ECG
EVALUATION COOPERATION GROUP

Additionality:
A Stocktake and Discussion of
Multi-lateral Development Bank Approaches

A Working Paper prepared for the
Evaluation Cooperation Group

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Disclaimer: This working paper is a stock taking exercise. It is not a good practice note and does not aim to set standards or guidance for evaluation functions. It does not necessarily reflect the views of the ECG or its members.

Executive Summary

Additionality has long been part of MDBs' modus operandi and all institutions considered in this report regard it as an important feature of their public purpose persona. For many, additionality is a principle embedded in their Articles of Association. Yet, for all that, it is a subject that has been somewhat neglected until recently. With significant efforts made to improve the assessment and reporting of development impact in recent years additionality has the feel of a poorer relation. It is an opportune moment for that to change.

Shareholder interest in additionality has increased as attention has focused on the SDGs and as efforts have redoubled to leverage the private sector to support these goals. COVID-19 may have interrupted this path but it remains as important as ever to ensure MDB interventions represent good value of money. Sound systems for assessing additionality play an important role here in providing shareholder reassurance.

An MDB harmonization exercise two years ago prompted renewed thinking on additionality. Since then, the OECD-DAC has also returned to the issue. An ECG meeting in 2019 identified an interest in a deeper look at additionality systems across MDBs and led to the present study which looks at the practices of six MDBs (and four DFIs) in addressing additionality.

The notion of additionality – an intervention which makes something happen that would not have occurred otherwise – has its roots in MDBs wanting to avoid crowding out private sector finance. However, much has happened since the concept was first applied by the IFC in the late 1950s.

Sources of finance, and the number of actors, have grown rapidly: funds are available nowadays from a multiplicity of commercial suppliers, and numerous development banks and philanthropic contributors. The types of finance obtainable by commercial entities in developing countries have increased too - from venture capital to new financial instruments (such as securitisations, 'green' bonds, etc.) along with widespread donor resources.

The financial playing field has expanded substantially and has become much more complex. In many more traditional financial areas MDBs have in effect been crowded out by the private sector. It is less clear that MDB systems have kept pace fully with these developments.

Most MDBs have responded by seeking business in new areas, where private finance is less likely to be forthcoming. These involve situations of market failure and crisis conditions where MDBs risk-taking capacity and long-term perspective allows them to operate and encourage private investment. MDBs help to mobilise private capital and extend market solutions.

Tackling market failures has also meant a shift towards non-financial additionality where MDB knowledge and expertise is particularly important. Enhancing client capacity, raising standards of governance and improving environmental footprints and regulatory practices have strengthened MDB contributions to projects.

While accepting additionality is not an easy subject to deal with, either conceptually or in practice, the stocktake of MDB practices suggests there are limitations to the systems used for assessing additionality. Several MDBs are aware of this and have recently revamped their systems or plan to do so.

The Report considers the approach to additionality taken by MDBs and reviews the available information from a number of angles - from the strategic perspective to its operational implementation and assessment, questions of clarity and coherence, ambiguities, tensions and trade-offs, and questions of monitoring, reporting and evaluation – before drawing some conclusions and making some suggestions. Summary points include the following:

Clarity and Coherence

- There is no single consistent definition of additionality, though the concept of 'beyond the market' is common ground and typologies are increasingly in line among MDBs. While all MDBs declare additionality is important and have systems in place to address it practices vary and there is as yet no coherent overall story on additionality.

- MDBs consider the quality of their contributions to operations and the difference their inputs make, in the context of the theory of change, with an expectation that their contribution helps to deliver valuable development outcomes. Yet confusion can arise over lines drawn between additionality and development impact.

Strategic Matters

- While key MDB documents such as Strategic and Capital Reviews and Annual Reports sometimes mention additionality they generally offer little strategic depth on the issue. Assessment of additionality is almost entirely at project-level and in some respects trends are being missed, such as a possible weakening of standard MDB financial additionality.

- A greater strategic focus could be achieved through analysis of MDB additionality over time or within sectors or countries, and among financial instruments and client types as well as on non-financial dimensions.

- Strategic views could also help resourcing, where criticisms of the burden additionality assessment imposes are frequently heard from operational staff.

Operational Judgements

- Assessment of additionality *ex ante* is largely judgemental and mostly in the hands of investment officers. Evaluation can be difficult, especially where little evidence or clear reasoning is provided.

- One approach is to adopt *ex ante* rating systems which specify in some detail what counts and how to scale additionality components. This can help bankers' understanding and choices and carry through to *ex post* evaluation. But it may feel a bit rigid or mechanical; and rating systems have their own pluses and minuses.

- Another approach makes use of quasi-independent reviewers (usually economists) who are integrated into the decision-making process and this may help evaluators later on, especially on financial additionality.

- Other routes offer detailed guidance on what to look for under additionality, supplemented by model examples.

Tackling Ambiguities

- Mobilisation of additional finance forms part of financial additionality and is an increasingly important part of MDB business yet differences in definition and interpretation exist. Agreement has been reached among MDBs on reporting requirements for mobilisation.

- Repeat clients are not always treated in the same way among MDBs. It is also the case that when several MDBs finance the same project there is no mechanism to ensure additionality assessments are made on a consistent basis.

- Additionality through improvements in standards, e.g. environmental and safety standards, can be subject to different interpretations – sometimes seen as regular compliance as per loan agreements, sometimes as driving local norms forward.

- Incorporation of various forms of financial advantage in MDB products and services – cheap or blended finance, donor- or trust-fund supported technical assistance, non-market guarantees, subsidies – may distort the playing-field, result in windfall gains and deadweight losses, and complicates the assessment of additionality. This is becoming an increasingly pressing issue as MDBs look to donors and others to provide finance in order to take on greater risks.

Monitoring, Reporting and Evaluating

- Successful evaluation of additionality depends on well-prepared baselines and counterfactuals, good data, clear articulation of intentions and implementation paths, and evidence of delivery. In practice, variations in quality arise over the specification of additionality sources *ex ante*, the quality of supporting evidence, counterfactual assessments, delineation of expected effects, and the use of indicators, benchmarks and timings.

- Monitoring of additionality claims is generally weak, patchy and uncoordinated and is matched by minimal collective 'in-flight' (non-sovereign) project reporting. Governance is also unclear.

- Transparency on additionality – e.g. annual reporting, summary information before Board approvals – could be enhanced. Public disclosure supports feedback and potential interest in lessons derived from evaluations.

Assessing Trade-offs and Tensions

- Additionality is part of the project decision-making process and there may be a trade-off between additionality and profitability or business volume, though evidence for this is unclear. Similarly, there may be occasions when strong expected development outcomes are pursued in spite of a risk of crowding out some private finance. And no definitive view appears to exist on whether non-financial additionality is sufficient for a project to go ahead.

- Other tensions arise. For example, additionality is measured against commercial sector alternatives but in some cases another MDB may be the relevant alternative. Mobilising finance is easier when commercial investors are ready and willing to commit but this is more likely when financial additionality more generally is weak.

- In some MDBs additionality is not considered in public sector projects even though similar principles apply and private finance might be an option.

Additionality and Expected Contribution

- Sustainable development requires the transfer of human capital as well as financial capital. Climate change goals, better governance, gender equality rely on behavioural, institutional and regulatory change (as well as finance) where MDBs have comparative advantages. Hence MDB additionality is both finance- and knowledge-based.

- MDBs add value by carefully selecting, designing and strengthening projects through appropriate finance and its structuring, mobilising other funding, implementing quality standards and by working closely with clients as they execute their plans. Policy engagement around projects adds further value.

- Efforts here, and the inputs involved, are more than 'do no harm' but also 'do some good': additionality is not simply 'yes or no' – after all, some form of finance is usually available in the market but is always less attractive than a long tenor, low cost loan. Of central interest is the overall value of the MDB's 'contribution', i.e. the probability the MDB's input is additional and the difference it makes.

Evaluating

- Greater consistency in approach to additionality is possible across MDBs (without loss) from which all would benefit: management, evaluators and the public alike.

- Common definitions of sources of additionality, use of agreed indicators and benchmarks, and consistent levels of ambition on standards would assist evaluation, as would client and competitor surveys and other means of testing the plausibility of additionality claims *ex post*; while common databases for financial market information would be in every MDB's interest.

Some suggestions for enhancing practices:

1. **Evaluators** and **management** might consider whether additionality deserves more prominence and a greater consistency of approach.

2. One **option**, consistent with the theory of change, would be to bring together under one comprehensive umbrella mechanisms measuring inputs (additionality) with those measuring results (development impact) to create a seamless end-to-end project assessment system.

3. **Evaluators** and **management** might consider the value of a higher-level basis for understanding additionality, which could point up where efforts might be targeted. This could come from more comprehensive information on:
   - Market 'gaps',
   - Contemporaneous financing conditions and related market data repositories,
   - Local ESG and other standards,
   - Areas approaching 'graduation' from MDB assistance, and
   - MDB comparative advantages

   Portfolio assessments might also be considered alongside individual projects.

4. An **option** for **management** to consider is adopting a 'proportionate' or targeted approach (based on likely additionality) which could free up resources to allow a focus on more contentious areas of additionality.

5. Clear practical guidance on sound ex ante additionality practices looks to be a relatively easy step forward which **evaluators** and/or **management** could provide.

6. In principle, agreement might be sought among **MDBs** to use similar definitions when citing mobilisation as a source of financial additionality.

7. Wider MDB targeting of mobilised finance and its importance to meeting the SDGs suggests that this component of additionality might be separated out as a focal point to yield **three core dimensions** of additionality: financial, mobilisation and non-financial.

8. **Operations**' teams could help pin down the 'extra' from succeeding projects by articulating how additionality is served by the developing relationship.

9. **Evaluators** might consider whether a harmonised approach towards setting standards, graduated on a consistent basis e.g. against local, regional and international yardsticks, is desirable.

10. **Evaluators** need to be part of the debate on blended finance and use of subsidies to be in a position to consider the implications for additionality.

11. A close look at the use of **blended finance** by each MDB and the extent to which it impinges on additionality and leads to possible crowding out and deadweight costs would be a useful starting-point.

12. **Evaluators** could take a systematic approach to cataloguing performance in the monitoring and reporting of additionality.

13. One area of focus for **evaluators** could be additionality monitoring and reporting systems, including their governance and that of additionality more generally, and coordination with other areas (such as TA), data handling and IT arrangements.

14. **Evaluators** could seek from **management** a shift towards a presumption of disclosure on additionality.

15. **Evaluators** may wish to identify additionality trade-offs and tensions and potential solutions.

16. **Evaluators** might look at whether a 'unified', or more consistent, approach to public and private sector additionality deserves consideration.

17. An MDB's **contribution** (beyond alternatives) to a project provides the counterpoint to development results and helps make clear what additionality means today.

18. In addressing additionality **evaluators** should look for:
    - Integrated systems,
    - Proper specification of key additionality sources – why they are needed and what would happen without them,
    - Clearer statements of expectations,
    - Use of supportive evidence,
    - Effective monitoring of implementation,
    - Explicit reviews of delivery performance, and
    - Greater transparency

19. **Evaluators** should be encouraged to pursue comprehensive evaluations of additionality from time to time.

I. Introduction

Background

Shareholder Context

Additionality is, and always has been, an important part of MDBs' modus operandi. Nonetheless it has been somewhat neglected as a topic until recently. Shareholder interest has increased as efforts have redoubled to leverage the private sector alongside public institutions to meet the Sustainable Development Goals (SDGs). In 2017, for example, under the Italian Presidency of the G7, there was a call on MDBs to look at additionality. This resulted in joint work by an MDB task force towards adopting a more harmonised approach; and just recently the OECD-DAC evaluation network has begun some further work on the subject.

Evaluation Cooperation Group Context

The Evaluation Coordination Group (ECG) has similarly expressed an interest in the issue. Following its meeting in Thessaloniki in 2019, a study was requested by ECG members to look into the definitions, assessment methods and reporting of additionality by MDBs. A Working Group led by the EIB and IEG was established to follow up the request and a report was commissioned on the topic this year, prior to the onset of the Covid-19 crisis.

The report has gone ahead notwithstanding the severe economic implications of the SARS-CoV-2 disease and the various complications it has brought. MDB additionality may seem less immediately pressing in such a crisis when commercial investment opportunities and risk-taking have shrunk back. It remains relevant nonetheless. Not only is there a continuing need for sound finance in the face of ballooning public debt but there is an opportunity to strengthen additionality systems and align them better for the future while pressures on additionality remain less acute.

The report looks in detail at six MDB members of ECG who agreed to take part in the exercise. These are, in alphabetical order, the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Development and Reconstruction (EBRD), the European Investment Bank (EIB), the Global Environment Facility (GEF) and the International Finance Corporation (IFC).[1] The report also includes a brief look at the treatment of additionality in four major DFIs: CDC, DEG, FMO and KfW.

Purpose

The purpose of the report is twofold. First, it looks at the state of play on additionality within and across MDBs (and some DFIs) with a view to contributing to ECG members' understanding of

[1] For simplicity, although independent evaluation groups go under different names these have not been spelled out here. Naturally, they are included in the work.

the current treatment of additionality and the context for its evaluation. This is primarily a stocktaking exercise looking at how additionality is defined and managed on the one hand and how it is operationalised and evaluated on the other. The goal here is to illustrate similarities, areas of congruence, differences and gaps.

Second, the report draws on the results of this stocktake to offer a potential guide to good and improved practices and raises some issues for discussion. The assessment and discussion lead towards a number of conclusions on additionality more widely. From this perspective some suggestions are made which aim to help both management and evaluators address and strengthen arrangements on additionality going forward.

Approach taken

The report is based on desk work and interviews with selected management, operations and evaluation staff. Primary sources of information are key MDB reports, Board submissions and internal systems and guidance on additionality. These include articles of agreement, annual reports and strategic reviews, development effectiveness reviews, project assessments for Board approval, documents on policies and on additionality systems, operations manuals, guides to project completion reports and evaluations and relevant examples, and suites of evaluation reports from annual evaluation reviews to project cluster analyses and, where they exist, evaluations of additionality. The task of compiling information on additionality has been made harder by the fact that relevant material is patchy and spread thinly across institutions and time. The work was supplemented by reference to various external analyses and commentaries on additionality.

A series of semi-structured interviews with MDB staff involved in dealing with additionality issues, covering both principles and practices, accompanied the desk work. Interviews were conducted with management and operations staff and evaluators separately.

Some Caveats

The report aims to provide a snapshot of recent approaches towards additionality across the participating MDBs based on material provided by these organisations and information obtained from publicly available sources. It is not intended to be exhaustive and the author’s interpretations may have underplayed or missed points that interlocutors and others see in different ways. Corrections, comments and suggestions are of course most welcome.

Points for discussion are just that. They represent views and ideas that may be worth airing more widely as an aide to deciding how to approach the evaluation of additionality and identifying areas for its improvement. The suggestions made at the end of the report are the author’s own and do not represent the views of any participant or those of the ECG.

Report Structure

Following this introduction (Section I) there are four parts to the report. Section II provides an overview of the role of additionality. This is followed by assessments from the stocktake which, drawing on material provided in an annex, compares and contrasts the approaches this set of MDBs take towards additionality. This part of the report, Section III, considers five specific areas relating to additionality: mandates, definitions and strategies; operations *ex ante*; monitoring; operations *ex post*; and evaluation. Section IV raises a number of points for discussion based on the findings while Section V completes the report with some conclusions and suggestions going forward.

A number of Annexes are included: on how each MDB approaches additionality; data sources used by the IFC; additionality examples as presented to MDB Boards; in self-evaluations; and in validation exercises by evaluation departments. Approaches to additionality by each of the four DFIs mentioned above makes up another Annex. The last Annex lists those interviewed and gives the content of questions broadly addressed.

II. Overview: The Role of Additionality

What is Additionality?

In its simplest form an intervention may be described as additional if it results in something that would not otherwise have occurred. Yet ascertaining what would have occurred in the absence of the intervention – the counterfactual – is conjecture, not fact; and it is a difficult judgement to make. As a result, the assessment of additionality is by no means straightforward.

The concept of additionality has a wide application, from the domestic economic appraisal of public projects to the assessment of the investment operations of development finance institutions (DFIs). Thus, for example, the UK's HM Treasury definition in its *Green Book* on appraisal and evaluation states:

> "Additionality is a real increase in social value that would not have occurred in the absence of the intervention."[2]

While the *MDBs' Harmonized Framework* describes additionality in interventions by MDBs to support private sector operations as:

> "A contribution beyond what is available in the market and [which does] not crowd out the private sector."[3]

These two definitions illustrate one of the difficulties inherent in the way additionality has been interpreted and deployed among DFIs and elsewhere. The MDB definition focuses on the particular contribution to the project from the intervention that would not otherwise be available whereas the HM Treasury definition looks at the increase in social value, or equivalently development value, that results from the intervention. Both look at the change against the status quo ante but one focuses on inputs by the MDB, the other on outcomes of the project.

