

# Facilitating Multiple Roles

*IFC Conflicts of Interest Management Process*

© International Finance Corporation, May 2018. All rights reserved.

This booklet is intended to provide a summary of IFC's process for managing conflicts of interest. Neither IFC nor the World Bank makes any representation, warranty or undertaking, express or implied, in respect of this booklet or any information contained herein; guarantees the completeness of the content of this booklet, or any conclusions or judgments described herein; or accepts responsibility or liability for any omissions in the content of this booklet or for any reliance thereon.

The contents of this work are intended for general informational purposes only and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type.

Because IFC encourages dissemination of its work, this work may be reproduced, in whole or in part, for noncommercial purposes as long as full attribution is given. All names, logos and trademarks are the property of IFC and may not be used for any purpose without the express written consent of IFC. All other queries on rights and licenses, including subsidiary rights, should be addressed to IFC Communications, 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433.

# Managing Conflicts of Interest

The International Finance Corporation (IFC) — a member of the World Bank Group (WBG) — is the largest global development institution focused exclusively on the private sector in emerging markets. Working with more than 2,000 businesses worldwide, IFC uses its capital, expertise and influence, to create markets and opportunities in the toughest areas of the world.

IFC utilizes and leverages different products and services—and draws on the products and services of other WBG institutions—to provide development solutions customized

to meet client needs. IFC provides and mobilizes capital, offers advisory services to companies and member states, and harnesses global experience and innovative thinking to help clients overcome financial, operational, and development challenges.

IFC recognizes that conflicts of interest (COIs) may arise when IFC is involved in multiple roles in a country or sector. Sometimes there are actual COIs; at other times, there is only a perception of a COI. Sometimes COIs arise in relation to nominee directorships held by IFC staff members.

IFC takes steps to ensure that COIs are appropriately managed. IFC is committed to exercise professional judgement in the interests of each of its clients. In IFC's experience, COIs involving IFC can almost always be managed effectively.

Conflicts of interest can also arise in relation to the personal circumstances of staff, and the WBG also has rules and mechanisms to handle these, through WBG Ethics & Business Conduct Vice Presidency (EBC).

**Typically, a COI exists where two parties (e.g. IFC and a client) have potentially competing interests, and a duty of care or trust is owed by one to the other (e.g. IFC has an obligation to act in the interest of the client).**

## KEY CONFLICT OF INTEREST SITUATIONS

Below are some common situations in which COIs may arise in IFC's activities. IFC strives to proactively address COIs and has rules and mechanisms to manage each situation appropriately.

Type of Situation	Type of Conflict
<b>1.</b> IFC has multiple roles and responsibilities in relation to the same client, project or sector.	This can give rise to an actual operational COI or the perception of a COI.
<b>2.</b> IFC and another WBG institution (e.g. the World Bank or MIGA) each has roles and responsibilities in relation to the same client, project or sector.	This generally gives rise to the perception of a COI, rather than an actual COI.
<b>3.</b> An IFC staff member is nominated to be a director on the board of an IFC client company.	This may give rise to a Nominee Directorship COI.
<b>4.</b> An IFC staff member's personal activities are inconsistent with their employment responsibilities to IFC.	This may give rise to a personal COI for the IFC staff member.
<b>5.</b> IFC holds listed securities in a client company and is in possession of confidential, price-sensitive information about the company.	This is not a COI. However, IFC is required to follow policies and procedures designed to address the proper use and handling of material non-public information (MNPI).

# IFC Approach to Addressing Conflicts Of Interest

## DISCLOSE

- Full Disclosure and Effective Consent



## MANAGE

- Separation of Teams
- Information Firewalls
- Modification of Activities



## ELIMINATE

- Declining Engagements

IFC uses a continuum of tools to manage actual and perceived COIs. IFC deploys one or a combination of these tools to mitigate COI risks as appropriate in the circumstances.

# 1. Operational Conflicts of Interest

## EXAMPLE 1A

---

A government has requested IFC Advisory to act as its transaction adviser in connection with a public private partnership (PPP) and IFC has a financial interest in an entity that bids on the transaction.

