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B.A. Economics

B.A Part -2

Paper-3

Topic :International Finance Corporation 1st Lecture

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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 the 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 objective 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.

Membership and Organisation of IFC:

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, the charter of IFC mentions that it is an autonomous legal entity having its own separate funds and accounts.

Initial authorised Capital of IFC:

The initial authorised 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.