Different approaches are also seen in the literature on additionality. In fact, there are many ways in which the term is used. A review by ADE on core concepts in relation to blended finance identified at least 14 different types of additionality.[4] A recent GEF paper, in looking at academic studies in four main areas, refers to authors who quote even up to 23 variations in types of additionality.[5] Some studies focus on input additionality, others on particular dimensions such as risk, sector or regulatory additionality, and some concentrate on outcome additionality. The

[2] 'The Green Book: Central Government Guidance on Appraisal and Evaluation', HM Treasury, 2018, p.109
[3] 'Multilateral Development Banks' Harmonized Framework for Additionality in Private Sector Operations', Report prepared by a Task Force of nine MDBs, September 2018
[4] 'Blended Finance and Evaluation: an Assessment of Core Concepts', draft working paper for the OECD DAC (EvalNet), 2020
[5] See Gillenwater (2012) who mentions 23 different types of additionality used in climate policy interventions and Valatin (2012), who mentions 22 types, cited in 'An Evaluative Approach to Assessing GEF's Additionality', GEF 2018.

OECD-DAC refer to three types of additionality: financial[6], value and development additionality where, in the case of 'development additionality' "the development impact would not have occurred without the partnership between the official and private sector."[7]

A multiplicity of definitions of additionality creates a degree of confusion. This is compounded by difficulties in measuring additionality. Limits to discovering alternative market finance options, especially in less developed markets, exacerbates the problem. Several authors have noted that it is impossible to measure additionality with certainty "since we can never have perfect knowledge of relevant factors such as the behavior of financial markets in each country or the willingness of business to take a risk".[8] In a recent statistical analysis of additionality Carter et al (2018)[9] conclude that "rigorous evidence of additionality may continue to elude us" and suggest that a probabilistic approach provides a better route to its assessment.

Additionality in the causal chain

The concept of additionality is nonetheless important and has formed part of MDB's business approaches since the earliest days. Mechanisms to understand the role of MDBs have been developed through the 'theory of change' to consider both inputs and impacts. The causal chain – from input to output to outcome to impact – allows analysis of the stages of progression of a project and its effects from start to finish and beyond. In this context, additionality relates to inputs associated with an intervention, leaving development impact to a separate assessment which looks at the results of those and other inputs, along with external factors, behaviours and so on. Additionality still has a bearing on development outcomes however since the size and quality of inputs ultimately affects the results.

Conceptually additionality is the effect of the MDB on the project whereas development impact is the effect of the project on society. Where systems of MDB assessment are well integrated they allow these causal chains to be properly articulated: additionality and impact can be separated and are more easily dealt with (although they remain difficult to measure).

Recent MDB work has confirmed the value of focusing additionality in this way and that it is most likely to be met when the commercial sector is unwilling or unable to take on certain risks. According to the *MDBs Harmonized Framework*,

> "Additionality is closely related to MDBs' development mandates. The opportunities for MDB interventions to be additional arises from the presence of market failures … whereby

[6] The definition of 'financial additionality' here is "[where] an entity cannot obtain finance from local or international private capital markets with similar terms or quantities without official support, or if it mobilises investment from the private sector that would not otherwise have invested." Differences of interpretation with MDBs may arise when official support is taken to include blended finance or subsidies.

[7] 'Private Sector Peer Learning', OECD, 2016

[8] Africa Enterprise Challenge Fund, 2012

[9] 'The Elusive Quest for Additionality', P. Carter, N Van de Sijpe and R. Calel, Center for Global Development, Working Paper 495, September 2018

> the specific attributes of MDBs allow them to offer finance … which lower such risk or its perception."[10]
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> "Additionality is different from development impact. Additionality refers to key financial and non-financial inputs brought by MDBs … to make the project or investment happen … or improve its design and/or development impact. Development impact captures the development results that the project or investment is expected to deliver. The unique inputs and attributes provided by MDBs – as sources of additionality – are essential for development impact to actually materialize, but the concepts are distinct from one another."[11]

In other words, for MDBs additionality is a necessary pre-condition for the successful development of a project and its impact but it is not sufficient; nor does it guarantee attribution of impact to the MDB. There are cases where additionality is clear, e.g. the use of a new financial instrument, but where the expected impact does not materialise (take-up is low); and other cases where there may be strong development outcomes (e.g. reduced pollution) but where the results turn out to have little to do with the MDB's additionality (e.g. an effective tax or separate regulatory change is introduced).

Why does Additionality Matter?

Additionality is a fundamental principle behind MDB operations and stands alongside key goals such as financial sustainability, growth and impact. In some ways its purpose is less compelling than other objectives since one of its roles lies in ensuring MDBs carry out their tasks properly as public bodies. However, it does help answer important prior questions such as 'Why is the MDB needed?' – to which the answer is generally 'To tackle a market failure, or 'market gap', or address a sub-optimal investment situation' – and 'If so, what unique inputs does it contribute to the task?' – to which the answer can be found in a list of specific attributes, measures and conditions applied by the MDB to the problem.

MDBs not only aim to avoid crowding out the private sector but they also add value. This can be seen through their ability to increase the availability of (long-term) funds, tackle market gaps by taking on more risks than the commercial sector, leverage commercial and other finance for development and improve the quality of operations in various non-financial ways.

Additionality matters because correctly applied it supports value for money for shareholders, and the taxpayers that they represent, promotes private sector development and encourages sound project selection and design.

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[10] Ibid., p.6

[11] Ibid., p.7. Although not pointed to directly in this definition it might be noted that MDB additionality can also aim to effect changes in the behaviour of clients as part of its contribution to a project.

It would be inappropriate for an MDB to finance a project that could be done equally well by others. Not only would this be poor public finance practice since it may involve deadweight costs but where the MDB substitutes for private sector finance it crowds out legitimate actors most governments wish to encourage and may hold back private sector development.[12] Indeed, this is consistent with the logic of the 'cascade' approach in which it is appropriate to decide first whether an efficient private sector solution can be found before turning to public funding.

In determining that there is no alternative way of financing a (viable) project for the same cost and quality, an MDB's additionality gives grounds to think that this can represent a good project choice, one where the supply of finance is extended to meet demand that would otherwise be unmet. From a development point of view passing an additionality test should increase the range of projects that get financed and thus increases investment and helps a country develop. Where the strength of the MDB's additionality is taken into account the quality of inputs and project design, and the scope and scale of the MDB's involvement, are relevant factors in the choice calculation. Incentivised appropriately the pursuit of additionality can lead to innovative financial solutions and a push into new areas.

By focusing on additionality - for some MDBs value added or contribution - better project choices and designs can thus be made (including through the reduction of risk), especially where there is a good understanding of how additionality and its sub-components affects the performance of the projects themselves.

It is also clear that the bigger the market gap the MDB is attempting to address, the more likely it is that it will be additional. And the more effectively an MDB contributes to an operation in terms of financial and non-financial inputs, including their quality, the more important its additionality will be in influencing the performance of the project and the expected development outcomes.

Additionality is hard to assess

While it is clear that additionality matters it is nonetheless not easy to evaluate. Conceptually, financial additionality is already hard to determine in a non-transparent marketplace. Not only can it not be observed directly *ex ante* and depends on market circumstances at the time (which can sometimes change rapidly from day to day) but it is almost impossible to assess five or more years later when projects approach completion and *ex post* assessment. Evidence of financial additionality depends on project leaders' judgements, provision of comparative market information where available (usually the privy of market participants rather than evaluators) and, indirectly, on subsequent events, such as the exercise of waivers, prepayments and cancellations.

[12] Furthermore, a windfall effect from providing cheaper financing for a project which could be financed from private sources is equivalent to a transfer of public funds into private hands without any counterpart value.

Direct mobilisation of finance ought to fare better but faces issues of definition, viz. how wide should mobilisation be drawn? And also, of attribution – do all MDBs count in a multiparty transaction or only the lead player?

Non-financial contributions are in principle easier to assess but in practice evaluations are hampered by a lack of clear expectations of value added, poor monitoring of implementation and the limited use of benchmarks and delivery dates.

Since projects take time to evolve and deliver results, unexpected events can occur in the interim. In some instances, these involve further interventions by MDBs that were not anticipated at the start of the operation. These need to be included as part of any assessment but depend on proper documentation and follow-up.

The Evolving Nature of the Additionality Landscape

Additionality features in most MDBs' Charters or Articles of Agreement. From the first Agreement with the IFC in 1956 to the most recent, the AIIB in 2015 - which uses the same formulation as the ADB from 1966 - the requirement is the same: 'don't crowd out the private sector'. From a legal point of view little has changed in the lifetime of the MDBs.

The financial landscape in which MDBs and other DFIs operate however has changed beyond recognition since the World Bank and the IFC as its private sector arm first arrived on the scene. Even more recent comers like the EBRD have seen radical changes in finance in their regions in recent decades. Finance for development, has grown substantially and much faster than the rate of economic growth of investee countries themselves. For example, private credit by deposit money banks as a percentage of GDP more than doubled in Brazil, China, India, Mexico and South Africa between 1990 and 2017, and increased faster still in Morocco, Chile, Nigeria, Philippines, Thailand and Turkey. JP Morgan Chase's balance sheet today is more than four times the size of that of the World Bank Group. [13]

These days many financial instruments, including some more complex structured finance options, are available in emerging markets, and liquidity has been plentiful following falls in interest rates and quantitative easing since the global financial crisis.

Economic progress has also helped many countries progress from a lower middle-income status with rudimentary financial markets to become middle income or upper middle income countries (albeit with some remaining market volatility) and better able to attract international finance. They have become much more financially sophisticated and many have developed their own local finance options. It is a sobering thought that in the space of a few decades four Chinese banks have become the largest in the world, each with total assets far in excess of their nearest Japanese, US, UK and French counterparts.

[13] World Bank Group (IBRD, IDA, IFC, MIGA) Finances, FY 2020; JP Morgan Chase 2019 Annual Report

The number of MDBs has increased too, from a handful in the early days to some 25 or so currently, with a large increase in financing capacity. Efficient competition among public institutions requires effective regulation and oversight however and in its absence the risk is that MDBs crowd each other out (and other DFIs) rather than optimize their capital and additionality.

Whereas MDBs may have been noticeably financially additional in emerging markets 30 or even 20 years ago they no longer are so to anything like the same extent in standard finance, although they can play an important role in mobilising additional resources. Broadly speaking, conventional financial additionality among MDBs appears to have become harder to justify as a consequence (though more concrete evidence on this is needed).

MDBs' financial additionality nonetheless tends to stand out at times of crisis, at least temporarily. In this respect, the immediate situation facing the world in the midst of the Covid-19 crisis puts a new complexion on the matter globally. Irrespective of current circumstances, additionality remains strong in weak and fragile markets.

However, many countries where financial additionality is clear are economically small and complicated, with high costs of doing business, and this militates against business volume growth, a key driver for MDBs. Pursuing innovative finance in more advanced markets is also hard and remains a niche area. MDBs have increasingly looked to non-financial aspects of their activities as a means to demonstrate their additionality.

The role of non-financial additionality has grown as MDBs exploit their comparative advantages relative to other market participants. MDBs' abilities to mitigate political, legal, economic and other risks through their particular legal status, scale of operations, reputation as honest brokers and builders of long-term relationships, facilitators of support via technical assistance (TA) and trust funds, access to governments and convening power stand out. Their world class expertise and implementation capacity provide knowledge transfer and reassurance to clients particularly in more fragmented and less developed sectors where the participation of international companies (who often have strong expertise) may be less common.

Moreover, regulatory requirements have increased over time in most countries allowing MDBs the opportunity to supply expert advice to authorities and others involved. Associated with this trend are MDB efforts to raise standards, especially on environmental, social and governance matters where their knowledge and ability to access supportive donor funds for technical assistance lies beyond the reach of most private sector participants.

These attributes have allowed MDBs to remain additional over time despite the rapid rise in overall financial intermediation. Nonetheless, continuing vigilance to ensure that MDBs are genuinely additional is needed. It is less clear how successful this has been as these trends have developed.

In parallel, there has been a rise in the use of donor and concessional funds by MDBs. These increased rapidly after 2010 with concessional finance used to support private sector projects reaching over US$ 1 billion by 2018[14] and IFC's blended funds under management for example increasing more than fourfold between FY 2010 and FY 2018.[15] In poorer countries grants and concessional funds are often needed to get projects off the ground. Crowding out of private finance is less of an issue in these contexts and MDBs can clearly add value by investing in well-designed infrastructure projects for example. Elsewhere, however, the use of concessional funds and blended finance, which lowers its cost, blurs additionality. It can also disrupt the balance among DFIs and the need for them to remain complementary to one another.

Another fast-developing area that affects MDBs additionality is found in the use of philanthropic, ESG and impact funds. These methods of finance, like those used by MDBs, seek to promote higher standards and provide knowledge, innovation and capacity building to clients (companies and public authorities) in developing countries. Many institutional investors are interested in supporting ESG goals. A recent IMF Global Financial Stability Report[16] finds a very rapid growth in the number of funds with an ESG mandate: from 300 equity and 75 fixed income funds in 2004 to 1500 and 400 respectively by 2018. Assets under management by these funds have increased from US$ 400 billion in 2010 to US$ 850 billion in 2019 (year to September) while sustainable bond issuance has grown from around US$ 5 billion in 2012 to some US$ 200 billion in 2018. Although much of the increase relates to developed countries there is a clear direction of travel and represents a new type of competition to MDBs' and their additionality.

In sum, the finance space MDBs once inhabited has become crowded. MDBs' additionality is increasingly constrained within their traditional fare and in more developed markets. Plain vanilla MDB financial additionality no longer stands out. A good understanding of current additionality and its delivery could help MDBs move further into innovative and potentially more challenging areas.

Strategic and Shareholder Perspectives

MDBs and DFIs, as well as donors, official development departments and agencies understand well the role additionality plays and its value. Shareholders are conscious that the concept is embedded in Articles of Agreement and all MDBs have mechanisms in place to help their Boards consider it. Yet strategically and operationally additionality has received less attention than might have been expected given its importance – and given wider developments in finance.

[14] 'DFI Working Group on Blended Concessional Finance for Private Sector Projects', Joint Report, October 2019 update.
[15] 'Blended Finance: the rise of the returnable capital contributions', A. Karlin and K Sierra-Escalante, IFC Note No. 72, September 2019
[16] Global Financial Stability Report, IMF, October 2019.

Pressures to provide information on development results, particularly to justify capital increases and progress towards the SDGs, has meant most shareholder attention has been paid to questions of development impact. Additionality has been the poorer relation.

In some respects, however, this has begun to change. Starting with the *Principles to* Support *Sustainable Private Sector Operations*, endorsed by MDB Heads in 2012, followed by G20 efforts and a G7 request to MDBs in 2017 under the Italian Presidency to look at additionality some momentum has built up on the issue. Other pressures, e.g. on public sector resources and a desire to optimize MDB balance sheets, have helped. MDBs responded in 2018 with the *MDB Harmonised Framework for Additionality in Private Sector Operations*. In parallel the donor community, represented by the OECD DAC, are also considering additionality once again.

A further look at additionality is thus opportune.

III. Approaches taken to Additionality by MDBs

1. Introduction

Overview

This part of the Report looks at how the set of MDBs investigated approach additionality in their operations and more strategically. It is based on documents reviewed (including some internal papers made available to the author) and interviews with selected staff. It is not exhaustive and aims to provide a snapshot of the current situation across these organisations. Further detail on each MDB is available in Annex A and the material here is largely based on that information.

After a brief summary of the current state of MDB systems and latest evaluations the picture is considered in five sections: additionality as seen through,

- Mandates, definitions and strategies;
- Operations ex ante;
- Monitoring;
- Operations ex post; and
- Evaluation.

Some issues for discussion follow in the next part of the Report.

Additionality Systems and Evaluations

In most MDB cases examined, additionality systems have either recently undergone significant changes or are in the process of doing so. Thus, IFC and the EBRD introduced enhanced systems in 2018 while the EIB is currently in the process of strengthening its framework for additionality. The African Development Bank's Additionality and Development Outcomes Assessment (ADOA) system, which has been running for around 10 years is expected to be revamped this year into next (to ADOA 3.0) for implementation in 2021. The ADB is looking at creating an *ex ante* tool for development impact although it is unclear if this will incorporate additionality aspects. Table 1 summarises the latest picture.

There has also been an increased focus on evaluations of additionality in these institutions. IFC in 2015[17] and the EBRD in 2017 both reviewed additionality ahead of major changes to systems, helping operations teams and management to build better arrangements, while the GEF introduced a new approach to evaluating additionality in 2018. An evaluation on the first iteration of AfDB's ADOA system was published in 2014 and an evaluation of the latest version of the system is under way. ADB intends to begin the process of evaluating additionality in the near future, as does IFC once again a little further ahead.

[17] An earlier study was conducted in 2008.

Table 1

Additionality Systems and latest Additionality Evaluations					
MDB		**Latest Approach**	**Date of Introduction**	**Evaluation Date**	
IFC		AFw	2018	2015	2022†
EBRD		EAA	2018	2017	
EIB		Strengthened additionality framework	under development		
		3PA (EU)	2015, updated with EFSI	2016 and 2018 (EFSI)	2021† (EFSI)
		ReM (non-EU)	2012		
AfDB		ADOA3.0	2021†	2021†	
ADB		Development Impact FW † ×	2020 †	2021†	
GEF				2018	
		× Additionality unclear	† Planned		

2. Mandates, Definitions and Strategies

Articles of Agreement, Charters and Regulations

MDB mandates are similar in that they are designed to provide finance for economic development. There are some differences in these institutions' objectives in that the EIB's primary focus is on the EU (an advanced region) and the GEF is a largely grant-giving organisation working closely with and through MDBs and other DFIs. Public sector operations dominate in three cases (AfDB, ADB and GEF) while the IFC, EBRD and EIB are either fully or mostly private sector oriented.

