Fact Sheet
Proparco (France) and private finance for development

What is Proparco?

Proparco (Company of Promotion and Participation for the Economic Cooperation) was created in 1977 as a financial development institution dedicated to private sector financing. Proparco is partly owned by the French development agency (AFD) and private actors from countries in the global north and south.[1] Its main governing body brings together French members of parliament, government officials (foreign affairs, development), a representative of the French credit export agency (COFACE) and independent experts with specific relevant qualifications (from civil society, companies etc.).

A member of the Association of European Development Finance Institutions (EDFI) since 1992, Proparco is supposed to support and promote private investment in emerging and developing countries in order to achieve the Millennium Development Goals (MDGs). Its operations are presented as "*financially and economically viable, socially equitable and environmentally sustainable*". One of the pillars of Proparco's mission is to guide companies in order to improve their financial management, marketing, environmental and social risks control, and governance. To manage operations in various regions and pool knowledge of local economic reality, Proparco has a network of 12 regional desks in four continents.

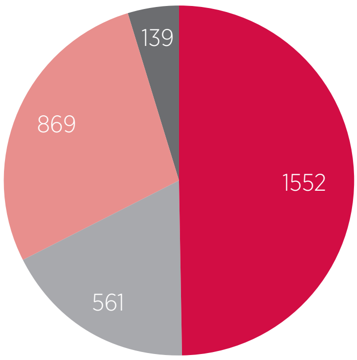
Proparco does not use any public funds but, as explained in its activity reports, "*backing from the AFD means Proparco benefits from the creditor worthiness of a shareholder with an AA+ rating*". Although Proparco does not benefit from any direct government endowment, this privileged access to financial markets can be considered as an implicit subsidy.

Proparco's activities are not reported as overseas development assistance (ODA) at the moment but the ongoing negotiations at the Organisation for Economic Co-operation and Development (OECD) level to widen what could be counted as ODA, which are strongly supported by France, could change the situation.

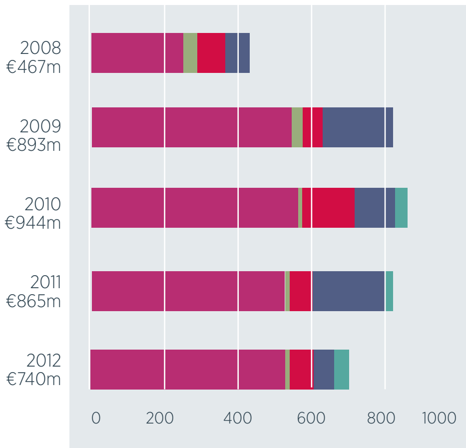
Proparco key figures (€ million)

	2012	2011	2010	2009	2008
Capital base (Total Assets)	420	420	420	420	120
Committed investment volumes	740	865	944	893	467
Net income	20.8	23.6	18.4	21.6	39.3
Net interest income	39.2	21.6	18.4	23.5	0.8
Taxes (direct and indirect) paid	17.8	12.6	13.3	8.8	7.8

Sector focus Proparco in 2012 (€ million)



Use of different instruments



Objectives and practices

Proparco concentrates its finances on the productive sector, infrastructure and financial capacities of emerging and developing countries. Proparco uses a wide range of instruments as long-term loans in local or foreign currency (senior, convertible), own funds, stockholders' equity, current account, convertible bonds, mezzanine, guarantees and technical support in order to finance the productive sector (with a focus on the agro-industrial sector, manufacturing industries, building materials), infrastructure (developing and improving the effectiveness of infrastructure in transport, energy, communication, water sanitation) and financial markets (to improve the capacities of local markets, local banks and financial institutions). In emerging countries, Proparco is especially focused on sustainable energy (biomass, biogas, hydropower, geothermal energy, wind power system, solar energy). To develop its activity, Proparco follows the sectoral policies framework of the AFD group.

