRICS countries or the financial sector in possible investment destinations. However, it is unlikely that the new bank will completely avoid the use of financial intermediaries, as the proponents

**Figure 1: Timeline: Recent events in the rise of IFC lending to financial intermediaries**

World Bank Group activities

2005
IFC starts using the Development Outcomes Tracking System

2006
Update of the IFC Policy on Social & Environmental Sustainability and IFC Performance Standards

2011
**April**
CAO registers case on IFC investment in India Infrastructure Fund - Odisha communities complain of negative social and environmental impacts of Kamalanga coal power plant

**December**
CAO registers case on IFC investment in Agri-Vie fund - Ugandan communities and Oxfam allege UK-based New Forests Company involved in forced evictions.

Civil society activities

2010
**November**
*Out of sight, out of mind?* (Bretton Woods Project briefing) says "IFC overly relies on a belief that any financial sector development automatically benefits the poor"

2011
**September**
*The New Forests Company and its Ugandan plantations:* Oxfam case study. Allegations of land grabs related to IFC investment in Agri-Vie fund

of the Bank are key participants in the G20 where much discussion on how to leverage private financial sector investment is being conducted.

The G20 started work on promoting "long term finance for investment" in 2012.[6] This G20 work stream aims to propose mechanisms to transform project investment, particularly infrastructure investment, into an asset class which can then leverage money from institutional investors, such as pension funds and sovereign wealth funds. One of the institutional innovations rumoured to being particularly pushed by the Indian government is the new Global Infrastructure Facility to be hosted by the World Bank.[7] The key feature of this work is the development of close collaboration and risk sharing between the public sector, the private financial sector and project implementers. The cost of such initiatives to the public sector, which ultimately bears large portions of the risk, has been heavily criticised.

It is certain that the UN's new financing mechanism for climate change, the Green Climate Fund (GCF), will channel some resources through the financial sector. The GCF is currently developing its private sector facility[14] for this purpose, with design expected to take shape by the end of 2014.[15] The GCF has already put out a job description for a specialist in financial intermediaries.[16] The GCF, as of yet, has not agreed its environmental and social safeguard policies, and it is unknown how they will treat financial intermediaries. The WBG is also facilitating a strong role for the private sector at the Climate Investment Funds which it hosts. The CIFs are open to financing FIs for projects related to clean technology, renewable energy, forests and adaptation.[17]

### Financial sector investment at the IFC

The IFC has financed FIs throughout its history, accounting for more than 22% of its committed portfolio (entire set of active investments) as far back as 2001. In terms of annual commitments, FI financing temporarily peaked at about 50% of the total in 2002, before declining again. However, from 2005, there was both a large increase in the IFC's overall portfolio and an increase in the percentage of new commitments going to FIs (see table 1). In the wake of the 2008 financial crisis, the IFC rapidly increased its support to the financial sector, especially trade finance. Figure 1 shows a timeline for recent developments in the IFC's work with FIs.

In early February 2013 the IFC's accountability mechanism, the CAO, released an audit into the social and environmental outcomes of the IFC's investment in FIs. The study, which looked at 10% of the clients in the IFC's FI portfolio since mid 2006, found that only 65% of the sample were fully compliant with the IFC's environmental and social requirements. The CAO emphasised how the IFC's requirements focus on the client developing a social and environmental management system, rather than actual social and environmental outcomes. Looking beyond just meeting requirements, for IFC clients "around 30% of investments in CAO's sample were not regarded by the CAO panel as to have 'improved'" their environmental and social outcomes. Furthermore, the CAO found "the proportion of cases of non-improved performance was around 60% at the subclient level, which is where IFC seeks to really have an impact." Overall the report found that the IFC conducts "no assessment of whether the [environmental and social] requirements are successful in doing no harm." The CAO concluded that: "The result of this lack of systematic measurement tools is that IFC knows very little about potential environmental or social impacts of its [financial market] lending."

**2012**

**January**
Performance standards updated resulting in stronger, but still incomplete application of these policies to FIs

**April**
*Risky Business* (Oxfam briefing) calls for focus on development impact, transparency, greater due diligence

**May**
*Private Profit for Public Good?* (Eurodad report) calls for improved FI reporting and research on development impact

**November:**
*Negotiating Power* (Research Collective study) documents the socio-economic realities of the people effected by the Odisha Kamalanga coal power plant

**2013**

**September**
IFC FI action plan approved by Bank board, proposes marginal increases in transparency and supervision

**August**
CAO registers case on IFC investment in FICOHSA - Honduran bank said to provide finance to Dinant palm oil company, being investigated for human rights abuses by CAO.

**April**
*Rubber Barons* (Global Witness report) finds evidence of land grabbing in Cambodia and Laos, with IFC involved by financing private equity fund Dragon Capital.

**2014**

**February**
CAO registers case on IFC investment in Dragon Capital – Cambodia groups allege land grabs and illegal logging

**March**
Civil society briefing to Jin-Yong Cai, IFC executive vice president, calls for "immediate revision of action plan to comprehensively address the CAO audit's findings"

**Table 1: Historical IFC investment figures**

| $ billions | FY 2005 | FY 2009 | FY 2013 |
|---|---|---|---|
| **Total assets** | 39,583 | 51,483 | 77,525 |
| **Annual commitments** | 5,373 | 10,547 | 18,349 |

Source: IFC annual reports

In 2003, the CAO's review of the IFC's performance standards found "the rapid growth of the FI portion of the portfolio has outstripped IFC's capacity to conceptualise an effective [safeguard policies] system for FIs."[18] Since then civil society groups have continued to pressure the IFC on this issue, as well as becoming more concerned about the lack of proof of positive development outcomes from investment in the financial sector. One continued concern, which has been echoed in other debates on development finance, is the imbalance of risk tolerance between financial risk and environmental and social risks. The IFC and other institutions concentrate resources and attention on managing financial risks, while devoting less attention to the environmental and social aspects of risk and reward.

Civil society organisations are demanding that the World Bank Group needs a new group-level strategy for investments in the financial sector to fundamentally rethink the nature, purpose, modalities and limits of these investments. At the same time, NGOs have made specific short-term suggestions to change the way the IFC handles lending to FIs. These address the sequencing of capacity building and investment, risk categorisation of FI projects, contractual arrangements with clients, transparency, supervision, and third-party verification of outcomes and impact.[19]

### Implications of these developments

The pursuit of financial deepening combined with the use of intermediated finance can have profound implications for human rights, social development and environmental sustainability. First, the increasing use of the financial sector obscures accountability and allows the bypassing of the IFC's social and environmental standards. The businesses and projects that receive funds from the FI can still have environmental, social and development implications. Using FIs as go-betweens waters down the application of the existing standards but does nothing to mitigate the potential harms such as gender impacts, human rights violations, livelihood disruption, and biodiversity and habitat destruction. This potentially

**Box 2. Gender implications of supporting FIs**

The World Bank's 2012 *World Development Report* on gender broke new ground for international financial institutions finally putting forward gender perspectives into the development discourse. The report referenced fundamental women's rights and moral arguments for gender to be considered. However, the World Bank has long taken an instrumentalist approach, focussing on gender equality as smart economics.

The financial sector has been one key target of discussion in terms of gender equality. Research by the World Bank has shown that women disproportionately lack access to financial services.[8] This gap is widening in developing countries.[9] A key finding was that there are gender specific legal barriers in many countries that are correlated to the lack of use of financial services by women. Usage of financial services remains significantly related to gender, even after controlling for a host of individual characteristics, including income, education, employment status, rural residency and age.

In recent years the IFC has sought to promote women's economic empowerment, including through investments in FIs. For example in March 2013 it teamed up with multinational company Coca-Cola to launch a $100 million, three-year joint initiative to provide access to finance for women entrepreneurs in Eurasia and Africa.[10] In March 2014 it signed an agreement with international investment bank Goldman Sachs, which it claims, will support up to 100,000 women small and medium sized business owners in gaining access to capital.[11]

However, questions remain about the mechanism of women's integration into the financial system and whether the IFC's approach promotes structural changes that empower women and buttress women's rights. In IFC-supported financial sector institutions, women may be seen more as a source of profit, essentially as untapped markets. The microfinance industry particularly has been accused of loading women with unsustainable debt without sufficiently dealing with the underlying economic, social, cultural and legal barriers to women's equality.[12] There are also concerns about the power dynamics generated by microfinance's use of community shame to ensure repayment compliance.[13]

Questions around the gendered impact of support to FIs are impossible to answer from a portfolio review. The IFC itself is simply unable to assess the gender impact of its investments because there is little to no knowledge about the ground-level social implications of its investments. At best the IFC might measure data about the reach of its financial sector clients in a gender disaggregated way, but little beyond that. Assessing the real gender impacts constitutes an important future line of enquiry into the FI agenda.

exposes citizens, especially disempowered communities, to unwarranted risks.

Second, financialisation fundamentally changes the power structures in an economy, altering the rewards and incentives, and potentially shifting them away from long-term development in favour of short-term profit. Rich countries experienced this shift in the wake of massive financial deregulations in the 1980s and 1990s, which has been recognised as a major contribution to the 2008 financial crisis.[20] As the financial sector grows in size and strength it can play a bigger role politically, attempting to capture state institutions, for example those related to financial regulation. Financial interests can also push for greater extraction of resources out of national economies to be stored and used in international financial centres, ultimately meaning the gains of productive activity are not accrued by the country or people who were involved in the activity in the first place.

A related risk is that the growth of the financial sector's influence could lead to it finding new ways to profit from the delivery of public services or public infrastructure. Citizens are drawn into deeper relations with the financial sector just in order to meet daily needs, with implications for upward redistribution of wealth. This may increase the distance between citizens and control over national resources and public services.

This makes it all the more important to think clearly about the trade-offs associated with using these new channels of finance. While public institutions claim that this approach allows for more efficient allocation of capital, increased leverage of private funds, or better targeting of small and medium enterprises, they have little proof that investments create positive development outcomes, let alone do no harm to communities or the environment. The next section examines the IFC's investments in FIs in detail, trying to separate out fact from fiction and understand the true nature of these massive, and increasing investments.

