INTERNATIONAL FINANCE CORPORATION
AND
THE DEVELOPING COUNTRIES IN THE 80s

A Dissertation submitted to the
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Master of Philosophy

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CERTIFICATE

Certified that the Dissertation entitled **"The International Finance Corporation and the developing countries in the 1980s"** submitted by **Ms. Nandita Datta** in partial fulfilment for the award of the degree of **Master of Philosophy** is her bonafide work to the best of our knowledge.

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"For oft when on my couch I lie
in vacant or in pensive mood,
They flash upon my inward eye,
in a bliss of solitude."

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Introduction

Origin & Establishment of the International Finance Corporation

One of the most significant developments in the international economy during the immediate post-war years was the establishment of the International Bank for Reconstruction and Development (IBRD), commonly referred to as the World Bank under the Bretton Woods Charter of 1944. It was aimed at encouraging the flow of international financial resources for financing the reconstruction of the war-ravaged economies of Western Europe as well as making developmental loans.

The primary responsibility of reconstruction, thanks to the vastly underestimated costs of rehabilitation together with the increasing Soviet polarisation became the exclusive concern of the United States of America under the Marshall Plan. The Bank was therefore left with the sole purpose of funding developmental projects with a view to facilitating economic growth particularly in the less developed areas.

The Articles of Agreement of the IBRD set for itself the primary objective of promotion and encouragement .of private investment for productive purposes. In accordance with its charter the Bank channeled investment into the financing of private enterprise, used its guarantee functions to stimulate foreign private investment and engaged in parallel financing with private investors besides actively concerning itself with schemes for the international insurance of foreign private investors.[1]

But taken all together the existing institutions did not "adequately meet the need for stimulating private investment - both foreign and domestic, for :

[1] Mason R. & Asher E., The World Bank since Bretton Woods, The Brookings Institution, Washington D.C., 1973, Pg 2

- Bank loans directly to private enterprise was limited by the requirement of its Articles of Agreement that such loans must be guaranteed by the respective Government. This discouraged private borrowers who feared that a Government guarantee might lead to the Government's interference in the conduct of their business. On the other hand, Governments too were sceptical of being branded as being partial to, or against, some industrial house or the other.

- Bank loans did not engage in equity financing and this meant that the Bank had to sometimes abandon considering some promising private projects because they required more private capital than the entrepreneur was able to obtain.

- Bank lending to private industries through development banks, though useful, could not escape the necessity of Governmental sanction. Also, the extent to which these borrowed funds could be used for equity investment was obviously limited. Further, these intermediaries were not well placed to attract the interest and participation of foreign firms and investors in the projects they financed.

The first suggestions for the creation of an International Finance Corporation can be traced to the ideological climate prevalent in the late 1940s. There was war in Korea and economic mobilization for defence in the United States - statesmen feared that the conflict might not remain localized and hence there were endeavours to muster at home and abroad the resources for waging a protracted war of unpredictable dimensions. Attempts to align allies for political action went on & accordingly the US foreign economic policy was being shaped. In fact the Communist invasion of Korea was indicative of a determination to seek a battleground away from Europe and in that sense Americans viewed June 1950 as not just "an" instance of Soviet interest in the Far East - it marked on the other hand increased activity in this area. Furthermore, it became increasingly clear that the Communists would actively move in whenever they discovered inviting signs of weakness - both military and economic. To the US administration such clear signs of weakness was noticeable not only in Korea and the adjacent regions but as keen observers of the world scene they knew that a lack of strength of this kind could be found in a widely dispersed peripheral area i.e. the fringes of the economically advanced & industrialized world.

The problem of this peripheral economically underdeveloped world had begun receiving increasing attention since the closing days of the 2nd World War following the advent of the Cold War between the East and West. It received further stimulus when in his inaugural address on January 20, 1949, President Truman equated his foreign economic policy to the amelioration of development problems in the Third World. In effect, he therefore linked international economic development to US defense mobilization - an idea upheld by the Gray Report[2] in the autumn of 1950.

Meanwhile, interaction between ideas circulating among the staff of the Bank & the US government provided sufficient momentum for the birth of the IFC. When in the spring of 1948 the US National Advisory Council on International Monetary & Financial Problems was considering whether the administration should ask the Congress to add $500 million to the lending authority of the Export-Import Bank. Eugene Black, then US Executive Director of the World Bank, vigorously opposed the idea on the grounds that this would prejudice perhaps fatally the prospects of the World Bank in the field of development lending. Black specifically argued that a subsidiary be created "to do equity financing in Latin America". The choice of region was obvious considering the proximity to America - this soft underbelly had to be protected against hostile Soviet influences. Almost simultaneously came the memorandum proposed for President Mc Cloy of the World Bank which suggested that while the Point Four programme would begin with technical assistance, it would be followed by transfers of capital. In that event the memorandum stipulated that an "international development corporation" be established as a subsidiary of the World Bank. Both Black's proposal and the idea presented to Mc Cloy were considered within the US Government. Neither was adopted but it set the ball rolling . The idea for an IFC received a boost when President Truman requested his Advisory Board on International Development

[2] This report outlined the programme for basic aid to the underdeveloped area with a proposed $500 American contribution.

under the chairmanship of Nelson A. Rockefeller to recommend "desirable plans to accomplish with maximum dispatch and effectiveness the broad objectives and policies of the Point Four programme"[3] , while also considering specifically what might be done in underdeveloped countries. To Rockefeller and his staff, who were looking for concrete suggestions, the idea of an International Development Corporation was an attractive one.

On 7th March 1951, the report entitled "Partners in Progress" was submitted by the Board which recognized the limited ability of the International Bank for Reconstruction & Development (IBRD) to finance the establishment and expansion of private undertakings in poorer countries. Hence, the Board proposed among other things[4] the creation of an "International Finance Corporation" as an affiliate of the IBRD which would, with its $400 million authorized stock, engage in :

- providing loans to productive private enterprise without Government guarantee

- making equity investment in participation with local private investors[5].

Furthermore, it was stated that with the earnings drawn from a successful enterprise, the organization would be able to offset exchange risks involved in making investment in local currency. This in turn would also enable the Corporation to launch numerous productive enterprises which would otherwise never be started for want of adequate financing.[6]

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[3] Op cit., Pg 347

[4] The report also provided for the creation of an International Development Authority to finance public works in less developed countries apart from proposing tax incentives, underwriting transfer risks & other measures to encourage flow of private capital.

[5] Baker J.C, IFC origins, operations & evaluations, Praeger Publishers, USA, 1968, Pg 21

[6] Matecki B.E, Establishment of IFC and the US policy - A case study in International Organization, Praeger Incorporated, USA, 1957, Pg 34

It is interesting to note that working from the very outset in an atmosphere of national emergency wherein it would be natural for the Board to advocate financing of international economic development primarily through public funds, the proposals had a strong disposition towards private financing.[7] The reason for such a pronounced inclination towards private financing could be found in the Western capitalist ideology and its penchant for private capital and initiative. Also, in the recognition that the pressure for economic development was there to stay rather than being a passing necessity and therefore in the long run an emphasis on investment under private auspices would definitely be more compatible with American interest.

The Report, prepared in an atmosphere of national emergency, placed great emphasis on the relation of economic development to the defence policy of the US. "The more deeply we have explored the relationship of international economic development to defence the more impressed we have been with how truly inseparable they are."[8] And as a result of their findings it expressed the opinion that strengthening the economies of the underdeveloped regions and an improvement in their living levels must be considered a vital part of American defence mobilization. To quote from their observation, "The Soviet imperialism is seeking to chop off one country after another to leave us in isolation and hence our economic policy must seek to strengthen the ties of cooperation which band the free peoples together. Hence, the conclusion that international economic development when brought within the necessary broad strategy of a total foreign policy will play an important role in our mobilization for defense."[9] Broadly conceived in relation to American national interest, this Rockefeller Report must be viewed as a bid to outdo and outplay the Soviets.

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[7] Ibid., Pg 35

[8] Ibid., Pg 32

[9] Ibid., Pg 32

Meanwhile, the reaction to this momentous development was mixed and varied, both within the US and outside. In the American administration three approaches became discernible :

(i) **outright negation** vigorously pursued by the Treasury Department on the grounds of :

- participation of an inter-Governmental institution in equity ownership would be contrary to American economic principles,
- budgetary considerations as the $150 million US contribution was not viewed favourably and this became more pronounced after the Republican administration's strong emphasis on budget balancing,
- unwillingness to see a proliferation of international institutions and the consequent growth of an international bureaucracy.

(ii) **restrained approval** led by the State Department which viewed the IFC proposal as a convenient and a relatively inexpensive vehicle for supporting its policy in the field of economic affairs. But it lacked the strength, vigour, and conviction to carry the idea through and match the negation made by the Treasury.

(iii) **unqualified approval** was restricted to the Securities & Exchange commission which had, since the Bretton Woods days, favoured greater flexibility in international lending.

The US Government policy amidst such substantial divergence was the collectively adopted policy of "watch and wait".

The international business community was totally against the idea and the most vociferous proponent for them was the National Foreign Trade Council.[10] Their argument ran along the following lines ;

[10] Ibid., Pg 84

- tax payers' money cannot be doled out for projects which under normal circumstances could be financed by private capital. If at all, such public funds should serve to open up and broaden the channels of private investment i.e. business interest.

- an attempt to stimulate equity investment in developing countries where savings and capital formation were low, might deter rather than promote creation of such a mechanism,

- artificial stimulation of equity investment meant in effect that the enterprise was uneconomic and therefore it was naive to assume that such an enterprise could later be sold on its inherent merit to private investors.

In the United Nations, the developing countries showed a greater interest in the establishment of a grant making International Development Authority and infact a group of experts appointed by the Secretary General , in their report in May 1951, exhibited an explicit preference for the grant-in-aid provided directly from public funds.[11] Their reasoning was prompted by ;

- the urge to speed up the development effort in the poor countries,

- obstacles to private investment in these states.

In the fifth session of the UN Economic, Employment & Development Commission for instance, the Indian representative threw his practically unqualified support behind the recommended IDA almost to the point of ignoring the IFC proposal. At the same time, however, some developing nations of Latin America, prominent among them Mexico and Brazil, sounded a discordant note by insisting that donations and subsidies would not constitute the best means of providing aid. The major capital exporting countries like United Kingdom, France, Netherlands and

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[11] Ibid., Pg 92

Belgium among others were not prepared to make a financial contribution to either of the two institutions. In the ultimate analysis, as a result of a peculiar compromise the proposal for an IFC found itself almost inextricably linked with the broader problem of establishing an IDA.

It was the World Bank that lent its full support to the IFC proposal and subsequently helped keep it afloat in a status separate from the IDA. Eugene Black, President of the Bank, submitted to the UN Secretary General in April 1952, "A report on the proposal for an IFC" wherein he stressed on the inadequacy of existing institutions, both international and national, to stimulate private international investment. The new instrumentality, he argued, would not only provide capital but by direct participation could induce increased investment by a greater number of private investors both local and foreign.[12]

At the 14th session of the UN Economic & Social Council (ECOSOC) which considered this report, a great many developing countries, with the notable exception of Mexico[13], adopted a relatively more positive approach towards the IFC proposal. But, at the same time countries like India, Egypt, Chile, Uruguay and Pakistan missed no opportunity to opine that creation of an IFC alone would not be an adequate answer to the pressing needs of their economic development. Together with the West the Scandinavian countries led by Sweden were unprepared to support the IFC with actual contribution and the Council therefore requested the World Bank to continue examination of the proposal. In May 1953 the latter submitted its "Report on the Status of the Proposal for an IFC", wherein it was held that in view of the reluctance of countries on whom the Corporation would necessarily have to depend for the greater part of its funds, the Bank management felt it futile to prepare any concrete

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12 "Report on the proposal for an International Finance Corporation", IBRD Publication, Washington, April 1952

13 The Mexican viewpoint was that economic development should be based on the utilization of domestic resources & that outside assistance should be subsidiary only.

proposals.[14] Rather it would, the report argued, continue to explore and study the matter together with intense negotiations.

The unchanged, adamant stand of the capital exporting countries pressurized the World Bank to reformulate the more offending parts of the IFC proposal to accommodate their interests and needs. Therefore, the "Second Report on the Status of the Proposal for an IFC" submitted to the UN Secretary General in June 1954 thought it "undesirable" for the IFC to ;

- start on too large a scale and therefore suggested that operations could begin with $100 million instead of the proposed $400 million authorized stock,

- engage in equity financing and hence be restricted to loan financing,

- lend to an enterprise without a sound financial structure and avoid an unduly large ratio of debt to equity capital.[15]

In effect, the report worked towards considerably weakening the opposition stand in an effort to break the stalemate in international negotiations and provide a way out of the continuing impasse.

By the fall of 1954 the forces of support for the IFC proposal gathered momentum and the prevalent political atmosphere contributed substantially to it. The 9th session of the UN General Assembly was meeting in shadow of the forthcoming Inter-American Economic Conference at Rio[16] and the Latin American representatives made no secret of the fact that the Rio Conference would become a forum for a more dynamic policy of economic development if consultations at the UN

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[14] "Report on the Status of the Proposal for an IFC", IBRD Publication, Washington, May 1953

[15] "Second Report on the status of the Proposal for an IFC", IBRD Publication, Washington, June 1954.

[16] To be held in the month of November, !954

failed to yield tangible fruits. This galvanized the developing countries of Asia into action and urgent pleas were addressed to the economically advanced countries for a more active assistance in the economic plight of their continent. These pleas had strong political overtones unmistakably linked to the cold war scenario. The Japanese Premier for instance struck the chord with his "there is not much time, so lets act now".[17]

Also, there arose a feeling in a number of developing countries that in accordance with pragmatic considerations IFC should be established first in case of a choice (rather than SUNFED)[18]. This was a realistic interpretation of a historical fact - that between the two alternatives the countries of the North would much rather uphold encouragement of private investment instead of the grant-making institution for obvious reasons. Given this ultimatum, the South, left without much leverage in bargaining, was willing to accept at this stage anything that the capital exporting countries were prepared to give them.

But more notably, it was Soviet Union's policy of luring underdeveloped nations with bright trade prospects based on an offer tp purchase products at "fair and stable prices" that clinched the issue. Based on the assumption that ran contrary to the American proposals, the Soviets maintained that foreign investment could not be regarded as the principal sourse for financing economic development. Rather, these underdeveloped nations should, they felt, enter into long term contracts with USSR for the mutual exchange of products. A master stroke that appealed to the poorer nations of the world who found themselves moving closer to the Communist bloc. When a similar offer was made by Czechoslovakia, the Americans found themselves uncomfortably sandwiched between increased pressure for action coming from developing countries and a Soviet policy of eliminating these states from the West by opening alternative opportunities to them.

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[17] Matecki B.E, Op. cit., Pg 147

[18] The Special UN Fund for Economic Development (a report for its establishment was before the ECOSOC too) was proposed to finance investments which were not self-liquidating and which were non-yielding

In a surprise volte-face, on 11th November 1954, the US Secretary for Treasury, George Humphrey, announced the decision of the US administration to seek Congressional support for US participation in the IFC. International reaction came in swift succession - on 4th December the United Kingdom announced that it had been led by the revised American policy to reconsider its original attitude. Other capital exporting countries too shed their initial inhibition and fervently embraced the idea of the creation of the International Finance Corporation . The UN General Assembly by a 50-0 vote adopted the resolution on the "Question of Establishment of an IFC", while requesting the IBRD to prepare draft statutes to govern the Corporation. The Bank transmitted in April 1955 the Articles of Agreement of the IFC to member Governments for their deliberations and approval.

With a $35,168,000 American share of the authorized stock, approval of the US Cngress was mandatory for the success of the proposal. By the International Finance Corporation Act of 11th August 1955 the Senate and the House of Representatives authorized President Eisenhower to accept membership and subscribe to the capital of the IFC. In December the US Government delivered its instrument of acceptance to the IBRD and by the beginning of July 1956 a total of thirty-one countries with a total subscribed capital of $78.4 billion had deposited their notices of acceptance. The inaugural meeting of the Board of Directors under the Presidency of Robert Garner was held on July 24, 1956 and according to the provisions of the charter the International Finance Corporation began operations on that date.

CHAPTER 1

Evolution of the IFC and the Developing Countries (1956-79)

As a newly established organization, the International Finance Corporation was unique in the sense that it was the only inter-Governmental institution with the sole purpose of assisting the economies of developing countries by investing in their private enterprises. Outlining the objective, Robert Garner in his capacity as President of the IFC argued, "the primary interest is not simply to help some selected private projects by making $80 - $90 million available to them, but our purpose is much wider - to demonstrate that private investment prudently made and properly managed can be both profitable and useful".[1] In essence, therefore, its Articles of Agreement commissioned the organization to [2]

- assist in financing the establishment, improvement and expansion of productive private enterprise by making investments, without guarantee of repayment by member Governments concerned, in cases where sufficient private capital was not available on reasonable terms.

- seek to create investment opportunities by bringing together domestic and foreign investors as well as experienced management.

- endeavour to help stimulate the flow of private capital into productive investment in member countries.

Essentially, therefore, the International Finance Corporation was to be an investing rather than a lending institution in the sense that it would make investments which in turn would encourage participation by private investors. And according to its charter, the organisation would bring other investors into partnership in its transaction principally through two ways :

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[1] IFC Summary Proceedings (Inaugural Meeting of the Board of Governors), Washington DC, November 15, 1956, Pg 6

[2] Articles of Amendment, Appendix A (Mason E and Asher R, The World Bank since Bretton Woods), Pg 780

- by offering participations at the time of a commitment i.e. syndications,

- sales of matured equity investment from the Corporation's portfolio.

Besides, indirect mobilization of financial resources too was visualized with investors risking their capital assured that the Corporation's association with a project meant in effect a sound investment. Infact, in his address to the first annual general meeting of the Board of Governors, Garner went as far as to assert, "the success and failure of the Corporation would be reflected not so much in the amount of IFC's own operations as in the extent to which they encourage others to channel their resources into productive private enterprises".[3]

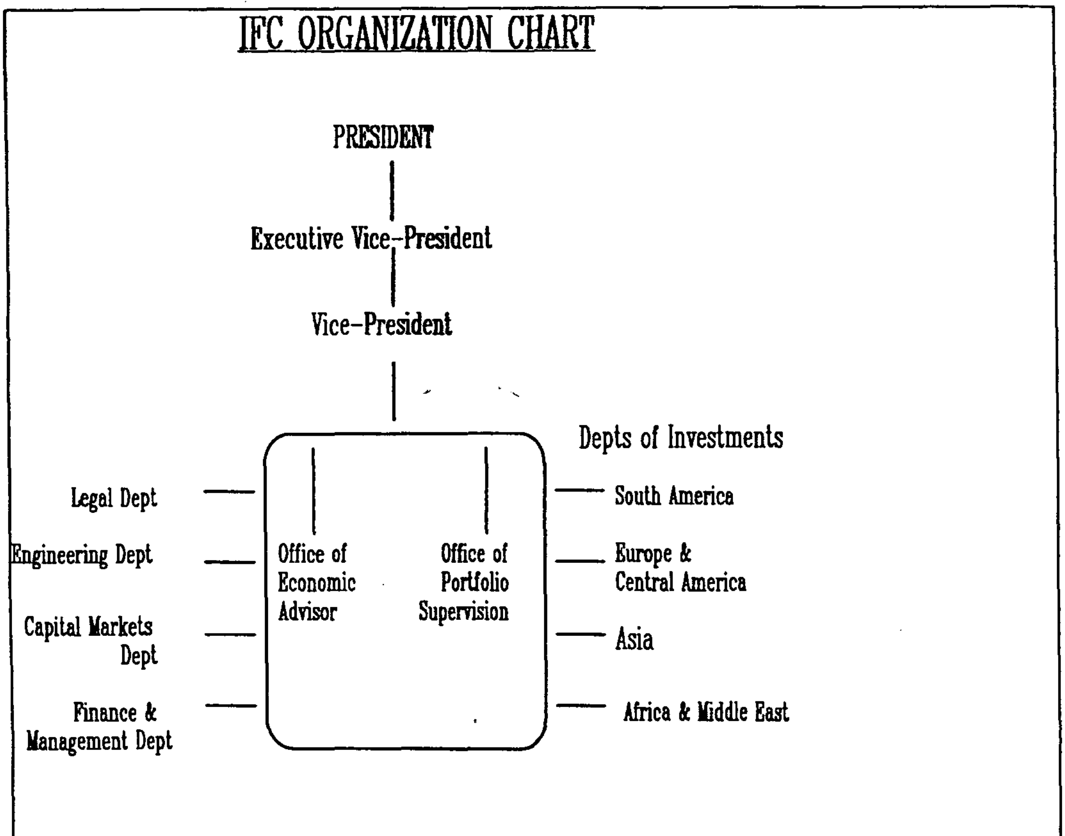
But before I dwell on the actual programmes and policies of the Corporation it would certainly be more fruitful to do a brief survey of the Corporation's organizational structure within which it functions. This would, more than anything else, provide an interesting insight into the aims and objectives of the founding fathers - their anticipations, presumptions, as well as apprehensions.

The Structural Paraphernalia

The Articles of Agreement of the IFC, patterned on those of the World Bank, stipulate that countries that are members of the Bank are eligible for membership in the Corporation. Consequently, if a member ceases to be a member of the Bank or if its membership in the Bank is suspended, its membership in the International Finance Corporation is automatically terminated or suspended as well. Within the Corporation itself, there were clauses for withdrawal of membership and a suspension if the member Government failed to fulfill any of the obligations of membership. Voting right in the IFC was related to member countries' capital subscriptions - each member had 250 votes, plus one for each $1000 of capital stock

[3] IFC Summary Proceedings (Inaugural Meeting of the Board of Governors), November 15, 1968, Pg 10

prescribed. This weighted voting system, a hallmark of all multilateral financial institutions, exhibited the importance and power of major contributors with a special reference to the American predominance and hegemony. In close resemblance to the Bank, the IFC has essentially identical organizational structures for policy formulation and executive supervision. Its programmes and activities were guided by the member countries through the IFC Board of Governors and on whom vests the Corporate powers. Most of these powers were, however, delegated to the Board of Directors chaired by the President of the World Bank. The Executive Vice-President, the President's deputy, conducted the day to day affairs of the Corporation and infact was responsible for its internal administration. The organization of the International Finance Corporation ran along both functional as well as geographical lines - The Department of Investments (South America, Central America & Europe, Africa & Middle East and Asia) as well as the Legal, Engineering, Capital Markets and Finance & Management Departments work in close coordination. Advising and assisting the IFC were a host of panels and councils composed of eminent industrialists and bankers who shared their expertise, experiences and views on business issues relevant to the IFC activities and policies with the management. This structural paraphernalia has been reoriented off and on to adjust to the changing needs of the day - to meet operational difficulties and new challenges. The figure below shows the organisational structure as of September 1971 :



(Source : Mason & Asher "The World Bank since Bretton Woods", Pg 868)

Moving on to the more crucial aspect of finance, i.e. resources at its disposal, the Articles of Agreement provided enough manoeuvrability for financial soundness. Commencing operations with an original authorized stock of $100 million, an increase in subscribed paid-in capital was envisaged as membership arose. But that was not all - to carry out its obligations, the IFC possessed :

- earnings from its investments i.e. interests, dividends etc.

