

IFC'S ROLE AND ADDITIONALITY: A PRIMER

IFC's vision is that people should have the opportunity to escape poverty and improve their lives. By promoting open and competitive markets and providing investment and advisory support to private sector clients, we seek to create opportunities for progress in emerging markets. We help people work, prosper, and live better and longer lives. We aim to maximize our role and **additionality** so that IFC has a stronger development impact.

What is IFC's Additionality?

IFC is uniquely positioned to make a difference for the many people at the base of the global economic pyramid. We are the largest multilateral financial institution investing in private enterprises in emerging markets, with activities in 130 countries. We combine financing that helps local businesses grow quickly and sustainably with advice that helps them innovate, raise standards, mitigate risk, and share knowledge across industries and regions.

Our affiliation with the World Bank Group gives us additional leverage in terms of skills and experience. We call this unparalleled set of comparative advantages our "additionality." It is the main reason our clients choose to work with us.

Objective and Rationale:

The objective of this primer is to help assess and communicate IFC's role and additionality more systematically and effectively, to our clients externally and to our Board and Senior Management internally. The primer provides a systematic thought process and a framework to identify and assess IFC's role, additionality, and development impact throughout the project cycle, from business development to supervision. It does not, however, provide an all-inclusive list of every factor contributing to development impact and additionality, as each client or project has its own unique characteristics and needs.

The approach taken in the primer can be summarized by the following questions:

1. Why have we chosen to work with this client?
2. Can you put the project into a larger context, in relation to IFC and World Bank strategies and other projects in the country or sector?
3. What is IFC's additionality for our client in this project? Is our money really needed? Why is the private sector not willing or able to undertake this project on its own? What risks are we taking that others are not? What services are we providing that commercial financiers are not?

Figure 1 illustrates the conceptual framework for IFC's additionality, with the emphasis on how this affects client selection as well as development impact. The main sections of the primer outline how to identify and describe IFC's additionality.

FIGURE 1: IFC'S ROLE AND ADDITIONALITY – CONCEPTUAL FRAMEWORK

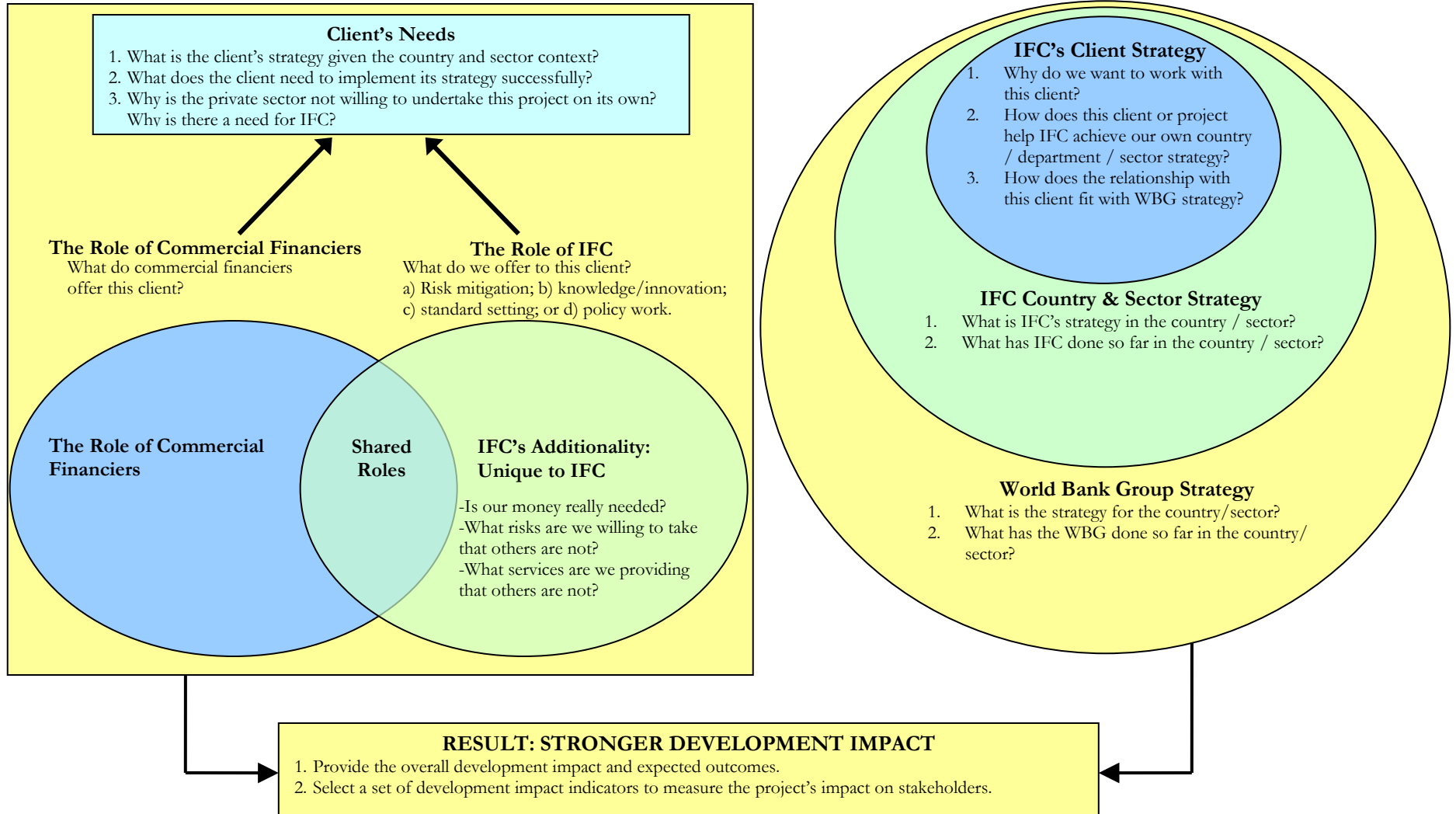
Maximizing our additionality through strategic selection of the client or project will lead to a stronger development impact.

