The International Finance Corporation and the Multilateral Investment Guarantee Agency

The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are the World Bank Group's private sector arms. While the World Bank (IBRD and IDA) works with governments, IFC and MIGA work only with businesses, providing them with loans, equity, investment services, technical assistance, and insurance. The IFC has worked with nearly 2000 companies in 129 countries since its inception in 1956. MIGA is relatively new to the Bank Group. It was founded in 1988 and has issued insurance for less than 300 investments in 52 countries.

IFC and MIGA are both significant in that they are the fastest growing agencies of the World Bank Group. As direct foreign investment continues to grow in developing countries, the demand for IFC and MIGA's services has significantly increased.

While IFC and MIGA are public entities, their clientele consists of competitive, fast-moving, and untransparent private sector customers. As a result, IFC and MIGA's developmental impact, whether positive or negative, is often difficult for the public to measure or influence. While IFC has made some important gains in transparency in recent years, its information disclosure and public consultation processes leave ample room for improvement. Meanwhile, MIGA continues to be virtually impenetrable.

I. The International Finance Corporation

IFC was founded in 1956 to respond to the decline in foreign private investment in the wake of the Second World War. While IFC says that its overarching goal is to improve lives through economic development, it has characteristics which make it a unique member of the World Bank Group.

BUILDING THE PRIVATE SECTOR: IFC is often criticized for acting too much like a commercial bank, and not like a development institution more akin to the World Bank family. Yet IFC says that its particular role in development is to create healthy private sectors in developing countries. Without markets that attract foreign capital, expertise, and technology, IFC believes that developing countries will fall behind in the globalization process.

THE DEMONSTRABLE EFFECT: IFC's operations are intended to show the private sector that investing in developing countries can be profitable, despite the many perceived and real risks involved. Thus, IFC lends without government guarantees—meaning that it stands to lose its own capital if one of its projects fails. By maintaining a profit-making portfolio, which it has since its inception, IFC works to assure the market that investing in development can create real returns, thus promoting economic growth.

ADDITIONALITY: As a public institution, IFC says that it must not interfere with the market by operating where the private sector could operate alone. Thus it works to ensure that its operations complement the market, instead of displacing it. One way that IFC works towards this goal is by emphasizing "syndications"—the creation of investment pools from several private sources—as a crucial part of its portfolio. In recent years, IFC has extended its operations into riskier countries that most investors are wary to venture into, and by providing loans to financial intermediaries to help establish commercial and financial infrastructure in developing countries—such as leasing companies and securities markets.

A. IFC's Operations

The International Finance Corporation has a diverse set of instruments that it uses to promote economic development in its member countries. IFC's typical operations include *loans*, *equity*, and *syndications*.

LOANS: IFC makes *loans* to businesses, which are called "project sponsors", to implement development projects. Loans can be made to enormous multinational corporations or to small scale enterprises which are local, or "indigenous," to a host country. IFC loans, sometimes called "A Loans," are made on regular market terms.

EQUITY: Often IFC will combine loans with *equity*, meaning that IFC actually purchases a stake in a project, which it eventually sells off. IFC also purchases "*quasi-equity*" in projects—loans that the sponsor pays back to IFC only after it has paid its other debts. This is called quasi-equity because of the unusual length of the payback period.

SYNDICATIONS: Finally, IFC mobilizes additional capital from other sources for development projects, called *syndications*, or "B Loans." Syndications are pools of money that several investors contribute to, thereby reducing the risk of any one investor in the pool. IFC becomes the "lender of record" for syndications, though it does not guarantee the other investors' returns.

OTHER SERVICES: IFC also provides a wide range of services to investors, such as advice on navigating through developing country laws and markets, technical assistance, and consulting on individual projects, for which it charges market-based fees. IFC also occasionally provides guarantees for projects.

In addition to its official services, IFC is seen as an "investors friend" in developing countries because of its affiliation with the World Bank, and thus its close ties and influence over borrowing-country governments.

B. IFC' s Portfolio

IFC's portfolio is diverse but is concentrated primarily on manufacturing, infrastructure, financial services, mining, and oil and gas development (Table 1). In 1999, IFC approved 255 new projects worth US$5.3 billion, which included US$1.8 billion in syndications. While IFC has had operations in 129 countries, it has been criticized for concentrating a large part of its activities in countries that are less in need of development funds and can attract other private sector lenders, such as Russia and Brazil.

