Analysis of IFC's role and impact

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September 2000

In April this year leaflets with sharply contrasting views about the International Finance Corporation (IFC) were distributed at the Spring Meetings of the World Bank and IMF. The 50 Years is Enough! campaign coalition urged the abolition of the Corporation, charging that:

"They pay almost no attention to who actually benefits from the profits that they claim to generate. They support Domino's Pizza in South Africa and cable television in Brazil. They invest in breweries in Romania, Russia, Tanzania and the Czech Republic, expensive private schools in Pakistan and Uganda, and luxury hotels in Egypt, the Maldives, Vanuatu, Costa Rica and Mexico."

The IFC's NGO relations team swiftly produced a rebuttal, arguing that: "IFC, through advice and direct investments, seeks to reduce poverty by helping direct private resources toward activities that benefit the poor by growing businesses that earn their way and empower and employ people." It said that the IFC plans further work on promoting environmental, social and corporate governance standards.

Which position is more accurate? Does the IFC really lend its money regardless of the beneficiaries, or does it take active steps to target poverty and minimise environmental impacts?

The IFC's mission statement is "to promote private sector investment in developing countries, which will reduce poverty and improve peoples' lives". It certainly has done much to achieve the first part of this. However, the IFC often appears to assume that the second part – poverty reduction – will inevitably flow from the first part – private sector investment. The case studies in this collection, plus other research, call into question whether the IFC's concept of development really incorporates an analysis of the priorities for poorer people and whether its financing and advisory work is sufficiently targeted to benefit them.

The IFC aims to:

- attract and catalyse private investment to countries and sectors it would not otherwise reach;
- build physical and financial infrastructure which creates jobs and other spin-offs and enables market-led growth;
- ensure companies meet high social and environmental standards, through procedures that clients should follow when IFC supports their projects, and through advisory work.

The IFC, in fact, often appears to be driven by a deal-making mentality similar to that of private sector banks. The Corporation's annual report and other publications use the IFC's profit (net income) as the main yardstick of success, with other information about its achievements presented in a sketchy, somewhat haphazard way. How the IFC decides that the projects it backs could not have been undertaken on a purely private basis is unclear and often dubious.

Despite various strategy and policy restatements over the years the IFC still appears to operate without any clear methodology for estimating or evaluating development impacts. Moreover, the IFC has no mechanism in its project cycle to

articulate the intended development impact of a given project. Without such a mechanism, the IFC is unable to factor development effectiveness into either project design or implementation. Thus, on the evidence available outside the institution it is hard to conclude that it has a clear approach to selecting projects that will maximise benefits for poor people and the environment.

Yet the IFC is now under pressure not just from NGOs but also from its President and donor governments to show impact on poverty alleviation. In recent years it has taken steps to improve its social and environmental operations. It has consulted on and published the social and environmental policies that its staff and private clients should follow and increased the size of its environmental review unit. It has published a manual on how private clients should consult with communities and taken on a Compliance Advisor/Ombudsman (CAO). It has aimed to move its portfolio more towards the poorest countries, find ways to reach Small and Medium Enterprises, and has also backed some innovative environmental investments. IFC staff now help draw up World Bank Country Assistance Strategies and operate alongside Bank colleagues in designing sector strategies.

While these reforms are important first steps, they are not sufficient to address the broader institutional questions: the IFC's lack of an explicit methodology for evaluating development impact; its lack of a mechanism for articulating a development impact for a specific project, or for incorporating that intended development impact into project design and implementation; and its failure to fully integrate sustainable development criteria into its operational decisions. The case studies in this collection illustrate the limitations of the IFC's reforms to date.

Some feel closer cooperation between IFC and the World Bank in drawing up Country Assistance Strategies, designing sector strategies, and crafting the private sector development strategy may help draw the IFC to support sectors and initiatives that are most appropriate for the poorest. Others fear that the Bank and IFC together will persuade governments to privatise strategic sectors, regardless of whether this is the best option for the poorest. There is also concern about conflicts of interest. Where the IFC has merged departments with those in the World Bank, the same group of people will be advising governments on privatisation and regulation strategies as well as discussing private sector investment plans in the same sector. The IFC argues that this could help ensure that both organisations coordinate better to improve results, but has recognised the danger of conflict of interest by belatedly appointing a new officer to tackle these issues.

The appointment of the CAO and the conflict officer, along with other steps, are welcome. However, they give the impression of safeguards added onto the institutional structure to mitigate the problems created by the IFC's weakness as a development institution, rather than systematic attempts to change the IFC's approach, staffing, incentive structure and reporting mechanisms towards sustainable development and poverty alleviation. The 1997 report, "*Pangue Hydroelectric Project (Chile): An Independent Review of the International Finance Corporation's Compliance with Applicable World Bank Group Environmental and Social Requirements"*, lead by Jay Hair, concluded that:

"there is no indication at this time that IFC has in place the necessary institutional operating systems, or clarity in its policy and procedural mandate, to manage complex projects in a manner that complies consistently with World Bank Group environmental and social requirements".

