World Bank Group

The International Finance Corporation (IFC)

FY2002 Appropriation	FY2003 Request
$0	$0

The IFC is a member of the World Bank Group. Chartered in 1956, the IFC was created to promote private sector development, foreign investment, privatization, and efficient financial markets in developing countries. To this end, the IFC makes loans and equity investments in private sector projects in developing countries for its own account, mobilizes private capital alongside its own resources, and provides advisory and technical assistance to advance the development of the private sector.

For FY2003, the Administration is not requesting any funding for the IFC.

Key Facts

- The United States is the IFC's largest shareholder, owning 24% of IFC's capital.
- IFC is financially strong and maintains a AAA credit rating. This rating allows the IFC to leverage its capital base by selling bonds, thereby increasing its ability to lend funds.
- Because the IFC is involved with private sector projects, it lends without a sovereign guarantee. Thus, the IFC is fully exposed to the commercial risks of its investments. For WBFY01, IFC's net income totaled $345 million.
- In WBFY01, IFC's Board approved $5.4 billion in new investments in 205 projects.
- At the end of WBFY01, IFC's disbursed portfolio totaled $10.9 billion, consisting of $8.2 billion in loans and $2.7 billion in equity investments.
- In addition to its operations, IFC operates a B-loan program under which IFC co-finances projects with commercial banks and other financial institutions, thus enabling IFC to leverage its resources. At the end of end WBFY01, commitments under the B-loan program totaled $7.5 billion.

Supporting U.S. Objectives

IFC continues to make a special effort in Sub-Saharan Africa, and other areas such as Central Asia, the Pacific Islands, the Balkans, and the Middle East, which have not yet been able to attract substantial inflows of private capital. IFC's June 2001 "Strategic Directions" paper calls for several measures to ensure that IFC operations focus on frontier markets, and do not displace private sector involvement.

- IFC is seeking greater involvement in high-risk "frontier" markets (i.e., Sub-Saharan Africa, Central Asia, the Pacific Islands, the Balkans, and the Middle East). IFC has placed more investment officers on the ground in these countries and has added an investment officer dedicated to Sub-Saharan Africa in each of its sectoral departments. The Director for the Middle East /North Africa region is now based in Cairo, which has increased the volume of projects in the region.

- IFC is increasing its activities in Jordan by helping to finance infrastructure investments and businesses that will benefit from the new U.S./Jordan Free Trade Agreement.

- IFC continues to be involved in promoting small and medium-size enterprises (SMEs) and promoting private sector support for infrastructure, financial sector, environment, and social sector projects. IFC directs its financing to SMEs through local financial intermediaries in order to leverage its resources efficiently and develop the capacity of local financial institutions. In WBFY 01, the IFC approved $751 million funding to small and medium enterprises.

- IFC has worked with the World Bank to create a jointly managed SME department which helps small businesses and financial institutions to become more competitive and to adopt new lending techniques and technology.

- IFC also manages five regional facilities funded by IFC and bilateral donors. These facilities completed 102 advisory projects to help individual SME improve their businesses and create 6,800 jobs. The total cost of the advisory services was $101 million.

- IFC has played a key role in designing a private sector development strategy for the World Bank Group as a whole. This strategy will encourage more collaboration between IFC and the World Bank lending and policy advice to developing countries. The pay-off for IFC is greater effectiveness in promoting private sector development in developing countries and, more broadly, better leverage of Bank Group resources.

- IFC and the World Bank have formed joint "global product groups" in sectors such as telecommunications, mining, and oil, gas and chemicals, to combine the expertise of the two institutions. In addition, IFC and the World Bank jointly operate two departments, Private Sector Advisory Services and Foreign Investment Advisory Service, which advise governments on privatization, attracting foreign investment, etc.

Increasing Productivity

- IFC increases productivity in developing countries by financing investment in new capital equipment and basic infrastructure services such as transportation, telecommunications and electricity. IFC also plays a key role in privatizing state enterprises and developing efficient local financial sectors.

- In WBFY01, IFC arranged a $400 million financing package to support a $1.6 billion project to build and operate Medi Telecom, a second cellular operator in Morocco. Due to increased competition, by December 2000, the number of cellular subscribers in Morocco jumped to over 2 million from 280,000 in December 1999.

- IFC committed $12 million to refurbish Sofia Med, a copper-processing facility in Bulgaria. Upon project completion, employment is expected to increase from 200 jobs to 500 jobs.