**Box 3. IFC FI investments alleged to have harmed communities**

**Uganda:** It is claimed that more than 20,000 villagers have been unjustly evicted from their homes by UK-based New Forests Company (NFC) between 2006 and 2010 to make way for plantations. In the summer of 2010, the IFC invested $7 million in private equity fund Agri-Vie, whose portfolio includes NFC. Two communities filed complaints with the CAO in December 2011, one of which was settled in July 2013.

**India:** Community groups in the Indian state of Odisha (formerly Orissa) are resisting the construction of the coal-fired Kamalanga power plant. This plant is run by GMR Kamalanga Energy Limited (GKEL), which has received financing from the private equity fund India Infrastructure, who themselves received a $100 million equity investment from the IFC in 2008. The local community has complained of negative social and environmental impacts, including pollution and water shortages, and alleged that the company did not adhere to legally mandated procedures when acquiring land, has not offered proper compensation, and that it used intimidation and force. They filed a CAO complaint in April 2011, which is still being investigated.

**Honduras:** Communities in Honduras, which had complained about human rights abuses associated with the IFC's direct investment in palm oil producer Corporation Dinant had no knowledge or information about the IFC's subsequent FI investment in the commercial banking partner of Dinant, FICOHSA. A January 2014 CAO investigation found that the IFC violated nearly all its performance standards in investing in Dinant, which has been accused of involvement in the killing and forced eviction of farmers in the Bajo Aguan region. The CAO also revealed the links between Dinant and FICOHSA. Without a CAO investigation of the direct investment it is unlikely the IFC financial links FICOHSA would ever have come to light. A CAO investigation of the FICOHSA investment is due to be published in June 2014.

**Cambodia:** Two of Vietnam's largest companies, Hoang Anh Gia Lai (HAGL) and the Vietnam Rubber Group, have leased vast tracts of land for plantations in Laos and Cambodia, which are claimed to have disastrous consequences for local communities and the environment. Communities complained that the companies took their land and forest. The IFC is involved through its 2002 investment in private equity fund Dragon Capital Group and its later direct investment in the Dragon Capital-owned fund Vietnamese Enterprise Investments Limited (VEIL). These funds both invest in HAGL. Communities filed a CAO complaint in February 2014.

## 3. Analysis of IFC FI portfolio

**The IFC's portfolio of financial intermediary investments shows a concentration of funding in commercial banking and upper-middle income countries, with little evidence of claimed development impact.**

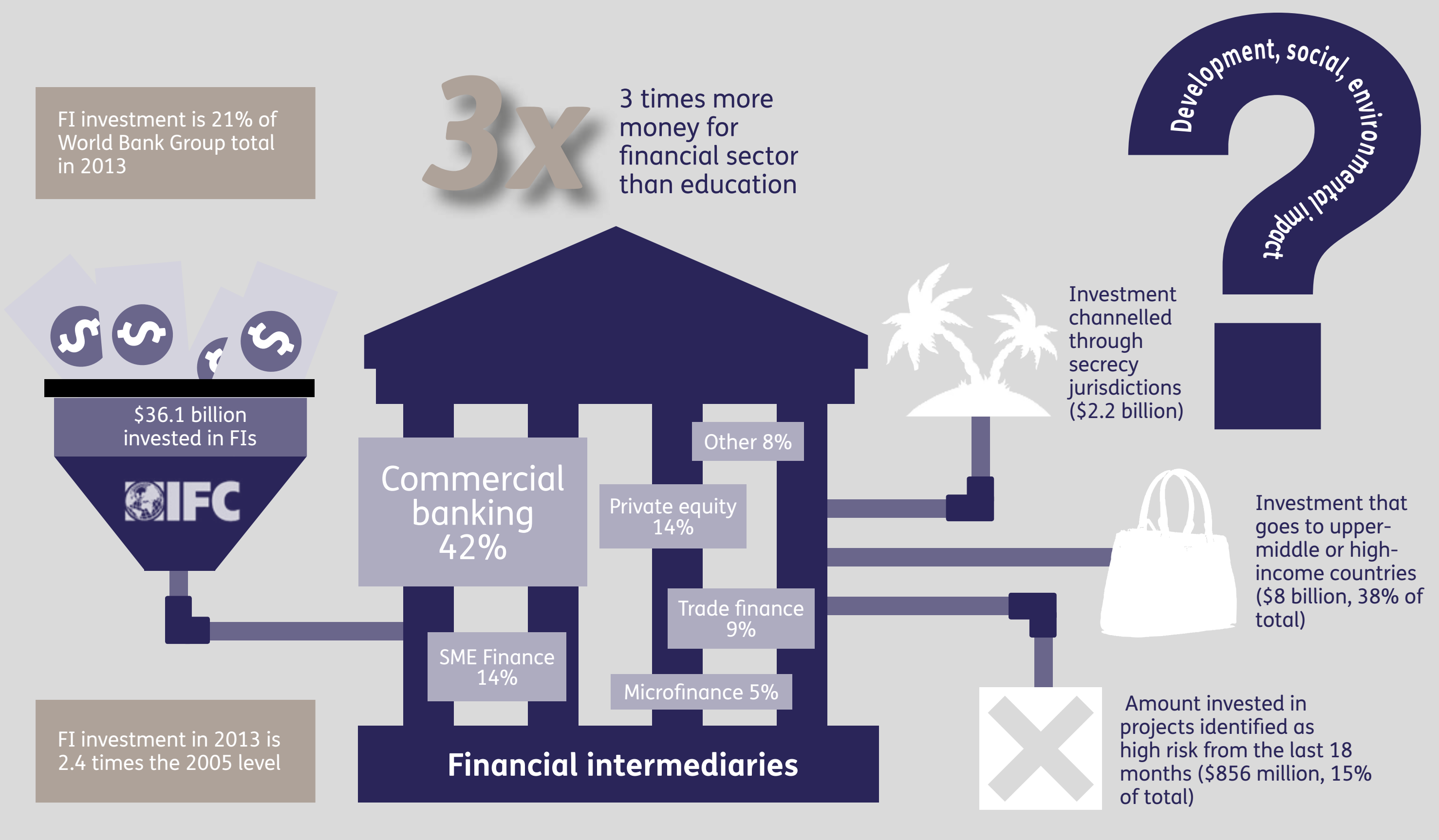
This report builds upon past civil society efforts to analyse international financial institutions funding to the private financial sector. A 2011 Bretton Woods Project and 'Ulu Foundation briefing, *Out of sight, out of mind*, analysed the IFC's 2009 fiscal year financial intermediary investments.[21] Eurodad's 2012 report *Private profit for public good?* provided figures for the IFC's investments through 2010.[22] In this analysis, figures are based on four years of data, covering fiscal years 2010 – 2013. This report also provides a more detailed breakdown of the sectors and destinations of the public resources that the IFC invests in the financial sector. Annex A describes the methodology for conducting the analysis.

### Financial sector support growing

The World Bank Group is increasingly focussing investments on the financial sector ahead of other economic sectors. Table 2 shows World Bank Group commitments for the last four fiscal years, with the IFC's investments broken down into FI investments and direct investments. Financial intermediary investments have gone from less than 10% to nearly 21% of the total group commitments in the fiscal year 2013.

The IFC's trade finance and other FI investments over the four-year period, as reported in its annual reports, totals $36.1 billion. The figures show that, in the latest fiscal year, 62% of overall IFC commitments were directed to FIs and trade finance. As Table 3 shows, over the same four-year period the World Bank Group spent far less on health, education and water, sanitation and flood protection than on the financial sector. In fact, investments in the financial

**Figure 2: World Bank Group prioritising financial sector instead of poverty (Fiscal years 2010-2013)**



sector were about three times those in education and about 50% greater than those in health.

There are serious questions raised about what kind of development impact investments in the financial sector have. While the different arms of the World Bank group operate on different capital bases, in some ways there is an opportunity cost of these investments. Every dollar invested in a bank or financial institution is one that is not available to invest in other kinds of projects. While the intermediary will use the IFC's resources to itself lend or invest, it is unclear whether these investments are poverty-reducing, development-oriented or aligned with national or international development goals.

While the IFC provides aggregate level information in its annual reports, this information does not allow a detailed cross-sectional analysis of FI financing by client type, destination country or instrument. The remainder of this analysis is based on the IFC's disclosed project database for the fiscal years 2010 to 2013.

### Hogging the money: Large commercial banks benefit, SMEs miss out

The IFC's website explains: "working with FIs allows IFC to support far more micro, small, and medium enterprises than we would be able to on our own. In fiscal year 2012, our financial-intermediary clients helped us provide loans to 25 million individuals and 1.5 million small and medium sized enterprises. Access to finance is a key barrier to the growth of SMEs and the establishment of microenterprises. The access to finance gap in emerging markets is large - 2.5 billion adults do not have access to savings or credit, and 200 million MSMEs (micro, small and medium enterprises) do not have access to credit."

The IFC often justifies its support to FIs in terms of the need to support SMEs. The IFC annual scorecard includes a total for "Commitments in micro, small, and medium enterprises sector". This "includes direct MSME borrowers, financial institutions with more than 50% of their business clients being MSMEs, and any other investments that specifically target MSMEs as primary beneficiaries." Those figures show a four-year total of $24.6 billion, 42% of total IFC investment.