Sectors

Proparco's portfolio has been mainly concentrated in the financial sector for a couple of years, while infrastructure finance and investments in companies make up a considerable share of Proparco's activities as well. Loans target infrastructure investments considerably more often than equity, while this is more balanced in the case of companies. Indeed, companies can be funded through the direct intervention of Proparco or indirectly by equity fund participation and intermediaries that reinvest later. Loans also seem to outweigh equity in targeting the financial sector, although this point must be qualified and tempered insofar as equity funds are often concentrated in the financial sector.

Instruments

A large proportion of Proparco's finance comes in the form of loans (87% of commitments in 2012), which are sometimes combined with other instruments such as guarantees. Proparco also signs on to AFD sub participations, equity investments, and to a small degree, to third-party loans. The use of AFD sub participations decreased significantly in 2012. As a result, the current use of loans and guarantees has become even more dominant.

Instruments by sector

Between 2008 and 2012, the majority of loans were concentrated on the financial sector. However, since 2010 this trend has changed slightly. Although 42% of the loans were still deployed for the financial sector in 2012, an increased share also targeted infrastructure (32%) and companies (26%).

Loans by sector

Since 2008, equity commitments increasingly targeted the financial sector. In 2012, a massive 47% of equity commitments concentrated on the financial sector, while the share of equity investments in investment funds has dropped dramatically throughout the years, accounting for merely 7% in 2012. Furthermore, infrastructure finance also make up a considerable share of Proparco's equity commitments in 2012 (26% in 2012 compared to 6% in 2011).

Regions

It seems clear that Proparco is increasingly getting involved in the Latin America and Caribbean region (the share of these geographic areas for by the global portfolio increased from 5.5% to 15% between 2008 and 2012, with a peak of 18% in 2011. Proparco's commitments in the Middle East and Mediterranean appear to be running out of steam, while sub-Saharan Africa still remains a special target for the French development finance institution (DFI), which claims its aim is to realise 50% of its new commitments in Africa.

DFIs have often been criticised in the past about the fact that private capital flows mainly concentrate on higher income countries and emerging markets. As such, it seems important to stress that Proparco's current commitments in Africa clearly focus on higher income countries such as South Africa or Nigeria.

How does Proparco determine development impacts

To measure the effectiveness and the impacts in terms of development of its projects, Proparco is using a tool inspired by the GPR (Geschäftspolitisches Projectrating©) developed by the German DFI, Deutsche Investitions- und Entwicklungsgesellschaft (DEG). Although it is difficult to obtain information about the French version of the GPR and its practical application by Proparco, we know that this tool allows the French DFI to evaluate the development impacts and also the commercial aspects of the projects. Indeed, this tool estimates, according to a multidimensional approach, the economic viability of the project, its development impacts, the additional role of Proparco compared with that of commercial banks, and the profitability of the operation.

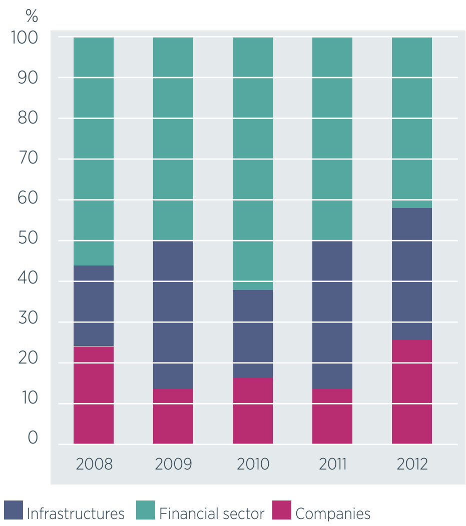
It should be mentioned that, in the case of Proparco, the tool just takes into account positive effects of the projects from an ex ante point of view. In more concrete terms, this implies that the evaluation process of development projects just intends to measure the positive anticipated and expected impacts, setting aside negative impacts and, more generally, real ex post impacts. In addition, Proparco also uses others AFD internal tools.

Proparco also takes into account to what extent a certain investment fits into its strategic priorities. According to the following criteria: i) achievement of the objectives of the shareholders of Proparco; ii) mobilisation of the other funds for the project; iii) function of 'umbrella' (ex: protective role in times of crisis, against corruption, etc.) or 'fame' looked for by the partner; iv) subsidiarity principle in the project. Finally, the efficiency of the project is calculated according to the cost of the risk and the conditions of the loan. The global project note is presented to the committee. Officially, there is no required minimum note for the acceptance of a project.

