OUTSOURCING DEVELOPMENT: Lifting the Veil on the World Bank Group’s Lending Through Financial Intermediaries

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Introduction

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By Inclusive Development International

In collaboration with:

Bank Information Center
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11.11.11
In 1999, a massive cyclone ravaged India’s Orissa state. Rabindra Majhi, a small-hold farmer and father of two, lost everything. “Our home and crops were destroyed. We were starving,” Majhi said.

Destitute and fraught, Majhi and 2,500 of his fellow villagers suddenly received an offer. The Indian Oil Corporation, a large state-run energy conglomerate, would buy their land, at below-market rates, in order to build a refinery. The company also promised them jobs as part of the deal.

Reluctantly, Majhi accepted the offer. “We didn’t really have a choice. We were desperate,” he said. He used the modest proceeds from the sale to build a new house. When the refinery became operational, he figured, he would be able to make a living again and get back on his feet.

This March, following a decade and a half of delays, the Paradip refinery finally became operational. However, Majhi still doesn’t have a job, despite repeated promises over the years. Local residents were once again promised employment in February, when Prime Minister Narendra Modi visited Orissa to inaugurate the plant. “They were trying to keep us quiet,” Majhi said.

Instead of hiring locals, the company has brought in workers from the outside. “We have not benefitted from a facility built on our own land,” he said. A return to farming is all but impossible now, given the steady stream of emissions spewing from the refinery. “Nothing grows. Even the trees are dying,” he said. Oil spills are common, according to the Odisha State Pollution Control Board.

The Indian Oil Corporation generated $67 billion in revenues last year. Despite this healthy income, it has benefitted from hundreds of millions of dollars in indirect assistance from the International Finance Corporation, the World Bank’s private-sector arm. The IFC channeled these funds through several large Indian commercial banks, which went on to arrange and guarantee billions of dollars in Indian Oil bonds.
The IFC contends that such financial-sector lending is helping small businesses in developing countries access credit. The IFC argues that this drives economic growth and reduces poverty, ultimately helping poor and marginalized people like Majhi. Yet in reality, these funds likely helped finance the construction of the oil refinery that sits on Majhi’s former land.

Such transactions have become increasingly integral to how the IFC does business. After decades of lending almost exclusively to companies and projects, the institution is now outsourcing the bulk of its development work to for-profit financial institutions. Between 2011 and 2015, the IFC provided $40 billion to commercial banks, private equity funds and insurance firms, which invested the money as they saw fit, with little apparent oversight.

Financial-sector lending now accounts for 52% of the IFC’s long-term financial commitments. Other development financial institutions, such as the European Investment Bank, the Dutch FMO and the UK’s CDC, have followed suit, producing a global trend.

Observers have warned for years of the dangers of this hands-off approach to development. The Compliance Ombudsman Advisor, the IFC’s independent grievance body, issued a scathing assessment of the institution’s financial-sector lending in 2013. A joint NGO report from 2015, *The Suffering of Others*, looked at several harmful projects indirectly financed by the IFC in Cambodia, Laos, India, Honduras and Guatemala.

Despite this pressure, the IFC has mostly refused to disclose the end-use recipients of its financial-sector investments – known as sub-projects, such as the Indian Oil Corporation – citing banking and privacy laws. Because of this lack of transparency, the full extent of the problem was not known, beyond a handful of cases.

However, it is possible, though time-consuming and expensive, to follow the trail of money using subscription-based financial databases and publicly available sources of information. Inclusive Development International, a human rights organization working to make the global economic system more just and inclusive, spent months doing just that.

The investigation tackled only a small portion of the IFC’s extensive financial-sector portfolio. Yet the results were shocking. The IFC is funneling billions of dollars into some of most harmful companies and projects in the world. The problem is systemic, and not limited to just a few cases.

In many instances, these sub-projects have done more than just fail to help the poor. They have actually caused great harm to people and the environment. They have forcibly evicted and economically displaced tens of thousands of people. They have contributed to climate change, polluted the oceans and rivers, and killed critically endangered species. They have engaged in combat and child labor. And activists who have dared to resist them have been jailed, beaten and even murdered.

