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Origins of the International Finance Corporation (IFC)

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These exhibits, authored by World Bank archivists, highlight key events, personalities, and publications in the history of the World Bank. They also bring attention to some of the more fascinating archival records contained in the Archives' holdings.

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Origins of the International Finance Corporation (IFC)

Robert L. Garner, first President of IFC

The world was a different place when the International Finance Corporation (IFC) was established in 1956. No one spoke of emerging markets. There was no worldwide trend toward privatization, no communications revolution, no globalized economy. World population was less than half of what it is today. The economies of poor countries were still in very early stages of development, lacking the human resources, physical infrastructure and sound institutions needed to raise incomes and improve living standards. The responsibility for development was almost universally assigned to the public sector. Private sector investment in developing countries was small, and not much thought was given to increasing it. It was into this environment that IFC was born.

For several years officials of the World Bank had been supporting the creation of a new and different entity to complement their own. The Bank had been founded to finance post-World War II reconstruction and development projects by lending money to member governments, and had been doing so effectively. Yet in its initial years, some senior staff had seen the need for creating a related institution to spur greater private sector investment in poor countries.

Major international corporations and commercial financial institutions at the time showed relatively little interest in working in Africa, Asia, Latin America or the Middle East. Entrepreneurs in these regions had few domestic sources of capital to draw upon and even less from abroad. They needed a catalyst.

At the 1944 Bretton Woods Conference that led to the creation of the Bank and the International Monetary Fund, initial proposals for this kind of support had been made—and rejected. These proposals would have given the Bank the ability to meet some of these goals by lending to private companies without government guarantees. Then, in the late 1940s, the concept was greatly refined by Bank President Eugene R. Black and his Vice President, former U.S. banker and General Foods Corporation executive Robert L. Garner.

Garner was an ardent believer in the role of private enterprise. Addressing the Inaugural Meeting of IFC's Board of Governors on November 15, 1956, he said, "I believe deeply that the most dynamic force in producing a better life for people, and a more worthy life, comes from the initiative of the individual—the opportunity to create, to produce, to achieve for himself and his family—each to the best of his individual talents. And this is the essence of the system of competitive private enterprise—20th century model—as it has been developed by the most enlightened and successful business concerns. It holds the promise of rewards according to what the individual accomplishes. It is based on the concept that it will benefit most its owners and managers if it best satisfies its customers; if it promotes the legitimate interests of its employees; if in all regards it acts as a good citizen of the community. It is moved by the desire to earn a profit—a most respectable and important motive, so long as profit comes from providing useful and desirable goods and services. It is my belief that the best services and the best profits result from a competitive system wherein skill and efficiency get their just reward."

(Left to Right) Eugene Black, Robert Garner, and Richard Demuth were pictured in this cartoon published in the April 1955 issue of International Bank Notes. *The caption reads: "The note says the child should grow up to be a credit to us."*

Garner worked with his assistant Richard Demuth and others to create a new private sector investment arm affiliated with the Bank, rather than having it lend directly from its own resources to the private sector. This new multilateral entity, at first internally termed the International Development Corporation, would be owned by governments but act like a corporation and be equally comfortable interacting with the public and private sectors. It would lend money, take equity positions and provide the technical expertise in appraising private investment proposals in developing countries, as the Bank was doing for public sector projects. It also would work alongside private investors, assuming equal commercial risks. In the process of removing some of the major barriers to new private investment in developing countries, it would encourage the domestic capital formation needed to create jobs, increase foreign exchange earnings and tax revenues, and transfer knowledge and technology from north to south.

The idea received its first official backing in the March 1951 report of a U.S. development policy advisory board headed by Nelson Rockefeller. This panel conceived of a package to add considerable value to the Bank's own product by encouraging the growth of productive private enterprises that would contribute many key components to development.

One such component, Garner wrote, was entrepreneurship—"that elusive combination of imagination to see an opportunity and to mobilize the necessary resources to seize it." Another was the mobilization of new capital from private investors willing to take substantial risks in return for potentially large rewards. Others included job creation, new labor skills, management capacity and technological advances. In the process business owners in developing countries would "successfully transmute machines, labor and capital into a dynamic going concern, producing at a competitive cost goods of a quality that the market will accept."

Garner actively marketed the concept. After the 1952 presidential elections, the United States reduced its support for the idea, eventually endorsing a modified proposal two years later that left IFC to start business with no equity investment powers (this provision was changed in 1961). Other nations then came aboard, and the formal Articles of Agreement were drafted by the Bank in 1955.