## HOW DOES IFC MITIGATE THIS?

---

There may be an actual COI between IFC's role as an advisor to the government, where it is expected to exercise professional judgement in the interests of the government, and IFC's financial interest in the bidding entity. The mitigants in this case may include:

- Maintaining separate advisory and investment teams with separate reporting lines and separate management structures.
- Limiting access to confidential information about the PPP project and the IFC investments to the respective teams.
- Disclosing the COI early to the government and obtaining its consent. This is done through detailed discussions with the government and appropriate legal documentation.

## EXAMPLE 1B

---

IFC has both debt and equity interests in the same client company.

## HOW DOES IFC MITIGATE THIS?

---

There is no actual operational COI in this case as IFC acts in its own interest in relation to both the equity and the debt. However, there could be a perception of COI, especially if the company gets into financial distress. This can be addressed through:

- Written agreements detailing IFC's rights and obligations related to both the equity and the debt.
- Pursuing IFC's interests and objectives through arms' length negotiations.
- Observing IFC confidentiality obligations relating to each relationship.
- In case of financial distress, managing IFC's loan through the engagement of recovery specialists separate from the equity management.



## What is the Process for Managing COIs in IFC Operations?

IFC strives to identify COIs early, to give maximum scope for the situation to be managed effectively. To this end, IFC has established a **robust COI management framework**, comprising:

- Comprehensive set of policies and procedures.
- Dedicated COI Unit of expert staff.
- Clear articulation of Directors' responsibilities for COIs arising in their departments.
- Tailored COI management arrangements for IFC activities in which COIs routinely arise.
- Escalation process to IFC's Chief Compliance Officer (CCO), General Counsel and Senior Management for sensitive cases.
- Integrated case-management system for timely advice to IFC staff requesting guidance.
- Data-base of COI matters to ensure consistency and to allow audit.
- Continuous staff training program.



## Addressing Conflicts of Interest in Managed Co-Lending Portfolio Program (MCP)

IFC's Managed Co-Lending Portfolio Program (MCP) gives institutional investors the opportunity to co-lend alongside IFC on the same investment terms as IFC in accordance with pre-agreed eligibility criteria. Through a tailored structure, the MCP investor pledges capital upfront, and as IFC identifies individual investments that fit the pre-agreed criteria, investor exposure is allocated alongside IFC's own in accordance with IFC's strategy and processes. Some MCP investors have an initial right of review in accordance with the governing agreements while others simply confirm the project is eligible. Appraisal, approval, commitment, and supervision of the investment is managed directly by IFC, and the MCP investor follows IFC decisions, subject to limited negotiated consent rights in exceptional circumstances.

IFC considers that careful handling of any COIs associated with MCP is critical to ensuring the trust and confidence of investors and other stakeholders, and to maintaining IFC's reputation for high standards. Through the MCP structure and on-boarding disclosures, COIs between IFC and an MCP investor are comprehensively mitigated. Where from time to time there might be a COI with the interests of another party, IFC will manage it following the COI policies and practices as detailed throughout this brochure. For example, IFC is the lender of record to a company where there is an MCP participation in IFC's loans. If the company bids on a PPP project where IFC's PPP advisory team is advising the government, IFC will manage the COI with the government in accordance with IFC's usual COI policies and practices.

## EXAMPLE 1C

IFC has investments in two companies, one of which is a key supplier to the other.

## HOW DOES IFC MITIGATE THIS?

There is no actual COI in this scenario and IFC can act in its own interest in relation to each investment. However, when the companies are in a sensitive business relationship, such as this one, there could be a perception of COI.

IFC can manage this by:

- Having separate teams working with each client company.
- Observing IFC confidentiality obligations arising from contractual provisions and IFC policies and procedures.

### What is the IFC COI Unit's role?

IFC first established a dedicated COI office in 2000 to advise staff and Senior Management on the mitigation of operational COIs in the WBG. The IFC COI Unit now sits in the IFC Business Risk and Compliance Department reporting through IFC's CCO to IFC's General Counsel.

