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Development diverted:

How the International Finance Corporation fails to reach the poor

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Executive summary

This paper reviews operations of the World Bank's International Finance Cooperation (IFC), assessing whether its support to companies that invest in the world's poorest countries meets key standards of development effectiveness.

A vibrant private sector is crucial for development, as it creates jobs, provides essential goods and services, and is a source of tax revenue. In order to support private sector activities in developing countries, in recent decades development finance institutions have provided financial support to companies investing in the South.

In the 2000s, public support for private sector operations in developing countries reached historical highs. At the beginning of the decade, public sector lending accounted for almost 90 per cent of all MDB portfolios versus only 10 per cent of private sector investments; by 2007, the ratio between public and private sectors had shifted to one third versus two thirds respectively. The IFC – the largest of all the MDB private sector lending arms – increased its investments by four times in the last decade. Although the onset of the global financial crisis temporarily halted this increase, MDB support to private firms investing in developing countries is expected to step up once again once the crisis subsides.

Development finance institutions, including the IFC, have explicit mandates to contribute to poverty eradication. Therefore, they should only support economic activities and invest in companies that can contribute to pro-poor and equitable development, as not all private sector activities have a positive developmental impact. It follows that a selective approach to private sector investments in the South is necessary, but unfortunately the debate on which private activities could have the most positive impact on the poor has been sorely missing in public development institutions. This has often led to prioritising attracting more Foreign Direct Investment in the South, rather than focusing on what would be most effective in contributing to sustainable development and building a vibrant private sector in developing countries.

In 2005, bilateral and multilateral development agencies agreed upon a set of targets to ensure that public development finance effectively contributes to sustainable development. Although these aid effectiveness commitments mostly focus on aid granted to public institutions, official commitments state that the private sector should also contribute to effective country-led development processes. This is even more important in cases where private sector investments are supported by the IFC, an institution that aims "to create opportunities for people to escape poverty and improve their lives by helping to generate productive jobs and deliver essential services to the underserved."

This paper reviews IFC operations in low-income countries from 2008 to date to assess whether its lending and investments in the world's poorest countries satisfy key standards of development effectiveness. **Are the IFC's investments really country-owned and aligned with developing countries' national development strategies? Are they supporting, where possible, country systems, institutions and firms? Or are they mainly helping firms from the North enter developing country markets? Is the IFC actively seeking to support investments that have the greatest added-value in delivering development outcomes?** This report addresses these questions and suggests ways in which the IFC should dramatically change its business model to promote private sector investments that genuinely support pro-poor development and poverty eradication.

Section one of this paper, *Whose development?*, assesses to what extent the IFC supports firms from developing countries or from rich countries and finds that in the period assessed, less than one fifth of all IFC investments went to companies from the world's poorest countries, where credit is most scarce and borrowing costs are higher. Two thirds of the IFC's financial support went to companies based in the richest countries. Moreover, the eight largest operations account for more than half of the IFC's portfolio in low-income countries, showing that the IFC targets mostly large companies from rich countries, rather than smaller companies from poor countries.

Although the main stated purpose of the IFC is to support companies that cannot access private capital markets by "making loans and equity investments where sufficient private capital is not otherwise available on reasonable terms", this paper found that the IFC reaches firms that are well-established and have access to financial services such as commercial credits or bond issuance on international capital markets. Domestic companies, which are actually financially underserved, remain underserved by the IFC too.

The second section, *Who decides?*, assesses whether IFC investments are guided by principles of country ownership of national development processes, which is fundamental to ensure that developing countries are in the driver's seat of the development process. Unfortunately, Eurodad's research finds that the industry department at the IFC headquarters in Washington – and not country authorities – have the strongest say in which projects deserve financial support and which do not. IFC investment officers actively seek business opportunities driven all too often by financial returns rather than responding to developing countries' demands and needs.

As a result, the IFC fails to show how it supports developing countries in having ownership over their industrial and agricultural policies, investment policies and strategies, or the development of their financial and private sectors.

The last section, *Failing to reach the poor,* provides a critical assessment of the way the IFC seeks to deliver development outcomes. It finds that despite the fact that the IFC has systems in place to monitor the impact of its investments on the poor – the Development Outcomes Tracking System (DOTS) – it fails to prioritise development effectiveness as the overriding criteria when choosing projects in which to invest. Moreover, monitoring and evaluation do not satisfy standards either: project-level development outcome data is not disclosed, and data available is not disaggregated by social and income groups.

As a development institution, the IFC must ensure that it invests where it can deliver the most positive development results, including by creating decent jobs and skilled employment opportunities in poor countries, strengthening local capacities and knowledge, and promoting sectors that are crucial for the well-being of citizens in poor countries. For this purpose, IFC shareholders, and the largest shareholders in particular, must:

- rebalance the amounts channelled through the public and private sectors of the World Bank Group (WBG);
- ensure that positive developmental impacts are the overriding criteria informing all stages of the investment cycle at the IFC;
- support small and medium enterprises in low-income countries;
- align investments to developing countries' priorities and needs;
- enhance transparency of the investments it makes and how they contribute to positive development outcomes.

The private sector should contribute to effective country-led development processes.

1. Introduction

Trends: the global shift to private sector lending

Development institutions have traditionally provided external finance to governments in poor countries to fill in their financing gaps. Since the 1980s they have increased support for companies investing in poor countries. However, it was not until the 2000s that resources channelled through the private sector increased dramatically compared to those channelled through the public sector.

The business of providing public development finance to the private sector is mostly handled by Multilateral Development Banks (MDBs), including the World Bank, and bilateral public and semi-public development finance institutions (DFIs).[1] They provide direct loans to or make equity investments in private businesses, and they give indirect loans from private banks that public institutions either broker and/ or guarantee.

For the World Bank and other regional development banks, private sector finance has become a major part of their portfolio. In 1990, MDBs channelled US$4 billion to the private sector; this amount increased ten-fold almost two decades later, reaching US$40 billion in 2007.[2] At the beginning of the 2000s, public sector lending accounted for almost 90 per cent of all MDB portfolios versus only 10 per cent of private sector investments. In 2007, the ratio between public and private sector lending had shifted to two thirds to one third respectively. Bilateral development institutions in Europe under the network of European DFIs (EDFIs) also increased their support for private companies investing in the South, reaching more than €6 billion (US$8 billion) in 2007, which represents an increase of almost 20 per cent since the beginning of the decade.

Although the share of MDB funds for the private sector dropped again in 2009 as loans to governments sharply increased in response to the global crisis, previous trends are expected to return as the crisis recedes.[3]

In the wake of the global crisis, cash-strapped European governments have seen private sector financing as a way to leverage limited aid resources, reinforcing the pre-crisis trend to channel ever higher amounts of public development finance through the private sector. Following this trend, in June 2010 the European Commission decided to continue providing guarantees to loans given by the European Investment Bank (EIB) to private companies investing in the South.[4]

At the end of 2010, in a document that aims to guide EU development policy in the coming years,[5] the Commission confirmed their new focus on building "a predictable business environment, combined with support to investment in the productive sector [which is] needed to attract foreign investments." In the paper, the EC asks "how should EU aid support industry projects investing in developing countries? Should European interests such as access to raw materials or energy security be brought into the debate?"

This shift is based on assumptions that private sector investment in developing countries directly contributes to reducing poverty and improving people's lives, as stated in the WB IFC's mission statement: *"We believe that sound economic growth […] grounded in successful private investment […] is key to poverty reduction; and that a conducive business environment is needed to improve people's lives."*[6]

Indeed, a vibrant private sector is crucial for development, as it creates jobs, provides essential goods and services, and is a source of tax revenue. However, certain conditions must be in place to ensure that private investments have a positive impact on the poor. The impacts of these investments are not without controversy. While some believe that they trickle down to benefit the poor by creating employment and providing goods and services, evidence shows that the private sector has not always delivered the gains needed to eradicate poverty and create a more equitable world.[7]

Development finance institutions have explicit development mandates. This means that they should only support economic activities and invest in companies that can contribute to pro-poor and equitable development. However, this debate has so far been missing in public development institutions providing support to the private sector. This has often led to prioritising attracting more Foreign Direct Investment in the South, rather than focusing on what could most contribute to sustainable development and build a vibrant national private sector. Unfortunately, "more" has not always meant "better."

Recently, the UN Secretariat General expressed concern about the lack of evidence on how private sector investments contribute to equitable development in poor countries: "Rapidly growing shares of development cooperation are being provided to promote [...] foreign and domestic private sector investment [...] no authoritative studies exist of best practices in these areas."[8]

Far from resolving these controversies, the global financial crisis has raised legitimate

Box 1: How the private provision of basic utilities in Africa has failed to deliver for the poor

Following the donor push for the privatisation of basic utilities in Sub-Saharan Africa in the 1990s, public financing for public utilities fell sharply. Research by the United Nations Development Programme's (UNDP) International Poverty Centre found that World Bank lending for infrastructure investment declined by 50 per cent between 1993 and 2002— with much of this directed towards preparing firms for privatisation. In 2002, Bank lending for water and sanitation was only 25 per cent of its annual average in the 1990s. At the same time, the World Bank increased its support for private investment in utilities through its International Finance Corporation and its Multilateral Investment Guarantee Agency. While Bank lending to public electricity utilities dropped from about US$ 2.9 billion in 1990 to only US$ 824 million in 2001, its sector lending to private investors rose from US$ 45 million to US$ 687 million.

Contrary to expectations, private investors have shied away from investing in such utilities in the region. As a result, not only has donor financing of public investment declined but private investment has also followed suit.

The focus of investors on cost recovery has not promoted social objectives, such as reducing poverty and promoting equity. Poor households have suffered from the reduction in subsidies and disconnection from services when they are unable to pay. Service delivery has become fragmented, intensifying inequalities in provision. This has hampered progress on the Millennium Development Goals (MDGs) for both water and sanitation, and on many other MDGs dependent on energy.

In several African countries, the private provision of water and electricity has increased the financial sustainability of some utilities at the cost of imposing unaffordable tariffs for many consumers. In Ghana and Namibia, the private provision of basic utilities and the elimination of cross-subsidies from urban to rural areas led to increased inequality between regions. In Senegal, the private provider of water successfully increased collection rates by enforcing a strict disconnection policy, but 12 per cent of connections fell into disuse. In Tanzania, after the privatisation of Dar es Salaam's water supply, a consortium led by the UK firm Biwater took over water provision. Although the contract with this firm was signed in 2003, it was terminated 18 months later after no improvement in services.

In 2004 two influential reports, one by the World Bank – *Reforming infrastructure: Privatisation, regulation and competition* – and one by the OECD – *Privatisation in Sub-Saharan Africa* – highlighted the deficiencies in the private provision of basic utilities and emphasised the need for the appropriate regulation of private engagement in these sectors; however, none of the reports considered the option of strengthening public sector provision of utilities. This has translated into insufficient development financing to the public sector, while MDB financing for private investment in infrastructure has not ceased to increase.