C. IFC's Corporate Structure

IFC is based in Washington, DC, though it has field offices scattered throughout the world. While most of its projects are administered from its Washington headquarters, IFC has several field-based initiatives like the Africa Enterprise Fund, a pilot program which provides smaller loans to local African enterprises. In the future, IFC would like to increasingly administer its portfolio from field offices, as opposed to its headquarters. IFC is legally separate from the World Bank and has its own Board of Directors, though its Board members are identical to the Bank's Board. IFC's President, currently James Wolfensohn, is the President of the World Bank Group.

D. IFC's Policies

IFC has an *information policy* which, while much weaker than the World Bank's, was mildly improved in 1997. IFC makes three key documents available: the Summary of Project Information, a short description of all proposed projects; the Environmental Assessment, for projects with major environmental and social risks; and the Environmental Review Summary, for projects with less adverse environmental and social risks. The public has almost no way to find out about IFC projects until just before they are finalized and approved. Because IFC works with the private sector, it insists on a degree of secrecy which is much higher than the World Bank to protect "business confidentiality."

IFC has recently adopted a set of *environmental and social policies* and procedures that are similar to the World Bank's, with several major exceptions, mostly regarding information disclosure. Like the World Bank, IFC's staff and clients are bound to follow "safeguard" policies which, among other things, avoid or mitigate environmental impacts, address involuntary resettlement, exclude financing for projects with harmful labor practices, and ensure that natural habitats and forests are protected. IFC has expanded its environmental and technical staff over the last year to ensure that its growing portfolio is subject to IFC's policies and guidelines.

While IFC has improved its social and environmental capacity and established new policies, it still has serious shortcomings. Its record on *public consultation* remains weak. IFC has also been criticized for failing to supervise its private sector clients to ensure that they adhere to IFC standards. Finally, IFC has resisted falling under the jurisdiction of the World Bank's Inspection Panel, despite a mandate from its President and from several of the Corporation's shareholders—most notably the United States. However, it recently established, with IFC, an Office of the Compliance Advisor Ombudsman. See Section III below.

E. IFC's Future

IFC is currently undergoing a major review of its operations. Called "Beyond 2000," IFC's strategic planning has involved the help of external consultants, who found that many of IFC's business clients are unhappy with the Corporation's bureaucratic operations and slow project approval process. Thus IFC is looking to streamline its operations and decentralize into a more field-based institution with far less red tape. At the same time, IFC is seeking permission from its Board to expand its operations by 10.5% per year, which would double its staff and new investments by 2005.

F. Conclusion: IFC and the Public

The public's ability to monitor and influence the IFC has significantly increased in the last few years. This is due to several factors that have greatly impacted the institution: political damage resulting from recent disastrous projects financed by IFC like the Pangue Dam Project in Chile has forced the institution to apply more carefully its safeguard policies and to bring more environmental and social specialists onto its staff. President Wolfensohn has agreed with NGOs, affected people and shareholders like the United States who have all called for more transparency and accountability, and greater development impact. IFC has expressed its commitment to working more frequently and openly with the public.[1] NGOs should be encouraged by IFC's increased openness, and should hold IFC accountable by engaging its staff at every opportunity, especially in the countries where its operations take place.

TABLE 1. INTERNATIONAL FINANCE CORPORATION: 1999 LOAN PORTFOLIO

(Figures in millions US$)

Sector	Amount	% IFC Portfolio
Financial Services	1,946.91	36.9
Infrastructure	809.62	15.3
Mining/Extraction	789.93	15.0
Chemicals and Petrochemicals	385.69	7.3
Cement and Construction Materials	296.90	5.6
Food and Agribusiness	271.54	5.1
Manufacturing	219.94	4.2
Hotels and Tourism	144.22	2.7
Timber, Pulp and Paper	128.56	2.4
Other*	286.73	5.4
TOTAL	$5,280	100

* Other includes Industrial and Consumer Services, Textiles, Motor Vehicles and Components, Social Services, and Fertilizers and Agricultural Chemicals.

Source: IFC *Annual Report*, 1999

II. The Multilateral Investment Guarantee Agency

Founded in 1988, MIGA has a far more limited scope and mandate than does IFC. MIGA is a publicly-funded insurance company which promotes private sector development by providing guarantees against one or more non-commercial, or "political" risks that would otherwise prevent private development from occurring. MIGA's political risk categories are:

WAR AND CIVIL DISTURBANCE, including acts of sabotage and terrorism, which affect a private operation.

