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Development through the private sector

A conversation with Sir William Ryrie, Executive Vice President of IFC

F&D *What is the role of the International Finance Corporation, and how does it fulfill it?*

Ryrie The purpose of IFC is to promote economic development in the developing countries through the private sector, not by lending to governments but by investing in and lending to companies. We promote the growth of new companies, indigenous companies, and help to introduce more capital from private sources into developing countries. We do this because the private sector can provide a thrust for economic growth that comes from no other source. Unlike most other development institutions, IFC not only makes loans but takes equity, that is, it can own shares in the companies it supports. IFC is thus not merely a channel for funds, but it is also a participant in the development of the private sector in developing countries. The scale of IFC's own investments is not very large, but our task is to bring other investors along with us, in partnership, and so gear up much larger total investments. We like to have 10 percent or 15 percent in a project, the rest coming from local or foreign private investors or more usually a combination of both.

Over the 28 years of its life, IFC has expanded its activities gradually and increased the number of countries in which it has operated. It has been a participant in investments totaling about \$27 billion, and, in this way, it has played an important part in the economic growth of some of those countries.

F&D *How would you characterize government support for private sector activities in developing countries today?*

Ryrie There have been some very encouraging trends recently. There is now much more general recognition in developing countries, just as in developed countries, of the importance of the role of the private sector. We find many governments approaching us for assistance on matters such as legislation concerning foreign investment and the privatization of state enterprises. Generally, we are being welcomed by governments in many countries now, where 10 or 15 years ago there was much less enthusiasm for the private sector.

However, it is quite wrong to imagine, as I think some people do, that the strong support which IFC now has from its member countries is a reflection of the political color of some Western governments, or of their share in its ownership. The new recognition of the importance of the private sector in development is much more general, and we find it in many countries in Africa, Asia, and Latin America.

F&D *Does IFC have much of a role to play in the poorer countries, especially those in sub-Saharan Africa, that do not have a well-developed private sector?*

Ryrie We have a role, we believe, in developing countries of all types. The nature of that role may vary: in some relatively more advanced countries there is already an established and growing private sector, and we can build on that and foster its further growth. In some of the very poor countries—the least developed countries in Africa and in other parts of the world—the task is more difficult. In many of those countries the company sector is only now beginning to emerge; and the need for IFC to be involved and to help to build it up is all the more important. Those countries, too, must benefit from the contribution that the private sector can make to development.

As an important part of our five-year program, upon which we have just embarked with the support of our member governments, we shall pay even more attention than in the past to fostering the development of the private sector in sub-Saharan Africa. I don't want to imply that Africa is the only part of the world that has low-income countries, but it does have many of the poorest countries of the world. That is why we are giving special emphasis to that continent.

F&D *How does IFC resolve the dilemma of finding projects that are both financially viable and make sense economically?*

Ryrie I don't think that is fundamentally a dilemma. The IFC's task is to promote projects that the private sector is not likely to finance itself. It is written into our Articles that we are expected to do things that are not going to happen without our intervention. We don't compete with private investors: our mandate is to encourage and promote investment in situations that might be considered rather risky by the private sector. Sometimes our presence and the work we do on project design can reduce those risks. At the same time we have to make a profit. I don't think that is just a financial matter, because fundamentally, in economic terms, only profitable investment is good for development. If an investment is unprofitable, then resources are wasted. These are simple economic facts. Of course, there are some kinds of investments which, although profitable, are not the best way of promoting development. We have to make careful judgments here; but fundamentally I don't see a conflict between the pursuit of profit and the pursuit of development.

F&D *Traditionally IFC has obtained its resources through the World Bank. In December 1984 it went to the market for \$50 million. Why?*

Ryrie We have always had in our Articles the right to borrow from the market, but we have relied on the World Bank because the credit of the Bank is very strong and we could borrow from them on favorable terms. We will certainly continue to rely on the Bank for the greater part of our requirements. It seemed good to us, however, to undertake an experiment in raising our own finances.

