

Funkenberg, Alexander

Article — Digitized Version

## The International Finance Corporation

Intereconomics

*Suggested Citation:* Funkenberg, Alexander (1968) : The International Finance Corporation, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 03, Iss. 3, pp. 82-85, <https://doi.org/10.1007/BF02930302>

This Version is available at:

<https://hdl.handle.net/10419/137901>

### Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

### Terms of use:

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

ference between the size of this co-efficient considered in the short or in the long-term. In the short-term, it is very often correct that buyers pay a higher price without cutting down on the quantities purchased. On the other hand, if the price is held artificially high over a longer period, the substitution process becomes more apparent. Aluminium is used in place of copper. Consumer habits change and a new food replaces a relatively expensive one. Technical progress is encouraged to produce substitute goods.

May be not all producers are in the cartel; outsiders then have an opportunity to take advantage of the situation which has been created; they expand production and increase their market share by slightly undercutting the cartel prices. When this happens, certain cartel members may be induced to break the discipline imposed upon them. In short: competition and technical advance are reactivated, in the long term, to protect consumer interests. They ensure that organised suppliers cannot carry exploitation too far; they are forced to take stock of how far they can go and this ensures a certain moderation.

None of this detracts from the diagnosis that, in the above case, a mighty organisation, because of the power it wields, is able to fix trading conditions to benefit its members, in such a way that the equilibrium between performance and counter-performance is upset, that a free market would bring about. It is no wonder, therefore, that it is considered essential for international agreements on staple goods to take sufficient account of consumer interests—perhaps in the form that producer and consumer countries should have equal representation in the official body. If no provision is made for the representation of the “forgotten factor”—the consumers—the opposing party may well impose a compulsory levy upon this group, without it having any explicit right to make itself heard. This is definitely contradictory to all tenets of justice. Where a unilateral cartel policy is pursued, the temptation is all too great to set the price higher than that justified by the long-term level of equilibrium—with the obvious consequence that sellers are forced to take various control measures, so that what was, perhaps, originally a harmless price cartel may become a quantity cartel with production quotas.

## DEVELOPMENT AID

# The International Finance Corporation

by Alexander Funkenberg, Frankfurt-on-Main

According to Article I of the Agreement on Forming the International Finance Corporation (IFC), it will be the task of this Corporation to assist economic development by promoting productive private enterprise in the member countries, especially in the less highly developed areas. The fact that twelve years have already passed from the moment of creating an efficient instrument for actively supporting private economic initiatives, which at the same time may be suitable for helping to set up national capital markets and to revive international capital movements, is ample justification for a thorough discussion of the activities of this subsidiary body of the World Bank. It can, moreover, be proved that the IFC, in almost all the cases where it has intervened, has been very successful, and therefore it seems amazing that hardly anything has ever been published about its activities.

### The IFC's Tasks

Among the most important fields of operation for the IFC are the acquisition of capital shares in private companies and the granting of long-term loans. The Corporation, incidentally, makes its investments under conditions designed to attract private investors to sink additional funds in the same ventures, which would permit the Corporation to sell its capital interest, provided an acceptable price will be offered.

If and when such transactions are possible, the IFC's funds will be enabled to revolve and thus to spread their influence widely.

IFC also issues standby credits and underwrites guarantees supporting the launching of share issues, and it lastly also assists privately financed development banks both financially and technically. The moment when IFC becomes active arrives when help needed by a company for financing its activities or a particular venture can no longer be mobilised by a local bank or in its own national capital market. Among the forms of financing used by IFC are direct investments, credit lines upon which the debtor may draw, and the underwriting of share issues, as well as similar forms of financing.

It is worth-while emphasising that IFC will never interfere, or take part, in managing a company or corporation accepting an IFC credit. Management tasks are always left to IFC's partners in the project supported. Generally, IFC will not take a higher interest in any company's share capital than 25 per cent, nor will the Corporation ever become a majority shareholder. IFC does not ask for, nor will it accept, government guarantees for the redemption of its credits or investments. For this reason IFC is precluded, by its charter, from investing in state-owned or state-run concerns. On the other hand, IFC is not pre-

vented from taking up an interest in a company in which a government is a minority shareholder. IFC will also always inform the member government involved about plans to invest in its territory, asking specifically whether there are any objections to its investment project.