- sale of some of its holdings to other financial institutions and private investors

- ability to borrow by using debt obligations on the open market.

For the disbursal of funds, investments in the form of obligations were to be channelized as per guidelines spelt out in the Articles of Agreement.

These directives encompassed a wide array of do's and don'ts for the Corporation and stipulated the following :

- the IFC was to undertake financing only when sufficient private capital could not be obtained locally on reasonable terms

- the terms and conditions of a financial agreement were to be fixed in accordance with the requirements, which was usually determined by the market.

- the Corporation was to maintain diversification in its investment portfolio instead of putting all its eggs in relatively few baskets

- the proceeds of the IFC financing was to be spent within the territories of that particular country

- the organisation was to, as a matter of principle, abstain from imposing conditionality on any investment project

- the investments would not necessarily be a conventional fixed interest loan but could be an intermediate between loan capital on the one hand and share capital on the other. In other words, the loan was to carry some interest and some right to participation in the growth of the business.

After this brief deliberation on IFC's constitutional structure I now propose to study the working of the organization since it began operations in 1956. As the period under scrutiny in this chapter is rather exhaustive I intend to examine the activities of the Corporation decade-wise to enable a more lucid understanding of the subject.

The initial years

The IFC opened its doors in 1956 heavily handicapped[4] but it witnessed enthusiastic fervour in its activities by private industrial enterprises all over the world. With 31 members and a total subscription of $78 million, the organization invested this initial amount in US Government obligations while simultaneously screening proposals for investment. Concentrating on the field of industry, the Corporation officials claimed that this decision arose from the fact that it provided the greatest economic multiplier through employment, training, and stimulation of associated activities. Also, undoubtedly, it would most widely attract the flow of private capital and management skills. As President of the IFC, Robert L. Garner viewed rather narrowly the financial resources available to the organization - he preferred to treat the initial $100 million capital as all that would ever be available. Hence, early in the history of the Corporation - a limit of $ 2 million was set on individual IFC investments. Concurrently, consideration for the economies of scale precluded the Corporation from pledging its funds to unviable small propositions and thence the trend for IFC was medium sized investment in the middle range of enterprises.

In the following year, the Corporation made its first commitments - two in Mexico and one each in Brazil and Chile, with an average interest rate of 6% to 7% maturing in 15 years. The location of the projects i.e. Latin America, as the thrust area of the IFC operations could be traced to the organization's policy of avoiding countries with high tariff protection and quota restrictions. The 1st Annual Report mentioned the necessity of taking into account the general situation of a country together with laws and regulations. Additional justification might be American interest in a region in its proximity as well as the fact that investment circles in the West were more familiar and aware of opportunities therein. As matter of policy rule, investments made were expressed in US Dollars as investment in other currencies was not justified due to the instability of

[4] Owing to the fact that the authorized capital instead of being the $400 million contemplated by its promoters, was a meagre $100 million, and the Corporation was denied the right to make equity investments.

such currencies.[5] A major charge levelled against the IFC investment was that it was too expensive as compared to public financial agencies. But, as the oficials argued, the role of this institution was widely different from other public financing organizations. Since IFC had to stimulate the flow of private investment capital into and within developing countries, the Corporation operated along accepted lines of private sector banking. It needed to make investment in terms which private investors would consider attractive either initially or after the enterprise financed has proved its worth. In fact, in certain cases the officials felt that there might be no mandatory interest on all or part of the investments; payments being entirely contingent upon earnings. Thus, if business failed the IFC would loose part or all of the investment money - only to the extent that success of the enterprise brought substantial rewards to its owners did the Corporation get a return appropriate to the risks.[6] Yet another explanation focused attention on the observed reality of interest rate in most developing countries being high by standards of the industrialized countries - 10%, 15%, and even 30% for short term credit in local currency with long term money scarce at any price. Compared to this the average 6%-7% interest charged by the IFC, according to its proponents, seemed a modest charge indeed.[7]

By the end of 1959, projects underway included <u>pulp</u>, <u>paper</u>, <u>industrial machinery</u>, <u>engineering products</u>, <u>chemicals</u>, <u>cement</u>, <u>mining</u>, <u>food processing</u> and <u>textiles</u>. The seven new commitments broadened the scope and operations of the IFC both geographically as well as sectorally. Also, an inroad was made into the continents of Asia and Australia, but despite its expanding horizons the Corporation continued as before with its bias in favour of Latin America. As the primary significance of the IFC operations was not the amount of funds employed but their multiplying effect in supplementing and attracting larger amounts of private capital, it

[5] There was a provision, however, for investing at least in part in other currencies if justified by stability of exchange rate and by the participation rights of the investment.

[6] IFC Summary Proceedings (1960 Annual Meeting of the Board of Governors), Washington DC, September 29, 1960, Pg 4

[7] Ibid., Pg 4

was encouraging to note that the enterprises in which IFC had participated induced a total new investment equivalent to some $50 million.[8] In other words, for every dollar invested by the Corporation $3.50 came from other funds. Meanwhile, the Corporation also traced the major problem facing investors considering projects at a distance in terms of the cost and effort required in investigation. By incurring substantial expense in such investigations and in developing projects to the point where they are suitable for investment, the IFC greatly encouraged private investors to risk their capital. A wide variety of financial institutions and companies in North America and Europe were showing interest in putting their funds abroad and the IFC sponsored projects seemed a viable incentive. The investment in Brazil to the Champion Cellulose S.A was the first in which IFC worked out and negotiated participation from private investors namely, the Deltec Corporation of New York and the Chemical International Finance Limited. Similar participations in an increasing number of investments is what the IFC strove for in the forthcoming years.

At the end of the decade of the 50s the burden of dollar repayment, not an easy one for an enterprise which sold its products in a currency that continuously depreciates, led the IFC to consider possibilities for acquiring the use of some local currencies to supplement the dollar reserves. As an answer to this vexing problem in 1960, the IFC agreed in two such investments to repayments half in non-dollar currencies i.e. Sterling and the Italian Lira.

However, at the turn of the decade the IFC was viewed and in fact became known far and wide as a difficult and demanding investment partner. The officials felt a danger that the organization would be approached to finance only the weakest ventures that had absolutely no other alternative. This in turn served to increase the management's obsession with technical investigations, security and the highest possible returns. This meant that the IFC had to find investment projects that were marginal to begin with, that were relatively small, that could survive the rigors of IFC's careful technical examination and that would emerge

[8] IFC Third Annual Report, 1958-59

(because of the bar on equity investments) in forms that were often unfamiliar in less developed countries. All this made it harder to find business. These problems were discussed within the IFC with increasing intensity and by 1960 it was being argued with great persuasiveness that the Corporation had no future unless it could change its policies in important respects and meet the exigencies of the situation. In the Annual Meeting of the Board of Governors, therefore, Garner talked about an alteration in the Articles of Amendment to remove existing prohibition against investment in capital stock. The premise on which this was based ran along the following lines :[9]

- shortage of equity capital in the less developed areas as in these countries tradition of investment has been either to send money abroad or to invest in real estate and family owned enterprise,

- the forms of IFC investment tended to exaggerate in the minds of the recipients the probable cost of funds and usually the evaluation by these people were over-optimistic (they overstated the probable returns to IFC). On the other hand it was generally recognized that future earnings and dividends on equity and market value of shares were unpredictable and the recipients did not attempt to calculate the cost of straight equity money nor did they object to high rewards to shareholders, themselves included.

- it would enable the organization to cooperate with local institutions in the development of capital markets by underwriting issues of convertible securities and share capital for public subscription,[10]

- it would also encourage private investors to join with it in taking either preference or common shares.

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[9] IFC Summary Proceedings (1960 Annual Meeting of the Board of Governors), Washington DC, September 29, Pg 11

[10] This acknowledged the amazingly slow development of capital markets as a lacunae and consequent impaired private industrial growth in the developing countries.

The proposal to amend the charter of the IFC was favourably received by the Board of Directors and in February 1961 it was formally submitted to the Board of Governors for a vote. By August, 80% of the Governors exercised 56% of their voting power with no member Government voting unfavourably thus ushering in a new era of equity investment. The Amendment, however, stipulated that the Corporation could not assume responsibility for managing any enterprise in which it had invested nor could it exercise voting rights for a purpose which in its opinion was within the scope of managerial control. While this amendment eased the Corporation's difficulties it still left another fundamental problem unresolved - that the IFC was dealing with proposals that, on their merits, were marginal. When in October of the same year Martin Rosen succeeded Garner as the Chief Executive Officer (with the title of Executive Vice-President) he largely escaped from this limitation by adopting the concept that the Corporation was a "special situations bank".[11] Mere lack of private capital was no longer an indispensable prerequisite for IFC participation in the financing of a project. According to Rosen other conditions also applied such as the need for IFC's expertise in negotiating with particular host countries or the desirability of IFC participation as a shield against possible Government intervention. During his regime several investments were justified on these and similar non-financial grounds.

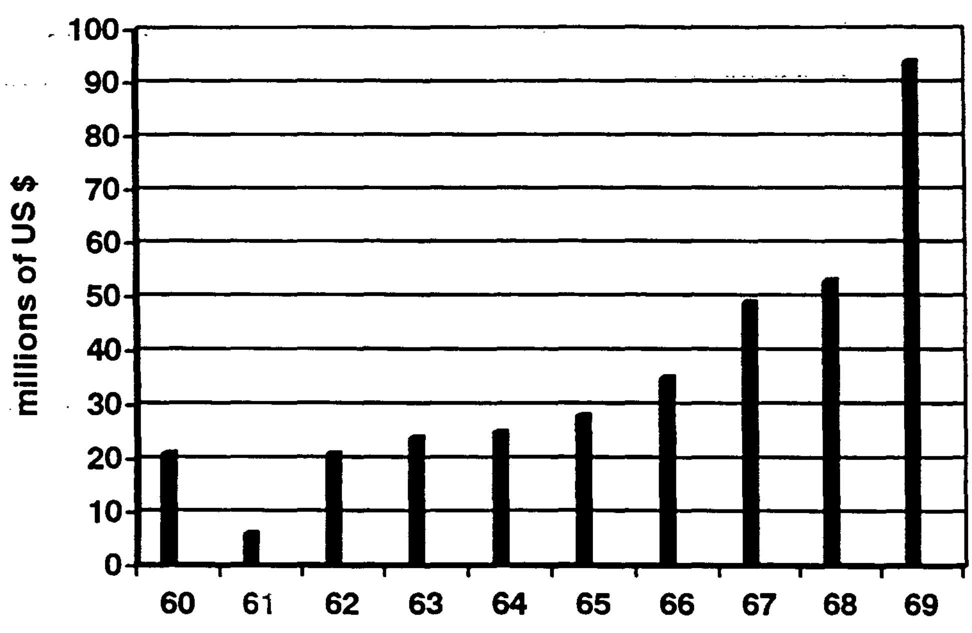
The formative years of the 1960s

Armed with these new instruments, the IFC embarked on a tenacious programme of assisting private sector development and encouraging the private investment climate in the less developed economies of the world. In fact, there was a renewed zest to fulfill the charter obligations as, barring the fiscal year 1960-61, the volume of investment rose considerably when compared to the preceding years. The number of investments too rose thereby rectifying the disproportionate quantum of IFC undertakings as compared to the amount of investment. At the same time, the average size of commitments was raised with the Corporation

[11] Mason E. & Asher R., The World Bank since Bretton Woods, The Brookings Institution, 1973, Pg 350

increasingly engaging itself in commitments exceeding the initial average limit of $ 2 million set by the founding fathers. For instance, in 1965 one single IFC commitment touched $ 6 million while in the ensuing year in three engagements the Corporation committed between $10 million to $12 million. However, the largest ever commitment for the decade came only in 1968 with a whopping $ 20 million for the development of Copper deposits in the Sahara desert and another $ 22.1 million assistance to finance four industrial expansion programmes of a cement company in Thailand. This was, in a large measure, a cognizance of the current need of developing countries for large growing amounts of private funds for development investment. The Figure given below indicates the yearly IFC commitment during the decade :

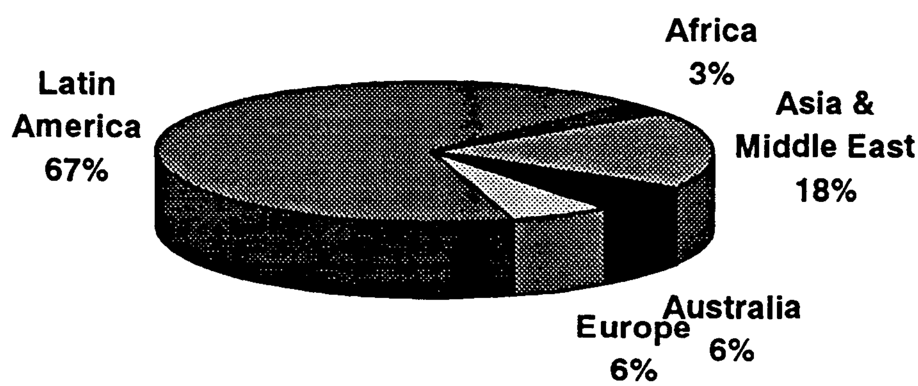
IFC Yearly Commitment (1960-69)



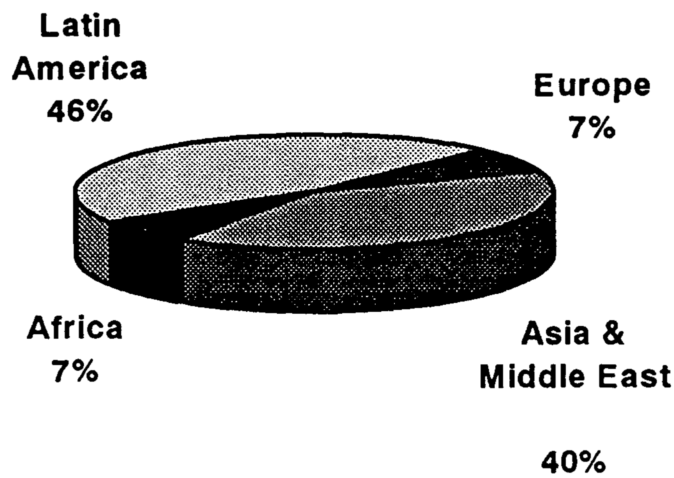
[Source : IFC Annual Reports]

The trend for greater diversification and broadening of the purpose of IFC investments was also emerging in the 60s. The organisation expanded its operations and activities geographically to include within its fold the European and African Continent with commitments worked out in a number of countries at varying levels of economic growth. While Latin America continued to enjoy paramount status in the Corporation's geographical investments akin to the initial years both in volume and in number, its position was steadily being eroded as IFC made significant inroads into Asia. The pie charts below illustrate a comparison of IFC's region wise commitment in the years 1960 and 1969 :

Number of IFC Commitments :1960



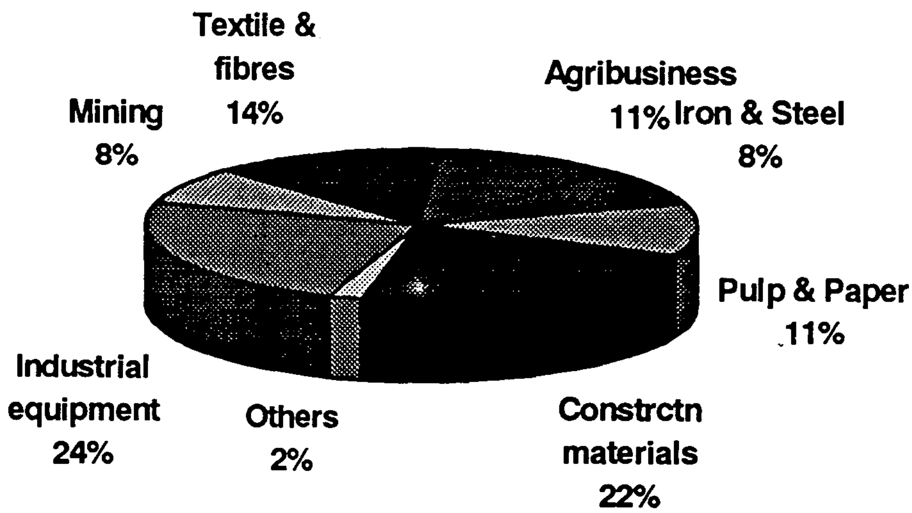
Number of IFC Commitments : 1969



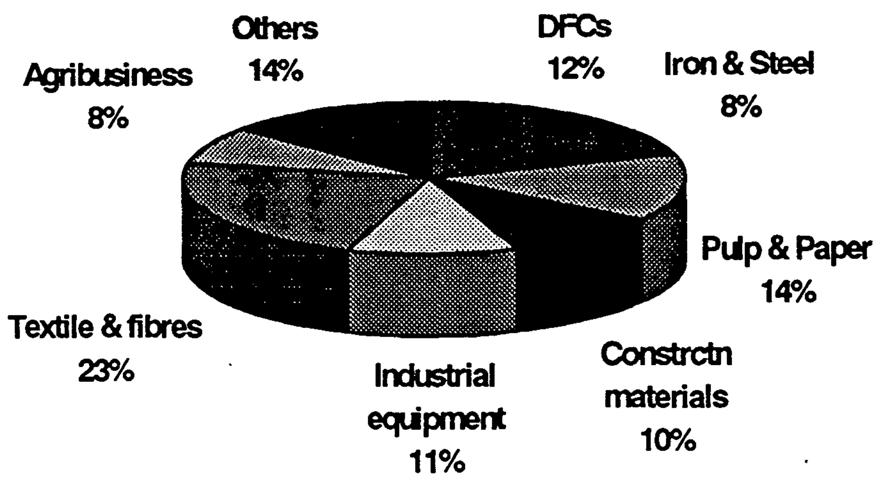
[Source : IFC Annual Reports]

Sectorally too, a substantially variegated portfolio was evidenced when besides investing in a range of manufacturing enterprises, the Corporation for the first time provided finance for a shareholder-owned public utility, for development of tourism, for expanding fertilizer output, for printing and publishing, for textiles, for raw silk production and animal feed activities. The widening scope, greater flexibility and increasing volume of IFC activities corresponded to the changes in the context for economic growth in many parts of the less-developed areas. Over the past two decades a great deal had been achieved in building basic economic facilities and the financing of this industrialisation in the developing countries was predominantly through the Government and international agencies like the World Bank. The building of these infrastructural foundations made way for a second phase of development effort i.e. a superstructure of business or development enterprise that put to effective and productive use the work skills together with the basic economic development made earlier. Since these development enterprises are largely financed by private sectors, it is at this stage of development that the IFC's assignment to supplement the work of the World Bank became critical and useful. Besides, the Corporation's equity arm enabled it to encourage Development Finance Companies (DFCs) which would capacitate them to expand their investment activities over a broadening range of local enterprises. A series of equity investments were made in these DFCs and in stark contrast to accepted conventions, IFC accepted invitations to be represented on the Boards of these companies. It was generally believed by the IFC management that these DFCs would constitute a kind of intelligence and referral network for the IFC, thus bringing in business which would be too expensive and time-consuming for the Corporation to recruit for itself. Besides, there were also a number of cases wherein the IFC joined a DFC in joint financing of investment. However, on the whole the experience of the Corporation was that cooperation failed to come through and the DFCs turned out to be competitors to the Corporation taking business for themselves instead of referring it to the IFC. The pie charts below shows a comparative study of IFC sectoral investment in the years 1960 and 1969 :

Number of IFC Commitments :1960



Number of IFC Commitments :1969

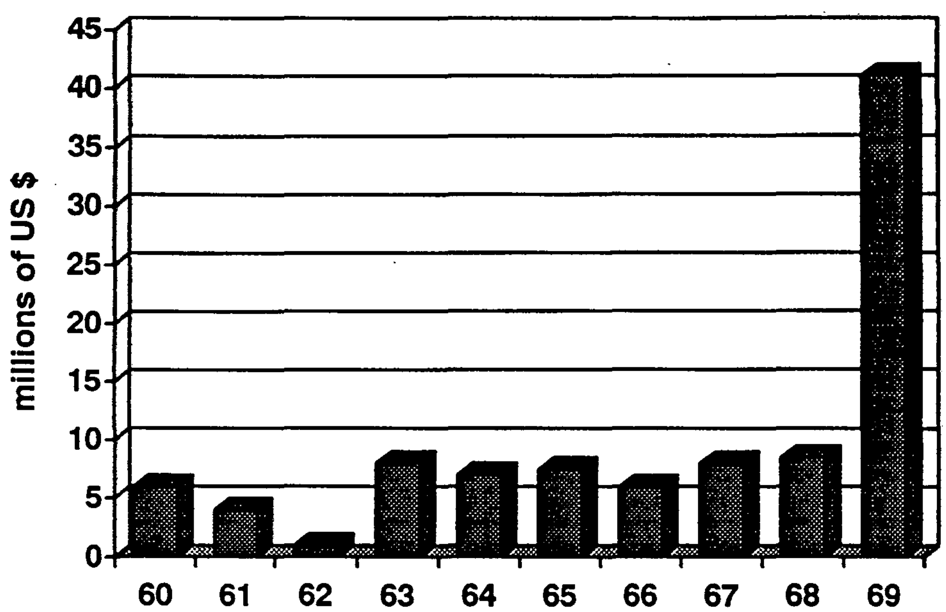


[Source : IFC Annual Reports]

The fruitful field of equity investment opened up new avenues for the IFC and by 1964 the Corporation began making more than half of its investments in the form of subscriptions to capital shares rather than in loans. By the end of the decade the proportion of IFC portfolio invested in equity was 13% to 20% higher in collation to the antecedent year. Commencing in 1962, IFC executed its first underwriting of $ 2.9 million for a Mexican steel company. Comprehending that new entrepreneurial ventures in underdeveloped countries were fraught with problems including the lack of equity capital and an unwillingness to incur risks by investment banks, the IFC began performing the function of underwriting securities issued by business enterprises. This considerably aided investments in these projects as it placed the authority, a stamp of approval and guarantee besides resources of an international financial institution behind them. In a way thence, not only were local investors encouraged to participate in such issues, this also facilitated participation of commercial banks and other financial institutions as well as foreign investors.