We have not decided on any long-term policy of borrowing in the market. In the case of the December borrowing, we were

presented with some rather favorable offers to borrow on good terms. Such borrowing helps to establish our name in the market and improve our relations with the financial community with whom we have to cooperate in a great deal of our business. With our relatively small requirements we have opportunities to borrow from sectors of the market which the Bank could not easily tap; so this borrowing seemed to make financial sense, both for us and for the Bank too.

F&D *You said that you don't have any plans for major market borrowings. Could you expand on that?*

Ryrie We have made no long-term plans. We have authority from our Board of Directors to borrow up to \$100 million, which in comparison with the Bank's borrowings is a small amount. We will do that, and then we will think again. As it happens we were able to borrow last December on very favorable terms and if similar opportunities present themselves, we may well borrow from the market again.

F&D *Considering the fact that IFC has received approval for a doubling of its capital, and your plans for at least some borrowing from the market, will IFC be able to meet its lending targets?*

Ryrie I believe so. We need to identify enough good projects, projects that will be profitable and will be good for development. That will not happen by simply sitting in Washington and waiting for the business to fall into our laps. We have to go out and look for opportunities, look for the right business partners, put the right financial package together, find the right technologies, and do a bit of innovation. That is our task. The opportunities and the need are there: I am convinced of that.

Many developing countries have for some time relied rather too heavily on borrowing from commercial banks and now find that that source of capital has largely dried up. They need private investment and we are an agency that can help channel it to them. We can do this not so much through the money we invest ourselves, but through our role as a catalyst in attracting other investors. The contribution we make depends a good deal on other investors and technical partners we bring along with us.

F&D *Are your lending rates competitive enough to attract borrowers?*

Ryrie Generally speaking, yes. There are a few countries where funds are available from other sources on favorable terms, where IFC money sometimes seems a little expensive. But on the whole our rates are such that people want us to invest. We borrow on commercial terms but at a favorable rate because our credit, through the World Bank, is very strong. Then we have to add something to cover our own costs which are not insignificant because we spend a lot of staff time on the appraisal and design of projects. We investigate them very carefully, even when they are small projects. That careful work is part of our role as a development institution, part of the special contribution we make to the projects in which we participate.

F&D *What has been IFC's experience with syndication—where it makes a loan and then sells it off to a bank?*

Ryrie We have for a long time been fairly successful in selling some of our debt to commercial banks—so far we have sold over \$2.5 billion in this way. I think that if we are more vigorous in that area there is scope for quite a lot more. Our plans, which I think are perfectly realistic, provide for about \$3 billion of syndications over the next five years. This will free some of IFC's resources for other investments and involve commercial banks in more investments in the Third World.

F&D *The promotion of capital markets in developing countries has been another aspect of IFC's work. Could you explain this?*

Ryrie This has been one of the most constructive and innovative aspects of IFC activity over the last 10 or 15 years. Many countries need to develop capital market institutions such as stock exchanges, securities companies, leasing companies, and financial intermediaries of one kind or another. IFC has a special department, partly financed by the World Bank, that has provided expertise in these areas to a number of countries. Korea is a special example where IFC has played a very important role. We are now extending this role to many countries which are financially less sophisticated than Korea but where we can do similar things. For example, we are establishing a leasing company in Bangladesh to help finance industrial investment. This is an area that has a good deal of potential for the future.

F&D *How has the debt crisis affected IFC's investments?*

Ryrie The troubles that a number of countries—the heavily indebted—have had to face have led to measures of economic restraint that have often slowed up economic growth. That was inevitable. Take the example of Mexico where there has been a stabilization program that has slowed down the growth of the economy and constrained the expansion of business. Such conditions have made it more difficult for us to find new opportunities for investment. I think that is an inevitable but I hope temporary consequence of the problems that arose from the debt crisis. Once the stabilization program has succeeded, growth will resume.