The need to be additional in their operations is incorporated in the Articles of Agreement of all five MDBs (the GEF has a different model). These Articles were established a long time ago, with the EBRD's AEB the most recent and signed in 1990. The focus of these Articles is primarily to ensure the activities of the MDBs do not crowd out private finance and that they conduct their business with the private sector on commercial terms.

The standard formulation, reflected in the Articles of all five MDBs here, implies that operations should not be undertaken “where finance is available elsewhere on reasonable terms”. There are some nuances. AfDB, EBRD and IFC all state “shall not provide finance [where other finance is available, etc.]” (my underlining) while ADB’s formulation is simply “pay due regard”. EIB turns the formulation the other way around: “The Bank shall grant finance to the extent that [other] funds are not available … on reasonable terms”. The EBRD and IFC add the word “sufficient” to “[other] finance” to make clear client’s efforts should come first but allowing room for its scaling up, and clarify that the terms they impose are “those normally obtained by private investors for similar financing”. This ensures that the extra finance not otherwise available is supplied on a commercial basis.[18] In the Explanatory Notes to EBRD’s Articles a comment is added that “its financing should not compete with other organisations; rather it should complement or supplement existing financing possibilities”.

While there are some variations in the legal language surrounding additionality, which may have affected how institutions have conducted their approaches to it, the main feature of these Articles lies in its ‘do no harm’ approach. That is, the overriding requirement is to ensure that there is no reasonable alternative finance available when conducting business operations. This reflects the starting point of MDB finance as a complementary product rather than one competing with the market, as indicated in the EBRD interpretation above.

Non-financial additionality was not a specific feature in these formulations but the use of the word ‘conditions’ leaves room for some of these elements. There is however no suggestion that the value added or contribution of an MDB to its operations should be considered part of its methods or operating principles. The Articles define the purpose of the finance in terms of development, transition to market-oriented economies, and so on, but are silent on any role for additionality in providing useful inputs and/or well-designed projects that enhance development prospects.

It is perhaps of interest to note the broader direction taken in EFSI, a large EU programme executed by the EIB introduced relatively recently (in 2015) under EU Regulation. The approach here is more direct in that the term additionality is explicitly used. It is taken to apply to “operations which address market failures or suboptimal investment situations and which could not have been carried out during the period … without EFSI support.” There is also language that EFSI operations “should not be a substitute for private market finance or products provided by national promotional banks …” A notable point is the focus on market failures and sub-optimal investment situations (effectively referring to the consequences of major financial downturns) as a dimension of additionality. In other words, inclusion of an active role of an MDB

[18] ADB and EBRD add ‘and conditions’ explicitly to ‘terms’ in the main requirement for recipients. IFC adds it only in relation to its own business.

in addressing a specific problem (and aspiring to do some good) as well as not substituting other finance.

Definitions and Interpretation

The legal position makes clear that it is a requirement that MDBs should not get in the way of commercial investors in their financing of projects. Beyond this, however, the interpretation of additionality is left to individual institutions and their managements. This has allowed definitions and interpretations of additionality to vary among MDBs and these have not remained fixed over time.

For a concept so central to MDB operations it is surprising there is no agreed single precise definition and that clearer guidance on its interpretation has taken so long to develop. This reflects perhaps the nature of the concept itself where agreement is hard to find, including among academics. Conflicting pressures from other priorities – especially business volume growth and need to demonstrate impact and profitability – have also meant less attention has been paid to additionality, allowing judgements to become ad hoc rather than systematic and leaving scope for interpretation as circumstances dictate.

There is nonetheless much in common among MDBs in how they approach additionality in private sector operations. This has been encapsulated in the recent *MDB Harmonised Framework*. Its effect can be seen in the extent to which several MDBs have incorporated, implicitly or by design, the definitions and approach advocated there. The strongest similarities to this framework are seen in AfDB, ADB, EBRD and IFC all of whom refer in their latest definitions of additionality to operations which involve a 'contribution beyond the market'. Three of them (ADB, EBRD, IFC) also refer to 'no crowding out' and make clear that additionality is about inputs. (IFC talks of 'unique' inputs.) In its *Enhanced Additionality Approach* the EBRD draws the distinction between inputs (additionality) and outcomes/impact as follows:

> "Additionality refers to the Bank's influence on the project while transition impact refers to the influence the project has on the market, economy or society."

There are some other useful pointers in recent materials to how some of these MDBs in their interpretations and definitions see additionality. The AfDB considers the contribution of DFIs as a whole rather than the AfDB's input alone, recognising that their contribution may be small and attribution to the various participants difficult.[19] IFC talks of additionality – implying a scalar value - being able "to strengthen the project and increase the chances of its success" while EBRD notes the "magnitude and quality of the Bank's impact on the existence, design and functioning of the project" forms part of the additionality judgement; and that the opportunity for

[19] It is of course also logical to recognise that the interests of overlapping shareholders is better served by considering DFI additionality together rather than each institution making the same claim, which in some instances may be far-fetched.

additionality to be present arises "in the combination of imperfect functioning of the market economy and the structure and attributes of the Bank."

It is instructive too to see that in the past the EBRD proposed two relevant (theoretical) tests for additionality, neither of which is unique to the institution:

(i) "EBRD pricing is pressed upwards relative to the 'market'", indicating that the client is willing to pay for the input or attributes of the EBRD; and

(ii) "Other terms are pressed … EBRD adopts a strong stance regarding essential issues of governance, procurement, the environment, the regulatory framework, etc.", i.e. evidence again of a willingness by the client to do through covenants more than is typically required by the private sector in exchange for the value added by the institution.

In practice, suitable information is not collected on pricing vis a vis the market[20] or in a comprehensive way and while conditions under (ii) are available they are usually adopted alongside technical assistance paid for by donors or the EBRD itself – a common practice among MDBs.

The EIB, which in its operations with high income advanced EU countries faces somewhat different objectives than other MDBs, defines its additionality – or contribution to an operation - as the "value originated by the Bank itself, offering financial and non-financial benefits in support of the project." It does not explicitly refer to 'beyond what is available in the market' but recognises the need for complementarity. It notes a basic premise of additionality is that "IFI interventions should contribute something socially valuable that would not otherwise happen" but the core of its approach is described as follows:

> "… additionality means using the EIB's unique status as the EU's financing institution to facilitate and strengthen investment projects through financing and advice. In practice, this means addressing market failures or gaps in social equity leading to sub-optimal investment situations, improving the quality, scope, timing or scale of an investment, as well as being complementary to financing available from commercial sources."[21]

In the specific context of EFSI, as mentioned above, additionality is expected to arise where the intervention would not have happened (or as fast or to the same extent) without EFSI support.

For the GEF, with a different set up to others as a primarily grant-giving institution seeking additionality on top of the additionality supplied by its partner agencies, the concept is defined

[20] An exception that can be found on this is IFC which, in its 2008 evaluation of additionality, noted "Available loan pricing data for the period 2000–07 shows that the cost of an IFC loan is, on average, 100 basis points higher than the cost of a loan through other private financiers." Many bankers argue that the costs imposed by MDB requirements means that pricing cannot be above market, even for longer tenors.

[21] EIB Operational Plan 2019.

as the “additional benefits attributable to the GEF.” These are measured against the counterfactual of GEF not being involved and how the GEF influences the project design and increases global environmental benefits above the baseline scenario (of GEF not being involved). GEF IEO classifies additionality under six categories (see section on typologies below) and takes a broad view overall which focuses on outcome additionality, including beyond the project itself:

> “… [GEF IEO] has therefore adopted as additionality:
>
> (a) Changes in the attainment of direct project outcomes that can be attributed to GEF’s interventions …
> (b) Spill-over effects beyond project outcomes …
> (c) Clearly articulated pathways to achieve broadening of the impact beyond project completion …”
>
> “… outcomes and impacts [are] critical for an assessment of GEF’s additionality. … Measurement and evidence on achievement of outcomes will be instrumental in demonstrating additionality …”

Strategies, Policies and Operational Plans

Additionality is not generally a feature of MDB strategies or operational plans, whether corporate, country or sector strategies or other programmes. Even in IFC and, in particular, the EBRD – where additionality is one of three core operating principles[22] – it is not dealt with in any detail at a strategic level. In part this may be because additionality is seen as a requirement rather than an objective. But it also reflects the much stronger desire to articulate business volume growth, expected financial performance and development results and less on exactly how the MDB makes a difference in the markets in which it operates.

In some cases (AfDB, EIB) additionality is formally integrated with development impact systems and some institutions (ADB, EBRD, IFC) have recently built (or are building) parallel systems between additionality and development impact. These efforts give additionality a higher profile. But in the development context the major focus lies with development impact and additionality remains its less well considered counterpart.

Additionality remains very largely a project-based exercise. There is little effort to consider the extent to which an MDB may be additional at the country or sector level, or even at the segment level (sub-sector, instrument, client type). Aggregation, where it exists, is primarily for reporting on the institution’s overall performance based on summary project scores or verifications of project additionality by evaluation departments. Self-reporting by management or reflections on what has or has not been successful rarely goes beyond circulating and filing reports. Although project-level lessons learned from validations and deeper evaluations undertaken by Evaluation

[22] The others are transition impact and sound banking.

Departments are recorded any learning process from them does not feature in strategic documents or, seemingly, much inform operational plans.

A look at recent key strategy documents and Annual Reports of MDBs reveals only limited references to additionality. The latest Annual Reviews from AfDB, ADB, EBRD and IFC say nothing on it at all.[23] A good example to the contrary however is AfDB's ADOA Annual Report, which is an internal document. This summarises the work of the ADOA team during the year and provides insights into its *ex ante* assessments on additionality (and development outcomes). In 2019 only one out of 29 non-sovereign projects approved by the Board that year fell below a satisfactory level of expected additionality; the main driver was financial additionality (from provision of risk capital, long-term finance and reducing asset/liability maturity mismatches). The analysis also covers the distribution of additionality ratings by sector and sub-heading (political risk, financial additionality, improved design and standards) and shows their progress at key stages towards Board approval.

The EIB also offers in its published *Annual Reports* aggregate information on its expected contribution[24] to its projects. Based on a scoring template (see below) the derived classifications indicate the overall expected performance of its additionality, with some further detail given in the *Annual Report outside the EU*. As part of its regular *Operational Plans* the EIB sets (different) indicative targets for aggregate average scores for its contributions within and outside the EU.

In anticipating the introduction of a new system, the EIB devoted the opening section of its *Annual* Report *inside the EU 2018* to additionality and impact, and included a page on the same issue in its *Operational Plan 2020*. This essentially draws attention to its work "towards a new, transparent and robust additionality framework, helping to better determine and communicate how the Bank makes a difference for EU citizens" with a focus on tackling market failures and sub-optimal investment situations.

The EFSI programme, designed to support infrastructure and innovation investment and SMEs and Midcaps in the aftermath of the global financial crisis, is also something of an exception. Its design makes clear EIB's strategic value in helping to close investment gaps and increase access to finance especially for smaller companies, both directly and by mobilising additional finance. In this programme the concept of additionality was 'baked in' from the start, not least as the extra risks being taken on to tackle market failures required the use of a specific and sizeable EU guarantee, which needed to be earmarked in the EU budget. In its *Annual Report to the European Parliament* a page on 'Value Added' explains the basis of the EIB's additionality under EFSI[25]. Summary aggregate scores on EIB's contribution under its (three pillar) scoreboard approach (see below) is shown in a table.

[23] Additionality is mentioned in passing in IFC's Annual Report 2019
[24] EIB's contribution, known as Pillar 3 of the Three Pillar Assessment (3PA), is tantamount to its additionality (see below). It is complemented by Pillar 1 on support for EU policy and Pillar 2 on the project's quality and results.
[25] This page is replicated in successive annual reports with new information confined to the scoreboard results.

Notwithstanding the higher emphasis on additionality by reporting scores there is little analysis in these strategic documents of the extent to which the EIB provides effective additionality, its drivers or trends at a country or sector level nor of the market conditions that make it relevant.[26]

Other Operational Plans and Strategies note recent developments in systems where changes have been made or are planned but offer few details with only cursory references to additionality at most.

- *AfDB's Strategy for 2013-2022* states: "When feasible, it [AfDB] will position its knowledge and financing solutions to support private and commercially operated initiatives and institutions and not substitute for them, so that operations crowd in commercial operators, rather than crowd them out."

- ADB's new *Strategy 2030*, launched in July 2018, focuses on seven development goals but the only mention that comes close to addressing additionality in the executive summary is that in upper middle-income countries ADB will focus on areas where it "can add the most value". A paragraph in the main document, which covers private sector operations (PSOs), explains that private sector players choose to work with ADB for four broad reasons (as per the IFC 2011 document *International Finance Institutions and Development through the Private Sector*): improvements in environmental, social and governance standards; providing financing that is not available from the market at reasonable terms; improved project design and development outcomes; and mitigating perceived risks. An *Operational Plan for PSOs 2019-2024*, issued in December last year, devotes a paragraph to additionality in a section on 'Additionality and Development Effectiveness'. Here additionality is defined as per the 2012 MDB *Principles.*

- Additionality has been a longstanding objective of the EBRD. It is one of the EBRD's three main operating principles alongside transition impact and sound banking. Strategy documents regularly pay homage to this fact. Indeed, the latest *Strategic Investment Plan 2019-2021* does just this. However, they rarely go beyond such statements or discuss additionality in any detail, though they have noted that additionality is particularly apparent at times of crisis when private capital flows are in retreat.

- *IFC 3.0* is the IFC's latest strategy, launched three years ago, and aims to "develop new and stronger markets for private sector solutions, including in IDA countries and Fragile and Conflict-affected Situations (FCS)". Among the measures introduced is a new development impact assessment system, the Anticipated Impact Measurement and Monitoring Framework (AIMM), and alongside it a revised Additionality Framework. As explained in the *IFC's Strategy and Business Outlook Update FY20- FY22* part of the reason for strengthening the arrangements on additionality is to be able to

[26] Some aspects of additionality, such as market failures and investment gaps, are covered in Annual Investment Reports and sector analyses.

"selectively pursue impactful engagements with clients in the upper income range of countries". Further elaboration is not available.

Policy documents fare little better. However, AfDB's *Policy* is more forthcoming than most. It states that "the Bank will only participate in a transaction if its role is 'additional' over resources that can be provided by commercial sources of financing … to yield certain benefits". Further, "the ADOA assessment of additionality is evidence-based and requires provision of information on key elements including – (i) availability or lack of non-DFI funding at appropriate terms; (ii) evidence of sponsors' efforts to secure private source[s] of financing; (iii) evidence of [a] role played in a syndication; (iv) evidence to substantiate [a] possible catalytic role; and (v) lack of long-term funding which can jeopardise projects' commercial viability, etc." It also says there is a "special focus" in the assessment of additionality on mobilising additional co-financing and catalysing other investments in related sectors.

One surprising omission lies with EBRD in the application of its policy on graduation. This makes very clear that additionality is a key criterion for the point at which Bank finance should no longer be needed: "The Bank will have achieved its objective when it is no longer additional". Given this, it might be expected that significant attention would be paid to the nature and extent of additionality in strategic documents and in sector analyses and at country level, especially among more advanced countries (of which there are several in EBRD's case). While this is not ignored in advanced transition country strategies, analysis of the issue does not happen on any great scale or intensity, nor do strategy papers dwell on market financing conditions (other than in crises). Instead the focus tends to be on where the EBRD can generate business and be complementary to others or offer something other MDBs may not provide.

3. Operations

Overarching Considerations

All organisations require a narrative or description of the additionality of their operations but they do so in different ways and with different degrees of intensity. In each case project teams are asked to provide an explanation for the additionality of their operations as part of their submissions for Board approval of non-sovereign investments.

Treatment of Public and Private Operations

Approaches to questions of additionality as between public and private sectors are not fully aligned. Two MDBs (AfDB, ADB) and the GEF conduct the majority of their business with the public sector. However, neither the AfDB or ADB provides an assessment of the additionality of their sovereign operations. To the extent that additionality is captured it is done so indirectly through more traditional ex post evaluation channels applied to public sector projects, such as relevance and effectiveness.

By contrast, the EIB and EBRD (where only a small proportion of lending is outside the private sector) do not differentiate between public and private sector projects in their systems. The IFC only deals with the private sector so the issue does not arise there. The GEF also considers additionality in the same manner whether the project is public or private, albeit in a different manner from the rest as an organisation that mainly supplies grant finance to other DFIs.

Integration of Additionality and Development Impact Systems

Additionality and development impact are looked at together in the decision-making process but in only two cases are systems formally fully integrated. The *Additionality and Development Outcome Assessment (ADOA)* is an integrated *ex ante* assessment system used by the AfDB. Similar to the existing 3PA (for operations within the EU) and ReM (for operations outside the EU) frameworks, the strengthened additionality framework being developed by the EIB also brings together the two dimensions under one roof.

EBRD's *Enhanced Additionality Approach* (EAA) is prepared in parallel with its Transition Impact System; and IFC's *Additionality Framework* (AFw) currently works similarly with its new *Anticipated Impact Measuring and Monitoring (AIMM)* system. ADB is in the process of looking at a new tool for the assessment of *ex ante* development impact but has not said whether this will be extended to cover additionality. The GEF's focus on outcome additionality sets it apart from the rest.