**Table 2: World Bank Group commitments by arm of the Bank Group**

| $ millions | FY 2010 | FY 2011 | FY 2012 | FY 2013 | Total |
|---|---|---|---|---|---|
| **International Bank for Reconstruction and Development** | 44,197 | 26,737 | 20,582 | 15,249 | 106,765 |
| **International Development Association** | 14,550 | 16,269 | 14,753 | 16,298 | 61,870 |
| **Multilateral Investment Guarantee Agency** | 1,500 | 2,100 | 2,700 | 2,800 | 9,100 |
| **International Finance Corporation** | 12,664 | 12,186 | 15,462 | 18,349 | 58,660 |
| *of which financial intermediaries** | *7,062* | *8,176* | *9,859* | *11,014* | *36,111* |
| *of which direct investment* | *5,602* | *4,010* | *5,602* | *7,335* | *22,549* |
| **TOTAL** | **72,911** | **57,292** | **53,497** | **52,696** | **236,395** |

* Includes financial markets and trade finance investment.
Source: World Bank Group annual reports

**Table 3: Selected commitments from IDA and IBRD compared to IFC FI investments**

| ($ millions) | FY 2010 | FY 2011 | FY 2012 | FY 2013 | TOTAL |
|---|---|---|---|---|---|
| **Financial intermediary investments (IFC)[23]** | 7,062 | 8,176 | 9,859 | 11,014 | 36,111 |
| **Health (IBRD/IDA)** | 6,792 | 6,707 | 4,190 | 4,363 | 22,052 |
| **Education (IBRD/IDA)** | 4,945 | 1,733 | 2,959 | 2,731 | 12,368 |
| **Water, sanitation and flood protection (IBRD/IDA)** | 4,103 | 4,617 | 3,605 | 2,220 | 14,545 |

Source: Bretton Woods Project calculations, World Bank 2013 annual report

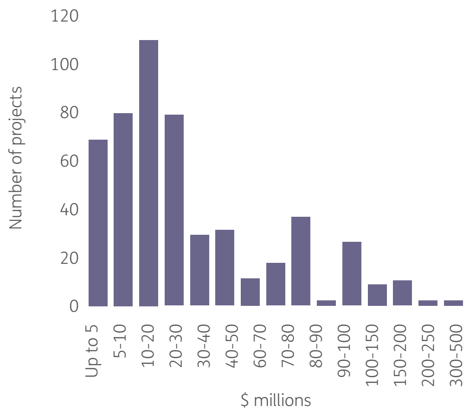
These figures look impressive but should not be taken at face value. An FI client which may have more than 50% MSME clients, may still have a balance sheet concentrated on large businesses or may use the IFC's resources to expand lending to large businesses. Additionally the IFC's definition of MSME is controversial. In practice the IFC financial markets department categorises businesses, based on the size of the loan, not on the size of the business. An IFC-financed FI can lend up to $2 million to its client and still count this as an MSME loan.[24] Additionally, many question whether a business with up to 300 employees and $15 million in annual sales can rightly be called a medium sized enterprise, as defined by the IFC.

Our FI project level analysis casts further doubt on the IFC's targeting. Support for commercial banks numbered 164 projects, representing $8.9 billion or 42.2% of the FI total. In comparison only 89 FI projects, representing $3 billion or 14.2% of the total, were labelled by the IFC as specifically targeting SME finance. The IFC actually supported more private equity projects than specific SME finance projects in the four-year period. The 102 private equity projects represented $2.9 billion in commitments, roughly equivalent to the

**Table 4: Largest geographic recipients of FI investment**

| $ millions | World | Russia | India | Turkey | China | Brazil | Indonesia |
|---|---|---|---|---|---|---|---|
| **Total FI investment (% of total)** | 3,629 (17%) | 1,320 (6%) | 1.198 (5.6%) | 1,069 (5%) | 955 (4.5%) | 845 (3.9%) | 612 (2.9%) |
| **Total number of FI projects** | 29 | 27 | 50 | 20 | 25 | 25 | 11 |
| **Volume of FI projects over $30 million** | 3,566 | 1,145 | 790 | 953 | 778 | 542 | 563 |
| **Number of FI projects over $30 million** | 22 | 17 | 13 | 16 | 12 | 8 | 8 |
| **Number of FI projects over $50 million** | 19 | 11 | 9 | 11 | 7 | 7 | 6 |

**Figure 3: IFC FI Project size**




amount committed to SME finance. Even if a project is listed as having an SME focus it is still not possible to say what the exact development impact is because the FI that receives the investment has the final decision on which entities it invests in. A scan of project description reveals that some descriptions, including for example private equity fund investments, mention SME finance, but the IFC provides no clear data on what percentage of the financing ended up with SMEs.

The size of projects could also be one guide to the scale of businesses that are being supported. This will of course be an imperfect proxy. The biggest individual projects were in the world region, with $2.5 billion allocated to just nine projects ($3.5 billion to 22 projects, of which 19 were investments over $50 million in size). In terms of projects across all countries the largest number of projects (114) were between $10 million and $20 million.[25]

### Help for the poorest or finance for upper middle income countries?

The IFC's highest country exposures, highlighted in Table 4, show a significant proportion of IFC FI investments in upper-middle-income countries, such as Russia[26], Brazil, China and Turkey. Figure 5 shows the breakdown of the entire set of FI projects for the four years, with a clear preponderance of projects (34.6%) in upper middle-income countries. The next largest group is lower-middle income countries with 25%. Low-income countries only receive 5.5% of IFC FI financing. Global scale investments represented over 17.1% of the total while regionally focussed projects were almost 14.4% of the total.

Questions have been raised about whether the IFC is effectively targeting poverty and development impact, including from the Bank's own Independent Evaluation Group (IEG).[27] The IFC's FI projects are not reflective of the breakdown of world poverty, as the distribution of the world's

**Figure 4: IFC FI projects by client type**

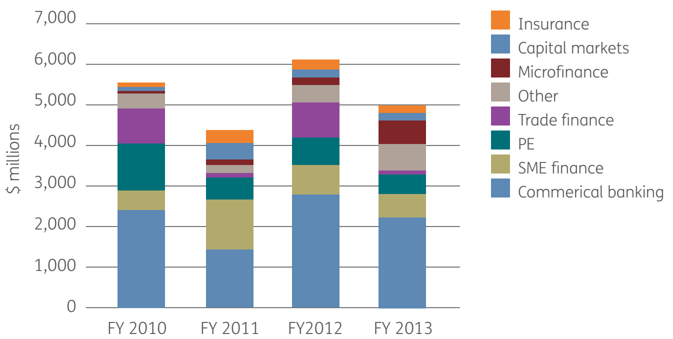
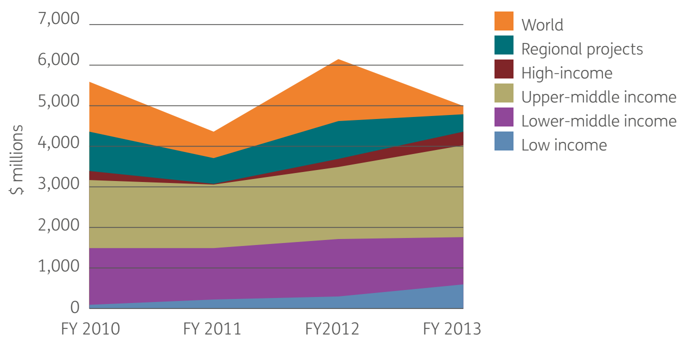



**Figure 5: IFC FI projects divided by country income group**



**Box 4. Country analysis: Russia, India and Kenya**

Using the database of IFC FI projects, we analysed three country portfolios to look at how they were targeted, and whether they seemed in alignment with the national development plans of the country concerned.

**Russia** received the most investment of any country, totalling $1.3 billion, despite it being classified as a high income country by the World Bank from 2013. Half of this funding was for the financial/banking sector and went to foreign owned banks or banks whose ultimate owners are identifiable. Nearly half went to Moscow-based institutions while just 3% went to the poorer region of Central Russia and none to other less developed regions of Northern Siberia and the Northern Caucuses. This raises questions about the direct development outcomes for the poorest in Russia.

Just 1% of funding is aligned with Russia's national development plan. There is little investment in the main priority sector infrastructure and none in other priority areas such as high technology, education and public health. The tendency in Russia is for bigger and fewer investments, with 11 out of 27 projects valued at over $50 million and one investment of $250 million.

**India:** A high number of investments, over 90%, appear designed to meet at least one of the national plan's stated priorities and many cover several priorities. However, for many of the investments analysed there is insufficient information to be able to assess their development impact. For example, though some investments mention energy in the project description, the intermediated nature of the projects makes it unclear if they are for low-carbon, renewable and/or pro-poor projects. The majority of investments, over 65%, have some mention of targeting MSMEs, but by volume only 13.3% of these FI investments are actually specifically labelled as targeting microfinance or SME finance. The bulk of them are in other finance companies, particularly leasing or mortgage finance. The descriptions of private equity investments are all-encompassing, for example listing a wide range of sectors, such as education and health alongside agriculture, energy and "other emerging sectors". Therefore it is difficult to know exactly where the IFIs have invested and who will directly benefit.

Despite the national development plan focusing on marginalised groups and rural areas, where millions live in poverty, just a third of investments were in low-income states and there are no references to poorer groups such as scheduled castes and minorities. India has fewer larger projects (when compared with Russia) with 11 projects out of the 50 being over $50 million.

**Kenya:** Almost all of the investments ($552 million out of $572 million) included a SME component meaning that there is strong alignment between IFC project objectives and the Kenyan national development goals. However, lending is concentrated in large commercial banks and banks not specialising in MSMEs which brings into question whether such large institutions were in need of scarce development resources, even if on a positive note these are mainly domestic banks. Despite energy and education being key components of the national development plan, there is a noticeable absence of FI investment that mentioned these sectors.

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.[28]

There are also questions about the so-called additionality of the IFC's work. The IFC is supposed to be financing clients that would not be able to access finance on commercial markets on reasonable terms. However, the concentration of financial sector clients that operate on a global scale or in higher income countries (55% of the total), leads to serious doubt. Operators on this scale or in these countries should be able to access credit or capital markets on commercial terms quite easily. Aside from some very short periods of capital outflows from emerging markets in 2008 and 2013, on the whole the period of analysis was one when developing countries were awash with liquidity because of macroeconomic policies in the rich world. Those policies had led to high levels of capital inflows into emerging markets. Yet it is precisely this period in which the IFC ramped up financing of FIs in upper-middle-income countries.

