‘Leveraging’ private sector finance:

How does it work and what are the risks?

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1. Purpose of this paper

The notion that public investments should be used to 'leverage' additional investments from private actors is increasingly used in a variety of development finance forums, including aid, development finance, agriculture and, in particular, climate finance. The World Bank has become one of the leading proponents of this concept, though nowhere has it spelled out clearly what it means by 'leverage' or how it should be measured.

This briefing (a) helps explain the existing ways in which the World Bank Group (WBG) attempts to use its investments to leverage additional investment from private actors, and (b) briefly lays out some key risks associated with doing this. Though the term is also used by other bilateral and multilateral institutions, the focus on the Bank is because of its central role in this debate, and because it already practices most of the methods associated with leverage.

This paper is divided into the following sections:

What is leverage? Sets out how the term is being used in development finance debates, how it is measured, and points out that this discussion is similar to the longstanding debate over 'additionality' at the Bank. It also argues that use of the term leverage should *not* be extended to cover political influence, donor pooling, or catalytic public investments. In this section, and the next, the focus is on financial leverage – the use of public funds and institutions to mobilise private lending.

Methods of leverage: Identifies the three main forms of financing that might be regarded as leverage at the WBG: loans, equity investments and risk management products. There are various types of each form, which are detailed. This section argues that measuring financial leverage is not really possible or sensible for equity investments or risk management products.

Ten problems with leverage: sets out succinctly ten reasons why arguments in favour of leverage should be treated with scepticism.

2. What is leverage?

Before we examine the use of the term in the context of the above debate, we should avoid confusion by noting that there are two more commonly used meanings for the term:

- In general usage, leverage means: "positional advantage; power to act effectively."[1] It is often used synonymously with power or influence.
- In financial usage, it means "the use of credit to enhance one's speculative capacity."[2] It is associated with using one's ability to borrow to take greater risks, expecting greater returns, but potentially incurring losses.

In development finance debates, the term is rarely used consistently by the World Bank or others, but the WBG defines the basic concept as:

- "the ability of a public financial commitment to mobilise some larger multiple of private capital for investment in a specific project or undertaking."[3]

This financial leverage of private capital is the focus of this paper, and is how the term ought to be generally understood. However, the Bank often uses the term in a general sense to mean any large overall impact of a smaller amount of Bank investment or advisory input. The International Finance Corporation (IFC), the Bank's private sector arm, also uses the term in both a loose and tight definition, and often calls it 'mobilisation'. In fact, the IFC has a more strict definition:

- **Core mobilisation:** "financing from entities other than IFC that becomes available to clients due to IFC's direct involvement in raising resources."[4]

It sometimes refers to other activities that may encourage or support private sector investment, such as advisory services, as 'catalytic mobilisation'. This distinction is important – this paper only focuses on the first part, which the IFC calls core mobilisation, but which is more commonly thought of as financial leverage. To be crystal clear in this paper, we will not use the term in the following three ways, and encourage others to also not use it in these contexts:

(a) Catalytic investments are not financial leverage – for example the World Bank-coordinated paper for the G20 on climate finance unhelpfully bundled all public investments "that encourage much more widespread climate-friendly changes in behaviour by private firms across the whole economy" as leverage. This makes the term essentially meaningless, as (a) most public investments are intended to induce changes in behaviour of private actors, and (b) it is very difficult to quantify the direct impacts on private sector actors of such public investments. For example, the Bank suggests that "carefully designed and scaled public investments in demonstration projects to pilot and debug new technologies and institutions can have a major impact in promoting learning and the diffusion of new ideas." In each individual case this may be true – or may fail – but the aim is to change markets and behaviours on a more fundamental scale, not to directly leverage additional resources.

(b) Pooled financing is not financial leverage – the World Bank, through its trust funds, has promoted the pooling of donor, multilateral development bank (MDB) or other public financing to tackle certain issues. However, it has also caused confusion by sometimes calling this leverage. For example, the most recent Clean Technology Fund (CTF) semi-annual report claims its investments are "expected to leverage $9.874 billion in co-financing from governments, MDBs, private sector, and other sources."[5] The donor and other public funding in this example is only leverage from the CTF's perspective – the other public bodies might just as well have claimed to have leveraged the CTF money!

