Introduction

The Governance and Anti-Corruption agenda has provided a useful forum for exchanging ideas relating to governance within the World Bank Group. Through the initiatives of the GAC Secretariat, IFC has collaborated with its counterparts in IBRD, IDA, and MIGA to establish principles relating to integrity, corporate governance, intermediate jurisdictions, and the treatment of fraud and corruption in WBG engagements.

As the WBG considers further integration and develops a Governance Global Practice (GGP), it is practical to determine the areas relating to governance and integrity that are ripe for cross-harmonization. At the same time, it is critical to acknowledge governance and integrity-related processes that should remain different among IBRD/IDA, IFC, and MIGA on account of their different businesses.

IFC’s Governance and Integrity-Related Work

IFC promotes the WBG’s GAC agenda through: (1) planning projects aimed at improving the integrity and governance practices of private sector companies; (2) implementing processes to prevent IFC from working with companies that present integrity risks or poor corporate governance; and (3) assisting its clients to improve their integrity and governance practices, uphold transparent business practices, and strengthen their anti-money laundering/combating the financing of terrorism (AML/CFT) policies and controls.

In regard to the first area, IFC has promoted business integrity in the private sector through the development of the DFI Toolkit on Corporate Governance, Corporate Governance Advisory Services projects implemented by Private Enterprise Partnerships, and the Small and Medium Enterprise Integrity Toolkit.

The bulk of IFC’s work in the governance and integrity space relates to the second area: prevention of integrity and governance issues in IFC’s projects and engagements. As part of IFC’s business development and project supervision cycles, IFC staff uses an integrity due diligence process to examine a project’s structure and country context, assess potential clients’ and partners’ reputations, make a business decision on whether to engage with those clients or partners in light of any integrity risk, and address integrity-related events throughout the course of an engagement. Furthermore, IFC has an AML/CFT due diligence process in place for projects involving financial institutions and certain non-financial businesses to prevent the risk of those activities occurring in IFC’s investments. In addition, IFC requires a corporate governance analysis in all of its investment projects. In the past few years, these processes have been strengthened by IFC’s Senior Management, and it has become mandatory for IFC’s project teams.
to involve the units that support these processes in their projects under defined circumstances. IFC provides support to staff in evaluating and managing integrity risks and corporate governance issues, respectively, through its Integrity Risk and AML/CFT (CRVIA) and Corporate Governance (CG) Units.

IFC’s identification of integrity, AML/CFT, and corporate governance issues in potential partners can lead to its work in the third area: working with clients on improving their corporate structure to reflect good corporate governance and integrity practices, increasing the transparency of clients’ business practices, and improving clients’ AML/CFT policies and controls.

**Areas for Collaboration**

On the policy level, IFC’s governance and integrity processes, focused on the private sector, implement principles established by the WB. Over the next few years, as the GGP is operationalized, it would benefit the WB to have a group such as the GAC Secretariat to act as a focal point for the discussion of governance policy ideas and principles affecting cross-WB practices.

Some of the governance and integrity issues that relate to work across the WB are:

- WBG-wide risk tolerances;
- Pre-privatization work with state-owned enterprises on management, corporate governance, and transparency;
- Minimization of public-sector rent seeking in public-private partnership engagements;
- Ethical compliance programs in private-sector firms;
- Approach to corporate integrity issues (e.g., FCPA compliance, standards for supply-chain management);
- WBG Sanctions;
- Coordination with the Integrity Vice Presidency on investigations and settlements;
- Treatment of tax avoidance, transfer pricing, and intermediate jurisdictions (i.e., use of offshore financial centers); and
- Principles for integrity processes (e.g., integrity due diligence and AML/CFT standards, use of external investigative firms, training of WBG staff on integrity and sanctions processes, and treatment of ex-WBG staff in private sector corporations with which the WBG does business).
Risk Management Processes Should Remain Separate

While based on the same governance and integrity principles as the rest of the WBG, IFC’s integrity risk and corporate governance processes do and should differ from those of IBRD/IDA for the following reasons:

- The choice to engage with a private sector business is fundamentally different from working with a member government as a client.

- IFC’s project approval processes differ from those of IBRD/IDA, and IFC’s integrity due diligence and corporate governance processes have been integrated into IFC’s project processing cycle accordingly.

- IFC’s credit considerations differ because IFC deals with private sector entities that pose credit risk that is qualitatively different from that posed by a member government to IBRD/IDA.

- From a legal standpoint, IFC’s investments are structured differently from IBRD/IDA legal agreements. IFC exercises different contractual remedies than are available to IBRD/IDA, and IFC’s contracts are usually subject to U.S. or U.K. commercial law, whereas remedies in IBRD/IDA agreements are governed by international law.

Because of these differences, integrity risk management and corporate governance processes across the WBG need to be kept distinct at this time. As IFC and IBRD/IDA plan engagements involving public and private sector aspects, it is important that IFC’s integrity due diligence, AML/CFT, and corporate governance processes apply so that standards for private sector engagements are consistent across the WBG.