#### **The IFC's Funds**

The list of tasks to be tackled by IFC is highly diversified, and the funds at its disposal for tackling them were initially very modest. The number of IFC members has grown to 86, and these 86 states, collectively, have brought in a capital of about \$ 100 million, which does not enable IFC to develop delusions of grandeur. However, sound investment practices and well-planned utilisation of repayments and revenues have enabled IFC to operate successfully.

This emerges from the fact that the Corporation, in eleven years of its operations, has been able to promise advances to more than 100 companies in 36 countries for financing a total credit sum of \$ 221.4 million. Deducting from this grand total lapsed credits and redemptions of advances made that were called in, total advances promised by IFC came to \$ 209.9 million. The entire funds available amounted to \$ 310.4 million, which means that by June 30, 1967, the end of the Corporation's last trading year, a balance of \$ 100.5 million was still available for new advances. However, it must not be forgotten that among the funds available to the Corporation there were the proceeds of the World Bank's first loan issue of \$ 100 million.

In 1966/67, the latest year under review by the IFC, promised advances have reached an all-time high of \$ 49.1 million, against \$ 35.6 million in the previous year. During 1966/67, IFC remained eager to cooperate with private investors both in developed and in less developed countries. Almost in all cases, such investors did not only have capital of their own but they also possessed technical skill and the corresponding know-how. The growth of business during the year under review thus resulted in the accumula-

tion of considerable capital funds mobilised by private investors for their projects, to which IFC contributed by its financial help.

The loan of \$ 100 million granted to IFC by the World Bank was an innovation, made possible only by an amendment to the Charters of the two institutions, which providently had already been adopted two years earlier. This testifies to the wise foresight of the World Bank's management, which the directors have practised also in other cases. Through these amendments, IFC has been authorised to borrow from the World Bank sums up to four times the aggregate of its own unused share capital and of its accumulated profits. If these borrowing powers are fully used, monies of no less than about \$ 400 million become available to the Corporation. On the other hand, without this credit line, of which the Corporation has so far used only \$ 100 million, it would not have had at its disposal even one million dollars at the end of its last trading year.

Through thus mobilising for itself funds of the World Bank, IFC has been empowered to operate more flexibly and efficiently in providing risk capital for private enterprise. Its improved liquidity naturally enables it to engage in much more voluminous and diversified transactions. For example, until recently, the upper limit for individual advances to be made by IFC lay between \$ 5 and 6 million, but now, already three advances of the order of \$ 10 to 12 million have been issued. In addition, IFC also, for the first time, took part in financing a non-profitmaking social institution assuming the form of a joint-stock company, and as another "first", it assisted in financing a business in the field of tourism.

#### **Projects in Highly Capitalised Industries**

The Corporation has thus been strengthened materially to a high degree, and at the same time it has become much more flexible and adaptable, which both places it in a much improved take-off position for financing larger projects in highly capitalised industries, including fertilizer production, petrochemicals, cement kilns, and also iron and steel produc-

## **ERNST RUSS**

Shipowner & Shipbroker  
Agencies & Insurance  
Established 1893

**Hamburg 36 · Alsterarkaden 27**

Phone: 36 12 71    Telex: 02 14435  
Cables: REEDERRUSS

Worldwide trading including North Sea and Baltic with own tramp-vessels

Own liner services from Hamburg to Finland and West Norway and from Benelux-Ports to Sweden

Liner agents for Finland, US-Gulf and Canada / Great Lakes

Worldwide Chartering

Speciality: Tanker- and Reefer-Chartering

**Purchase and sale of ships**

tions. It therefore is very reasonable that IFC pays particular attention to increasing fertilizer production in developing countries, and this is to be greatly welcomed as it will lay the solid foundations for an increase in food production, which is absolutely indispensable. Cheap fertilizers will always find their marketing outlets, and this enables the fertilizer industry to grow rapidly and vigorously. Foreign investment funds will therefore find particularly attractive fields of operation in these industries.