### The functions of the IFC COI Unit include:

#### Developing

IFC COI policies and procedures.

#### Managing

staff requests for guidance on operational COI issues including on mitigation measures.

#### Advising

staff as well as Directors and Senior Management on COI cases, policies and procedures.

#### Drafting

COI-related provisions for transactional and client corporate documents.

#### Preparing

COI disclosure letters to government and private sector clients.

#### Delivering

regular staff training on COI across regions and functions, as well as Director and Senior Management training.

## EXAMPLE 1D

---

An IFC Advisory team provides advisory services on management practices to an IFC investee company.

### HOW DOES IFC MITIGATE THIS?

---

Depending on the nature of the advisory services, there can be an actual COI if IFC provides advice to the company on issues that could favorably impact IFC's investment. This may be mitigated by:

- The IFC Advisory team disclosing the COI to the client, explaining IFC's COI management processes, and obtaining the client's consent.
- Maintaining separate IFC Investment and IFC Advisory teams, or asking for the client's consent to share staff across both teams.
- Limiting access to confidential information about the advisory project and the IFC investment to the respective teams, or asking the client's permission to share information across teams.



### Managing COIs in Concessional Financing

Blended finance is a financing package consisting of concessional funding from donor partners and commercial funding from IFC, where the donor has granted IFC authority to process and approve investments on its behalf. IFC has a duty to act in the interest of the donor partner, which can be in conflict with IFC's own interest.

To address these COIs, IFC policies and procedures require:

- An **effective segregation of funds**.
- A **separate team** to help structure the donor-funded portion of the transaction.
- **Approval by the Blended Finance Committee**—comprising Vice Presidents and Directors not involved in the investment in question—which decides on the use, structure and terms of the donor-funded investment.

## EXAMPLE 1E

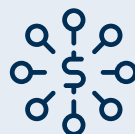
---

IFC has a loan investment in an Independent Power Producer (IPP). Later the government asks IFC to advise on the tariff it should pay under the Power Purchase Agreement (PPA) with the IPP.

## HOW DOES IFC MITIGATE THIS?

---

This raises an actual COI risk because the IPP's ability to pay back the IFC loan is directly dependent on the revenue it gets from the government. This is a circumstance in which IFC would decline the government's request to advise because the COI cannot be managed effectively.



## Addressing Conflicts of Interest Related to IFC Asset Management Company

IFC's asset management arm, IFC Asset Management Company (AMC), mobilizes and manages funds from institutional investors for investment in IFC transactions. IFC invests alongside the AMC managed funds for its own account and is also typically an investor in the managed funds. Investment opportunities are offered to the AMC-managed funds in accordance with prescribed allocation methodologies.

Maintaining a reputation for integrity and fair dealing, as well as the confidence of AMC's investors and other stakeholders, is paramount, and for that purpose AMC has developed its own robust COI management process, in addition to the processes followed by IFC, including prompt identification of COIs and the implementation of appropriate mitigation measures. Structural COIs between IFC and AMC that are inherent to the business model are managed by disclosure to investors at the time they are on-boarded as investors. Other COIs (e.g., where a managed fund proposes to invest equity in a company in which IFC has provided debt financing) are managed through a two-stage process whereby AMC's Conflict Committee, comprising the independent members of AMC's Board of Directors, as well as the relevant managed fund's Advisory Board, separately review how the COI is being managed and mitigated. It is only after appropriate handling through this process that AMC will proceed with the transaction.

## WHAT ARE THE TYPICAL MITIGANTS FOR OPERATIONAL COIs?

- **Full Disclosure and Effective Consent:** full disclosure of the relevant COI and any mitigation measures to be adopted, with a view to obtaining the effective consent of each party to whom IFC owes a duty.
- **Separation of Teams and Information Flows:** information barriers consisting of physical and technological separation, as well as separate teams and information flows.
- **Modifying IFC's Role:** where the above are not adequate mitigants, relevant staff may be required to sequence the timing of different IFC roles or reduce the scope of an IFC role, to avoid direct conflict with another IFC role.