### Risky projects are a problem

The IFC gives different risk ratings to projects as part of its review of social and environmental risks, with direct investments receiving ratings from A (most risky) to C (least risky). From 1998, when the IFC adopted its first formal environmental and social review procedure, it had a separate risk category of "category FI" for all FI investments.[29] It was not until January 2012, and the implementation of a new set of performance standards, that the IFC implemented differentiated risk categories for financial sector lending. Annex B provides the IFC's description of the current risk categorisation, which goes from FI-1 (highest risk) to FI-3 (lowest risk).

For the four year sample, only one and half years worth of projects were given the new ratings, meaning 69% of the sample are categorised only as Category C or Category FI. Figure 6 shows the breakdown of project risk ratings for the projects since January 2012 with the differential risk ratings. The vast majority of projects (57.1% by volume, 60.8% by number of projects) are in the FI-2 category, meaning medium risk. Private equity, commercial banking, and capital market investments are the riskiest sectors according to the IFC's own risk categorisation. Surprisingly, 18 of the IFC's private equity investments since 2012 are not considered to be in the highest risk category.

One problem with IFC risk categorisation is that, ultimately, it is a discretionary process, left to the subjectivity of its staff. For example, projects categorised as FI-2 have had exposure to serious risks relating to land acquisition. Additionally, there is a concerning disconnect between the IFC's investment teams and its environmental and social (E&S) specialists in making this determination, as they having differing interpretations of the types of risk and engagement in identifying project risks. For example, there is a rigorous and robust assessment of credit risk by the investment staff, and a limited, almost secondary consideration made on E&S risks.

The CAO audit discussed in section 2 clearly spelled out the lack of knowledge of the ultimate impacts of the IFC's FI financing. There is also no clear rationale for the IFC to undertake projects with high environmental and social risks. Remembering that the IFC has the option of investing directly, and thus likely having better application of the existing standards, or of investing in other projects, there should be a clear higher expected positive development impact to justify investing in risky projects. However, as the next section makes clear, there are serious problems with development impact assessment, undermining any claim that the IFC is approaching environmental and social risk in a smart way.

**Do resources stay? Dubious tax structures**

Many development economists believe that industrial development and productivity increases are more effective when achieved by domestic firms rather than by foreign direct investment. Causality and evidence is difficult in this area, but looking at the portion of FI investments that are directed at domestic financial institutions rather than foreign ones, could be a guide to how much the IFC is really adding value to firms that are resource constrained. Our analysis tried to determine the project location, the location of the IFC's FI client, as well as interrogate the use of corporate vehicles registered in other jurisdictions. There was considerable inconsistency in the reporting of this information in the IFC project database, as well as difficulty in assigning country locations to financial institutions whose operations or shareholders may cross borders. We have tried to use a common sense approach to locating the headquarters and thus the location of the FI or its corporate registration. However the figures reported here should not be read with some reservations and should be looked upon as guides, rather than hard totals.

Of the 560 projects assessed, 334 of them, representing 59% of the four-year commitments were determined to be domestic financial institutions. Some

**Figure 6: IFC FI project risk ratings**

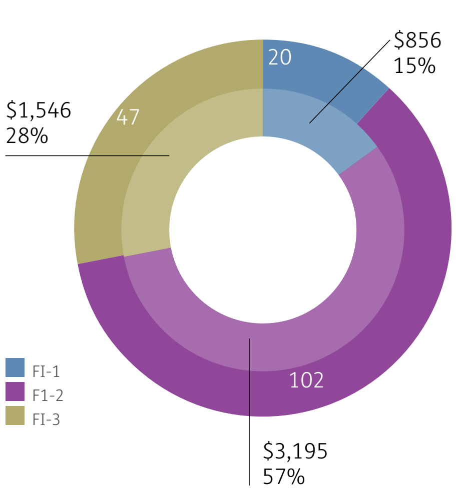
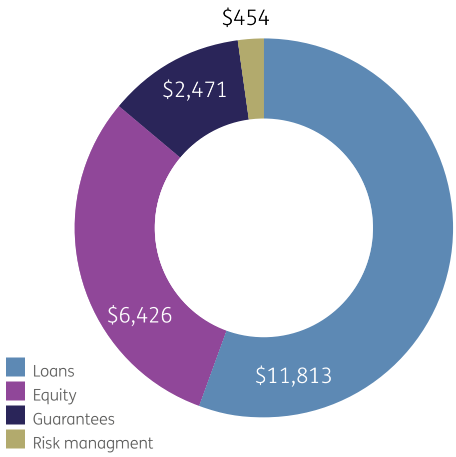



**Figure 7: Type of investment ($ millions)**




additional projects were regional and world focussed, leaving 162 projects, worth 26% of the commitments that were directed at foreign investors.

However even some of the domestic financial institutions channelled their IFC investments through offshore vehicles registered in other jurisdictions. For example, many investments listed with a destination in India are flowing through corporate vehicles registered in Mauritius. However the actual FIs are not in Mauritius, meaning they are either in third countries, or in India itself. These structures are used for a number of financial reasons such as reducing taxation, taking advantage of legal frameworks that protect investors, or availing of preferential incentives given for foreign investment. To examine how many of these might be designed to evade taxation or make use of corporate secrecy, we looked specifically at usage in the top 20 financial secrecy centres[30], as compiled in the Financial Secrecy Index[31]. In the period, the analysis indentified at least 90 projects intended for other developing countries that were channelled through corporate vehicles registered in those 20 secrecy jurisdictions. These projects had commitments of $2.2 billion, putting into doubt the value of tax receipts associated with these projects. Private equity funds represented $1.2 billion of this figure. See the Annex C for a sample of projects in these locations. However, due to the lack of consistent reporting and inadequate information about beneficial owners, we believe that this does not represent the full total of IFC financed projects that may be seeking to avoid taxation.

**Returned capital**

The IFC can invest using different instruments. Loans are repayable by the client with interest. Meanwhile equity investments give the IFC a stake in the company. The IFC can also insure credit risk providing guarantees or risk management. The IFC FI investments as loans are approximately double those given as equity investments. This means that the capital the IFC has put into the client country is going to be returned with interest, rather than stay in the destination countries. The IFC explains it provides investment as loans because the IFC operates on a commercial basis and therefore "it invests exclusively in for-profit projects in developing countries and charges market rates for its products and services". Loans typically have maturities of seven to 12 years and are issued in global and local currencies.

Additionally, a large portion of the equity investments, about one-third of the equity investment total, are private equity projects. Private equity funds are designed to deliver high returns to investors and the return of the entire capital base at the end of the fund's investment period, which is usually 5-10 years. Private equity funds can also return dividends throughout the investment period, again leading to worries about the transfer of real resources to developing countries.

**What are the environmental implications?**

The CAO audit highlighted the lack of knowledge of environmental impacts of FI investments. This is borne out by the project database, which was checked for investments in the power sector. Our analysis identified 79 FI investments that included energy or power sector in the project descriptions. These represented $2.8 billion out of the total $21 billion in investment. The majority of projects were for energy efficiency measures. However, the descriptions were insufficiently detailed to determine whether the power sector projects were focussed on fossil fuels or renewable energy. One large coal power plant has been financed by an IFC FI client (see Box 3) and there could be others that have not yet come to light.

## 4. Assessing development impact

**Measurement of development impact is still rudimentary for financial sector investment. An alternative model for thinking about development impact could include better client choice, stronger measurement, and more independent reporting and evaluation.**

If the IFC and other development finance institutions are increasing investments in FIs, it is incumbent upon them to think more carefully about how to determine, measure and report development impact. An expansion of investments in FIs at the expense of direct investments should only be done with clear proof that FIs have a greater positive development impact than direct investments. Yet there are clear weaknesses with the current framework.

### How the IFC currently measures development outcomes

Efforts to monitor and evaluate the end result of intermediary loans were largely non-existent before the introduction of the IFC's Development Outcome Tracking System (DOTS) in 2005. The IFC uses DOTS throughout the project cycle, from approval until the project ends, and says the system allows for real-time feedback into operations. It claims that DOTS is the industry leader and the best practice system amongst its comparable institutions.

All IFC investments are given an overall DOTS score based on their rating against a number of quantitative and qualitative indicators identified in four performance categories: financial performance, economic performance, environmental and social performance, and private sector development. A synthesis rating is given to the overall development outcome of the investment ranging from highly unsuccessful to highly successful. For an investment project to receive a positive rating it must "make a positive contribution to the client, the private sector, the host country, and the environment and communities". The IFC's current portfolio only achieves a successful or highly successful rating on about two-thirds of projects, with the other one-third of projects rated as unsuccessful.

Typical quantitative indicators include return on equity, number of people employed, tax payments, effluent or emission levels and number of people served by community development programmes. Examples of qualitative indicators include whether a new technology has been adopted or whether international accreditation has been received. These indicators are tailored to focus on outcomes that are relevant for specific economic sectors and must be "relevant, aggregatable, time-bound and easy to track". The World Bank Group's Independent Evaluation Group (IEG) completes an *ex-post* evaluation of a random sample of ratings of finished projects.

DOTS has been heavily criticised, with the IFC accused of having a limited understanding of the impact of its investments because the indicators it relies upon only track outputs and outcomes of IFC client companies.[32] Other criticisms include that the evidence that is used to judge development impact is inconclusive and does not reflect the context-specific nature of investments, i.e. that the intended effect might be caused by something else. Another criticism is that there is insufficient transparency in how the IFC chooses how it invests based on predicted development impact because the DOTS system only tries to evaluate impact once the decision to invest has already been made. Additionally, DOTS ratings are initially given by the same investment team that agrees the project, creating conflicts of interest and potential bias in the ratings.

