

Inter-Agency Roundtable on Additionality of Private Sector Development Programs and Operations Supported by International Development Institutions

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Opening Remarks by Peter Woicke, Managing Director, World Bank, and Executive Vice President, IFC

Thank you.

Good morning. I would also like to welcome all of you to this roundtable on additionality. This is certainly an important topic for our institutions and one where an exchange of ideas is quite timely. We at IFC have been working hard on these issues for several years now, and I think we have made quite a bit of progress. And I know that many other institutions have been grappling with these issues also. So a good exchange of ideas at this time is likely to help us all better understand each other and improve how we think about additionality and help us contribute better to our developing member countries.

I thought it would be useful as a way of introducing the general topic to give you some idea from my experience of the context in which “additionality” so often comes up – within the IFC, at our Board, and importantly, from our many other stakeholders and observers who care about what goes on in development institutions. Then I will conclude with some examples where I think our institutions are particularly successful in providing “additionality.”

First, within the IFC, the topic of additionality comes up constantly in our consideration of our strategies and our selection of projects. As a development institution we have a privileged and unique role in the world of finance. We have unique relationships with governments that allow us in many cases to invest in projects with lower risks than private investors. We have unique experience with the governments and the private sectors in developing countries. We also have unique responsibilities – to foster development in our client countries. Since the total finance we provide is quite small from the global perspective, our selection of where we invest to maximize our impact is a central issue.

So we don't want to just substitute for private sector finance. Our mission is to go where others won't; to lead, to pioneer new business models or markets. And we need to bring more than finance to be most effective. We need to improve the economic viability of investments so they have the largest impact on the countries where we invest. And we also as much as possible need to improve the environmental and social impacts of our projects. These are certainly some of the important aspects of additionality.

Further, we need to prioritize the types of investments that have the largest development impact in our client countries. This might mean favoring certain sectors, like finance or SMEs, where the leveraging impact of our investments on the economy at large appears to be particularly significant, or selecting particular projects with large demonstration effects. These are also important aspects of additionality.

So we try to address these issues in our project documents, our supervision and evaluation systems, and in our strategies.

At our Board we face these issues all the time. When we bring projects to the Board we are often challenged, “why is IFC here?” “Could the project have gone on without us” “What is IFC bringing to this project?” Over the last few years the Board members have increasingly focused on these issues, rather than the particular credit or market aspects of projects which in earlier times were often a focus of attention. Clearly our shareholding countries want to understand why the institutions they support serve a special purpose apart from the private sector.

Our Board also wants to know the overall impact we are having in our client countries; how our investments are contributing to development. Is the mix of our activities maximizing our impact? Can we better assess or measure our impact?

We also see many of these same issues raised by other stakeholders and interested parties. Of course we are scrutinized by other financial institutions to make sure we don't take away business or markets that they think they can develop on their own. Although I must say we haven't heard so much from these people lately.

We are looked at by NGO's, congressional committees and other outside parties. They may come from very different points on the political spectrum, but they often ultimately

ask the same questions: “what are you adding to your client countries?” “are you competing with the private sector?” “are you maximizing the development aspects of your investments?”

So this is the environment today. We need to have good answers to these questions. We need to know where and how we add value, and how to maximize our contribution to our countries.

I thought I would finish my remarks this morning by discussing a little bit the ways I think our institutions today are particularly successful in providing “additionality.” Maybe you can keep some of these examples in mind as you wrestle with the abstract ideas and procedures that will likely take a lot of your time at this conference.

To discuss these examples I am going to bring in just a little bit of the IFC jargon. That is I am going to be talking about “role” – which is what IFC brings to a project to improve it or make it feasible, and “development impact” – which is what the project itself contributes to the country. For IFC to be successful, we need to find projects where we have an important role and where the projects provide a high development impact in the country.

