'A complete mental shift': How Le Houérou changed IFC

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Philippe Le Houérou's "IFC 3.0" strategy sought to refocus the International Finance Corporation on delivering greater development impact in the world's poorest countries. Photo by: Paul Morigi / Brookings Institution / CC BY-NC-ND

LONDON — On Thursday, Philippe Le Houérou quietly retired as head of the International Finance Corporation, the World Bank's private sector lending arm, citing his health and, at 63 years old, the need for a break.

The Frenchman, who spent 4 1/2 years on the job, is credited with bringing major change to IFC, which in 2019 invested approximately $9 billion of its own money and mobilized $10.2 billion from other investors — making it the world's largest financier focused on private sector development in low-income countries.

Le Houérou's "IFC 3.0" strategy sought to refocus the development finance institution on delivering greater development impact in the world's poorest countries. He also ramped up IFC's investments in climate; increased diversity; opened more field offices, especially in Africa; and introduced significant commitments on accountability to beef up the institution's environmental and social record.

In 2018, his efforts were rewarded when shareholders approved a $5.5 billion capital increase for IFC — tripling its paid-in capital in the first major recapitalization in more than 25 years.

However, while experts agree Le Houérou has brought positive change to the institution, some say his efforts fell short of ensuring that its public resources and private sector investments benefit communities first and foremost.

In an interview shortly before his departure, the development veteran, who spent more than 30 years at the World Bank, talked Devex through the highlights of his time at IFC.

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— Nadia Daar, head of Washington office, Oxfam International

Development impact

When Le Houérou walked into IFC's Pennsylvania Avenue headquarters in Washington in March 2016, he had a clear mandate and mission to "put development at the heart of IFC and IFC at the heart of development," he said. This meant returning the institution to its original purpose: to use private sector techniques to foster economic development, especially in least developed countries.

"The board was not happy," he told Devex. "They'd seen a drift over the years towards more commercial [deals] with less additionality and stagnation in IDA countries where investment is most needed," he added, referring to the International Development Association — the arm of the World Bank that gives cheap loans and grants to the poorest countries.

One of his first actions — and one he considers among his most significant — was to "put economists back into IFC." This meant hiring more and better economists and housing them in an independent vice presidency.

The newly created economics and private sector development team set to work developing an internal rating system to measure and track both the intended and actual development impact — especially on poverty alleviation and market creation — of IFC's investments. Known as Anticipated Impact Measurement and Monitoring, or AIMM, the tool went live in 2017. As a result, investment officers were given a development impact score from zero to 100 for their prospective deals and told it was as important as the economic rate of return.

Opinion: Civil society is indispensable in driving for impact at IFC

Philippe Le Houérou, who is stepping down as head of the International Finance Corporation, calls for continued civil society engagement to ensure accountability and the best solutions for local communities.

“In terms of changing the DNA, AIMM was really the most profound shift … and a key piece of putting development at the heart of IFC,” Le Houérou said, adding that he has been pleased to see other financiers drawing on AIMM to develop their own impact measurement approaches.

Civil society groups have largely welcomed the new development impact tool but question whether it goes far enough.

“Time, evaluation, and transparency will help us properly assess to what extent AIMM is helping the IFC invest in projects that can have a genuine development impact for communities, as opposed to using a new tool to justify the same old IFC deals with the private sector,” Nadia Daar, head of Oxfam International’s Washington office, told Devex in an email.

Creating markets

Le Houérou said he hopes his second legacy item will be positioning IFC as a market shaper, whose investment officers proactively find and create deals, through what he calls the “upstream” or “creating markets” strategy. Through this approach, he said he sought to put “IFC at the heart of development.”

For Le Houérou, this is the only way to reverse IFC’s disappointing record in Africa and meet shareholder demands that IFC increase its investments in fragile and conflict-affected countries to 40% by 2030. This is a key condition of the $5.5 billion capital increase.

“IFC had been stagnating [in Africa] for 10 years. But it’s not because of a lack of budget … or staff. … The point is there are not enough bankable projects,” he said.

Creating deals requires working more closely with colleagues at the World Bank — another break from the norm — to diagnose and fix regulatory and policy bottlenecks upstream that might be holding investors and businesses back. IFC can then offer subsidies and guarantees to de-risk deals and encourage private capital to flow.

