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THE ROLE OF THE INTERNATIONAL FINANCE CORPORATION
IN INTERNATIONAL JOINT BUSINESS VENTURES

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by

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I regard it a privilege to be taking part on behalf of the International Finance Corporation in this meeting today. Before I begin my remarks, let me take this opportunity to convey to you the good wishes of Mr. Martin Rosen, the Executive Vice President of IFC, whom many of you know from the days when he was Director of the Far East Department of the World Bank. This occasion is of particular interest to the World Bank Group, meaning the Bank itself and its two affiliates, the International Development Association (IDA) and IFC. In the developing countries, the Group as a whole is intimately concerned with the growth of industry and other private enterprise, for which it has provided over $1,800 million in financing so far. In particular, the Group regards joint international business ventures as a unique method of blending foreign capital and technology with local experience and knowledge of markets.

IFC, which acts as the private enterprise arm of the Group and deals exclusively with private business and private investment, welcomes proposals for joint ventures and has on occasion acted as a kind of "marriage broker" in bringing partners together. Although IFC is a publicly owned institution, whose share capital of $100 million is subscribed by 81 member countries, it is the only institution of its kind that functions much like a private investment banker, providing risk capital and operating without benefit of government guarantee. Its role within the Group is an expanding one. Since this time a year ago, IFC has been responsible for handling the appraisal of all industrial and mining projects brought to the Group, regardless of whether the financing is being sought from the Bank, IDA or IFC itself. Recently, as you are probably aware, a major expansion has taken place in IFC's resources for investment. IFC is now permitted to borrow up to $400 million from the World Bank, and this holds out the possibility of increased opportunities for partnership with private investors in the countries represented here today.

For those who are perhaps not too familiar with IFC's methods of operation, let me mention briefly what IFC can do to assist private investors undertaking joint business ventures. Firstly, it makes direct investments, usually on a mixed loan and equity basis. Secondly, it makes underwriting agreements in connection with public offerings of shares or other securities. And thirdly, IFC helps to finance and establish private development finance companies, which it can join later in financing large-scale projects. IFC is completely flexible in the kinds of financing it can provide. It will provide financing to meet local currency expenditures as well as foreign exchange costs; it will finance working capital needs as well as the purchase of machinery and equipment. One other factor I should make clear is that IFC financing is not tied to procuring specific equipment or to a specific country.

So far, IFC has invested mainly in manufacturing industry -- steel, pulp and paper, textiles, cement, fertilizers, to name only a few. But IFC's area of interest is wider than industry alone: it takes in private enterprise in a broad sense. Let me cite some examples of what I mean from recent operations. In the last few months, IFC has financed a grain storage and warehousing company as well as a livestock fattening and meat slaughtering operation, both in Colombia. Elsewhere it is looking at hotel and other projects. In other words, IFC is quite pragmatic about the kind of enterprise it will consider for financing.

Many of the enterprises that IFC has financed are joint international ventures. In India, for example, IFC has helped to finance enterprises making cables, alloy steels and textile machinery where the local investors have had British, French and Swiss companies respectively as technical partners. In Pakistan, IFC has invested in companies producing steel products and packages and containers, where the ownership is jointly held by local investors in partnership with German and Swedish technical partners respectively. In Africa, IFC has also taken part in joint ventures between Japanese and local investors in textile companies in Nigeria, Sudan and Ethiopia.

IFC considers investment proposals from two points of view. First of all, it looks at proposals through the eyes of an investment banker. By this I mean that it looks to see how sound a project is and how profitable it is likely to prove; if the proposal needs to be strengthened, IFC will try to rework or improve it. When it comes to negotiating its investment terms, IFC has in mind its prime objective of attracting other private investors to participate with it. This is why it seeks to negotiate investment terms that will bring in other private capital and eventually allow IFC to sell its investment and roll over its funds. Once an investment is made, IFC stands ready to help the company, sometimes because the company is successful and expanding, sometimes because it faces problems and needs financial advice or assistance. But IFC is more than a private investment banker: it must look at proposals through the eyes of a development institution. Its investments must represent some economic priority to the country concerned. IFC must also be ready to act in situations where it can generate confidence in other investors by its presence and thus help a project to go forward. It must be prepared to blaze a trail for private capital. And it must work to find ways for local investors to share in the ownership of their own industries and to develop local capital markets to this end.

As a financial institution, IFC sets limits on the degree to which it will participate in financing an enterprise. In the case of a new company, IFC generally finances substantially less than 50 per cent of the total capital costs, although it is willing to go above the limit of 50 per cent of the new capital requirements in the case of the expansion of an existing enterprise. Under its charter, IFC is directed not to take part in managing any company in which it invests. For this reason IFC prefers not to be the largest single shareholder of a company and will not hold more than 25 per cent of the equity. IFC does not vote its stock and does not seek to be represented on the boards of directors of the companies in which it has invested, except in the case of certain development finance companies.

