Private Sector Lending and the World Bank Group – IFC and MIGA

What is IFC?

The International Finance Corporation (IFC) was created in 1954, in the wake of the World Bank Group's (WBG) "successes" in financing post-World War II reconstruction and development projects, and a perception that more private sector investment in developing countries was needed. At the time, private companies and commercial banks did little investing in Africa, Asia, Latin America or the Middle East, and their domestic private sectors had few sources of capital available. IFC helped fill this gap by lending money to companies, buying equity in their projects and providing technical expertise on private investment proposals – "a private sector" arm to what the World Bank had been doing in the public sector.

What does it do?

In theory, IFC's mandate is to promote sustainable private sector investment in developing countries as a way to reduce poverty. Headquartered in Washington D.C., IFC is owned by its 178 member countries and is an institution of the World Bank Group.[1] IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world with an authorized operating capital of US$2.45 billion.

IFC coordinates its activities with the other institutions in the WBG, but is legally and financially autonomous with its own Articles of Agreement,[2] capital, management and staff. IFC's annual operating capital is provided by its member countries, and voting is in proportion to the number of shares each member holds.[3] For example, because of its contributions, the United States holds 23.65% of IFC voting power!

What is MIGA?

Established in 1988, and commonly referred to as the "insurance arm" of the WBG, the Multilateral Investment Guarantee Agency (MIGA) insulates foreign corporations and banks from many of the risks that investing in developing countries can entail, such as breach of contract, government expropriation of property, currency inconvertibility or the emergence of local conflict.

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[1] The World Bank consists of the International Bank for Reconstruction and Development and the International Development Association. The World Bank Group also includes MIGA (http://www.miga.org) and IFC (http://www.ifc.org).

[2] Articles of Agreement are a binding set of rules that govern how the IFC operates. IFC's Articles of Agreement: http://www.ifc.org/ifcext/about.nsf/7afae2a79a656e70ca25692100069831/5fba295c82d9775085256d03006fcb83?OpenDocument

[3] For the IFC's Statement of Capital Stock and Voting Power see: http://www.ifc.org/ifcext/about.nsf/AttachmentsByTitle/Captial_Stock/$FILE/Cap_Stoc.pdf

What does it do?

Like IFC, MIGA is an independent institution of the WBG. MIGA's mandate is to promote private sector foreign direct investment (FDI) in developing countries to help support economic growth, reduce poverty and improve people's lives. MIGA provides three services: political risk insurance for foreign investments; technical assistance to improve investment climates and promote investment opportunities; and dispute mediation services to remove possible obstacles to future investment. For example, MIGA provides insurance for companies investing in conflict areas, where returns on investment are not as certain as in more stable countries.

Finally, it is important to note that companies use IFC and MIGA involvement in a project – and the guarantees that their participation brings – to raise the political credibility of the project and leverage additional private capital.

IFC and MIGA Investment

Since its founding in 1954, IFC has committed more than US$44 billion of its own resources, and arranged US$23 billion from other financial institutions, for projects in 140 developing countries. The value of its current portfolio stands at nearly US$18 billion. IFC committed US$6.45 billion in project funding in fiscal year 2005.

MIGA has provided more than US$11 billion in political risk insurance for projects in over 80 countries since its founding in 1988. MIGA committed US$1.2 billion in project funding in fiscal year 2005.

Poverty reduction and environmental protection, or profit?

IFC and MIGA support private sector projects such as agricultural development, chemical and industrial facilities, nuclear reactors, oil and gas pipelines, mines and pulp mills. Over the past two decades, civil society organizations (CSOs) have drawn attention to the ecologically and socially harmful impacts these projects have had. In the late 1990s and in response to this growing criticism, IFC and MIGA developed a set of environmental, social and cultural safeguards and policies[4] to mitigate against, and minimize, the impacts of these projects.

Despite the safeguards, however, and citing numerous examples, CSOs continued to argue that the policies failed to provide adequate protection and benefits to communities and the environment. Without the financial security IFC and MIGA's involvement offers to companies, they argue that many of these projects wouldn't get off the ground. Furthermore, although IFC and MIGA's involvement may generate greater investment in developing countries, this has not necessarily resulted in poverty reduction and sustainable development [See box below]. Economic growth may result in profits, and may generate jobs, but that alone is not sufficient for alleviating poverty. Consequently, although IFC and MIGA have revised their policies to address this shortcoming, most CSOs still remain cynical about the ability of the new Performance Standards to alleviate poverty as long as the Banks invest in socially and environmentally destructive projects.

[4] In 1998, the IFC adopted a set of "Safeguard Policies". They are intended to provide minimum protections for affected people, improve project quality and sustainability, and support IFC's mission of "sustainable private sector investment" for poverty reduction. These were subsequently revised in 2006 and are now referred to as the Performance Standards (See separate Issue Brief).

Accountability, but without teeth

There is, however, a mechanism accessible to communities for ensuring that the Performance Standards are actually incorporated into IFC and MIGA's lending practices. The Compliance Advisor Ombudsman (CAO)[5] – an independent office that reports directly to the President of the World Bank – receives and investigates complaints from external parties, supervises audits of IFC and MIGA's overall environmental and social performance, and provides advice to management of environmental and social policies. Although the CAO is an important step towards providing accountability on IFC and MIGA –funded projects, the CAO's recommendations and reports are non-binding and thus all too often, its recommendations are downplayed or simply ignored (see below).

The IFC and Canada – Social and environmental concerns involving the Marlin Mine

The open-pit Marlin mine in Guatemala is Canadian Glamis Gold's flagship project, and the World Bank's hopes for a new standard for "sustainable mining". Yet before operations even began, the controversial project became a lighting rod for protest, and consolidated opposition to mining in the country.

In January 2005, a 40 day protest against the project ended in violence when the Guatemalan police and military attacked the local indigenous population. One protester was killed and numerous others were injured.

Local indigenous Mayan peoples groups argued that the mine violates International Labour Organization Convention 169 – which protects the rights of indigenous and tribal peoples - and in particular, their rights to be consulted on issues related to sub-surface resources. In May 2005, the Office of the Human Rights Ombudsman. Sergio Morales, called for Marlin's licence to be revoked on these grounds.

In June, the citizens of Sipacapa, where the mine processing plant is located, held a popular referendum on mineral development. An overwhelming majority of local residents rejected mining activity in Sipacapa territory.

The CAO investigated the Marlin Mine, and in September 2005 it released a damning report exposing IFC's lack of social and environmental due diligence when considering the project. The CAO reiterated a number of recommendations that came out of the World Bank's Extractive Industries Review (EIR - see separate Issue Brief) that were clearly evident in the Marlin case. This included the need for broad community support and the absence of local conflict. Astonishingly, IFC's $45 million loan to Glamis was the first major mining investment following the conclusion of the EIR, and the IFC largely ignored the CAO's recommendations.

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[5] Please see the following link for the CAO's terms of reference - http://www.cao-ombudsman.org/html-english/about_terms.htm

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