Source: Kate Bayliss and Terry McKinley: Privatising basic utilities in Sub-Saharan Africa, the MDG impact. UNDP International Poverty Center, 2007.

questions on the impact of private investment in developing countries and on the circumstances in which it could contribute to equitable development and poverty eradication.

The International Finance Corporation

The International Finance Corporation (IFC), the private sector arm of the World Bank is one of the largest public development institutions supporting private sector investments in developing countries. It accounts for almost one third of all private sector finance channelled by MDBs.[9]

The IFC has a paid-in capital by its 182 shareholders of over US$2.3 billion, and raises funds exclusively from international debt markets.[10] Although it could borrow funds from the WB's public sector lending arm, the IBRD, the IFC has decided to raise funds only from capital markets to reinforce its "private sector character and the financial discipline needed to raise money in the international markets at the lowest possible cost."

In 2009, the IFC called upon its shareholders to increase their capital and boost their lending capacity – following generous capital increases at the WB International Bank for Reconstruction and Development (IBRD) and other regional MDBs. However, at the Spring Meetings of the WB and the IMF in April 2010, shareholders did not approve such an increase, perhaps indicating increasing concern about how the IFC operates.

The IFC provides both investment and advisory services for private sector operations in developing countries. It provides loans and equity investment to private firms for projects carried out in developing countries. It also plays a catalytic role for mobilising additional funding from other investors, through co-financing, loan participations, underwritings, and guarantees.

In the last decade, investment and lending commitments by the IFC increased almost four-fold, from US$4 billion in 2000 to almost US$15 billion in 2008 (see Graph 1 below). In 2008, over one third of all World Bank new commitments were through the IFC.

In 2009, World Bank public sector lending (through IDA- the International Development Association- and IBRD) spiked to an unprecedented US$46 billion due to increased lending to developing country governments to respond to the financing needs resulting from the global crisis. This spike is expected to recede in the coming years, going back to pre-crisis levels. In contrast, IFC lending which decreased in the wake of the global crisis is expected to return to its pre-crisis increasing trend.[15]

The World Bank's push for trade and investment liberalisation and privatisation of state-owned enterprises in developing countries anticipated the shift towards private sector finance: "After two decades of deregulation, liberalisation and privatisation the successful functioning of different markets became more important than ever for development."[16] In the first half of the 1990s, conditions attached to World Bank loans aimed at reforming the private sector in developing countries accounted for more than half of all conditions imposed by the Bank.[17]

In parallel, the IFC made substantial changes to the way it operates. It diversified its core business of lending and investment in private companies, towards the provision

There is a potential conflict of interest between the IFC as a provider of technical advice on how governments should regulate their investment regimes, and as a co-owner of FDI in the same countries.

Box 2: How does the IFC operate?

Advisory services have recently multiplied and today account for one fifth of the IFC's portfolio. While the IFC's financial services target private companies, half of the advisory services provide technical assistance to developing country governments on issues such as enhancing the so-called "investment climate". These services have been controversial in the past as they assume that "FDI is good for development, therefore, more is better." However, evidence shows that FDI can stifle development; and it continues to liberalise investment regimes despite opposition from developing countries in OECD and WTO negotiations.[12] Moreover, there is a potential conflict of interest between the IFC as a provider of technical advice on how governments should regulate their investment regimes and as a co-owner of FDI in the same countries.

Financial services to private enterprises remain the core business of the IFC. For that purpose, it offers a variety of financial instruments:

- **Loans** for the IFC's account (or A-loans): the standard instrument of the IFC. These are loans at market conditions, for the IFC's own account. They are mostly issued in leading currencies, but local currency loans can also be provided. They can finance both investment in a sector where no previous facilities exist (greenfield projects), but also other forms of investment (such as mergers and acquisitions of existing companies which do not involve the creation of new facilities). Although the IFC is primarily a financier of private sector projects, it may provide finance for a company with some government ownership.

- **Syndicated loans (or B-loans):** loans from commercial banks and other financial institutions for IFC- supported projects. However, the IFC remains the sole contractual lender and the lender of record for the borrower. Through these syndicated loans, the commercial banks "share the advantages that IFC derives as a multilateral development institution, including preferred creditor access to foreign exchange in the event of a foreign currency crisis in a particular country." Hence, private and commercial banks minimise the risks of not being repaid in case of debt default or debt restructuring.

- **Equity finance:** The IFC takes equity stakes in private companies and financial institutions investing in developing countries, becoming a shareholder and co-owner of entity. In order to meet national ownership requirements, "IFC shareholdings can be treated as domestic capital or local shares."[13] This means that companies can use IFC equity funding to bypass certain government regulations such as national ownership requirements. These are often set by governments to ensure that strategically important industries remain in the hands of national owners. National ownership is also a prerequisite for preferential treatment under public procurement regulations which intend to promote local economic development through targeted public purchases. This IFC rule implies that some firms that are *de facto* foreign owned can be considered nationally owned thus benefiting from industrial and public procurement policies that intend to develop the domestic private sector.

- **Equity and debt funds:** The IFC promotes foreign portfolio investment in developing countries by establishing and investing in a wide range of funds, such as private equity funds and debt funds that invest in emerging-market securities.

- **Structured finance:** The IFC has developed other products including credit enhancement structures for bonds and loans through partial credit guarantees, risk-sharing facilities and participation in securitisations.

- **Financial intermediaries:** Some 40 per cent of IFC financing is channelled to private sector projects in developing

Continued overleaf

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countries through intermediaries. The IFC uses its full range of financial products to provide finance to a wide variety of financial intermediaries. This type of financing is intended to reach small and medium enterprises and micro-entrepreneurs, which the IFC claims that it could not reach through its own channels due to high transaction costs. However, it remains unclear how this is guaranteed in practice. For instance, among these financial intermediaries are private equity and investment funds, such as index funds and country funds.[14] Index funds target stock market indexes, where usually only larger companies are listed. Country funds target a particular country, which may be a least developed or 'frontier' country, but they do not necessarily guarantee a specific focus on small and medium enterprises (SMEs).

Source: IFC's website.

of advisory services and the use of financial intermediaries, which receive the IFC's financial support to, in their turn, provide lending and make investments in companies operating in developing countries.

These trends in private sector finance are likely to change World Bank development finance in the coming years. For many decades, financial assistance to the private sector was no more than an addendum to the World Bank's and other MDB core business – providing assistance to developing country governments. However, private sector finance may become the new core business of the Bank.

In 2008, over one third of all World Bank new commitments were through the IFC.

The IFC and development effectiveness

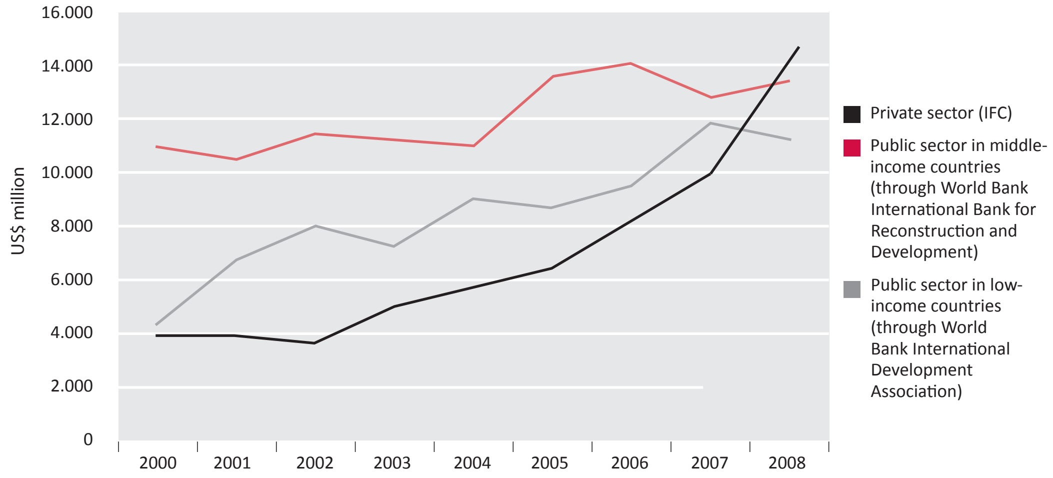
In light of its growing weight within the WBG, external pressure mounted on the IFC to ensure that its investments delivered positive development outcomes. In 2006, the IFC established a unit on development effectiveness and launched a system to monitor development outcomes – the Development Outcomes Tracking System (DOTS).

However, just one year on, a review of the IFC's development results undertaken by the WB Independent Evaluation Group (IEG) found that over 40 per cent of all IFC projects were unsuccessful at generating positive development results, and that in Africa, more than half of IFC investments had low development ratings.[18] This shows how public monies support private sector activities that do not contribute to positive development outcomes and poverty eradication.

If development outcomes are important, the ways in which funds are delivered are also crucial to ensure that recipient countries are in the driver's seat of development processes, and that their institutions and companies are strengthened so they can graduate from excessive dependency on external financing. In 2005, more than one hundred governments and multilateral institutions – including the World Bank – agreed on a set of targets to make

Trends in private sector finance are likely to change World Bank development finance in the coming years... private sector finance may become the new core business of the bank.

Graph 1: World Bank financing to the public and private sectors (2000-2008)



aid effectively contribute to sustainable development processes in the Paris Declaration on aid effectiveness and the Accra Agenda for Action (AAA). Signatories committed, among other things, to:

- letting developing countries exercise leadership in their own strategies for poverty reduction;
- using country systems as a first option and to the maximum extent possible; and
- focusing on development results.

Although these commitments primarily focus on governments, the AAA recognises that the private sector should also contribute to effective country-led development processes. This is even more the case when private sector investments are supported by the IFC, an institution that commits "to create opportunities for people to escape poverty and improve their lives by … helping to generate productive jobs and deliver essential services to the underserved."[19]

This paper reviews IFC operations to assess whether its lending and investments in the world's poorest countries meet key standards of development effectiveness. Are the IFC's investments really country owned and aligned with developing country national development strategies? Are they supporting, where possible, country systems, institutions and firms? Or are they mainly supporting Northern firms to enter developing country markets? Is the IFC actively seeking to support investments that have the greatest added-value in delivering development outcomes? This report addresses these questions and suggests ways in which the IFC should dramatically change its business model to promote private sector investments that genuinely support pro-poor development and poverty eradication.

Section one of this paper, *Whose development?*, assesses to what extent the IFC supports developing country or rich country firms by reviewing the beneficiaries of all IFC operations in the world's poorest countries since 2008. The second section, *Who decides?*, assesses whether IFC investments are guided by principles of country ownership over national development processes by assessing how investment projects are selected, how they align to developing country national development strategies, and whether they support developing countries' own policy space so that they can set their own investment regimes and private sector development strategies. The last section, *Failing to reach the poor*, provides a critical assessment of the way the IFC seeks to deliver development outcomes when choosing the projects they invest in.

Over 40 per cent of all IFC projects were unsuccessful at generating positive development results.

2. Whose development? The IFC's investments in the world's poorest countries

The main purpose of the IFC is to provide financing that supports "**the establishment, improvement and expansion of private sector enterprises by making loans and equity investments where sufficient private capital is not otherwise available on reasonable terms.**"[20] This means that the IFC aims to target companies that are either too small or risky to access financing in the capital markets, and that are based in countries where credit supply is extremely limited, or interest rates are too high and make financing for local firms scarce and costly.