This policy means that IFC generally fills the role of a third party in a joint venture. Often because it is a neutral party, IFC is in a preferred position to take the initiative in concerting action by the other investors. In one case recently, IFC was able to take the lead in helping a company that had run into problems in bringing a new plant into production. Here, IFC assessed the situation, brought the facts to the attention of its investment partners, arranged a plan for refinancing the company and then finally joined with the other investors in putting in new money. I need hardly add that in situations like this, the influence that IFC is able to exert depends less on the size of its participation than on the goodwill of its partners.

In many of the less developed countries, particularly in Africa, it is difficult to find local business partners for joint ventures and equally difficult to raise capital locally. In Ethiopia, for example, IFC is at present underwriting a public offering of shares in a new pulp and paper company sponsored by the Government of Ethiopia and a U.S. company. Because no local business partners could be found to join in the project and because the local capital market is still undeveloped, the technique of underwriting a public share offering probably offers the only hope of obtaining some local participation in the ownership of the company. In some cases where it has proven impossible to get the participation of private investors of the country concerned in a new venture, IFC may be able to act in lieu of local investors. One example of this occurs in Tunisia, where IFC is a shareholder in a triple superphosphate fertilizer company. Both the technical partners in the project are foreign -- Swedish and U.S. companies -- and IFC in effect represents the local interest. Together with the other participants in the financing, it has undertaken to reserve part of its holding of shares for sale to private Tunisian investors.

In some countries, government itself may have control or share in the ownership of a wide range of industries. Here IFC may be able to play a part in negotiating the transfer of control to private hands and in recruiting private investors to take up shares. IFC itself is prepared to help finance enterprises that are partly government-owned, provided the government interest is in the minority. A rule of thumb in such cases is that the government interest should generally not exceed 25 per cent. In one case involving IFC at the moment, a European company is negotiating to acquire an interest in a government-owned plant. The government appears willing to sell an interest to the company and to offer shares publicly to local investors, but it also wants to hold on to 40 per cent of the equity itself. The European company believes that the presence of IFC in the project would help to induce the government to reduce its interest in the company to around 30 per cent, something that IFC itself could live with.

As a development institution, IFC has to be prepared to play a direct role in promoting new enterprises. It is difficult to predict the outcome of negotiations which are still in a preliminary stage, but let me mention one example, involving a Jordanian company set up to extract potash from the Dead Sea. In this case, IFC has been asked by the local sponsors to act as investment banker for the project and to draw up a financial plan that would attract private capital. IFC also has the responsibility of attempting to locate a foreign technical partner that can get the company going, provide management and put up part of the capital for the venture.

Another way in which IFC can act is by taking part in joint financing operations with local private development finance companies. The World Bank Group has provided over $465 million for institutions of this kind, and IFC itself is a shareholder in 16 development finance companies in 14 countries. The development finance companies themselves are equipped to take care primarily of the needs of medium-sized enterprises. When the needs of an enterprise cannot be met by the local institution or within the local capital market, a joint financing venture involving IFC may be the appropriate solution. IFC has in fact taken part in operations of this type in several countries of Latin America, as well as in India, Pakistan and Malaysia. Here IFC is in the best position to provide part of the foreign exchange and to bring in foreign private investors, while the local institution can help to arrange the local currency financing and to recruit local investors in order to broaden the domestic ownership of the enterprise.

This has been only a brief sketch of what IFC can do to assist joint ventures, but before I close let me outline some possibilities for the future. I mentioned earlier that IFC is now in a position to borrow up to $400 million from the World Bank. The availability of these new funds will make it possible for IFC to take part in a larger number of transactions as well as larger individual transactions. To date, IFC's largest single commitment has been of the order of $6 million. In future, IFC will be able to consider investing up to about $20 million on its own account in a single enterprise. Furthermore, the Bank funds will be available to IFC for lending without government guarantee. This will add to the flexibility of World Bank Group financing, since in many cases governments are constitutionally unable or unwilling to provide guarantees for private enterprises and private entrepreneurs are reluctant to seek them. On the other hand, when government guarantees are available, new patterns of financing by the Group may develop in the case of large industrial projects -- for example, joint financing by IFC and the World Bank, with the World Bank extending loan capital and IFC providing equity.

In considering the outlook for foreign capital in the developing countries, it is worth recalling some of the measures now being taken to improve the climate for private investment. As you know, the World Bank last year submitted to member governments a Convention on the Settlement of Investment Disputes which will come into force when it has been signed and ratified by 20 states. There are now ~~35~~ 36 signatories to the Convention, and ~~four~~ five countries have also ratified it. The Bank is at present also considering the OECD report on a multilateral investment guarantee scheme which the ICC has itself endorsed. These are hopeful signs indicating that in the years ahead, private capital may be in a position to play a larger role in the economic growth of the developing countries.

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