But if you are asking whether we have had an increase in defaults or arrears in our investments recently, the answer is that we have. However, I don't link it so much with the debt problem as with the recession generally. It would be surprising, considering the deep recession that the Third World has been experiencing, if a number of the companies in which we have investments had not had problems over the last two years. The proportion of our investments that are in some kind of difficulty has risen a bit. I believe the situation will improve as economic circumstances improve. But we are now paying a little more attention to looking after our existing investments than we have done in the past.

F&D *How does IFC deal with projects that are in arrears?*

Ryrie Of course we have arrangements for companies in which we invest to report on their progress; we do track their record and see how they are doing. If there are signs of difficulties, we send someone to have a look and to discuss the situation with the company. If the difficulties seem to be serious, we may have discussions with the other creditors—because we are never alone in these investments, we always have co-investors. In extreme cases, there may be a rescheduling of debt and sometimes quite substantial restructuring. We always do our best, not just to look after our own investment but also to try to make sure that the enterprise survives and continues, because our objective is that the company should make a contribution to economic growth.

F&D *A larger role for IFC appears to be supported by its shareholders, especially the major ones. How do you see this emerging?*

Ryrie A part of that expansion will be achieved through the sort of things that IFC has always done. We will have to look for more business. To do this, we will have to expand our staff and be more vigorous in our search for investment opportunities. But we will also be developing some new methods.

I am planning to mount a substantial campaign to make the IFC better known in the developed world. We are not nearly well enough known in these areas. We want companies in Europe, the United States, and Japan that are interested in investing in the Third World, but are hesitating for one reason or another, to know about IFC and about the role we can play as co-investors and so be encouraged to proceed.

I think there is scope for us to do more by way of innovation: identifying technologies which can be a useful basis for investment in some countries and then going ourselves to find investors and suggest to them that they should join with us in such projects.

We may also expand our technical assistance activities, especially provision of advice to governments. A number of governments, I think, would like assistance on questions relating to private sector development; as I mentioned at the outset, these may include legislation covering foreign investment or the privatization of state-owned enterprises. These are areas in which IFC is well placed to provide useful advice. We may have to charge a fee because we are an organization that has to stand on its own feet financially. But I think there is a potentially quite important role for us to play in these areas.

F&D *Coming to IFC, as you do, after a long career in the public sector, are you having to make any philosophical adjustments in dealing with the private sector?*

Ryrie I suppose I am, but they are adjustments I make with great readiness and willingness. I have long wanted to move to the private sector or something much nearer the private sector. The IFC is really kind of a half-way house between the public sector and the private sector. I have been in the British Government as a civil servant for most of my working life, but on the financial side and in jobs that have been very much concerned with the Third World and with international banking.

The IFC, as I said, is a body that stands between governments and the private sector, so there are aspects of the job where some knowledge of the workings of government and of international financial affairs is not irrelevant. I have a great many colleagues here who have more commercial experience than I, and I hope that together we can do the job and provide the right balance of experience.

F&D *As you begin your stewardship of IFC, what are your own hopes regarding the contribution it will make to economic development?*

Ryrie Let me answer that by saying that for many years I've been concerned in one way or another with the whole effort to help development in the Third World. It is very striking that the effort has been focused, for two or three decades, very much on governments and on the public sector: Aid has been considered a public-sector initiative and I think we're gradually beginning to realize that there is a neglected area of it.

We must not fall into the trap of thinking that because the private sector is important, you can handle it in the same way—the private sector can't be planned and organized in the same manner as public sector activity can. It's not a matter of managing growth from some central point. Its role is quite different. It is the catalytic role that I mentioned earlier. It's trying, in various ways, to make things happen that won't otherwise happen, to play a role in stimulating private sector flows. I find it very exciting to be involved in an organization where we shall be promoting this thrust, because a certain thrust and energy can come from the private sector which you will never find in the public sector. I think we now see the importance of that in the development process more clearly than we did in the past. 