BREACH OF CONTRACT, if a host government does not abide by or unfairly changes the "rules of the game," materially harming a private operation.

CURRENCY INCONVERTIBILITY, if a government refuses to allow lenders, investors, or project sponsors to convert local currency into foreign exchange or transfer proceeds abroad.

EXPROPRIATION, if a government indirectly or directly causes a project sponsor to lose ownership or control of its capital or assets.

A. MIGA's Operations

Like IFC, MIGA holds a special attraction for private investors because of its affiliation with governments as part of the World Bank Group. MIGA does not subsidize the businesses it works with; it charges clients at normal market rates. Regardless of whether a country's "political risks" decrease, MIGA's clients cannot cancel their insurance until it expires. While MIGA has issued 293 insurance contracts since 1988, none of its clients have ever had to collect MIGA insurance.

MIGA only operates in countries which allow it to; some countries do not wish to acknowledge that there is the possibility of political risk within their borders, and thus do not become 'signatories' of MIGA's Convention. MIGA requires "counter-guarantees" from its signatory countries. Thus if MIGA had to pay a company insurance resulting from a civil disturbance in country X, country X would then have to pay MIGA back. MIGA can only provide a total of $225 million in insurance per country, and has a limit of $50 million per project.

Like IFC, MIGA also provides a wide range of investment and advisory services relating to its activities, which it charges market-rate fees for.

B. MIGA's Portfolio

MIGA measures its development impact by calculating the amount of foreign direct investment it facilitates with its insurance. MIGA says that its current outstanding portfolio of US$3.4 billion has facilitated an estimated US$20 billion of private investment in the developing countries.

Like IFC, MIGA has been criticized for focusing most of its operations in the lesser-developed countries, neglecting the most impoverished. MIGA's insurance portfolio is split among several sectors, with major involvement in mining, infrastructure, manufacturing, and financial services. (See Table 2.)

C. MIGA's Corporate Structure

MIGA is a small organization, with less than 100 employees based in Washington DC. MIGA relies heavily on IFC's staff and outside consultants to assist with its operations. In particular, MIGA "contracts out" to IFC's environmental and technical staff when projects require environmental or social oversight. MIGA is legally separate from IFC and the World Bank and has its own Board of Directors, though its Board members are identical to the Bank and IFC's Boards. MIGA's President, currently James Wolfensohn, is the President of the World Bank Group.

D. MIGA's Policies

MIGA has recently adopted information disclosure, environmental policies and environmental and social review procedures which should apply to all of their guarantee operations.

Like the World Bank, MIGA's Disclosure Policy[2] has a presumption in favor of disclosure, but includes two caveats that are relevant to its private sector clients: that disclosure "will not harm business and competitive interests of MIGA's applications, and would not violate confidentiality obligations." Information available to the public include:

- Project-Related Information: quarterly reports which summarize the projects insured by MIGA; standard contracts of guarantee; and basic premium rates.
- Environment-Related Documents: Environmental Assessments for Category A projects, including Environmental Action Plans, will be available 60 days prior to Board consideration of the project. If the sponsor does not make EAs available, then MIGA will not underwrite a project.
- Annual Financial Statements
- Operational Regulations
- Annual Reports

Because of MIGA's Convention and Operating Regulations, much of the agency's information is off-limits to the public. The Disclosure Policy notes that, "MIGA is constrained by strict obligations of confidentiality to its applicants in its use of project-related information." Moreover, documents prepared for the Board, including project proposals, are confidential. Other documents that are not publicly available include MIGA's Contract of Guarantee, evaluations of political risks and legal assessments of projects.

TABLE 2. MULTILATERAL INVESTMENT GUARANTEE AGENCY: LOAN PORTFOLIO[a]
(Figures in millions US$)

Sector	Portfolio as of 1999[b]	% MIGA Portfolio
Financial	1,554	42
Infrastructure	703	19
Manufacturing	555	15
Mining/Extraction	481	13
Services	185	5
Oil/Gas	111	3
Tourism	74	2
Agribusiness	37	1
TOTAL	3,700	100

[a] MIGA estimates that its cumulative guarantee portfolio, which totaled US$3.4 billion at the end of fiscal 1997, has facilitated **US$20.0 billion** in foreign private investment.
[b] Figures in this column were calculated by BIC based upon the percentages (next column) provided by MIGA.