Only the EIB's approach (both under the 3PA/ReM and in the upcoming framework) seems to offer a system that is intended to be used for both *ex ante* and *ex post* additionality assessment. Others, like those used in AfDB, EBRD and IFC have the relevant building blocks to do so but so remain fragmented.

Typologies and Sources of Additionality

Alignment with the MDB Harmonised Framework

Most MDBs have fairly elaborate systems in place for additionality assessment *ex ante*. Given their different origins and investment contexts – from high income EU member states to low income sub-Saharan Africa – it is to be expected that specific approaches might differ somewhat. This was more true of earlier assessments but since the advent of the *MDB Harmonised Framework* most groups base their approaches on the twin themes of financial and non-financial additionality set out there.

This extends to the use of typologies where many MDBs have embraced the typologies used in the *Harmonised Framework* either fully (EBRD, IFC) or in part (EIB) or aspire to do so (ADB) or follow them in broadly similar terms (AfDB, to a lesser extent GEF).

Typologies and sub-Headings

ADB now uses the two-part financial and non-financial additionality distinction but has not so far identified any sub-headings. Both the EBRD and IFC use the *MDB Harmonised Framework* sub-headings for these two categories, with small variations. EIB, which describes its financial and non-financial contributions, uses different headings and places particular emphases on them (see below). AfDB maintains its original three-part system: political risk mitigation, financial additionality and improved design and standards while the GEF adopts a six-level approach.

The relevant headings and sub-headings used are as follows. For EBRD and IFC we have:

Financial Additionality:
- Financing structure;
- Innovative financing;
- Resource mobilisation;
- (Own account) equity.

Non-Financial Additionality:
- (Non-commercial) risk mitigation[27];
- Catalysing policy or regulatory change[28];
- Knowledge, innovation and capacity building;
- Standard-setting.

For the EIB (under Pillar 3 of the 3PA):

Financial Contribution:
- Financial benefit;

Longer maturity.

Financial Contribution:
- Innovative financing;
- Attracting other private sector financiers;
- Working with public sector partners (for investment and framework loans);

EIB contribution and advice:
- Financial advice and structuring;
- Technical contribution and advice.

For the AfDB:

Political Risk Mitigation:

[27] Includes 'trusted client partnerships' in IFC's list.
[28] Includes sector and institutional change in EBRD's case.

- Guarantees;
- Privileged lender status;
- A/B loans and direct agreements.

Financial Additionality
- Long-term loans;
- Currency/maturity matching;
- Capital mobilisation and relief.

Improved Design and Standards[29]:
- Environmental and social safeguards;
- TA and advisory;
- Improved regulatory/governance frameworks;
- Project sponsorship to address market gaps.

For the GEF:

- Specific Environmental Additionality;
- Legal/Regulatory Additionality;
- Institutional/Governance Additionality;
- Financial Additionality;
- Socio-Economic Additionality;
- Innovation Additionality.

Mobilisation and Standards as Sources of Additionality

Differences arise over the interpretation of mobilised finance – part of financial additionality (except in EIB where it appears under non-financial additionality) - and standard-setting, especially environmental and social standards.

Mobilisation of Additional Finance

The size, reach and status of MDBs allows them to play a substantial role in mobilising sources of private and other finance. Their ability to leverage other resources has become increasingly important with the aim of meeting the SDGs by 2030. MDBs committed in 2015 to increase the mobilisation of private finance tenfold over time and in 2017 agreed to do so by 25-30 per cent by 2020. Both IFC and the EBRD have committed to raising their mobilisation ratios substantially and others (e.g. ADB) are raising the profile of their mobilisation efforts.

[29] This was renamed from Independent Development Outcomes to avoid a potential confusion that development outcomes were being assessed within additionality.

All MDBs include resource mobilisation as part of their assessment of additionality. MDBs have an obvious comparative advantage relative to other market players here which can be of significant help to clients, especially in less developed financial markets. The strength of this source of additionality can be an important factor in justifying a project's approval.

Alongside the role of mobilisation in additionality many MDBs have corporate targets for the amount of funds they aim to mobilise each year. For example, the EBRD sets a scorecard target for Annual Mobilised Investment (AMI) of around 10 per cent of business volume. IFC similarly targets long-term mobilised finance but with a much greater mobilisation ratio of around [40] per cent. ADB's *Strategy 2030* aims for "a substantial increase in long-term cofinancing by 2030, with every $1 in financing for its private sector operations [to be] matched by $2.50 of long-term cofinancing". The AfDB sets annual goals for mobilised finance and the EIB, EFSI and GEF all seek to mobilise additional finance – very substantial amounts in the case of EFSI and in GEF's case a co-financing to GEF project financing ratio of 7:1.

MDB definitions of mobilisation used in scorecards and strategies are not always consistent and stretch beyond leveraging additional private finance. The AfDB targets the mobilisation of both public and private finance for instance, EFSI aspires to mobilise €500 billion of investment, the EIB includes related intermediary lending and third party public funds, ADB includes concessional funds and the EBRD's AMI includes donor finance.

The picture is muddied by other issues such as double-counting - separate MDBs may each believe they have mobilised additional finance; which instruments should be included, e.g. partial guarantees, unfunded risk participations, etc., and how they should be attributed to each participant. Measurement should in principle be at commitment since projects and financing can be cancelled before signing but is sometimes taken at approval. And there is the question to what extent the MDB was actually instrumental in facilitating additional lenders and finance or whether they participated for other reasons and would have done so anyway.

The use of different definitions for mobilisation is potentially confusing when it comes to interpreting additionality. No precise definitions of relevant instruments or types of finance mobilised for additionality purposes seem to be given in general. IFC is something of an exception. It makes clear there needs to be "a verifiable active and direct role played by IFC in mobilizing financing on commercial terms from an institutional or private financier" and gives examples of what could be included:

> "Syndicated loans or any other case where IFC plays a role similar to a mandated lead arranger, equity mobilisation platforms, long-term guarantees, unfunded risk transfers, or client bond issuances."

And that:

> "Such mobilisation would be unlikely to occur, would be significantly delayed or much reduced in the absence of IFC involvement."

EBRD also mentions commercial finance as the relevant yardstick in its *Enhanced* Additionality *Approach* but gives no further advice on what might be included, though it is mainly based on A/B loans arranged by the EBRD.

It would appear in principle that the matter can easily be dealt with, focusing on the private sector side, as MDBs have recently agreed on the treatment of mobilised private finance for aggregate (MDB) reporting purposes.[30] Here there exist clear definitions, with additionality best represented by private direct mobilisation (PDM). Other mobilised commercial finance, e.g. parallel finance, is classified as private indirect mobilisation (PIM). Catalysed finance (that is additional finance generated beyond the project) is excluded and only commitments are considered.

This definition of PDM means:

> "Financing from a private entity on commercial terms due to the active and direct involvement of a MDB leading to commitment. Evidence of active and direct involvement includes mandate letters, fees linked to financial commitment or other validated or auditable evidence of an MDB's active and direct role leading to commitment of other private financiers. PDM does not include sponsor financing."

> "For MDB equity investments, a verifiable role that demonstrates an MDB playing an active and direct role must occur for private co-financing to be classified as PDM. Being an anchor investor is not sufficient justification and is classified as PIM. If the MDB is a General Partner (GP), other private investments in the fund committed at same financial close are considered PDM. If the MDB is a Limited Partner (LP), other private investments in the Fund committed at same financial close are considered PIM unless as an LP it has an active and direct role in bringing in LPs."

> "Lines of credit are loans from the MDB to financial intermediaries for on-lending to investment projects undertaken by final beneficiary companies. The lending by the private intermediary, as governed by the credit line agreement signed with the MDB, is classified as PIM. Any private sponsors' own funds at beneficiary project level would be reported as PIM."

Given this it may be possible to provide greater clarity to operations teams on how to identify additionality in mobilisation cases.

[30] See Reference Guide to Private Sector Mobilisation, World Bank, 114403-REVISED-June25-DocumentsPrivInvestMob-Draft-Ref-Guide-Master-June2018-v4

Although the number of mobilisation cases counted under additionality in each MDB may still be small it is significant and has the potential to grow. A recent IEG approach paper on mobilisation suggests around 10 per cent of WBG projects (by number) involve mobilisation, with over half coming from IFC, which suggests this is a sizeable factor in IFC operations. From a slightly different angle, an evaluation of EFSI which surveyed infrastructure project clients indicated that the "opportunity to attract other financiers thanks to EIB participation" was one of the most important roles of EIB in providing additionality (76 per cent of respondents claimed this aspect could not have been provided by the market).[31]

The desire to increase mobilisation in future suggests it would be worthwhile to consider harmonising approaches on this aspect of additionality among MDBs as far as possible.

Environmental and Social Standards

Another area of some ambiguity arises over environmental and social standards, which form part of non-financial additionality. One of the features of MDBs is their insistence in upholding adequate standards in projects which they help to finance. These cover several areas such as procurement, integrity, corporate governance, accounting standards, and so on. Among the more important that appear in additionality assessments are environmental and social standards.

Compliance with standard MDB safeguard policies and similar requirements are sometimes cited as providing additionality. There are many examples of this in most MDBs over time. However, many MDBs now see this as insufficient evidence of additionality and treat compliance with loan agreements (which can include policy conditions) as a basic requirement for obtaining finance and working with an MDB.

Instead, additionality is more appropriately regarded as present when an MDB introduces the client to environmental and social standards that are above the sector norm in the relevant country, and helps them implement procedures and processes that takes their performance to a higher level. IFC's latest guide to operational teams states for example:

> "Use E&S standards only where significant and incremental where the current investment project will address specific risks or enhance current company practice. Do not simply assert E&S standards as a source of additionality."

IFC and others give examples of where MDBs help companies to improve their capacity. EBRD talks of additionality only when "clients [seek] EBRD expertise on higher environmental standards, above 'business as usual'". The AfDB regards DFI contributions to best practices where comparable standards do not exist or in sectors where they fall far below DFI norms as *positive* additionality. But the upgrade of Environment and Social Management systems (ESMS) alone is treated as *marginally positive* and may be rated lower if DFIs are already present in the

[31] 'Evaluation of EFSI', 2018, p. 54. The reputational effect of funding by the EIB – which may also reflect the client's ability to attract other financial assistance - scored slightly higher (83 per cent). Available here.

project. Furthermore, an additionality rating of *none* is applied in countries where local environmental standards are already regarded as high (Egypt, Tunisia, Mauritius, Seychelles, South Africa),[32] or where the sponsor already has a rigorous ESMS system in place.

The EIB takes a similar approach. The provision of advisory services (e.g. on procurement, environment and social standards) or technical assistance (by the EIB or external consultants), to facilitate the preparation or implementation of a project with high environment and other standards, enhances the rating of EIB technical contribution to higher categories.[33]

Not only is there a range of views over the level of standards that might meet an additionality test, assessments of non-financial additionality are rarely made against what might otherwise have happened. Would the client have adopted better practices anyway, e.g. if a new regulation was coming into force? Did they adopt higher standards simply because the MDB in effect paid for them via technical assistance (rather than as part of the bargain in obtaining finance)? Was the MDB's claimed expertise and experience superior to consulting services available in the market? And so on.

With ESG investors an active and growing force in international finance, and a large number of commercial banks committed to Equator Principles, the field in standard-setting is becoming deeper and more extensive. MDBs still hold many advantages, especially in quality due diligence and in helping clients implement better practices. Greater clarity on how MDBs add value in these areas would help bankers understand what they should be targeting and delivering; while well-designed guidelines on the approach to standard setting *ex ante* would improve evaluation later on.

Operational Assessment *Ex Ante*

Ratings

A feature of MDBs with integrated systems is a process of formal rating of additionality *ex ante*. In EIB's case this is called the EIB's contribution rather than additionality per se. Both the AfDB and EIB use a four-point scale for their assessment of additionality (though they use different descriptors) which mirror the rating scales used for self-evaluations and validations later on.

Ratings are based on performance assessments of sub-indicators (discussed below). EIB assesses the scores for sub-indicators together while the AfDB takes the highest sub-heading score. They argue for this on the grounds that "additionality in one area should not be diminished by the absence of additionality in another area" and "hence it is sufficient for the Bank and participating DFIs to achieve satisfactory additionality along any single dimension". No other institution adopts a rating system *ex ante*.

[32] Based on the top 5 AfDB countries in the Yale Environment Performance Index, 2014.
[33] EIB's standards are likely to be above the norm in many countries as they adhere to relevant EU Regulations and Directives. How far this may extend beyond standard terms and conditions adopted by other IFIs is unclear.

Evidence Base and Judgement

The overall case for the additionality of a project rests largely on judgement but is enhanced by the use of evidence. Much evidence hitherto has been broad-brush, or reliant on client assertions and project leaders' market understandings. However, evidence relating to financial conditions is available among the more advanced markets and a good deal of non-financial additionality can be assessed as projects get under way and develop. There is potential to create a more robust evidence base and this is happening to some extent. Nonetheless, the current basis for evaluation of *ex ante* additionality claims remains weak, which has knock-on effects on *ex post* evaluations.

Under the various sub-headings above some MDBs provide examples and other guidance to help project teams in their choices and to illustrate the type of evidence that is required to demonstrate additionality under each category. The availability of these categories, helped by clarifying definitions within them, has made it easier for operational bankers to understand what is required, even if the results can appear somewhat mechanical at times.

The widest range of possibilities is provided by IFC, with the full list of 40 examples drawn from the *Harmonised Framework*, followed by the EBRD which offers 29 types. In its use of evidence, each IFC additionality proposition in project appraisals is expected to be matched against local market terms and conditions (rather than e.g. assertions such as 'no similar finance or advice is available'). This means, for financial additionality a comparison with existing loans and bond issues and their tenor, deal size and spreads (where possible). For non-financial additionality the task is to show how IFC's contribution will address the challenge or risk faced and lead to different results than might have otherwise occurred, e.g. provision of expertise to support client capacity building with relevant milestones identified. IFC also requires project teams to specify the delivery mechanism as well as suitable benchmarks and timings.

The EBRD follows a similar direction and expects a decent description of the additionality arguments for each category. However, it insists on full articulation of evidence only when there is a *prima facie* case that additionality may be questionable, as in more advanced markets for instance. These cases are handled via a set of 'triggers' – see Box 1 below. Unlike the IFC but in common with other MDBs, EBRD does not require delivery mechanisms or benchmarks to be specified (unless they happen to form part of legal covenants).

Both institutions ask project leaders to exercise judgement in selecting and describing the various additionalities. IFC bankers are advised to use up to three sub-headings but to place a focus on the primary or most significant driver, with a paragraph description of each. This is meant to include the challenge being met, the specifics of the differential offering or support from IFC, the counterfactual and development impacts attributable to IFC's intervention, as well as indicators, delivery and timing. An advantage that IFC project teams have is the ability to draw on advice and data sets on financial market comparators supplied by the Global Macro and

Market Research team which then can be presented in their documents. The database is currently being extended and enriched. The type of data available is shown in Annex B.

EBRD is similar in terms of number of additionality sources quoted and elsewhere in broad intention but is less detailed. Project leaders are expected to provide an appropriately focused narrative for their additionality claims, supported by information that underpins the judgment on the basis of market knowledge and prompted by market data on overall financing conditions in the country/market. Data is supplied by various internal teams on demand though often the banking teams have much of the relevant detail to hand. A counterfactual is also required, i.e. what would have happened without EBRD's involvement, in particular for non-financial additionality sources. The evidence base for these sources is mostly ad hoc and variable though where international standards are involved (e.g. BREEAM) or if new legislation is being pursued it is easy to compare against the country's baseline situation.

The use of *ex ante* ratings makes the EIB and AfDB more prescriptive than others in the handling of evidence and specific guidelines are given to help with the rating process, including on sub-headings. In AfDB's case, for example, political risk is derived from BMI's premium Global Country Risk assessment with the top five (AfDB) countries deemed to be 'low' risk where projects are classified as having little or no additionality on this count. The bottom five countries are seen as 'high' risk and are assigned a *Strongly Positive* additionality rating. Such automaticity is less true for other sub-headings and a judgmental assessment is made. Thus, additionality is rated above average when local currency funding is provided and/or long term resources are not otherwise available and where the local currency and/or maturity length is critical for the project's commercial viability. A similar judgement is applied where DFI participation helps catalyse commercial resources, as via syndications. Evidence of capacity building efforts, contributions to regulatory frameworks, filling financing gaps and improved project design to maximise development outcomes also feature as factors in *Strongly Positive* additionality examples.

For the EIB a detailed structure is provided for operations teams which yields the additionality assessment through a scoring system. Indicator scores are accompanied by relevant narratives, and produce clear cut-off points for different rating categories. The EIB classifies mobilisation, financing structure and innovative finance as non-financial contributions – whereas they are treated as financial additionality elsewhere.

Non-financial contributions use qualitative measures, which increase with the intensity of contribution. Different rating levels for these inputs are described as projects having some impact/significant impact/key impact or positive value/significant value/innovative and high value, etc. A reasoned judgement is expected though it may be noted that checks on their validity look relatively weak. Delivery mechanisms and benchmarks for them are not identified.[34]

[34] This contrasts with the development impact side.

