Proposed International Finance Corporation (IFC) Investment in FirstRand Limited of South Africa

May 5, 2014

United States Position

The United States welcomes this opportunity to consider IFC’s proposed investment of up to $250 million in Basel II-compliant Tier 2 capital subordinated debt in FirstRand Limited of South Africa.

The United States recognizes IFC’s efforts to forestall a tightening of credit conditions in emerging economies, like South Africa, that would have an adverse impact on job creation and poverty reduction. Aligned with this goal, the United States notes that one of the central aims of this proposed investment is to strengthen the capital structure of FirstRand, a major provider of financing to small and medium enterprises (SMEs) with $4.6 billion in loans as of end-June 2013, as it continues to comply with South Africa’s recently-adopted enhanced capital requirements. The United States further notes that FirstRand’s SME portfolio is expected to grow with this investment, to nearly $7 billion by the end of fiscal year 2017. The United States believes that improved access to financing for SMEs should be an important part of South Africa’s continued development. The United States therefore encourages IFC to stay engaged with FirstRand to increase access to finance for SMEs in underserved areas that will have the greatest impact on poverty and shared prosperity. Given that the Bank is already engaged in providing technical assistance to South Africa’s SME sector through its Economic Diversification and MSME development project, it also would be useful to understand the collaboration and lessons learned between IFC and the Bank in this important sector.

While the United States commends the aims of IFC’s proposed investment — to solidify a source of access to financing for South Africa’s SMEs and to develop a strategic relationship with a premier emerging-market financial institution with plans to expand across Sub-Saharan Africa — this project does, however, contain considerable environmental and social risks due to FirstRand’s exposure to high-risk sectors, such as mining and infrastructure. The United States continues to urge IFC to strengthen its approach to the assessment and disclosure of environmental and social risks in financial intermediary investments, particularly those that are Category A. Therefore, the United States wishes to be recorded as abstaining on this proposed investment. The United States encourages IFC and FirstRand to work closely together and take all appropriate precautions to mitigate the environmental and social risks of any Category A projects, going forward.

With these comments, the United States wishes IFC and FirstRand success in their attempts to diversify South Africa’s economy so as to improve growth and reduce poverty and inequality.