## WHAT DOES IFC USUALLY DO WHEN THERE IS A PERCEPTION OF A COI?

In situations where there are no actual COIs, there may still be a perception that COIs exist, generally arising from concerns about information flows. To address these situations, IFC seeks to ensure transparency, such as by:

- Providing a clear statement to clients and other parties of each IFC role, including an explanation of IFC's interests and obligations in connection with each role.
- Informing clients, counterparties and other stakeholders that IFC owes no duty to act in the interests of any other party and is not inviting any party to rely on its analysis or advice.
- Where the project involves IFC's own interests, acting through arms' length negotiations and refraining from advising the client or other relevant parties.
- Although a perception of COI may not warrant the separation of teams and information flows, employing heightened care to observe IFC's rules regarding confidentiality.

## 2. Joint Operations among the WBG Entities

The WBG is a unique global partnership of five institutions working for sustainable solutions that reduce poverty and build shared prosperity in developing countries. Apart from IFC, the WBG comprises:

**International Bank for Reconstruction and Development (IBRD)**, which is usually referred to as the **World Bank**, provides loans, guarantees, risk management products, and advisory services to middle-income and creditworthy low-income countries.

**International Development Association (IDA)** provides interest-free loans (called credits) and grants to governments of the world's poorest countries.

**Multilateral Investment Guarantee Agency (MIGA)** provides political risk insurance guarantees to private sector investors and lenders.

**International Centre for Settlement of International Disputes (ICSID)** is devoted to international investment dispute settlement through conciliation, arbitration or fact-finding.

## EXAMPLE 2A

---

A government has requested the World Bank to advise it on sector reform. At the same time, IFC has a financial interest in a private sector entity whose business prospects will likely be impacted by the outcome of the World Bank's advice.

## HOW DOES IFC THINK ABOUT THIS?

---

Such scenario does not represent an actual COI because both the World Bank and IFC are separate legal entities, with distinct objectives, management, information flows and governance processes. Nevertheless, the World Bank client may wish to ensure that the World Bank's advice is not influenced by IFC's financial self-interests. Clients of both the World Bank and IFC may also wish to ensure that the confidential information they share with one WBG entity will not be shared with the other WBG entity or its client.

To mitigate the perception of a COI, IFC takes care to observe all confidentiality obligations arising from contractual provisions and IFC policies and procedures. Since the World Bank and IFC already have distinct and separate staffing, management, IT systems and governance arrangements, additional steps to firewall the World Bank and IFC teams are generally not needed.



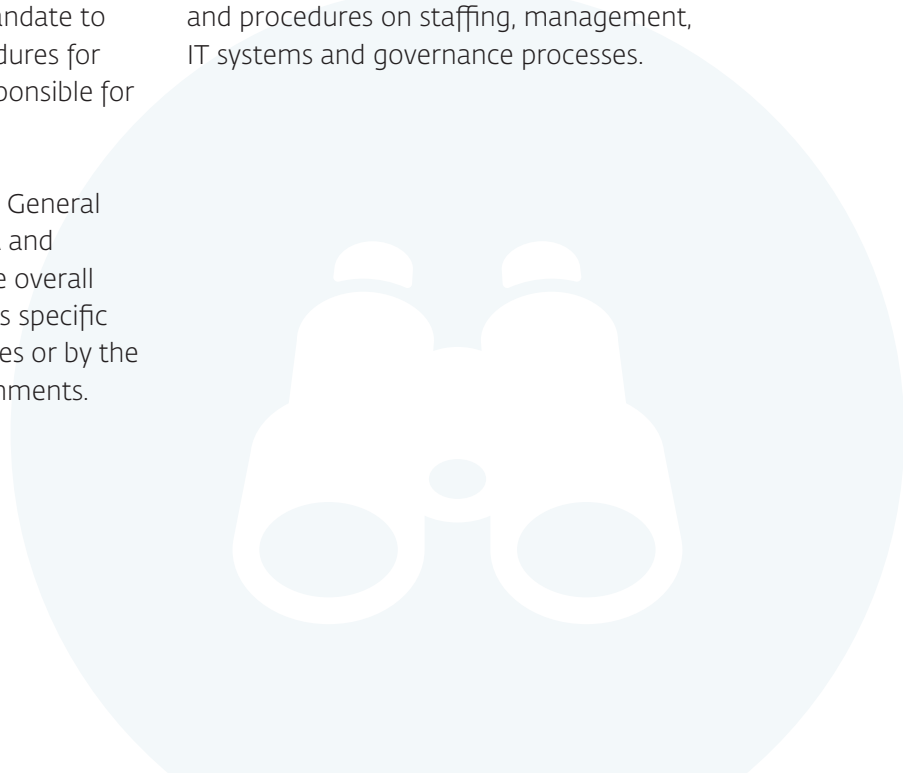
## Managing perceptions of COI arising from joint operations among WBG entities