Evidence base requirements for *ex ante* additionality assessment by the ADB and the GEF do not appear to be specified in any detail leaving the matter to the individual judgement of the project team and specialists involved.

Checks and Balances on Financial Additionality

Finance is a competitive market product and the extent to which a particular instrument and its terms and conditions is available from other sources than the MDB depends on the circumstances at the time. Many markets are volatile, especially emerging markets which are thinly traded. The terms and conditions that apply to loans from financial institutions are negotiated between clients and lending parties and remain undisclosed. This makes it difficult to know how far an MDB's loan may be additional in many situations. It thus places reliance on the project team to report as accurately as they can on other options available to the client and why the MDB's offering is superior but at the same time does not crowd out alternative commercial finance.

Some observers involved in the assessment of projects ahead of signing, particularly those close to the markets like Risk and Treasury departments, can offer opinions on the project's pricing and other financial terms, e.g. fees, security features, and so on, that may help to align the operation with market norms and avoid crowding-out risks from underpricing. But they are mainly concerned with the project's returns rather than its additionality.

A further check some MDBs have in place relies on quasi-independent expertise, mostly through economist support functions. This is clearest in the AfDB's ADOA system which is managed by a team of economists separately from the project team, although they necessarily interact closely. The presentation of ADOA notes at key internal decision-making committees ensures an independent voice is heard at the highest levels.

A similar process occurs at the EBRD where economists from the Economics, Policy and Governance group offer opinions and advice on additionality to the project teams.[35] Although they are no longer independent of the Banking department their representation at the OpsCom (and similar lower order committees) gives room for their professional economics voice to be heard. As at the AfDB the EBRD's Board looks to the economists for confirmation of additionality as well as bankers.

At the IFC sector economists have a significant role in drafting and reviewing arguments on additionality provided by investment teams and data used to justify financial additionality is supplied independently by the Global Macro and Market Research team. The IFC's *Revised Additionality Framework* nonetheless describes the assessment of additionality as "a shared team responsibility".

[35] Much of the process is now semi-automated by allowing bankers to select additionality sources from drop-down menus.

At the EIB, where the assessment of additionality (contribution) is highly structured and financially focused, the components are completed mostly by the operations team. Many of these indicators are quantitative, based on clear guidance, and hence are not subject to interpretation. One aspect that is looked at elsewhere, again by a group of (mainly) economists, is technical contribution and advice.

For evaluators looking at operations many years after signing, assessment of financial additionality is especially difficult. It is almost impossible to know for sure whether the MDB's finance was truly needed at the time without relying on the opinions of interested parties, such as the client and the project team. And market conditions change making it hard to say a failure of additionality was due to bad judgement or changed market circumstances. *Ex post* information, such as waivers, extension of commitments, prepayments and cancellations, is highly valuable for making assessments. Complaints from competitors is another potential source but they, like MDBs when facing them, do not know the full details of what was offered and do not find it easy to recall after a long passage of time save in extreme cases, which are rare. Relying on checks and balances through quasi-independent experts is a good alternative to asking evaluators themselves to take a view at the *ex ante* stage.

Treatment of Specific Factors

Repeat Projects and Refinancings

Another area of concern from an additionality point of view is repeat transactions where the same client features in different operations. Many MDBs build long-term relationships with clients some of whom may provide leadership in a sector, help demonstrate new technologies, good practices, etc. or reach underserved segments such as SMEs. Nonetheless, offering the same product to the same client raises questions as to what difference the second or further loan brings to the project. A similar need for careful attention on additionality arises with secondary transactions such as purchasing equity from existing shareholders and from refinancings where for example the renewal of an MDB loan will need a new justification for its additionality.[36]

In the EBRD system a trigger is set for repeat projects and refinancings, making it clear that a proper justification is required for the additionality case after taking into account previous contributions to the client's needs. The IFC also flags repeat clients as requiring close attention. Project teams are asked to show the evolution of additionality over time, such as the different types of support, e.g. progression from financial additionality (say a long tenor loan) to non-financial sources (a high quality corporate governance or gender action plan for example) or how a similar type of support may help the client expand into new markets.

There is also the issue of 'repeat' MDBs and DFIs. In other words, how to treat additionality when several of these institutions supply financing simultaneously or in sequence to the same

[36] Rights issues and coinvestments also deserve close scrutiny for additionality purposes.

client or for the same purpose, e.g. ‘Women in Business’, SMEs finance. One of the problems here is that smaller players, such as the AfDB or DEG, may follow a bigger IFI’s lead, such as IFC. Their contribution may be small, and may possibly not add much extra value, but they want recognition for their efforts as being additional. The AfDB tries to get round this problem by treating all DFIs as one in their assessment of additionality. Alternatively, the strength of each DFI’s additionality can be assessed and taken into account. But it is illustrative of a wider issue to be dealt with in managing consistency of approach and coordination among DFIs, in this case in relation to additionality.

Box 1: ***EBRD 'Triggers'***

There is one aspect of the EBRD system that does not appear elsewhere which offers a more strategic approach from a higher level standpoint taking account of the degree of development of a country or sector. This is a differentiation between cases that can be described as reasonably straightforward from an additionality perspective from those that require more evidence to justify the additionality case. It reflects a recognition that financial markets are fairly well developed in some countries of operations (e.g. Turkey) implying that the EBRD needs to be more innovative and offer something that is generally not available in those markets (e.g. structured finance, risk sharing mechanisms, etc.) to be financially additional and similarly for non-financial additionality, e.g. support for regulatory reform.

Where more supportive evidence and deeper explanations are required this is identified through a series of pre-defined 'triggers'. In cases where triggers do not apply the burden of proof in effect is reversed: in weaker financial markets, say Kyrgyz Republic, the EBRD is presumed to be additional[*] and all that is required is to provide a set of additionality sources with a simple narrative and explanation. In many cases there is no point in trying to do more than this as market information is of poor quality, volatile and often missing. In more developed markets however the onus is placed on the project team to demonstrate that the EBRD is additional by providing convincing evidence for this. One such trigger for example is a project or sponsor PD (credit) rating better than one notch below investment grade (4.7). Triggers are also applied where alternative finance is likely to be available, as for working capital or refinancings; and in equity cases where no fresh capital is involved.[†] [**]

[*] Many bankers, not just in EBRD, argue that additionality tests are often redundant since the burdens imposed on the client by the MDB (due diligence, integrity checks, procurement rules, health and safety conditions, etc.) mean that the client only works with an MDB because it wishes to or has no other realistic option. While this may be true in countries with poorly developed financial markets and for smaller businesses it is not universally the case. The differentiation referred to above reflects this.
[†] Different rules apply to equity fund exits.
[**] For details see the section on EBRD in Annex A.

Bond Issues

Support for bond issuance also falls into special attention or trigger territory in the EBRD set up, though it is not singled out for attention in other MDBs. The availability of *ex ante* evidence of MDB additionality, e.g. information on subscription levels, investor types and their bids, is very limited. Information is help tightly for all primary bond investors. However, a number of risk factors to additionality can be identified in advance such as repeat issuances, a high credit rating of the issuer, strong indications of significant likely oversubscription (twice or more) or where no use of proceeds is specifically required.

The presence of an MDB adds to demand and may encourage other investors (should they get wind of it)[37] and thereby helps the client's financing objectives. But it is difficult to know the degree of demand *ex ante* and thus how far the MDB is in fact needed. This only becomes clearer in the aftermath of the auction when the arrangers announce the scale of any oversubscription. (The nature of debt capital markets is that, if successful, a market-clearing price will be achieved but not all bids will be met.)

The EBRD has adopted a separate procedure for bonds which at present is deployed in relation to Eurobond issues, where because of their size and liquidity additionality is most likely to be contested. *Ex ante* the project leader is expected to provide a focused narrative supported by market data on the latest financing conditions – and information on any earlier issues by the same client - to substantiate additionality ahead of Board approval. Where the above risk factors are present (and non-financial additionality is assessed as low) the team consider whether a smaller percentage investment by the EBRD might be appropriate and mandate the Treasury department to execute the investment with this in mind. If on the day of auction Treasury, on the basis of the arranger's advice, assesses there is likely to be a high level of oversubscription some scale-back is considered (and aligned pro rata with other long-term institutional investors). This helps to reassure the market and shareholders there is no (or only limited) crowding-out by the MDB while also reassuring the client the MDB remains a committed long-term investor.

Approval Processes

Approval

Most MDBs follow similar procedures for selecting and preparing projects ahead of Board approval. Teams typically consider the operation's additionality from the moment a project begins to emerge. This illustrates the relevance and role additionality plays in project assessments as they progress towards approval. In some cases, this is an intensive process – the AfDB for example prepares 3 to 5 separate ADOA notes as projects develop from concept to final stage and Board approval, where the Board receives the final ADOA note. The EBRD, on the other hand, requires only an outline indication at the concept stage of the sources of additionality for most projects but a fuller analysis by Board submission.

Management vets the additionality arguments ahead of Board approval. This may be done directly at a high level through discussions with teams present at the Investment or Operations

[37] This should not happen in public issues though indications of MDB interest may appear in prospectuses.

Committee or at a similar meeting with a VP or, for smaller or delegated projects, via a regional or lower level management committee (e.g. EBRD's Small Business Investment Committee).

A focus on additionality in such discussions is relatively rare compared with other issues like credit and other operational risks and development impact. Weak additionality cases are those that are most often picked out. These tend to be few since project teams and their managers are aware of the difficulties these projects may pose at management committees and get weeded out at an early stage unless they have particularly strong compensating features. How frequently this weeding out occurs is unclear since no information is available on projects rejected on additionality grounds at an exploratory stage. At the later stage it is generally the additionality of operations in markets and sectors with more advanced financing opportunities, or more sophisticated sponsors, that receive the most attention by senior management.

Threshold Condition

In the MDB's *Harmonised Framework* additionality is described as a threshold condition. In other words, it is a requirement not an objective, a *sine qua non* before a project should be allowed to go ahead. This is how the MDBs here approach the matter, in line with their Articles and raison d'être to only intervene when it is clear that no commercial alternative financier would be willing to do so on a similar basis. Applied properly this should ensure there is no crowding-out of commercial finance. It meets a 'do no harm' condition.

All MDBs in effect go beyond this and consider the strength of the additionality case. Formally, the EBRD sticks to a yes/no arrangement but in practice the strength of argument varies and it can make a difference. The value of this variation is clearer in those institutions which apply ratings to additionality (or contribution). At the margin, a project which displays strong additionality will be preferred to one with weaker additionality other things equal, even though both may pass the threshold test. Additionality is not just a matter of availability of finance or derisking but is an indicator of the quality of inputs to a project. This applies to its design, including the shaping of the financial structure and use of instruments, its ability to mobilise other finance and especially to non-financial features such as sector expertise, knowledge transfer, policy advice, enhanced standards and capacity building. Additionality therefore also encompasses a notion of contribution and a test of the MDB's effect on projects and ultimately development outcomes.

This also means additionality is part of the mix of factors that management (and shareholders) consider when deciding whether to approve a project. It can become involved in the various trade-offs this process entails although these debates are dominated by factors other than additionality.

Board Presentation

The presentation on additionality in Board documents for approval varies among MDBs. All provide some description of the institution's additionality and its sources. The amount of detail, degree of evidence supplied, structure and prominence given to additionality differs however. Some examples of how the MDBs approach the subject are shown in Annex C.

Perhaps the most comprehensive approach is taken by IFC, which offers a summary explanation of 'Why IFC?', a detailed explanation on each of the expected additionality sub-headings under financial and non-financial additionality and a table providing a summary description of each component, a monitoring indicator, its timing and delivery mechanism.

The EBRD is similar in structure with a summary of additionality under the 'Main Elements of the Proposal' in the Board Decision Sheet which comes immediately after the President's Recommendation. The document itself devotes a section on Additionality under the opening Strategic Fit section. This is presented in the form of a table in two parts. The first part shows 'Identified triggers' and a description of them when they apply; the second part lists the 'Additionality Sources' (the relevant sub-headings of financial and non-financial additionality) and explanations and evidence on them. However, there are no indicators or benchmarks.

The AfDB also offers a fairly detailed picture in its ADOA note (with some similar text in the Board project document). Here the additionality rating, and those of its sub-headings, is included in a table giving an overview of the project up-front. An Additionality section follows which provides an overview and explanations of additionality (and the ratings) under the three sub-headings of political risk, financial additionality (and any sub-components) and improved development outcomes.

The EIB's description is based on its three pillar approach with a relevant narrative provided for each Pillar in Board documents. This narrative summarises the main arguments why the Bank intervenes, what the expected results and impact of the operation are, and how the EIB specifically contributes to facilitating or strengthening the project. The narrative is accompanied by a Summary Sheet which provides ratings for the three pillars and their sub-headings – in the case of Pillar 3: Financial Contribution, Financial Facilitation and Advice. EFSI is similar but with a clear focus under additionality on market failures being addressed and the rationale behind the EIB's contribution.

ADB documents do not provide summary information on additionality or contribution but include a section on 'Value Added by ADB Assistance', the quality of which varies: sometimes up to three additionality sources are identified while in other examples there is a brief overview with little reference to evidence or counterfactuals.

GEF proposals give information on a 'business as usual' scenario, an alternative scenario in which the concessional finance supplied is expected to lead to additional outcomes and the 'incremental cost reasoning' which justifies the allocation of GEF finance to a project or programme. The 'incremental reasoning' supplied by the GEF agency explains the extra value that the grant (or other GEF finance) will bring. A section detailing financial additionality may be included in an indicative term sheet attached as an Annex.

Publicly Disclosed Information

Some publicly available information is provided on additionality for projects *ex ante*. IFC, and recently the EBRD, provide brief descriptions of additionality, including its sources, alongside expected development (transition) impact in their Summary Investment Information (SII) and Project Summary Document (PSD) notes respectively. These are published well in advance of Board decisions (subject to confidentiality restrictions).

The AfDB also provides summary additionality and expected development outcomes information in Project Summary Notes (PSNs) which are released after Board approval. EFSI project information likewise offers insights into the EIB's contribution including their ratings (though not generally by sub-heading for confidentiality reasons). At the moment, other EIB 'Projects to be Financed' are made available in summary form but do not include additionality or EIB contribution information.

Although the ADB provides substantial project documentation in the public domain, including for non-sovereign operations (NSOs), *ex ante* additionality information is not supplied. Nor is this the case for GEF interventions.

Monitoring

The nature of financial additionality does not lend itself to monitoring since the key test is normally whether additionality was met at signing or disbursement. For example, was similar financing available in the market from commercial sources? Was the financing structure innovative at that point? Did the MDB directly mobilise resources from private sources? In these cases, there are relatively few implementation issues to follow up. Expectations may subsequently be disappointed, such as if covenants are waived or full mobilisation of commercial finance is not achieved. Similarly, there may be a prepayment or cancellation of the loan or its terms may change, e.g. due to an extension or restructuring, or in the case of equity via a rights issue or the arrival of a new strategic investor. But formal changes like these can be picked up in an assessment of the project's effective additionality towards the end of its life. (There will be little need for intervening remedial intervention in relation to financial additionality.)

Those who see additionality as a threshold requirement also tend to believe that once it is passed there is little more to do, including its monitoring. However, now that additionality has moved beyond the financial domain this is less justifiable. There is an active interest in the roles MDBs play and the contributions they make in selecting and designing projects to broaden their reach and improve development outcomes and impact. The result is that several sources of additionality develop only over the course of a project's life. These need to be monitored to understand and improve their value and by doing so enhance project evaluation (what works well, what doesn't) and assist wider learning.

To date, monitoring of additionality has been poor, uncoordinated and patchy at best. The exact situation is in some ways difficult to discern since very little monitoring information is available and there is no coherence to what is carried out. This may partly reflect the legacy of a focus on financial additionality but it is also due to a lack of specificity of additionality sources and evidence to be collected from the start. It is also the case that incentives to track and validate additionality have been very weak. There are no real penalties for failure to deliver promised additionality and self-evaluations, which occur a long time after projects start, do not play a significant role in management thinking in most MDBs.

A look across MDBs provides a picture of the situation.

EBRD

While monitoring indicators and benchmarks are presented in project documents for overall performance and transition (i.e. development) impact, along with baselines, targets and timelines, there is no equivalent system or information for additionality sources. On the financial side, changes to the amount of finance provided or mobilised, e.g. syndicated A/B loans, or attracting a strategic investor (in equity cases), etc., are properly documented, though not specifically for additionality purposes.

For non-financial additionality, where monitoring has more relevance, especially in relation to claims of policy, sector, institutional or regulatory change or capacity building and improvements in standards which take time to bring into effect, information is collected but in a disjointed way. Where there is relevant technical assistance, which is supported by donor or related finance, there is reporting through that route (since donors or Board members require it). Similarly, if there is a specific loan covenant, e.g. to address corporate governance, progress against any milestones will be covered (in this case monitored by the legal transition team rather than the operations or portfolio teams). Reporting in other areas, such as policy engagement, regulatory-induced change or efforts to enhance practices at sector level, tends to be ad hoc and linked to wider goals. Information provided on the different dimensions takes place at different times for different purposes – donor timetables, impact progress reports, environmental follow-ups, financial updates, and so on. Furthermore, databases and IT systems are insufficiently integrated to allow much coherence and although the portfolio team follows the general progress of the project no-one appears to be in charge of any process to check if *ex ante* additionality arguments are delivered.