Encouraging Development of Market-Oriented Economies

- Under the direction of Mr. Peter Woicke, Executive Vice President and Managing Director for Private Sector Development for the World Bank Group and the IFC, IFC has focused on promoting the development of sound regulatory, supervisory, and legal frameworks for the private sector in developing countries which have been affected by financial crises.

- In WBFY01, IFC and World Bank offered private sector advisory services to governments. Examples of this work include:

    - Cameroon: Lead advisor in successful privatization of SONEL, the electric utility.
    - Mauritania: Lead advisor in successful privatization of Mauritel, the national telecommunication company.
    - Brazil: Lead advisor in completed privatization of Port of Saupe.

- In WBFY01, IFC increased its efforts to attract new sources of financing for its clients, putting more focus on arranging local currency financing and partial credit guarantees. Committed local currency projects and partial guarantees in WBFY01 totaled $547 million up from $3.8 million in WBFY00, stemming from a new emphasis on partial credit guarantees which, in turn, catalyzed new local currency financing.

- IFC's $32 million guarantee helped an Indian company to issue a 10-year rupee bond in local markets, the longest bond tenor that an Indian corporation without a AAA rating has ever received in the local market.

- IFC issued a $6 million partial guarantee to support the introduction of mortgage backed bonds in Peru for sale to local institutional investors, helping to develop Peru's capital markets and to increase funding available for mortgage finance.

- IFC's engagement with "frontier" countries is instrumental in increasing the Bank Group's effectiveness in promoting private sector development and reducing poverty.

Efforts to Improve Internal Controls

- While the creation of joint World Bank/IFC units creates many opportunities for more effective interventions to promote market-oriented economies, it also poses some risks as World Bank and IFC clients are not the same. Thus, the Bank Group's Board requested that procedures for managing conflicts of interest between Bank and IFC staff be developed. Bank Management has drafted such procedures as well as a new office to mediate such conflicts (i.e., Conflicts of Interest Office).

- Coverage of the World Bank's Anti-Corruption and Fraud Investigation Unit and telephone hotline was expanded to cover the Bank Group, thus including the IFC.

Efforts to Improve Information Disclosure

- In an effort to be more accountable to local people potentially affected by World Bank Group private sector projects, IFC and MIGA created a new vice presidential level position, Compliance Advisor/Ombudsman (CAO) in July 1999. The CAO reports directly to the Bank Group president, addressing external complaints and advising IFC/MIGA management on sensitive environmental and social issues. In June 2001, the CAO began a review of the IFC safeguard policies that were issued in 1998. The approach paper for the ongoing review has been released publicly and the final report will also be released to the public.

- In WBFY01 IFC provided 80 percent of the CAO's $1.3 million budget

- In June 2000, for example, the CAO reviewed a case in Peru involving a mercury spill by a truck belonging to a contractor of Minera Yanacocha SRL (MYSRL), which is Latin America's largest gold mine and is owned by IFC, Newmont Mining Corporation of Denver, Colorado, and Minera Buenaventura of Peru. The investigation was supported by a team of experts in the fields of environmental management of mines, eco-toxicology with specific reference to mercury, and in the fields of human health and disaster management. The CAO returned to Yanaconcha in July and October 2001 for public dialogues in order to hear local citizens' views of the project.

- Building on the 1999 agreement to make IFC independently produced evaluation reports publicly available, the IFC's Operations Evaluation Group publicly released abstracts of the results of its annual review of IFC projects for fiscal years 1998, 1999 and 2000 as well as four abstracts of sector studies. Guidelines and instructions used by staff for the evaluation of individual investment projects are now also publicly available at www.ifc.org/oeg.

Responding to Financial Emergency

- <u>Turkey</u>: IFC provided long-term financing to private manufacturers who have been unable to access commercial financing because of national economic problems.

- Brazil: During WBFY01, IFC provided a $40 million credit line to support lending to medium-sized export-oriented companies.

- Macedonia: IFC provided $4.3 million in funding to Komercialjalna Banka A.D. Skopje for an on-lending facility to small and medium sized enterprises.

Education

- IFC's committed portfolio in the social services sector, which includes health and education, grew by 415 percent from $24 million in WBFY00 to $124 million in WBFY01. This rapid growth reflects the IFC's new emphasis on lending to the social sectors.