*The member institutions of the WBG have adopted a comprehensive framework to address concerns that there may be a COI arising from joint or overlapping operations among WBG entities.*

Under this framework:

- Responsibility for identifying and managing the COIs lies with the Directors in charge of the relevant operations.
- Each institution has a COI office with a mandate to develop and implement policies and procedures for managing these perceived COIs, and is responsible for advising and training its staff.
- A WBG COI Council (comprising CEOs and General Counsels of the World Bank, IFC and MIGA and the WBG Chief Ethics Officer) monitors the overall effectiveness of the framework and reviews specific cases escalated to it by either the COI offices or by the Directors in charge of the conflicting assignments.

Perceptions of COIs arising from joint operations among WBG entities are rare and much less frequent than IFC operational COIs. Typically, WBG manages COIs by being open and transparent about the role of each entity involved and by each WBG entity exercising heightened care to observe its mandate as well as its internal policies and procedures on staffing, management, IT systems and governance processes.



### 3. Nominee Directorship Conflicts of Interest

#### EXAMPLE 3A

---

IFC has debt and equity interests in a closely held company and nominates a staff member to serve as a director on the company's board. In her work at IFC, the staff member is involved in portfolio supervision of a major competitor of the company.

#### HOW DOES IFC MITIGATE THIS?

---

Under the applicable law, a board member owes fiduciary duties to the company and all its shareholders. These duties may conflict with the staff member's responsibilities as an IFC employee with regards to the portfolio supervision of the company's competitor.

This can be addressed through:

- The staff member's responsibilities for the company's competitor being reassigned, and she is walled off from any further involvement with the competitor.
- IFC notifying the company of the potential COIs and relevant mitigation measures effective under applicable law, e.g. that the internal nominee is required to recuse herself from receiving, discussing or voting on board matters involving IFC interests.
- IFC providing targeted training to the internal nominee on how to mitigate COIs.
- The internal nominee receiving guidance on applicable law COI requirements.

### EXAMPLE 3B

---

IFC has an equity interest in a company. It also has an A and a B loan with two B loan participants. IFC is considering whether to nominate an IFC staff member or an external candidate to the board of the company.

### HOW DOES IFC MITIGATE THIS?

---

IFC policies and procedures permit the nomination of external candidates, but not IFC staff, to boards of companies where IFC has mobilized one or more third party lenders under an IFC program (such as the B loan, parallel loan or MCPP program).

This is due to IFC's overall assessment that the COIs stemming from having an internal staff nominee on a board of an investee company where IFC has equity interest and mobilized debt cannot be readily or effectively mitigated.



## Managing Nominee Directorship COIs

*IFC nominates directors, both staff and non-staff, to serve on the boards of client companies in which IFC holds equity. The objective is to add value to the investee company's operations and create shareholder value consistent with IFC's development mandate.*

Where the nominee director is an IFC staff member, COIs may arise from time to time between the person's responsibilities to the investee company as a board member and the person's obligations as an IFC staff member. These COIs need to be identified, disclosed and managed.