Unfortunately, there is little tracking on the IFC side of the development outcomes associated with the sub-clients of FIs. When assessing the development impact of FIs, the IFC uses purely financial indicators such as return on invested capital and return on equity. However, a March 2013 IEG report on the monitoring and evaluation system of the IFC found: "in practice, DOTS tracking is based on 'proxy' figures from the financial institutions' portfolio, such as number of loans given to a targeted business segment and the quality of that portfolio. IFC has *limited knowledge about the underlying results* on its end-beneficiaries, and any claims would be difficult to attribute to the IFC intervention."[33] (emphasis added) On top of this, the report identified that DOTS "is not used for the short-term finance projects in the financial intermediary sector, in particular for the global trade finance facility."

Additionally, it is unclear if the FIs should be trusted to report accurately. While financial reports are audited, there is no audit process on impact measurement. How will it ever be known if they are being honest, if they are not transparent about their investments in the first place?

Until recently the IFC had not set out a clear rationale for how its increased support for FIs would lead to positive development results except for a belief in economic growth having positive development implications. A process was started in late 2009 to develop a set of IFC development goals (IDGs), which are "targets for reach, access, or other tangible development outcomes that projects signed or committed by IFC are expected to deliver during their lifetime." The IFC began testing these in 2011 and from July 2012 began rolling them out. Altogether there are seven goals grouped under six headings.[34]

IDG 3 focusses on financial services, which "measures the expected increase in access to financial services for individuals and microenterprises (IDG 3a); and small and medium enterprise (SME) clients (IDG 3b) contributed by IFC's Financial Markets (FM) & Access to Finance (A2F) projects."[35] However, the wording of the targets does not specify who should be the beneficiaries, leaving it open for the IFC to meet these targets by investing in FIs that expand consumer credit access to those who already could access credit rather than enabling access for the excluded.

However, another question remains unanswered: Is this a valuable use of development resources? The IFC may be trying to implement systems to manage social and environmental risks, but it completely ignores the development impact side of the question for FIs. For the largest portion of the financial sector work, the IFC only measures the reach of its projects – the number of new clients

**Box 5. Financial inclusion and financialisation**

Two concepts that have been used in debates about the role of the financial sector in development are financial inclusion and financialisation. Financial inclusion is the idea that helping people gain access to financial services allows them to have higher incomes, and thus boosts overall economic growth. Financialisation describes the increasing importance of financial markets, motives, institutions and financial elites in the operation of the economy.

Prior to the 2008 financial crisis, there was little discussion in official circles of the potential negative consequences of the growth in the financial services industry. In the wake of the crisis, officials admitted that much financial deregulation and financial service innovation was either useless or in fact counterproductive.[37] Yet, in autumn 2012 the World Bank launched a new annual flagship *Global Development Finance Report*, which returned to some of the same pre-crisis themes about the need for liberalisation of financial services. The 2013 *Global Financial Development Report* focussed on financial inclusion, arguing that, "research - both theoretical and empirical - suggests that financial inclusion is important for development and poverty reduction."[38]

While there are clear advantages at the individual level of enabling excluded people to access financial services, there are also potential larger implications of the mechanisms by which this is done. If the financial inclusion agenda is driven by expanding the power and scope of the financial sector, this will affect a country's economic development trajectory because it will alter the power relationships between the state, the financial sector, citizens and industry.

One important development impact question that has been neglected is whether support to FIs and boosting the power of the financial sector results in superior delivery of financial services to the real economy. One key role of a well-functioning financial sector is to mobilise the wealth and savings of citizens in an economy and channel them to productive investment. It is estimated that developing countries lost $775 billion – equivalent to 4.3% of their GDP – due to illicit flows in 2009.[39] This means these resources are not reinvested into productive activities in their own economies, but instead exported to global capital markets.

Secondly, there is insufficient analysis of the impact of international public support to FIs on the credit market conditions in developing countries. As the IFC claims to invest in its FI clients on commercial or near-commercial terms, it is plausible that financing provision does not actually enable productive firms or SMEs access to credit on better terms. Research in a number of developing countries has found that the financial sector in many emerging markets does not face a financial constraint, as the FIs approach implies, but actively chooses to invest its resources in speculative, high-yielding investments rather than in productive enterprises[40].

Thirdly, financial innovation has been accompanied by the development of opaque financial structures that make extensive use of secrecy jurisdictions. Profits are shifted to low or no-tax locations through financial engineering. The growing financialisation of economies has undermined tax revenues and thus the ability to fund public services. Investments in the financial sector are significantly implicated in the use of secrecy jurisdictions (see previous section), with private equity funds making heavy use of opaque financial structures. The development impact of these structures needs to be better considered, with more information on potential lost tax revenue and the impact this has on public service provision.

Finally, there have also been questions raised about the social and development implications of credit provision to microenterprises, particularly as provided through microfinance institutions. Aside from the gendered dimensions of their work (see Box 2), there have also been worries about microfinance booms generating excessive, even crippling, household debt levels.[41] For example, in India a spate of farmer suicides has been blamed on excessive debt.[42]

Having a bigger, but short-term profit-oriented, financial sector contains risks that have been insufficiently studied. Inclusion of the poorest into the financial economy can give them extra capabilities but also may subject them to financial exploitation. The key question is what model of economic and industrial development is being enhanced - one that emphasises debt-based household consumption or one that emphasises production and labour wage share increases?

for a bank, the number of businesses it is lending to – without thinking about impact in terms of what those subclients, (be they individuals, SMEs, or large businesses) do with the resources. There is also little recognition of the potential implications of strengthening the financial sector vis-a-vis other stakeholders in national economies. Does having a more powerful, but short-term profit-oriented, financial sector skew incentives away from the sort of longer-term investments needed to sustainably diversify economies and reduce poverty? There are no examples of countries that have successfully increased prosperity and equity by bolstering the power of the financial sector and that lack a coherent national development strategy and industrial policy. The onus should first be on the IFC to prove the effectiveness of their model, demonstrating the positive impacts.

### An alternative model

The IFC's approach on development impact, while claimed to be best practice, is simply not sufficient to know the impact of FI investments. Development outcome assessment is clearly a difficult matter, with challenges of determining causality and defining counterfactuals. This is further impeded by the lack of transparency about the ultimate beneficiaries of IFC FI financing and the reliance on client systems for monitoring and reporting. Improvements could be made to ensure investments are as effective as possible, and also to know if they are the best use of resources.

The IFC seeks to convince its FI clients that achieving development impact is good for their own business and will enhance profit, and backs this up with advisory services to try to strengthen the clients' own system.[36] With competing interests, and profit-oriented banks and other FIs, it is not clear that it is even possible to have development-oriented FI investments. Using the existing approach the result is more likely to be profit-oriented FI investments that incidentally have some claimed positive development. And ultimately the claimed outcomes are not defined in terms of human development, environmental sustainability or equity.

This makes it all the more important to think about institutional mandates of the financial sector and the governance of finance. Thinking along these lines provides a possible mechanism to ensure that public finance, despite being channelled through private actors, can achieve public purposes. In this light, there appear to be three key areas for thinking through how the IFC, and other public international financial institutions, can assess the development impact of their investments: who you work with, what you measure, and how you report and evaluate.

**Who to work with**

A clear consideration that must come up for international financial institutions is client choice. If the IFC continues to choose clients with low capacity in environmental and social issues and development outcomes, then the IFC should expect nothing more than continued failure from clients to properly implement its standards and failure to achieve development impact. Choosing clients more carefully, and in a standardised, systemic and transparent manner, should be a foundational rule for all public institutional finance to the private sector. Standards and safeguards cannot solve the problem if a client cannot be trusted to deliver agreed outputs, which hopefully lead to the desired outcomes. Even with dramatically increased levels of project supervision by the IFC it would be impossible to implement agreements without trusting the client.

The first criteria must be around commitment to shared goals, as determined by the client's structure and governance. Purely profit-oriented corporations aimed at maximising return for shareholders should not automatically be viewed as aligned with goals on development or environmental sustainability. Structurally they are not aligned, because of both institutional design and legal requirements in some jurisdictions compelling corporations to seek to maximise profit. Publicly listed companies have additional complications from needing to meet "shareholder interests", which are defined as profit maximisation. Therefore the IFC should choose clients who have positive social and environmental goals as part of their corporate or institutional goals, and ideally a track record in delivering results. Other key criteria should include the alignment of the client with the national development plans of the country concerned. For example investing in a bank that specialises in extractive industry trade credit, when the government's development strategy is for economic diversification away from commodity exports, should not be considered a good choice. If the national plan calls for strengthening private sector participation in certain sectors, for example in telecommunications, then this can be a guide for an international financial institution when it comes to client choice.

Other criteria could include past track record, willingness to learn, subclient portfolio riskiness, openness and transparency to the public, and governance of the institution. Participatory governance arrangements could be prioritised in order to increase the control that communities exercise over things that affect their livelihoods. Ratings on new metrics for choosing clients should be provided in standardised formats and published publicly, for example in the reviews disclosed before investment decisions take place.

**What to measure**

Once a trustworthy client is chosen, the next stage is to think about what is to be measured and how that should drive investment decision making. While measuring the number of people or businesses a client reaches can be helpful in thinking about impact, it is not sufficient. Because the key development constraint is rarely just the amount of finance, more thought needs to go into how IFC investment affects behaviours of the financial sector, the real productive sectors of the economy, individuals, and the public sector. There is a need to go beyond "do no harm" approaches and think about positive social, environmental and development impacts. Of course the exact indicators to be measured should align with national development goals and must match to the sector and country involved. A careful balance will have to be struck between one-size-fits-all standardisation, and incomparable customised targets.

A clear necessity is to think about the distributional impact of any investment. Are the resources being used in the capital of a country or in rural or poorer regions? Are they being targeted at the poorest segments of society or the richest? Are there knock-on effects from the investment in productive sectors that generate environmentally sustainable and decent jobs? And can positive human development impacts be attributed to the investment? One important proxy is to carefully measure the amount of participatory governance of an investment as this will provide clues as to whether it is in the public interest.