Besides direct IFC involvement and participation, endeavours to stimulate the international flow of capital were relatively modest. Eventfully, however, in the history of the Corporation in 1961 the first sales of entire investments out of the Corporation's portfolio was achieved in tandem with its basic aim that the IFC would help get an enterprise on its wheels and then sell the mature investment to private investors at substantial profits. Despite the official claims that sales were on terms providing "satisfactory" profits, an in-depth analysis reveals to the contrary. By 1965, all or part of 46 commitments had been sold wherein leading purchasers were US institutions and their affiliates ($11.8 million) while a further $3.7 million were bought by institutions domiciled in Switzerland. Simultaneously, banks and institutions in the United Kingdom purchased $1.6 million and at the same time approximately $6.8 million of sales were made to a number of investors in a number of countries including Belgium, France, Germany, Kuwait, Netherlands, Sweden etc. Noteworthy is the fact that the Corporation set aside some of its shareholdings, especially securities, for domestic purchasers solely who would, the Corporation believed, appear once an enterprise had begun to produce tangible results. The figure below illustrates IFC's efforts at sales and participation through the decade :

IFC Sales & Participations 1960-69



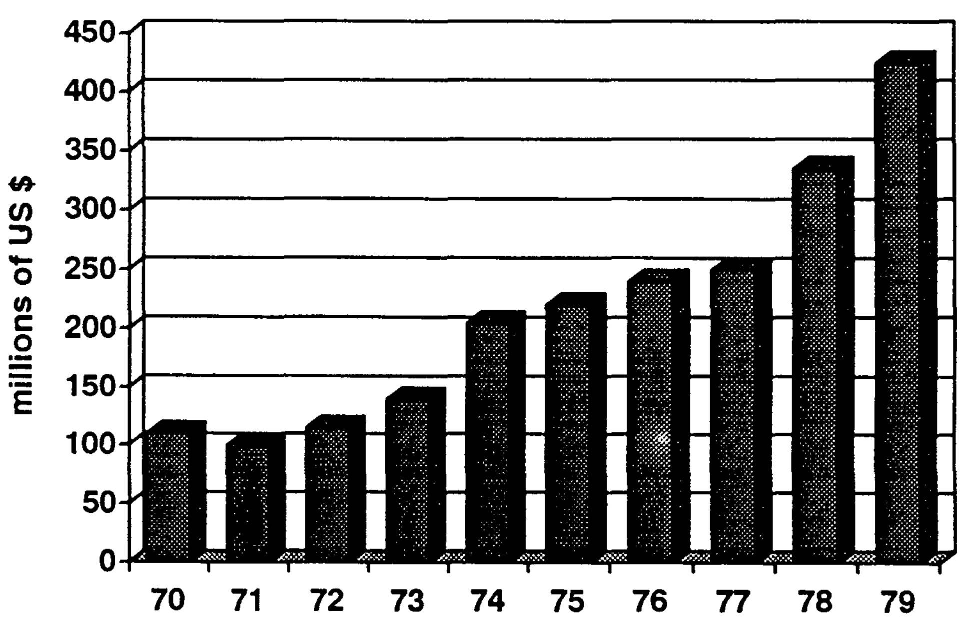
[Source : IFC Annual Reports]

As the demand for IFC assistance rose there was a subsequent need for a fresh source of financial resources (in fact by the mid-60s the all time total of IFC's commitments passed the milestone of $111 million i.e. more than IFC's subscribed capital). Thus, the Directors of the Corporation and the Executive Directors of the IBRD recommended a proposal to augment the financial standing of the IFC by authorizing the World Bank to loan money - in essence suggesting an amendment to the Articles of Agreement of both the organisations. It was stated, "... considering the increased pace of IFC activities, it is time to consider all means by which the resources can be increased so that the accelerated tempo of operations is sustained and even enlarged". This recommendation was accepted and formally voted through thus permitting the Corporation to borrow from the World Bank upto a limit of four times IFC's unimpaired subscribed capital and surplus i.e. approximately $400 million.

The volatile years of the 70s

At the very beginning of the decade William Gaud succeeded Rosen as Executive Vice-President and he was determined to enhance substantially the rate of investment of the Corporation and at the same time to make it into a development institution in fact and principle. Subsequently, investments in loan & equity as well as in underwriting arrangements shot up remarkably - in 1973 for instance the yearly IFC commitment totalled $146.7 million of which $28 million were made available in currencies other than dollars, while at the close of the decade the figure was a staggering $425 million. The figure below indicates yearly approved IFC investments through the 1970s :

IFC Yearly Investments 1970-79



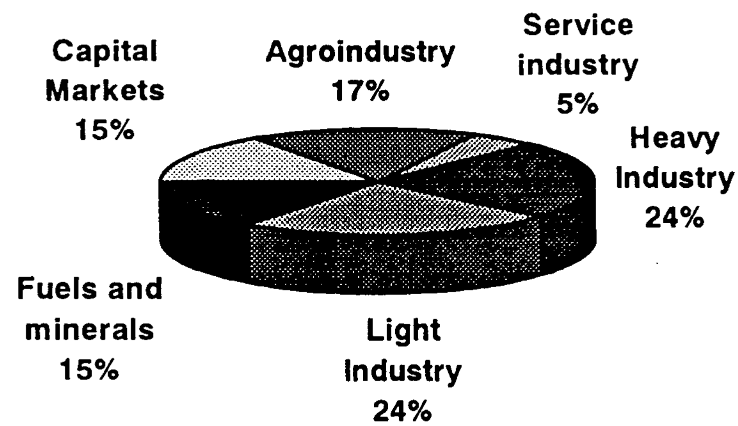
[Source : IFC Annual Reports]

Initial efforts at sectoral diversification were maintained throughout the decade. For instance, in 1971, IFC for the very first time ventured into a wholly new field when it invested in an institution established to develop money and capital markets in Korea. Special attention was paid in the development of capital markets for facilitating the growth of private capital in the national economies of the developing countries. In the month of March a new Capital Markets Department was created, designed as a focal point to identify problems of emerging capital markets and strive towards their solution. The energy sector, too, clamoured for attention amidst the OPEC engineered oil hike while minerals persisted as a significant feature in IFC investments. At a time when prices of agricultural commodities and other food items weakened while those of metals plummeted, the developing economies came to rely heavily on minerals to supplement their precarious foreign exchange reserves. An expansion of IFC investments was evidenced in agri-business too with particular emphasis on fishing, shrimp farming, and poultry projects. The pie-charts in the following page illustrate the average sectoral investment of the Corporation in the decade.

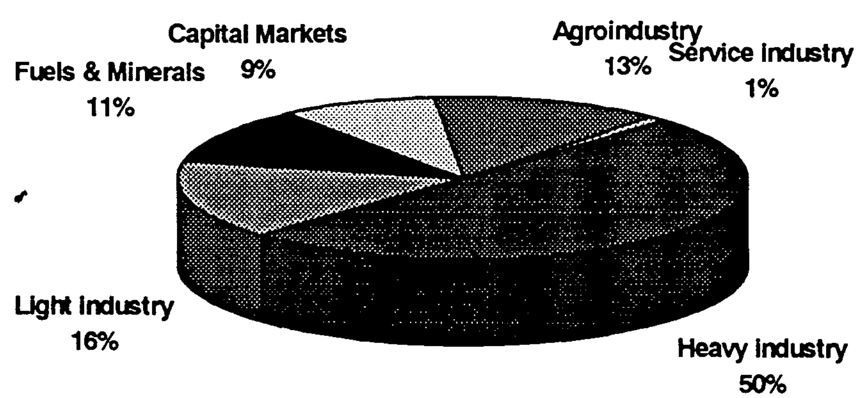
Meanwhile, as the decade progressed, the investment climate had to contend with volatile conditions in the world economy and trade. The receding economic growth of the industrialized countries, quickening pace of world-wide inflation and the dramatic effects of increase in oil prices adversely affected the less developed countries. Following this was a stringent financial environment and a growing liquidity squeeze as well as hardening of interest rates and an increasing difficulty in mobilizing investment resources particularly for the Third World.

By the closing years of the decade, the developing countries experienced a turnabout in their declining rate of economic growth. Aided by an exceptionally favourable international capital market they were able to maintain acceptable growth rates. Correspondingly, the flow of investment picked up momentum and scaled new heights. At the same time, stubborn problems of unemployment, inflation and a continued imbalance in the international payments of the developing states affected the amount of foreign investment that IFC could help muster. In effect therefore,

Average number of IFC Sectoral Investments in the 1970s



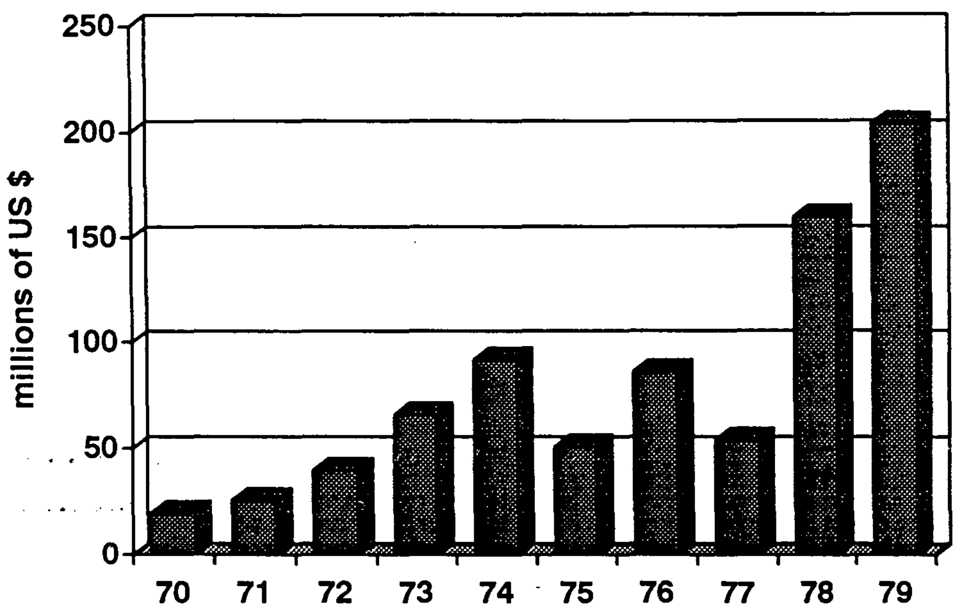
Average amount of IFC Sectoral Investments in the1970s



[Source : IFC Annual Reports]

though the graph unfurled an upward swing the general approach tended to be cautious, vigilant and circumspect. The figure below illustrates the IFC experience in sales of participation during the decade :

IFC Sales of Participation 1970-79



The 1970s also witnessed an increased tilt towards an assortment of technical assistance ranging from surveys to training programmes. Besides, the Corporation also undertook an active role in seeking to promote projects which had a reasonable prospect of eventually being found suitable for financing by the IFC in accordance with established criteria. Such promotional assistance began early in the decade with an investment in a pilot company intending at elevating and upgrading tourism in Colombia. By furnishing financial and technical support in the pre-investment stage, by paying part of the cost of feasibility studies and in general helping to finance the cost of putting together all elements of a project - including the search for an appropriate business partner - the Corporation sought to generate a more favourable response to its overtures.

These countries were experiencing severe hardships through large deficits in their balance of payments and the slowing down of their economic growth. Worst affected were the least developed countries where the IFC in the latter year of the 70s focused increased attention. Previously all but ignored, these poorest countries began receiving IFC assistance though in relatively small measures when compared to the growing economies of Asia & Latin America. Bangladesh, Guyana, Ivory Coast, Botswana, Cameroon, Papua New Guinea etc. at the threshold of marginalisation received renewed interest with the Corporation's expanded operations. However, foreign investment in these regions remained scarce and sparse as not many investors were willing to risk their credentials.

The momentum of IFC activities too began to be affected - recession and inflation led to cost overruns in some projects and to reduction in size, postponement or abandonment of other projects. Simultaneously, contraction in the international capital markets made it more difficult for the Corporation by affecting sales of participation in loans and equity investment to mobilize finance to supplement IFC's own commitments. However, the opening years of the decade did exhibit some kind of investor confidence in IFC commitments for on an average, other investors pumped in $5 for every $1 invested by the Corporation. By 1975, the tables had turned and a downward trend was beginning to emerge.

Also, interestingly, during the decade particularly since 1975, the US administration began to show a new interest in multilateral development banks as the world economy staggered due to successive blows of oil price hike, recession, and low levels of growth. As the Third World countries experienced serious deterioration of their economies leading spokesmen of these poor countries began demanding major changes in the world economic system with a new international economic order that would better serve the needs of the less developed countries. While not agreeing in toto with this stream of thought, the US administrators felt a need to be more responsive to the deteriorating economic climate and hence the US position vis-à-vis the World Bank group softened considerably. The first real indication of this US attitude towards multilateral institutions came in a speech delivered by Secretary of State Henry Kissinger in September 1975 before the United Nations General Assembly where the major thrust was for expanding international development assistance - a carrot to pacify the vociferous Third World demand. He announced the US support for increasing the subscription capital of the IBRD and IFC "to handle the developing countries' special capital needs and create new specialized agencies to coordinate science and technological information programme for these poor nations."[12] This speech was an effort to develop a more positive approach to multilateral banks but more importantly to seize the initiative in the debate about the global economic order. The plan for a four-fold increase in IFC capital stock seemed to be a relatively safe move as the Corporation was viewed more favourably by the Congress for ideological and pragmatic reasons. America took the lead at the World Bank in late 1975-76 pressing for a major expansion of the IFC. Also, in the minds of the Congressional leaders was the fact that the expansion of the IFC capital stock would substantially drop the original one-third share the US possessed to around 28%.

Thus the Corporation's Board of Governors, thinking it was overall worthwhile to expand the capital subscription in 1977 for the IFC to play more effectively the role of a catalyst to attract other sources of capital approved the same in November - a total of $480 million would be allocated for subscription. This capital increase would not only permit a considerable expansion in the volume and number of operations but also a wider range of activity.

[12] Jonathan E. Sanford, US Foreign Policy and multilateral development banks, Westview Special Studies in International Relations, 1982, Pg 50

A brief overview

In essence, therefore, the first twenty three years of IFC existence witnessed the growth of the organisation into a robust and viable multilateral financial institution assisting private investment in developing countries. Beginning operations with 31 members and a total subscribed capital of $78 million the Corporation at the close of the decade of the 70s had at its disposal a paid-in capital of more than $200 million apart from its additional income earned on repayments, sales, dividends and interests as well as charter empowered borrowings from the World Bank. It is to the credit of the organization that its membership rose almost 4 times to 109 in the fiscal year 1978-79. The period of the 60s attained a very modest degree of achievement as far as commitments and disbursements go. While a fair amount of diversification was achieved, more could perhaps have been done. A relatively few industries received IFC assistance in the early years and generally these were concentrated on basic industries like iron & steel, and construction materials. While it is true that assistance to these industries were imperative to achieve a higher productivity in the underdeveloped nations, there was at the same time great merit in advocating the growth of the market and service sectors in these less developed countries to support the production of basic industries. It was only through its operations with the Development Finance Companies that IFC was able to assist these economic activities and even then only indirectly and not very successfully.

Also, during these early years IFC commitments region-wise was concentrated in Latin America though this continent had at its disposal the Inter-American Development Bank and the Alliance for Progress. Even then about two thirds of IFC investments centered around the larger economies of Brazil, Chile, Colombia and Mexico to the relative exclusion of the smaller low per capita income countries. This pattern was true of Asia to a considerable extent and to a lesser degree to Africa too. Besides, the analysis of IFC's investing operations coupled with a relatively small percentage of total project applications approved suggests a somewhat conservative investment philosophy. As Article III, Section 3(viii) of its Articles of Agreement states, "the Corporation shall seek to maintain a reasonable diversification in its portfolio ... " - while the key word is "reasonable", facts prove otherwise.

The onset of the 70s brought with it a boom for IFC activities and operations. Investments shot up as also did IFC underwritings and participation activities. The average size of IFC investments rose sharply with two of the largest commitments in the history of the organisation - $100 million to a Mexican cement company & $65 million to an automotive production unit in Brazil. Barring the years of an unadvantageous global economic climate and an unfavourably disposed investment scene, IFC's prime task of wooing investors and raising their confidence showed an upward trend. It may not be what the wishful and over-optimistic IFC officials claim in their official documents - as "reaching sky high levels" - nevertheless the figures were impressive.

Also, keeping in mind the changing nature of development needs of the developing countries, IFC from time to time adjusted both its structure and orientation. A major overhauling was done in the 1960s for instance in order to enable the IFC to provide and mobilize all forms of risk capital as well as assistance in setting up investments in forms beneficial to the developing member countries and also being attractive to local and foreign investors alike. This ability to provide equity finance was important in allowing the organization to broaden share ownership in these countries. Ability to borrow from the World Bank empowered IFC to obtain additional funding for its lending operations. As more and more countries clamoured for the scarce and limited funds of the IFC to meet the demands of their growing economies, an enlargement in the capital stock helped the Corporation maintain its standing it had created for itself in these twenty years. Despite the label of a conservative institution, the IFC remained a relatively secure way of procuring funds for the private sector in the developing economies.

As the years rolled on, the heavy allocation for basic manufacturing, though still a major concern for the Corporation, was toned down considerably to include a vast array of industries. Emphasis on enhanced agricultural production as well as the development of the food processing sector found substantial leverage within the IFC gambit. Primarily agricultural economies, the developing countries relied heavily on this sector for their development efforts. Efforts were made therefore to encourage an increased use of fertilizer and irrigation facilities and IFC on its part devoted more and more resources towards this endeavour. Another major shift was witnessed with an increasing number of IFC investments in textiles and fibres. Recognizing the fact that most Third World nations had a comparative advantage in this sector, the IFC turned its attention to promote investment in this field with a view to assisting these countries in earning valuable foreign exchange. Tourism, another source of foreign exchange in developing countries was also sought to be promoted. But it was with the equity investments in Development Finance Companies that IFC hoped to play an important role of aiding small and medium size enterprises that otherwise would have proved unfeasible to promote directly. Few attempts were made in the late 70s to enter the money and capital markets field through underwritings and this was basically to mobilize domestic savings towards productive enterprise which traditionally flowed into real estate and valuable metals like gold. At a nascent stage, such IFC ventures were far from being major accomplishments. What it did was to pave the way for future efforts in the 1980s. During this period the Corporation also expanded its investment programmes in fuels and minerals sector particularly to develop fossil-fuel energy sources of its developing member countries. This was a significant step as historically this sector did not play a prominent role in the Corporation's activities - accounting for less than 10% of its total investments over the past five years.

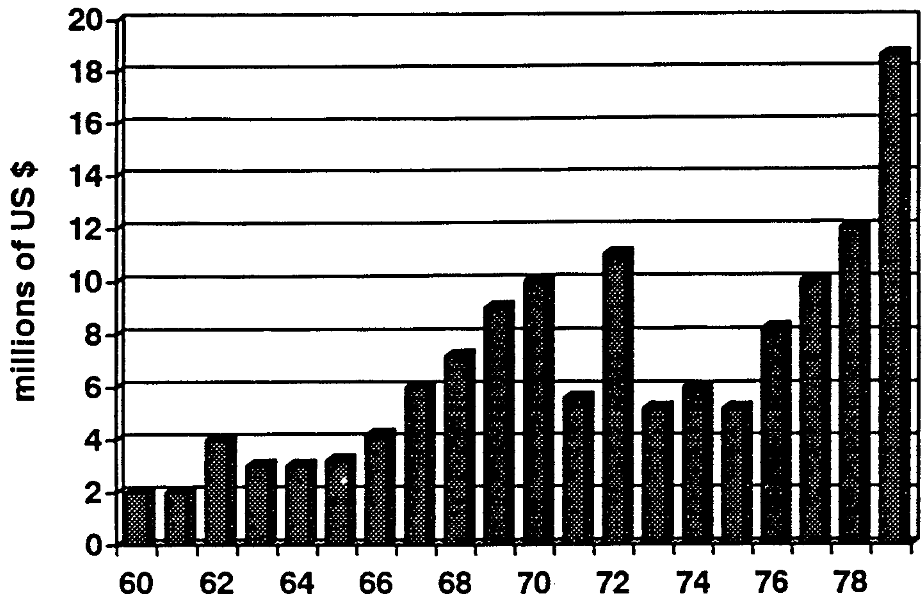
In its geographical outlook Asia was beginning to emerge as a major thrust area but as far as the number of investments went the Latin American Continent still occupied a major portion of the IFC resources. The reluctance of foreign private investors to enter and risk their funds in the war-torn, draught and famine ridden as well as politically uncertain African countries had an effect on IFC involvement in the continent. After all, it must be realized that in the final analysis the IFC is a profit oriented institution affected heavily by the global investment climate - though development is prima facie the main objective of the IFC, it is certainly not a historical fact borne by evidence.

As has often been quoted, direct investment was not the raison d' etre of IFC; and in the 70s increasing importance was laid on technical assistance and policy advise to member Governments regarding the development of their nascent financial sector which were then in great distress and disarray. Included also were studies and surveys on regulatory and supervisory guidelines, training of officials and assistance in ensuring an increasing supply of accountants and auditors for industry and commerce etc. Of course, the more traditional forms of project assistance continued as before to aid and guide the growth, expansion and restructuring of industrial plants and projects.

At this juncture it would also be worthwhile to note the possibility of a conflict in objectives of the International Finance Corporation between high profitability and significant contribution to development. This debate came to the fore particularly during the decade of the 70s with the Report of the Commission of International Development under the chairmanship of Lestor B. Pearson entitled "Partners in Development". After surveying the IFC activities it concluded that in practice profitability has been the principle investment criteria - while some projects in which it has participated have certainly benefited the host economy, most others have contributed only marginally, if at all, to economic development.[13] Though profitability was clearly a necessary criteria for any agency stimulating the growth of the private sector it undoubtedly should not be a sufficient criteria for an agency purporting to be concerned with economic development, the report asserted. At this particular juncture it would be worthwhile to view the balance sheet of the Corporation to peek into the profits earned by the organisation. It stands out clearly that the IFC has consistently maintained a beneficial and advantageous position in this regard. Even the lean periods, despite arrears, write-offs, terminations and cancellations, have produced for IFC a net profit. The figure is on the next page.

[13] "Partners in Progress", Report of the Commission on International Development, Praeger Publishers, 1969, Pg 45

IFC Net Income 1960-79



[Source : IFC Annual Reports]

While it may be true that until the 1960s the pursuit of development had virtually taken a back seat in IFC operations and policies, it would not be fair to say it ignored all other criteria and considerations save profitability. For throughout the 70s the Corporation strove hard to adopt, adjust and reorient itself to the pressing needs of the development process in developing countries. In fact, it was in recognition of the commendable work done by IFC that the Kingdom of Saudi Arabia made available to the Corporation $35 million for use in operations as well as the personal grant provided by the Netherlands previously. However, at the same time, one should not forget that since its inception in 1956 the philosophy of profit maximization has guided the Corporation which has been dubbed by its critics as conservative and inward-looking in its orientation. This conservatism may be a reflection of the professions of people who comprise the inner core of its management. The predominance of financiers, bankers, economists, engineers and lawyers render to the IFC a distinct hard line attitude much to the dismay of the spokesmen of the developing countries.

CHAPTER 2

Decade of the 1980s - IFC and the Developing Countries

With the onset of the decade of the 1980s, The International Finance Corporation, with over two decades of valuable experience and supported by an increase in its capital stock, strove to cast and mould its activities in tune with the altered environment within which it operated. The priorities outlined for the decade included :[1]

- a greater emphasis on the least developed countries particularly in Africa and the Caribbean,

- an increased sectoral diversification with a special accent on agribusiness, fuels and minerals,

- an acceleration of its programme for mobilizing resources from other investors,

- enhancing the development of money and capital markets through a congruity of increased financial investment and technical assistance,

- focusing attention on non-project related policy assistance aimed at improving simultaneously the investment opportunities and the environment for private enterprise.