- IFC provided a local currency credit guarantee to a new private student loan program sponsored by an Indian technical institute and Citibank.

Coordination with other IFIs

- As part of its plan to increase SME support in Russia and the NIS, the IFC has increased coordination with the EBRD to eliminate funding overlap, identify areas of joint expertise, and apportion resources efficiently in joint funding situations.

- IFC now offers workshops for financial institutions on assessing and managing environmental risk jointly with the AsDB, AfDB, EBRD and the IIC, which is part of the IDB.

Project Effectiveness

- In 1995, the Operations and Evaluations Group (OEG) was created at the IFC as an independent evaluation unit. OEG, which maintains an independent relationship with IFC operations and Management, reports through the World Bank's Director-General for Operations Evaluation, to IFC's Board. OEG shares its findings with the IFC Board and Staff.

  In its WBFY00 Annual Review, presented to the Board in 2001, OEG found in a sample of 176 evaluated operations that:

  - There was a continued strong correlation between high developmental impact and profitability; 69 percent of sampled projects had both high development outcomes and high investment outcomes.

  - In 61 percent of the sample, the economic rate of return to society of the project was higher than the financial rate of return to the private investors.

  - Seventy-four percent of projects contributed to local private sector development.

- Over the long run, more active IFC engagement in high-risk countries and targeted sectors is likely to yield still greater development impact.

Core Labor Standards

- In 1998, IFC adopted World Bank Group policies that prohibit the use of harmful child labor and forced labor in their projects. The policies also require adherence to all domestic laws concerning core labor standards. The IFC is in the process of developing additional labor protection measures, including:

  - Preparation of a guide on harmful child labor, to assist borrowers to eliminate harmful child labor in their own and their suppliers' operations.

  - Health and safety guidelines in IFC-funded projects, particularly large-scale civil engineering projects. The IFC currently has such guidelines, but these are being updated. Regulation of workplace safety and health by government authorities is often inadequate, especially in less-developed countries.

Corporate Governance

- The IFC Private Enterprise Partnership operates technical assistance programs to improve corporate governance in Russia, Ukraine and Armenia.

- The IFC collaborated with the World Bank and OECD to organize the first meeting of the Latin American Corporate Governance Roundtable. These efforts addressed the need to improve corporate governance (minority shareholder rights and financial statement transparency) in Latin America, where international investors (mainly U.S. and European companies) have often lost out to majority shareholders in corporate takeovers.

Efforts to Support Environmental Goals

- The IFC has had procedures for environmental assessment and management since the early 1990's. In 1998, IFC's policy and procedures were updated and harmonized with those of the World Bank Group, following public consultations. Its Environmental and Social Review Unit examines potential projects for their effects on the environment and the people in the project area. For projects with significant environmental effects, environmental impact assessments (EIAs) and environmental management plans are required. Some projects entail the preparation of resettlement or indigenous peoples' plans.
- Financial intermediary clients must demonstrate their capacity to assess environmental risks of sub-projects or make plans to develop that capacity. Where the IFC is unsure about its clients' capacity, it may require that it give prior approval on sub-projects.

- The IFC engages in capacity building that helps clients improve their ability to evaluate and manage environmental and social issues. IFC staff assists small and medium-size enterprises in analysis and planning, and, if needed, mobilizes outside technical assistance to support those typically inexperienced clients. The Financial Markets Environmental Services Unit holds workshops to build environmental capacity in financial institutions. The workshops, which are held on a quarterly basis, help banks, funds, leasing companies, venture capital firms and other financial organizations learn to:
  - Assess the strategic rationale for environmental and social management.
  - Perform cost-effective environmental and social risk management (ESRM) of investments.
  - Implement value-adding environmental and social management techniques institution-wide.

- IFC is now offering and/or planning workshops jointly with other development institutions including the AsDB, AfDB, EBRD, the IIC, which is part of the IDB, and bilateral institutions.

- The Environmental Projects Unit (EPU) develops innovative, private-sector projects with environmental benefits, and mainstreams those investments within the private sector and IFC. It also works to integrate active consideration of environmental opportunities into each stage of IFC's project-processing cycle, thereby improving the sustainability of resource use ("ecoefficiency") in IFC's investments. EPU collaborates with the Global Environment Facility and other institutions to finance projects.

Opportunities for U.S. Business

- In WBFY2000, the IFC committed $277.2 million in equity and $2 million in loans for projects in which U.S. firms were involved.