Another key consideration must be the macroeconomic impacts of the activity being financed. Financing for development agreements call for the long-term transfer of real resources to developing countries. However, certain modalities of investment deliver little in terms of long-term real transfer of resources because of factors such as profit repatriation, loan repayments, dividends or other mechanisms to remove capital from the country and send it back to investors, often based in rich countries. Additionally, international public investments could provide positive signals to encourage short-term capital flows, which can destabilise financial systems when they rush in or out of a country.

In the financial sector, further consideration must be given to the location of the parent financial institution. Rapid development and industrialisation has rarely if ever been financed by foreign financial institutions operating in a host country. Development success stories, such as Korea, Taiwan and China, relied on a heavily regulated domestic financial sector, not on foreign banks.[45] While there is microeconomic evidence elsewhere of the so-called efficiency of foreign banks, there is little consideration of the socio-economic effects when foreign banks dominate a nation's financial sector. Their presence changes the structure of economies and the relationship between finance, industry and the state. Additionally, capital flight risks are exacerbated in countries with higher foreign bank penetration and no capital controls, unlike India's experience in 2010.[44] Overall, the role of the state, which has public interest obligations, is important in setting out regulatory frameworks that structure the financial industry and guide its relationship with the rest of the economy. The presence of foreign banks, which have different regulatory treatment depending on the investment structure, can reduce the ability of the state to shape finance in the public interest.

Finally, the level of public resources that are generated is important. However, the tendency has been to report any tax payment as a net positive, without thinking through the indirect effects. This leaves open numerous questions which bring into doubt such a simplistic approach. Could higher levels of tax revenue have been sustainably generated through stricter rules on off-shore finance? Would a domestic enterprise have taken some of the market share and paid a higher level of domestic tax? How much is contributed to spending on important public social services such as health care and education, versus how much has been used to finance needed infrastructure or administration related to the project itself?

**How to report and evaluate**

The most important consideration in this alternative model is much more careful thinking about the governance of systems for reporting and verifying development impact. Current systems are rife with self-assessment, conflicts of interest, and lack of independent verification. This should not be acceptable. The priority has to be for greater transparency to the whole cycle from client selection and project definition through to impact assessment.

Accountability is a fundamental requirement for multilateral finance provided by a public institution and essential if the World Bank Group wants to credibly achieve its corporate goals. However, accountability is impossible if there is no information about the ultimate destination of funds. Affected communities already have difficulty accessing appropriate information in a timely fashion relating to IFC direct investment projects. The challenges are far greater for the use of funds by subclients of the IFC's financial sector clients. If the IFC is not aware how its funds are being used, it will be impossible for affected communities to be able to seek redress for any harm done. There is also inadequate consideration of language and information access constraints of affected people, precluding access to remedy for harm done.

Financial auditing is a foundational part of business practice to counter malpractice and to ensure integrity and accuracy of financial reports. The IFC no doubt makes ample use of financial audits of clients which must be carried out by independent third party auditors. As the IFC claims to have a dual purpose of generating profit as well as development outcomes, it makes little sense that the IFC pursues independent verification of results on only the profit-oriented half of this mandate while not on the development outcome side. Development outcomes, including environmental and social risk management and community engagement, must also be independently verified as this is the reason that public funds are made available in the first place.

## 5. Ways forward

**While use of the private financial sector as a channel of development finance is controversial, it is also growing. Civil society organisations need to determine their strategy in light of this trend.**

Our examination of the data related to IFC support for the financial sector has provided some initial findings which can help direct our thinking. While the World Bank Group as a whole is shifting its attention and focus to work with the private sector, the IFC has been shifting its portfolio increasingly towards the financial sector. Just five years after a major international financial crisis driven by unsustainable financial sector activities, the financial sector is now the main beneficiary of World Bank Group investment. As investment in banks and other financial intermediaries is now worth three times as much as the World Bank Group invests in education and 50% more than its investment in healthcare, it is time to question this trend towards using unaccountable intermediaries.

The data shows that the IFC is concentrating its work on lending to commercial private banks, generally for use by the bank to bolster its own balance sheet and expand operations, or for trade finance. Yet there is no compelling evidence that trade finance or commercial private finance will lead to more prosperous, sustainable or equitable economies in developing countries. There is evidence that financial sector liquidity is not a key constraint to development. The only certainty is that the IFC does not know the real impact of these resources because it does not have the systems to know or track the development outcomes, social consequences or environmental harms generated as a result of the use of the resources by the financial sector's clients.

The 'black box' nature of the IFC's financial sector investments raises many concerns. Where does the money go? Are there negative social impacts, for example negative impacts on women or children? What about the environmental impacts? And can the IFC be held accountable? The IFC takes a "management systems" approach to the environmental and social risks, yet this is clearly insufficient. Without more participation, transparency, accountability, supervision, and verification related to financial sector projects, the IFC will continue to mismanage the risks, often with devastating consequences for affected people, as the CAO is documenting in countries as diverse as India, Honduras, Uganda and Cambodia. And the questions raised in the previous section about the development impact of FI investment show that this is also a question of efficacy for the IFC to achieve its claimed mission of poverty reduction. The IFC has not proven the effectiveness of the FI model and should before commitments on such a massive scale are viewed as acceptable.

**Table 5: Summary of three possible approaches**

| Approach tagline | Stronger rules | Different operators | New tools |
|---|---|---|---|
| **Mandate of FI** | Profit-oriented | Social enterprise, mixed | Public |
| **Type of FI** | Commercial banks, private equity funds, other institutional investors, non-bank financial institutions, profit-oriented microfinance institutions | Cooperatives, community banks, non-profit microfinance institutions | National development banks |
| **Ownership of FI** | International / national | Local, national | National state-owned enterprise |
| **Key changes needed** | Subclient transparency, increased resources for supervision | Criteria for client selection | Strategy / mandate changes OR national financial regulation |
| **Locus of project governance** | Private sector | Community institutions | National governments |
| **Profitability implications** | Slightly reduced to pay for regulation | Possibly moderately reduced | Potentially significantly curtailed |
| **IFI instruments to use** | Loans, equity stakes, guarantees, risk management | Concessional loans, loans | Loans |
| **Difficulty of implementation** | Medium-hard | Hard | Extremely hard |

### Broader implications

The IFC is just one of many institutions now operating in the sphere of development finance. However, the financial sector is the channel that development finance institutions are increasingly utilising. The Green Climate Fund is already proceeding down this route and the G20 countries are examining how to strengthen the nexus between public and private finance. The BRICS Bank may adopt the FI model as well. Infrastructure provision is already being discussed in the context of FIs, and increasingly this model will encroach upon direct finance in areas such as education, healthcare, housing, water and sanitation.

With an increasing proportion of public money being used to fund the private financial sector, civil society organisations and social movements should be thinking about more coherent strategies. This is a very changed environment from the bank-lending-fuelled export-oriented development strategies adopted in East Asia. So far little independent thinking has emerged that takes into account the increasing sophistication of the financial sector and translates that into a desirable framework for using the financial sector to achieve development objectives. Civil society needs to grapple with the nature of FIs, their potential environmental and social risks and development impacts, and put forward a position that seeks to make sure that the available instruments meet the needs of national contexts.

Below we outline three schematic approaches for how civil society might engage with the use of international public finance to fund the private financial sector. They involve different beliefs about the importance of safeguards, transparency, governance and state authority. As every national, and even provincial or local, context is different, there is no single approach that can be universalised and no one-size-fits-all strategy. As the public institutions develop their strategies, advocacy and campaigning can build on the complimentary ideas below.

**Approach 1: Same tools, same operators, stronger rules and transparency**

In this approach, civil society considers the IFC and its financial sector clients as well-intentioned positive forces that only need to improve their systems and procedures. The private, profit-oriented financial sector is viewed as a key agent to facilitate development outcomes. Profit-making incentives are compatible with sustainability and equity as long as they are accompanied by appropriate regulation, enforcement, and accountability. This approach may even see international financial institutions as positive contributors to global outcomes by raising standards and curbing malpractice. FIs have a global reach, and could be promoted within countries that might not have developed financial sectors to bolster goals like financial inclusion. This approach might imply a reduction in the number and volume of FI projects to facilitate greater supervision and accountability.

NGOs have campaigned for the IFC and other institutions to develop transparency policies and environmental and social safeguards, and this approach would look to strengthen these given the critiques put forward about environmental and social risks. This would imply fuller disclosure of investments, trying to eliminate tax evasion, stronger development impact assessment, capacity building for the financial sector, better supervision of implementation, reformed internal incentives, stronger compliance mechanisms, and more accountability for results and harms.

**Approach 2: Same tools, different operators**

This approach emphasises the argument that existing private, profit-oriented financial institutions are not amenable to social goals given their short-termism and failure to internalise the full social and environmental costs of their activities. Campaigners and civil society could clearly articulate how they think investments in the private sector can achieve development goals, such as environmental sustainability, human development and equity by better ‘client’ selection, by choosing intermediaries that are constitutionally mandated to reduce poverty, ensure sustainability or achieve other goals. Public institutions would not be held hostage to demands for commercial levels of return that match the profits of private equity funds and hedge funds, instead trying to balance sustainable and sufficient rates of return with development impact. They could seek out cooperatives, social enterprises, state-owned institutions or other financial sector actors with a public purpose, accountability to beneficiaries, and a commitment to deliver positive social and environmental outcomes/impact. This approach could build on the stronger rules discussed in the first approach, incorporating stringent transparency, safeguard and accountability requirements.

Advocating such an approach would contradict the momentum of discussion in international development finance circles, which increasingly seek out profit-oriented financial investors. NGOs would have to make a clear case for the specific private sector and FIs it favours based on development goals, scale, participation, accountabilty and ownership. This would not preclude the desire for stronger transparency, regulation and accountability as described in the first approach, but it would add a layer of complexity. Much stronger, but transparent, criteria for client selection would have to be developed. It would also have to be carefully applied in line with the democratic wishes of affected people in recipient countries. In some countries or localities this may preclude the use of Northern-based private financial institutions as agents of development, in favour of local or national pro-poor institutions.

