David Malpass
President

March 20, 2020

The Honorable Steven T. Mnuchin
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Secretary,

I am writing to respond to requests that the United States has made with respect to strengthening the International Finance Corporation's (IFC) environment and social risk management, transparency and accountability. We appreciate the dialogue between your government and IFC on these important matters that will increase IFC's effectiveness and accountability and secure the U.S.'s support for the IFC Capital Increase and related resolutions.

Environment, Social and Governance Risk Management and Disclosure

IFC is committed to its role as a global leader in environmental, social and governance risk management and disclosure. IFC commits to further improve the **transparency of new Financial Intermediary (FI) projects** and to encourage our peers and clients to expand their transparency. IFC will make a new commitment for the following group of FI clients that we expect will capture more than 70 percent of IFC's annual FI program: *new* equity investments in commercial banks including with existing clients (excluding rights issues arising from equity commitments previously approved by IFC's Board), new senior bonds issued by commercial banks where IFC is the sole investor and senior loans to commercial banks. For this group of clients, IFC will require them to annually report the name, location by city, and sector for subprojects funded by the proceeds from IFC's senior loan or senior bond or by the IFC equity investee that would be considered *"Category A"* according to the IFC Performance Standards, as well as relevant *Category B* sub-loans.[1]

All the above clients will follow the above requirements based on sub-client consent, unless prohibited by domestic law, in which case IFC will require and disclose the commercial bank's explanation for non-disclosure with the specific legal reference. This information will be disclosed to the public on IFC's website, in searchable form,[2] in the Summary of Investment

[1] A relevant sub-loan is a corporate loan or a project finance loan of US$20 million equivalent or more funded by proceeds from an IFC senior loan or senior bond investment that would be considered as financing climate related activities as defined by IFC here: https://www.ifc.org/wps/wcm/connect/8ebdc507-a9f1-4b00-9468-7b4465806ecd/IFC+Climate+Definitions+v3.1+.pdf?MOD=AJPERES&CVID=lQuLLhw)
[2] This means that FI sub-projects will be directly searchable on the IFC project disclosure portal.

Information (SII) for the relevant FI project and updated annually. IFC will also now provide a summary of all its FI clients' Environmental and Social Management System (ESMS), which will include a description of policies to appropriately identify, categorize, assess and address the environmental and social risks relevant to the activities it is financing.

IFC recognizes that in some countries **heightened attention to human rights impacts** is necessary. IFC is now applying greater project selectivity in Myanmar. In addition, IFC applies the Inclusion and Peace Lens developed by the World Bank for all potential investments in Myanmar. Going forward, IFC will systematically require enhanced environmental and social due diligence, including human rights impact assessments for all *Category A* and *Category B* investments in Myanmar, which will be noted on IFC's website in the SII for each project. As part of the Environment and Social Action Plan, IFC will also disclose any actions related to human rights impacts identified in such due diligence carried out for those investments.

Since IFC began to work in Myanmar, we have put in place stringent due diligence processes, informed by sanctions and exemptions lists, thorough screening, and knowledge from local sources and the international community, to ensure as best we can that none of our investments are owned or controlled by the military, its senior generals, or their immediate family members. We will request an audit of the IFC's entire portfolio in Myanmar by the World Bank Group's independent Group Internal Audit to verify that no IFC direct investments, including in Financial Intermediaries, are owned or controlled by the Myanmar military, its senior generals, or their immediate family members. IFC will use the findings of the audit to develop a plan for responsibly exiting any investment owned or effectively[3] controlled by the military and seek to ensure that no future investments are linked to the military.

Transparency and Effectiveness in Use of Concessional Resources

In the context of IFC's development finance role, IFC makes loans at market rates to avoid crowding out private investors. However, in some instances, especially in the poorest and fragile countries, developmentally beneficial projects with high impact may require a small subsidy to be viable, due to market failures. IFC follows the *Development Finance Institution Enhanced Principles for Blended Finance* to minimize subsidies in our projects and has a robust internal governance structure to ensure that it uses **the least subsidy necessary** for such projects to be viable. IFC will describe how its governance process for concessionality is applied on our website.

IFC currently discloses information about average subsidy amount as a percentage of overall project cost by financial instruments, industry and special themes on the blended finance page of our website. We have also put special measures in place for projects that benefit from concessional resources from the IDA *Private Sector Window*. To further **increase project-level transparency**, IFC started to disclose the amount of blended finance used for projects mandated after October 2019, as well as the estimated subsidy and justification for the subsidy for each project in the SII disclosed on our website. In addition, we report to IDA donors and the public

[3] As defined by the Equator Principles , July 2020, p.25 (https://equator-principles.com/wp-content/uploads/2020/01/The-Equator-Principles-July-2020.pdf), Effective Operational Control includes both direct control (as operator or major shareholder) of the Project by the client and indirect control (e.g. where a subsidiary of the client operates the Project).

on the average level of subsidy as a percentage of the overall project cost and as a percentage of the investment by IDA in the IDA midterm and final reviews.

Understanding that any demonstration or market-making impact of PSW operations depends on long-term continuation or replication without subsidy, on non-competitively awarded projects, IFC will seek to ensure that any subsidy for projects is less than 10 percent of project costs and will seek IDA Board approval prior to providing any subsidy above that amount. IFC will also seek to ensure the subsidy cost to IDA for PSW resources is less than 25 percent and will consult with IDA Deputies during the IDA 19 mid-term review if IFC expects to exceed this level. In addition, IFC will ensure that all *new* IDA PSW commercial bank projects will meet the same applicable disclosure commitments outlined above.