IFC's Articles of Agreement

The IFC Articles of Agreement came into force on July 20, 1956, when the requisite number of at least 30 member countries subscribing at least $75 million to IFC's capital was attained. The initial total authorized capital was $100 million. The first thirty-one member countries as of July 20, 1956 were: Iceland, Canada, Ecuador, United States, Egypt, Australia, Mexico, Costa Rica, Ethiopia, Peru, Dominican Republic, United Kingdom, Panama, Ceylon, Haiti, Guatemala, Nicaragua, Bolivia, Honduras, India, El Salvador, Pakistan, Jordan, Sweden, Norway, Japan, Denmark, Finland, Colombia, Germany and France. On that date the capital subscriptions amounted to $78,366,000.

Eugene R. Black (left), President of the IBRD, and Robert L. Garner (right), first President of the IFC, at the 1956 Annual Meeting

IFC's Articles of Agreement enshrined three critical principles. The founders insisted that IFC adopt a *business principle*, taking on the full commercial risks of its investments, accepting no government guarantees and earning a profit from its operations; be an *honest broker*, using its unique abilities as a corporation owned by governments to "bring together investment opportunities, domestic and private capital, and experienced management," and; play a *catalytic role*, investing only in projects for which "sufficient private capital is not available on reasonable terms."

IFC is Launched

Robert L. Garner was appointed President of IFC by its Board of Directors on July 24, 1956. He holds the distinction of being the only person to hold the position of President of IFC without also being President of the World Bank. All of Garner's successors have been titled "Executive Vice President", with the President of the Bank being President of IFC also.

Robert L. Garner, President of IFC (left) and John C. Beevor, Vice President of IFC (right)

Garner opened IFC's inaugural press conference the next day by saying that IFC was the first inter-governmental organization which had as its main objective the promotion of private enterprise. He believed private enterprise to be the most effective and dynamic force for economic development. IFC would benefit not only the underdeveloped but also the industrial countries. There was increasing interest in overseas investment and expansion on the part of established companies in the developed countries. Private enterprise was the only weapon the free world possessed which the communists did not. That was one of the reasons, Garner said, why he welcomed the establishment of this new organization, after several years of preparation.

IFC Staff

Garner appointed John G. Beevor to be Vice President of IFC, Richard H. Demuth, who had done much to foster the establishment of IFC, to be Assistant to the President, and Davidson Sommers to be General Counsel. Beevor had been engaged in preparatory work on the organization of IFC since March 1956, when he was released from his position as Managing Director of the Commonwealth Development Finance Company Limited of London to join the staff of the Bank. Demuth was Director of the Bank's Technical Assistance and Liaison Staff, and Sommers was the Bank's General Counsel. Both Demuth and Sommers had been associated with the Bank since 1946, and would continue to hold their positions in the Bank while serving in IFC. The Treasurer, Secretary, Director of Administration and Director of Information of the Bank were appointed to the same positions in IFC.

Apart from its management, IFC's own staff consisted at the outset of an Engineering Adviser, with one assistant, and of eight operations officers, of six different nationalities. IFC also had its own administrative assistants.

Initial Inquiries

IFC received a large number and variety of inquiries and proposals with reference to possible investments in many of its member countries. As was inevitable with a new type of international financial organization, many inquiries were based on a misunderstanding of its purpose, which is to use its funds for investment in private enterprises, and not to finance transactions such as export credits, installment sales, ship mortgages, and the like.

Other inquiries involving commercial or agricultural projects were declined in view of IFC's policy to confine its activities, in the earlier years, to the field of industrial enterprise, which includes processing of agricultural products and mining.

A number of investment proposals which at first appeared promising showed, after investigation, weaknesses of various types making them unsuitable for IFC financing. On the other hand, several proposals on which considerable work was done were postponed or withdrawn by the sponsors for various reasons. Some decided to do the entire financing themselves; some secured financing from other sources. A few were withdrawn because of inability to agree on financial terms.

First Operations

On June 20, 1957 IFC reached agreement for a $2 million investment in Siemens do Brasil Companhia de Electricidade. This investment, together with the equivalent of $8.5 million being invested by Siemens of Germany, was to be used to expand the plant facilities and business of Siemens do Brasil for the manufacture of electric generating equipment, switchgear, transformers, large motors and accessories for utility and industrial application as well as telephone equipment. This was the first integrated plant for manufacture of such a broad range of heavy electrical apparatus in Brazil.

On August 13, 1957, IFC reached agreement for an investment equivalent to $600,000 in Engranes y Productos Industriales, S.A., a Mexican company owned by Mexican and American stockholders. The investment would help to expand the plant facilities and business for the manufacture and sale of a variety of industrial products and components, to include the addition of machine tooling for the manufacture of automotive and other mechanical parts, a forge shop, and an electric steel furnace.

Other investments soon followed. IFC was up and running.