The economic environment and IFC investment

The high levels of IFC investment recorded in the closing years of the previous decade had a spillover effect in the beginning of the 80s. In the very first year, both the number of projects and amount of investment approved by the Board of Directors exhibited a marked increase with almost $250 million in 55 projects. Much of this, of course, was the result of the promotional work undertaken in the preceding years besides a

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[1] IFC Annual Report 1979

continuing favourable global economic climate. While roughly half of the total investment were in countries with per capita GNP of less than $600 per year, a substantial part of this amount were in the poorest countries.

The ensuing year brought to a sudden end the tete-a-tete which the developing countries enjoyed with a vibrant world economy. In fact, most low-income developing countries were unable to perform well and this was particularly true of those in the African continent - "economic stagnation in these (countries) were causing great losses both in human terms and in untapped resource potential which would be impossible to redress in future."[2] Almost all developing countries faced serious problems of servicing their external debt owing to :

- their heavy balance of payments deficit
- the increasing rates of interest in the international capital markets
- the appreciation of the dollar which raised borrowing costs in the Euromarket.

Further complicating the whole matter was the low growth and policies directed at controlling inflation in the industrialized countries which made their markets sluggish - a disastrous consequence for the underdeveloped countries. And an escalation of energy costs with discouraging prospects for overseas development aid imposed additional burdens on domestic growth and external payments. Nevertheless, the IFC primarily as a result of its accelerated promotional efforts was able to realize investments to a considerable degree. The Corporation achieved a wider country average by adding to its investment portfolio a number of nations where it had not been active earlier.

By 1982, the Corporation felt the tremors of the slowdown in the worldwide economic activity. The total volume of approved investment was lower than the previous year and this could be attributed to the lack

[2] IFC Annual Report 1981

of very large projects that could be realized jointly with other investors due to the unattractive investment climate prevailing in most of the developing world. This was rather unfortunate for the role of the IFC to facilitate and promote the flow of private capital commensurate with the needs of such countries which became even more crucial at this particular juncture owing to :

- the marked decrease in ODAs and concessional financial flows which could not effectively serve the needs of developing countries for substantial external sources of capital,

- the contraction in the supply of funds in the Eurocurrency markets following the OPEC surplus shrinkage,

- an increased competition for the limited available resources as many industrialized countries began recapturing a large portion of the total supply of funds.

At the same time, however, recognizing the disappointing performance of the Caribbean region which continued to experience an abysmally low growth, the Corporation collaborated with UNDP and a host of other international and bilateral agencies to finance the Caribbean Project Development Facility (CPDF). The aim was to encourage more effective private sector participation in the development of the region basically through advisory services and technical assistance. The Facility concerned itself with the member Governments' relationship with business sectors and industrial firms besides assisting individual client companies on commercial banking, marketing arrangements as well as obtaining technical, managerial and financial assistance.[3]

The Corporation began 1983 with a full pipeline of potential investments under active consideration but sadly, numerous ventures were cancelled or postponed as the economic hardships continued into the year. Also because of the adverse economic conditions disbursements were off

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[3] IFC Annual Report 1982

sharply from the preceding years - this reflected slower draw downs by IFC's borrowers as a result of project delays and the general business conditions. While firms continued to pay their dividends and service obligations (the Corporation ensured that !), the lack of foreign exchange and economic downturn forced many companies into arrears. With a heavy heart the IFC wrote off $10.1 million and that too only when financial recovery seemed completely impossible. Also, as the prolonged economic recession kept many investors from undertaking large greenfield industrial projects in the less developed areas of the world, the Corporation had to shift its efforts in order to address these problems. Since most of the investment demand in the developing countries were for consolidating and improving productivity in existing industrial facilities, the IFC in 1984 approved more than half of its 62 projects for expansions, modernizations, and <u>corporate restructuring</u>. Correspondingly, the year witnessed a much reduced IFC investment per project - also because of the continuing emphasis on promoting investment in low income countries which had a preponderance of small and medium sized enterprises requiring relatively less capital.

By 1985 the economic hardship had not only restricted opportunities for new investment but also imposed a severe financial pressure on many existing companies in the developing world. The low level of aggregate demand, the weakness in the commodity market and instability of exchange rates proved troublesome for many of the Corporation's partners and client companies. IFC, thus, was forced to devote increased attention and effort to the <u>supervision of its portfolio</u> and in fact a special unit was created to deal with jeopardised cases by providing technical and sometimes financial assistance to co-finance temporary but serious difficulties. Besides, to enable the Corporation to meet the needs of its clients better, the scope and range of its financial services were widened as the Board of Directors approved the use of variable rate lending. These efforts and endeavours paid off when despite the prevailing economic difficulties the Corporation expanded its activities - the volume of investment and new business done by the Corporation increased after several years of slow growth.

As the decade progressed, the debt crisis, under the influence of which the developing world was reeling, received a respite with the debt rescheduling programme. Aiding this was the altered economic situation with falling oil prices, decreasing interest rates and the value of the dollar. Expectedly, the IFC investments shot up drastically and supplementing its loan, equity, and equity-like features the Corporation aimed at providing its clients with a broad range of other financial services - for instance underwriting, guarantees, standby arrangements and swaps.[4] With the demand for variable rate dollar loans and loans in other currencies, the IFC relied increasingly on swap agreements to secure competitively priced funds to meet its clients' borrowing requirements in terms of rates currencies and maturities.

Inspite of low levels of foreign private investment in developing countries at large there was renewed interest globally in the continent of Asia particularly the vibrant economies of the South-east Asian countries like Korea, Taiwan, Singapore, Thailand, Indonesia, and to a lesser degree India which did not incur heavy debts. The IFC too looked forward towards this region for expanded and enhanced operations in its near future as it was this region that was exciting foreign private investment in a major way. In addition, to meet the needs of the Sub-Saharan African countries, IFC in cooperation with the UNDP and the Africa Development Bank launched the Africa Project Development Facility. Providing advisory services to private African entrepreneurs in preparing viable projects, the Facility was directed towards covering a portion of costs involved in preparing market, technical and other feasibility studies as a prelude to the project preparation cycle.[5] Managed by IFC, the Facility was funded by 13 donor countries and a host of multilateral institutions - interestingly Brazil and India provided variegated technical assistance.

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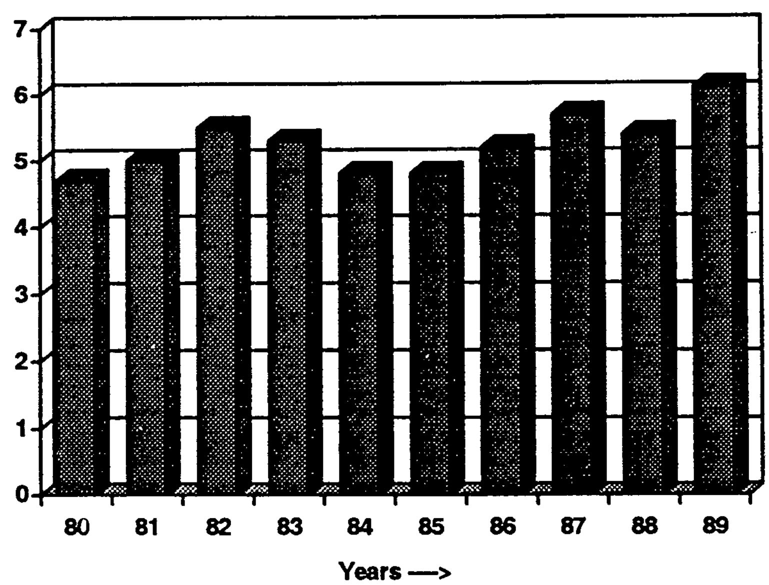
[4] For instance, in one transaction IFC borrowed fixed rate Yen in the Japanese market, swapped them into LIBOR based dollars with a major bank; lent part of these LIBOR based dollars and swapped the remaining into fixed rate Deutshe Mark to be lent to another client company - this swap enabled IFC to borrow at an effective cost below LIBOR and correspondingly reduce interest rates to its clients while matching the latter's preference towards currency terms and rate basis.

[5] IFC Annual Report, 1986

The global economic upswing in 1987 characterised by the receding world recession and decline in oil prices witnessed a relatively favourable investment climate. Once again it was boom time for the Corporation. In response to the changed environment, the Corporation substantially enlarged its range of advisory services. Accordingly, a number of fee-based services was developed by IFC in addition to the free-standing services on offer normally to its clients. Besides, the emphasis on portfolio supervision and management was stepped up and to focus increased attention on this, certain structural modifications were carried out. A new post of Vice-President of Portfolio Operations came into being along with a new Portfolio Operations Support Unit, and during the year staff time devoted to supervision increased considerably by about one-third. The Corporation occupied itself with efforts to contain potential problems and to reverse the situation in areas where deterioration had taken place previously apart from realizing capital gains opportunities from its equity portfolio. This all-out effort at supervision and regulation coupled with the fact that IFC undoubtedly was a tough taskmaster enabled the Corporation to keep loan losses to a mere 9.5% of disbursed equity.

As the decade drew to a close, IFC's policies on equity investment were scrutinized and reviewed in the light of the debt crisis - the conclusion drawn was that a renewed effort had to be made to enhance both the amount and the quality of IFC equity investment. Since the 1961 amendment to the Articles of Agreement equity investment was an essential adjunct in financing development through the aegis of the Corporation; but this equity arm of the World Bank group was itself guilty on concentrating too much on loan financing as the figures below indicate :

IFC Loan to Equity Ratio (1980-89)



[Source : IFC Annual Reports]

In the context of Third World debt this meant an increase in the debtor nation's debt-equity ratio consequently raising the debt burden of the developing countries who were endeavouring to grapple with their worsening debt problem.[6] Hence, the Annual Report stipulated, "in future therefore, IFC would seek to distinguish its role as an investor more clearly from its role as a lender to companies".[7] From 1988 thence, as an equity investor the Corporation was to be a more active shareholder and would accept membership on company boards in stark contrast to the earlier years. In other words, IFC began to gear itself to be in a position to wield the stick.

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[6] "Debt Crisis and Reaganomics give IFC a new lease", Far Eastern Economic Review, 29 September, 1988, Pg 108

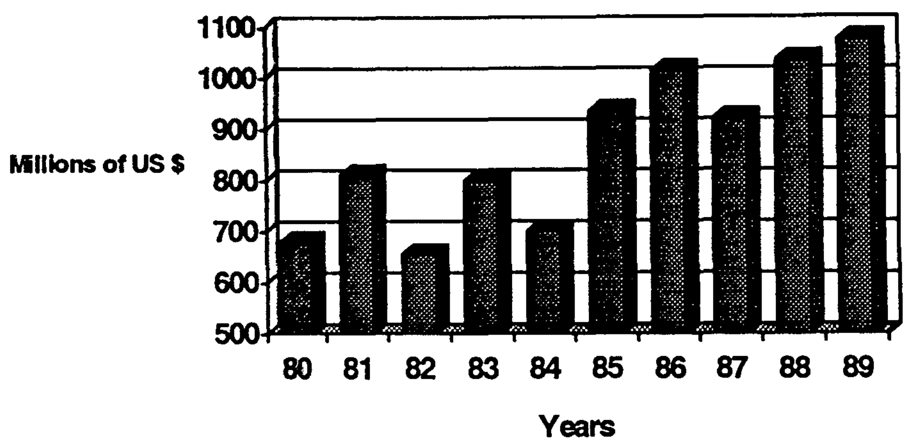
[7] IFC Annual Report 1988

In an atmosphere of continued economic upswing the dollar volume of approved IFC investments accelerated. As outlined in the priority for the decade Africa was the major thrust area for IFC's new lending instruments and policies, but the Continent continued to reel under indebtedness and poverty resulting in an unfavourable climate for private investment. At the same time, most entrepreneurial business ventures were too small to be the object of direct IFC investment. In a last ditch effort in 1989, the Africa Enterprise Fund was established to assist countries in Sub-Saharan Africa by financing small and medium sized projects. Also, with the cooperation of the UNDP and the Africa Development Bank, the IFC launched the Africa Management Services Company (AMSCO) to address an important need of African enterprise i.e. need for better management. The idea behind AMSCO was that weaknesses of many a private enterprise and the sluggishness of privatisation efforts in the Continent could be traced in a large measure to a shortage of well trained and experienced managers. And this innovative and novel formula brought together public sector funding, private sector investment and management expertise[8] - a panacea for the ill-fated ventures in Africa.

The bar-graph below illustrates the trend in IFC's investment pattern during the decade :

[8] IFC Annual Report 1989

IFC Yearly Investment Approvals (1980-89)



[Source : IFC Annual Reports]

Diversification of Investment Portfolio

With the onset of the 80s while manufacturing continued to account for the major portion of the total number of projects as well as the amount of investment, its share was considerably less than in the past years. While the largest commitments were naturally for heavy industry, investments in projects dealing with the production and processing of agricultural produces took an increasing share of IFC undertakings. Here the emphasis was on storage facilities, reduction of past damage, adaptive technology to enhance productivity and efforts to save energy and water resources. Further, with a new round of oil price hike the Corporation stepped up efforts to assist the underdeveloped countries to tap their fuel and mineral resources. IFC also went beyond supporting the mere traditional DFCs in its capital markets development programme to include equipment leasing companies, housing and mortgage financial institutions, investment banking corporations and venture capital thereby seeking to supplement commercial financial facilities for assisting medium and small size enterprises.[9] Also in stark contrast to the previous decade

[9] IFC Annual Report, 1983

was the Corporation's heavy accent on money and capital markets as a major thrust area. In a significant development substantial resources were devoted to help the developing countries build their financial sectors - a key to the overall growth of these economies. Ranging from investment banks to mutual fund management companies, from housing finance to leasing institutions, around 120 financial institutions were either created or assisted by the Corporation. IFC also pioneered the creation of country funds with a view to facilitating international investment in the emerging stock markets of the Third World. Since the launch of the Korea Fund in 1984, the organisation has been instrumental in setting up many such funds playing a variety of roles - underwriter, sponsor, placement agent and sometimes investor. Besides direct investment, reliance on technical assistance gathered momentum and the Corporation aided member Governments in the developing world to formulate financial sector plans, to establish a legislatory and regulatory environment, to identify needy organisations and to order priorities.

Interestingly, the ensuing year saw for the first time in the history of the organization the number of manufacturing projects dipping below 50% of the total. Also, the series of droughts and famines in many countries forced the Corporation to take an active lead in the efforts towards enhanced production of basic food commodities - hence agro-industry figured prominently in the list. And in the minerals and energy sector, the Corporation in addition to the usual types of projects entered less traditional areas as well such as synfuels and offshore mining. Besides, as financial markets in the developing world came of age the Corporation strove to help them gain access to the international capital markets. This took the form of arranging public issues, loan syndications and undertakings.

As the years progressed, the diversification of IFC operations continued - ranging from assistance to a rehabilitation hospital to a cold storage plant, from a specialized agricultural equipment leasing company to R&D efforts, and from life insurance investment to rural housing finance etc. By 1983, manufacturing was less than 38% of the total and likewise fewer fertilizer, chemical and petrochemical projects were approved than in the past. Particular attention was called for in Africa and correspondingly a significant number of investments were approved by the Board of Directors for the region. New types of business ventures were undertaken therein with diamond mining, ornamental plants for exports, coconut growing and processing etc.

Meanwhile IFC's obsession with the development of capital and money markets assumed a new form when as a catalyst from the shift from debt to equity financing , the Corporation evolved the concept and placed a private offering of $50 million in the Emerging Markets Growth Fund. The EMGF was like an investment company whose primary purpose was to invest in publicly listed equities with attractive prospects for exciting other investors. Together with 12 international financing institutions from 7 capital exporting countries, this was the first meaningful commitment by IFC to make portfolio investments in half a dozen "emerging stock markets". Initially, it was to include Malaysia, Thailand, South Korea and possibly India in the continent of Asia; while outside the Far East the list from which selections were to be made included Mexico, Brazil, and hopefully Argentina and Chile in Latin America plus Greece and Jordan. The heaviest weightage was to be given to the Newly Industrialized Countries (NICs), the Asian Tigers. Through the aegis of the Fund problems inherent in the stock markets of these countries would be overcome and made more acceptable and exciting for the foreign investors. For instance it would secure access to markets which were virtually closed at present, help overcome fears in these emerging markets about any major investor besides promoting and securing essential tax and other reforms impinging on portfolio investment.[10]

The heavy accent on energy in the IFC portfolio had a major drubbing as the decline in oil prices seriously affected the programme in almost all non-oil exporting of sustainable energy resources. The Corporation was coerced to renew its policies and look afresh - and as the Annual Report stipulated, "care was needed to ensure that new investments in this sector must naturally be based on realistic expectations about oil prices".

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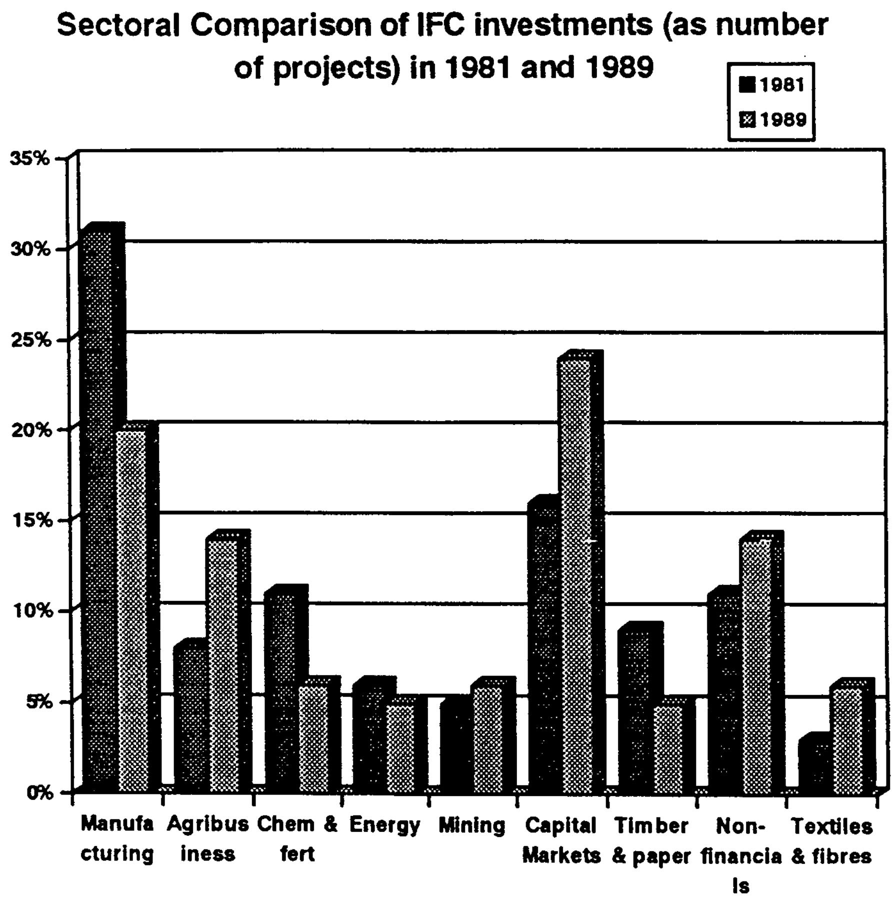
[10] "Enter the Fund of Funds", Far Eastern Economic Review, 31st October 1985, Pg 118

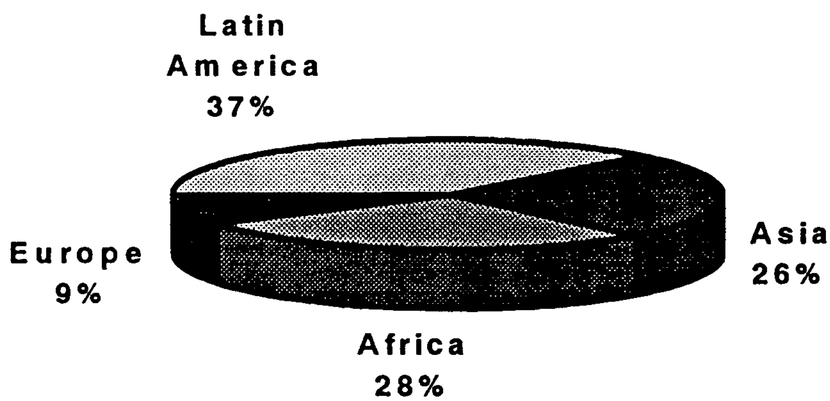
Thus despite the IFC claim that the earlier mission retained its relevance, investments and commitments to this sector came down considerably in the closing years of the decade. By 1989 therefore, capital markets, light industry, non-financial services and agribusiness led the portfolio - in that order. The chart below provide a meaningful insight into the IFC sectoral investment through the decade :



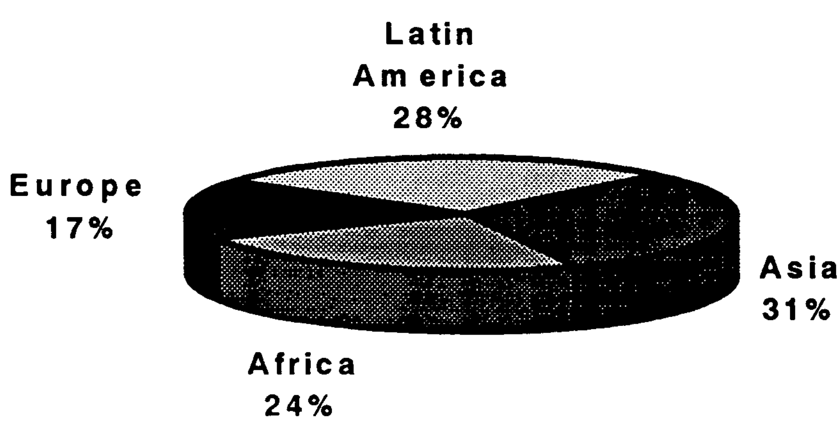
Source : IFC Annual Reports

As far as IFC's geographical investments was concerned, the Corporation opened its account in the decade with a firm resolve to expand operations in Sub-Saharan Africa which had been hitherto ignored. It is to the credit of the organisation that it achieved a 109% increase in investments in Africa - but simultaneously the dollar volume of approved investments showed a significant drop. This could be explained by the nature of business ventures in the region i.e. small and medium size enterprises requiring a moderate amount of capital. At the same time it was also true that the unfavourable investment climate prevailing in the continent forced the Corporation to look for greener pastures elsewhere. In this case it goes to prove that the hype built up for the numerous ventures in Africa were but an eyewash, with the IFC being directed in its investment options by the economic climate of the region which would in the ultimate analysis profit the organisation. In a striking similarity with the 70s, Latin America continued its hegemony in the IFC portfolio both in quantity and amount of investment. However, its share dropped as the continent of Asia edged its way up. Unlike the debt-ridden countries of the South American continent, the Asian economies were inviting substantial foreign resources and capitalizing on this the IFC shifted its thrust towards the export-oriented South East Asian countries and the larger economies of South Asia. For the Middle East and Europe there was a slight improvement in IFC commitments as the world-wide economic hardships lessened. The figures below illustrate the region wise distribution of IFC investment in the decade :

IFC - No of Investments 1981

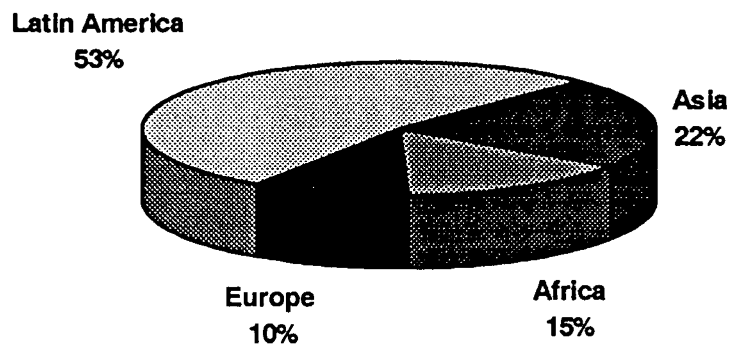


IFC - No of Investments 1989

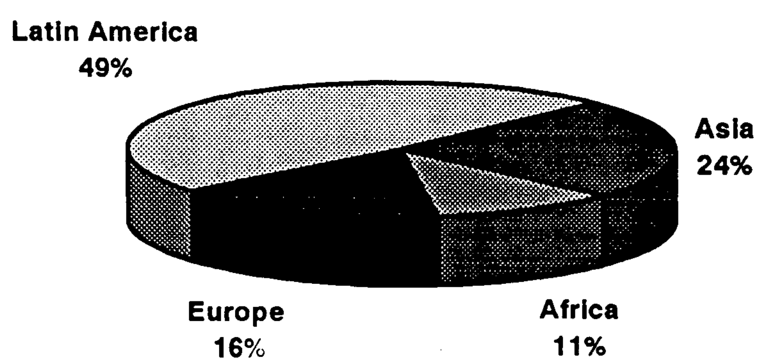


[Source : IFC Annual Reports]

IFC - Amount of Investment 1981



IFC - Amount of Investment 1989



[Source : IFC Annual Reports]

Additional Financial resources

IFC's increased activities through the decade placed a great strain on the limited capital base of the organisation - the situation called for additional sources of funds to augment the existing reserves. Correspondingly, in June 1984 the Board of Directors approved for submission to the Board of Governors a resolution proposing a $650 million increase in the subscribed capital stock. In effect this meant that IFC's authorised capital rise from its current level of 650,000 shares i.e. $650 million to 1,300,000 shares i.e. $1.3 billion. Unfortunately, there was evidence of considerable US opposition to such a move and in fact with President Reagan at the head of administration, the US Government was sceptical of almost all multilateral development banks. The President was on record opposing further US contribution to multilateral.agencies - he stressed on bilateral rather than multilateral assistance. "The bilateral programme provides the best assurance that the aid programme will be fully accountable to the US taxpayer while being wholly consistent with our foreign policy interest."[11] As the largest single contributor to the IFC budget, America wielded the maximum voting power and hence its approval was mandatory for such a resolution to come into force. Probably the Board of DIrectors were hopeful of an affirmative vote from the US as the latter has viewed the Corporation historically since its inception as an agency more in tune with its ideological framework unlike the other public international financial institutions particularly the IBRD and the IDA. After two years of negotiations and deliberations, in a surprise development, Congressional endorsement was forthcoming despite the initial reluctance. The expansion was seen as a rather safe move corresponding to American economic interests; besides it also substantially reduced America's contribution in real terms. In 1986 the Board of Governors finally approved the resolution to expand the capital stock of the Corporation to $1.3 billion with the authorization of $650 million in new shares.