Credit constraints represent one of the greatest challenges facing companies in low-income countries, and are one of the crucial constraints to growth. In many developing countries firms rely on loans from banks as they have less access to non-bank sources of financing – such as equity markets. However, despite their great reliance on bank loans, firms can rarely access bank lending as "domestic banks (including those that are foreign owned) do not lend enough, or lend enough in sectors where funds are needed. Also, high spreads between lending and borrowing rates dampen investment activity."[21] Therefore, the IFC could have a crucial role in providing alternative sources of finance to cash-strapped firms in the world's poorest countries.

Supporting local firms is important for strengthening the socio-economic fabric in the world's poorest countries. Aid effectiveness principles prioritise, where possible, the use of country systems so that external development finance strengthens developing country institutions at the same time that it delivers a particular development outcome. While in the private sector the role of foreign companies is often crucial when the technology or entrepreneurship is not available, the principle of using country systems should also apply where possible to support domestic investment and local entrepreneurship. Recent research by the Washington-based Center for Global Development found that "MDB direct support to private firms could have a larger developmental impact [if it focused] on nationally owned firms, especially those that are not part of large conglomerates, and particularly on small and medium enterprises [...and] on strengthening domestic financial intermediaries."[22]

This section assesses to what extent the IFC's investments support local firms in poor countries or foreign investors from richer countries by reviewing the beneficiaries of all IFC operations in low-income countries since 2008 to the present date. *Whose development is the IFC supporting?*

IFC investments in low-income countries: which companies receive the lion's share?

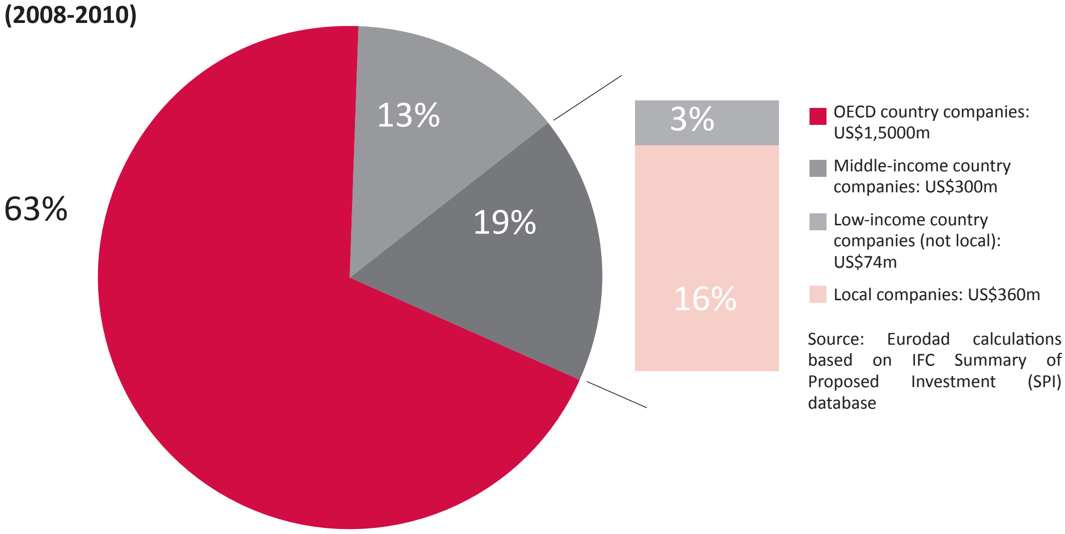
In 2009, the IFC committed over US$4.4 billion for investments in low-income countries, out of a total of US$10.5 billion new commitments. Almost half of all the IFC's new commitments went to the world's poorest countries, up from only a third in 2008.[23] Although in 2010 less than one third of new commitments went to low-income countries (LICs) as a result of the global crisis, the increasing pre-crisis trend is in line with the IFC's strategic goal to increase investments in the world's poorest countries.

So far more than half of the IFC's investments (52 per cent) are still concentrated in just ten middle-income countries. The four largest recipients are the BRICs (Brazil, Russia, India and China) with almost a third of all IFC investments.[24]

However, the fact that a project is located in a low-income country does not necessarily mean that the project is run or owned by companies in the country receiving investments by the IFC (host country), or by companies from other low-income countries. In fact, rich country companies receive most IFC investments. Eurodad found that only 16 per cent of all IFC investments support local companies in poor countries.[25] The lion's share – two thirds – goes to transnational companies from rich countries.

Tracing beneficial ownership of IFC-supported projects – the person or group of individuals who benefit from an investment even though they may not nominally own the asset – is no easy task. [26] Although the IFC discloses this information for most of its projects, it is not always adequately complete or sufficient to determine the final owner of an investment. Companies that receive loans or investments from the IFC are often subsidiaries or affiliates of transnational corporations, or even investment vehicles specifically created to implement a particular project. In order to clarify who actually benefits from IFC supported projects in poor countries, Eurodad traced the beneficial ownership of all IFC projects in low-income countries from 2008 to date, as far as information was publicly available.[27]

Graph 2: Country of origin of IFC-supported companies investing in low-incomecountries (2008-2010)



Source: Eurodad calculations based on IFC Summary of Proposed Investment (SPI) database

Eurodad found that only 16% of all IFC investments support local companies in poor countries. The lion’s share – two thirds – goes to transnational companies from rich countries.

Eurodad disaggregated IFC investments in companies based in high income countries (OECD countries), middle-income countries, and low-income countries. **Graph 2 shows that companies owned by the richest countries (OECD countries) received US$1.5 billion, or almost two thirds of all IFC investments** aimed at promoting private sector activities in low-income countries. Companies from middle-income countries received US$300 million (13 per cent). **Less than one fifth of all IFC investments went to companies from the world's poorest countries**, where credit is most scarce and borrowing costs are higher.

The fact that large companies from rich countries receive most IFC financial support casts doubt on the genuine additionality of the IFC's financial services in terms of development. Whereas the IFC states that its funding is intended to reach the underserved – that is, companies and projects that otherwise would have no access to credit – only one of the eight largest operations approved between 2008 and 2010 provided finance for a project implemented by a company whose beneficiaries are registered in a low-income country (Nigeria). Most IFC-supported companies were registered either in the UK or the US, or even in an off-shore jurisdiction such as the Cayman Islands.

Of particular concern is the IFC's continued support to companies registered in tax havens. Research from Eurodad shows that the IFC supports projects in Ghana, Nigeria, Uganda and Kenya, with project sponsors that are still based in or operate through tax havens.[28] Every year developing countries lose an estimated US$1 trillion through illicit flows; two thirds of this is due to tax evasion and aggressive tax avoidance schemes driven by commercial actors that operate through tax havens or secrecy jurisdictions. This represents a massive draining of resources from the South to the North, amounting to six times annual ODA to developing countries.

Unfortunately, figures show that the IFC is supporting the development of rich country companies, rather than strengthening firms from developing countries where the institution is mandated to improve economic, social and human development.

Table 1: The eight largest IFC-supported projects in low-income countries (2008-2010)

Project name	Project country	Amount (US$ million)	Beneficiary company	Country in which beneficiary company is registered
Vodafone Ghana	Ghana	300	Vodafone Group Plc	UK
Helios Towers	Nigeria	250	Helios Investment Partners	UK
Zain Ghana	Ghana	160	Zain Group	Kuwait
IFC/SCB Facility	Ghana	150	Standard Chartered Bank	UK
Millicom DRC	Congo Dem Rep.	150	Millicom International Cellular S.A	Luxembourg
Tullow Oil	Ghana	115	Tullow Oil Plc	UK
First Bank of Nigeria Plc	Nigeria	100	First Bank of Nigeria Plc	Nigeria
Kosmos Energy	Ghana	100	Kosmos Energy Holdings	USA, Cayman Islands

Which economic sectors does the IFC support?

For all projects assessed in low-income countries from 2008 to the present, the telecommunications sector – mostly targeting the establishment of mobile phone networks – receives by far most of the IFC's investments. The UK's Vodafone Group benefited from the biggest loan (US$300 mn),[29] followed by the Luxemburg-based Millicom International Cellular (US$170 mn) and Kuwait's Zain Group (US$160 mn). During the period assessed, these three major multinational companies received more support from the IFC than all domestic firms in low-income countries combined.

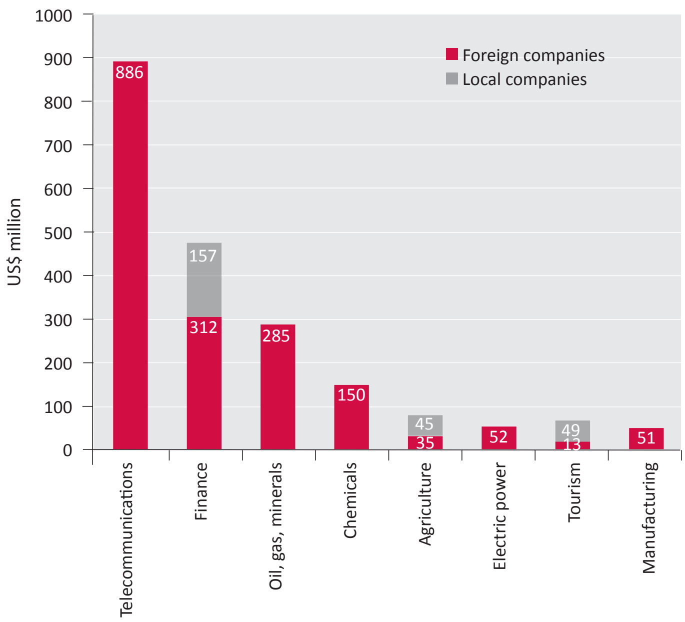
The financial sector receives the second largest share of the IFC's investments in LICs. This may reflect the increasing use of financial intermediaries by the IFC, which are classified under the financial sector, but it is unclear to which sectors these institutions are lending IFC money. Since money is fungible and these institutions are rarely transparent about how they re-invest money lent to them by the IFC, it is difficult to trace what share of their portfolio corresponds to the IFC loan.

Oil, gas and mining rank third. All projects in this sector are owned and have beneficiaries in rich countries. The Jubilee oil field offshore of Ghana may become the largest single IFC-supported project in a low-income country, with the IFC channelling US$854 million for the exploitation of the Ghanaian Jubilee Field.30 Most of these operations are export oriented and fail to meet energy and natural resource needs in the host country.

The IFC has a preference for capital-intensive, labour-extensive sectors, such as telecommunications and the extractive sector, which offer few job opportunities and thus offer little direct income for the poor. Moreover, firms owned by multinationals, or engaged in exports, mining, oil and financial services generally tend to be less financially constrained.[31] The manufacturing sector which is on average more labour intensive and which tends to be more financially constrained receives relatively little financial support from the IFC.