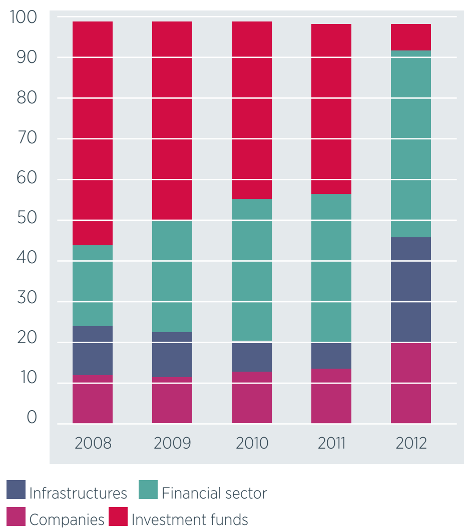
The client is responsible for realising the evaluation at the local level. Proparco examines the conclusions and the recommendations of the preliminary studies and the follow-up of the findings, proceeds to the environmental and social classification of the projects to determine the type of initiative to undertake, and oversees the evaluation mission with the client. During the evaluation, the client can exchange views with the interested parties affected by the project (local authorities, administrations, communities, local associations).

The most developed approach is one that concerns the operations in direct financing, because it includes, in particular, a risk assessment ex ante. This is in contrast to the operations in financial intermediation (the evaluations ex ante are systematically realised for all the projects in direct financing within six to 12 months after their realisation). In the case of the direct intervention, Proparco is supposed to strictly apply its framework; in the operation with a financial intermediary, the approach is more indicative: Proparco is supposed to support the client in improving its practices.

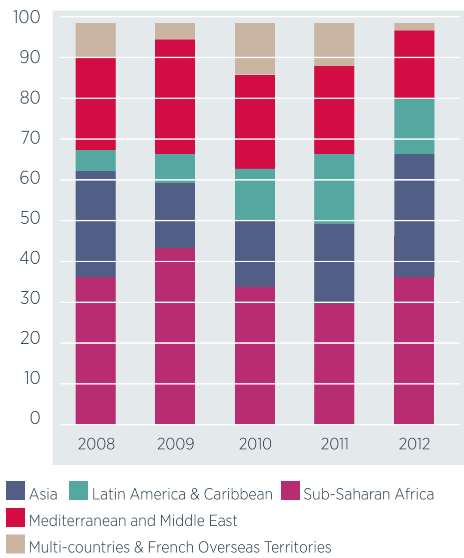
Loans by sector



Equity by sector



Regional focus (loans and participations)



Recent policy changes

Responsible finance

AFD's global risk management policy is supposed to be a cross-cutting issue and to be coherent with all the sectoral intervention frameworks. Proparco has defined its Risks Framework according to the International Finance Corporation (IFC) Performance Standards.[2] The social and environmental evaluation covers the environmental issues (ecology, biodiversity, natural environment, pollution – water, air, soils – health impacts and security, natural resources from land and underground, energy, space occupation, natural risk, technological risk and risk to health, living environment) and the social issues (all the risks related to human rights, and concerning conventions, text and international norms of the International Labour Organization, disadvantaged social groups, failure to respect cultural diversity). At the environmental level, the support unit requires that the project classification is realised according to the type of project (activity), location (project environment), size of the project and existing regulations.

From a theoretical perspective, Proparco's Risks Framework is inspired by the IFC Performance Standards but the lack of clarity surrounding the practical application of this framework leads us to a level of caution when comparing both standards.

The support unit, which confirms the final note of the project, defines the environmental and social due diligence to be implemented by the beneficiary. In 2010, Proparco developed its own list of exclusion criteria. This list excludes 14 types of activities such as pornography, tobacco, alcohol, prostitution, child labour, weapons and ammunition, as well as some fisheries.