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[11] Sanford, Jonathan E., US Foreign Policy and Multilateral Development Banks, Westview Special Studies in International Relations, 1982, Pg 49.

Apart from this traditional means of harnessing resources the IFC was authorised by an Amendment to its Articles of Agreement in 1964 to borrow from the World Bank - on which it relied heavily until the 80s. However, in 1984 the Corporation surpassed this mechanism and entered the market for the very first time for $50 million. In the case of this borrowing, according to Sir William Ryrie, IFC's Executive Vice-President, "we were presented with some rather favourable offers to borrow on good terms and besides, such borrowings would also help establish our name in the market as well as improve our relations with the financial community with whom we have to cooperate in a great deal of our business."[12] Another explanation was that additional capital was required (pending the approval of the increase in IFC's capital subscription by member Governments) for the growth and diversification of IFC's activities which had steadily expanded in the past few years. And with a relatively small requirement the Corporation had an opportunity to borrow from sectors of the market which the Bank could not tap easily. In the ensuing year, IFC was able to raise $100 million in the Eurodollar market and DM90 in the Federal Republic of Germany in addition to the funds borrowed from the World Bank. This reflected in a large measure the market confidence the Corporation was able to build for itself - and contributing to this image was the inherent conservatism of the institution. Similarly, in 1986 the IFC again borrowed from the market to supplement its World Bank borrowings and in fact the cost of obtaining such funds was lower than those of obtaining the same currencies from the Bank. This borrowing enabled the Corporation to reduce its cost of funds and hence lending rates substantially, thus easing the burden on the developing countries. This could also be seen as an effort by the IFC to grow out of the shadow of its big brother and carve a niche for itself.

At this juncture it would be pertinent to compare the figures for IFC's sources of funds at the beginning and end of the decade, as is illustrated by the figures given below :

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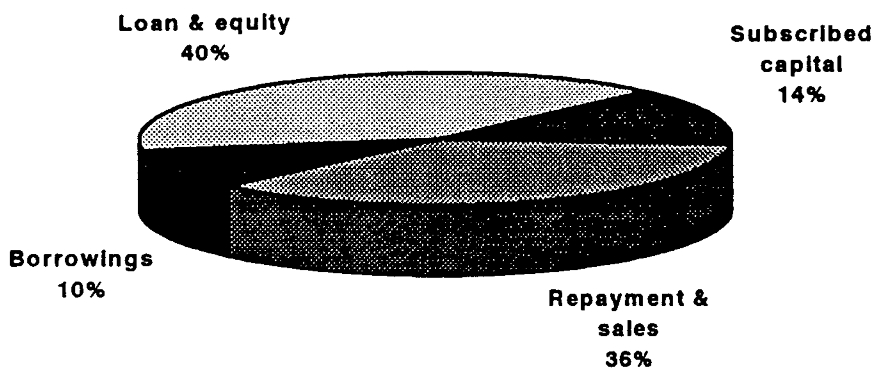
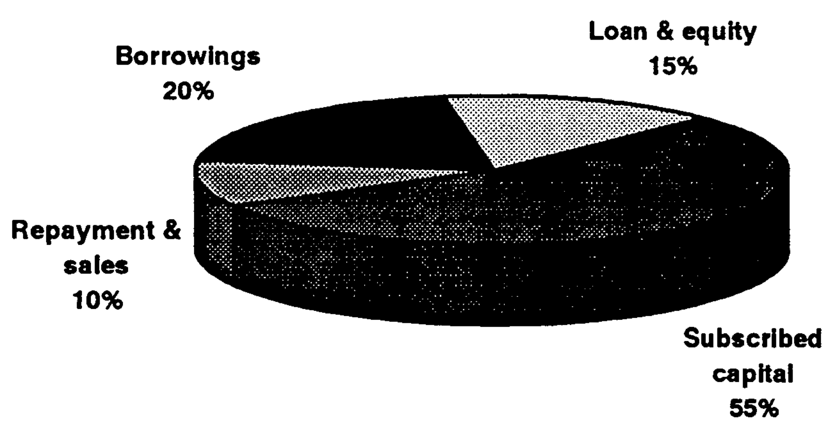
[12] "Development through the private sector", Finance & Development, March 1985, Pg 3

IFC - Sources of Funds : 1981



IFC - Sources of Funds : 1989



[Source : IFC Annual Reports]

While the substantial increase in subscribed capital early in the decade as discussed before resulted in more than half of the total receipts, market borrowings untapped earlier paved the way for a two fold increase therein. The depressed and unfavourable investment climate for a large part of the decade led to a dismal performance of IFC's sale of matured securities and investments. And in addition to the slowdown of business activity in many developing countries, increase in arrears and write-offs drastically brought down the income of the Corporation in the form of interests and dividends - thus the disparity in figures.

Boosting investor confidence

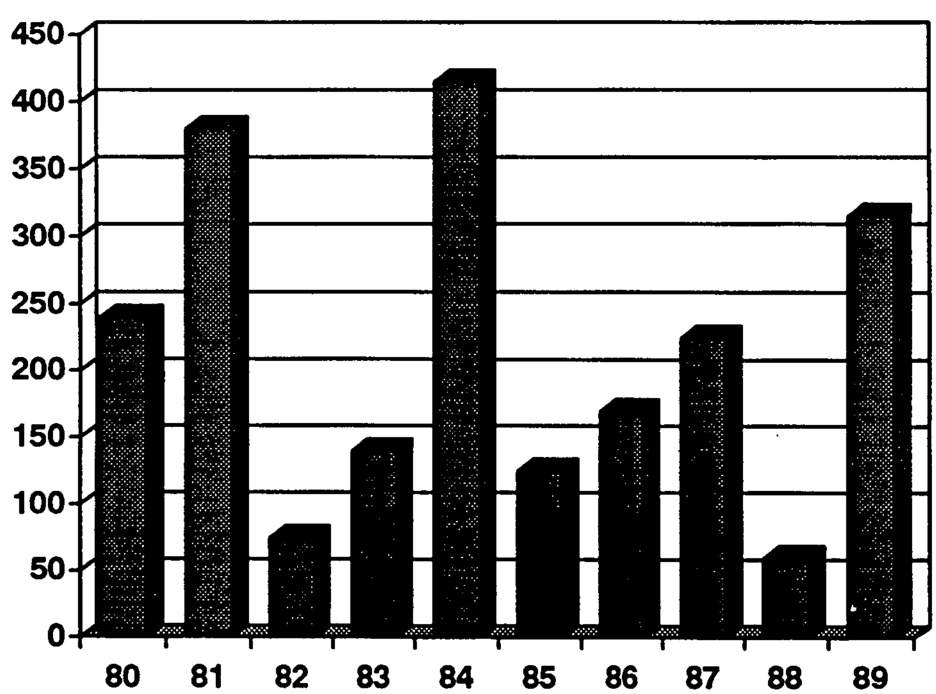
As mentioned earlier the IFC by design and out of necessity works in close association with private investors, commercial banks and other financial investors - both domestic and foreign. Since its own resources are meagre in relation to the needs of the private sector in developing countries, the Corporation was purported to act primarily as a catalyst to stimulate investment by others and not to compete or replace other sources of financing. The decade began with IFC syndicating $374.4 million of participations all of which were taken by commercial sources mostly in the capital exporting countries. Of every $1 cost of projects, 24 cents were provided on the average by the Corporation including the 11 cents raised through sale of participations; about 50% of financing came from domestic sources i.e. private investment, commercial banks & Government agencies while another 13% was drawn from foreign private investors. The rest was raised through public foreign institutions and agencies.[13]

In the light of economic uncertainties as the decade progressed, IFC's role to attract investors assumed a greater role especially as serious cutbacks resulted in a considerably decreased net lending to the developing countries from the foreign commercial banks and financial market. An unfavourable investment climate led to increased reluctance

[13] IFC Annual Report 1981

by private investors both at home and abroad to risk their capital by directing funds on their own efforts. At the same time, IFC's backing of a project was tantamount to a guarantee thereby easing substantially investor scepticism. In 1983 for instance 75 institutions signed a record $415 million worth of participations in IFC investments, besides the equity and equity-like resources from the special line established with the Kingdom of Saudi Arabia which were also mobilised to finance development efforts. However, the work of the Corporation in the subsequent years became difficult when despite debt rescheduling efforts by many Third World countries there was an absence of a more fundamental restructuring in the servicing of the enormous stock of debt. Consequently, IFC's task in exciting other private investors showed a major fluctuation - the overall syndication efforts were relatively depressed as shown by the figure below which illustrates IFC's endeavours in the field :

IFC Syndications (1980-89)



[Source : IFC Annual Reports]

However, simultaneously, a silver lining throughout these trouble years was the sale of matured equity investments from its portfolio. Showing impressive figures, this exceptional performance of the equity portfolio attributed in a large measure to IFC's striking increase in net income. In 1989 for instance the Corporation realized a whooping $118.6 million in capital gains from similar sales - the highest ever for the organisation. Besides, in consistence with IFC's policy of encouraging and broadening local ownership, most of these portfolio sales were undertaken in countries where the investment was located.

The decade also marked the beginning of a promotional campaign in the developed industrialized world to attract new partners for investment in the developing world. Carried out by the Corporation's newly created Promotion and Syndication Department the programme had as its objectives a significant increase in awareness of IFC operations and activities among financial institutions and corporations in North America, Europe and Japan. Aimed towards a greater involvement of these institutions in developing countries' investment, the programme used the medium of advertisements, a direct mail contact programme besides seminars and conferences to familiarize the working of the IFC to its target audience. The Corporation also introduced innovative guarantee techniques to promote investment through a new financial package launched in 1986. The Guarantee Recovery of Investment Principle (GRIP) offered a guaranteed protection of the principal amount in equity investments made through the IFC after an agreed period and participation in dividend income together with capital gains.[14]

The Corporation also geared its activities in the field of foreign investment by creating the Foreign Investment Advisory Services. Its mandate was to advise the Governments of IFC's developing member countries on policies, programmes and institutions that had an impact on foreign direct investment.[15] Requests for such advisory services could accrue directly

[14] IFC Annual Report 1985

[15] IFC Annual Report 1989

from the countries concerned or from the programme divisions of the World Bank looking for assistance in connection with policy dialogue with member countries. Beginning in 1987 a number of FIAS advisory projects were initiated in a number of Asian countries and based on this experience the Corporation would develop in future a similar programme for Latin America and Africa. The financial support to such projects were borne by the Corporation, the UNDP, the European economic community as well as bilateral sources of development assistance in the US, the Netherlands and Canada. Also included therein was the fees charged to client Governments.

In the closing years of the decade, IFC's endeavours to woo investors, both local and foreign, paid off - despite a reluctance by many lenders to increase their portfolio in the highly debted countries, the Corporation managed to mobilize $6.5 from other sources of financing for every $1 it invested itself. Apart from investors in the West, the IFC managed, rather effectively, to incorporate for the very first time the Japanese in its investment programme. In 1988, for instance, a $50 million Japan based Emerging Markets Investment Fund was established with a view to developing the securities market in developing countries. Aimed at Asia in general and the Far East in particular, this venture was of tremendous interest to the Japanese who were visualising themselves as a future regional superpower. Another major milestone for the IFC was the decision to apply for a rating for the public issue of the Corporation's debt securities and the conferral of an Aaa rating by Moody's and a AAA rating by Standard and Poors. These ratings, the Corporation argued, "while recognizing IFC's superior financial status will help fund the mobilization efforts by confirming to the commercial banking community that IFC successfully combines financial strength with its broader charter objective".[16] Not wholly subscribing to this vain albeit eloquent optimism, it would nevertheless be fair to say that this marked a great boost for the IFC towards the facilitation and promotion of private investment.

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[16] IFC Annual Report 1989

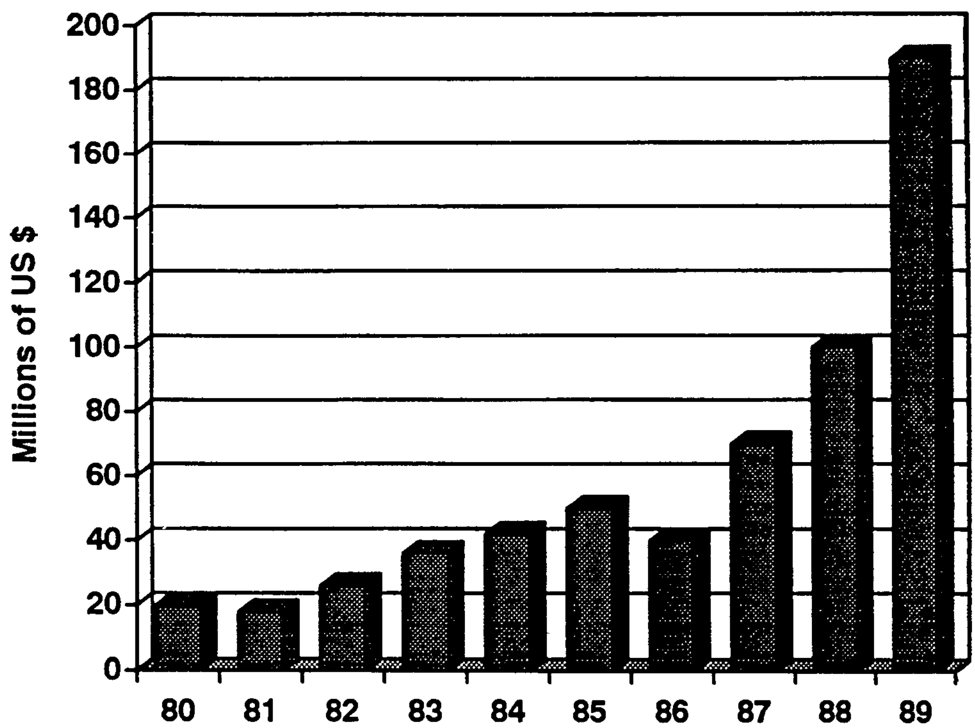
Performance Appraisal

The 1980s was a mixed bag for IFC operations and activities with the decade witnessing both periods of boom and gloom. While the organisation grew rapidly, its investments failed to keep pace with the needs of its developing member countries. As soon as the debt crisis set in the average size of IFC investments fell with large commitments - a hallmark of the 70s and the early 80s - being shelved.

Despite the outlined priority, IFC devoted time and attention to the continent of Africa in name only. In spite of launching a series of projects and facilities aimed in particular towards the development of the region, IFC activity failed to yield tangible results. Private investment continued to be at abysmally low levels with investor confidence at its lowest ebb. In this scenario instead of looking afresh at its policies and programmes to rectify this problem the Corporation's "genuine concern" at the plight of the continent could be questioned. The vibrant economies of East Asia which by themselves were managing relatively well need not have become the exclusive concern of the IFC in practice. While it is agreed that the Corporation is linked inextricably in its working to the prevailing investment climate, it still does not provide a plausible explanation for its neglect of the underprivileged regions of the world economy. In fact, this is but an evidence of the repeatedly stressed fact of profit maximisation being accorded top priority in the IFC orientation rather than development maximisation.

It is at this juncture that the earning performance of IFC's investments must be seen. A glimpse at the IFC records reveal profitability to be indeed a hallmark of its activities and operations as is vividly indicated in the figure-graph given below :

IFC Yearly Net Income (1980-89)



[Source : IFC Annual Reports]

This necessarily has had to be at the sacrificing altar of the pursuit of development objectives. Even the overall sound performance of IFC's projects came about in a large measure from the fact that the Corporation invested only in projects which offered a "satisfactory" ex-ante rate of return. As IFC's stringent screening and appraisal process weeded out uneconomical and inefficient projects to guarantee an increasing income, certain development projects in dire need of assistance may be overlooked squarely on the grounds of its relatively less potential return to IFC. Thus the official claim that "the IFC has shown that business success and economic development could go hand in hand" needs to be taken with a pinch of salt.

Also, as an indication of the impact IFC has created in international economic relations is its fundamental role of expediting the flow of private capital both domestic and foreign to assist the development process of the less developed countries. As the Executive Vice-President, William Ryrie asserts, "IFC is a catalyst rather than a prime mover in transferring resources from the developed to the developing world".[17] It is to the credit of the Corporation that, in the years of difficult and uneasy economic environment when foreign investors including commercial banks were wary of entering the debt-ridden economies of the poor nations, it worked hard to attract and tap a vast array of capital sources. Through direct mobilization, participations and sales, the Corporation achieved a remarkable target in wooing investment and building investor confidence. Apart from this traditional process, the IFC created in the decade of the 80s innovative mechanisms as part of its promotional campaign to sell the idea of indirect mobilization as well. Offering guarantees, use of extensive advertising and public relations, organisational restructuring and advisory services helped the Corporation overcome the obstacle of investor reluctance in an era of world recession and economic downturn. This undoubtedly was a remarkable achievement but at the same time the IFC will have to catalyze an awful lot of money if it wants to make a dent in the ratio of developing country debt to equity. So far stunning success has eluded the Corporation in its efforts to facilitate co-financing from commercial banking sources. Despite being empowered to guarantee private investment in developing countries, it has been hesitant to use the facility and in the long run IFC will have to garner all its might to ensure the flow of private capital to the developing world. With the capital markets operations doing well, it would seem probable that IFC's efforts to attract foreign portfolio investment to these countries would prove far more effective than its attempts to galvanize foreign direct investors.

[17] "IFC : Growth and Diversification", Finance and Development, December 1988, Pg 23

CHAPTER 3

The Indian case study

As a founding member and the largest developing country shareholder, India has had a long and eventful relationship with the International Finance Corporation. IFC entered the Indian industrial financing scene in the closing years of the 1950s and viewed against the backdrop of the country's economic scenario this entry seemed timely. For, it may be recalled that the situation then, particularly in industry and development banking activities, was precariously poised at the take-off phase. Stock market activity was in its most nascent phase of development and besides the Industrial Credit & Investment Corporation of India (ICICI), there were very few institutions dispensing foreign currency assistance.[1] Also, the World Bank lending to India grew very slowly averaging only $20 million a year during the period.[2] In fact, the bulk of foreign funds for private sector development came through primarily bilateral sources.

The first two decades of IFC's association with India

In tune with the Mahalanobis approach towards heavy industry in India's second Five Year Plan, IFC opened its account in the country with investments in a wide array of iron & steel, cement, industrial equipment and other manufacturing projects. In addition to the financial resources, the Corporation also afforded, according to its officials, other intangible benefits. For instance, they claimed that the appraisal of projects helped to define the project parameters better in view of the close scrutiny of proposals both at the formulation and implementation phase.[3] And a good project preparedness, in their prospect, helped a much better tying up of foreign collaboration. This may, however, be stretching the point too far

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[1] "Link with financial bodies", The Economic Times (special feature), August 30, 1982, Pg 1

[2] Mason & Asher, The World Bank since Bretton Woods, The Brookings Institution, Washington D.C, 1973, Pg 676

[3] "Purposeful Investment in India", The Economic Times (special feature), August 30, 1982, Pg 1

especially because of the extremely stringent procedure and performance evaluation with which the IFC had become synonymous. But at the same time it would be fair to admit that as the IFC doors opened to Indian entrepreneurs it made available to them an absolutely new line of credit which they could look forward to in future. And in this early phase, it must be remembered, the Corporation's assistance to India was quite small relative to the needs of the Indian business community as the average amount of investment hovered around $1 million or less. Also, owing to the thin capital base, the Corporation had to limit its participation only to very large projects. Further, during this period, the Corporation failed to make any substantial equity investments in projects here - thereby defaulting on a critical element in putting together a financial package for any venture. This could, in large measure, be attributable to the excessive controls and regulations in the Indian economic environment wherein equity financing was firmly governed by the laws of the land.