Over the next six months, Inclusive Development International and contributing partners Bank Information Center, Accountability Counsel, Urgewald, and 11.11.11 will release a series of articles detailing these findings. The series will look at where the IFC’s money ends up, what is – or isn’t – being done to ensure that these investments alleviate poverty and do no harm, and how financial-sector lending has actually impacted people on the ground.
The first article in the series, an expose of the IFC’s support for coal projects around world, has been released this week, ahead of the World Bank’s Annual General Meeting. Articles about the IFC’s problematic investments in India, the Mekong Region and Africa will come out in the coming months. In addition, Inclusive Development International has released a database of all of the problematic sub-projects it uncovered. Meanwhile, Owning the Outcomes, a joint briefing by Oxfam and Inclusive Development International, challenges five excuses that the IFC puts forward to repudiate responsibility for the harms caused by its financial-sector investments.

All told, Inclusive Development International uncovered 91 previously undisclosed projects that caused, or are likely to cause, human rights abuses or environmental destruction. They come from a range of high-risk sectors, such as energy, large-scale agribusiness, mining, transportation, infrastructure, and even private military contracting. They are found in Asia, Africa and Latin America.

Many of these projects are among the most notorious in the world, regularly making headlines for all of the wrong reasons. For example, the Rampal plant in Bangladesh will devastate the Sundarbans, the world’s largest remaining mangrove forest. This will be catastrophic not only for the 2 million Bangladeshis and Indians who depend on the forest for their livelihoods, but also for a planet increasingly wilting under the effects of climate change.

In India, the IFC is exposed to Essar Steel, which a government investigation found had covertly funded paramilitary groups responsible for the torture, sexual assault and murder of thousands of ethnic minorities. In addition, the IFC is linked to the company responsible for the Bophal gas disaster, the worst industrial accident in history.

In Africa, the IFC is indirectly funding some of the continent’s largest land grabs. These include plantations in Ethiopia’s Gambella region, the site of government-directed forced population transfers and massacres; oil palm plantations in Gabon that could harm thousands; and land concessions within the 14-million-hectare ProSavana agribusiness project in Mozambique.

In Southeast Asia, the IFC has channeled funds into a massive expansion of coal power in the Philippines, an island nation extremely vulnerable to climate change – and where environmental activists are routinely murdered for opposing such projects. Meanwhile, in Vietnam and Cambodia, IFC-linked hydropower projects have or will displace hundreds of thousands of people.

A village in the Gambela region of Ethiopia. The Indian company Kuraturi Global received land concessions in Gambela that were the site of forced evictions. Photo © Felix Horne/Oakland Institute

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Despite this evidence, the IFC continues to insist that financial-sector lending is helping small and medium-sized businesses to access credit. “Our work through [financial intermediaries] provides much-needed access to finance for millions of individuals, homes, and micro, small, and medium-sized enterprises – far more than we would ever be able to reach on our own,” the IFC has said. “Financial inclusion and access to finance are critical elements of the World Bank Group’s strategy to end extreme poverty and build shared prosperity.”

The IFC also contends that it is improving the social and environmental governance of its financial-sector clients, many of which have few such guidelines in place. By contractually requiring these clients to adhere to the IFC’s guidelines, the Performance Standards, they will be better equipped to meet the IFC’s development goals and avoid harming people and the environment. Or so the logic goes.

These rationales make sense on paper. Indeed, helping small businesses and improving environmental and social governance in the financial sector are worthy goals. Few environmental or human rights groups would take issue with them.

The reality, though, is that these worthy goals are not being met under the IFC’s current system. This series of investigative reports, along with the Owning the Outcomes paper, will shine a light on the shortcomings of this approach. They will also recommend areas of improvement, such as increased transparency of financial flows, more rigorous due diligence and improved monitoring of harmful impacts. If the IFC cannot meet these benchmarks, it has no choice but to dramatically scale back its lending to financial-sector clients.

Because if the system were working as intended, a man like Rabindra Majhi would not be jobless and hopeless, living in the shadow of a refinery that broke promises to employ him, as it spews waste from land he once farmed productively. In the months after the cyclone destroyed his home, he might have hoped to receive help from an institution like the World Bank. Instead, Majhi, and thousands like him, have been made worse off.

“I want the World Bank to come and see the reality of what is happening here in Orissa. They must understand what their money has done,” Majhi said. “If they could come and see this, they would think of making things right, of doing justice to the people.”