(c) Inducing policy reform is not financial leverage – the use of international financial institution (IFI) or donor influence to push, cajole or advise developing countries to change their policy positions is sometimes described as leverage. It would be better thought of as political influence, and is highly problematic. It normally undermines domestic democratic space, may promote the wrong approaches, can degrade government capacity, and rarely works as intended – as previous campaigns against policy conditionality have shown.[6] The use of technical assistance (TA) is a grey area – many argue that this is often attached to a particular policy agenda that is being promoted, and in general terms, TA has a very poor track record, particularly when it is donor driven.[7]

Measuring leverage

There are no agreed measures, but leverage is usually expressed as a ratio, though there are different ways of defining leverage ratios.[8] The one most commonly used, including by the Bank, is:

- *Public or publicly backed investment: private investment* – for example the IFC claims that: "Every dollar of IFC investment leverages $3 from others."[9]

Box 1

We have been here before: leverage = 'additionality'

Estimating leverage is extremely similar to the longstanding debate over whether the IFC provides additionality – additional development benefits over private investment with no IFC involvement. The most recent study by the Bank's arms-length evaluation body, the Independent Evaluation Group (IEG), provided a terminology[1], which can be adapted for leverage.

- **Financial additionality / leverage** – is this new money or is the private investment likely to have happened anyway? If this is probable, then the argument can be made that in fact the private investors have leveraged the World Bank's finance to support existing plans.
- **Operational and institutional additionality / leverage** – have there been improvements in the design of the investment as a result of IFC involvement? Have there been improvements in social and environmental standards, corporate governance, or institutional management as a result of the public-private partnership?

The IEG's results should be treated with caution, as they rely primarily on validating a sample of the IFC's own internal evaluations. However, "using a highly inclusive definition of additionality" the IEG found that "at least one form of financial additionality was apparent in 85 per cent of evaluated investment operations". Bearing in mind that this was based on the IFC's results and used a broad definition of additionality, this suggests that a reasonable proportion of IFC lending is duplicating – or possibly supplanting – private investment.

Perhaps more worryingly, the IEG found that "at least one form of operational or institutional additionality was identifiable in about one-third of the cases." So the argument that the engagement of IFIs in private sector projects is likely to improve the projects and companies should be treated with scepticism.

Another category of additionality is often also identified:

- **Development additionality / leverage** – will the total investment contribute to sustainable development, or climate adaptation and mitigation objectives? If not then it can be argued that the public funds have been wasted or would have been better directed elsewhere.

This is an issue that the IFC has been struggling with, and is currently trying to adapt its internal systems to deal with. For example, the IEG's 2011 evaluation, *Assessing IFC's poverty focus and results*, found that: "fewer than half the projects reviewed included evidence of poverty and distributional aspects in project objectives, targeting of interventions, characteristics of intended beneficiaries, or tracking of impacts." More shockingly, only "13 per cent of projects had objectives with an explicit focus on poor people", while just "6 per cent of projects explicitly identified gender issues in project design and only 3 per cent analysed a project's potential effects on women's assets, capacities, and decision making."

[1] Independent evaluation of IFC's development results 2008 (IEG, 2008)

Some confusion occurs because sometimes donors (though not as far as we are aware, the World Bank), use the ratio to refer to:

- *Grant element of public investment : overall investment* – this is problematic because part of the overall investment is likely to be publicly-backed – if it comes from a MDB for example – and so should be regarded as public investment.[10]

Leverage and additionality

It makes sense to work with the most common definition of leverage (or financial leverage) given above, but we must be careful not to take assumptions about the relationship it implies – that public investment *causes* the additional 'leveraged' private investment – at face value. The debate here is essentially the same as the longstanding issue of whether the IFC achieves 'financial additionality'. There are two judgements that have to be made:

- Would the private investment have happened anyway?
- Does the resulting investment achieve the aims of the public institution backing it?

As Box 1 shows, this is a contested area, and even the best designed public interventions are likely to fail on one of these criteria occasionally.

In addition to the issue of whether it is possible to use public money to provide financial additionality or leverage, there is also the question of whether the nature of that private investment – or the nature of the private investors – can be altered when public funds are used to leverage private funds. The evidence on IFC additionality (see Box 1) suggests that this is much harder to achieve. This is a critically important question, but it is not the focus of this paper.