The IFC investment pattern in India underwent a substantial alteration as the agricultural sector shot into prominence with the launch of the Green Revolution and increasing pressure from the World Bank in the late 60s. IFC aided these endeavours for a high priority towards farming inputs, particularly fertilizers, with considerable investments. The aim was to strive for a four-fold expansion of food production to meet the spiraling demand in face of the population explosion. However, as many critics claim, this induction of new technology instead of improving the lot of farmers in general in fact aided the rich agriculturists who exploited, solely for their benefit, the available inputs with the help of the financial resources offered by the credit institutions.[4] In spite of these charges levelled against the World Bank group, the Corporation continued its efforts to assist the fertilizer industry and in 1969 it made its largest single commitment of the decade when it joined private investors in the US and India to establish a fertilizer plant at Goa sponsored by Zuari Agro-Chemicals Ltd of the Birla group of companies.[5] This era also witnessed

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[4] Bhambri, C.P, World Bank and India, Vikas Publishing House Private Ltd, New Delhi, 1980, Pg 116

[5] IFC Annual Report 1969

an increase in the upper limit of the IFC investment amount to the country but at the same time, the number of IFC assisted projects did not show any remarkable increase.

During the 70s, barring a few years, IFC's participation in Indian industrial financing was on a relatively low key. The official preference of the Government in New Delhi was more in favour of soft funds from the IDA and to a certain extent bilateral credits for financing imports. The "draconian" Foreign Exchange Regulation Act of 1973 which limited foreign control and equity rendered a serious blow to many foreign investors who hurriedly withdrew from the Indian industrial scene and this was one of the major reasons why IFC chose to largely ignore the private sector in India during this period. Besides, the development banking institutions, notably the ICICI, were in a position to finance the medium and small sized enterprises and thus the onus of burden shifted away from the IFC. Also, there grew a feeling in the minds of Indian industrialists that the Corporation behaved in very much the same manner as a commercial business house with profitability as its principal investment criterion. Thus, its appraisal procedures were rather rigorous, demanding, and time-consuming much to the chagrin of the entrepreneurs. Moreover, there also was resistance to IFC's interest in stipulating the stock option in the companies it assisted.[6] A survey of literature during the period indicates that it was only half-way through the decade, in 1975, that IFC opened its account and that too with a loan for the expansion of an alloy and special steel manufacturing unit which the Corporation had helped establish more than 10 years ago - investment in new greenfield projects were at a low ebb. However, in 1978 an interesting feature of an IFC investment in the country was that for the very first time the Corporation ventured into a unique project in the field of money and capital markets - housing finance. Together with the ICICI and IFC assistance, the Housing Development Finance Corporation (HDFC) commenced operations with its primary objective being the promotion of home ownership through provision of long term housing loans at a reasonable rate of interest.

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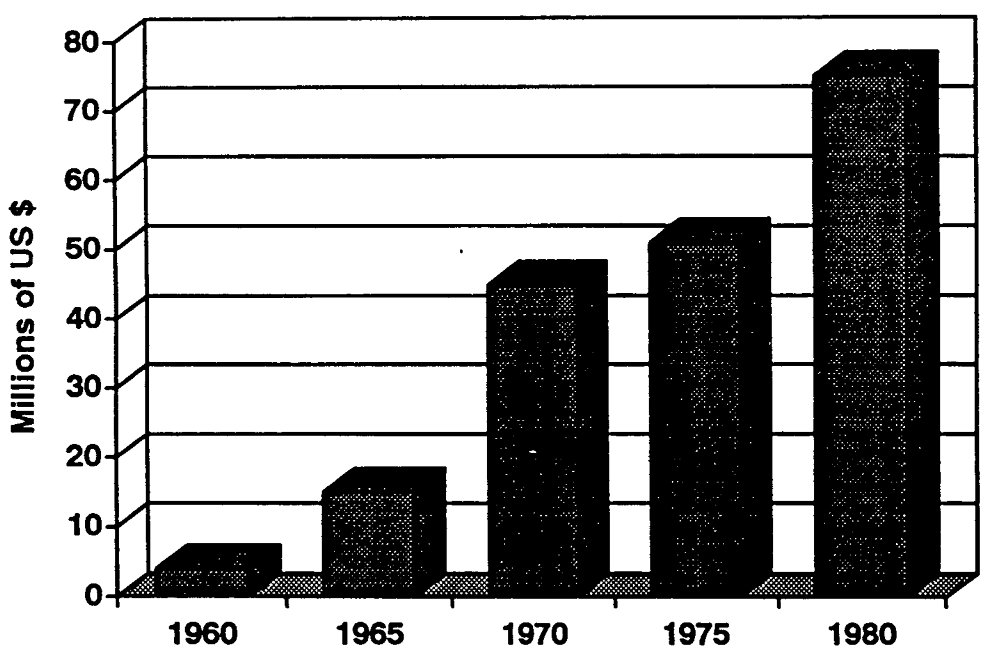
[6] "Role in financing industry", The Economic Times (special feature), August 30, 1982, Pg 1

Therefore, at the close of this period the IFC cumulative investments in the country touched a modest $70 million growing relatively slowly since it began operations in the fiscal year 1959-60, as the figure graph below illustrates :

IFC Cumulative Investments (1960-80)



[Source : IFC Annual Reports]

IFC involvement in India during the 1980s

As India entered the new decade there were marked changes in her economic scenario as well as significant alterations in her financial situation. A sharp deterioration in the balance of payments position necessitated recourse to a SDR 5 billion loan from the IMF which was conditional on an "adjustment programme".[7] Buckling under this pressure, the Government at New Delhi restructured its policy framework in order to allow a greater interplay of market forces primarily through a dilution of bureaucratic regulations and minimisation of state intervention. Paralleling this process of liberalisation was an increasingly receptive attitude towards foreign investment and foreign collaboration - a distinctly new climate from that which existed in the preceding years when "Indianisation" or a greater Indian ownership of industry was the catchword. Yet another noteworthy event of considerable importance to Indian policy makers was the slashing of low-interest World Bank loans and an increased uncertainty with regard to IDA's concessionary finance. On the other hand, reliance on International markets for India's capital needs seemed risky, for commercial borrowings carried very high servicing obligations. Viewed against this background, an intensified concern by institutions like the IFC was greatly welcomed by the Indian industrialists who were finding it extremely difficult to garner adequate resources for their large project costs and especially the foreign currency components.

As the investment climate in the country gradually improved with relaxation in economic restrictions, the Corporation looked upon in satisfaction, and showed a keen interest in its Indian operations by making appropriate policy adjustments. The IFC management in consultation with the Indian Government launched coordinated efforts towards strengthening its relationship with the rapidly expanding private sector in the country. By way of concessions, IFC at this particular juncture was willing to cut down processing time and speed up appraisal procedures for project proposals emanating from Indian entrepreneurs besides consenting to agree, though reluctantly, on evaluations carried out by Indian institutions. Also, by providing rupee finance the Corporation opened new avenues for a working relationship of IFC's financing of projects in India.

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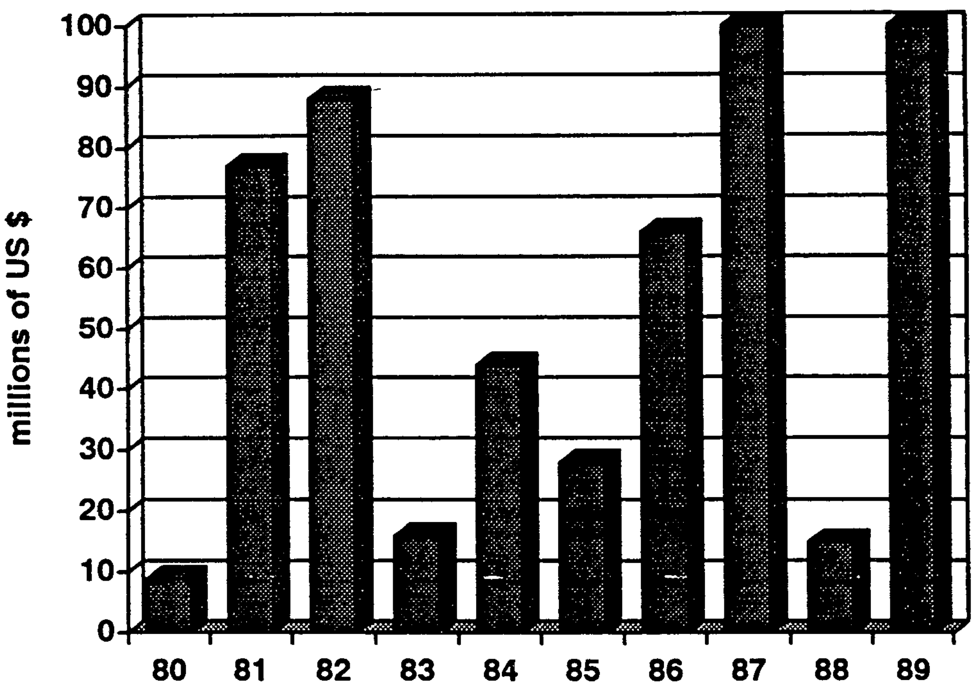
[7] Swamy, D., The World Bank & globalisation of the Indian economy, PIRG Publication, New Delhi, 1993, Pg 1

Beginning from 1980, the Corporation began to release increased amounts for investment in India in a wide array of projects. However, at the same time it must be seen that the vagaries of the global economy together with the woebegone years of the Indian economy took its toll on the Corporation's assistance to the country which exhibited a pattern of considerable fluctuation all through the decade. The debureaucratisation of the controlled and regimented license permit raj in the early years of the decade sent keen signals to the IFC headquarters in Washington, which in turn responded favourably. These years were marked by a relatively high proportion of IFC's approved investments; for instance, in 1981 the undertakings in India were 9% of the IFC's total approved commitments. The ensuing year witnessed the largest haul in IFC assistance to the country - a record high of $89 million and almost 15% of the Corporation's world wide approvals.[8] Seen in the context of a globally unattractive investment climate that prevailed during the year with a consequent reduction of IFC approvals the going for India seemed rather smooth. At the same time, the problematic years of the mid 80s with mounting fiscal deficit, double digit inflation, drying up of foreign exchange reserves and a depressed GDP added to investor reluctance and hesitation in risk ventures. As the BOP crisis worsened after 1985, international agencies suddenly lowered India's credit rating restricting her access to the international money market - incidentally this drying up of commercial credit occurred at a time when concessional credit also was largely unavailable. It was in this period that IFC probably saw little business sense in venturing towards the Indian shores. In retrospect, it could be argued that in times of acute financial distress when the Corporation's assistance could have been of immense value to the Indian industry, it shied away - being guided after all by the profits accruing from sound commercial projects. Again, the closing years of the decade witnessed a revival of IFC assistance to India as the Government went whole hog into the liberalisation process to link the country with the global economy. A conclusion could be drawn that despite repeated assurances by the Corporation management of having no attached conditionality, IFC in effect did consider an open economy to be a sine-qua-non for

[8] IFC Annual Report 1982

investment approvals. The figure graph below shows this trend of IFC assistance through the decade :

IFC Yearly Investments in India (1980-89)



[Source : IFC Annual Reports]

A comparison of figures between other public international financial institutions to that of IFC's assistance to the country reveals the latter's minuscule amount. For example, while IFC's involvement through the decade averaged between $50 million to $100 million, the World Bank and IDA combined reached comparatively astronomical figures averaging $1000 million to $2000 million.[9] In a large measure this could explain the relative ignorance of an average Indian to the Corporation's efforts unlike those of the World Bank, which are often subjects of heated controversies and deliberations.

[9] Swamy, D., op. cit., Pg 18

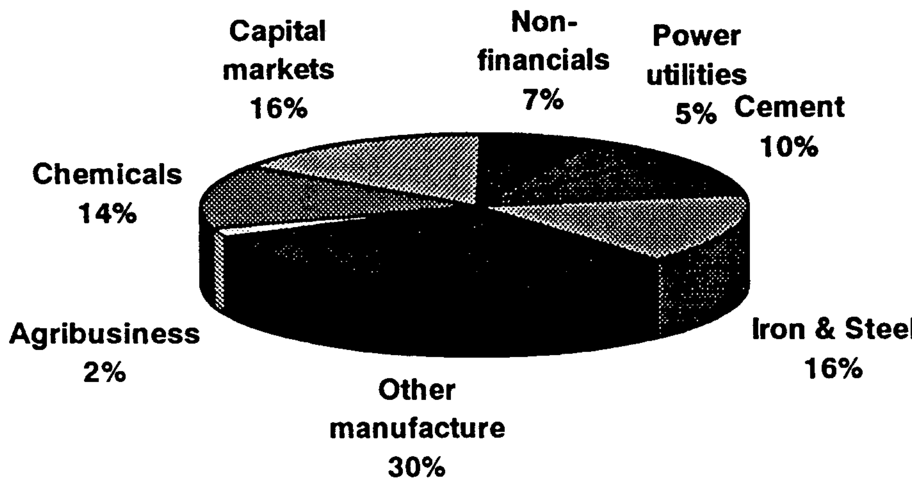
Moving now to the sectoral assistance of IFC investments in India a quick peek into the figures indicate that the Corporation opened its account for the decade primarily in the heavy industry, manufacturing field and fertilizer production. Iron & steel together with cement and construction materials headed the list and this preponderance could be attributed to the fact that projects in this field required vast amounts of long-term capital generally unavailable domestically. Manufacturing of industrial equipments, another major field of IFC operations in India, was held by critics to be of particular interest to the Corporation mainly because of its protected nature - i.e. with over 80% of protected tariffs in this sector it was profitable to invest substantial amounts. Also interestingly, the automotive industry with a distinct focus on fuel efficient two wheeler vehicles was a thrust area of IFC investment in India. Catering to the large domestic market demands from the middle income group, this consumer durable industry offered to the Corporation an excellent opportunity to capitalize on its gains with a view to maximising profits. The attention on fertilizer plants was drawn primarily on the basis of the World Bank's support to Indian agriculture and rural development. Related to this was the shift towards modern agricultural inputs like tractors which according to the IFC would help improve productivity and increase farm yields, besides helping the country to save its precious foreign exchange reserves.

In 1983, the IFC involvement in India was of a slightly different nature, for in cooperation with the Government and Indian financial institutions the Corporation forayed into the Indian financial sector. In keeping with its worldwide trend of enhancing operations in this field, IFC developed a plan to help establish a number of leasing companies at the regional level. This was certainly an innovative experiment in assisting the orderly and planned expansion of leasing as a relatively new financial instrument in the country - two companies were created to lease equipment to a wide variety of small and medium size principally privately owned enterprises. Thus emboldened, the Corporation in 1985 again ventured into this field to provide lease financing to the industrial, mining, agricultural, construction, transport, commercial and professional sectors. In the same year, the Corporation, with the success of HDFC behind it, launched its first ever rural housing finance to provide long term housing finance mostly to middle income individuals and private cooperatives in small towns and large villages. Meanwhile, continuing to encourage the financial sector, the Corporation financially assisted the Export-Import Bank of India with a view to aiding small and medium sized export-oriented private enterprises. In a large measure, this revealed an adjustment in the IFC's policy objectives to assist small and medium sized enterprises requiring relatively small volume of resources especially as the slowdown in the global economy together with investor scepticism had frozen IFC's capacity to invest in large greenfield projects.

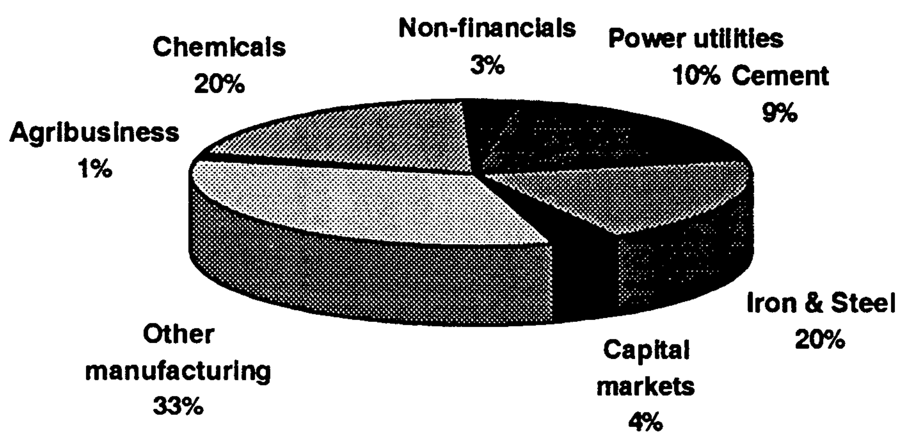
With the continuing deterioration worldwide, IFC began its corporate restructuring programme as mentioned in the previous chapter. Focussing its attention on expansion and modernization of established concerns rather than new projects, the Corporation in India too followed suit in most of its new undertakings - in the shipping sector, agribusiness and watch industry. Of tremendous enthusiasm to the Indian policy planners was the assistance in the field of information service and telecommunications involving transfer of technology, as India throughout the 70s and 80s maintained her soft corner for such projects in an effort to strive towards self-reliance. Besides, with the opening up of the power sector to private investment in the closing years of the 80s, the Corporation with a great deal of fervour supported four private power utilities to increase efficient power generation.

The pie charts below indicate the average IFC sectoral investment (percentage) in the country through the 80s :

Average number of IFC Sectoral Investment in India (1980-89)



Average amount of IFC Sectoral Investment in India (1980-89)



[Source : IFC Annual Reports]

IFC's syndication efforts in India during the 80s

Successive IFC Executive Vice-Presidents have asserted time and again that the Corporation was designed as a financial institution measuring its success not in terms of the funding which it provided directly but by the amount raised from other sources on behalf of a client. Keeping this in mind it would be worthwhile to analyze the participation of private investors, both local and foreign, alongside IFC's investment in India. It is here that one can point fingers at the credibility of the IFC involvement in India. For every $10 invested by the Corporation from its own account a mere $1 came from other sources - an equation far below the worldwide IFC syndication average. In fact, through the ten years of the decade in only four instances did the syndication efforts materialize and that too a meagre amount of $70 million. The table below illustrates this unfortunate development :

IFC's Syndications in India [1980-89]

YEAR	AMOUNT
1980	Nil
1981	$ 20 million
1982	$ 27 million
1983	Nil
1984	$ 15 million
1985	$ 8 million
1986	Nil
1987	Nil
1988	Nil
1989	Nil

[Source : IFC Annual Reports]

This investor reluctance despite the Government's attempts to woo foreign capital was probably the result of the haunting memories of the sour aftertaste of New Delhi's tough Indianisation stance which drove out Coca-Cola and IBM in 1978. As many investors had their fingers burned by previous Indian Government's hostility to foreign investment their response to the liberalisation process which went underway in the 1980s was relatively slow. The trickle of foreign investment could also be attributed to the Indian Government's reluctance to allow foreign companies to station their personnel in joint ventures : also, foreign equity holdings were in effect limited to 40% except in business ventures involving the highest technology, which the planners in South block would bend over backwards to get.[10] Another factor that chilled the Indian Government's warm welcome to foreign capital was that more often than not such investments would become a victim of the battle going on in the Government & bureaucracy between those who wanted reforms and those who found status quo more comfortable. Incessant delays, a far from transparent paraphernalia of rules and regulations and other bureaucratic wranglings kept investors away. Further, many were in favour of a watch and wait policy rather than plunging neck-deep in potential trouble. On its part, IFC is at fault and cannot escape the blame for not marketing the Indian project proposals so as to excite foreign capital. Its promotion efforts were found wanting particularly in assuring the investors in North America and Europe of India's earnest efforts at opening her economy. On the contrary, the Corporation simply swayed with the tide of foreign investment flows into the more profitable regions of the world.

IFC & India - an assessment

The decade of the 80s witnessed a marked increase in IFC operations in India with the largest share of net commitments in the sub-continent of South Asia. In fact, by the end of the decade, the cumulative approvals of the Corporation's undertakings in the country had crossed the $600

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[10] "India's chilly", The Economist, October 25, 1986, Pg 73

million mark - a more than six-fold expansion from the preceding years. But, the IFC involvement in India was far from a runaway success story as the management would have us believe. The quantum of assistance was minuscule compared to the needs, or even the demands, of the Indian entrepreneurs for the private sector development. Contribution towards industrial advancement and economic growth was doubtful, for most companies, when contacted, refused to divulge information regarding IFC assistance. This leads me to believe the critics' claim of the Corporation being a hard task-master with an extremely stringent and conservative approach towards India besides also being a stickler for rules of the book. It is in fact easy to believe that guiding the Corporation was the philosophy of "sound investment" which referred primarily to potentially profitable ventures thereby militating against otherwise needy projects - this was true of the IFC in general, and in the context of India, even more so.

Apart from the quantum of IFC investment in the country, it was also true that the average size of commitments during the decade hovered around an average of a mere $10 million - a rather poor figure by any stretch of imagination. The Corporation was also guilty of focussing too much attention on loan financing to the near exclusion of equity features. It is true, however, that India was traditionally allergic to foreign equity investment with the conventional wisdom being that foreign equity stakes were expensive to service as potential profits were high in a large protected market.[11] Besides, foreign equity was often viewed by some schools of thought to be a neo-colonialist tool.[12] The Corporation, itself under fire for preferring loan to equity financing worldwide was only too happy to accommodate the Indian Government's views on the entry of foreign equity capital. The figure graph below illustrates the relatively low-level efforts by the Corporation to assist Indian companies with equity investment :

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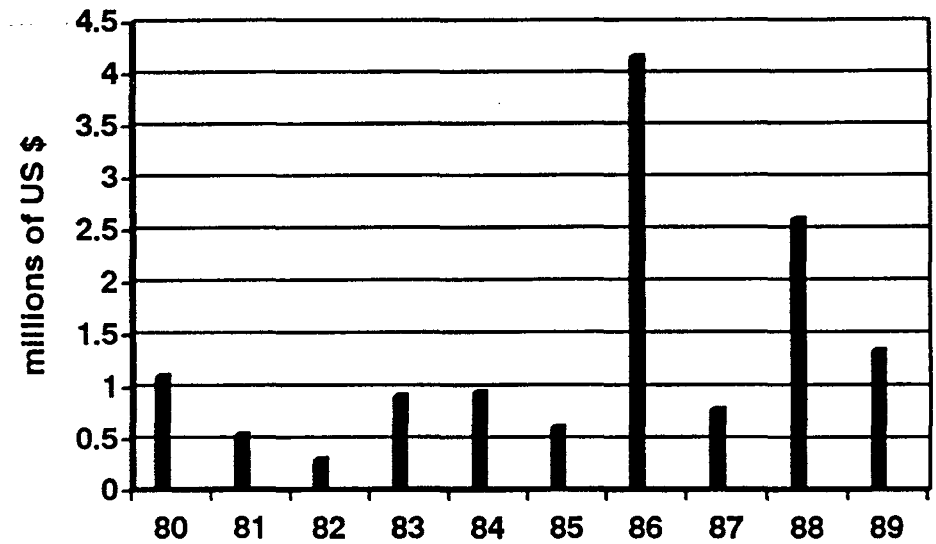
[11] "Movers and Sheikhers", The Economist, November 15, 1980, Pg 50

[12] Ibid.

