

# INTERNATIONAL FINANCIAL CORPORATION (IFC)

## INTRODUCTION

The International Finance Corporation (IFC) is an international financial institution that offers investment, advisory, and asset-management services to encourage private-sector development in less developed countries. The IFC is a member of the World Bank Group and is headquartered in Washington, D.C.. It was established in 1956, as the private-sector arm of the World Bank Group, to advance economic development by investing in for-profit and commercial projects for poverty reduction and promoting development. The IFC's stated aim is to create opportunities for people to escape poverty and achieve better living standards by mobilizing financial resources for private enterprise, promoting accessible and competitive markets, supporting businesses and other private-sector entities, and creating jobs and delivering necessary services to those who are poverty stricken or otherwise vulnerable

Since 2009, the IFC has focused on a set of development goals that its projects are expected to target. Its goals are to increase sustainable agriculture opportunities, improve healthcare and education, increase access to financing for microfinance and business clients, advance infrastructure, help small businesses grow revenues, and invest in climate health.

The IFC is owned and governed by its member countries but has its own executive leadership and staff that conduct its normal business operations. It is a corporation whose shareholders are member governments that provide paid-in capital and have the right to vote on its matters. Originally, it was more financially integrated with the World Bank Group, but later, the IFC was established separately and eventually became authorized to operate as a financially-autonomous entity and make independent investment decisions. It offers an array of debt and equity financing services and helps companies face their risk exposures while refraining from participating in a management capacity. The corporation also offers advice to companies on making decisions, evaluating their impact on the environment and society, and being responsible. It advises governments on building infrastructure and partnerships to further support private sector development.

The International Finance Corporation (IFC) is an organization dedicated to helping the private sector within developing countries. It provides investment and asset management services to encourage the development of private enterprise in nations that might be lacking the the necessary infrastructure or liquidity for businesses to secure financing.

The IFC was established in 1956 as a sector of the World Bank Group, focused on alleviating poverty and creating jobs through the development of private enterprise. To that end, IFC also ensures that private enterprises in developing nations have access to markets and financing. Its most recent goals include the development of sustainable agriculture, expanding small businesses' access to microfinance, infrastructure improvements, as well as climate, health, and education



policies. The IFC is governed by its 184 member countries and is headquartered in Washington, D.C.

## **OBJECTIVES**

IFC's objective is to assist economic development by encouraging the growth of productive private enterprise in its member nations, particularly in the underdeveloped areas.

**Thus, it laid down the following objectives:**

1. To invest in productive private enterprises, in association with private investors, and without government guarantee of repayment, in cases where sufficient private capital is not available on reasonable terms.
2. To serve as a clearing house to bring together investment opportunities, private capital (both foreign and domestic) and experienced management.
3. To help in stimulating the productive investment of private capital, both domestic and foreign.

## **WORKING:**

The IFC considers only such investment proposals whose objective is the establishment, expansion or improvement of productive private enterprises which will contribute to the development of the economy of the country concerned. Industrial, agricultural, financial, commercial, and other private enterprises are eligible for IFC financing, provided their operations are productive in character.

The IFC is authorised to invest its funds in many forms it deems appropriate, with the exception of capital stocks and shares. It does not

have a policy of uniform interest rates for its investments. The interest rate is to be negotiated in each case in the light of all relevant factors, including the risks involved and any right to participation in profits, etc.

IFC makes investments only when it is satisfied that the enterprise has or will have experience and competent management and it looks to that management to conduct the business of the enterprise. It does not itself assume responsibility of managing the enterprise.

In India the IFC has so far made six investment commitments totaling over \$ 7 million.

However, the actual working of the IFC has been rather slow. That there is great scope for its work is quite evident from its resources and investment portfolios. It is hoped that IFC will in future be more fully able to play a dynamic investor's role in the economic development of the poor nations.

## **FUNCTIONS OF INTERNATIONAL FINANCE CORPORATION (IFC)**

The purpose of IFC is to further the economic development by encouraging growth of private enterprise in member countries particularly in less-developed areas, thus supplementing the activities of the IBRD. The IFC, therefore,

(i) invests in private enterprises in member countries in association with private investors and without government guarantee, in case where sufficient private capital is not available on reasonable terms;

(ii) seeks to bring together investment opportunities, private capital of both foreign and domestic origin, and experienced management, and

(iii) stimulates conditions conducive to the flow of private capital, domestic and foreign, into productive investments in member-countries.

The IFC makes advances in the form of long-term loans or invests in equity shares in a wide variety of productive private enterprises in developing countries. It particularly encourages joint ventures between developed and developing countries, the technical skill available with the former combining with the resources available with the latter. The project which IFC proposes to assist should be an economically viable unit and beneficial to the economy of the member-country.

Normally the financial assistance from the IFC for a unit would not be less than \$ 1 million and not more than \$ 20 million. Further IFC's investment normally does not exceed 50% of the total investment of the enterprise. In case of its investment by equity contribution, it does not exceed 25% of the share capital. The interest charged on advances varies depending upon proposal and stature of the borrower