3. Methods of leverage

The different types of financial leverage are largely already in use at the World Bank Group. They can be divided into three types: loans, equity investments, and risk management products. We will examine each below, describing how they operate, and evaluating how easy it is to assess the scale of financial leverage[11], before moving in the next section to other risks associated with leveraging private investment.

I. Loans

There are four main types of loans at the IFC: investment loans; syndicated loans; financial intermediary loans; and concessional loans.

(a) Investment loans – the IFC lends to a company to undertake a specific project. Two points are worth noting:

i. **Source of funds** – the IFC obtains its money to make the loan by selling bonds on international bond markets. The IFC is able to do this because its shareholders, governments, have provided it with capital. Though the IFC's articles of agreement state that "no member shall be liable, by reason of its membership, for obligations of the Corporation" there is the strong assumption that, should the IFC get into trouble, its shareholder governments would assist it. Hence the IFC can be thought of as a publicly-backed lender.[12]

ii. **Scale of funds** – the IFC normally lends up to 25 per cent of the total cost of a project.[13] The company must obtain the rest of the financing from other sources, such as capital markets, private banks, other publicly-backed lenders, or its own retained earnings.

(b) Syndicated loans – the IFC coordinates (and is the largest participant of) a loan for a project made by a group of investors (which may include banks, investment funds and so on). The IFC portion of the loan is known as the 'A loan', and the other participants' syndicated loans are known as 'B loans'.[14] Last financial year (FY) saw a substantial growth of the IFC's syndicated loan business – from $2 billion in FY2010 to $4.7 billion in FY2011.[15] wo points are worth noting:

i. **Source of funds** – here the IFC is dealing with investors as well as the companies – helping link companies to capital markets, private or public banks and institutional investors. The IFC's portion is still borrowed from capital markets, as with investment loans.

ii. **Foreign investment focus** – in addition to the coordination service the IFC provides, the other investors also gain benefits, which in effect help facilitate foreign investment:

a. Sharing IFC's preferred creditor status – meaning they will be paid even in the event of a currency crisis, which otherwise might restrict repayments in hard currencies.

b. Discounted Multilateral Investment Guarantees Agency (MIGA, the Bank's political risk insurance arm) risk insurance – this is only available to foreign investors (see section III below).

c. Participants may be exempted from government requirements to hold currency reserves to cover losses.[16]

The above kinds of loans are publicly-backed loans – there does not need to be any grant element to them.

(c) Financial intermediary (FI) loan – The IFC lends money to a financial intermediary – normally a bank – which then lends to its clients. Two points are worth noting:

i. **Maybe no financial leverage** – unlike investment lending, there is no requirement for the FI to raise or contribute 75 per cent or more of the total funds – hence there may be no direct financial leverage at work.

ii. **Highly untransparent** – as we have set out in a recent briefing[17] it is very hard to verify if the loan has been used for the intended purposes, and, unlike in other MDBs, the IFC often relies on client monitoring of impacts and the client's due diligence on environmental and social standards rather than its own.

(d) Concessional loans – IFC grant funding has traditionally been very small, and focussed on technical assistance, called advisory services by the IFC.[18] However, the concept of grant or concessional lending to the private sector is beginning to grow within the IFC. For example, in 2008 the IFC created the Financial Mechanisms for Sustainability (FinMech) unit which manages donor grants. It is currently managing $260 million provided by donor–financed trust funds: the Climate Investment Funds (CIFs) and the Global Environment Facility (GEF).[19] Two points are worth noting:

i. **Variety of implementation mechanisms** – FinMech, for example, can use loans, equity investments or risk reduction mechanisms, but with a concessional element (i.e. it is not expecting market– level returns.)

ii. **Unlikely to provide financial leverage** – as concessional finance is usually designed to fund companies or projects that are struggling to get funding from traditional sources, it is unlikely that they will ever leverage significant amounts of additional private funding. For example, a 2010 independent review of the GEF funds managed by FinMech (including the Earth Fund) had "one over-arching conclusion", that "it did not attract private funding at the Earth Fund level nor did it establish partnerships with the private sector." Rather, as argued above, concessional finance should be regarded and evaluated more as traditional public interventions designed to shape markets, rather than as ways of leveraging private finance.