IFC Equity Financing in India (1980-89)



[Source : IFC Annual Reports]

At the same time it is interesting to note that beginning with 1980 India deviated from its usual anti-foreign equity stance and bowed to pressure from the Arab Sheiks and from oil-exporting developing countries. These exceptional cases allowed the investors to own upto 40% of the equity of new companies that were strong on either exports or technology. While there was no economic rationale for discriminating between Arabs and other investors, politically it paid to keep the Arabs happy.

A major ideological attack launched on the Corporation's activities in India was that it generally favoured big, well-established business houses to the exclusion of relatively unknown but upcoming business entrepreneurs. Critics cite the well known industrial houses in India - Kirloskar, Mahindra, Birla, Tata, Nanda, Bajaj etc. as the leading names with which the Corporation was associated throughout the 80s. This, they believe, augmented the reign of monopoly capitalism in the country under the facade of development . Professor C.P Bhambri, a leading exponent of this school of thought went as far as to assert, "IFC directly acted as a catalytic agent for collaboration between Indian big business and foreign monopoly capitalism."[13] While not subscribing to his views, I would say that the predominance of IFC's involvement in India with the large business houses was but a natural outcome of the fact that the Corporation, in seeking for profitable business ventures, as is its wont, would prefer already well-established and profit-making firms rather than risk its neck out with the less privileged. It must be understood that since IFC investments were sold to private investors, the former would enter only those entrepreneurial ventures which were most likely to attract private investment at a "satisfactory" (!) premium.

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[13] Bhambri, C.P, World Bank & India, Vikas Publishing House, New Delhi, 1980, Pg 97

CHAPTER 4

Prospects for the 90s

Having traversed a path, more often than not, strewn with problematic thorns for a little over three decades, the International Finance Corporation at the threshold of the 90s was ready for the take-off. As the operations and activities commenced, record volumes were achieved in all three principal areas of IFC transactions with the private sector in the developing member countries, that is to say :

- financing of projects
- mobilizing funds from other sources
- providing advisory services, both project related and policy based.

New investments approved by the Board of Directors at the very beginning of this period for IFC's own account touched an amazing figure of $1.5 billion[1] - a full 20% increase over the preceding years. Simultaneously, funds raised directly by the organisation for projects through syndications, underwritings and private placements were at their highest ever, surpassing the $1 billion mark.[2] Also, the volume of technical advice, an increasingly important part of the Corporation's development work in recent years, showed an impressive growth. Learning from past mistakes and building on accomplishments, the Corporation seemed determined to garner all its might to defy its critics and delude their allegations. Aiding IFC's endeavours was the exceptionally vibrant global economy continuing from the end years of the 80s. And, of course the world trend towards privatisation especially in the less-developed countries contributed considerably to IFC's growing undertakings.

[1] IFC Annual Report 1990

[2] Ibid.

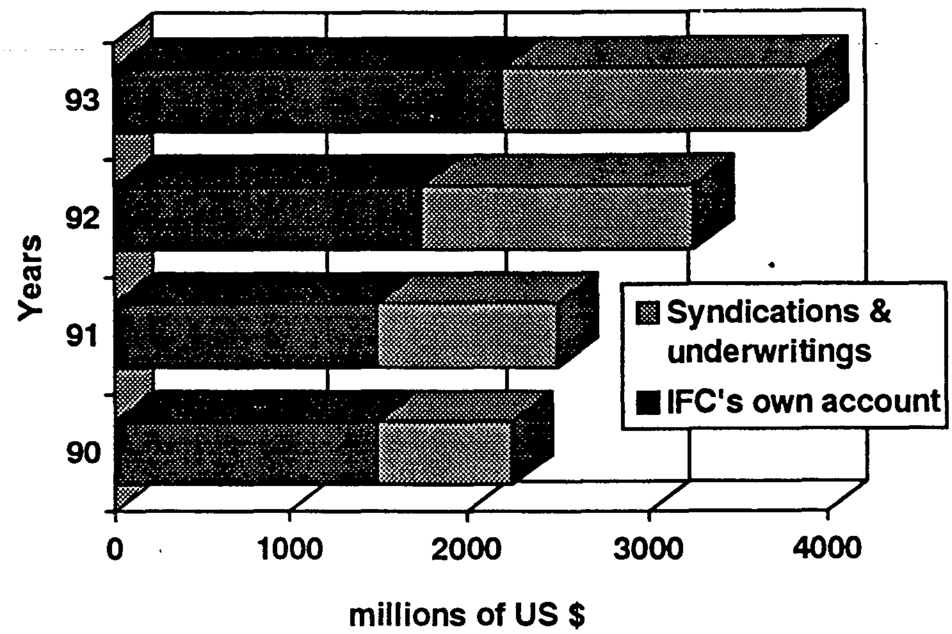
However, this success proved short lived as the ensuing year brought with it misfortunes galore - global uncertainties resulting from political upheavals. The invasion of Kuwait and its resultant problems adversely affected the firms in the developing world with oil prices becoming volatile while the embargo against Iraq together with the displacement of migrant workers from the Gulf region also had a negative impact on business enterprises in many regions. The crisis led to a year of slow growth, severe capital constraints & an undermined investor confidence which marked a downturn in IFC investment operations. Correspondingly, the volume of resources committed by the Board of Directors grew very marginally and in fact the average financing per project declined from $12 million to $10 million.[3] As the world recouped from the aftermath of Operation Desert Storm, the IFC, armed with an increase in its capital stock (raised to $2.3 billion) strove to regain lost ground. Since the demand for the Corporation's finances increased by leaps and bounds corresponding to the developing world's perseverance with free market reforms, the volume of project financing increased. The receding recession in most of the developed world helped the Corporation towards achieving yet another record year for mobilisation of investment funds - for every $1 approved by the IFC other sources provided nearly $7 in project finance.[4] With a membership of 155 countries including those from the erstwhile Soviet bloc, IFC had come a long way from a paltry 30 members with which it commenced operations way back in 1956.

The graph below illustrates the trend and investment pattern for the period under study :

[3] IFC Annual Report 1992

[4] IFC Annual Report 1993

Approved IFC Financing 1990-93



[Source : IFC Annual Reports]

The era of the 90s has been unique in the sense that it has provided ample scope and opportunity for the Corporation to take stock of its present activities and venture into areas and fields hitherto unexplored. The focus of the organisation has been in fact steered towards a greater involvement in private sector development and private investment promotion. Besides, this also provided a peek into IFC's plans and programmes for the decade - a pathway into the future. Therefore, I now propose to divert attention to these key thrust areas in order to comprehend what the Corporation has in store for its developing member countries.

Assistance to the erstwhile COMECON States

In a major development, the East European countries broke away from their communist ideology and were going through a transition away from a centrally planned command economy towards private ownership and market pricing. A tight rope act, this precarious balance, seriously affected by the breakdown in the trade patterns of the Council for Mutual Economic Assistance, brought with it a series of external shocks, rapid decline in GOP and an overall negative growth rate. On its part, the Corporation, with years of valuable experience was well equipped to provide advisory services and the critical financial support for the practical problems of transition. In fact, beginning in 1990 IFC aided these newly admitted countries of Eastern Europe, particularly Hungary and Poland, through policy advice to agencies involved in the process of economic, financial, investment programmes, mainly joint ventures. Within the Corporation a new Department of Investment - Europe was created corresponding to the emergence of this region as an important area requiring increasing emphasis in IFC activities in support of the reforms being carried out there. In addition, to develop contacts with the investors in Western Europe, particularly Germany, who evinced considerable interest in venturing into Central and Eastern Europe, the Corporation opened a Representative Office in Frankfurt. By establishing the New Europe East Investment Fund, in 1993 the flow of private investment was further sought to be encouraged into the region. Besides, the IFC made available equity capital, in great demand but short supply there, to local private enterprises in the area by helping to set up the Private Equity Fund. Simultaneously, huge volumes of IFC investments were flowing into the Continent and in fact the largest commitment so far in the decade was also directed towards this region - a $370 million loan to finance a five year investment programme undertaken by the Czech Republics recently privatised producer of motor vehicles.[5]

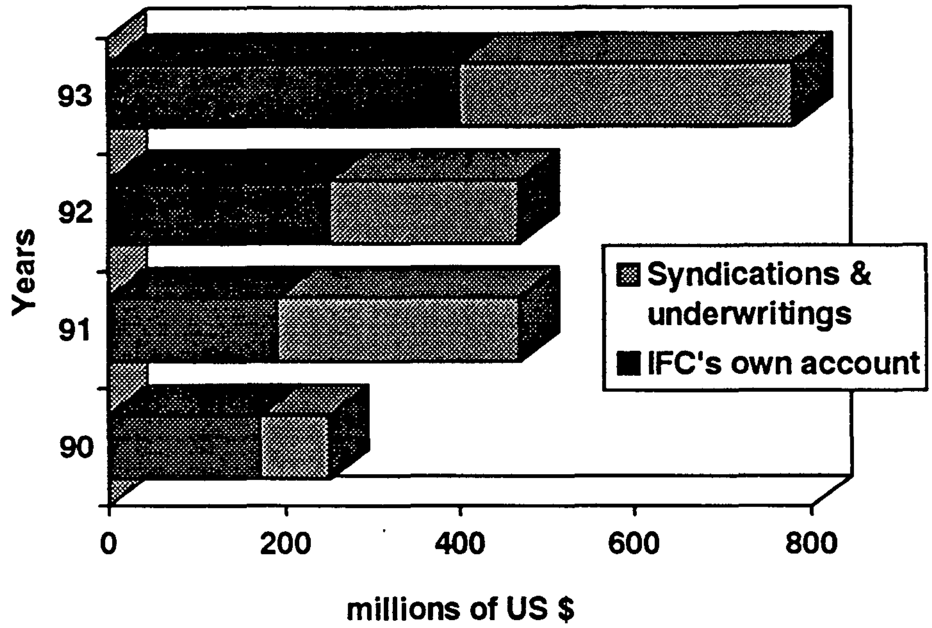
[5] IFC Annual Report 1993, Pg 64

The disintegration and collapse of the Soviet Union led to the formation of numerous fragmented but independent republics plagued by political uncertainties and civil strife besides being hard hit economically as the road to capitalist prosperity was far from being a bed of roses. IFC responded to this challenge by working closely with these Governments to develop a legal and institutional infrastructure imperative for privatisation. As 14 of the 15 former Soviet Republics applied for membership the circle was complete - for ironically enough, more than four decades ago the USSR, though a party to the Bretton Woods conference of 1944, had steadfastly refused to be a member of the World Bank or any of its affiliates including the IFC. And in 1993 the Corporation created the resident mission in Moscow for handling an increasing amount of activities in the former Soviet Union. Further, it strove hard to facilitate the flow of foreign investment in the CIS economies by helping to create a more favourable investment climate and to that effect the Corporation endeavoured towards helping them to overcome the brunt of a severe contraction in trade and reduced industrial production especially during the Gulf crisis.[6]

The graph below illustrates the enhanced IFC involvement with the region that has emerged, in the 90s, as a unique thrust area for the Corporation :

[6] The Gulf crisis exacerbated problems for the region not only because of the higher price of imported oil but also as Iraq constituted an important trading partner and net debtor.

IFC Financing approved for Europe



[Source : IFC Annual Reports]

In fact, this increased focus towards the region corresponded to the Western interest particularly the US policy makers in sustaining the market economies of these countries. As the transition process hit the common man, dissensions and frustrations with the prevailing economic system pervaded through the region. In fact, most people wanted to put the clock back so as to retain their social welfare benefits under the socialist system. As threats to the democratic regimes increased, the American administration began pumping voluminous investments through the aegis of the multilateral financial institutions for some respite in the badly hit economies of most East European and CIS states. Also of importance was that there was a clearly discernible and definite Euro-centric bias in the minds of the decision makers of the West, for the increased attention towards the CIS republics exhibited, not many Central Asian Republics were recipients of the expansion of IFC activities therein. Besides, as a consequence of large volumes of investments flowing into this region, the IFC has had to necessarily cut down in investments in other regions, and the main casualty was Africa.

Promotion of privatisation efforts

Transferring ownership of manufacturing or service providing enterprises from Governments to private parties - the process of privatisation - has become one of the most pervasive global phenomenon of the decade. Privatisation was the sine qua non of the conversion of the centrally planned East European and CIS economies towards market economies, but the trend towards privatisation was by no means confined to the former Soviet bloc countries. This shift was witnessed in varying intensities and speeds in countries all over the globe - Latin America, South Asia, Indo-China, Middle East and Africa. Under conditionality of the Fund and Bank, besides the realization by Governments that state enterprises were relatively less efficient than private companies, efforts towards privatisation got a considerable momentum. IFC's role in this area has been growing rapidly over the past few years as part of the World Bank Group effort to foster private sector activities in developing member countries. However, unlike most international institutions which offer advisory assistance on merely macroeconomic or privatization policy issues, the Corporation focussed its attention on the implementation of model privatization transactions. The organisation made valuable contribution to the implementation of the privatization process either by advising Governments and enterprises on the process or by investing in the newly privatised companies. The Corporation advised sellers on structuring, negotiating and implementing specific privatisation transactions. It has also acted as an advisor and investor in the acquisition of state-owned properties and helped the buyers raise some of the finances needed by the privatised companies. In addition, IFC had an extensive knowledge of and contact with many major industrial groups in the world and of course an established record as a useful business partner and commercially motivated investor. These factors helped the Corporation to play a broker's role between Governments and investors thereby increasing confidence and acceptance of the project.

Although, IFC's privatisation activities date back to the closing years of 1986 most of its assignments were undertaken since 1990 when it established its Corporate Finance Service Department to assist clients with corporate restructuring and privatisation. Reflecting recent developments in Eastern Europe, a number of IFC's advisory assignments have been in that region, but IFC has also helped and been active in countries like Argentina, Philippines, Portugal & Morocco etc.[7] - thus achieving a wide regional dispersal. The Corporation also sought opportunities to help private companies in negotiating the purchase or obtaining finance for the rehabilitation of State owned firms. Over 20 such privatisation transactions has an IFC participation through its investment activities. In addition, the Corporation has also mobilised as much external financial assistance as possible. In essence therefore, since the scale of the problem of transformation in most developing countries is particularly daunting, supporting privatisation in its member states is undoubtedly one of IFC's top priorities for the 1990s.

Support for the emerging Asian economies

The thriving market economies of East Asia with their robust industrial activities and overflowing baskets of foreign capital emerged as an area of prime concern to the Corporation. Beginning with the late 80s the region witnessed large portions of net IFC investment approvals flowing towards it rather incessantly. In these affluent economies, which remain relatively unaffected by the Middle East turmoil, the Corporation concentrated on improving the financial structure so as to enable these countries to gain access to the international capital markets. Knowing that foreign investment is increasingly being attracted to this part of the globe IFC too began expanding operations therein. It assisted private concerns in the region to relocate their production facilities within the area to countries with lower labour costs - also, in the hope that growth in off-shore investments would accelerate and diversify. Korea, Hong Kong, Singapore, Taiwan plus the South-East Asian economies of Thailand, Indonesia, Malaysia etc. were the focus of IFC's new initiatives and

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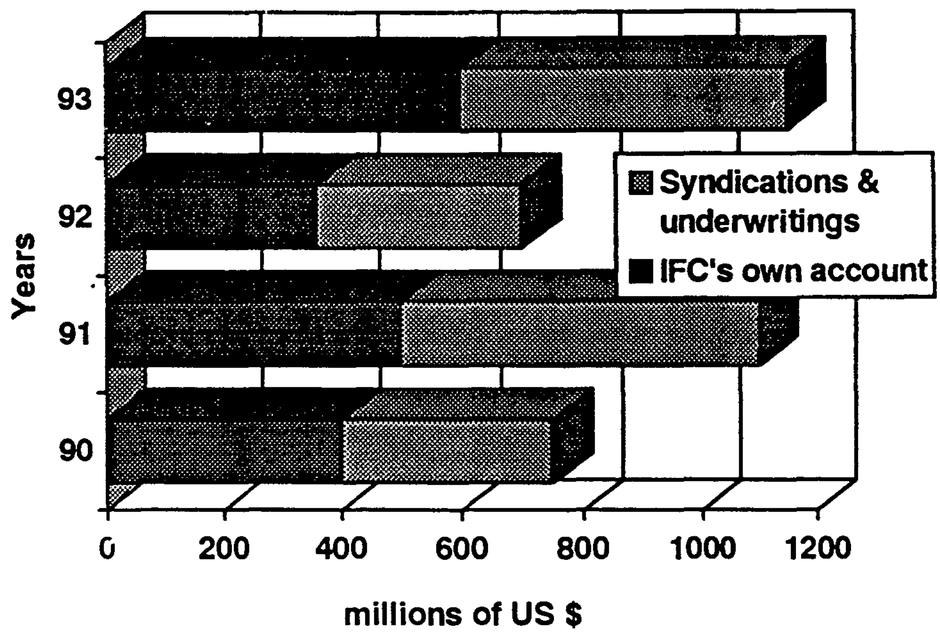
[7] IFC Annual Report 1992

policies. Of late, China too has begun to be of immense importance to the IFC policy makers. AS China continued to pursue economic reforms and open up to the outside world its economy took an impressive upswing in the 90s. Responding to the Government's new incentive policies as well as increased investment opportunities, foreign investment surged to a record high as did the IFC interest. The Corporation, to meet the overwhelming demand for its activities there opened a new Resident Mission in Beijing and also stepped up its promotional work for the country including investment promotion seminars both in China and abroad.

In contrast, South Asia with its unimpressive economic performance - a persistent fiscal and balance of payments problem, spiralling inflation and a growing external debt servicing requirements - accentuated by the Gulf crisis - exposed the vulnerability of the low income South Asian economies to external shocks. Here, the IFC operations did not keep pace with the demand and more often than not grew very marginally. In this area, the Corporation financed projects mainly in the industries which had a comparative advantage over their competitors in the West - engineering and general manufacturing. The other needy projects could languish as far as the Corporation was concerned for they were far from being deemed a "sound investment". The figure below illustrates the volume of investment flowing into the continent :

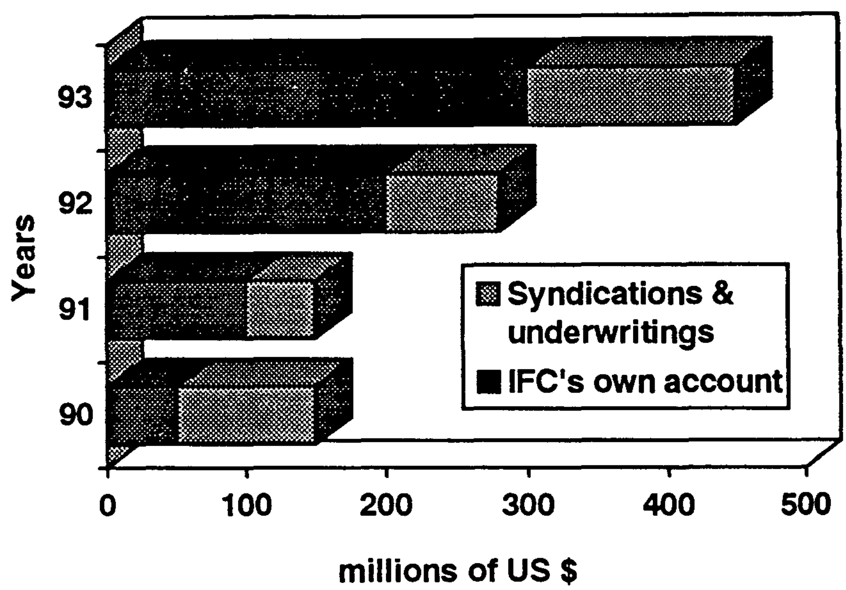
IFC Financing approved for Asia [1990-93]



[Source : IFC Annual Reports]

Besides, in a shrewd political move obviously to toe America's pro-Pakistan tilt, the Corporation in a major reorganization incorporated into its Central Asia, Middle East & North Africa Department Pakistan and the Central Asian Republics of the erstwhile USSR. Keeping Pakistan out of the South-Asia division and clubbing it with the other Muslim nations seemed to indicate America's preference for Pakistan as an integral part of Pan-Islamization. Also, this move meant large additional assistance to the Pakistani private sector for in the group there were extremely small countries calling for minimal amounts of investment - thus leaving Pakistan as the sole large country. The figure below indicates the investment for this division :

IFC Financing approved for Central Asia, Middle East & North Africa



[Source : IFC Annual Reports]

A renewed zest towards infrastructural services

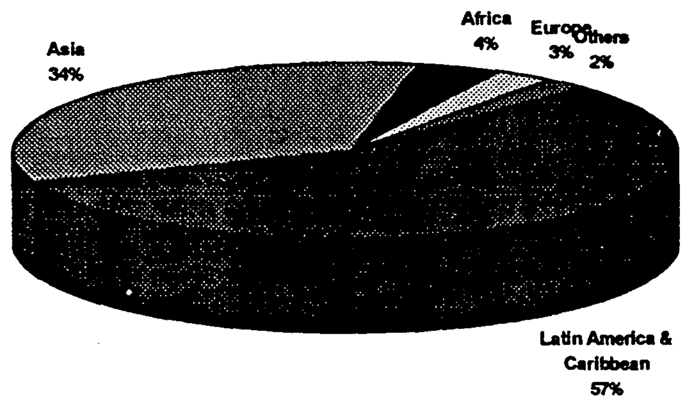
Governments in the developing world increasingly acknowledged that the private sector could provide many infrastructural facilities, for instance power, transport, and telecommunications more efficiently than the public sector because of the market mechanisms of competition and pricing. Thus, the mobilization of private savings for the financing of infrastructure projects would definitely be a critical factor throughout the 1990s. In such a scenario, the Corporation, which had long recognized the need to bring market discipline to the infrastructure sector and possessed a vast expertise in the field since its first investment in a power project in 1966, was forced to look afresh at this area requiring increased IFC attention during the decade.

As most infrastructure projects involved high costs, long pay-backs and long-term financing, the IFC which has had a modest success in arranging syndicated loans for large projects throughout the world was in a position to assist such major undertakings. Also, the Corporation helped such endeavours overcome yet another pressing concern - difficulty in attracting direct foreign investment as foreign investors were particularly cautious for these infrastructural projects were not export oriented and besides the revenues were subject to the rate setting policies of Government agencies. With an established record as a sound business partner, the IFC went in a large way to mediate between Governments and investors to ensure a fair deal to the reluctant investors. Further, since private investment in infrastructure projects in developing countries depended heavily on the domestic capital market, IFC kept the financing needs of such projects in mind when promoting the development of local money markets.

Corresponding to the prevailing attitudes towards private sector involvement in infrastructure, the highest proportion of investment inquiries received by IFC concerned such projects. Beginning with 1990, the Corporation approved $632 million in financing for its own account for 32 investment projects through the decade.[8] The pie chart below illustrate the regional distribution of IFC investments in infrastructural projects :

[8] IFC Annual Report 1990

IFC Geographical Involvement in Infrastructure projects



[Source : IFC Annual Reports]

Also, in response to the growing demand for its services in this area, IFC created an Infrastructure Department staffed by both financial and technical specialists at the three levels of transportation, power, and telecommunications. Projects ranging in size from less than $5 million to $1.4 billion, investments ranging from ports, hydro and geothermal power generation, telephone networks, satellite communication etc. were to be coordinated by this newly created department as the volume of IFC undertakings in this field rose considerably.