In several instances, there is overlap between additionality (input) sources and what is discussed as impact, which are often output measures rather than outcomes or impacts. This can be confusing and conflate the two concepts. In principle, the concepts are different but there is sometimes overlap between the indicators chosen to evidence them. For example, under setting standards additionality might be claimed where a client is to be helped in introducing a monitoring, recording and verification system for improvements in energy use which a commercial bank would not offer. This may be tracked and benchmarked not for demonstrating delivery of additionality but as one of the outcomes or results of the project. Similarly, additionality from the introduction of training programmes as an input to raise skill standards in a client's business may be counted as part of the results - rather than looking towards the wider upgrading of skills or productivity improvements the input helps the client deliver.

IFC

In its guidance on *Implementation of IFC's Revised Additionality Framework*, IFC notes it has the "capability of recording and monitoring additionality through the DOTS system" but that in the past "this has been done sporadically, there is no quality control or verification, and no reporting." The paper acknowledges "With our focus on financial additionality, this is understandable as it is essentially delivered at disbursement" but goes on "However, most non-financial additionality is delivered over the life of the project, or at least over the first few years." Thus this at least should be monitored.

One area the new Framework should now capture for additionality purposes is advisory services. Previously there was no assessment at approval of the additionality of standalone advisory services, or TA, nor any monitoring of it thereafter. Under the new Framework investment and advisory services are intended to be treated in the same way. This should help as TA is seen as a major tool to help deliver non-financial additionality.

An IEG evaluation prior the introduction of the new Framework found that claimed non-financial additionality was delivered less than 50 per cent of the time. Hence, procedures for data tracking and updating, monitoring, and reporting are to be embedded in the new system. In principle, this should mean evidence on whether and how specific types of additionality are delivered will be available – thus making this form of additionality more clearly evaluable than in the past.

In common with other MDBs some relevant information is available, through advisory services' reports, deployment of technical assistance, consultants' reports, and so on. IFC has also made use of indicators for additionality more than other MDBs. Nonetheless, poor specification of expected additionality, a lack of management attention to its delivery and weaknesses in data collection methods have led to limited monitoring and reporting of additionality.

The intention, announced in 2018, is to integrate information on progress in additionality milestones as part of the collection of DOTS/AIMM data. An annual report on the achievement of additionality is also set to be included as part of development impact reporting. This is regarded as a "major change from current practice" and "will require additional inputs from project supervision and portfolio monitoring processes to validate that the various claims of additionality have been delivered." At present these changes have yet to be introduced but are expected to start during FY2021.[38]

AfDB

It appears that the ADOA system ends at Board approval with follow-up on projects left to portfolio managers. The ADOA does not supply benchmarks or monitoring indicators itself. This is left to project teams working with clients where the main focus is on development outcomes. There are comprehensive lists of development outcome indicators, covering core indicators and those for different sectors, and related reporting templates which teams and clients are expected to manage but there appears to be none for additionality per se. Compliance with AfDB social and environmental standards is monitored by the Environmental and Social Safeguards and Compliance Department. However, it is not clear how far enhancements to standards relative to compliance norms are monitored, nor whether they are separated from aspects of development indicators. Tracking of other additionality components after approval, including financial additionality elements, does not appear to take place. Technical assistance is mentioned as a component of additionality (though is not subject to a separate ADOA process) and reports are made but not specifically as part of the additionality process.

EIB

Monitoring indicators, and baselines, are set to measure outputs, outcomes and core results of projects and are presented to the Board. While benchmarks and tracking indicators cover various expected project results such as jobs created, social benefits and so on, other than mobilised investment they do not appear to explicitly include expectations and results of additionality components, such as the role of technical advice. During project implementation, reporting is mainly focused on project outputs and outcomes. At project completion, in addition to recording project results, project completion documents also revisit the three pillars of the 3PA.

ADB

For both public and private sector operations, and TA assignments, there are annual performance reports as projects develop. This is a policy requirement, though the tracking of private sector projects is not specifically mentioned in the relevant policy. These reports monitor implementation progress and assess the likelihood that public sector projects and TAs will deliver their intended outputs and desired outcomes. While non-sovereign operations follow a similar route as the public sector for the tracking of development components (outputs and outcomes) it is not clear that any such process is followed for value added or additionality.

Operations *ex post*

[38] IFC's fiscal year begins in July.

Project Completion Reports

The assessment of additionality by operations teams once a project has been completed follows a similar pattern across MDBs. In most cases, the methodologies employed in these self-evaluations are devised by Evaluation Departments which means they match up with subsequent evaluations and are designed with a clear purpose and detailed requirements. The main product of operational teams in this context is the project completion report (PCR), which appears under a number of different titles across MDBs but is essentially the same product. Additionality is mostly only addressed in non-sovereign or private sector cases.

The process has been helped by the MDB Good Practice Standards (GPS) which covers this area and has been adopted by most MDBs in one form or another. PCRs cover all aspects of a project's performance and so additionality forms only one part of these reports. AfDB, ADB and IFC PCRs - respectively labelled XSR, XARR and XPSR for non-sovereign/private sector operations[39]- all follow a core four-part measurement structure: Development Outcomes, Additionality, Investment Profitability (or Outcome) and Work Quality. A four-point rating scale is used for each dimension. Changes in circumstances are acknowledged as part of the process.

Within Additionality there are some variations of focus but nothing of a fundamental nature. AfDB divides the assessment between financial and non-financial dimensions while the IFC uses five categories: financial risk mitigation; non-financial risk mitigation, policy setting, knowledge and innovation and standard-setting.[40] ADB asks teams to consider whether the finance supplied was necessary for the realisation of the project and whether ADB's contribution to its design improved the allocation of risks and responsibilities and enhanced development impact.[41]

The EBRD allocates the same substance in its PCRs (labelled OPAs) in a slightly different way by adopting a three-part structure: Relevance, Effectiveness and Efficiency. In practice Development Outcomes appear under Effectiveness while Investment Profitability and Work Quality are allocated to Efficiency. Additionality appears under Relevance and in OPAs destined for fuller evaluations (OEs) it is joined by Strategic Relevance and Project Design and Structure, of which the latter has some bearing on additionality. A four-point scale is also used for OEs but for shorter PCRs no rating is required and a simple yes/partly/no answer is selected. Questions asked under Additionality are also framed in a different way. Here financing terms, EBRD attributes and conditionalities are considered along with mobilisation of any commercial finance. Teams are expected to consider whether alternative sources of finance were available and what might have happened had the EBRD not invested, i.e. the counterfactual. However, the model is changing to move in line with the EAA and thus towards a financial and non-financial additionality split. As the EAA was introduced only recently the old model remains in use for current PCRs.

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[39] To simplify matters the acronym PCR is used here to represent any PCR, XSR, XARR, XPSR or OPA.
[40] AfDB also used these categories according to its earlier XSR template of 2012. [More recently, IFC's category list has been expanded.]
[41] This description is derived form the MDB GPS. It is also referred to by AfDB.

At completion the EIB's value added is revisited through its three-pillar structure in its PCRs, which cover public and private sector projects similarly. Pillar 3 remains the segment for assessing EIB's contribution, with project teams using the same structured approach and revisiting the indicators used at project appraisal. The narrative picks up on how financial developments and technical advice fared over the course of the project. Pillar 4 information, which covers outputs, outcomes and core results of the project, including key project characteristics such as mobilised investment and co-finance, is used for completing PCRs.

Assessments are made of the different categories within Additionality by project teams in each MDB. IFC PCRs set out the original claims under their respective additionality headings and compare them to outcomes and review Board approved indicators against their expected timings and performance. Evidence is used where possible. An example of what is involved is attached at Annex D.

Elsewhere, commentaries on additionality components are usually fairly brief and mostly descriptive. For example, one AfDB PCR on additionality talks of "participation gave comfort to private investors concerned about Nigerian sovereign risk", "facilitate[ed Nigerian banks'] project appraisal process" and offered a "stabilizing factor, …, because of its expertise in project appraisal and supervision and its ability to mitigate specific risks." A contrasting, fuller example is shown in Annex D. A hypothetical example of comments on EBRD financing terms, attributes and conditionalities is also shown there. Actual cases vary considerably in their thoroughness in comparing results with expectations and in use of evidence. EIB PCRs match the structure of the *ex ante* reports and provide results for additionality categories which enables direct comparisons to be made. ADB, which releases PCRs on its website, is mixed in the extent of the depth of analysis provided. Some examples are in Annex D. It has recently moved to illustrate results of financial and non-financial additionality and to go beyond general descriptions.

Evaluations

Most MDBs Evaluation Departments cover additionality as part of the process of validating PCRs and in conducting fuller evaluations. The latter comprise evaluations of individual and clusters of projects, as well as sector and thematic evaluations although additionality here is only picked up if it is considered relevant, which is relatively uncommon.

Validations

PCRs are validated by four MDBs: AfDB, ADB, EBRD and the IFC. The extent of coverage varies, partly reflecting the newness of some institutions to involvement with private sector projects and the timing of PCR supply but it is also a matter of resources available. The evaluations are based on the same categories, including additionality, and criteria used by operations teams in PCRs but with an independent assessment of the evidence. Hence additionality ratings (on the same 4-point scale) made by Evaluation Departments may differ from those of self-evaluations.

The extent of analysis depends on the quality of the information supplied by the operations team, especially the specification of the expectations surrounding additionality at the beginning of the project, as well as on implementation and monitoring reports. Rating comparisons between PCRs and their evaluated counterparts covering each dimension, including additionality, are presented in tabular form upfront in AfDB, EBRD and IFC reports (later in ADB). In AfDB ratings for financial and non-financial additionality are shown separately and explanations given immediately where there is a difference of opinion. This is also the case in IFC. Explanations for underlying rating rationales are given in all. Some examples are attached in Annex E.

Validations are done on a sampled basis. AfDB's (NSO) evaluation notes have fluctuated quite sharply in number for several reasons but amount to some 10-15 per year. EBRD produces a similar, slightly larger number of validations 15-20 per year[42] (about 10-20 per cent of the total number of PCRs). ADB is increasing the number of NSO evaluation reviews to around 25 per year while IFC conduct some 90-100 reviews annually (all available PCRs which are sampled and represent about 40 per cent of all mature projects in a given year).

Rating Comparisons and Success Rates

Although rating comparisons between PCRs and their validated counterparts are possible, including on additionality, only limited information on this is available. ADB provides an annual variance analysis for overall ratings which shows a consistent gap in ratings, with self-evaluations more highly rated as might be expected (by around 10-15 per cent). Of some interest is the downward trend in NSO success rates for which additionality information is also available. This shows a steep downward trend in additionality success rates – from 91 per cent in 2010-12 to 55 per cent in 2017-19.[43] A breakdown by broad sector shows ADB's additionality vis a vis private equity funds saw the steepest decline in the last decade. A tailing off in additionality of financial market operations and infrastructure is also visible in the most recent years.

Gaps in ratings arise in IFC too, estimated (in 2015) to average around 6 percentage points.[44] The gaps vary according to additionality types. Little differences appear to occur in relation to long tenors and E&S standards whereas stamp of approval, technical knowledge and mobilisation showed larger, and sometimes substantial, gaps in assessed performance. Overall additionality success rates have been on a slightly declining path in the last few years, measured to be around [60] per cent between 2015-19.

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[42] About 2 or 3 full evaluations are conducted annually. The treatment of additionality is not much different however.
[43] Development results' success rate for 2017-19 was 52 per cent. Source: ADB Annual Evaluation Review 2020.
[44] Some of the data used in these comparisons is however regarded as weak.

The EBRD used to collect similar information and report on verified additionality but has not done so in recent years owing to a shift in focus away from individual project validations in favour of broader-based evaluations (limited resources making both impossible). Data up to the end of 2013 showed on average just over 10 per cent of projects' additionality could not be verified.[45] The final observation showed 85 per cent of evaluated projects were 'largely or fully verified' for additionality of which only just over 30 per cent were 'fully verified'. No sub-indicator detail is available.

EIB and AfDB success rates are measured *ex ante*. Here in 2018 EIB reported success rates (taken as ratings of *Significant* and *High*) of 93 per cent for projects outside the EU, where Financial Contribution reached 96 per cent. Financial Facilitation and Advice fared less well, measuring 56 per cent and 63 per cent respectively. As noted elsewhere surveys under EFSI suggested that roughly 76% of SME projects and 67% of projects in support of infrastructure and innovation, would have had to stop, reduce their scope or be carried out at a slower pace if the EFSI financing had not been available. The corollary is that approximately one quarter and one third and of infrastructure and innovation, and SME projects respectively did not exhibit convincing additionality in that they would have gone ahead anyway.

ADOA figures for 2019 showed 97 per cent 'above satisfactory' ratings (for 29 projects), with Financial Additionality scoring 93 per cent. The AfDB's Evaluation Department (IDEV) last made a comparison of ratings between project teams' self-evaluations and those reviewed by IDEV in 2013, though this did not include an assessment of additionality. The evaluation team has however recently finalised a similar paper for a Board discussion in December which will include additionality comparisons.[46]

The figures suggest some differences of view over additionality between self-assessments and evaluations but perhaps more striking is the apparent level of additionality 'not found' or regarded as weak according to evaluators. This suggests more needs to be done to strengthen additionality across most institutions.

Thematic and Synthesis Evaluations

All MDBs pursue cluster or synthesis evaluations of projects where selected operations are investigated as part of a theme. This includes the EIB who do not validate PCRs directly. These evaluations, which are not all that frequent, sometimes capture insights into additionality, notably when they are sector based. One recent example is an ADB synthesis note on the Energy Sector. This drew on 34 sovereign and 14 non-sovereign operations. Additionality was reported on only for non-sovereign cases and showed a success rate of 71 per cent, the same as for Development

[45] Taken to be the percentage of evaluated projects whose additionality failed to be largely or fully verified.
[46] The recent report compares self and independent ratings for additionality of all NSO XSRs produced between 2014 and 2019.

Outcomes, both lowest of the four main categories. The main paragraph on additionality from the study is shown below.[47] [48]

> 32. A total of 10 projects (71%) from the portfolio were evaluated *satisfactory* for ADB additionality,[25] of which three were assessed *excellent*. The other three projects were rated *less than satisfactory*, downgraded from the *satisfactory* rating in the XARRs.[26] The reasons for the downgrades included a lack of financing leverage and an inability to improve on environment, social, health, and safety due to ADB's late involvement. The regional clean energy PEF was assessed *unsatisfactory* as ADB was not able to provide sufficient support to attract other investors to the fund.

The EBRD has conducted some quite thorough examinations of additionality in cluster evaluations. A recent study of mining operations in Mongolia devoted more than three pages to an analysis of additionality, covering debt tenors, equity, mobilisation and political risk comfort. An earlier similar evaluation of 24 projects in the Russian railway sector (2016) also allocated three pages discussing additionality pointing to strong financial additionality through long tenors, reputation effects and mobilisation but only limited non-financial additionality: 67 per cent of projects were rated *Excellent* for financial additionality whereas 23 per cent received the same rating for non-financial additionality with a similar proportion rated *Unsatisfactory*.

A synthesis report by the EIB on energy efficiency financing (2013) covering 24 projects detailed its contribution over two pages concluding financial benefit was the main driver of additionality with technical contributions playing a very limited role. 63 per cent of projects were rated *Satisfactory* or better for the EIB's contribution.[49]

Thematic evaluations are usually large-scale broad-based studies and cover a multitude of issues – e.g. Gender Mainstreaming, Knowledge Solutions, Inclusive Growth, Engagement in Situations of Conflict to mention just a few recent examples. Institutions heavily involved with the public sector naturally focus on their efforts in these areas. GEF thematic evaluations build on their agencies' assessments and focus on results, although they may look at quality of implementation and mobilisation of cofinance.

Additionality is not generally touched on in these types of evaluations, though may occur in some instances.[50] The process is not systematic and in the absence of a clear framework depends on the particular concerns and perhaps also the interests of the reviewers.

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[47] ADB notes that additionality is evaluated according to (i) the extent to which ADB finance was a necessary condition for the timely realization of the project, through direct mobilisation of funds and/or indirectly by improving the risk perception of other financiers; and (ii) ADB's contribution to the design of the project to improve the allocation of risk and responsibilities, and to enhance development impact.

[48] Projects whose assessments were reduced from satisfactory to less than satisfactory were: (i) a base load power project in the Philippines; (ii) a district energy infrastructure development project in the PRC; and (iii) a solar power project in Thailand

[49] Source: 'Evaluation of EIB's Energy Efficiency (EE) Financing in the EU from 2000 to 2011: How did the Bank respond to the EE challenge in the context of a reinforced EU EE policy?' Available here.

[50] With the introduction of its revised approach to additionality the GEF IEO has applied this framework since the end of 2018, e.g. to studies on biodiversity mainstreaming and clean tech.

There are exceptions to note, however, particularly on issues closer to the private sector domain. For example, AfDB evaluations of SMEs and Equity (both in 2015) draw some attention to additionality concerns. Importantly, from time to time additionality itself is evaluated. IEG did this in 2015 (and in 2008), the EBRD in 2017, GEF in 2018 while the AfDB and ADB plan to do so in 2021 and IFC again in 2022. An EFSI Evaluation (EIB, 2018) also had a strong additionality dimension. Related investigations of mobilisation (EBRD, 2019) and, on a higher level, self-evaluations (IEG, 2016; ADB, 2020; AfDB, 2019; EBRD, 2020) also have a bearing on understanding aspects of MDBs' additionality.