The NGOs which have contributed to this collection of case studies also show that the IFC is inconsistent in applying its policies. Similar to its sister institution, the World Bank, the pressure on departments and individual staff to find sufficient projects to back each year frequently overrides any instructions or good

intentions to consider alternative projects, back small, local enterprises and maximise positive impacts.

In some cases the issue is the adequacy of the IFC's policies, rather than the lack of will to apply them. IFC support for projects is supposed to be governed by the concept of "additionality" – the IFC is supposed to support projects that are unable to secure private financing. Despite the fact that IFC is theoretically coming in where private finance is genuinely unavailable, the IFC is often unwilling (it claims unable) to exercise the leverage that such a position ought to afford it.

Often the IFC comes to a project after key decisions have been made. In such cases, the consultation and environmental assessment processes become after-the-fact rationalisations for a predetermined project design. The IFC is either unwilling, or unable to exert its influence to change or improve project design. The IFC is also often in the position of financing a minority shareholder.

Despite the substantial revisions to the IFC's policy framework in 1998, important project information is still not disclosed, or is disclosed too late in the process for concerned stakeholders to have an impact on project design. The social and environmental covenants in the loan documents – the borrowers actual legal obligations with respect to the social and environmental impacts of a project – are still not disclosed. Likewise, monitoring reports and emergency response plans are not made public as a matter of course. Release of the EA comes only 60 days prior to a Board decision and the Monthly Operational Report, which lists the projects in the IFC's project pipeline, is still not a public document. The inadequacy of the IFC's disclosure policy hampers stakeholders in engaging with the IFC on projects in a timely and informed way.

The case studies illustrate that IFC needs to more closely define its strategic approach, in promoting poverty reduction and sustainable development. Its present lack of clear guidelines for measuring development impact means it has no criteria for screening projects. Both private companies (who want the legitimacy and clout of the IFC) and the IFC (which wants to do business) can always make the case that IFC resources are needed. Until this changes five star hotels, mining companies and international banks will continue to receive disproportionate amounts of IFC backing.

Like the World Bank, the IFC has to prioritise among the many stakeholders it aims to please: not only governments and communities but also the private sector, often large multinationals. Rather than making general promises and add-on improvements, the IFC would do well to follow the suggestions made by a number of groups for more formal, verifiable processes. The IFC should discuss further its overall strategic goals, how to engage communities as early as possible in the decision-making process and how to formalise its efforts to select projects which will maximise benefits for poorer people and the environment. Friends of the Earth US and others have developed proposals for an IFC investment screen similar to those applied by private sector ethical investment firms.

These would all be positive steps. However, there are no easy procedural or technical fixes which can prevent an organisation like the IFC from clashing with communities and interest groups which do not share its worldview or that of its key clients. Yassine Fall, Executive Secretary, Association of African Women for Research and Development, wrote recently, for example: "The choice made by the Bank to use IFC funds and even IDA funds to support transnational corporations is wrong. ... If poverty is a serious concern to the Bank, Mr Wolfensohn should tackle it in a more direct fashion." While IFC staff often see themselves as doing the best they can in an imperfect world and imperfect institution, many NGOs simply see IFC projects as local manifestations of a global economic order which needs fundamental changes. Debates will inevitably continue.

Printed and web resources on IFC policy issues

Friends of the Earth *Dubious Development: How the World Bank's Private Arm Fails the Poor and the Environment*, September 2000 <http://www.foe.org>.

Bank Information Center, <www.bicusa.org>

The World Bank's Promotion of Privatisation and Private Sector Development: Issues and Concerns, Bretton Woods Project, 1997 http://www.brettonwoodsproject.org/brief/wbps.html>.

New leaf or Fig Leaf? The Challenge of the New Washington Consensus, Brendan Martin, Bretton Woods Project and Public Services International, 2000 <http://www.brettonwoodsproject.org/reports/newleaf_or_figleaf.pdf>.

In the Public Interest? Privatisation and Public Sector Reform, Brendan Martin, Zed Books, 1993.

Moving to the Market: the World Bank in Transition, Richard Richardson, Jonas Haralz, Overseas Development Council, 1994.

Pangue Hydroelectric Project (Chile): An Independent Review of the International Finance Corporation's Compliance with Applicable World Bank Group Environmental and Social Requirements, Jay Hair (team leader), April 4,1997.

The Private Sector and Development: 5 Case Studies, IFC, various years. http://www.ifc.org/publications/pubs/rog/index.html.

Impact: quarterly IFC magazine. http://www.ifc.org/publications/pubs/impact/impact.html.

Web site of the IFC/MIGA Compliance Advisor/Ombudsman <http://www.ifc.org/cao>.