Entering the new field of environment

Awareness of the importance of protecting the environment has grown substantially over the past few years, despite the dissension between the industrialised and industrialising countries regarding ways and means of approaching a solution for this potentially dangerous trend of global pollution. Pressurized by the developed North, as yet another South bashing endeavour, IFC as part of the World Bank group made environment one of its most urgent priorities and coerced a private sector involvement in the environmental sector of the developing countries. In accordance with the Corporation's new policies all its operations were undertaken in an environmentally responsible manner and projects had to meet stringent environmental standards. Project sponsors were made to submit an environmental analysis to IFC as part of their project proposals while the IFC, during the appraisal of projects, reviewed this analysis with a view to ensuring the project being environmentally sound and sustainable and in compliance with the World Bank's environment policy and guidelines. Overseeing this review was the Environmental Division which was the focal point for IFC's environment policies, procedures and programmes.

IFC also encouraged investment in environmental projects but few projects materialized for they were viewed as both time consuming and burdensome - such projects required considerable preparation before they turned bankable. Thus, in an extra effort to develop such projects, IFC established a new position in the Environment Division for identifying such projects suitable for IFC financing as well as to promote a working relationship with project sponsors to develop bankable projects. The IFC was also involved in a major way with the Global Environment Facility[9] in the sense that it was responsible for associating itself with projects that were eligible for GEF funding and exploring ways to help the private sector companies benefit from GEF programmes during its future permanent operational phase.

But all said and done, IFC's foray into the field of environment was merely another form of dictates to browbeat recalcitrant countries. For, if we consider that until 1993 only 4 projects submitted to the Corporation were considered strong candidates for IFC financing, it becomes clear that the guiding spirit in this field was certainly not launching environmental projects. The real issue is part of the increasing US sponsored steps to penalise the imports from the Third World countries which were relatively cheaper than those domestically produced. So far, the US seems to be getting exactly what it wants by tapping most of the multilateral financial institutions wherein she is the major shareholder to further her concerns (read interests) in this matter.

[9] A $1.3 billion 3 year pilot programme established in November 1990 by a group of developing and industrialized countries to finance projects with global benefits

Increased support to small & medium sized enterprises & capital markets

In a substantial policy shift during the decade, the Corporation stepped up efforts to assist small and medium sized entrepreneurial ventures. In 1990, for instance, the Board of Directors approved 10 credit lines to financial intermediaries for on-lending to projects too small for direct IFC assistance besides a few equity and loan investments in such small and medium businesses which these intermediaries identified, appraised, and invested in alongside IFC. Representing an average of 14% of gross approved volume, this deviation from the preceding years was remarkable as the Corporation had been involved in earlier years with increasingly large investments in big concerns. Focussed mainly on the continent of Africa, which despite years of strenuous efforts failed to record any substantial improvement in its private investment climate, this increased support to small and medium sized enterprises was in fact IFC's last ditch effort to encourage private sector growth. The Multi-Country Loan Facility launched during the decade had the IFC and the commercial banks providing matching amounts of finance to small and medium sized ventures in a number of developing countries. Attention was focussed essentially upon the fishing and tourism trades, particularly in Sub-Saharan Africa. In addition, the South Pacific Project Facility was also created to assist similar bankable projects in the seven island countries of the South Pacific region. However, there was no direct project financing by the Facility as it only funded part of the cost of the market, technical, and feasibility studies besides helping sponsors raise financing from other sources, both local and foreign. IFC's endeavours in this area of small and medium sized enterprises were fraught with severe constraints as the Corporation continued to be guided in its operations by the profit motive and economic returns. This meant, in effect, that only such enterprises which were sound and promising irrespective of their development contribution to the economy were taken up for IFC assistance. Probably the underlying reason for the stagnation of private sector development in Africa could be traced to such factors. The Corporation will therefore have to look afresh at the quality of its investments and not just quantity and reorient its focus towards more of a developmental basis than before.

Another area where IFC activity expanded rapidly in the last decade and especially in the 90s was in the department of money and capital markets. Investments in this new field touched a new high by surpassing the $1000 million mark - almost a four fold increase from the preceding decade. Although there was an even mix of the three main investment activities in the fields - i.e. institution building, on-lending through intermediaries and international securities transactions - the latter was undoubtedly the fastest growing area of IFC capital market activities. As interest and demands for country funds that invested in emerging markets rose into prominence, the Corporation was at the forefront of this activity by launching 11 new country funds which mobilized more than $1 billion in the international market. Participating as a promoter, underwriter, placement agent and when appropriate, as an investor too, the Corporation went all agog in associating itself with this profitable sector of an economy. Behind this enhanced interest evinced by the IFC was also the firm belief that in view of its modest efforts at facilitating private investment in the more traditional areas of industrial production, the assistance in emerging markets provided an excellent opportunity for the companies to gain access to the major financial markets. In keeping with this line of thought, the Corporation created the International Securities Group which aided the business groups, through the issue of stocks and bonds, to enter the leading centres of finance capital. Also, as a corollary to IFC's efforts at encouraging foreign portfolio investment, the development and creation of IFC Investible Indexes (IFCI Indexes) was a phenomenal feature. The new IFCI Indexes were calculated using factors that included market capitalisation, liquidity and industrial classification as also the extent to which national laws, regulations and company statutes prohibit or limit foreign ownership.[10] Thereby, a reflection to the degree to

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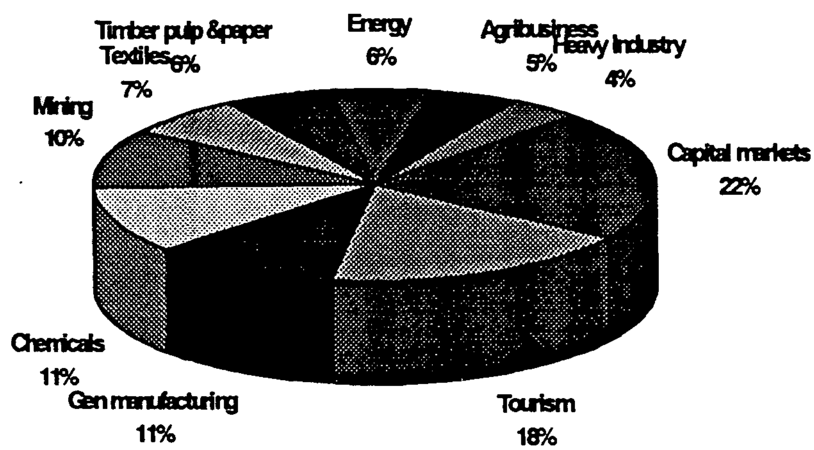
[10] IFC Annual Report 1993

which certain emerging markets were open to foreign investors, this new instrument built upon IFC's Global Indexes[11] launched in 1984.

The pie - chart below illustrates the sector-wise distribution of IFC's portfolio with the share of the capital markets and agribusiness as well as tourism and other industrial services that mainly comprise the small and medium sized business ventures :

Average Sectoral IFC Investment 1990-93



[Source : IFC Annual Reports]

Enhanced collaboration with the World Bank

Since the closing years of the 80s there has been a much closer and cooperative relationship between the World Bank and the IFC specifically with the launching of the Multilateral Investment Guarantee Agency (MIGA) in 1988. Aimed at providing insurance to private investors (who on the advice of the World Bank invested in developing countries), only in cases of non-commercial risks like appropriation, natural disasters and

[11] IFC Global Indexes constituted a neutral and reliable benchmark of emerging market's performance. Since they were calculated in a uniform manner they were useful to foreign investors wishing to compare performance.

civil disturbances, MIGA in a large measure fostered a harmonious working relationship of the Corporation with the World Bank. As frequent contact between their staff became inevitable primarily because of a similarity in objective, i.e. promotion of private investment, collaboration within the World Bank Group rose considerably. In order to streamline their activities for a more effective collaboration, a Private Sector Development Action Programme was prepared, which identified areas of increased collaboration that would emphasise, in the years to come, on :

- strengthening the Third World financial sector

- assisting privatisation and restructuring of public enterprises in the developing economies

- improving the environment for private sector development

Apart from such operational collaborations the IFC and IBRD formulated a common approach towards private sector development. At the centre of this increased collaboration was the programme of joint private sector assignments in selected countries, and this interaction ensured that the views of both these institutions were clearly articulated. Unfortunately, these efforts also strove towards a relatively more constricted approach towards the developing countries, ensuring stricter compliance to the dictates of both the organisations. In effect, what was achieved has been correctly described as "closing options for the Third World" by a wide array of research groups in the developing countries. Regular exchange of views, dialogues and transactions went a long way to ascertain that the officials of both the institutions were aware of each other's operations and activities - thereby limiting any opportunity that the developing economies might have exploited to play off one against the other. The countries of the Third World now have little scope to abstain from fulfilling their obligations towards any of these multilateral international financial institutions as enhanced scrutiny became the order of the day. By 1993 more and more countries were being brought under the gambit of the joint assessments and the findings of these assessments were increasingly being reflected in the IBRD country dialogues and used as background for country-specific consultative group meetings much to the chagrin of the planners in the developing world who would be sure to feel this lack of breathing space.

Strengthening the resource base

In a landmark development regarding the Corporation's financial standing, an amazing proportion of the total borrowing, i.e. almost 90% came from the international market. In fact, in 1993, the Corporation borrowed a record $1.26 billion from the major markets of the world besides the Euro-dollar market. The IFC followed a diversified borrowing strategy venturing even into growing markets like for instance the Hong Kong dollar market. Success of its borrowing issues furthered IFC's objective of becoming a regular high quality borrower in he public bond markets, supported naturally by the triple A ratings achieved in 1989. Simultaneously, borrowings from the World Bank shrank drastically to below 5% of overall net capital borrowings and in the 1990s the World Bank loans were used primarily to fund fixed rate assets. In this endeavour to establish its own independent standing, IFC successfully managed to step out of the shadows of its overbearing big brother.

Further, in order to permit the Corporation to embark on a new period of growth while expanding operations substantially during the decade, the Board of Directors recommended an increase in capital stock from $1.3 billion to $2.3 billion. This recommendation followed 18 months of intense and heated discussions among the shareholders with the Bush administration. As usual, a reluctant US Government blocked all capital increase to the World Bank and its affiliates for "it wanted these institutions to amend its ways and lend less to Third World Governments and focus more on private business especially where American interests were involved".[12] In essence, America attacked the bit of the Bank expressly designed to promote private enterprise in developing countries and the row over IFC's capital increase stalled new efforts. But thankfully, realization dawned and the Congress gave its approval which finally

[12] "Aid & Enterprise", The Economist, May 25-31, 1991, Pg 18

paved the way for the approval of the recommendation by the Board of Governors.

Besides, as the newly independent Baltic states and other republics that were formerly members of the USSR applied for membership, the Corporation did not have sufficient unallocated shares available to accommodate these 15 prospective new members. Accordingly, it was recommended that IFC's authorized capital be increased by $150 million to a total of $2.45 billion - this special capital increase was approved by the Board of Governors without resistance from the major shareholder as only the new member was to pay for this capital increase (50% to be paid initially and the balance in 5 instalments).

Since in most international financial institutions the power of a country was relative to its voting rights which in turn was determined by the allocation of shares, a quick look into the IFC shares subscription of the capital stock would reveal the power and might of the US vis-à-vis the organisation and other member nations. In 1990, realizing the economic and financial progress of Japan and FRG additional allocation of approved for the two countries. Consequently, Japan became the second largest shareholder after the US with 6.38% of the total capital stock and 6.21% of total voting power.[13] An important point to be noted is the relegation of India to a much lower rank in the shareholding of the Corporation despite it being the largest developing country shareholder. In essence therefore, India was given even a lesser say in the Corporation's decision making than before much to the detriment of the interests of the developing countries. As for the shares of the other developing nations, it is not even worth a mention.

The chart below indicates the percentage of total voting power and capital stock attributed to the major contributors including India at the end of the fiscal year 1993 :

[13] IFC Annual Report 1993

Capital Stock and Voting Power (as of 1993)

Country	**% of total capital stock**	**% of total voting power**
United States	24.47%	23.87%
Japan	7.07%	6.90%
Germany	5.93 %	5.79%
United Kingdom	5.57%	5.43%
France	5.57%	5.43%
Canada	3.74%	3.66%
India	3.63%	3.55%
Italy	3.24%	3.16%

[Source : IFC Annual Report]

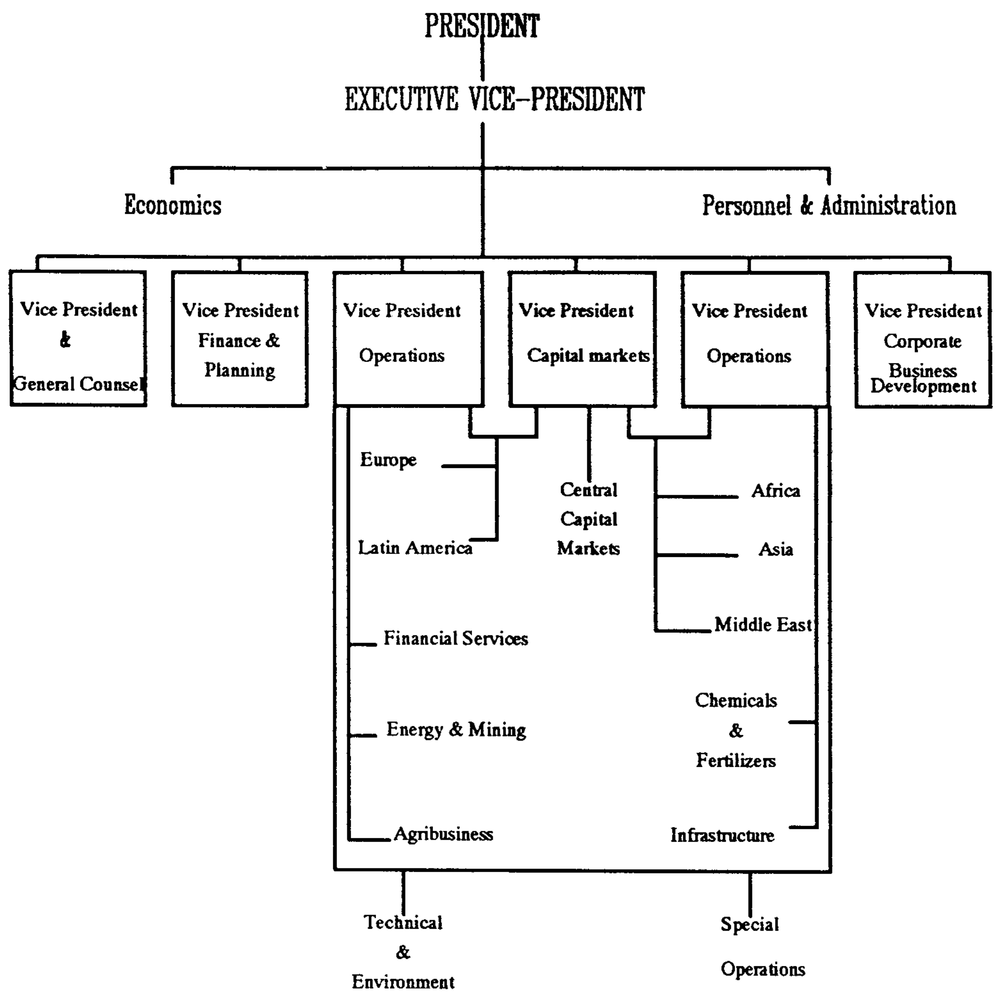
Attempts at structural reorganization

Corresponding to the phenomenal growth of the Corporation, the structural paraphernalia by the 90s had grown too complex - both the horizontal as well as vertical lines of command were beyond comprehension for a layman. Hence, an attempt was made in 1993 to reorganise the IFC in order to enable increased responsiveness and greater transparency in the layout of the organisation. Heading the 5 major departments within the Corporation (legal, finance & planning, operations, capital markets, business development) were their Vice-Presidents who were responsible for the operations and activities within their jurisdiction. Besides the 5 regional investment departments (Sub-Saharan Africa, Asia, Europe, Latin America & the Caribbean, and finally, Central Asia, Middle East and North Africa) 4 specialist divisions were created in areas where the IFC could make a strong developmental contribution i.e. agribusiness, chemicals & petrochemicals, infrastructure, and energy & mining. These departments were to aid the Corporation in developing regional strategies closely attuned to the specific needs of the different regions. Providing operational support were the Legal Division, Technical & Environment Department, Economics Department and the Special Operations Unit which was responsible for helping companies in IFC's portfolio which were experiencing serious difficulties. The Business Development Office initiated ideas for IFC operations in all areas except capital markets besides handling most of the promotional activities. Forming the Backbone of IFC's organizational set-up were the traditional departments of Finance & Planning and Personnel Administration. The chart on the following page illustrates the structural organisation of the Corporation as of 1993.

The outlook for the decade of the 90s is for continuing strong growth in IFC operations. As more Governments rely on market forces to drive economic growth and as the private sector evolves at different rates in different regions the Corporation will continue to grow, adapt, and diversify its activities to meet the needs of its developing member countries. The IFC has, undoubtedly, come a long way since it began operations in the 1950s but much more needs to be done if the Corporation has to fulfill its charter obligations laid down by the founding fathers. As the poet Robert Frost says,

"The woods are lovely, dark and deep,
but I have promises to keep.
And miles to go before I sleep,
and miles to go before I sleep."

IFC ORGANIZATIONAL LAYOUT (1993)



[SOURCE : IFC ANNUAL REPORTS]

CONCLUSION

Launched over three decades ago amidst much fanfare, the International Finance Corporation in its thirty-eight years of existence witnessed phenomenal growth and expansion in its operations and activities. The IFC has graduated from being a small and relatively inconsequential player in the field of International Finance to be a robust and viable multilateral financing institution assisting the private sector investment climate and private sector development in its developing member countries. Commencing operations with 31 countries and a subscribed capital of $78 million, the Corporation at the close of the decade of the 1980s had at its disposal a paid-in-capital of almost $1 billion from 133 member countries. Besides, substantial borrowings from the international market established the credibility of the organisation to raise finance on its own accord without relying heavily on the World Bank. Further, investments rose substantially since the formative years of the Corporation with the average commitment ranging between $20-25 million while a substantial portfolio diversification was also achieved. The range of services offered by the Corporation also expanded in accordance with the changing needs of the developing countries - the IFC has to its credit several new and innovative features which it created time and again to meet the exigencies of its own needs (for profitable avenues) as well as its clients' needs, in congruence with the global economy.

Would it then be correct to say that the Corporation has lived up to the expectations and aspirations of its developing member countries especially with respect to its own stated mission and objectives ? The answer to my mind is a most emphatic "no" despite IFC's several laudable achievements achieved over a span of several fairly consistent years of operation. The detailed expositions of the previous chapters throughout the course of this work has highlighted time and again why the IFC has essentially not been able to keep to the path charted out by its founding fathers. At the very outset, the Corporation handicapped itself by the requirement of its Article of Agreement of investing in "sound enterprises" so as to accrue favourable economic returns. While economic viability in itself would be a just and necessary requirement, the IFC in practice has interpreted this to read "profits". Its near obsession with this goal rendered the organization useful in the main only to already well-established entrepreneurs and their ventures, and hence "development" became confined within severely narrow walls. This also gave IFC a reputation of being conservative and business-like instead of development-oriented which should have been the case. This tag has stuck to the Corporation throughout its existence.

Similarly, a principal charter obligation of the IFC was the promotion and encouragement of the private investment climate in the poorer nations of the World economy. But more often than not, the reverse seemed to be true as the Corporation usually swayed towards a favourable investment climate prevailing in certain parts of the globe to the point of ignoring the needs of the economies in trouble. The Corporation gave more importance to its own resource generation rather than contribution to growth and development.

Further, assistance for private sector development, also supposedly a primary concern of the Corporation, suffered from the inadequacy of IFC commitments to the overall developmental needs of the poorer nations. The quantum of IFC financing was by itself too minuscule to aid and assist the growth of private sectors in the Third World and hence its efforts towards mobilizing other sources of finance through participations and sales of matured investments. The Corporation's record in this field too was far from being a runaway success . The years of the debt crisis witnessed scepticism by private investors who were extremely reluctant to risk their capital despite the Corporation's presence in the venture. Vigorous efforts, new initiatives, and a reorientation of the Corporation's mobilization efforts proved to be of relatively little importance. Therefore, in an effort to sustain its own sound financial position the IFC drastically reduced its undertakings and commitments worldwide and improved its bottom line by a stricter supervision of its portfolio. Much to the chagrin of the poorer nations who under a financial squeeze were looking hopefully at the IFC for a redemption of their heavy debt burden, the Corporation not only froze its investments but also made fewer equity investments as compared to loan financing.

Another frequent charge levelled by the critics was that the Corporation in its search for profit maximization ventured usually into sectors heavily subsidized with high effective tariff protections - an accusation upheld by the Pearson Committee Report. This largely explains the unduly large share of manufacturing in IFC's portfolio since it began operations in 1957. For instance, why else did the Corporation concentrate in India on industries with over 70% tariff restrictions ? Collaborating with the Government and of course the large industrial houses the IFC in effect therefore benefited in a major way from the monopolies in existence in most developing countries.

Hence, it can be argued that IFC, in the course of its operations, has behaved more like a commercially oriented bank rather than (or in the garb of) a development bank. In very rare cases only, for example, were IFC investments preceded by an analysis of their impact on the economy as a whole. Most projects in which it participated contributed only marginally to economic development and therefore in essence, profitability was the principle investment criteria, albeit thinly camouflaged by its alleged concern for economic development.

Viewed against such a backdrop it becomes clear that while IFC in itself has progressed rapidly and creditably, these encomiums would not apply if it is really measured against the objectives with which IFC has been set up. It is also clear that considerng that it is the power structure of the new world order which largely controls IFC's own power strings, IFC's role will increasingly be brought to serve the interests of those who command this eco-politico structure, which may not always be of optimum developmental value to the developing countries, as is already evident. While it may be impractical to expect IFC to suddenly change its ways, it does need to redefine priorities such that its credibility as an organisation for development is established without significantly disturbing its economic viability. It is here that the main potential for significant contributions by IFC in the future really still lies.

As the winds of change blew across the globe particularly in the developing economies since the closing years of the 1980s, the unleashed forces of privatisation led to a dismantling of bureaucratic controls on private investment. With a view to wooing increasing amounts of private foreign capital inflow most of these countries strove to establish a more conducive climate for private foreign investment through a range of new incentive policies and programmes. Responding to such Government overtures is a major challenge before the Corporation in fulfilment of its basic objectives. How

IFC reacts to this favourable development together with the enthusiasm aroused among other foreign private investors in the West would have an important bearing on the path the Corporation would traverse in years to come. While an appreciative beginning has been made, whether a sustained momentum would be forthcoming in future is anybody's guess. And waiting with trepid anticipation are the business entrepreneurs of the developing countries with their Hamletian dilemma,

"To be or not to be,
that is the question ..... "

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