**Approach 3: New tools**

Finally, civil society groups that conclude the hurdles to the effective use of the private financial sector as development agents are just too great would advocate a complete re-orientation away from private FIs as an acceptable model for cross-border public investments. Advocates of this approach might call for a new generation of public FIs and a cessation of lending directly to private FIs. They should set out concrete alternative strategies that would seek to achieve development outcomes through other ways of utilising international public resources. This could include pushing national development banks as the apex institution within their country to be used as the primary vehicle to channel international development finance and even international private finance. The new generation of public FIs, along with international public support, could seek to mobilise domestic private wealth to invest in accordance with public interest policies.

This could shift the focus from thinking about the appropriate use and role of the private financial sector towards national development banks or national development strategies. It would not necessarily mean limiting the use of international public finance, but would completely reorient the governance of such flows to the national financial sector and could be part of a push to reduce the power and complexity of the financial sector. The current international economic environment is not conducive to this approach, with the final two large emerging markets with relatively closed financial sectors, India and China, undertaking moves to liberalise their financial sectors and open their economies up to greater levels of foreign ownership and investment.

Of course, given the very large degree of global financial liberalisation campaigners and NGOs would struggle to win the argument for this policy at international level and even in some national contexts. However, within individual international financial institutions, for example the BRICS Bank, it could be possible to ensure rules that restrict the usage of FIs to national development banks. Individual developing countries could adopt this stance by restricting or regulating the inflow of investment into their private financial sectors.

**Future agenda**

The international development finance environment is currently fixated upon the use of the private financial sector as a development actor, without fully thinking through the implications. This report has identified gaps in knowledge about the gendered impact of the financial sector, the broader social implications of microfinance, and a more detailed country-specific understanding of the political economy of the financial sector's relationships to industry and the state and how international financial institutions influence these relationships.

At the same time, civil society organisation and social movements have not consolidated their own understanding of the issues and brought forward recommendations. The large variety of positions complicates thinking about international strategies. Each national context, with differing degrees of financial liberalisation and variable levels of governmental interest in sustainable and pro-poor development, will determine the best fit of approaches and strategies. Yet, unifying positions and demands as much as possible can enable successful challenges to the underlying systems of international finance.

## Annex A. Report methodology

Data on IFC aggregate commitments and overall commitments to financial intermediaries are based on IFC annual reports for the fiscal years (FY) 2010 – 2013. In these reports the IFC provides an "industry" breakdown of its investments, from which we have combined "trade finance" and "financial markets" to provide an overall financial intermediaries figure. The IFC themselves combined these figures until fiscal year 2011.

While the IFC provides aggregate level information in its annual reports, this information does not allow a detailed cross-sectional analysis of FI lending by client type, destination country or instrument. To overcome this constraint, our deeper analysis is based on a list of projects exported from the IFC website. All projects between FY 2010 and FY 2013 were extracted from the IFC project database. This yielded a total of 560 FI projects in this four year period, with a total IFC commitment value of $21.1 billion. This is far below the $36.1 billion reported in the IFC annual reports and therefore the data analysis and conclusions should be interpreted as reflecting the sample of projects that were looked at.[39]

As the IFC public project list does not always include information on project approval and signing dates, the projected project board date is used to specify the fiscal year of the project. IFC fiscal years run from July to June, and our data covers projects that went to the board in fiscal years 2010-13.

### IFC financial intermediary sector categorisation

The IFC categorises its projects in several ways. The table below provides the IFC breakdown of sectors and our method of grouping these for analysis.

| IFC project category | FI type for this analysis |
|---|---|
| **Capital Markets Financing Company (Including Investment Banking)** | Capital markets |
| **Commercial Banking - Consumer Finance** | Commercial banking |
| **Commercial Banking - Distressed Assets** | Commercial banking |
| **Commercial Banking - General** | Commercial banking |
| **Commercial Banking - Housing Finance** | Commercial banking |
| **Commercial Banking - Microfinance** | Microfinance |
| **Commercial Banking - Microfinance and Small Business** | SME finance |
| **Commercial Banking - Risk Mgmt Facility** | Commercial banking |
| **Commercial Banking - Short Term Finance** | Commercial banking |
| **Commercial Banking - SME Finance** | SME finance |
| **Commercial Banking - Trade** | Trade finance |
| **Commercial Banking - Trade and Supply Chain** | Commercial banking |
| **Composite Insurance (Life and Non-life)** | Insurance |
| **Development Finance Company** | Other |
| **Distressed Assets** | Capital markets |
| **Exchanges (Trading Systems)** | Capital markets |

| IFC project category | FI type for this analysis |
|---|---|
| **Finance Companies** | Other |
| **Finance Companies - Consumer Finance** | Other |
| **Foreign Portfolio Debt Fund** | Capital markets |
| **General Insurance (Non-Life)** | Insurance |
| **Leasing Services** | Other |
| **Life Insurance** | Insurance |
| **Microfinance and Small Business - Non Commercial Banking** | Microfinance |
| **Money transfer, remittances** | Other |
| **Mortgage Services and Other** | Other |
| **Online payments, ecommerce payments** | Other |
| **Other Funds** | PE |
| **Other Non-Banking Financial Institution (NBFI)** | Other |
| **Other Non-Depository Credit** | Other |
| **Primary Mortgage Institutions** | Other |
| **Private Equity/Venture Cap Fund - Country** | PE |
| **Private Equity/Venture Cap Fund - Regional** | PE |

## Annex B. IFC FI risk categorisation

As part of the review of environmental and social risks and impacts of a proposed investment, IFC uses a process of environmental and social categorization to reflect the magnitude of risks and impacts. The resulting category also specifies IFC's institutional requirements for disclosure in accordance with IFC's Access to Information Policy. These categories are:

**Category FI:** Business activities involving investments in FIs or through delivery mechanisms involving financial intermediation. This category is further divided into:

**FI–1:** when an FI's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.

**FI–2:** when an FI's existing or proposed portfolio is comprised of, or is expected to be comprised of, business activities that have potential limited adverse environmental or social risks or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of business activities with potential significant adverse environmental or social risks or impacts that are diverse, irreversible, or unprecedented.

**FI–3:** when an FI's existing or proposed portfolio includes financial exposure to business activities that predominantly have minimal or no adverse environmental or social impacts.

For FI investments where IFC's funds are traceable and intended for a specified end use, IFC will determine the environmental and social category based on risks associated with the specified end use. Where IFC's funds provide general financial support to an FI (such as equity in a Bank) the entire portfolio of the FI will be considered in the determination of the category. In its determination of FI–1, FI–2, or FI–3 designation, IFC will consider tenor, size, and type of investments as well as the sectoral exposure of investments.

Source: IFC Policy on Environmental and Social Risk, 1 January 2012

## Annex C. Projects channelled through secrecy jurisdictions

The top 20 locations in the Financial Secrecy Index are Switzerland, Luxembourg, Hong Kong, Cayman Islands, Singapore, United States, Lebanon, Germany, Jersey, Japan, Panama, Malaysia, Bahrain, Bermuda, Guernsey, United Arab Emirates (Dubai), Canada, Austria, Mauritius and the British Virgin Islands. The projects below represent ones with resources channelled through one of these jurisdictions, but that location not serving as the ultimate location of the project, nor the location of the FIs offices or headquarters.

| Year Disclosed | Beneficiary (Project Company) | Project Country | Country of FI | Country of company registration | IFC financing ($ millions) |
|---|---|---|---|---|---|
| 2009 | IFHA | Africa Region | Netherlands | Mauritius | 6.8 |
| 2009 | ADP I | Africa Region | UK | Mauritius | 24.8 |
| 2009 | Fanisi VC Fund | Eastern Africa Region | Nairobi | Mauritius | 7.5 |
| 2009 | Ethos VI | Africa Region | South Africa | Jersey | 30.0 |
| 2009 | GEF SACEF | Southern Asia Region | United States | Mauritius | 20.0 |
| 2009 | SEAF Caribbean | Latin America Region | United States | Barbados | 10.0 |
| 2009 | LeapFrog Fund | World Region | South Africa | Bermuda/Mauritius | 20.0 |
| 2009 | Adlevo Capital | Africa Region | Nigeria | Mauritius | 10.0 |
| 2009 | DARP SPV ADM CAPITAL | Southern Europe Region | Hong Kong | Cayman Islands | 47.6 |
| 2010 | TRG Africa Catalyst Fund I, LLC | Africa Region | South Africa | US | 25.0 |
| 2010 | Agri-Vie Agribusiness Fund | Southern Africa Region | South Africa | Mauritius | 7.0 |
| 2010 | Alta Ventures | Mexico | United States | Canada | 10.0 |
| 2010 | AWF | China | Malaysia | Singapore | 20.0 |
| 2010 | SEAF Bangladesh Ventures | Bangladesh | United States | Delaware | 12.0 |
| 2010 | West Africa Venture Fund PCC | Western Africa Region | Nigeria | Mauritius | 13.5 |
| 2010 | ECP Africa III | Africa Region | United States | Africa | 25.0 |
| 2010 | GEF Africa | Africa Region | United States | Canada | 20.0 |
| 2010 | MOF I | Mongolia | Mongolia | Cayman Islands | 7.5 |
| 2010 | GGF | Southern Europe Region | Luxembourg | Luxembourg | 31.0 |
| 2010 | Aavishkaar Goodwell India Microfinance Development Company II | India | India, Netherlands | Mauritius | 15.0 |

