Role of the International Finance Corporation

Eric Carlson, IUBSSA Senior Consultant, profiles the market orientated international aid agency

The International Finance Corporation, which celebrated its 30th anniversary in 1986, has an impressive record of activities and achievements. It is the world's largest organisation providing financial assistance in the form of loans and equity, without government guarantees, to the private sector in developing countries.

IFC is affiliated to the World Bank, but operates largely with a separate staff and funding. IFC has 128 member nations countries, more than 100 of them comprising developing countries.

IFC's fundamental purpose is to promote the economic development of its developing member countries through the support of the private sector. This includes housing finance. To date, IFC has provided advice on organisational policy and operational aspects of housing finance and secondary mortgage markets in 16 countries. However, this particular activity, centred in the IFC's Capital Markets Department, has been limited and the record is patchy, especially when compared with the volume and effectiveness of its work elsewhere.

Since it began operations in 1956, IFC has been associated with more than 2,000 companies and financial institutions in supporting over 800 business ventures in more than 80 countries, with a total capital cost amounting to more than $30 billion.

IFC's authorised capital is $1.3 billion. The resources available to it consist of its paid-in capital, provided by member countries, of $602 million at the end of fiscal 1986; accumulated earnings of $284 million; and repayments and sales to others of IFC investments. IFC can borrow from the World Bank and other sources up to four times the amount of its unimpaired subscribed capital and accumulated earnings — about $3.2 billion. In 1986, it borrowed the equivalent of $350 million in this manner, compared with $130 million in the previous year. This borrowing policy provides IFC with flexibility in its activities, and allows it to take advantage of lower market interest rates and thus offer lower rates to its clients.

There is no standard form of application for IFC financing, although certain basic preliminary information is required to enable it to decide whether an investment proposal warrants consideration. Generally, IFC will assist a project only if there is a benefit to the economy of the host country, if there is a prospect that the venture will earn a profit, if there is a provision for immediate or eventual local participation, and if the host government does not object.

IFC never invests alone—it expects to supplement and mobilise private capital, not replace it. IFC will make investments in a wide variety of sectors — manufacturing, mining, tourism, agribusiness, financial institutions, and others, but will not invest in such activities as land speculation, trading companies and luxury goods. It invests for its own account generally no more than 25% of the project cost. Normally, its investments are in the $1-50 million range.

IFC loans are usually for terms of 7-12 years and are made at fixed or

'Lower rates offered to IFC clients'
variable rates. Depending on a project's need, IFC can invest in equity, make loans, underwrite securities' offerings, provide stand-by financing, and organise syndications of commercial bank financing as participants in IFC's loans.

To attract more equity investment to developing countries, IFC recently introduced the Guaranteed Recovery

'P Staff drawn for more than 70 countries'

of Investment Principal Program (GRIP). Through a combination of standard financial devices, GRIP will guarantee the investor's principal in an equity investment made through IFC, with participation in dividend income and capital gains over an agreed period. IFC may invest in "mixed" government/private enterprise projects when they contribute to private sector developments.

IFC involvement in housing finance

Advice on organisational, policy and operational aspects of housing finance and secondary mortgage markets in 16 countries: Indonesia, Tunisia, the Philippines, Lebanon, Thailand, Costa Rica, Colombia, Bolivia, India, Senegal, Trinidad and Tobago, the Bahamas, Panama, Chile, Haiti and Portugal.

Approved investments in housing finance companies have been made as follows:

- **Lebanon** (1974): Bank of the Near East (BNE)
  - IFC equity (sold 1981) 20%
- **Colombia** (1974): Corporacion Colombiana de Ahorro y Vivienda (DAVIVIENDA), IFC equity (sold 1976) 15%
- **Bolivia** (1976): Banco Hipotecario Nacional (BHN), IFC equity (sold 1978) 15%
- **India** (1978): Housing Development Finance Co Ltd (HDFC)
  - IFC equity 5%
  - IFC underwriting 5%
  - IFC loan $4 million
- **Indonesia** (1980): P.T. Papan Sejahtera (PAPAN)
  - IFC equity 15%
  - IFC loan $4 million
- **Senegal** (1980): Banque de l'Habitat du Senegal (BHS)
  - IFC equity 9%
- **Trinidad and Tobago** (1984): The Home Mortgage Bank (HMB) a secondary mortgage market company
  - IFC equity 10%
- **India** (1985) Gujarat Rural Housing Finance Development Corp
  - IFC equity 12.5%

