

Date: April 10, 2015

Dear civil society stakeholders,

Over the last 40 years, financial institutions have provided access to finance for hundreds of millions of people and enterprises in the developing world and continue to finance about 70 to 80 percent of economic activity. As a result, infrastructure and housing provisions, agricultural production, health and education have substantially improved and poverty rates have declined, even as the population has more than doubled.

Our work through FIs 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. Our work with private equity funds brings both capital and expertise to fast-growing companies, and mobilizes money for renewable energy, infrastructure and other projects in some of the world's poorest countries. Financial inclusion and access to finance are critical elements of the World Bank Group's strategy to end extreme poverty and build shared prosperity.

We appreciate the dialogue we have had with Oxfam and other civil society organizations over the years on this important part of our business. Your input has improved the way we work with our clients to manage risk. We value your insight into the concerns of communities affected by FI sub-projects – such as those highlighted in your report on IFC's lending through financial intermediaries (FIs). We take the concerns—in each case example—very seriously. We are working with our clients to resolve them.

Our work is inherently challenging. It involves taking risks. Our aim is to improve people's lives, and our approach is to work with our FI clients to improve their ability to identify and manage the environmental and social (E&S) risks in their own financing activities—in line with IFC's Sustainability Framework. Our intent is to help our FI clients become better prepared to manage E&S risks and continue to drive sustainable economic development long after IFC's investment.

Our expertise and advice helps our clients to address systemic issues such as risk management, corporate governance and the introduction of E&S standards. We also work with FIs to become more involved in strategic sectors that are important to the development agenda, including women-owned businesses, climate change and agri-finance, and underserved regions such as fragile and conflict-affected states.

Our effectiveness is based on our ability to continually learn and improve. We learn through experience—including our successes and failures. We refine our approach based on our experience, that of our clients, input from and engagement with you and other stakeholders, and feedback from our accountability and evaluation mechanisms, among other things. We are improving our supervision, making course corrections where necessary, and providing assistance and advice to clients to enhance their E&S management systems, and will continue to do so.

Part of our commitment as a development institution is to be transparent. We aim to disclose information to the extent possible, while operating within a commercial context. Our clients report to us

regularly regarding the disbursements they make with IFC's money. In areas where we can accommodate demands for greater transparency, we have done so. For example, we have moved beyond our current Access to Information Policy requirements to begin disclosing all private equity fund sub-projects.

However, regulatory and privacy rules govern disclosure of much information regarding a bank's underlying portfolio at the project or individual level. Regulated banking institutions the world over are subject to customer privacy standards, which restrict disclosure of investments within their portfolios. The recent CAO report itself recognizes this. In this regard, and in the spirit of improving transparency, we welcome continued dialogue with you regarding what is feasible.

In addition to improvements brought by the 2012 Sustainability Framework update, IFC developed an Action Plan, approved by the Committee on Development Effectiveness (CODE), in response to issues raised in the 2013 FI Audit by the Compliance Advisor/Ombudsman (CAO). That Action Plan benefitted from your input. This plan includes enhancing our advisory support to FI clients, greater scrutiny and review of high risk transactions, additional FI-focused E&S capacity within IFC, and continued stakeholder engagement. We are on track with all of these commitments – monitoring implementation and reporting regularly to our Board.

We are also working on improvements in a number of areas – many of which are themes raised in your report. These efforts are aimed at improving processes and training staff, emphasizing country context in our decision-making around risk, being more selective with clients and higher risk transactions, and strengthening oversight and supervision.

We must ensure the clients we work with share our commitment to sustainability. In this regard, we have taken a number of steps to improve client selectivity. We now conduct a formal assessment of the potential client's commitment and capacity to implement our standards at the time of appraisal. Our appraisal now includes a formal review of the top exposures of the FI's portfolio to determine its exposure to high-risk sectors. For sub-projects where the Performance Standards apply, this screening includes processes for identifying and managing risks related to distributional impacts on different groups, including gender aspects and any potentially vulnerable groups.

We are also being more selective in pursuing higher-risk funds, including sector funds. Since the beginning of 2014, we have sent 25 FI-1 investments (out of 204 total FI investments) to the Board for approval, of which seven investments have been in private equity funds. Currently, of more than 1500 investees of the 270 funds in our portfolio, roughly three percent are Category A sub-projects.