IFC was thus fully justified in extending larger credits than to any other industry to fertilizer manufacturers during its last trading year. Financing agreements have been signed with three new fertilizer plants, one each in South America, in Africa, and in Asia. The largest of the three projects is one for Brazil. Its owner and operator, Ultrafertil SA, has obtained finance from IFC in the form of share capital and credit advances to a total of \$ 10.658 million. Ultrafertil's plant, to be built not far from the harbour town of Santos, will be one of the largest South American producers of fertilizers and will mainly serve the expansion and improvement of Brazilian crops. The importance of such growth is clear in view of the fact that Brazil's population, now consisting of about 80 million people, is increasing by about three per cent annually. Moreover, Brazil will be able to save considerable amounts of foreign currency, once the new fertilizer plant is running.

In Senegal, IFC has joined private investors from France, from Senegal itself, and from West Germany (the Salzdetfurth AG fertilizer concern) in financing the construction of a plant producing both superphosphates and processing the pure phosphates, which are mined locally, and compounding them with imported ammonia, potash, and sulphur. Finally, IFC took over shares of an Indian concern owning and operating a nitrogenous fertilizer plant, and also extended a credit to the same company. If the growth of the Indian population progresses along predicted lines, since attempts at family planning have not yet produced visible results there, Indian consumption of nitrogenous fertilizers ought to be more than quadrupled by 1970/71, in order to safeguard sufficient indigenous food production.

#### **Increased Financial Mobility**

The largest single financing promise of IFC has hitherto been issued to the biggest power station project in the Philippines. In this case, the Corporation has agreed to take up shares of the public utility in question for about \$ 4 million, and also to grant the company a long-term loan of \$ 8 million. This is supplementary to aid extended by the World Bank, which has granted the state-owned National Power Corporation of the Philippines several loans and advances totalling \$ 70.7 million.

Such instances illustrate the increased financial mobility of IFC, which also enables it to cooperate with the World Bank in financing big industrial entities.

Such financing will follow existing patterns that have evolved in companies for development financing, co-operating with the World Bank, when IFC contributes share capital and the World Bank the loan funds. IFC, in addition, will always let its own contribution be determined by the volume of private funds channelled into a project, and by the amount of its own investments which it can sell to private investors.

Of special importance are these background conditions in all those countries claiming assistance where government interference in the economy threatens to lead to an overwhelming share of "public sector" operations, resulting in an economic system which suffocates the development of free enterprise.

Following a tradition which the World Bank has established in scrutinising projects, also IFC is obliged to begin by investigating any new project under the two main headings: is it worth-while to assist it, and has it a genuine chance of success? It may be stated that IFC increasingly tends to support only projects which already enjoy the support of a certain proportion of private capital, or whose chances to obtain private financing are favourable. In all countries whose capital market is tolerably well developed, IFC usually lays it down as an indispensable condition for making its own financial assistance available that the promoters and founders of any venture will promise to offer for purchase their shares to local investors, unless the local public has already taken up shares in the company. In certain cases, IFC earmarks part of its own share-holding for selling it to local investors. This has especially been the case in such countries where virtually no capital market exists, and where the level of savings is low, so that it is difficult to persuade the general public to take up shares in a company that is still in its birth throes.

#### **Germany Taking Part**

Paid-up capital of the IFC amounts to \$ 99.929 million, to which the Federal Republic of Germany contributed \$ 3.655 million placing the country fifth in rank among the 84 members and subscribers of the Corporation. In addition, also direct investments of IFC have established interesting connections between the Corporation and Germany. As early as 1957, the first of all direct investments made by IFC was granted to the Brazilian Siemens subsidiary, which received \$ 2 million.