The additionality evaluations identified limitations in the then existing systems and helped to drive a new way forward in each case. IEG's evaluation noted that the combination of financial and non-financial additionality had grown (and helped to deliver development impact) but that non-financial additionality had higher failure rates than financial additionality, largely because of the need to plan and follow up in these areas (mostly environmental and social standards) which takes time and effort. Operations with repeat clients were also seen as an area which needed attention. IEG found a higher proportion of equity than non-equity projects not fulfilling any type of financial additionality (e.g. structuring, mobilisation, market comfort).

EBRD's study was similarly thorough. Here EvD argued that financial additionality was "asserted without links to broader market benchmarks or 'additionality gaps'" and non-financial additionality "lacks clear guidance on acceptable sources, and on ways to understand its value". The review noted the lack of aggregate monitoring and reporting on additionality and the need for better guidance to "distinguish between different instruments … as well as different types of clients (private, public, repeat) and different contexts (ETCs, ATCs)".[51]

The GEF evaluation was mainly a methodological study designed to reconsider its 'incremental reasoning' approach and develop a more comprehensive framework. In exploring project documents from a number of GEF periods (GEF-4, GEF-5, GEF-6) incremental reasoning was found to be adequate in just 54 per cent of cases with 39 per cent of projects failing to offer a quantitative environmental baseline (only 21 per cent provided baseline information in the incremental reasoning request despite clear guidelines to do so). The GEF IEO concluded the review "reveals the difficulties in finding the evidence of GEF's planned additionality … the explanation remains generic and often does not include baseline data". However, over three-quarters of projects provided evidence that specific environmental additionality was in fact achieved. Figures for financial and innovation additionality were considerably lower. The report argued there was a need for a "clear quantifiable analysis of the counterfactual" and that "the absence of appropriate measurement for expected project outcomes leads to an under-estimation or non-reporting of GEF's additionality".

In their Evaluation of the European Fund for Strategic Investments (EFSI), the EIB's Operations Evaluation Division used survey data to look at whether the market could have supplied

[51] In EBRD terminology ETCs are Early Transition Countries, ATCs are Advanced Transition Countries.

comparable finance in the EFSI programme: 98 per cent of final beneficiary respondents claimed they could not have received comparable support for at least one of the financial or non-financial inputs. Among these, reputational effects, the adoption of improved social, environmental or other standards and the opportunity to attract other financiers were most cited, with better offer rates and loan maturity featuring on the financial side but less prominently. The team also considered whether the projects supported by EFSI would have been curtailed, delayed or reduced in scope without EIB financing. While the majority said their projects would not have gone ahead or would have been delayed a significant minority - roughly one-third of infrastructure and innovation operations and one-quarter of SME operations – said their projects could have gone ahead unchanged and within the same timeframe without the EFSI-backed EIB participation.[52]

[52] 'Evaluation of EFSI', 2018. Available here.

IV. Discussion Issues

Introduction

All MDBs see additionality as an important requirement and apply it to their operations. The basic building blocks for assessing additionality have been present in these institutions for a long time. For the main MDBs, efforts are made by project teams to identify sources of additionality early on in the process and clarify them before projects are approved and they assess their validity after projects are completed. Evaluation departments check the veracity of the additionality claims, either directly in relation to individual operations (on a sampled basis) or indirectly through reviews of clusters of projects. On this basis, managements, operations teams and evaluators meet their essential obligations on additionality.

At the same time, at least historically, there has been an overall lack of clarity and consistency in MDB approaches to additionality. There is no collective repository of knowledge or good overview of the issue and how it is implemented. It is difficult to find information on views of additionality among the wealth of papers, reports and other documents produced by MDBs. What exists is scattered across a variety of places and much of the material is ad hoc, responding to intermittent pressures. From a strategic point of view there is little coherence to what is available.

Additionality is seen above all as a project-level issue. Yet, while there is detail on individual projects reporting on additionality performance at a corporate level is largely absent (with some notable exceptions). There is no discussion of trends in additionality nor how changing market conditions might affect the picture. When financial circumstances are addressed the main point made is how crises make MDBs more additional. This is fair but trends to the contrary and their implications – such as from the rapid growth of financial instruments and liquidity in emerging markets for example – are ignored.

Responsibility for additionality is also unclear. Top managements are ultimately accountable to their Boards but responsibility internally is not generally specified. A mix of people is typically involved covering different dimensions of the process: project team leaders, regional and/or country officers, economists, other specialists and portfolio managers. None has full responsibility for additionality from beginning to end leading to a somewhat disjointed picture. Consequences are few. Many on the operations side treat additionality as a threshold condition, presumed achieved at approval with no need to follow up. And while self-evaluations are conducted there is little evidence that they form part of any learning process, at least until evaluation teams investigate and report (though only partially due to sampling).

Although the approach taken to additionality by most MDBs is in the same ballpark there are differences: in use of definitions, interpretations, systems and methods and in application. The different objectives of these organisations is a factor but on the whole there seems little against seeking more conformity. Indeed, MDBs have begun to address the issue and the *MDB Harmonised Framework* represents a potentially important milestone along a more coherent and consistent path. MDBs have recently reviewed their approaches, or intend to do so, which should help further.

Issues

Issue 1: Does additionality deserve more consideration?

For many on the operations side, who have to fulfill a large number of conditions before a project gets off the ground, additionality is seen as an extra burden with little value. In their view, additionality is obvious in most cases since 'the client wouldn't work with us unless they had to as we impose so many demands and conditions on them'. A simple check that no alternative similar finance is available is all that is needed, they say. Since MDBs are well placed to offer longer tenor finance in more or less any market, additionality can easily be demonstrated. The real work, i.e. the value they add, is about helping the client meet their objectives which, with well-chosen projects, should line up with the MDB's goals.

For those on the ground working with clients and seeking new deals this is an understandable viewpoint. But given the public purposes of MDBs, as seen by shareholders, well-organised arrangements for assessing additionality have a particular value that goes beyond client satisfaction. Not only is value for money and support for private sector development more likely to be assured by testing additionality carefully but a proper assessment of the value of the MDB's contribution (which includes work done with clients) helps steer good project selection and design. It also makes subsequent evaluation easier and leads to a better understanding of the drivers of project performance and how MDBs deliver their impact.

A strong and transparent system for assessing additionality is an important tool for MDBs to possess. It helps them to be relevant and to venture into areas commercial investors regard as too risky.

Issue 2: What Strategic Considerations might apply to additionality perspectives?

The importance of additionality to MDBs does not seem to be reflected particularly well in strategic documents. Attention on additionality is focused at the project level with only limited assessments at an aggregate level. Evaluation departments do a better job in identifying additionality issues through cluster or synthesis reports covering sectors and particular themes. And from time to time evaluations of additionality are conducted providing analyses of the extent to which an MDB has been successful in delivering additionality.

The identification of trends in additionality, its sources and delivery performance could feature more prominently in strategic discussions. Patterns in financial and non-financial additionality could indicate shifts in role of the MDB and throw light on its comparative advantage. Where longer tenors are the predominant form of financial additionality it could be explained how this assists clients and improves the chances of better development outcomes; and what the MDB is doing to improve the functioning of financial markets to extend tenor options among private financiers. Similarly, MDB efforts to raise client standards could be put in context by describing local norms and how similar efforts in other projects may have sector-wide effects, especially if policy work to improve regulations is being pursued in parallel. Descriptions too of where additionality dimensions are hard to implement, e.g. where client buy-in turns out to be low, could help to indicate where more needs to be done, or that efforts need to be deployed elsewhere.

A better balance might be struck between the degree of focus on additionality in individual cases and providing more information about the institution's likely additionality in a sectoral context. For example, an MDB is more likely to be additional in offering green rather than conventional finance or in supporting project preparation work in infrastructure projects where it can demonstrate extensive hands-on experience. Sectoral market analyses (within countries) could help pinpoint areas where MDB additionality is more clear-cut and lend support to individual project arguments from a higher and more easily appreciated standpoint. Where identified market gaps are shown to be large it becomes simpler to explain the additionality of individual cases. A more strategic approach could help steer MDB future directions and the allocation of resources to where they are needed most.

Higher level analyses of additionality also bear on questions of strategic importance such as when an MDB should 'graduate' from financing a sector or country. With more MDBs working with the private sector, with many developing countries growing and becoming more financially sustainable and with finance for private sector development expanding the matter of when various activities financed by MDBs should stop – and resources shifted to other areas – is increasingly relevant. Tests of additionality at a more general level – can the MDB still add value 'beyond the market' in area X or Y? – should help to deal with such issues.

An important related point concerns additionality among MDBs. Establishing no market alternative indicates an MDB's potential additionality. But it may not be unique to that MDB. And many projects are looked at and cofinanced by other MDBs. The Explanatory Notes to the EBRD's Articles made clear that it "should not compete with other organisations". Although this referred to financing the sentiment should read across to non-financial dimensions of additionality; and to all MDBs. There is no mechanism in place at present however to ensure avoidance of crowding out of publicly-sponsored finance. For now, perhaps the best that can be done is for an MDB to explore where its comparative advantage lies and seek to cooperate with others on that basis. This is a strategic aspect of additionality to be developed.

A high degree of transparency could also form part of a more strategic approach towards additionality. Currently the level of transparency on additionality varies among MDBs. The IFC and EBRD provide summary positions on additionality ahead of project Board decisions, while AfDB and EIB (for EFSI projects) do so shortly after Board approval. The ADB discloses self-evaluations, including for non-sovereign projects which have information on additionality. AfDB does so only for sovereign operations but makes available its evaluation notes on non-sovereign operations.

These variations imply that more disclosure is possible across the board. In principle, MDB views on additionality could be made publicly available (notwithstanding commercial sensitivities) *ex ante* in summary notes and *ex post* for self-evaluations and evaluation notes. On top of these would be the fuller evaluations by Evaluation Departments which are published as a matter of course and where additionality is touched on in various ways. Adding more strategic assessments as suggested above could enhance public knowledge still further.

Greater transparency on MDB's additionality or contribution (a more easily understood term for a public audience) could foster a much deeper understanding of the issue and its implications for MDB performance. Feedback from stakeholders, where it is received, would also assist MDB strategies.

Issue 3: Can definitions of additionality be made clearer?

The starting point for any additionality framework is a clear definition of additionality. This can be made more effective by providing a context. Notwithstanding the multiplicity of possibilities in definitions it is appropriate for MDBs to focus on input additionality. This is underpinned by the theory of change and MDBs' strong focus on development impact. Input additionality and development impact provide an appropriate separation of MDB activities to support projects and the results which derive from them.

The division of additionality into financial and non-financial categories is becoming established as the simplest way of addressing the two distinct dimensions of the issue. It allows their sub-division into different sources of additionality. One aspect of non-financial additionality that is insufficiently emphasised is the need for client 'buy-in'. Adding a source of additionality without willing client support makes it less likely non-financial inputs will succeed. So it is important to show evidence that the investee has taken on board advisory services and technical help as a substantive commitment and, ideally, as part of an amended strategy.

One category that deserves some attention is mobilisation. This is an aspect of MDB comparative advantage that is highlighted elsewhere in MDB work, and in some cases is targeted, and expected to grow further over the coming years.

Agreement now exists on defining mobilisation for reporting purposes – essentially where an MDB directly and verifiably mobilises additional finance on commercial terms – and could be used in the additionality context. It is worth noting that this would exclude indirect mobilisation, such as on-lending by financial institutions or becoming a limited partner[53] in a private equity fund. However, the additionality of these elements may be captured elsewhere, e.g. by on-lending to underserved sectors (where alternative finance is unavailable) or by closing a funding gap.

[53] The MDB guidelines include becoming an LP in PDM where the MDB plays an active and direct role in bringing in other LPs.

Use of this definition should help deal with overlapping claims of additionality since it clarifies the role played by each MDB and provides a consistent basis for reporting. The AfDB takes a different approach to the problem by including all DFIs involved in the financing - the additionality applies to DFIs as a class rather to any one MDB. This recognises the role smaller participants may play in the process, even if it is a minor one, and simplifies the attribution problem – which may be acute by the time of evaluation if there is little to show which MDBs were active. But it may feel unfair to staff in institutions who spent most time and resources arranging the cofinance.

Definitions of additionality and contribution address the ‘lack of availability’ of alternative equivalent options and should, but do not always, make clear the role of the counterfactual ‘would not otherwise happen’. Project teams need to be reminded of this and be asked to consider presenting ‘before’ and ‘after’ intervention scenarios.

A supportive element concerns the context: additionality most clearly arises where there are significant market failures or market ‘gaps’. While it may not substitute for analysis of individual project additionality (e.g. a strong sponsor may be able to attract finance to handle the risk in difficult markets) more could be done to describe these contexts, and link them to additionality arguments. The context can give reassurance that the MDB’s risk-taking is likely to be additional.

A further aspect that might be made clearer is that additionality at the start of a project is uncertain and involves an expectation, especially with regard to non-financial additionality. In time PCRs and evaluations should reveal the results. Anticipating that, bankers should be asked to describe what they expect to happen under each additionality category and be told that they will be held accountable for its delivery.

Donors are less involved in the selection and design of projects and focus more on the value obtained for their financings. It is right that they are interested in achieving additional development results but confusing to call this additionality. Where donor finance supports inputs directly, such as via technical assistance, this can be aligned with MDB input additionality while the use of grants and concessional finance should more properly be considered with development impact or results.

Issue 4: Can ex ante assessments be improved and evaluations enhanced?

Structural Clarity

Analysis of additionality in the past has been significantly hampered by poor specification of additionality sources at project approval and weak monitoring of elements that deliver additionality over the course of the project. This has made evaluation a difficult task.

A first step to deal with these issues would be to define a suitable list of key additionality sources from which operational teams can draw on in managing their projects. The full set of possible sources and sub-categories from the MDB *Harmonisation Framework*, or a cut-down version, is a useful starting point. Worked sectoral examples would also help. Advice could be given that up to three sources is normally adequate to demonstrate additionality and that a particular focus be given to the main driver. This would help decision-makers in judging additionality and make clear for future evaluations where to concentrate attention. Aspects of additionality that are uncertain or only deliverable in the future should be made clear.

A second step would spell out how the MDB delivers or is expected to deliver its additionality. This needs two things:

(i) A statement of the counterfactual or the project team's best guess at what might happen without the MDB's intervention. This might be set out in detail in some instances: for example, differences in financial projections could be shown with/without MDB intervention, and the implications explored.

(ii) Evidence to back up the additionality claims. In the case of financial additionality this may involve looking at close market comparators. Here ready access to databases and relevant market information, including from surveys, is valuable. For non-financial additionality, where this involves a programme of engagement with the client and/or relevant authorities, a systematic set of indicators and benchmarks or milestones (including expected timings) is needed. Responsibility for delivery, monitoring and reporting would also usefully be allocated at the same time.

A simple example below, based on a hybrid of IFC and EBRD templates, gives an illustration of how additionality might be presented.

Table 2

Additionality Table (*ex ante*)					
Category	**Source**	**Justification** (with evidence)	**Indicator(s)**	**Milestones** (if any)	**Delivery date**
Beyond Market	Long tenor	15 yr v 7 yr alt			Commitment
		Improvement in fin ratios, net cashflow	Fin ratios		
Mobilisation	A/B loan	Lead arranger	Mandate letter	Financial close	Signing
			No of B lenders		
			Amount		
Standard-setting	Gender	Intro Gender action plan	No trained	Target trained	Date X
			Hiring policy	Introduced	Date Y
Counterfactual case (brief description)					
Likely smaller or delayed investment, jeopardising expansion goals; gender improvements unlikely to be pursued					

It follows, as a third step, notably for non-financial additionality, that the indicators set should be tracked and reported on at regular intervals and checked at their estimated delivery dates. Since a similar process is followed for development outputs and outcomes it should in principle be relatively straightforward to graft on a similar system for additionality. Care would need to be taken to separate elements that are treated as inputs, as in say a gender awareness training programme in the above example, and those which might be outcomes, e.g. an improved gender workforce balance across the sector (which could come from additional activities).

Once *ex ante* additionality assessment is improved *ex post* evaluation should be easier, particularly where good tools and guidance is in place: comparisons of expectations against results can be made, a better evidence base can more easily be checked and arguments verified and sound monitoring will more likely pick up unexpected events, some of which may enhance additionality (e.g. a client's realisation of the value gained in improving governance or discussion of a new tariff/regulatory regime).

Some Improved Practices

Certain practices in *ex ante* additionality assessments stand out and might be adopted more widely. Three in particular: repeat projects, calibration of standards and treatment of bond issues.

In the case of repeat projects – projects with the same client or sponsor - it seems advisable to subject them to more intense scrutiny on additionality.[54] This can be done through counterfactual analysis – 'What will the MDB's intervention add and why will it be different this time?' – and an assessment that can point up new drivers or different sources of additionality. Being able to tell a clear story about the evolution of additionality with the client or how the project presents a new focus area helps to cement the arguments.