With telecommunications and extractive industries, the IFC has chosen to focus on highly controversial sectors. Promoting FDI in the telecommunications sector may lead to severe balance of payments problems because

Graph 3. Economic sectors supported by the IFC, and the origin of companies delivering projects in each of these sectors 2008-2010



Source: Eurodad calculations based on IFC SPI database the foreign firms generate most revenue locally and in local currency, while foreign investors prefer to convert and repatriate their profits in foreign currency.

The expansion of the extractive industries sector has the potential to provide additional revenue for host countries by way of taxes and royalties; however, all too often poor countries are advised by International Financial Institutions to lower tax rates to allegedly enhance the investment climate and attract more FDI. For example, the IMF released a paper this year advising the government of Mali to decrease royalties on gold mining, precisely at a time of record-high gold prices when the country had an opportunity to reap the benefits of this commodity boom.[32] Mining and extractive industries do not favour technology transfer, depriving developing countries from one of the stated benefits of FDI. They can also "contribute to the "resource course" by harming the economy, through, for example, contributing to the Dutch disease, and undermining political systems through encouraging rent-seeking behaviour and corruption."[33] It also entrenches low-income countries in the role of suppliers of commodities in the global division of labour.

Manufacturing, the key sector for boosting industrial development and creating a strong and diversified domestic private sector, remains underserved. The agricultural sector, which is the major support of livelihoods in poor communities, also receives little financial support from the IFC. Furthermore, the IFC's advisory services for the agricultural sector have been strongly criticised for promoting increased investor access into land markets which is threatening to undermine the wellbeing of local communities, both in terms of land rights as well as access to food. Even in sectors such as agriculture, where supporting small scale farming could have a greater developmental impact, the IFC has chosen to support large agribusiness companies in the North.[34]

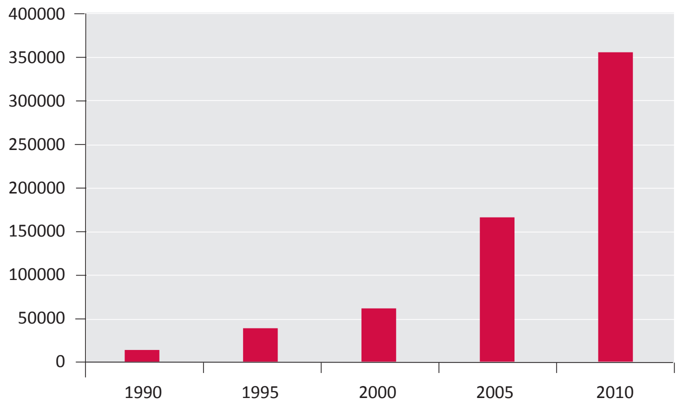
2C. Preference for large transnational companies from rich countries

IFC investments in poor countries are heavily biased towards promoting Foreign Direct Investments (FDI) by multinational companies rather than domestic investments by firms from low-income countries. Although FDI is sometimes necessary when a poor country lacks the technology, expertise or capital available to carry out a specific investment, its impact on pro-poor and nationally owned development is not without controversy. This is particularly the case when "commercial interests of transnational companies do not coincide with a host country's development objectives, for example with regard to sourcing behaviour and reallocation of profits through transfer pricing practices."[35] This is why national ownership over investment policies and strategies cannot be overstated.

Weak domestic capacities in a country can also hamper its ability to reap the benefits of inward FDI and limit knowledge spillovers. In this regard, research by the United Nations Conference on Trade and Development (UNCTAD) has warned that market

Although FDI is sometimes necessary when a poor country lacks the technology, expertise or capital available to carry out a specific investment, its impact on pro-poor and nationally owned development is not without controversy.

Graph 4. Profit remittances on FDI for all developing countries (US$ million)



Source: Global Development Finance 2010 (WB, IMF): Repatriated profits on FDI for all developing countries

entry of transnational corporations can have negative impacts as they may crowd-out local firms which are unable to compete.[36] Although this may have the potential of increasing economic efficiency when domestic enterprises are relatively uncompetitive, crowding out may lead to increased market concentration and the destruction of the national socio-economic fabric.

FDI can also have detrimental impacts on the balance of payments. Although it implies a foreign exchange inflow at the time of transaction, affiliates of transnational corporations in general use more imported inputs, employ more foreign staff, and repatriate a large share of their profits.

The IFC cannot base its investment decisions on ideological principles, but rather on evidence that its investments contribute to pro-poor development and poverty eradication.

Evidence shows that "foreign affiliates borrow much capital locally, earn high profits, and soon are removing more capital from the low-income countries than they imported at the outset."[37] Analysis on the impact of different categories of FDI on the balance of payments shows that "foreign ownership represents a change in post-tax profits from a local currency cost to a foreign exchange cost."[38] This is particularly problematic when foreign investors move into sectors where all income is generated from local clients and in local currency – such as water supply, health services and to a large extent telecommunications. These activities are therefore a drain on the host country's foreign exchange reserves. The analysis concludes that only FDI which creates new productive capacities – greenfield FDI, as opposed to mergers and acquisitions – in the export or import substitution sector has a sustainably positive impact on the balance of payments.

Literature on the impacts of FDI in low-income countries is vast and well beyond the remit of this paper. However, findings on the potentially negative impacts of FDI when the right conditions are not in place cannot be dismissed. This is why FDI should be handled with care, strictly regulated, and supported selectively.[39] IFC investments are not in line with this;

Box 3: Foreign Direct Investment and development

International Financial Institutions such as the World Bank have long pushed low-income countries to deregulate the inflow of investments by foreign multinational corporations (Foreign Direct Investment: FDI). At the launch of its 2010 report *Investing Across Borders*, the joint IFC-World Bank Financial and Private Sector Development Vice Presidency maintained that "FDI is critical for countries' development, … [as] it brings new and more committed capital, introduces new technologies and management styles, helps create jobs, and stimulates competition."[40]

Academic research suggests otherwise. Numerous case studies demonstrate that foreign investors often push domestic firms out of business, replace traditional labour with imported capital-intensive technologies, and repatriate their profits. In a special issue of the European Journal of Development Research, all contributors are "unanimous in their scepticism of the Washington consensus and the rather simplistic view taken by certain mainstream economists that FDI is a *sine qua non* for economic development."[41]

Quantitative cross-national analyses by scholars of economic sociology support this scepticism. While FDI may give a short-term boost to economic growth, a vast body of research demonstrates that developing countries with high degrees of foreign capital dependence (as measured by FDI inward stocks relative to Gross Domestic Product) also show above-average levels of income inequality.[42] This suggests that FDI-induced short-term growth only benefits the rich. With regard to the long-term growth of Gross Domestic Product and average income, research shows that in the 1970s and 1980s foreign capital dependence had a statistically significant detrimental effect.[43]

From the 1980s onwards, however, an increasing share of FDI began to flow to newly industrialising countries such as Korea and Taiwan, which submitted foreign investors to strict regulations (eg, joint-venture policies, restrictions on profit repatriation, protection of domestic infant industries).[44] Regarding the long-term effects of FDI in the 1990s and 2000s, recent cross-national analyses thus show a mixed picture. On average, foreign capital inflows no longer seem to have a significant impact on economic growth.[45] This supports the view that unregulated investment flows may still hamper economic development, whereas FDI that is subject to meaningful regulations may foster it.

In a nutshell, **empirical research demonstrates that the developmental impacts of FDI are highly ambiguous.[46] They largely depend on the regulatory context, but also on the average levels of education and the absorptive capacity of the domestic industry.** As Oxford University development expert Sanjaya Lall contends, International Financial Institutions "do need a new agenda if FDI is to be leveraged efficiently to promote development."[47]

Source: Herkenrath, Mark: Ausländische Direktinvestitionen und nachholende Entwicklung: ein Forschungsüberblick, Sociological Institute of the University of Zurich, 2010. http://www.suz.uzh.

they are strongly unbalanced towards FDI, to the detriment of domestic firms. There is no evidence that the IFC supports a selective approach to FDI by developing countries.

The FDI bias could be explained by the IFC's explicit commitment to promoting "open and competitive markets in developing countries."[48] However, the IFC cannot base its investment decisions on ideological principles, but rather on evidence that its investments contribute to pro-poor development and poverty eradication. As an institution with a clear development mandate, it must also prioritise development outcomes, and cannot rely on financial profitability as the primary rationale to choose which projects it supports. The institution should count on clear ex-ante procedures to ensure that its projects support development for the poor, and not for firms in rich countries.

Financial additionality: which companies and projects are underserved?

Providing funding for companies that do not have access to other sources of credit is clearly stated as one of the main added-values of the IFC. However, the IFC does not have clear guidelines on how it makes this concept operational, and how it makes sure that it is actually channelling its financial support to companies that otherwise would not have had access to credit.

In the absence of clear guidelines, the IFC's investment officers decide: "Is our money really needed? What risks are we willing to take that others are not? Which services are we providing that others are not?"[49] This is problematic as it leaves a high discretionary role to each individual investment officer to take a final decision on whether a company is eligible or not, opening the way to inconsistencies or even arbitrary decisions.

Findings in section 3 of this paper question to what extent the IFC is really providing financial support to the companies and projects that need it the most. For instance, seven out of the eight largest operations representing more than half of all IFC investments in the world's poorest countries provide support to companies that are listed in stock exchanges. This shows that IFC investments are primarily going to large companies in rich countries which in general would have had access to other funding sources without the IFC's support, but they use the IFC's status as preferential creditor to be able to minimise their risk exposure when making investments in the South. Eurodad's findings also show that the IFC is mostly channelling finance to the telecommunications and extractive sectors, which are in general highly profitable, hence questions arise on whether these really are projects that would have lacked access to credit in financial markets.

Guidelines for company eligibility could consider specific criteria, such as the size of the company, whether they are listed in a stock exchange, and their track record accessing credit in financial markets. This could ensure that the IFC targets small and medium enterprises, which face greater financial constraints. Such guidelines should also be clearer on the need for providing support to companies with domestic beneficial ownership in poor countries – as opposed to subsidiaries of multinational companies. This should aim to correct the current IFC bias for FDI, as opposed to domestic investment. Domestic investment matters, particularly in sectors that are deemed sensitive such as energy and infrastructure, as shown by the institutions and policies of several industrialised countries aimed at preserving the national ownership of sensitive economic sectors.[50]

Project eligibility should also be clearly spelt out, encouraging economic sectors and activities that are financially riskier but that can promote innovation and positive development outcomes for the economy, such as low carbon technology. It is questionable whether the extractive sector- mostly conducted by multinational companies which aim to export a high share of the natural resources extracted and have good access to alternative sources of finance- should be a priority sector for public development institutions such as the IFC. Although these discussions are well beyond the remit of this paper, it is clear that clear

The current IFC bias for foreign investment should be corrected; domestic investment matters.

guidelines should be in place to inform project selection. In any case, project selection should ultimately be aligned with the development objectives of host countries, including their investment policies and national strategies for private sector development.

Box 4: IFC support to financial intermediaries

The IFC's committed portfolio in financial sector investments grew sevenfold between 2004 and 2008, from US$1.7 billion in 2004 to US$12.3 billion in 2008. In 2009, lending to the financial sector was almost 40 per cent of the disbursed investment portfolio[51] and over half of all new project commitments.