II. Equity

(a) Direct equity investments – the IFC buys ownership of a portion of a company, which is funded by the IFC's net worth, not the bond market. If the company is not already listed on a stock exchange, very often the terms of this investment will lead to the floatation of the company, allowing the IFC to sell its shares at a future date to recoup its investment. The IFC normally buys between 5 and 20 per cent of a company's equity[20] and never more than 35 per cent of the total company value. It tries not to be the biggest shareholder. Two points are worth noting:

i. **Financial leverage?** – the relationship here is different – the IFC part-owns a company. It is possible that IFC association with a company may encourage other investors, but this would be difficult to measure in any meaningful manner.

ii. **Volatility during crises** – in FY2009, the IFC experienced the first loss in its history, when "high levels of equity write-downs resulting from the volatile financial markets were the main driver of the loss."[21]

(b) Investing in private equity (PE) funds – the IFC has been investing in private equity funds since the 1980s, and has ramped up its activities over the past ten years.[22] It now claims to have backed 10 per cent of all funds that operate in emerging markets. The IFC invests as a 'limited partner', meaning that it contributes a limited stake to, but does not run, the PE fund. Management is done by the 'general partner'. Three points are worth noting:

i. **Financial leverage is very hard to determine** – first, as the IFC is not the general partner, it is not in the lead (unlike for the loans described above), so it will not be clear that it mobilised or caused the other contributions to the PE fund. However, the fund's investors benefit from the 'stamp of approval' provided by investing with the IFC.

ii. **Lack of clarity over new investment** – private equity firms follow a variety of strategies including investments in business growth, but also activities that are closer to asset-stripping. Estimating whether the PE fund did actually invest in productive enterprises with beneficial developmental results can only effectively be done sometime after the investment, and is hard to independently verify due to the complete lack of transparency of these vehicles. Additional complexity is introduced by the fact that PE firms tend to rely heavily on debt financing – using their capital to borrow far more, with the debt then normally transferred to the companies they buy.[23]

iii. **Little transparency, and potentially negative impacts** – as a limited partner, the IFC has shown little willingness to use its position to, for example, insist that PE firms it invests in follow its environmental and social standards.[24] As with FI loans, there is little public information about what happens to the money the IFC invests, and PE firms do not normally publish financial information or results. Finally, there have been high profile cases of alleged mismanagement, corruption and worse at PE funds invested in by the IFC. One recent notorious example is Emerging Capital Partners (ECP), which has been accused of corruption and money laundering. ECP deny any wrongdoing, and the IFC did not invest in the iteration of the fund that was accused.[25]

(c) Setting up its own PE funds through the IFC Asset Management Company (AMC) – this is a relatively new venture for the Bank. The AMC is an IFC subsidiary company, domiciled in Delaware[26] which pools funds from the IFC and other investors to invest in IFC clients. There are three separate funds managed by AMC. It is worth noting that in many cases this is simply a donor pooling arrangement. For example, the main investor in the AMC's 'IFC Capitalisation Fund' is the Japan Bank for International Development, owned by the Japanese government. Though AMC invests alongside IFC, and encourages investments from other partners, it does not set any requirements for other partners to provide any minimum percentage of the total investment.

(d) Quasi-equity investments – the IFC may also "invest through profit– participating loans, convertible loans, and preferred shares." The amount of financial leverage will depend on which of these options are used, and the exact terms of each deal, but in essence they are more like equity investments than loans.[28]

III. Risk management products / securitised finance

There are a number of risk management products that the World Bank Group sells to companies. These are a bit like insurance: in each case the company pays the Bank a fee and the Bank only pays the company should the risk materialise.

(a) Risk sharing products[29] – the borrower sells part of the risk of a new investment to the IFC. For example, in the case of the IFC facility to support Standard Chartered bank's subsidiary's investment in telecoms company Celtel Uganda, the IFC accepted 28.3 per cent of the loss in the event of a default.[30]

(b) Partial credit guarantees[31] – sometimes called 'first loss', the IFC promises to pay a creditor up to a certain amount should the borrower default.[32] These include cross-border guarantees to allow companies to access international finance that they otherwise would not be able to access.[33]

(c) Political risk insurance –MIGA provides this for foreign companies, who are worried about losses due to five risks: currency inconvertibility and transfer restriction (a hedge against capital controls); expropriation of assets by the government; war, terrorism or civil disturbance; breach of contract; and non-honouring of sovereign financial contributions. MIGA can insure up to $180 million on its own account, plus much more through reinsurance arrangements with public and private insurance providers.