IFC frequently provides specific technical assistance while appraising and monitoring individual projects. Its international staff — drawn from more than 70 countries — has accumulated much financial, legal and technical expertise and, moreover, can draw upon the World Bank’s wide experience, as well as on its own contacts with financial institutions and development agencies. The Foreign Investment Advisory Service (FIAS) is a recent innovation developed by IFC to assist developing countries’ governments in creating the framework of policies and institutions necessary to attract and regulate direct foreign investment.

IFC, together with the World Bank, makes a special effort to encourage the establishment and development of capital markets. It helps local investors, and often serves as a bridge between the international capital markets and the local businessmen and financial institutions in a developing country. Over the years they have supplied more than half the financing for ventures assisted by IFC.

The Corporation's capital markets programme has three objectives:
(a) Supporting and financing of specialised financial institutions, including housing finance banks.
(b) Providing technical services and advice on capital markets policy and regulatory matters to governments and financial institutions to help them strengthen the private sector.
(c) Increasing international investors’ awareness of emerging securities markets and major private sector companies in developing countries in order to facilitate the entry of the companies into the international money, bond and equity markets.

An important recent example of IFC's growing role in the promotion of portfolio investment in developing countries is the Emerging Markets Growth Fund. The fund will invest in publicly listed shares in certain developing countries, and was established with the participation of a group of large institutional investors from the United States, Western Europe and the Middle East.

The board of IFC comprises six directors and six alternates representing individual countries — China, France, West Germany, Japan, United Kingdom and United States. There are 15 other directors and 15 alternates who are elected by groups of countries. All projects are submitted to the board of directors for approval. The president of the World Bank also serves as president of IFC. The management of IFC is the responsibility of Sir William Rytie, executive vice-president since 1984.
In 1986, IFC approved 85 projects in 39 countries for a total approved investment of $1,156 million. Thirty-three projects with a total value of $245 million were located in countries with an annual per capita income of less than $800. Capital markets projects accounted for 12 investments totalling $85 million.

A wide range of sectors was represented by IFC investments in fiscal 1986, but housing banks and housing finance institutions were not included during this period. More recently, progress in this field has been developing in Trinidad and Tobago with the establishment, by legislation in 1986, of the Home Mortgage Bank; the establishment in India in 1985 of the Gujarat Rural Housing Finance and Development Corp; and negotiations with Nepal regarding the possible establishment of a Housing Development Finance Corporation (HDFC), patterned on the model in India, profiled in Housing Finance International no 3.

The HDFC is probably the crown jewel of IFC’s involvement in the housing finance field. The Colombian Corporation for Savings and Housing (DAVIDIENZA) is also an outstandingly successful operation. It had some IFC equity participation in its very early years, but this was “sold back” to IFC in 1976.

The full record of IFC’s activity in housing finance is shown in the table on page 33 from the IFC publication, Capital Markets — Mobilising Resources for Development.

Although in recent years housing investment has not been given priority by many countries in the weak global economic scene, assistance provided through the IFC, with its new approaches and instruments, could become an increasingly important factor in the remainder of the decade.

Further information about the IFC, including the Annual Report 1986, is available from the Corporation at its headquarters address: 1818 H Street NW, Washington DC 20433, USA.

Regional Distribution of IFC Investments: Fiscal 1986

- **NUMBER OF PROJECTS**
  - 33% Latin America/Caribbean
  - 29% Africa
  - 26% Asia
  - 12% Europe/Middle East
  - 16% Europe/Middle East

- **AMOUNT OF INVESTMENT**
  - 32% Latin America/Caribbean
  - 10% Africa
  - 42% Asia
  - 16% Europe/Middle East

**IFC activity in the past 10 years (USS millions)**

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