The IFC increasingly supports financial intermediaries for two reasons. Firstly, it assumes that a well-functioning and developed private financial sector is vital for economic development. Secondly, lending to micro, small and medium-sized enterprises (MSMEs) is seen as particularly important for development but difficult to directly implement, as the IFC would have to handle an enormous amount of relatively small projects. Lending to MSMEs is therefore almost exclusively channelled through financial intermediaries.

Financial intermediaries report their portfolios to the IFC. It is, however, difficult to establish which part of the overall portfolio of a financial intermediary is financed with IFC money; even if the support is intended to be for a particular part of the portfolio, it is difficult to avoid problems of fungibility. Furthermore, the IFC does not systematically aggregate information on the sub-project level, so it does not establish to which sectors the money ultimately goes, nor to which size sub-project. While it emphasises its interest in lending to MSMEs, it is unclear how it ensures that sub-project lending does actually focus on these. It is hence necessary that the IFC develops a clear strategic framework and concrete policies on how it selects financial intermediaries (FIs) and how it ensures that the funded sub-projects or FI portfolio fit into national development strategies. Towards this aim, the IFC should change its market-driven approach to an approach directly based on development and poverty reduction aims.

The IFC should require that enterprises at the sub-project level are locally owned, and either micro, small or medium-sized enterprises or poor households, as those usually lack access to funding and other financial services. FIs need to be required to make the list of subprojects and/or portfolios available to local stakeholders and the general public.

Core to the idea of lending through FIs is that the IFC cannot oversee vast amounts of small-scale projects, which are vital for development and poverty reduction. While the supervision and monitoring does need to improve considerably as specified above, we acknowledge that there are limits to the degree of supervision feasible. Therefore, the selection process of FIs must be particularly thorough and careful. Financial intermediaries should:

- be locally owned and domiciled,
- provide evidence that they are responsible tax payers, and
- have poverty reduction and sustainable development as part of their mandate and core objectives.

Given the difficulties of monitoring and supervising FIs, the IFC must stop providing loans to FIs categorised high-risk, further expand its supervision and monitoring of the ESMS, and crucially, decrease the over-reliance on self-reporting.

Source: Bretton Woods Project: IFC's support of financial intermediaries, November 2010.

3. Who decides? IFC investments and developing country ownership

In the decade of the 2000s, bilateral donors and IFIs, pressured by demands from civil society and developing country governments, realised that effective development cooperation had to be strongly rooted in national development priorities – it had to be country owned and led. Evidence showed that decades of externally led development assistance and economic reform programmes pushed by the International Financial Institutions (IFIs) in the South had delivered poor development results at best, and all too often had harmful effects on the most vulnerable.

Under the Paris Declaration and the Accra Agenda for Action, the international community committed to respecting developing country ownership. Bilateral and multilateral development institutions, including the World Bank, committed to putting developing countries in the driver's seat of their development processes, responding to their own development strategies and policies. In practice, this meant that developing countries should draft their own national development strategies and bilateral or multilateral institutions would provide external development finance where needed to fill in some of the existing financing gaps.

Despite differences on how the public and private sectors operate, international agreements on aid effectiveness state that the private sector should also contribute to effective country-led development processes. This is ever more important with regards to Foreign Direct Investment (FDI), for which benefits on development are "generally not automatic and may depend upon the active use of government policies to promote them."[52] Research by Christian Aid on the role of the private sector in contributing to pro-poor development concludes that "governments have to find the right balance of interventions and measures if the private sector is to drive the economy while at the same time including poor people and offering them protection. […] Moreover, developing countries need space for making the right policies, drafting the right regulations and building the right institutions for dynamic, inclusive and protective private sector development strategies."[53]

Not all businesses and sectors have an equal developmental impact, and some can even have negative impacts on the poor – as outlined in section 2 of this report. Small and medium enterprises in developing countries tend to provide the majority of jobs. Also, different sectors of the economy have distinct developmental impacts: whereas small scale farming is the major provider of livelihoods in developing countries, the extraction of natural resources can harm the economy under certain circumstances, for example contributing to Dutch disease and undermining political systems through encouraging rent-seeking behaviour and corruption.[54] Public institutions with development mandates such as the IFC have a particular responsibility to ensure that the private investments they support are aligned with developing countries development priorities and that they help, not hinder, efforts by poor countries to make private investments deliver for the poor.

Headquarters in Washington: influencing IFC project selection

The IFC claims that its investment decisions are country owned, as they are guided by the Country Assistance Strategies (CASs) of the World Bank. The World Bank's CASs are supposed to be based on national development strategies which, in principle, should have been developed in broad consultation with civil society. However, civil society organisations have often criticised the method in which national development strategies are drafted.[55] In the past, the World Bank or Northern consultants often had a strong influence in shaping national development strategies, thus resulting in a long list of sectors and objectives, which allow donors – and the IFC – to select their own priority sectors rather than supporting the country in their own strategic directions. Even in cases where they are genuinely country led, the WB CASs often contain more details than national development strategies, thus allowing the Bank to form their own country strategies beyond what the authorities have themselves defined.

In practice, it is hard to see how the IFC aligns its investments with developing countries' national priorities. Whereas in public sector projects and programmes, the WB claims that they have enhanced policy dialogue with authorities and that their lending is now the result of mutual agreements, the IFC continues to have a strong say in which projects deserve the institution's financial support.

IFC investment officers seek opportunities for "business development," and "identify suitable projects […] guided by the IFC's strategic goals."[56] They then propose certain projects to the industry departments at the IFC headquarters in Washington, which decide which projects deserve the IFC's financial support and which do not. No information is disclosed on which projects were considered or what criteria were used to select the successful projects. Justifications for investment decisions are only made public in cases of approval.

The IFC's financial support is supply-driven rather than needs-driven, as investment officers proactively seek business opportunities all too often guided by market opportunities rather than priorities stated in national development strategies. Findings in section two show that well established and profitable sectors, such as extractive industries and providing telecommunications services (rather than developing communications technology), are heavily prioritised. This could be explained by the need to generate profits and the incentive schemes of the investment officers – Eurodad did not have access to information about this.

According to IFC sources, IFC resources available for investment often outweigh the number of projects that apply for IFC support, which seriously questions whether the IFC is in a position to select those that are most aligned with country priorities and that yield the highest development results, or whether they just have to approve the few available projects, pushed by the well-known IFI pressure to lend. Recent CSO research shows that "projects are identified according to market demand for IFC financing [and] country assistance strategies drafted by MDBs in consultation with governments are commonly much less influential than commercial potential in determining which projects are selected."[57]

Deaf to the voices of affected communities and citizens

Widespread criticism of negative social and environmental impacts of IFC-funded projects led to the elaboration of environmental and social performance standards at the end of the 1990s. Assessing compliance with these standards is an obligatory step in the appraisal process. However, free, prior and informed consent of the affected population, as defined by international law, is not a necessary condition for project approval.

IFC safeguards constitute at best a negative "do-no-harm" approach, rather than active consultation with local communities on their needs. Citizen participation and democratic ownership over IFC investments is all too often ignored, and complaints by local communities over the social and environmental impacts of IFC investments dismissed.[58]

The IFC claims that without their participation in these projects, impacts could have potentially been even worse. However, a development

Citizen participation and democratic ownership over IFC investments is all too often ignored, and complaints by local communities over the social and environmental impacts of IFC investments dismissed.

The IFC and human rights violations in Guatemala

In June, human rights violations prompted the Guatemalan government to announce that operations would be suspended at a mine backed by the International Finance Corporation (IFC), the World Bank's private sector arm. Canadian firm Goldcorp received a US$45 million loan from the IFC in 2004 for the Marlin open pit gold and silver mine, despite civil society concerns that consultations and social and environmental impact assessments had been inadequate. A May 2010 report commissioned by Goldcorp claimed that the mine offered social benefits, but found that human rights were being violated, due diligence on social and cultural impacts had not been carried out, and the mine lacked a proper plan for closure.

The government's decision followed a protest by 12,000 people in the neighbouring city of Huehuetenango and calls for the suspension by the Inter-American Commission on Human Rights and the UN Special Rapporteur on Human Rights. Local activists have reportedly been subject to intimidation and violence. "The communities affected by the Marlin mine applaud the government's decision. … Nevertheless, we are worried about the threats that we have received. We have been told that there will be consequences for defending our rights," said Javier de Leon of local organisation, the Association for the Integral Development of San Miguel.

Source: Bretton Woods Project: Undermining development? IFIs' role in extractive industries in disarray, September 2010.

institution should not aim at minimising the harm done by private sector investments, but actively seek to comply with the highest social and environmental impacts and to deliver positive development results.

IFC advisory services: constraining poor country policy space?

In the past decade, the IFC has dramatically increased the advisory services it provides, often hand in hand with its financial support. Today advisory services represent 20 per cent of the IFC's portfolio, and the number of advisory staff has grown seven-fold since 2000. As a result, the IFC has become a hybrid institution that provides financing to private firms, while at the same time providing advisory services to the governments that receive IFC investments.[59]

The double role of the IFC as both investor and advisor creates serious conflicts of interest. The IFC is the co-owner of private companies and, as their financier, has a natural vested interest in the profitability of its clients. Therefore, IFC advisory services to governments may be biased, aiming to create an investment climate in which the IFC-owned or funded companies in the respective country can maximise their profits, potentially disregarding broader developmental impacts. Incentives to take up these services are high, as they almost always come free of charge and they are advertised as the ways in which the IFC can help developing countries to establish "open and competitive markets" that will attract ever growing shares of foreign investment.

The double role of the IFC as both investor and advisor creates serious conflicts of interest.

Ironically, while the IFC's financial services are channelled into the private sector, advisory services mostly target governments. They typically aim at reforming government policies and institutions to ensure there are no market distortions and to guarantee an enabling business environment. According to research by Christian Aid, *Getting back on the rails – Foreign donor private sector development strategies,* the IFI push for this type of reform "has increased the centrality of private sector development in national poverty reduction strategies because, after two decades of deregulation, liberalisation and privatisation, the successful functioning of different markets is more crucial than ever for development."

This research expresses concerns about this approach, "as they continue to emphasise market-oriented solutions where they may not be appropriate in the short to medium term." In particular, Christian Aid highlights that the emphasis of the World Bank on the investment climate is not well grounded, since it may be less significant in attracting FDI than other factors, such as market size, Gross Domestic Product (GDP) or growth rate. Also, this approach continues to liberalise investment regimes despite developing country opposition in recent OECD and WTO negotiations – including by derailing the attempt at the WTO summit in 2003 in Cancun to launch negotiations on investment liberalisation – and the ongoing civil society protests about liberalisation under EU bilateral and regional trade negotiations.[60]

However, IFC advisory services continue pushing the investment climate approach to private sector development. Almost three quarters of advisory projects for low-income countries approved in the last year[61] are aimed at enhancing the investment climate, promoting a business enabling environment, and providing corporate advice. This raises serious concerns about how the IFC advisory services constrain developing country policy space to decide which investment regimes and private sector development strategies are most appropriate to achieve their national development strategies and goals.