Sources: MIGA *Annual Reports* for 1999,

After many years of resistance, MIGA finally adopted an Environmental Assessment Policy in July, 1999. That policy has many similarities to those of the IFC and the World Bank. For example, it requires that MIGA undertake an environmental screening process to determine the extent of EA needed for specific investments, and retains the Bank's EA classification system.[3]

The policy also requires its project sponsors to undertake consultation with affected groups and local NGOs. There are also some important differences in MIGA's EA policy that reflect the nature of MIGA's guarantee operations. For example, the guarantee applicant is responsible for carrying out the EA, "unless the applicant is a lender or minority partner in the project" (less than a 50 percent and non-controlling interest in the project). Sometimes, MIGA will be asked to guarantee a project after the project sponsor has completed an EA. In such cases, the Policy requires that MIGA "review the environmental assessment findings and recommendations as provided by the applicant to ensure their consistency with this policy. To enable it to make that determination, MIGA may require additional environmental assessment work, including public consultation and disclosure."

MIGA also has recently agreed that its guarantee operations comply with the environmental and social safeguard policies of the IFC: Natural Habitats, Forestry, Indigenous Peoples, Safeguarding Cultural Property in IFC-Financed Projects, Involuntary Resettlement, Pest Management, Safety of Large Dams, and Projects on International Waterways. MIGA also complies with the environmental guidelines of the World Bank, including its Pollution Prevention and Abatement Handbook, and the Environmental Assessment Sourcebook, among others. A full description of MIGA's Environmental and Social Review Procedures is available on MIGA's website at http://www.miga.org.

E. MIGA's Future

Anticipating greater levels of market demand, MIGA seeks to expand its operations significantly in the coming years. MIGA is currently asking its public shareholders for an increase in its general capital resources, but this increase has been blocked by the United States pending the resolution of several policy issues relating to the World Bank Group as a whole.

III. IFC/MIGA Compliance Advisor and Ombudsman

The Compliance Advisor and Ombudsman (CAO) position was created in 1998 by World Bank Group President James Wolfensohn. The post is a result of collaboration between IFC, MIGA, their shareholders, NGOs, and members of the business community, in an attempt to address the overall performance and accountability of the IFC and MIGA in social and environmental areas. It is currently the only public accountability mechanism available to citizens affected by private sector projects financed by IFC or MIGA.

The CAO has two functions. The Compliance Advisor is responsible for providing independent advice and recommendations on policy compliance and procedure to the management of IFC and MIGA. The function of the Ombudsman is to respond to and address the concerns of individuals who are affected by an IFC or MIGA-sponsored project. The CAO reports directly to the President of the World Bank Group, and is thus independent from the Bank's Management and Board of Directors.

Operating Procedures for the CAO are currently being developed through a consultative process, incorporating suggestions made by the Inspection Panel, relevant stakeholders, NGOs, and project-affected people. Temporary Operating Procedures are scheduled to be released and in use at the end of October 1999. They will be available to the public on the IFC's website, and comments will be solicited. Permanent Operating

Procedures are expected to take effect in January of 2000.

The CAO, which is an advisory and problem-solving mechanism, does not replace the need for an effective inspection panel function. NGOs have advocated for the extension of the World Bank's Independent Inspection Panel to IFC and MIGA operations.

The current CAO is Meg Taylor, who was appointed June 1999. Ms. Taylor may be contacted at the following address:

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NOTES:

1 See "Doing Better Business Through Effective Public Consultation and Disclosure: A Good Practice Manual," IFC (October 1998)
2 Annex C to MIGA's Operational Policies.
3 The classification system assigns projects to Categories A, B, or C, depending on the extent of environmental impact expected from the project. Category A projects require full EAs, Category B require Environmental Analyses, and Category C require no environmental assessment action.

This toolkit was prepared by Christopher Chamberlain as part of the Bank Information Center's *Toolkits for Activists: A User's Guide to the Multilateral Development Banks.* The Bank Information Center (BIC) is an independent non-profit, non-governmental organization that provides information and strategic support to NGOs and social movements throughout the world on the projects, policies and practices of the Multilateral Development Banks (MDBs). BIC advocates for greater transparency, accountability and citizen participation at the MDBs. BIC is supported by private foundations and organizations that work in the fields of environment and development, and is not affiliated with any of the MDBs.

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