In January 2014, AFD presented a new global corporate responsibility framework (not formally adopted yet). The new framework is supposed to be based on the norm ISO 26000, which offers guidelines for all organisations trying to assume responsibility for the impacts of its decisions and activities and to report these.

In summary, ISO 26000 is supposed to:

i) Contribute to sustainable development including the health and well-being of society

ii) Take into account the expectations of the stakeholders

iii) Respect the current laws and be compatible with international standards

iv) Be integrated in the whole of the organisation and implemented in its relations.

The ISO 26000 norm should allow Proparco to identify the impacts of its decisions and activities, and enter into a dialogue with relevant actors.

However, (after consultation with civil society), the adoption of Proparco's CSR policy has been postponed. Meanwhile the previous policy seems to remain the current framework.

Transparency

The first steps towards transparency were made with the adoption of a transparency policy framework[3] in the AFD group's strategic plan 2007-2011. The transparency policy aims to increase the credibility and the responsibility of the parties of the group towards its interested parties and French citizens. AFD's transparency policy aims to give access to all information that might be useful for the understanding by all of its functioning, its strategy and operations. The AFD group is also supposed to help clients to improve their own transparency policy.

The principles relating to the transparency policy specify the nature and the conditions in which the AFD group makes public the information it produces or that is in its ownership. The transparency policy follows three main criteria. The information has to: highlight the action of the AFD; improve the dialogue between the agency and the stakeholders; and not endanger legal procedures, the objectives of activities and the commercial interests.

Transparency is still a main issue in the case of Proparco. Unlike the IFC, the French DFI does not make public the rank of the projects covered by the bank secrecy and it does not have a clear channel of communication about risks and evaluation frameworks. Moreover, the AFD group assumes the responsibility for choosing which information it considers useful to share. AFD is at the same time subject to the French law and to the current law in the countries of intervention.

AFD group can neither make public the information covered by banking secrecy, nor the information that its clients refuse to reveal. Access to information is refused by AFD when its disclosure may strike a blow at court procedures, at objectives of activities of inspection, survey and audit, at commercial interests of a natural or legal entity – including intellectual property – in the integrity of the internal decision-making of AFD. The limits of disclosure apply only for a period in the course of which the protection justifies itself in consideration of the contents of the document. Exceptionally, a maximum period of 30 years can apply to certain documents.

The AFD group publishes only its participation in the funds in which it owns 10% of the shares and the final beneficiaries of these funds are unknown. French members of parliament have tried to introduce a new rule of transparency to tackle this issue but it has been rejected several times, first by the former French Minister of Development, then by the current Secretary of State in charge of Development and Francophony, claiming that it would be impossible for AFD.

Tax issues

Use of offshore financial centres

EDFI members have agreed to a number of guidelines that set out criteria related to the use of offshore financial centres. These are non-binding and it is up to individual DFIs to set up their own policies. This issue was not translated into a formal and explicit internal policy until May 2013.

In June 2014, the AFD group informed civil society about the internal rules it adopted in 2009. According to the AFD group, these rules prohibit the use of financial intermediaries located in non-cooperative jurisdictions, on the basis of the French list of non-cooperative countries and territories. While this list still targeted 18 jurisdictions in 2010, it was reduced to just eight jurisdictions in 2014. Several civil society organisations argue that this list does not include the most important secrecy jurisdictions.[4]

In November 2012, the review of the financial security framework ("General Policy on Combating Corruption, Fraud, Anti-Competitive Practices, Money Laundering and Terrorist Financing"[5]) approved by the board stipulated that attention should be paid to offshore financial centres only when receiving accounts changed their location to non-cooperative territories and when payments came from these same territories. The policy did not mention the prohibition of investments in financial intermediaries registered in such jurisdictions.

In May 2013, Proparco eventually adopted its formal internal policy regarding the use of offshore financial centres. Following pressure from several civil society organisations and parliamentarians, the policy was published in April 2014.[6] According to AFD, the policy serves as the extension of the aforementioned procedures, which date back to 2009 but were never made public. The policy expanded the list of jurisdictions concerned: in addition to the French list of non-cooperative countries and territories, the list now also includes countries that failed to pass Phase I of the OECD Global Forum peer review process. So far, there has been no feedback about the concrete implementation of the policy.