(d) Catastrophe insurance – the World Bank has, in recent years, piloted weather-related insurance to farmers, which we have analysed in a recent briefing paper.[34] This year, the Bank teamed up with US investment bank JP Morgan to launch a new initiative to expand hedging products to agricultural producers and other intermediaries in the food supply chain.[35] This is potentially different in that it is targeted at medium-sized operations, and possibly large agribusinesses.[36]

(e) Hedging products – like other banks, the IFC offers clients a variety of products to hedge against exchange rate volatility.

For all of these risk products, three points are worth noting:

It is very hard to assess financial leverage – the existence of the guarantees may be an important part of obtaining finance for a particular project, but it is: (a) difficult to know if it was critical; (b) difficult to assess what the financial input of the public institution will be – they only pay out if things go wrong; and (c) possible in the case of many risk management products for a similar product to have been bought from a bank or other private sector provider. The IFC also argues that its products can allow companies issuing bonds to get higher credit ratings, reducing their borrowing costs. It may be possible to measure this, but the IFC has not yet attempted to do it.

Certain sectors and countries are more likely to use these kinds of products – for example, over half of MIGA's insurance in FY2011 was sold to clients in the infrastructure or extractives sectors.[37]

Risks are involved for the World Bank Group – the Bank Group is ultimately liable for payouts far in excess of their income for these products. In normal circumstances this need not be a problem, but during global crises which may affect all their investments, it can cause problems for the Bank (and potentially for the governments that back it). However, this has so far not presented problems for MIGA or the IFC.

Ten problems with leverage

1 Assessing financial additionality is difficult and headline figures are not reliable

The discussion in the previous sections highlights the fact that additionality – and hence leverage – cannot be assumed just because public institutions are co-investors with private funds. The following issues often arise:

(a) Replicating existing investment – while the IFC says it aims to invest in 'frontier' areas, where private investment is not currently flowing, there are serious concerns about whether this is the case:

i. Leverage implies that private investors will put forward a majority of the capital, implying they have a very strong interest in investing.

ii. Very little IFC investment flows to low-income countries, and the vast majority goes to middle-income countries that already have much better developed financial sectors.

iii. The sectors favoured have tended to be ones where investors – particularly foreign investors – are already investing in developing countries. For example, over half of the IFC's current portfolio is invested in the financial sector, infrastructure and extractives.[38]

(b) Failure to achieve additionality – their own internal evaluations suggest that, even adopting a broad definition, the IFC fails to achieve *any* financial additionality in 15 per cent of investments. Any headline claims that $x of public money leveraged $y of private investment should be treated with scepticism.

2 The higher the leverage ratio, the stronger the private sector influence and the lower the likely financial additionality

In all forms of leverage where private investors put forward most of the capital, they will have the predominant influence in the design and implementation of the investment. Their goal is to make money, not to promote development, and there will be trade-offs between their objectives and those of the public institution. The greater the leverage ratio, the smaller the overall contribution of the public body, and hence the lower its power and influence in the design and implementation of the investment.

Also, as noted above, higher leverage ratios imply that the project is more likely to have been funded without any public sector involvement.

3 National strategies and policies should be paramount – but may be ignored or overridden in the quest to achieve leverage

It is widely acknowledged that the effectiveness of private investments, in terms of reducing poverty and contributing to sustainable development, is dependent on the political and policy context at international and national levels. In international climate change discussions, the World Bank-led paper for the G20 was repeating accepted wisdom when it said: "private investment in climate mitigation and adaptation remains limited compared to its potential and is hampered by market, institutional and policy failures or barriers."[39] In the aid effectiveness debate, the primary importance of 'country ownership' of policies and programmes for effective interventions by international donors is recognised in the *Paris Declaration*, the *Accra Agenda for Action*, and was reaffirmed in Busan in 2011.

While international institutions, other countries and the global economic environment affect all countries, the overwhelming experience of successful developing countries is that private sector investment needs to be directed and influenced by a national strategy – to ensure sufficient investment in areas which will increase productivity, employment and sustainable poverty-reducing growth.