This cooperation between IFC and Germany has continued ever since, along three different routes—by direct investments, succeeded by depositing funds in development banks, and finally, by taking up share capital and participations through IFC. In Asia, a very early debtor of IFC was the Steel Corporation of Pakistan, which was granted a loan of \$ 630,000 in 1958. The German Klöckner Group, of Duisburg, which supplied machinery and equipment for enlarging production capacity, held an interest in the Steel Corporation's capital. In 1967, IFC contributed \$ 1.370

million to the equity of the Turkish SIFAS company, and to loan capital employed by that firm, SIFAS manufactures nylon yarns for the Turkish textile industry. Hans J. Zimmer AG is a shareholder in SIFAS, and BASF is affording it technical aid.

As tourism has been gaining growing importance for developing countries, IFC has not hesitated to show an interest in this field. A hotel company in Kenya has become the first object of such financing. This company, newly formed for building a hotel of the international class at Nairobi, is to take part in setting up a number of hunting bungalows and lodges in Kenya's National Park. Overall capital requirements of this project have been estimated to be in the neighbourhood of \$ 6.6 million, and among the shareholders are US, UK, German, and local groups. During the past six years, tourism in Kenya, incidentally, showed an average annual growth rate of 18 per cent, and it has become, after the coffee plantations, the second most important source of foreign currency income.

#### **Support Extended to Development Banks**

Finally, it may be of interest to hear of an industrial partnership that was formed for setting up a papermill complex in Pakistan. Jointly with a local company, a German industrial consortium, including Feldmühle (paper), Krauss-Maffei (engineering), Siemens, and Escher-Wyss (Swiss engineering), is now engaged in the construction of a cellulose plant and papermill for an estimated total of \$ 25 million. The main raw material is to be "bagasse" (pressed sugarcane straw, a waste product of sugar refining). IFC has promised the project advances totalling about \$ 5.2 million, for which the underwriters are the National & Grindlays Bank Ltd., the Kuwait Investment Company, and the Dresdner Bank of Germany.

Deutsche Bank was the first German bank which, in association with other European and American credit institutes and the IFC, took up capital shares in the

Banco de Desarrollo Económico Español. Not much later, the German Commerzbank followed suit, and jointly with other private banks, the World Bank, and the IFC, it assisted the Industrial Finance Corporation of Thailand in its capital increase. The German Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation) contributed a loan of \$ 2.740 million. Four German banks jointly supported the Moroccan Banque Nationale pour le Développement Economique. They were: Deutsche Bank, Commerzbank, Dresdner Bank, and Westfalenbank. In 1967, Deutsch-Süd-amerikanische Bank (German—South American Bank) provided part of the funds needed for increasing the capital of the Caja Venezolana de Desarrollo. Other German private investors hold an interest in this development bank through Hoechst Farbwerke.

It has also to be stated that a number of German banks and industrial concerns have taken up capital shares in development banks for their own, independent account, alongside with the World Bank and the IFC which made capital available to the same banks. And, in the context of IFC selling some of its holdings, it is noteworthy that German banks have taken up part of IFC's former investments in Finland, Colombia, Mexico, and Spain, adding up to a total of about \$ 796,000.

Being an institution which combines the tasks of an investment bank with those of an agency for development financing, the International Finance Corporation has been often able to supplement the World Bank's operations and giving it valuable support. Its credit ceiling having been raised also enables the IFC to come to the aid of projects of urgency in the interest of the economic community, whose profit chances are attractive enough for private investors to cooperate. In a free economy, such possibilities are of great importance not only under the aspects of economic policy. Mr McNamara, the president-designate of the World Bank, which also makes him the ex-officio president of the IFC, is facing important tasks in this context.

### **PUBLICATIONS FROM THE HAMBURG INSTITUTE FOR INTERNATIONAL ECONOMICS**

**In Preparation**

#### **FOREIGN AID IN THE ERA OF RISING EXPECTATIONS**

**by Karel Holbik**

American and Soviet development aid gives decisive impulses to the policies of the remaining industrialised nations towards the developing countries. The author of this publication compares the economic foreign aid policy of the USA and the USSR, and makes the surprising assertion that the economic aid policies of the two great powers are approaching each other in many fields.

**VERLAG WELTARCHIV GMBH · HAMBURG**