Civil society organisations remain cautious, since the French newspaper Le Canard

Enchaîné recently reported that, between 2007 and 2013, Proparco channelled more than €400 million intended for developing countries through more than 70 offshore financial centres.[7] For example, in 2013, Proparco channelled €5 million to the Luxembourg-domiciled Moringa Fund, despite the fact that Luxembourg is listed as a "tax haven" by OECD Global Forum.

Tax avoidance responsibility of its clients

Since 2007, Proparco has been using a tool that involves measuring ex ante the fiscal impact of projects on national budgets. However, this evaluation does not allow the identification or the assessment of tax avoidance or similar practices risks.

In July 2013, France adopted country-by-country reporting for banks but also for big companies. The thresholds for the latter are yet to be defined and its implementation is waiting until a similar law enters into force at the EU level. Civil society groups, however, argue that AFD and the French Export Credit Agency (ECA), COFACE, should adopt a country-by-country requirement as a condition for all financial support, to avoid investments such as the Feronia project, in which tax responsibility and fair contribution to the state budget in host countries are not guaranteed.[8] Civil society groups are also encouraging Proparco to include tax issues in its CSR policy and responsible procurement policy.

Accountability and redress mechanism

Proparco does not have an independent complaint mechanism but claims to be currently working to implement one.

Endnotes

1 The French Development Agency (AFD) holds 57% of Proparco's shares. French financial institutions hold 26% (BNP Paribas, BPCE International et Outre-Mer, Natixis, Société Générale, Crédit Agricole SA; public financial institutions such as Caisse des dépôts et consignations, and Credit export agency such as COFACE). International Financial Institutions (IFIs) hold 13% (BMCE of Morocco, Bank of Africa, West African Development Bank, Corporaciòn Andina de Fomento, Development Bank of Southern Africa and DEG. French companies hold 3% (Bolloré Africa Logistics (transports), Bouygues (diversified industrial group operating in building, energy, communication, services, etc.), Bouygues Construction (building), DMC (textile), GDF-Suez (energy), Locatom (former SES SA, company operating in spatial telecommunication and providing support and services to media group, companies and governments), Saga CTL (company operating in logistic and transport -Bolloré group), Saur International (environment services, water sanitation, waste, etc.), SIPH (International society of rubber trees plantations, exploiting more than 40,000 hectares of rubber trees in Africa), Socotec international (services and performance improvement in building, real estate, manufacturing and health sector), SOMDIAA (agroindustry operating in Africa, Villegrain group), Veolia (transport, water, waste and environmental services). Funds and philanthropic foundations hold 1%, such as M. Xavier de Bayser, Amundi AFD Avenirs Durables, Natixis Solidaire.

2 http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/IFC+Sustainability/Sustainability+Framework/Sustainability+Framework+-+2012/Performance+Standards+and+Guidance+Notes+2012/

3 http://www.afd.fr/jahia/webdav/site/afd/shared/PORTAILS/PUBLICATIONS/RSE/pdf/2-Politique%20transparence%20-%20version%20internet.pdf

4 The current list includes Botswana, Brunei, Guatemala, Marshall Islands, British Virgin Islands, Montserrat, Nauru and Niue.

5 http://www.afd.fr/webdav/site/afd/shared/L_AFD/L_AFD_s_engage/documents/Politique_AFD_lutte_contre_corruption_VA.pdf

6 http://www.afd.fr/webdav/site/afd/shared/L_AFD/L_AFD_s_engage/documents/Politique-groupe-AFD-dans-JNC.pdf

7 Le Canard Enchaîné, L'aide au développement des paradis fiscaux, 11 June 2014.

8 Through participation in the African Agriculture Fund, based in Mauritius, Proparco invested in a "Congolese" company, Feronia, constituted under Caiman law and a subsidiary of a Caiman company. Financial reports indicate that Feronia would cumulate non taxation in the Caiman Islands, tax holidays in the Democratic Republic of Congo (DRC) and declare losses in Canada in order to reduce future taxable profits.

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