IFC International Finance Corporation
WORLD BANK GROUP
Creating Markets, Creating Opportunities

Washington DC, April 29, 2017

Dear Bobbie Sta. Maria:

Thank you for your email and the invitation to respond to the allegations made in the Inclusive Development International (IDI) report titled *"Reckless Development: The IFC's Dodgy Deals in Southeast Asia"* and published in March 2017. We welcome the scrutiny from stakeholders because getting policies right is critical if we are to meet our institution's goals of ending extreme poverty by 2030 and boosting shared prosperity. We have a strategy of continuous improvement, ongoing dialogue with stakeholders, learning from mistakes and successes, and refining our approach.

We have read IDI's report and while we share concern for the communities negatively impacted by some of the projects mentioned, we find many factual inaccuracies in the report. As it has been communicated to IDI on numerous occasions during the report compilation, many of the sub-projects mentioned either pre-date or fall outside the scope of IFC's investment with the financial institutions (FIs) mentioned. In many other cases, the FIs have no exposure to the projects cited.

IFC works with FIs because they can contribute to inclusive and sustainable financial markets that are essential to eradicating poverty and job creation. We seek to use their multiplying effect to reach and support far more enterprises critical to development than we would be able to on our own.

In 2015 alone, our clients provided 7.6 million loans worth $344 billion to small and medium enterprises, and 51 million small loans worth $60 billion to micro enterprises in emerging markets. These investments have vastly increased the number of women-owned businesses, and support trade finance, digital finance, farmers and middle- and low-income homebuyers. The impact of this work is clear.

We have also helped build and improve the capacity of our banking clients to assess and mitigate their own environmental and social risks in line with international best practices, just as we have significantly enhanced our own approach, such as with IFC's 2012 Performance Standards.

The IDI report is thus misleading by insinuating that IFC's investments in the FIs mentioned indirectly supports a significant number of harmful activities. In any cases where IFC confirms non-compliance with the applicable environmental and social requirements by our FI clients, we raise these issues with our clients and seek redress.

In leveraging our reach and scale through financial intermediaries, however, IFC cannot have the same level of oversight of the sub-projects supported by our FI clients as with our direct investments. But this work is a development imperative, and we are committed to supporting our clients and reducing the E&S risks in our portfolio. As part of this ongoing process, we are making some important additional improvements to the way we work, as our CEO, Philippe Le Houérou explains in his blog [“Re-examining our work with financial institutions”.]

First, we are intensifying our upstream engagement with banking associations and regulators, including through the Sustainable Banking Network (SBN), to promote sustainable environmental and social practices in the broader financial sector, including stock exchanges. This systemic approach to build capacity and awareness in banks and other financial institutions, will lead to more responsible financing in developing countries, far beyond IFC clients.

Second, we will better focus our environmental and social resources on appraisal, supervision, and capacity support to our financial intermediary clients who are deemed higher risk.

Third, we are reducing our own exposure to higher risk FI activity, and applying greater selectivity to these types of investments, including equity investments. This means reducing the number of general purpose loans to banks, which can be used to support any client sub-projects in any sector, and continuing to increase the number of targeted loans, which can be ‘ring-fenced’ to support particular efforts that, for instance, help women-owned SMEs or mitigate climate change.

And finally, we are committed to explore options to extend our disclosure practices, even beyond our existing Access to Information Policy, as we have already done with our private equity investments.

Thank you for reaching out to us for clarification. Should you have any more questions please do not hesitate to contact me.

Sincerely,

Frederick Jones

Head of Media

IFC