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B.A Part -2
Paper-3
Topic :International Finance Corporation (IFC)
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International Finance Corporation (IFC):

Introduction :

International Finance Corporation (IFC) is the private sector arm of the World Bank. There were two glaring shortcomings related to the IBRD lending. First, it provides loans only to the member countries on the basis of the guarantee of member country. Second, the World Bank could provide fixed interest loans and not the equity capital. The need was, therefore, felt to institute a specialised financial agency to provide capital to the private sector enterprises in the developing member countries.

Consequently, the International Finance Corporation (IFC) was set up in July **1956**. Its specific object is to finance the private sector projects in the less developed member countries. The World Bank draft of the IFC describes it as "an autonomous international institution designed to stimulate growth in its developing member countries, by investing in productive enterprises in association with private capital and management and without any government guarantee".

The main objectives of IFC :

(i) To undertake investment in productive private enterprises, in association with private investors and without government guarantee in respect of repayment of loans in cases where sufficient private capital is not forthcoming on reasonable terms.

(ii) To act as a clearing house for bringing together investment opportunities, private capital of both domestic and foreign origin and the experienced management.

(iii) To stimulate productive investment of private capital of both the domestic and foreign origin.

Functions:

- 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.

<u>Membership and Organisation of IFC:</u>

As the IFC is an affiliate of the World Bank, all the member countries of the Bank are eligible for the membership of this institution. The organisation of IFC consists of a **Board of Governors, Executive Directors**. The Board of Governors of the World Bank also constitutes the Board of Governors of the IFC. The President of the World Bank is also the Chairman of IFC.

The Executive Directors of the World Bank represent the member countries also at the IFC. It is on the recommendations of the Chairman that the Board of Directors of the IFC makes the appointment of its President who is responsible for the conduct of its business. Although IFC remains under the general control of the World Bank in respect of its functions or activities, yet the charter of IFC mentions that it is an autonomous legal entity having its own separate funds and accounts.

<u>Initial authorized Capital of IFC:</u>

The initial authorized capital of the IFC was 100 million dollars. Each member country subscribes in proportion to its subscription towards the capital of the World Bank. So, it is clear that only the members of the World Bank can join the IFC. The capital base of the corporation can be expanded to borrow from the World Bank to the extent of four times its subscribed capital. The IFC is an autonomous body with its own Articles of Agreement, share capital, management and staff.

<u>IFC and India :</u>

IFC has made a substantial contribution in financing the private sector projects in the Indian economy. By the year ending June 1975, India received 52 million U.S. dollars for 11 private sector projects in the engineering, machine tools, chemicals, textiles and some other industries.

The Annual Report of IFC for 1993 acknowledged that there was “a sea change” in India’s policies during the recent years. A high IFC official is on the record saying “we are very positive about the investment climate in India”. In the fiscal year ending June 1993, IFC provided 80 million U.S. dollars to India by way of assistance to private enterprises. In the last few years, IFC’s contribution in developing India’s power structure and capital market has been significant.

India would require about 5 billion dollars to enhance its power generation capability which is expected to increase by 10 percent in the next three years. In the fiscal year ending June 1993, IFC approved 10 projects from India costing about 600 million U.S. dollars. In addition, it approved four technical assistance and advisory projects in India. In 2007; **IFC ranked**

India as the third largest economy of the world and made the commitment of S 1.05 billion to it for 2007.

In the financial year 2012-13, IFC invested $ 1.38 billion to achieve several strategic priorities such as promoting inclusive growth in country's low income states, addressing climatic change and supporting global economic integration. In June 2013, India accounted for $ 4.5 billion of IFC's committed investment portfolio, more than any other country.

IFC planned to raise $ 1 billion by selling rupee- linked bonds to help in strengthening of India's capital markets and to attract greater foreign investment in a time of renewed economic uncertainty across the world. In August 2014, IFC declared that it would raise $ 2.5 billion rupee-denominated bonds to support infrastructure development in India.

Criticisms:

The IFC has been criticized on the following grounds :

1. Less developed countries feel that the assistance they received from the IFC is inadequate and it is far below their expectations.

2. The interest charged by the IFC is somewhat high. It is higher than the interest charged by the IDA.

3. The conditions for loan imposed by the IFC are rather stiff. The IFC insists on repayment of loan only in terms of US dollars. But less developed countries always experience foreign exchange crunch.

4. Less developed countries find the investment policies of the IFC tough. For example, entrepreneurs in the borrowing countries have to meet 50% of the value of their projects