International Finance Corporation

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The International Finance Corporation (IFC) is a multilateral financial institution that provides financial and technical assistance to the private sector in middle- and low- income countries. Unlike other international financial institutions, the IFC operates on a commercial basis and invests exclusively in for-profit projects that promote poverty reduction and development. Increasingly, the IFC is investing in the world's poorest countries and fragile states that have few private investors. IFC investments support a range of activities including agribusiness, manufacturing, health and education, microfinance programs, and infrastructure development.

Membership

The IFC is owned by 182 governments that provide and authorize capital, determine policies, and approve investments. The shares owned by each member government are based on the capital paid in to the IFC. The largest shareholder is the United States (24%), followed by Japan (6%), and Germany, France, and the United Kingdom (5%). The seven largest OECD governments control 51 percent of the capital shares.

Governance

The leadership structure consists of the board of governors, the board of executive directors, and the executive vice president. The board of governors meets once a year and includes one governor for each member country, generally the country's minister of finance. The governors delegate day-to-day authority over operational policy, lending, and other business matters to the board of executive directors, who work on-site at the institution's headquarters. The 24 executive directors represent all 182 member countries.

The executive vice president provides overall strategic direction and management of the IFC. The president of the five World Bank Group institutions (usually referred to simply as the "president of the World Bank") is responsible for the overall management of all, including the IFC, and serves as the chair of the IFC board of directors.

Where Does the IFC Operate?

The IFC is headquartered in Washington, D.C. It has more than 3,400 staff members, half of whom work in field offices spread throughout its 182 member countries.

Funding

The IFC's investments are funded from the paid-in capital from member countries and retained earnings from its products and services. Strong shareholder support, AAA ratings, and a substantial capital base allow the IFC to raise funds on favorable terms in international capital markets. In FY2010, the IFC committed a record $18 billion, a 24 percent increase from FY2009 (see table 1).

Products and Services

The IFC offers a range of financial products and services through its investment and advisory services:

- **Investment Services**—The IFC's primary investment products and services include loans, equity investments, and trade finance to reduce poverty and spur long-term growth in developing countries. These investments typically range from $1 million to $100 million; a limited number range from $100,000 to $1 million. On any project, the IFC limits its share of financing to 25 percent of the total to ensure the participation of other private investors and lenders. The IFC invested $12.7 billion in FY2010; about 39 percent funded projects in the world's poorest countries.
- **Advisory Services**—The IFC provides advice, problem solving, and training to companies to promote entrepreneurship and best business practices. It also provides technical assistance to governments to help improve their investment climate and promote business-friendly policies. In FY2010, the IFC invested $268 million in advisory services, of which 61 percent went to the world's poorest countries.

In 2009, the IFC launched its Asset Management Company (AMC) partly in response to the 2008 financial crisis. A fund manager for private investors, the AMC provides a platform to raise funds from private

Table 1
Overview of IFC Investments

Type of Financing	Type of Borrower	Year Founded	Commitments, FY2010 (billions USD)
Nonconcessional loans Equity investments Loan guarantees	Private-sector firms in developing countries	1956	18

institutions and other sovereign funds for investment in IFC projects. Since its creation, the AMC has initiated two funds with total assets of $4 billion.

Distinguishing the IFC from the World Bank

The IFC is a member of the World Bank Group, which consists of five closely associated institutions. Each plays a distinct role in promoting development in low- and middle-income countries. A country must be a member of the International Bank for Reconstruction and Development (IBRD) before it can join the IFC.

The IFC promotes economic development through private-sector investment by investing in sustainable private enterprises without the need for government guarantees. This direct lending to businesses is the main difference between the IFC and the World Bank (the IBRD and IDA can only lend to the governments of member countries). The IFC was founded specifically to fill this gap in World Bank lending.

The 2008 Financial Crisis and Beyond

The IFC played a critical role in helping middle- and low-income countries cope with the 2008 financial crisis. During this time, small and medium enterprises, which account for more than half of employment worldwide, saw their lines of credit reduced or eliminated as investors shied away from capital markets. The IFC stepped in to fill the gap, financing a record high of $16.2 billion in FY08 for private-sector development. The IFC also deepened its engagement with the poorest countries by delivering over $18 billion of financing, including funds mobilized from the private sector.

To rebuild investments after the financial crisis, the IFC approved a $200 million selective capital increase (SCI) of $70 million in unallocated shares and $130 million of new shares. This will increase the representation of developing members from 33.41 percent to 39.48 percent and decrease the capital shares of the United States, which will not participate in the SCI, from 24 percent to 21 percent. This decline will not substantially affect U.S. influence at the IFC.

Endnotes

Jenny Ottenhoff is a policy outreach associate at the Center for Global Development. She benefitted from insights and feedback from Lawrence MacDonald and Vijaya Ramachandran during the drafting of this brief, which draws on previously published work, including the 2010 IFC annual report.

[1] The IFC is a member of the World Bank Group, which also includes the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID).

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The ABCs of the IFIs: Understanding the U.S. Role in Shaping Effective International Financial Institutions for the 21st Century

The International Financial Institutions (IFIs) are major sources of financial and technical support for developing countries and play a critical role in promoting economic development and global stability. As the interests of high-income and developing countries become more linked, the role of the IFIs will become even more prominent.

The United States and other nations have a common interest in ensuring that the IFIs are well managed and well funded. This CGD brief is one of six on the financial and governance issues facing the IFIs. Please email publications@cgdev.org to receive any of the others:

- The World Bank
- The International Monetary Fund
- The International Finance Corporation
- The Regional Development Banks
- Leadership Selection at the IFIs
- The ABCs of the General Capital Increase