Therefore attempts to leverage private sector finance should be directed by national strategies and institutions and take place at the national level. However, most existing models and institutions operate through global funds or international financial institutions that are not always well linked to national plans.[40]

4 Many existing World Bank methods promote foreign investment as if it were an end in itself: it is not and entails risks as well as rewards

Foreign direct investment (FDI) can help developing economies by providing jobs, creating demand for domestic products and upgrading skills and technologies. However, there are a number of problems that can be caused by foreign private investment that need to be carefully considered and managed by developing countries, including:

(a) Sectors invested in – many developing countries, particularly low-income countries, have only been successful at attracting foreign investment into resource extraction. This sector has: low job-creation potential; often increases problems of macro-economic management, such as contributing to Dutch disease; can have huge social, environmental and human rights impacts, and; is associated with significant governance problems such as corruption and resource capture by elites.

(b) Macroeconomic impacts – money flowing into countries, particularly if the amounts are large, can have important impacts, particularly on exchange rates. To invest in a country, foreign companies use hard currencies to buy local currency, thus pushing up the value of the local currency. This affects exporters in particular. Conversely, foreign investors have often pulled their money out during economic crises, which can cause currency collapses. Some types of investment have been criticised for their short-term nature, which havs led countries such as Brazil and Costa Rica to impose restrictions on capital coming into their countries.[41]

(c) Diversion of domestic investment – many foreign companies actually borrow the money that they invest from local capital markets rather than bringing in new capital. Depending on the supply of local capital available, this may mean diverting it from investment in other local businesses that may be higher priorities for development plans.

(d) Investment flows out, as well as in – research by the South Centre, an intergovernmental think-tank, shows that in recent years inward FDI flows have often been matched by outward profit repatriation, and inward portfolio investment by outward withdrawal of equity capital.[42]

(e) Capital flight and tax evasion – Global Financial Integrity, and NGO, estimates that developing countries lost between $725 billion and $810 billion per year, on average, between 2000 and 2008, through illicit outflows.[43] Most of these were due to trade mispricing and other tactics used by multinationals to help them avoid tax.

(f) Political influence – multinationals have been adept at using the threat of moving elsewhere to not only negotiate favourable terms for their investments, such as tax concessions not available to domestic companies, but also to push for lighter regulation of their activities.

5 Leverage means increasing debt and often involves linking poor countries more closely to volatile global financial markets

Leveraged finance is not aid; it is lending to companies, usually at market rates, which must be repaid. Often developing countries or particular sectors do suffer from lack of access to credit, but this cannot be assumed.[44] Though the links to global financial markets through traditional lending models described above are weak, they are becoming far stronger in the new models promoted by the AMC and others. This may make greater credit available, but also means borrowers are more directly connected to global financial markets, which can be highly volatile.

6 There are opportunity costs when using limited public investment to leverage private investment

Using public resources to try to leverage private sector investment means those resources cannot be used elsewhere. These opportunity costs may be particularly important in certain countries or sectors where the need for straightforward public investment – for example in climate adaptation, healthcare, education, infrastructure or environmental protection – may be very high.

7 Many of the current methods used mean both actual and potential transfer of risk to public institutions – implying moral hazard

In addition to explicit guarantees, private investors may assume that the IFC is unlikely to allow the investment to fail and may end up bailing it out – or persuading the government to do so. Sometimes, private investors may assume an IFC-backed investment will receive special privileges, for example, being less likely to fall foul of governmental interference, or benefiting from special treatment from the government. This means moral hazard is a significant issue – investors taking greater risks because they assume they will not have to bear the full costs should investments turn sour.

8 Transparency and accountability are currently very low for publicly-backed private investment in developing countries

The new IFC access to information policy, for example, is far weaker than its counterpart at the public lending arms of the World Bank Group (the International Bank for Reconstruction and Development, which is the World Bank's middle-income country arm, and the International Development Association, the Bank's low-income country arm).[45] The use of financial intermediaries entails further loss of transparency and accountability,[46] including the potential for weakened application of environmental and social standards.