Why has this client chosen to work with us?

Describe IFC's additionality.

Why have we chosen to work with this client?

Put the client/project in a larger, strategic context.



1. Fit with the World Bank Group Strategy

This section summarizes the IFC and World Bank country and sector strategies and articulates how the proposed project fits with these. The following set of questions may help you articulate this section.

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| Country/ Sector Strategy | <ul style="list-style-type: none"> ▪ What are the key development challenges in the sector? What are the needs of the businesses in the country/ sector /market concerned? ▪ Which of these challenges or needs is IFC best qualified to take on, either on its own or with the World Bank or other partners? How is IFC currently addressing those needs, e.g. through financing, advisory services, or a combination of both? ▪ What is IFC's country/sector strategy? Is there any programmatic approach for the sector/department? What is IFC trying to achieve, e.g., in terms of sector development, market penetration, or standards setting? ▪ What is the WBG strategy for the country and the sector concerned? |
| Strategic Client / Project Selection | <ul style="list-style-type: none"> ▪ Why do we want to work with the client in this particular project? ▪ How will this particular client help IFC achieve its strategic priorities and play a developmental role in the country/sector? ▪ How does this project fit with the WBG strategy for the country or sector? |

2. IFC's Role

This section defines IFC's role at client/project level. Key questions to ask:

- What is our client's strategy? What does the client need to implement its strategy successfully?
- What is IFC's proposal to the client? What will IFC specifically do in the project?

Understanding the client's needs is important in determining IFC's role in a project. IFC can offer a variety of services and play one or many of the roles below at various stages of a project or during a long-term, strategic relationship. Initial discussions with the client and the mandate letter are good sources to identify and communicate IFC's role to our clients as well as to our Senior Management and Board.

1. **Risk Mitigation (Financial):** What does IFC offer the client in terms of financing? Briefly describe the characteristics of the financial package. Also explain non-financial benefits (i.e., comfort). Do we offer political and country risk coverage? Do we mobilize other resources? Do we change the risk perception of the project by providing IFC's stamp of approval?
2. **Knowledge and Innovation:** Do we offer global expertise and industry knowledge through our investment and advisory services? Are we building institutional capacity, improving efficiency, promoting supplier development, and/or enhancing linkages?
3. **Standard Setting:** Do we set the following standards for the project where those of the country, sector, or client are not sufficient or are not well implemented and monitored?
 - a. Environmental and social standards / implementation
 - b. Energy efficiency and renewable energy standards / implementation
 - c. Corporate governance standards
4. **Policy Work (together with the World Bank):** Do we help improve the investment climate for the private sector through advice to governments that strengthens regulatory foundations and relevant laws, allowing a robust private sector to develop?