IFC governance: rich countries still decide

The IFC operates only in developing countries. However, the majority of its shares are held by the industrialised countries in which it does not operate. Also, the United States still effectively appoints the President of the World Bank Group, including the IFC. The non-borrowing countries hold 65.03 per cent of voting rights.[62] Therefore, in a strictly legal sense, the IFC is not owned by the countries in which it operates, in which its operations affect people's lives.

The lack of formal and legal ownership means that it is even more crucial that country ownership is ensured further downstream in the process. One step already taken by the IFC to promote ownership is to decentralise. More than half of all staff are now based in IFC country offices.[63] This potentially sensitises IFC staff to local priorities, builds relationships with locally owned and established companies, including smaller sized companies which do not have liaison offices near the IFC headquarters in Washington. However, the figures may well be distorted by the scale-up in the IFC's advisory services.[64] Providing advisory services necessarily implies deploying staff to the project country. However, strategic decision-making is still located at headquarter level in Washington where the industry departments approve or reject projects.

4. Development results: an intended outcome or just a by-product?

As part of the World Bank Group, the IFC is formally a development institution with a development mandate which aims "to create opportunities for people to escape poverty and improve their lives by supporting companies and other private sector partners where there is a gap, and by helping to generate productive jobs and deliver essential services to the underserved."[65]

Private sector investments do undoubtedly contribute to economic growth. However, as profit seeking institutions, private companies do not always pursue the same development objectives that public institutions with a development mandate do. Therefore, public development finance channelled to the private sector should precisely strive to prioritise investments that, besides their financial profitability, are expected to have high development returns.

In 2007, the IFC launched a system, the Development Outcomes Tracking System (DOTS), to monitor the impact of its investments and how they contribute to effective development in poor countries. This came hand in hand with the creation of a devoted unit on development effectiveness, showing the IFC's desire to enhance monitoring and reporting on the development impacts of its investments. These are welcome developments to measure the institution's performance; however, monitoring the impacts of investments when the project is at the implementation phase is not equal to prioritising development effectiveness when selecting a specific project and assessing its expected developmental impacts.

This is one of the main flaws of the DOTS system, which monitors development outcomes systematically, but has no clear feedback on future investment decisions. IFC staff interviewed by Eurodad explained that DOTS scores are used to inform future project selection; however, it is unclear how DOTS findings are used to do this. How are these findings applied to new projects applying for IFC support? What are the lessons learned from failures of specific projects to ensure that development effectiveness is a priority when selecting future IFC investments? There is no clear answer to most of these questions so far.

Furthermore, the IFC does not conduct poverty and social impact assessments (PSIA) of its projects. Therefore, development outcomes are at best a fortunate by-product of the IFC's investments rather than an intended priority when selecting the projects that qualify for IFC financial support.

Despite the abovementioned shortcomings, the DOTS system cannot be underestimated. It is the only tool available at the IFC to track whether the institution delivers on its development mandate and it is allegedly used by IFC staff to inform their future investment decisions. However, the lack of transparency in how indicators are selected and the lack of disaggregated information on the development effectiveness of each project make it difficult for external stakeholders to critically assess how robust the system is as a tool to evaluate the IFC's development effectiveness.

The DOTS is an evaluation tool that assesses four dimensions of impact: financial performance, economic performance, social and environmental performance, and private sector developmental impact. It uses a variety of indicators, which are often sector specific (i.e. not all indicators are used for all sectors such as infrastructure or agriculture). Only a few selected indicators are mandatory for every sector. For the agribusiness sector, for example, mandatory indicators are the financial rate of return, total employment (sex disaggregated), taxes and other payments, farmers engaged, economic rate of return, and the SME suppliers engaged. IFC staff are responsible for selecting additional indicators from a long list.[66]

Unfortunately, the IFC does not disclose information at project level, nor the scores received by each of the indicators selected to measure the developmental impact of a specific project. The IFC states that making this information publicly available would violate their clients' confidentiality; however, this is a serious accountability gap for a public development institution.

Furthermore, the DOTS does not provide disaggregated data for different income and social groups (the exception is the gender disaggregated employment data). Therefore, it is unclear which social and income groups benefit from additional jobs, income, opportunities or essential services provided by IFC clients. It is possible that IFC supported projects subsidise services for middle or high income groups but this is not captured in the type of indicators used by the IFC.

While DOTS scores for projects remain confidential, the aggregated scores for different sectors are disclosed. Interestingly, the extractive sector received the best score (80per cent) in 2009, whereas manufacturing and services, presumably a key sector for sustainable economic development, scores the lowest (at just 54per cent).[67] However, this cannot be publicly scrutinised. Were the indicators chosen the appropriate ones to measure the development effectiveness of the project? Were the targets ambitious enough? We just don't know – this information is not publicly available.

Among the mandatory indicators are also the financial returns of the project. There is no doubt that private investments must be profitable in order to be sustainable and generate social returns such as tax payments and job creation. However, there is a certain conflict between different indicators. In particular in the extractive sectors, high financial return for the investor may indicate low corporate taxes or royalties paid. High profits do not necessarily trigger reinvestments, as foreign investors are usually no longer interested in the country when natural resources exhaust. It is unclear how the IFC weighs the importance of different (sometimes conflicting) indicators, and what it prioritises – the private or the social return.

Large projects on average receive higher DOTS scores than smaller projects. This contradicts the conventional view that support for SMEs (i.e. necessarily small projects) has the highest developmental impact, a view that is also supported by the IFC: "In many regions of the world, small private companies are the principal engines of economic growth and employment creation."[68] The IFC argues that this is due to the higher risks of SME investments – they are more vulnerable to external shocks and are less competitive because they do not benefit from economies of scale.[69] This means that they have a more difficult starting position when targeting the same objectives as well-established multinational corporations. However, it is unclear whether the IFC factors in these disadvantages when they set baselines and targets for SMEs. Considering current DOTS results, IFC staff have an incentive to select, for example, large investments by large corporations in the extractive industries sector, rather than investments by SMEs in the manufacturing sector. The former is a group of enterprises predominantly owned by rich countries, whereas developing country firms fall under the latter category.

Managing for development results is crucial for making development finance effective to deliver pro-poor growth and poverty eradication. The IFC must ensure that it does not only monitor its developmental impact, but that it actively manages its portfolio to deliver positive development outcomes. Public development institutions that provide financial support to the private sector must also ensure that there is a clear added-value in channelling public monies to private investments. Publicly supported

Development outcomes are at best a fortunate by-product of the IFC's investments rather than an intended priority.

investments must contribute to strengthening the national socio-economic fabric in developing countries, thus promoting local companies and local entrepreneurship which otherwise would not have access to credit. They must also contribute to the creation of decent jobs and skilled employment opportunities in poor countries, to strengthening local capacities and knowledge, and to promoting sectors which are crucial for the well-being of poor countries' citizens.

5. Conclusions

Less than one fifth of all IFC investments went to companies from the world's poorest countries, where credit is most scarce and borrowing costs are higher. Two thirds of IFC's financial support went to companies based in the richest countries.

Development institutions have traditionally provided external finance to governments in poor countries to fill in their financing gaps. Since the 1980s they have increased support for companies investing in poor countries. However, it was not until the 2000s that resources channelled through the private sector increased dramatically compared to those channelled through the public sector.

The International Finance Corporation (IFC), the private sector arm of the World Bank, is one of the largest public development institutions providing finance to the private sector investing in developing countries. In the last decade, investment and lending commitments by the IFC increased almost four-fold from US$4 billion in 2000 to almost US$15 billion in 2008. In 2008 over one third of all World Bank new commitments were through the IFC. As a result, private sector finance is swiftly becoming a new core business for the World Bank Group.

Public development institutions such as the IFC that support private investments in developing countries must ensure that these investments contribute to pro-poor and equitable development and that they are aligned with poor countries' development priorities. As part of the World Bank Group, the IFC must also comply with internationally agreed principles on aid effectiveness, such as developing country ownership over national development strategies, use of country systems and institutions, and managing for development results. However, this paper shows how the IFC fails to ensure that the private investments that they support meet key standards of development effectiveness.

Whose development? IFC investments in the world's poorest countries

The main purpose of the IFC is providing finance to support "the establishment and expansion of private sector enterprises by making loans and equity investments where sufficient private capital is not otherwise available on reasonable terms."70 Therefore, the IFC should support companies that are either too small or risky to access financing in the capital markets. This is particularly the case in the world's poorest countries where families and firms often cannot borrow to invest, or they can borrow only at exorbitant interest rates.

Supporting local firms is also important to strengthen the socio-economic fabric in low-income countries. While the role of foreign investment and companies is necessary when local initiatives are not available, effective external finance should prioritise, where possible, domestic investment and local entrepreneurship.

However, the analysis of the IFC's portfolio in low-income countries shows that the IFC does little to promote the development of a strong and sustainable domestic private sector in poor countries. Less than one fifth of all IFC investments went to companies from the world's poorest countries, where credit is most scarce and borrowing costs are higher. Two thirds of IFC's financial support went to companies based in the richest countries. The remaining projects went to companies in middle-income countries and transition economies. Moreover, the eight largest operations account for more than half of the IFC's portfolio in low-income countries, showing that the IFC targets mostly large companies from rich countries, rather than smaller companies from poor countries.

The IFC reaches firms that are well-established and have access to financial services such as commercial credits or bond issuance on international capital markets. Domestic companies, which are actually financially underserved, remain underserved by the IFC too. While the IFC is scaling up its support for investment in poor countries, the persistent bias towards FDI rather than domestic investment demonstrates that the IFC continues to dismiss the importance of supporting a strong domestic private sector in low-income countries.

Who decides? IFC investments and developing country ownership.

Country ownership is fundamental to ensure that developing countries are in the driver's seat of the development process. However, the IFC fails to show how it supports developing country ownership over their industrial and agricultural policies, investment policies and strategies, and the development of its financial and private sectors.

Although the IFC claims that it ensures country ownership by aligning its investments with the World Bank Country Assistance Strategies (CASs), the CASs are a poor indicator of country ownership as they do not always mirror developing country development priorities. Moreover, the industry department at the IFC headquarters in Washington – and not country authorities – have the strongest say on which projects deserve financial support and which do not. IFC investment officers actively seek business opportunities driven all too often by market considerations rather than responding to developing countries' demands and needs.

The IFC clearly states in its mandate that they strive to promote "open and competitive markets" in developing countries. In addition, IFC advisory services continue to push the investment climate approach to private sector development. Almost three quarters of advisory projects for low-income countries approved in the last year are aimed at enhancing the investment climate, 71 promoting a business enabling environment, and providing corporate advice. Whereas these are legitimate policy options, developing countries must be allowed the necessary policy space to decide whether and how they want to liberalise their markets and how they sequence liberalisation to ensure it does not undermine their development goals. However, the way in which the IFC operates seriously questions how the institution implements, in practice, their responsibility to support developing country policy space and ownership over their national development strategies.