We will not do repeat business with clients that do not improve their track record on E&S performance. This year, at least four transactions have been dropped or put on hold pending improvement of the client's E&S performance.

We have also been scaling up our client support work with a focus on working directly with clients, building technical capacity in client markets, and supporting financial regulators with the development of green banking policies and guidelines.

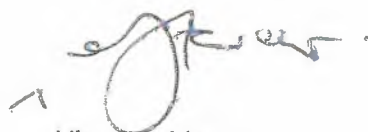
Lastly, we are working to improve our supervision and oversight. We have improved our supervision process to include annual reviews for all FIs with sub-projects where the Performance Standards are applied, and are now also conducting a systematic sampling of sub-clients of these FIs to ensure our standards are met. We are working more closely with other development finance institutions and co-investors to ensure our standards are met in high-risk funds. And, we are in the process of adding eight specialists to our current team of 32 staff and consultants who provide support to and supervise FI clients.

Risk is inherent to our business and that of our FI clients. We are committed to working with our clients to address shortcomings, to fostering a culture of continuous learning and improvement, and to communicating these changes to our Board and our stakeholders.

We have always listened to your concerns and taken action when they are raised. We are part of the solution -- and we are working to improve the practices of our clients as well as our own. To this end, and in the context of broader financial inclusion, we welcome continued dialogue with you and other members of civil society regarding your recommendations. We look forward to engagement with you at the Spring Meetings.

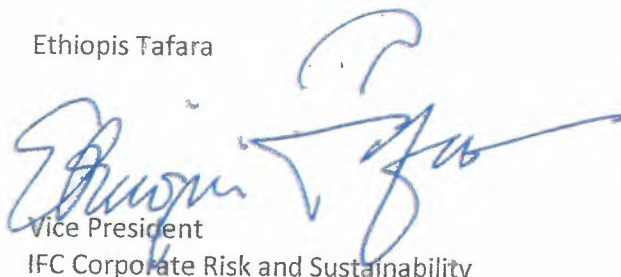
Regards,

James Scriven



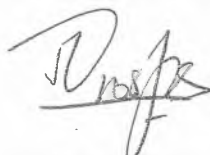
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## **ANNEX: Status of Actions on Report Case Studies**

### **1) Dragon Capital/Vietnamese Enterprise Investments, Ltd. (VEIL)**

The CAO has been successful in engaging the relevant parties in dispute resolution. IFC supports the CAO mediation process currently underway. Dragon, the Fund Manager of VEIL, is upgrading its ESMS with IFC's assistance.

### **2) Ficohsa/Dinant**

As noted in IFC's response to the CAO Audit of Ficohsa, IFC did not invest in Ficohsa to finance Dinant. The CAO report identified shortcomings in IFC's appraisal process that have since been addressed. IFC has taken steps to improve information sharing and scrutiny of our FI client's exposures. IFC and Ficohsa agreed on an Action Plan to enhance its E&S systems and capacity. Ficohsa now has an improved E&S management system and has expanded its E&S team.

### **3) Inter-American Infrastructure Finance Corporation (CIFI)/Santa Cruz**

IFC has confirmed that CIFI stopped the disbursement of its loan to Santa Cruz hydro as soon as it learned of the violence and concerns of the local community. IFC will continue to work with CIFI to stay engaged to ensure that the conflict does not escalate and that community concerns are addressed.

### **4) Latin Renewables Infrastructure Fund (LRIF)/Santa Rita**

IFC has engaged with LRIF to address the community concerns around the project, which has not actually commenced to date.

### **5) India Infrastructure Fund (IIF)/GMR Kamalanga Energy Ltd. (GKEL)**

IFC has raised the issues of GKEL's non-compliance with IFC's Performance Standards with IIF. IFC will work with IIF on addressing those concerns, including the need for a community engagement plan and grievance mechanism.

### **6) AgriVie Agribusiness Fund/New Forests Company (NFC)**

When concerns about resettlement related to the NFC project were raised in September 2011, IFC actively supported the company's efforts to work with all parties to resolve outstanding concerns. Subsequently, in December 2011, two complaints were submitted by affected communities in Uganda's Mubende and Kiboga districts to the CAO, IFC's independent accountability mechanism. We are satisfied that all parties were able to reach agreements through the mediation facilitated by CAO.