3. IFC's Additionality

IFC's additionality is the benefit or value addition we bring that a client would not otherwise have. In other words, our additionality is a subset of our role that is **unique to IFC** and that cannot be filled by the client or any commercial financier.

Key Questions: Is our money really needed? What benefits or value added in terms of risk mitigation, knowledge, and standards do we bring that clients do not have and that commercial financiers do not bring? Why is the private sector not willing to undertake this project on its own? What would happen without our involvement? Would our client still be able to achieve its objectives and complete the project? How will our involvement improve the expected development results? What would be the difference in outcome with or without our involvement?

The following questions may help you to identify IFC's additionality for each role we may play in a project.

- 1) **Does our Financial Risk Mitigation Role qualify as our Additionality?** Does IFC offer financial products and services that are not readily available elsewhere? Is our money really needed? How uniquely do we address the client's financing needs in terms of:
 - a. Longer-term financing (longer tenor and/or longer grace period)
 - b. Local currency financing
 - c. Mobilization through syndications that benefit from IFC's preferred creditor status
 - d. Long-term partnerships through loan and equity investments
 - e. Innovative financing structure and other financial instruments (e.g., partial risk guarantees, risk management products, trade finance credit lines)

- 2) **When does our Non-financial Risk Mitigation (i.e. Comfort and Stamp of Approval) Role qualify as our Additionality?** The client may value IFC's engagement and take additional comfort when IFC puts its stamp of approval on a transaction.
 - a. In addition to financing for our own account, we can introduce our client to other financial institutions and investors. We can be the catalyst in mobilizing additional resources and can help enhance the client's image and credibility in international financial markets.
 - b. When investing in a difficult environment, the client may seek comfort in our political and country risk coverage. As a member of the World Bank Group, IFC has access to government authorities and policymakers in times of need.
 - c. In a market or sector going through a reform or privatization, we can act as an honest broker for our client in its relationship with the government or can play the catalyst role in a transition sector.

- 3) **When is our Knowledge and Innovation Capacity (i.e. Advisory Role) unique and additional?** When working with local clients and second-tier companies, or when a client moves into new markets and sectors, IFC can bring in global knowledge as well as technical and industry knowledge.
 - a. Do we help our client set its business strategy or improve operations?
 - b. Do we convey global expertise and sector knowledge to the client?
 - c. Do we take the lead in pioneering the products and services the client needs?
 - d. Do we offer the client any other value-adding services, such as sustainability financing, local supply chain linkages, or community development programs?

- 4) **Does IFC's expertise in standard setting add value?** The client may value IFC's expertise in cases where the standards of the country or sector are not sufficient or not well implemented and monitored.
 - a. Is IFC the only provider of expertise in environmental and social standards? Do we raise the bar for the client and project in terms of our environmental and social standards?
 - b. Do we offer any value-added services for energy efficiency or renewable energy?
 - c. Do we help our client set up or improve its procedures in key areas, such corporate governance?

- 5) **When does our policy work (in coordination with the World Bank) bring unique value?** The client may benefit from an improving investment climate in its country or sector through advice to governments from the World Bank and IFC, which can help strengthen regulatory foundations and relevant laws.

4. Development Impact

As a development institution, IFC cares about the impact of the projects in our member countries. Hence we need to examine not only the private return generated by a project, but also the broader impact of the project on society as a whole. It is therefore important that these development impacts be well understood and clearly presented in the project documents and externally. This helps ensure continued support for what IFC is doing.

- Present the **anticipated development impact** along the following four broad lines:
 1. Financial performance
 2. Economic performance
 3. Social and environmental performance
 4. Private sector development impacts
- Identify the impacts that are **significant for the specific project**. This should always include financial and economic returns, and other key impacts on society, as appropriate to the project and department-specific tracking objectives.
- As part of economic impact, include **impacts on stakeholders** affected by the project beyond the project company itself (e.g., consumers, suppliers, workers, government, and host communities).
- For each stated impact, identify concrete, time-bound indicators to be tracked during supervision. Indicators should be project-specific, realistic, directly observable, and meaningful. They should include a **time-bound performance benchmark**.

For results measurement of investment and advisory services at IFC, refer to our Results Measurement Portal (www.ifc.org/results).