Points in Common

Despite their many differences, there are many similarities between the ways that the different IFIs approach private-sector financing. To begin with, providing finance is not their only *raison d'être*, although it figures prominently in their work. The private-sector institutions and departments tend to see their most valuable contribution as enhancing the security of investing, in most cases by reducing political risk.

In the event of financial or political problems in a country, projects with IFI involvement should be protected against non-project risks such as currency inconvertibility, repatriation of profits, expropriation or breach of contract. The ability of the financial institutions to offer this security stems from their preferred creditor status. The security thus afforded by IFI involvement generally improves the prospects for financing projects and lowers the cost of capital.

Second, all of the international financial institutions place a high value on the knowledge and experience that their professionals bring to private projects, whether in terms of the market or the business, and especially with regard to financial and technical matters. These are premium services, and prospective private-sector partners should expect to pay for them. The Canadian executives that we interviewed for this article were unanimous in their praise of the professional services provided by the IFIs. A third common feature of the IFIs is "additionality" or corporate responsibility. This arises from the role that the IFIs play, as development institutions, in promoting social development and environmental sustainability. Companies wishing to work with the IFIs must be prepared to demonstrate a commitment to social-development goals. There is no predetermined checklist, but desirable development impacts include employment and economic-development effects; environmental and social benefits such as poverty reduction, health and education; and corporate governance factors such as occupational health and safety, worker rights, stakeholder involvement, disclosure and transparency.

Finally, most of the agencies regard themselves as "lenders of the last resort"—the European Bank being a notable exception. As public institutions, the IFIs eschew competition with private-sector financial institutions, and projects that can attract financing on their own merits are generally not of interest. Private-sector projects in risky or "frontier" markets, or in untried sectors like health and education, are the bread and butter of these organizations. In practice, however, there is a trade-off between the high levels of risk associated with frontier projects, and the need for the institutions to maintain their financial integrity. As critics have noted, much of the IFI private-sector project portfolio is located in middle-income countries, where the possibilities of project success are greater.

IFC International Finance Corporation

The International Finance Corporation (IFC) is the granddaddy of the private-sector financing windows at the multilateral banks. Founded in 1956, the IFC is part of the World Bank Group, but is financially and legally independent. It is based in Washington, D.C., and employs almost 2,000 professionals and staff.

The IFC is the largest of the IFI private-sector project financiers. Much of the growth has been recent. For most of the eighties, the IFC was placing around $1 billion a year in 75 projects. IFC financings took off in 1989, peaking at 300 project approvals and $8 billion in 1998. The level has come down somewhat since then, with the IFC approving just under $6 billion in debt, equity and guarantees for 250 projects in emerging and transition economies last year.

The IFC has a strategic emphasis on a few sectors that it believes have strong development potential. These include financial services, infrastructure, information and communication technologies, small and medium enterprises, and social sectors such as health and education. Despite the strategic emphasis, the IFC will look at projects in other sectors. Mining has been the most successful sector for Canadian companies working with the IFC.

Doing Business with the IFC

If your company is planning to invest in one of the 60 countries where the IFC has an office, you can discuss potential IFC participation locally. For projects originating in Canada, the official point of contact is the **Business Partnership and Outreach Group**, located in Washington. The role of the Group is to guide businesses to the appropriate point of contact within the World Bank private-sector community, including the IFC and the Multilateral Investment Guarantee Agency (MIGA). The Business Outreach Group maintains a hotline at **(202) 522-4272**.

The IFC offers a full range of financial products—loans, equity, guarantees and numerous variations on all of these. A full description of the IFC, its financial products and its project requirements can be found at **www.ifc.org**

A common perception about the IFC is that projects must be of a significant size before they become of interest to the Corporation, due to the high fixed costs of evaluating proposals. Not so, we were told by the IFC. Over the years, the IFC has evolved a variety of different financing mediums that allow the Corporation to get behind even a small project. For example, in 2001, the IFC took a $10,000 slice of equity in a printing ink manufacturer in Turkey, and loaned $100,000 to a manufacturer of decorative stone in Mali. There are numerous examples of successful debt and equity financings under $3 million.

To receive IFC funding, a project must:

- be in the private sector;
- be technically sound;
- have a good prospect of being profitable; and
- benefit the local economy.

The project must meet international environmental standards and conform to host country and World Bank guidelines on transparency, governance and procurement. The front page of the IFC Web site includes a tab "Apply for Financing" that takes you directly to their investment criteria and proposal guidelines.

THE WORLD BANK

FAST FACTS ▸ International Finance Corporation

Headquarters	Washington D.C., with offices in 60 countries
Purpose	To further economic development through the private sector
Services	Debt, equity, guarantees, advisory and technical services
Restrictions	Maximum 25-percent participation in the total project cost
Minimum Project Size	$400,000
Min/Max Investment	$100,000 to $100 million
Annual Project Approvals	Approximately 250 projects a year. $6 billion in debt, equity, guarantees and other financial commitments (2001)
Web Site	**www.ifc.org**

In 1998, Pan-American Silver of Vancouver completed a feasibility study on a mining project in Russia. The IFC was on their lead lender list for the project financing. Russia was a very risky market, and the IFC's interest in working in remote areas and risky markets made them a natural partner. By February 1999, the IFC had pledged loans and equity for the project, including a five-percent investment in the equity of Pan-American Silver.

The IFC syndicated the project loan, and its participation in the consortium helped Pan-American to obtain a reasonable loan facility. The IFC presence added important credibility to the project, not only to lenders but also to Pan-American's corporate commitment to socially responsible business practices.

From the outset, it was clear that working with the IFC would require considerable attention to project impacts on health, safety and the environment. Pan-American, in conjunction with the IFC, prepared comprehensive studies of the project impacts.

For Pan-American, working with the IFC has been a highly rewarding experience. In the words of the Company's CFO, the IFC is a first-class organization; their people are extremely intelligent, hardworking and likeable. Once formed, a relationship with the IFC has lasting benefits. In late 2000, the IFC offered to participate in the financing of a Pan-American project in Mexico.