| Year Disclosed | Beneficiary (Project Company) | Project Country | Country of FI | Country of company registration | IFC financing ($ millions) |
|---|---|---|---|---|---|
| 2010 | Catalyst Fund I LLC | Eastern Africa Region | Kenya | Mauritius | 10.0 |
| 2011 | SEAF | Eastern Europe Region | United States | Cayman Islands or Delaware | 10.0 |
| 2011 | Kaizen (Venture) Partners Ltd | India | India | Mauritius | 10.0 |
| 2011 | Maybank MEACP Pte. Ltd | East Asia and Pacific Region | Malaysia | Cayman Islands | 25.0 |
| 2010 | Alta Ventures | Mexico | United States | Canada | 10.0 |
| 2010 | AWF | China | Malaysia | Singapore | 20.0 |
| 2011 | Vietnam Investments Group | Vietnam | Vietnam | Cayman Islands | 15.0 |
| 2011 | Tuninvest-Africinvest | MENA Region | Tunisia | Mauritius | 21.7 |
| 2011 | Tsinghua University | China | China | Cayman Islands | 20.0 |
| 2011 | Aavishkaar Venture Management Services Pvt. Ltd. | India | India | Mauritius | 15.0 |
| 2011 | Forum Synergies (India) PE Fund Managers Pvt. Ltd | India | India | Mauritius | 15.0 |
| 2011 | Not entered | East Asia and Pacific Region | Canada | Canada | 25.0 |
| 2011 | Cauris Capital Partners II | Western Africa Region | Togo | Mauritius | 7.2 |
| 2011 | Dragon Capital Group | Vietnam | Vietnam | Cayman Islands | 15.0 |
| 2011 | Aloe | East Asia and Pacific Region | France | Mauritius | 25.0 |
| 2011 | Nature Elements Capital | China | Hong Kong | Cayman Islands | 25.0 |
| 2011 | Leopard Capital Haiti Ltd | Haiti | Cayman Islands | Cayman Islands | 10.0 |
| 2011 | Zephyr Management | India | United States | Mauritius | 15.0 |
| 2012 | Business Partners | Southern Africa Region | South Africa | Mauritius | 8.0 |
| 2012 | CoreCo Central America Partners I, LLC | Central America Region | Costa Rica/ Guatemala | United States | 10.0 |
| 2012 | Delta Partners Group | United Arab Emirates | Dubai | Cayman Islands | 20.0 |
| 2012 | Real Infrastructure Capital Partners | Latin America Region | United States | United States | 15.0 |
| 2012 | Capital Invest Group | Morocco | Morocco | Luxembourg | 13.2 |
| 2012 | Mediterra Capital Management Limited | Turkey | Guernsey | Guernsey | 20.0 |
| 2012 | Lombard Investments, Inc. | Thailand | Cayman Islands | Cayman Islands | 25.0 |
| 2012 | Pragati India Asset Management | India | Mauritius | Mauritius | 20.0 |

| Year Disclosed | Beneficiary (Project Company) | Project Country | Country of FI | Country of company registration | IFC financing ($ millions) |
|---|---|---|---|---|---|
| 2012 | CapAleph Advisors India Private Limited | India | India | Mauritius | 15.0 |
| 2012 | Falcon House Capital Management Ltd | Indonesia | Indonesia/ Singapore | Cayman Islands | 25.0 |
| 2012 | Grand River Capital Management Co., Ltd | China | China | Cayman Islands | 20.0 |
| 2012 | Nereus Capital Management, LLC | India | India | Mauritius | 20.0 |
| 2012 | BanyanTree Capital Advisors Limited | India | India | Mauritius | 25.0 |
| 2012 | Almaz Capital Partners II, LLC | Russian Federation | Russian Federation | Cayman Islands | 25.0 |
| 2012 | Satya Capital Limited | Africa Region | Jersey | Mauritius | 30.0 |
| 2012 | Elbrus Fund II | Russian Federation | Russian Federation | Cayman Islands | 20.0 |
| 2012 | CapMan Russia II | Russian Federation | UK | Guernsey | 19.5 |
| 2012 | GC Credit Opportunities GP Limited | MENA Region | Cayman Islands | Cayman Islands | 20.0 |
| 2012 | Earlybird Luxembourg Management SA | Turkey | Turkey | Luxembourg | 25.0 |
| 2012 | Navegar I L.P. | Philippines | Sweden | Cayman Islands | 20.0 |
| 2012 | Leopard Capital L.P. | Bangladesh | Bangladesh | Cayman Islands | 15.0 |
| 2012 | Andrew Affleck, Michael McNeill and Stephen Mahon | East Asia and Pacific Region | Singapore | Singapore | 20.0 |
| 2013 | ADP II | Africa Region | UK | Guernsey | 40.0 |
| 2013 | Amazon Fund | Brazil | Brazil | Cayman Islands/Buernsey | 30.0 |
| 2013 | FIRST | Brazil | Brazil | United States | 15.0 |
| 2013 | NH A&F Fund II | China | China | Cayman Islands | 20.0 |
| 2013 | India 2020 II | India | India | Maritius | 25.0 |
| 2013 | Lakeshore Capita | Thailand | Cayman Islands | Cayman Islands | 20.0 |
| 2013 | BVCF III | China | China | Cayman Islands | 20.0 |
| 2013 | IBEF II | India | India | Mauritius | 25.0 |

## Annex D. Resources and reading list

*Assessing International Finance Corporation's (IFC) poverty focus and results*, Independent Evaluation Group, World Bank, April 2011
***ieg.worldbankgroup.org/evaluations/assessing-international-finance-corporations-ifc-poverty-focus-and-results***

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*Risky Business: Intermediary lending and development finance*, Oxfam and CIEL, April 2013
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### Civil society letters to the World Bank and IFC on financial intermediaries

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***March 2014, http://www.brettonwoodsproject.org/2014/03/13785/***

Civil society letter to Bank President Jim Kim notes dialogue with IFC but say "IFC action plan fails to address our main concerns". November 2013
***www.brettonwoodsproject.org/2013/11/response-letter-wb-pres-ifc-fis/***

Civil society letter to World Bank President Jim Kim urges "revised IFC response to the CAO audit that acknowledges the fundamental flaws". March 2013
***www.brettonwoodsproject.org/2013/03/art-572178/***

## Endnotes

1 Furthermore, the World Bank Group strategy, October 2013, says "partnership with the private sector can create jobs, transfer technology, build skills, and promote innovation and entrepreneurialism which all contribute to economic growth and reducing poverty."

2 Presentation by the IFC to the World Bank's Committee on Development Effectiveness September 4 2013, *E&S risk management of financial institutions at the IFC:* "It enables IFC to deliver financial resources to millions of SMEs, microenterprises and individuals that it would never be able to reach directly. This engagement has strengthened the capabilities of FIs to fund activities in vital economic sectors such as agriculture, housing, manufacturing, infrastructure and social services."

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4 For a deeper discussion of financialisation please see: *Financialization and the World Economy*, Gerald Epstein (ed), Edward Elgar: 2005.

5 See "BRICS bank: New bottle, how's the wine?", Sameer Dossani, Bretton Woods Project, February 2014, http://www.brettonwoodsproject.org/2014/02/brics-bank-new-bottle-hows-wine/.

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18 *A review of the IFC's safeguards policies*, Compliance Advisor Ombudsman, January 2003, http://www.cao-ombudsman.org/howwework/advisor/documents/ReviewofIFCSPsfinalreportenglish04-03-03.pdf.

19 See a civil society letter and briefing sent to the head of the IFC on 17 March 2014 for more details: http://www.brettonwoodsproject.org/2014/03/13785/#briefing

20 Some developed economies are now undertaking a process of reversing the full financial liberalisation they had adopted prior to the financial crisis, acknowledging that the financialisation model led to regulatory capture by the sector, economic instability and rather than growth, massive wealth destruction.

21 Out of sight, out of mind, 'Ulu Foundation and Bretton Woods Project, May 2011, http://www.brettonwoodsproject.org/2010/11/art-567190/

22 *Private profit for public good? Can investing in private companies deliver for the poor?* Jeroen Kwakkenboes, Eurodad, May 2012, http://www.eurodad.org/files/pdf/520a35cb666a7.pdf

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24 "IFC's SME loan size proxy: A reliable predictor of underlying small and medium enterprises in the IFC's financial markets portfolio", International Finance Corporation, 26 February 2013, http://www.ifc.org/wps/wcm/connect/635f64804efbe2b18ef5cf3eac88a2f8/IFC_Factsheet_SME_Loan+Size+Proxy_Brief.pdf?MOD=AJPERES

25 Calculated based on the 560 projects reviewed in this report

26 Note that Russia became classified by the World Bank as a high-income country in July 2013. For the purposes of our data analysis Russia has remained labelled as an upper-middle-income country.

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28 "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.

29 The IFC procedures recognised three different "types" of FI transactions with different requirements of meeting the IFC performance standards, see "The International Finance Corporation Procedure for Environmental and Social Review of Projects", Annex F IFC, December 1998, http://www1.ifc.org/wps/wcm/connect/8b64370048855267ab74fb6a6515bb18/ESRP. S&CACHEID=8b64370048855267ab74fb6a6515bb18.

30 The top 20 locations are Switzerland, Luxembourg, Hong Kong, Cayman Islands, Singapore, United States, Lebanon, Germany, Jersey, Japan, Panama, Malaysia, Bahrain, Bermuda, Guernsey, United Arab Emirates (Dubai), Canada, Austria, Mauritius and the British Virgin Islands.

31 Financial Secrecy Index – 2013 results http://www.financialsecrecyindex.com/introduction/fsi-2013-results

32 Further description of these criticisms can be found in *Investing in private sector development: what are the returns? A review of development impact evaluation systems used by development finance institutions in Europe*, Norwegian Church Aid, June 2011, http://www.kirkensnodhjelp.no/PageFiles/1891/NCA_report_investing_in_private_sector_development.pdf.

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34 For a description of the IFC's development targets, see page 16, FY 2014 business plan http://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/ifc+projects+database/projects/ifc_fy14_businessplan_budget

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43 See *Asia's Next Giant*, Alice Amsden, Oxford University Press: 2006, *Governing the Market*, Robert Wade, Princeton University Press: 1992.

44 *India and the Global Financial Crisis: Managing Money and Finance*, YV Reddy, Orient Blackswan: 2011.

45 There is no supplementary project level information or disclosures that allow us to determine the source of this discrepancy. The IFC was unable to provide an explanation before publication of this report.

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