“That’s a complete mental shift … from traditional banking … to be both entrepreneur and banker. And for me, that’s the only way to get out of this stagnation,” he said.

The upstream work is growing fast. This year, IFC has recruited more than 230 staff members, 170 of whom came from outside the organization, to work on the upstream strategy, and Le Houérou predicts that in 10 years, more than half of IFC's investments will come through the upstream pipeline.

The COVID-19 pandemic has taken a toll on upstream project development, as nervous investors hold on to their capital, Le Houérou acknowledged. But once countries enter the post-coronavirus recovery stage, the approach will be needed more than ever to trigger new greenfield investments.

"The real recovery is to resume fresh investment and for that, the upstream work … will become even more important," he said.

However, not everyone is convinced by Le Houérou's "creating markets" vision. Critics take umbrage with the fact that the money IFC pays out to businesses in subsidies comes out of the IDA budget. The money comes from the "private sector window," a $2.5 billion pot introduced in 2017 under Le Houérou.

In an email to Devex, Charles Kenny, a senior fellow at the Center for Global Development, described the private sector window as "sucking up aid money to provide subsidies to private firms delivering limited-impact projects." Others, including U.S. lawmakers, share Kenny's concerns and have pushed IFC to be more transparent about its use of IDA resources to subsidize private organizations.

"My successor will have to continue the [strategy]. But they have all of the building blocks to make it work."

— Philippe Le Houérou, outgoing CEO, International Finance Corporation

Accountability

Le Houérou's time at IFC will also be remembered for improving accountability. Civil society groups have long accused IFC of failing to protect communities from social and environmental harms linked to its investments. Major shareholders, notably the U.S., have also been pressuring the institution to shore up its accountability measures as it seeks to do more deals in fragile and conflict-affected states that represent a high risk.

In response, Le Houérou implemented sweeping accountability reforms. Early on, in 2018, he announced a new approach to the thorny issue of IFC's investments in financial intermediaries with fossil fuel projects on their books by vowing to help FIs green their portfolios. Then in 2019, IFC said it would beef up its environment and social powers, adding 20% more staffers and creating a new, independent department reporting directly to the CEO.

These changes came out of discussions between the CEO and civil society — groups who said they welcomed Le Houérou's more open approach, which included reinstating civil society town halls at the World Bank's biannual meetings.

"I do hope that the next CEO's door will be as open to civil society as Le Houerou's was, if not more – this was an approach we really appreciated," Oxfam's Daar told Devex.

IFC transparency promise 'an important first step,' say experts

Philippe Le Houérou, head of the International Finance Corporation, announced an industry-leading pledge on transparency about its private sector subsidies. Experts weigh in on its significance.

"Civil society organizations have brought a lot of good ideas to IFC. In fact, the reform of the environmental, social, and governance criteria was really done in dialogue with them," Le Houérou said.

Le Houérou cautioned that while high standards are needed, development is complex and unintended consequences cannot always be foreseen and prevented. Accountability should not stand in the way of good development projects, he said.

"We cannot ask for the private sector in countries where there is very little capacity to apply standards which are, frankly, not sometimes met by the richest countries in the world," he said.

He warned that being too strict risks making the perfect the enemy of the good.

"I'd rather have good than nothing," he said.

The future

World Bank President David Malpass has yet to name Le Houérou's successor, and with many of his reforms still in their infancy, there are questions over whether they will survive the transition — as well as the additional pressure on financial institutions brought on by the COVID-19 crisis.

Jürgen Zattler, executive director for Germany at the bank, told Devex that Le Houérou has "pushed hard" to get more attention on development outcomes at IFC but said his reforms still needed to be "fully operationalized."

"It will be imperative that IFC's new leadership takes this up forcefully," he said.

However, Le Houérou said he is confident that with the backing of the bank's board and Malpass, his reforms will be maintained.

With IFC on the line to deliver extremely tough investment targets, his IFC 3.0 strategy offers the best chance of delivering, he said.

"My successor will have to continue the [strategy]. But they have all of the building blocks to make it work," he said.

About the author

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Sophie Edwards is a Reporter for Devex based in London covering global development news including global education, water and sanitation, innovative financing, the environment along with other topics. She has previously worked for NGOs, the World Bank and spent a number of years as a journalist for a regional newspaper in the U.K. She has an MA from the Institute of Development Studies and a BA from Cambridge University.