Failing to reach the poor? The IFC's added-value in delivering development outcomes

In 2007, the IFC launched the Development Outcomes Tracking System (DOTS), to monitor the impact of its investments and how they contribute to effective development in poor countries. These are welcome developments, but monitoring the impacts of investments once the project is in the implementation phase is not equal to prioritising development effectiveness when selecting projects that deserve the IFC's support.

It is unclear to what extent IFC support is reaching the underserved people through providing new work and income opportunities or access to essential services. Despite improvements in the evaluation tools, monitoring and evaluation do not satisfy standards. Project level development outcome data is not disclosed, and data available is not disaggregated by social and income groups. It is also unclear how the IFC weighs the performance of different (sometimes conflicting) indicators, and what it prioritises – the private or the social return.

IFC data shows that large projects and the extractive sector receive the highest DOTS scores. This may effectively increase the incentives of IFC staff to select, for example, large investments of large corporations in the extractive industries sector (mostly owned by rich countries), rather than investments by SMEs in the manufacturing sector.

As a development institution, the IFC must ensure that it does not only monitor the developmental impact of its investments, but that it actually invests where it can deliver positive development results. Public development institutions that provide financial support to the private sector must also ensure that there is a clear added-value in channelling public monies to private investments. They must also contribute to the creation of decent jobs and skilled employment opportunities in poor countries, to strengthening local capacities and knowledge, and to the promotion of sectors that are crucial for the well-being of poor countries' citizens. Unfortunately, this paper shows that the IFC channels the majority of its funds to private companies that are not the most needy, and which may not contribute to the most positive development outcomes.

Recommendations from Eurodad

For governments and the largest World Bank and IFC shareholders:

- Rebalance the amount of finance channelled through the WB public and private sector lending arms. Respond to the needs of the public and private sectors in developing countries to ensure positive development outcomes and allocate bilateral and multilateral funding accordingly – rather than following market driven demands.

- Radically change the IFC's business model by ensuring that positive development outcomes – including social and environmental outcomes - are the overriding priority when making investment decisions, and the main benchmark against which the IFC's effectiveness is assessed. To ensure that investment decisions are evidence-based:

    Establish mandatory ex-ante poverty and social impact assessments (PSIA) for all IFC investments, including by consulting indented beneficiaries and affected populations.

Supporting small and medium enterprises in low-income countries:

- Establish operational policies that, when investing in poor countries, require prioritising investments in domestic companies or financial intermediaries (FIs) or companies/FIs from other LICs.

- When FIs are needed to intermediate IFC investments, ensure that these FIs comply with the highest standards of responsible financing and use local investment and promotion agencies as the preferred option. FIs must also:

    a Focus on positive development outcomes;

    b Respond to the needs and demands outlined in national development strategies;

    c When operating in low-income countries, support micro, small and medium-sized enterprises, based on a sensible and verifiable definition of these categories; and comply with high transparency standards which allow the IFC's proper monitoring and oversight.

Aligning investments to developing countries' priorities and needs

- In order to respect developing country ownership, align all investments to national development strategies, including national industrial and agricultural policies and strategic priorities for private sector development.

- Ensure that advisory services are demand-driven and respond to stated developing country needs. For this purpose, phase out free provision of advisory services and instead provide financial resources and let developing countries choose their preferred provider.

Enhancing transparency

- In order to ensure appropriate monitoring of the beneficiaries of IFC-supported projects, require the systematic disclosure of beneficial ownership of all companies and financial intermediaries supported by the IFC.

- Require that the development outcomes of all IFC-supported projects be disclosed at the project – not aggregated – level. This is crucial to improving accountability to external stakeholders and affected communities.

For the IFC:

In order to make sure that the recommendations outlined above are implemented at the operational level, the IFC should:

- Make explicit in the guidelines for project selection that positive development results are the first criteria for selecting all IFC investments.
- Adjust incentive schemes for investment officers and industry departments to ensure that when investing in low-income countries, domestic companies or low-income country companies/ FIs are prioritised.
- Consider IFC equity stakes in companies for what they are: foreign, not nationally-owned.
- Make sure that foreign investors receiving IFC assistance genuinely contribute to the development of the private sector in LICs, by setting binding targets on local content requirements, knowledge and technology transfer, joint ventures, and restrictions on repatriating profits.
- Ensure that all investments respond to the priorities stated by developing countries in their national development strategies by:

  a including in all Summaries of Proposed Investment (SPIs) how investments respond to national development priorities;

  b matching the portfolio for each country to investment priorities of low-income countries, as stated in the country's national development strategy, and its industrial and agricultural policies.

- To avoid conflicts of interest between different IFC roles, phase out IFC advisory services to host governments.
- Radically change and strengthen the monitoring and evaluation of development impacts by:

  a adapting the Development Outcomes Tracking System (DOTS) indicators to small, medium and start-up enterprises and to transnational corporations;

  b disaggregating all data in the DOTS to monitor the impact of IFC investments on different income and social groups;

  c disclosing project level data and data used in each of the indicators.

Acronyms

AAA	Accra Agenda for Action
BRICs	Brazil, Russia, India and China
CAS	Country Assistance Strategy
DFI	Development Finance Institutions
DOTS	Development Outcome Tracking System
EDFI	European Development Finance Institutions
EIB	European Investment Bank
FDI	Foreign Direct Investment
FI	Financial Intermediary
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
LIC	Low-Income Country
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
MIC	Middle-Income Country
MSME	Micro, Small and Medium Enterprise
OECD	Organisation for Economic Co-operation and Development
PD	Paris Declaration
PSIA	Poverty and Social Impact Assessments
SPI	Summary of Proposed Investment
SME	Small and medium enterprises
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank
WBG	World Bank Group
WTO	World Trade Organization

Annex 1 – Methodology

Countries included in the sample and cut-off date

This research is based on a sample of IFC projects that includes all projects in countries which are only eligible for lending from the World Bank's International Development Association (IDA).[72] These are the countries where the private sector faces the harshest constrains to access finance. IDA blend countries – countries that have access both to IDA and IBRD lending programmes – have been excluded.

The sample includes all projects with Summary of Proposed Investments (SPIs) disclosed between January 2008 (the year after the publication of the report by the Independent Evaluation Group of the World Bank on the IFC's Development Results) and July 2010 (date when research was conducted).

Sources

The project data was collected from the IFC's projects database.[73] The primary source chosen was the Summary of Proposed Investment (SPI), which contains more detailed information on projects than other sources (such as the Annual Report).

Categorisation of projects per home country

The IFC classifies its investments according to the host country – that is, the country where the project is executed. The IFC also compiles data corresponding to home countries (that is, the countries where the companies receiving IFC assistance are registered or domiciled). However, this data is not publicly disclosed; on request, Eurodad only obtained partial disclosure of these data, but it was not able to obtain a comprehensive and updated dataset. The partial data obtained was not disaggregated at project level. Neither did Eurodad receive information on whether the IFC uses the country where the company is registered or the country of the beneficial owner to compile data on the home country of an IFC supported investment.

In absence of this data, this research assessed all IFC investments (at project level) in IDA-only countries, and tracked the host country of the implementing company that received IFC assistance.

Beneficial ownership

Eurodad also tracked beneficial ownership of companies by tracing the majority owner of the company implementing a given project (going up the chain of ownership until information was publicly available or until individual owners were identified).

The IFC states that it cannot disclose some information on projects as the information is commercially sensitive and might be harmful to client interests. They claim that this is the case with disclosing the beneficial ownership (the ultimate beneficiary) of the companies they support. In order to know who really owns the companies receiving IFC funding, Eurodad conducted desk-based research. When insufficient information was available, the project was considered to have a local beneficiary.

Foreign and domestic investment

Eurodad considered that a company was foreign – as opposed to domestic – when it is fully registered (domiciled, incorporated) outside of the project country, or when the majority of the shares are held by companies registered abroad.

Annex 2 – List of projects assessed

Country	Project name	Year SPI disclosed
Afghanistan	ACOMET	2008
Bangladesh	PRAN	2008
Bangladesh	SEAF Bangladesh	2010
Bangladesh	Frontier Fund	2009
Burkina Faso	Gryphon Minersl Inc	2009
Burkina Faso	Kiaka Gold	2010
Burundi	Diamond Trust Bank Burundi S.A.	2008
Cameroon	AEF NOSA 4	2009
Cameroon	EB-Accion CMR	2009
Cameroon	Eco-Cam CFA loan	2010
Cameroon	Dibamba	2009
Central African Republic	Ecobank CAR	2010
Chad	Geyser SA	2008
Chad	Aubaine Graphic SA Printing Chad	2010
Chad	Ecobank Chad	2010
Chad	Millicom Tchad S.A.	2009
Congo Dem Rep.	Millicom DRC	2009
Congo Dem Rep.	AMSME Rawbank	2008
Ethiopia	Derba Midroc Cement Company	2008
Ethiopia	Tulu Kapi Gold Project	2010
Gambia	Coco Ocean	2008
Ghana	EB-Accion Savings & Loan	2008
Ghana	Zain Ghana	2009
Ghana	StanbicGhana PCG	2008
Ghana	IFC/SCB Facility	2010
Ghana	AshesiUniversity	2008
Ghana	Vodafone Ghana	2010
Ghana	Tullow Oil	2009
Ghana	Kosmos Energy	2008
Ghana	AEF Esoko	2009
Haiti	Oasis Complex	2010
Haiti	Sogebank	2008
Haiti	Eurasian Minerals Inc.	2009
Haiti	E-Power S.A.	2009
Kenya	KE Student Loans	2008
Kenya	TEL	2008
Kenya	Faulu Kenya Limited	2009
Kenya	Diamond Trust Bank	2008
Kosovo	Newko Balkan	2010
Kyrgyz Republic	SEF Altyn-Ajydar 3	2008
Kyrgyz Republic	KICB SL	2008
Kyrgyz Republic	DKIB SME Loan	2008
Kyrgyz Republic	Bai Tushum 2	2008

Continued from page 33

Country	Project name	Year SPI disclosed
Kyrgyz Republic	ATF Kyrgyzstan	2009
Laos	KS Hotels	2009
Liberia	Salala Rubber Corporation	2008
Malawi	Zain Malawi Dist	2010
Malawi	AMSME FMB Malawi	2008
Maldives	Universal CPLP	2010
Maldives	Universal 2	2010
Mali	Groupe AMI	2008
Mali	GRIMAS	2009
Mali	Graphique Industrie S.A.	2009
Mali	IDA IFC EBMali	2008
Mali	Bank of Africa, Mali RSF	2008
Mongolia	XacBank Sub Debt	2010
Mozambique	Baobab Resources	2008
Mozambique	BCI FOMENTO-2	2010
Nepal	Buddha Air Nepal	2008
Nepal	Ventures Nepal	2010
Nepal	Smartchoice	2008
Nepal	Nirdhan MFB	2009
Nicaragua	Metropolitano	2008
Nicaragua	Simplemente Madera Group	2008
Nicaragua	Cukra Palm Oil	2008
Nigeria	Tantalizers PLC	2009
Nigeria	Hygeia 2	2009
Nigeria	Geometric	2008
Nigeria	CAPIC Protea Nigeria	2009
Nigeria	Capital Alliance Property Investment Company	2008
Nigeria	First Bank of Nigeria	2009
Nigeria	AMSME EBM	2008
Nigeria	Helios Towers	2009
Nigeria	AB Microfinance Bank	2008
Rwanda	RWA Schools BRD	2008
Rwanda	BGM Rwanda	2009
Senegal	SME GEM Senegal	2008
Senegal	Compagnie Marocco Senegalaise d' Electricite/ St. Louis SAU	2009
Senegal	MicroCred Senegal	2009
Solomon Islands	Gold Ridge	2009
Tajikistan	TSB Bank Agrisector Onlending	2008
Tajikistan	Eskhata Bank SL	2009
Tajikistan	Tourism Promotion Services Tajikistan Limited	2008
Tajikistan	AKFED First Microfinance Bank Tajikistan	2008
Tajikistan	AccessBank Tajikistan JSC	2008