Transparency in Public Private Partnerships (PPPs)

As part of our expanded focus on the poorest countries, we will increase our efforts to support governments to design **effective, transparent and competitive PPPs**. Whenever we invest in PPPs, we conduct due diligence to confirm that the contract terms are fair, any substantiated allegations of bribery or corruption are investigated, there are positive economic and social returns, and service rates are reasonable to the public. Going forward, when considering an investment in a PPP, IFC will undertake due diligence around the host Government's disclosure framework as it applies to the proposed investment. IFC will also refer the Government to the "WBG Framework for Disclosure in Public-Private Partnerships" as guidance. We also commit to promoting – including via our Advisory Services to governments as appropriate – the World Bank Group Framework for Disclosure in Public-Private Partnerships as best practice in disclosure for governments planning PPPs. IFC will also encourage and, in partnership with IDA, assist all countries where public-private partnerships are supported by the IFC IDA-PSW to release information in accordance with the World Bank Group Framework for Disclosure in Public-Private Partnerships.[4]

Broadening our Client Base in the Poorest Countries

We are committed to supporting a broad range of firms. In order to **increase IFC's accessibility to private firms in IDA countries**, by June 2023, IFC will seek to ensure that at least 35% of IFC IDA-PSW supported projects use *open, competitive* or *open access* approaches. Over time, IFC will strive to increase the share of public concessions supported by the IFC IDA-PSW that are tendered on a competitive basis[5], including through working more upstream to create projects. Details of open access programs—where IFC invites firms in the target market to apply for standardized products—will be described on IFC's website. In addition, for each blended finance project receiving IDA-IFC PSW support, IFC will note in the SII when the project was competitively tendered or part of an open access program.

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[4] See Framework here: http://pubdocs.worldbank.org/en/773541448296707678/Disclosure-in-PPPs-Framework.pdf

[5] See https://policies.worldbank.org/sites/ppf3/PPFDocuments/Forms/DispPage.aspx?docid=4005&ver=current and https://ppp.worldbank.org/public-private-partnership/sites/ppp.worldbank.org/files/ppp_testdumb/documents/GuidanceNote_PPP_September2010.pdf

Accountability to Communities and the Public

The World Bank Group is committed to strong, public accountability. I am committed to ensuring that the IFC Compliance Adviser Ombudsman (CAO) is a **robust, responsive, and independent accountability mechanism** that provides an effective forum to consider the concerns and grievances of people and communities affected by IFC's investments, and, where appropriate, to provide remedy to those who are harmed.

Reflective of the commitment that my office has to accountability, I instructed IFC staff to participate fully in the External Review in the format that the External Review requested. The Review team has interviewed staff at all levels of IFC including managers, directors, Vice Presidents and the CEO.

My office and IFC management will work collaboratively with the Board and a wide range of other stakeholders, including civil society organizations, to **ensure a robust and transparent process** to give full and fair consideration of the recommendations resulting from the Board-mandated External Review of CAO and IFC's accountability system. The External Review is an initiative of IFC's Board of Directors, but as Chair of the Board, I will put forward before May 1, 2020, for Board endorsement, a plan for **the publication of the Review Panel Report**, as well as the disclosure of any subsequent reform proposals of the Board in response to the Review Panel Report for public consultation.

In addition, it is important to **avoid any gap in the leadership of the CAO** during the period of the External Review and subsequent Board deliberation of the Review Panel's recommendations. In order to ensure continuity during this period, [redacted] I will announce the launch of the selection process [redacted], as detailed below, no later than June 1, 2020. In the event that the CAO Vice President position should become vacant before the appointment of a new Vice President, I commit to appointing an existing, senior member of the CAO staff as acting head of the office or an external, qualified interim head who is not WBG staff.

To ensure that the independence of the CAO Vice President is maintained, the next head of the CAO will be selected through a **transparent and participatory selection process,** led by an independent multi-stakeholder Selection Committee, including representatives from civil society, industry and academia, following the model used for the selection of the CAO VP in 1999 and 2014. The Committee will recommend a short list of qualified candidates, external to the World Bank Group, who demonstrate core competencies and relevant experience, from which the new CAO Vice President will be appointed. This process will be launched sufficiently in advance to avoid any period of vacancy.

Reflective of the commitment that my office has to accountability, I have asked IFC and CAO to develop a joint submission to the External Review Panel on areas where they have agreement to enhance the accountability process.

Investments in Private K-12 For-Profit Schools

We understand that communities and external stakeholders have expressed concerns about investments in private for-profit K-12 schools. In response, we instituted **a freeze on direct investments in such schools**. Going forward, we will make public on our website our decision to formally freeze investments in private for-profit K-12 schools as a result of these concerns, which will also apply to any advisory and indirect investments through new funds, including with existing clients. We will also request the Independent Evaluation Group (IEG) undertake an evaluation of IFC investments in K-12 private education provision, including impacts on educational outcomes, access, poverty and inequality. This will be followed by an inclusive and transparent consultation process, including the Board, education experts, and civil society, to determine whether there are any exceptional circumstances under which future IFC investments in such schools could be made without impacting negatively on poverty, inequality, the right to education, or the provision of public education. [redacted]

Reform of the World Bank's "Doing Business" Report

By December 31, 2020, we will commission an independent, external review of the "total tax and contribution rate" sub-component of the Paying Taxes Indicator of the annual "Doing Business" report with a view to aligning this indicator with the development objectives of the World Bank, including its commitment on domestic resource mobilization, and provide a public report to the Board on its Findings.

I trust that we have adequately responded to the concerns of the United States and understand that the U.S. will support four IFC capital increase package resolutions, including the GCI, the SCI, Conversion of Retained Earnings and GCI, and Amendment of the Articles of Agreement of the Corporation.

Sincerely,

David Malpass

cc: Ms. DJ Nordquist, Executive Director for the United States, The World Bank Group