9 Leverage may open the door to undue political influence in developing countries by IFIs and donors

It is important to remember that the World Bank and other international institutions are major influencers of policy in many developing countries through norm and standard setting, research, and influence over how they frame the overall discourse. This emphasis on the importance of private investors and capital markets can be seen as the culmination of a longstanding position, pushed vigorously over the past 30 years, that developing countries should orient their economies and policies to attract foreign investment

10 Positive developmental impacts may be absent

Developmental impacts are not the objective of most of the private actors involved in the above mechanisms, and it is dangerous to assume – as the IFC often does[47] – that *any* private investment is good for growth and poverty reduction, for the reasons set out above.

Footnotes

1 http://www.thefreedictionary.com/leverage

2 http://www.merriam-webster.com/dictionary/leverage

3 World Bank Group et al, 'Mobilising Climate Finance: a Paper Prepared at the Request of G20 Finance Ministers' (G20, 2011), 35.

4 IFC, 'IFC Annual Report 2011', 2011 , volume 2, page 9 http://www1.ifc.org/wps/wcm/connect/CORP_EXT_Content/IFC_External_Corporate_Site/Annual+Report.

5 World Bank CTF secretariat, 'Semi Annual Report on CTF Operations' (CTF Trust Fund committee, 2011), 4.

6 See, for example http://www.brettonwoodsproject.org/art-563637 for a summary of a report that lists many critiques of conditionality at the WBG.

7 Romilly Greenhill, 'Real Aid 2: Making Technical Assistance Work' (ActionAid International, 2006) www.actionaid.org.uk/doc_lib/real_aid2.pdf

8 Jessica Brown and Michael Jacobs, 'Leveraging Private Investment: The Role of Public Sector Climate Finance' (ODI, 2011), 1.

9 IFC, 'IFC Annual Report 2010', 2010, 75 http://www1.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/annual+report/2011+printed+report/2010+printed+report+default+content

10 For example, the UK government claims leverage ratios of 8:1 – presumably by measuring leverage in this way (though it does not say where its data comes from). 'UK International Climate Fund' (DFID, DEFRA & DECC, 2011) p 9

11 Or financial additionality. See Box 1 for other types of leverage and additionality, but note that we do not look at other forms of leverage or additionality in this section.

12 "The strong support that the IFC receives from its government owners affords a large measure of comfort to investors. In Moody's view, the IFC faces very little transfer risk in its portfolio because of the preferred creditor status it has historically been accorded by the member countries in which it lends. IFC loans have never been included in a sovereign debt rescheduling, nor have payments to the IFC ever been permanently interrupted by a general debt-servicing moratorium." 'Moody's Report on IFC' (Moody's, 2010), 1.

13 The IFC can lend up to 50% to expand existing projects.

14 The borrower signs a single agreement with the IFC, and the IFC signs participation agreements with B loan lenders. Sometimes the IFC may sell on a portion of its A loan through ALPs (A loan participations) – a partial sale of an IFC A loan to a bank or other FI. IFC remains the lender of record, but shares the risk of the loan with the ALP participant.

15 IFC, 'IFC Annual Report 2011'. http://www1.ifc.org/wps/wcm/connect/CORP_EXT_Content/IFC_External_Corporate_Site/Annual+Report

16 J.M. Shandra, E. Shircliff and B. London, 'The International Finance Corporation and Forest Loss: A Cross-national Analysis', *Journal of World-Systems Research*, 17 (2011), 328.

17 Bretton Woods Project and 'Ulu Foundation, 'Out of Sight, Out of Mind?' (Bretton Woods Project, 2010) http://www.brettonwoodsproject.org/art-567190

18 As these are often tied to IFC loans, it could be argued that this is one method of subsidising that lending.

19 http://www.ifc.org/ifcext/climatebusiness.nsf/Content/ConcessionalFinance

20 IFC, 'IFC Annual Report 2010', 72.

21 'Moody's Report on IFC' (Moody's, 2010), 3.

22 http://www.ifc.org/funds

23 Sigurt Vitols, 'The Growing Crisis in Private Equity: Binding Regulation and an Action Plan Are Needed' (ETUI, 2009) http://www.etui.org/Publications2/Policy-Briefs/European-Economic-and-Employment-Policy/The-growing-crisis-in-private-equity-binding-regulation-and-an-action-plan-are-needed

24 See, for example, presentation by private equity lawyer, John Crutcher, at the following conference: http://www.brettonwoodsproject.org/art-567281

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32 The IFC also says it works to reduce probability of default and increase amount recovered if default happens.

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All errors remain the responsibility of the author.

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