Mitigation measures related to nominee directorship COIs include:

- Disclosure of the COI and any proposed mitigation arrangements to the investee company.
- Recusal of the internal nominee director from board deliberations and decisions on matters giving rise to the COI.
- Development of a plan to ensure that as part of his/her work responsibilities at IFC, the person does not approve or supervise any investment with a competitor, material supplier or customer of the investee company.

## 4. Personal Conflicts of Interest

### EXAMPLE 4

---

An IFC staff member in a field office is considering taking on a formal role in the management of a local non-profit organization that has an established business relationship with the WBG.

### HOW DOES IFC MITIGATE THIS?

---

Serving in a non-compensated position in a not-for-profit organization is generally acceptable under the WBG Staff Rules, unless the organization has a business or other relationship with the WBG.

Staff members are strongly encouraged to reach out to WBG Ethics & Business Conduct Vice Presidency (EBC) for advice. EBC will review the outside position for any potential COIs that may arise, and will provide advice.



EBC provides the following services to staff:

**Advising**  
on personal COIs under the Staff Rules.

**Managing**  
Declaration of Interests Program and Outside Interests Committee.

**Learning**  
on ethics by promoting staff awareness and skilled development.

**Investigation**  
of staff misconduct allegations.



## Managing Personal COIs

*Each IFC staff member is responsible for identifying and managing personal COIs and complying with his/her obligations under the WBG Staff Rules. EBC is responsible for providing advice and guidance to staff across WBG and works with staff to develop solutions where personal COIs arise.*

EBC offers **training and outreach programs** aimed at equipping staff with the necessary knowledge of ethical business conduct and personal COI risks to enable them to work responsibly within the WBG and to engage appropriately with external organizations and third parties.

Personal COIs for certain senior WBG staff are also monitored through the WBG's **Declaration of Interests Program**. This program utilizes a secure electronic filing system in which selected groups of more senior staff disclose annually their personal, financial and business interests which are reviewed by EBC to identify any COI risks.

EBC also serves as the secretariat for the WBG's **Outside Interest Committee (OIC)**. Comprised of staff representatives from throughout the WBG, the OIC reviews requests from staff members to engage in outside activities and employment in their personal capacity and to accept medals, honors and other awards from external organizations.

## 5. Management of Non-Public, Price-Sensitive Information

### EXAMPLE

---

IFC holds listed securities in a client company. IFC takes on an advisory engagement with the same client. The IFC Advisory team has regular conversations with client company management and comes into possession of MNPI regarding the client company's financial projections.

### HOW DOES IFC MITIGATE THIS?

---

IFC policies and procedures include a general prohibition on IFC transacting in listed securities while in possession of MNPI. IFC typically waits until the relevant information is made publicly available, e.g. through a public filing with a securities exchange, or until the information becomes stale, before initiating any transaction in the listed securities.



## Proper handling of MNPI

*Given the nature of IFC's activities, IFC may in the normal course of business become aware of, or have access to, MNPI regarding an issuer or its securities. In certain jurisdictions, there may be a presumption under applicable law that IFC is in possession of MNPI, e.g. if IFC is a shareholder of the issuer or an IFC staff member serves as a nominee director on the board of the issuer.*

IFC is committed to protecting and responsibly handling confidential information, including MNPI, whether entrusted to it by a client, co-investor or partner, generated within IFC or another WBG entity, or obtained from another source. While applicable rules and regulations governing MNPI vary by jurisdiction, IFC maintains policies and procedures designed to address the proper use and handling of MNPI in IFC's business.

IFC MNPI policies and procedures are guided by three key principles:

- A general prohibition on the purchase or sale of listed securities when IFC is aware of MNPI regarding the issuer or the securities of the issuer.
- A prohibition on the improper communication or disclosure (known as tipping) of any MNPI to others.
- A direction that IFC staff may only communicate MNPI on a "need to know" basis.

In addition, IFC has established a Regulatory Risk Unit within the IFC Business Risk and Compliance Department tasked to respond to staff requests for guidance with respect to MNPI, maintaining and updating policies and procedures regarding MNPI, and conducting relevant staff training.



2121 Pennsylvania Avenue, NW  
Washington, DC 20433 USA  
Tel: (202) 473-1000