Continued from page 33

Country	Project name	Year SPI disclosed
Tajikistan	SEF IMON	2008
Tanzania	The Mwalimu Nyerere Foundation House	2010
Tanzania	Green Resources	2008
Tanzania	SMP Gold	2009
Togo	CG Togo	2009
Uganda	Rwenzori Towers	2009
Uganda	Nakasero	2010
Uganda	Cetel-Stanbic Uganda	2008
Uganda	Umeme Ltd.	2009
Yemen	University of Science & Technoilogy	2008
Yemen	Safe Motherhood Program	2008
Zambia	Zambeef Products	2010
Zambia	Kiwara Plc	2009
Zambia	Zambia National Commercial Bank Plc	2009

Annex 3 – IFC financial support to European companies

Country	Volume of IFC investments
UK	IFC invested about US$9.7 billion along with 38 sponsors.
The Netherlands	IFC invested about US$6.9 billion along with 33 sponsors.
Spain	IFC invested about US$6.2 billion along with 23 sponsors.
Luxembourg	IFC invested about US$3.2 billion along with nine sponsors.
Austria	IFC invested about US$2.6 billion along with 6 sponsors.
Germany	IFC invested about US$1.3 billion along with 30 sponsors.
Italy	IFC invested about US$1.3 billion along with 15 sponsors.
France	IFC invested about US$1.2 billion along with 28 sponsors.
Finland	IFC invested about US$915 million along with 13 sponsors.
Greece	IFC invested about US$895.5 million along with 11 sponsors.
Norway	IFC invested about US$419 million along with eight sponsors.
Switzerland	IFC invested about US$400 million along with 18 sponsors.
Ireland	IFC invested about US$355.2 million along with three sponsors.
Sweden	IFC invested about US$314.3 million along with five sponsors.
Portugal	IFC invested about US$274 million along with six sponsors.
Belgium	IFC invested about US$250 million along with eight sponsors.
Denmark	No active committed investments with Danish sponsors.

Source: IFC staff. Data from April 2010.

Annex 4 – IFC B-loans held by European Financial Institutions

Country	**Amount of B-loans held**
France	French financial institutions hold approx. US$1.3 billion in IFC B Loans (17% of the committed B Loan portfolio); French FIs rank 1st, in terms of committed portfolio.
Germany	German financial institutions hold approx. US$780 million in IFC B Loans (11% of the outstanding B Loan portfolio); German FIs rank 3rd, in terms of total held commitments.
Spain	Spanish financial institutions hold approx. US$498 in IFC B Loans (6.63% of the outstanding B Loan portfolio); Spanish FIs rank 4th, in terms of total held commitments.
Italy	Italian financial institutions hold approx. US$401 million in IFC B Loans (5.34% of the outstanding B Loan portfolio); Italian FIs rank 5th, in terms of total held commitments.
UK	British financial institutions hold approx. US$345 million in IFC B Loans (4.6% of the outstanding B Loan portfolio); British FIs rank 7th, in terms of total held commitments.
Austria	Austrian financial institutions hold approx. US$321 million in IFC B Loans (4.27% of the outstanding B Loan portfolio); Austrian FIs rank 8th, in terms of total held commitments.
Sweden	Swedish financial institutions hold approx. US$204 million in IFC B Loans (2.7% of the outstanding B Loan portfolio); Swedish FIs rank 12th, in terms of total held commitments.
Portugal	Portuguese financial institutions hold approx. US$159 million in IFC B Loans (2.1% of the outstanding B Loan portfolio); Portuguese FIs 13th, in terms of total held commitments.
Belgium	Belgian financial institutions hold approx. US$123 million in IFC B Loans (1.6% of the outstanding B Loan portfolio); Belgian FIs rank 16th, in terms of total held commitments.
Norway	DnB NOR Bank holds US$116 million in IFC B Loans (1.6% of the outstanding B Loan portfolio); Norwegian FIs rank 17th, in terms of total held commitments.
Greece	Greek financial institutions hold approx. US$113 million in IFC B Loans (1.5% of the outstanding B Loan portfolio); Greek FIs rank 18th, in terms of total held commitments.
Finland	Finnish financial institutions hold approx. US$77.6 million in IFC B Loans (1% of the outstanding B Loan portfolio); Finnish FIs rank 22nd, in terms of total held commitments.
The Netherlands	Dutch financial institutions hold approx. US$77 million in IFC B Loans (9.7% of the outstanding B Loan portfolio); Dutch FIs rank 2nd, in terms of total held commitments.
Switzerland	Swiss FIs hold approx. US$72 million in IFC B Loans (1% of the committed B Loan portfolio); Swiss financial institutions rank 22nd, in terms of total held commitments.
Denmark	Danish financial institutions hold approx. US$12.4 million in two IFC B Loans (0.17% of the outstanding B Loan portfolio); Danish FIs rank 36th, in terms of total held commitments.
Ireland	Irish financial institutions hold approx. US$2 million in one IFC B Loan (0.03% of the outstanding B Loan portfolio); Irish FIs rank 43rd, in terms of total held commitments.
Luxembourg	There are no active B Loan participants from Luxembourg in IFC's Syndicated B Loan Program.

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25 The sample for this research comprises all low-income countries that are eligible for funding from the World Bank International Development Association (IDA), excluding IDA blend countries (countries that can access finance from both IDA and IBRD).

26 Person who enjoys the benefits of ownership even while the title is in another name: http://en.wikipedia.org/wiki/Beneficial_ownership

27 The IFC only discloses limited information on the Financial Intermediary (FI) it supports. How often the FIs reach the most underserved at all is unclear. Due to the lack of transparency of FI projects the data is disaggregated into FI projects and non-FI projects supported by the IFC.

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44 Chang: *Regulation of Foreign Investment in Historical Perspective*, 2004

45 Herkenrath: *Transnationale Konzerne im Weltsystem, 2003;* and *Herkenrath/Bornschier: Transnational Corporations in World Development*, 2003

46 See Nair-Reichert/Weinhold: *Causality Test for Cross-Country Panels*, 2001. Ironically, the World Bank's 2010 report Investing Across Borders refers to this study as evidence "that, on

balance, FDI helps foster development in recipient economies“ (p. 2). Nair-Reichert and Weinhold, however, conclude from their results that the causal relatonship between investment, both foreign and domestic, and economic growth in developing countries is highly heterogeneous“ (p. 168).

47 Lall/Narula, op. cit., p. 461.

48 IFC. : IFC Road Map FY 10-12 *Creating opportunity in uncertain times*, 2009.

49 IFC: *IFC's Role and Additionality*. A Primer.

50 For instance, in the US, the Committee on Foreign Investment is charged with reviewing all incoming investment. The assumption is that foreign entities owning critical infrastructure do not have as much of a vested interest in US security as national firms. A 2008 report by the US Government Accountability Office (GAO) lists the measures in the US, UK, Japan, France, Germany and Canada to regulate foreign investment to protect national security, including economic security and cultural policy. http://www.gao.gov/new.items/d08320.pdf

51 IEG: *Independent Evaluation of IFC's Development Results. Knowledge for Private Sector Development*, 2009; IFC Annual Reports.

52 UNCTAD: *Foreign Direct Investment and performance requirements: new evidence from selected countries*, 2003. http://www.unctad.org/en/docs/iteiia20037_en.pdf

53 Christian Aid: *Getting back on the rails: private sector and development*, 2009.

54 Bretton Woods Project *et al*: *Bottom lines, better lives?* http://www.brettonwoodsproject.org/doc/private/privatesector.pdf

55 Don Marut: *Aid is Power – The Challenge for CSOs and Democratic Ownership*; and Ahmen Swapan Mahmud: *Aid Conditionality and Democratic Ownership*, in The Reality of Aid Report 2008.

56 IFC's website: http://www.ifc.org/ifcext/disclosure.nsf/Content/Project_Cycle.

57 Bretton Woods Project *et al*: *Bottom lines, better lives?* 2010.

58 Their effectiveness is often criticised. See for instance Oakland Institute: *(Mis)Investment in Agriculture. The Role of the International Financial Corporations in Global Land Grabs*, 2010. The report argues that the IFC's financial assistance and advisory services have increased the ability of foreign investors to acquire land in developing countries, thereby endangering the food security of the local people.

59 IEG: *Independent Evaluation of the IFC's Private Sector Results. Knowledge for Private Sector Development*, 2009.

60 Christian Aid: *Getting back on the rails: private sector and development*, 2009.

61 Based on projects disclosed on the IFC website.

62 Calculations by Bretton Woods Project based on World Bank Group data

63 IFC: Annual Report 2009: *Their/our story. Creating opportunity where it is needed most*, p. 104

64 The IEG's Advisor Panel noted: ”We were surprised to see that the AS staff has grown by a factor of seven since 2000, and that it now accounts for roughly 45 per cent of the total staff of IFC [...] IFC has de facto become a hybrid finance and consulting institution. This is a very substantial shift, and one that no organization we know of has done before. The closes one that we can think of that has somewhat a similar role is Goldman Sachs.” Quoted in IEG (2009): *Independent Evaluation of the IFC's Private Sector Results. Knowledge for Private Sector Development*, P. XI

65 IFC: IFC Road Map FY 10-12. *Creating opportunity in uncertain times*, 2009

66 Cf. DOTS Indicator Framework; http://www.ifc.org/ifcext/devresultsinvestments.nsf/AttachmentsByTitle/IFC_DE_Indicators_FINAL_.doc/$FILE/IFC_DE_Indicators_FINAL_.doc

67 IFC: *Annual Report 2009: Their/our story. Creating opportunity where it is needed mos*t, p. 118

68 IFC's website: http://www.ifc.org/ifcext/about.nsf/Content/Financial_Intermediaries

69 IFC: *Annual Report 2009: Their/our story. Creating opportunity where it is needed most*, p. 118

70 IFC: *Annual Report 2009, Volume2: Financials, Projects, and Portfolio*, p. 38

71 Based on projects disclosed on the IFC website.

72 For a list of IDA countries, see: http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:20054572~menuPK:3414210~pagePK:51236175~piPK:437394~theSitePK:73154,00.html

73 IFC's website: http://www.ifc.org/projects

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