

IFC's Additionalityⁱ

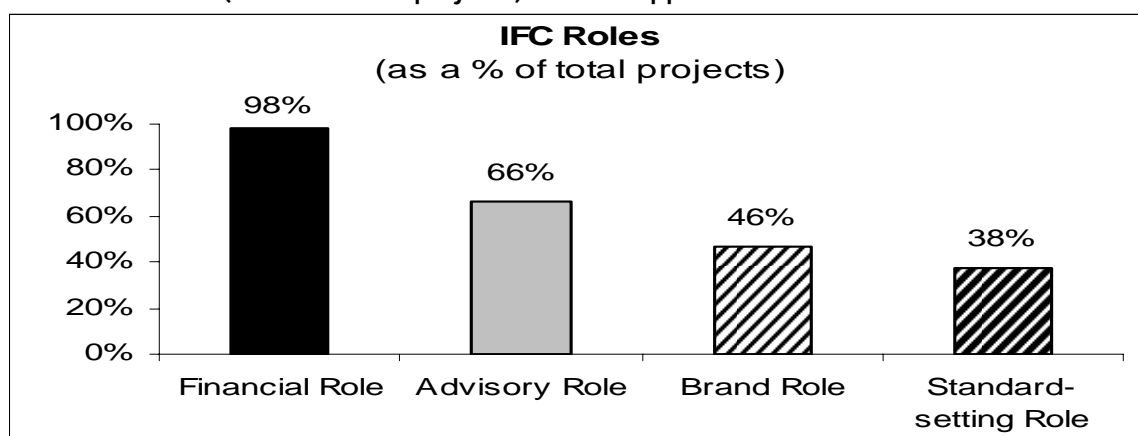
IFC has always placed great importance on its additionality in projects. A significant aspect of IFC's additionality, as anticipated by IFC's Articles of Agreement, is the provision of financing to support productive private enterprises where sufficient private capital is not available on reasonable terms. IFC also brings additionality to clients in many other ways, including through its expertise and value-added services, its preferred creditor status and objectivity, its results measurement (which leads to accountability and therefore performance), and its strong client relationships. Furthermore, different types of clients and projects will benefit from different types of additionality: smaller and less sophisticated clients benefit from financing and expertise not readily available from the private sector, whereas larger clients benefit from more complex financial products and value-added services, IFC's global knowledge and from its reputation, particularly in difficult sectors such as the extractive industries.

Over the past several years, IFC has striven to add real value to its clients in many new ways, from introducing local currency and other innovative financing, to building expertise in environment, social and corporate governance areas, to scaling up its advisory services offerings. It has also increased its frontier commitments, from \$619 million in FY02 to \$1.5 billion in FY06, and its local clients from 48% in FY03 to 63% in FY06. Furthermore, additionality can be viewed not only in the context of a given transaction but also in terms of how the transaction fits into the broader picture of what IFC is trying to achieve in the country and sector and with the particular client. (...)

Whilst additionality – beyond being the only provider of finance on reasonable terms – can often be hard to measure, IFC has undertaken a pilot study of FY06 investment approvals, grouping its expected role and contributions into the four categories below, illustrated in Chart I. A preliminary analysis of FY07 commitments shows similar results but with much greater emphasis on the standard-setting role.

- (i) *Financial Role.* Providing financial products and services not readily available elsewhere, and willingness to be a long-term partner. This includes the ability to create innovative structures designed to meet client needs and help them overcome regulatory barriers, which in turn helps to develop the business-enabling environment.
- (ii) *Brand, or "IFC" Role.* This includes IFC's ability to introduce clients to other financial institutions and investors as well as the perceived political and country risk protection and "stamp of approval".
- (iii) *Advisory Role.* This covers IFC's expertise in areas such as corporate governance, privatization, cross-country expertise and industry knowledge.
- (iv) *Standard-setting Role.* Under this category, clients valued IFC's environmental and social standards as well as expertise in energy efficiency and renewable energy.

Chart I: IFC Roles (as a % of total projects) – FY 06 Approvals



This analysis is supported by the results of IFC's annual client survey, which shows the top reasons clients choose IFC (in the most recent survey from 2006, these were financing terms, expertise, long-term partnership and perceived stamp of approval). (...)

Additionality with Advisory Services. IFC's Advisory Services enable the Corporation to reach locations and sectors where it would be difficult to provide investment services alone and often play a catalytic role in facilitating private sector investment. Advisory Services are in many cases integrated with investments (e.g. for access to finance, infrastructure, linkages, corporate governance, environment and social programs, etc.). This unique integration of high-quality investment and advisory services becomes a key element of IFC's additionality, and IFC uses a combination of in-house and outside expertise to provide the best service to clients. Another group of advisory assignments consists of advice to governments on investment climate issues. IFC has focused on some key product areas where it has strong expertise and value-added (e.g. regulatory simplification and investment promotion) and primarily in areas relating to implementation of reforms in specific sub-sectors (e.g. leasing). IFC provides additionality by leveraging these key areas of expertise, as well as the Corporation's position as a global development investor, its pioneering role in investment climate diagnostics (e.g. the *Doing Business Report*), and links with the World Bank. IFC coordinates extensively with the World Bank in participating in this segment, with the World Bank generally providing the broad policy dialogue. IFC also provides transaction structuring advice to governments (e.g. for PPPs) providing a unique service where government and private sector issues converge. Further, IFC provides advisory services in private sector capacity building for SMEs, and here it provides additionality by focusing on key products where it has a particularly strong and replicable position, drawing on its global credibility and investment culture, and on-the-ground expertise. IFC is undertaking extensive work to streamline and further focus this part of IFC's Advisory Services business on the areas of highest additionality.

[For further information ...](#)

ⁱ Excerpt from the Strategic Directions Paper FY08-10 (pages 18-21)