So first let me talk about role. For much of the 90’s the overwhelming trend in international finance to developing countries was the growth of private flows, most of which went to private companies. In this environment, we found ourselves being pushed

out of many of our traditional markets as lower cost private finance became available. In the second half of the 90's IFC responded by developing its "frontier" strategy, moving to higher risk, lower income countries and regions within countries, and in other countries to sectors with less access to international finance. This was our way of ensuring that we weren't competing with the private sector and had a strong role to play. We track our frontier strategy in our Corporate Scorecard and focus on role issues in our Board documents.

Today, our core strategy in this regard has not changed. But the reality on the ground right now is that the issue for our countries has been far more the drop in private investment, particularly debt finance, and the exit of strategic sponsors. So at this moment, the possibility that we substitute for private financiers is less of an issue than earlier, and the outlook is that this situation is likely to last for a while.

So the key aspect of our role now is making things happen that wouldn't otherwise. In addition to providing finance that others can't, we are finding today that we are more and more able to make special contributions to projects that enhance their environmental and social impacts. In earlier times it was technical and financial structuring expertise that was scarce and sought after. Today companies throughout the world are finding that improving environmental and social performance is not just good for society, its also good business. It improves relationships with employees and neighbors, reduces legal and other risks, and increases access to finance. In this environment, companies need a partner with in-depth experience with economic and social issues, and the IFC's

expertise, track record, and reputation in this area, built up steadily over the last ten years, provides a new unique contribution that we can make to our clients. This is certainly becoming a key part of our role.

We are also finding that we have a special role to play in fostering improvements in corporate governance. As direct investors in projects, we are often in an excellent position to influence various aspects of governance, and we can help build model structures that become examples of good practice to be emulated throughout the economy. So this too is becoming an important aspect of our role.

Turning more toward development impact of projects, I need to first note that the issues of development impact have become even more important today with the tight international financial situation than in the past. If projects are scarce and finance is scarce, what do we focus on to make sure we have the highest impact? We have some overall corporate goals that we start with. We have a particular focus on certain sectors that we believe are likely to have unusually high benefits to society, well beyond the financial aspects of the project itself. These sectors are financial markets, infrastructure, information and communication, health and education, and broadly the SME sector.

Further, in individual projects we look to select those that provide strong beneficial impacts on many of the stakeholders involved – not just on financiers, but on employees, customers, suppliers, competitors, industry broadly, the region, and society at large. I

think we are succeeding in finding these projects and let me give you a few examples to illustrate this from our recent approvals:

- In Cameroon, IFC and Proparco jointly provided credit enhancement to support a GSM cellular network company. This has especially high development impact for two reasons. First it greatly extends access to telecommunications in the country, including remote areas. Second, it is one of the first credit enhancements of a local currency loan for a major infrastructure project in Africa and should thus help other local and regional banks start to participate in long-term project financing for infrastructure projects.
- In Turkey, IFC has signed an agreement to provide a contingent loan facility for the country's leading reinsurer. The high development impact from this project stems from its role in filling the increasing gap in reinsurance available in the country. This will allow more underwriting of earthquake risk, which is critical for supporting the private sector. The project will also begin to offer reinsurance elsewhere in the region, and thus further development through replication of a successful and crucial business infrastructure.
- In Brazil, IFC has invested in a private healthcare electronic connectivity company. This project will improve the efficiency of healthcare by connecting healthcare payers and providers in the region, replacing manual systems. The project affects healthcare providers and suppliers broadly, and both reduces costs

and improves information transfer. IFC's investment is expected to have an important catalytic role by offering comfort to other investors in this sector.

These are just a very few of the examples. There are many others I could have cited. But maybe some of these examples will help you think about the issues of additionality.

Many of you in this forum are helping to develop the ways to measure and track our role and development impact, our "additionality". As I said before, I think we are making good progress. Today I think we have a clearer sense of how we add value and we are finding that we are developing better and clearer ways of explaining what we do to others. I hope this conference will push forward the work that's already started, to help us further refine our strategies and management techniques for "additionality" and also help us in our communication with each other and with the many others who have profound interest in our operations.

Thank you.