Under standard-setting it could be clarified that compliance with contractual and legal obligations, e.g. on health and safety or with local regulations, is usually insufficient for additionality. Graded measures to improve on national and regional sectoral norms towards international best practices could be used to measure additionality. This would provide for more consistency across sectors within and across MDBs.

MDB additionality in bond issues is particularly hard to determine *ex ante*. Only the arranger will know the true state of demand and whether or not bidding private financiers could support the whole issue. Legal obligations prevent disclosure. Sometimes client issuers prefer to have MDBs among their bondholders, e.g. rather than hedge funds, as they tend to be long-term investors and additionality is achieved through this risk mitigating route. But MDBs may crowd out private finance in bigger, more liquid issues so thought needs to be given to how to test for additionality before this occurs. One solution may be to advise arrangers that in the case of sizeable oversubscription some MDB scale back formula might be applied to preserve (some) additionality.

[54] In the case of financial intermediaries, such as banks and equity funds, where repeat projects are common, the test needs to be applied to the ultimate beneficiaries, e.g. SMEs.

Issue 5: Can Integrated additionality and development impact systems help?

There is logic in more fully integrating additionality and development impact assessment, monitoring and results systems. This would help clarify the roles of the different components of the theory of change where less attention is currently paid to the input side. Bringing together the essential elements of what the MDB contributes (compared with others) and what it delivers in one place helps create a coherent story.

Two MDBs have already moved in this direction: the AfDB some time ago with its ADOA system and the EIB with its strengthened framework under development. However, the ADOA system is not ‘full’ in the sense of going beyond the *ex ante* stage – subsequent monitoring and self-evaluation lie outside the system. Elsewhere, the IFC and EBRD have the relevant ingredients to hand. However, the EBRD’s approach only has an integrated impact system and, like the AfDB, does not follow up additionality in a systematic way. IFC’s AIMM is also a comprehensive impact system and the plan is for its new Additionality Framework to join it in due course, though in parallel by all accounts rather than as one purpose-built integrated system.

Issue 6: Ratings ex ante or not?

While all MDBs rate additionality *ex post* only two – AfDB and EIB – do so *ex ante*. In the cases of those which rate *ex ante*, there are differences in the level of detail used in the ratings and in how components are weighted. For comparison, rating systems are used *ex ante* for development outcomes and impact in all MDBs other than ADB.

Whether or not *ex ante* rating systems are used, arguments in favour or against ratings are nowhere presented. For those who view additionality as a pre-condition, something once passed that can then largely be forgotten, a yes/no hurdle begets no rating. Yet, even in EBRD and IFC which lean in this direction, efforts are made to provide strong arguments in favour of a project’s additionality, often more than sufficient for a positive assessment; and there is interest in the value added or contribution of the institution to making the project – and the institution itself – a success. The strength of additionality becomes a factor in the decision-making process.

Arguments can be made in favour of ratings *ex ante*: they focus attention on what is required, incentivise efforts to improve on set conditions and give clarity to how assessments are made. Equally, there are arguments against: the rating can become a goal in itself, drawing attention away from the underlying substance, ways are found to ‘game’ the system, boundaries and weightings are arbitrary with legitimate room for disagreement, there is less flexibility over judgements and marginal decisions may be seen as unfair in some cases.

It is a matter for debate whether a rating system should be deployed *ex ante* in all MDBs. One factor to consider is that the presence of two separate rating systems – one for additionality and one for expected development results - could be confusing to operations’ teams and add to efforts to ‘game’ systems, although the AfDB and the EIB seem to have successfully managed such schemes. Consistency of approach from beginning to end is essential either way. Systems properly lined up *ex ante* and *ex post* aid the assessment of expected additionality and its delivery.

Issue 7: Are there Trade-offs or Tensions in promoting additionality?

There are some trade-offs and tensions which involve additionality: between financial and non-financial additionality; the balance between project level and portfolio approaches; pursuing new areas or deepening expertise; new clients versus cementing long-term relationships; between mobilisation and financial additionality; and between additionality and profitability or business volume.

Looking first at additionality and profitability, two IFC evaluations claimed to find no evidence of a trade-off here. These analyses were based on evaluations of projects and their respective ratings for additionality[55] and investment profitability. In 2008 an evaluation of 692 projects that ran between 1996 and 2007 showed the proportion rated 'High' for both additionality and profitability was 53 per cent while 13 per cent were both rated 'Low'.[56] A further evaluation in 2015 said subsequent results for projects evaluated for the 2008-2014 period were similar, though no figures were given.

The 2008 evaluation also showed very similar results for development outcomes and profitability. In some ways this is no surprise as additionality and development outcomes may be expected to be positively correlated in that additionality tends to be stronger where market gaps are larger and thus where development outcomes are likely to be greater. Relevant financial assistance and well-performing non-financial additionality dimensions are also likely to help deliver better development results.

No other MDB appears to have conducted a comparable study. Information exists in and across other institutions to look further at this. The information used had some limitations: for example, IFC's role and contribution was the yardstick in those years rather than additionality per se (although additionality was a key component).[57] It was also based on *ex post* information.[58] More analyses of this type might be conducted including, where data are available, a similar exercise with *ex ante* information, i.e. a comparison between expected additionality and expected profitability. This might capture cases where profitable projects are sought without sufficient regard to additionality, and conversely. And, since business volume is a key consideration in decisions additionality should perhaps be tested against this factor too.

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[55] Strictly the additionality information was based on IFC's Role and Contribution, which formed part of the Work Quality dimension.

[56] 27 per cent had high additionality but low profitability. NB Additionality was proxied by IFC Role and Contribution.

[57] A project could not have achieved a positive rating under IFC's Role and Contribution however unless the main additionalities promised in its Board report were delivered.

[58] A trade-off observed *ex ante* might disappear *ex post* if expectations of additionality were disappointed and those for profitability were surpassed for example.

Perceptions may nevertheless remain of a trade-off between additionality and profitability since this can occur prior to the project selection decision. Most operations teams report that although additionality is not often a show-stopper it is taken into account early on in the decision-making process. If a project exhibits weak additionality it is less likely to go ahead. Whether it does or not depends on other elements in the mix, notably volume and profitability. Above a low additionality threshold therefore a large project with high expected profitability (or a key client where there are hoped-for future deals) may be pushed forward despite weak additionality. So there may be cases, not easily observed in statistical analyses, where compromises on additionality are made in favour of other business objectives. Vigilance makes these cases relatively rare but they may be identified in rating systems (although project teams' overestimation of the strength of additionality and limited sampling of validations may make this difficult).

Additionality is more often ignored or downplayed compared with other elements in decisions or assessments rather than pushed excessively hard to support an overall performance rating. Most MDBs either do not produce overall performance ratings or, if they do, do not rely on fixed weights but on judgements which take project circumstances into account. Beyond the financial dimension, development outcomes tend to dominate views of overall performance. Additionality is necessary but its strength is just one of a number of ingredients in the overall view taken: a better additionality story in many cases is a 'nice to have'.

In one MDB where a strong development outcome rating has a large effect on the overall assessment (and where 'gaming' efforts concentrate on improving it at the expense of efforts to improve other items, including additionality) a view was expressed that more might be gained by concentrating on a portfolio approach rather than individual (overall) performance ratings. In other words, aggregating ratings for each performance component across projects to understand better where the main strengths and weaknesses lie. Thus, if in the portfolio development outcomes had, say, a 75 per cent self-evaluated success rate whereas additionality scored only 55 per cent it would draw attention to additionality and the need to understand its weaknesses and improve upon them. Focus on the overall success rate of 75 per cent (driven by development outcomes) would miss this point. Some MDBs indeed do look at the aggregate breakdown by performance category. Most could do so without much difficulty.

The apparent growth in non-financial additionality relative to financial additionality needs further examination. It raises the question of whether there can be a trade-off or tension between the two. So far, it seems that most cases involving non-financial additionality also include at least one source of financial additionality; it is not altogether clear whether non-financial additionality can be sufficient. But there may be a risk that financial additionality gets downplayed in favour of non-financial sources. Finance may be available in the market on similar terms but the MDB's non-financial value added – particularly where there are strong associated development outcomes – may be seen as adequate, or even important, for the project to go ahead (especially if it supports business volume goals). This may lead to some crowding out of private finance.

Some people, including among shareholders, have questioned the role of non-financial additionality altogether, partly because it substitutes for financial additionality, allowing it to be watered down, but also because it can be difficult to disentangle from development outcomes. Their preference is to stick with financial additionality alone. A greater focus and tougher testing here, it is said, would push MDBs towards more innovative financing solutions and areas where alternative finance is weak or missing. In doing so private-sector focused MDBs would stay closer to their original missions of supporting and deepening financial markets as a means of fostering economic development. There seems no reason not to push for stronger explanations of financial additionality in this way but discarding non-financial additionality looks unnecessary as long as it is carefully monitored and assessed and additionality and development impact are properly integrated.

That assessment is not always easy. For example, a client may choose MDB finance over equivalent commercial money for non-financial reasons, e.g. stamp of approval. Private sector finance is in effect crowded out but this is not easily visible and it is true that the client gains some extra value, which scores as additionality. The situation becomes particularly difficult to disentangle where incentives – implicit or explicit - are used to support the transaction. MDB (or donor) paid-for technical assistance helps MDBs add value but is not available to private creditors. Financial incentives compound the problem since they lower the cost and thus the effective pricing of the project. By bringing pricing 'below market' crowding out hangs on the extent to which commercial finance is truly absent or unwilling to take on the risks. This could be measured by reference to whether private finance would be forthcoming if they were in a position to offer the same incentives to clients as MDBs. (In some instances, as the use of guarantees show, e.g. partial loan guarantees, first loss cover, portfolio risk sharing, this can be the case.)

The increasing use of blended finance, where conventional and concessional finance are brought together, makes additionality judgements more complex for these reasons. MDBs are able to take on extra risks and pursue worthy objectives under financing terms and conditions that are not available in the market. But it is not a fair comparison without understanding the market context and applying further tests to establish that commercial solutions cannot be found. As blended finance grows in importance, clarification of the role of financial additionality in this context is badly needed.

There is an important corollary which appears for instance in EIB interventions where 'financial advantage' from more advantageous funding and an EU guarantee is passed on to clients and enables operations to be extended to riskier areas, as in EFSI.[59] This is the matter of windfall effects.

These effects and how to assess additionality are not confined to this institution but arise with the use of any subsidy, whether explicitly identifiable or implicit (e.g. where its financial value

[59] It may be noted that the EIB, like other MDBs, never normally supplies more than 50 per cent of the financing. While other DFIs may help to fill the gap there is room for some commercial finance where warranted.

can only be imputed). Not only do subsidies risk substitution or crowding out effects but they can result in deadweight costs. This is where projects that would have gone ahead anyway get the benefit of the subsidy, and represents a windfall gain for the client receiving the finance or equivalently an unnecessary cost to the public financier. In EFSI for example an evaluation estimated that perhaps up to one-third of SME projects could have gone ahead without the (more advantageous) EIB finance, and it could be argued that this provided windfall gains to these companies (albeit spread across a large number of SMEs). Estimating these effects is complex, not least as the counterfactual is hard to determine, but where incentives are involved more efforts might be made to assess substitution effects and deadweight costs. This could help to gauge the degree of additionality and possible crowding out of commercial finance and poor value for money in such situations.

A further tension that might be considered is over relative means to deliver additionality. Some institutions rely on long-standing clients in countries and sectors, working with them frequently to deepen the added value, believing this to be an effective route to deliver development goals. These clients are often large, prominent in their sector, well-connected to authorities and willing to learn and take on MDB requests designed to strengthen development. Provided earlier arguments surrounding repeat projects are adhered to, the total gain through being additional may be significant. On the other hand, concentrating on prominent players poses risks to innovation and competition and limits efforts to stretch MDB additionality. Working across a bigger group of clients, a large number of whom would be new, could spread the range of additionality and possibly have a larger effect. This points towards analysing types of client and how successful additionality turns out to be between them.

It should be recognised that mobilisation and financial additionality can clash and work in opposite directions. Financial additionality is more probable and likely to be stronger in riskier situations where commercial investors are less willing to provide finance. The bona fide and supranational status of MDBs can bring investors to the table and provide additionality. However, in some cases, particularly with strong clients and markets, private investors would go ahead anyway. Hence where mobilisation looks a good option – which will be of management value for other reasons, e.g. to control balance sheet risks and meet mobilisation targets – financial additionality may become squeezed and thus require closer inspection.

Finally, one area that might be tightened up is the role of longer tenor. This is the most frequently cited source of financial additionality. The ability of MDBs to take on long-term risks is one of their key attributes and is of value to clients. However, use of long tenors frequently needs more justification than the fact equivalent tenors are not available in the market. Where extended tenors are cited as the main driver of additionality it should be explained how it makes a difference to the quality of the project and its potential impact. Reduced rollover risk and its timing, alignment with capex/expansion plans, a better matching of assets and liabilities, and so on may be valid reasons (which should show up in key financial ratios). But equally long-term lending in hard currency may prove problematic in countries with weak macroeconomic fundamentals and where companies have little opportunity to hedge currency risks. Hence fuller explanations of how longer tenors mitigate the risks the client faces and what might be expected to follow could be sought. This would also help evaluation later on where the results of the balance sheet restructuring or capex/expansion can be seen and the value of the long-term loan assessed.

Issue 8: How can Resources be optimized when improving additionality?

Improvements to additionality assessments and systems may involve resource costs and arguments over burdens on operations' teams. While much can be done through a heightened focus and greater consistency in approach improved monitoring and reporting is likely to be labour-intensive, at least to begin with as systems are constructed and implemented and IT arrangements are put into place or adjusted to take on new elements. Consideration might be given on how to optimize resource use.

One aspect of recent changes in EBRD's approach is of interest here. Rather than applying a comprehensive assessment of additionality to every project that is approved, the system targets efforts by bankers to areas likely to require the most attention in justifying additionality claims. Agreed triggers flag areas of particular interest which demand greater attention and careful corralling of evidence before additionality claims are accepted. In areas where the probability of additionality is much greater, as in less developed countries, a lighter touch approach is followed. This reduces the burden on bankers working in more difficult business environments – where market gaps are usually large and additionality more obvious – while shifting the spotlight onto those seeking deals in more developed countries.

It is too early to reach a verdict on this system but it offers one way of managing scarce resources while scaling up additionality work. Use of templates and simple drop-down menus for sources of additionality (another feature of the system) could also help operations teams. Associated guidance on the options, required evidence and how to produce a summary story could reduce the need for economist assistance, leaving them freer to support operations in other (more productive) ways, e.g. assisting with policy dialogue activities.

Issue 9: Does additionality apply to both public and private sector projects?

It is striking that additionality is not a feature of sovereign operation assessments in some MDBs (AfDB, ADB) whereas others (EIB, EBRD) manage a unified assessment of public and private projects despite their different nature. In the case of evaluations (PCRs and validations) there is congruence among these four MDBs in using the OECD-DAC categories of Relevance, Effectiveness, Efficiency and Sustainability on the public sector side. EIB contribution becomes an extra dimension to the list in EIB's case (along with Project Cycle Management) – the rating of which sits alongside the rating for overall operation performance - while the EBRD integrates additionality within Relevance and its rating and thus it forms part of the overall performance rating.

From a big picture perspective support for development comes from multiple sources. It is certainly no longer the province of the major MDBs. Competition in finance and other assistance derives not only from the commercial sector but also from philanthropic and impact investors, ESG and donor funds, sovereign wealth funds, national promotional banks, state-backed national champions and domestic policy instruments and even from DFIs themselves. In the case of public sector projects there is also the possibility of using private finance to help, as in PPPs in the health sector for example. And beyond this whether the investment can be delivered using domestic public finance or in a different way through taxes and subsidies or regulation.

The underlying principles behind additionality – no alternative financing route that is as cost-effective, leaving room for local economic development and support for good project selection and design – seem to apply to both public and private sector operations. The typologies and sources of additionality broadly used remain relevant and the need for counterfactual assessments are equally valid. Attention might therefore be directed to consideration of harmonisation of additionality approaches across all MDB activities.

Issue 10: Is Expected Contribution a better descriptor for additionality?

The concept of additionality is hard to understand and get across, including for policy-makers. Among MDBs its nature is changing as more attention is paid to non-financial additionality and more players enter the market for development. Difficulties in assessing and evaluating financial additionality, at signing and thereafter, have not helped. Counterfactual scenarios and efforts to attribute additionality to individual MDBs are also fraught with difficulties. As these issues have become clearer the terms value added and contribution have increasingly been used in additionality discussions. To some extent this indicates a shift in perception of what is wanted.

From a policy point of view MDB performance may be judged by whether the MDB:

- Makes a significant contribution to its operations that would not have been made (as effectively) by another entity;
- Delivers results: development impact and financial sustainability.

In pursuing investments MDBs aim to contribute by carefully selecting and designing projects and providing inputs that make a difference to client performance, and ultimately to the chances of good development. Projects are chosen not just to increase investment while avoiding harm to competing commercial financiers but to do some good by improving their quality. The expected contribution the MDB's intervention makes is a combination of its additionality (no matching alternative) and the scope and scale of its input (contribution).

Additionality might thus be interpreted in a slightly more expansive way.[60] The first question to be answered, let's call it traditional or standard additionality, is whether equivalent alternative

[60] CDC follows this approach.

finance (or expertise, etc.) can be found for the project. Since it is never possible to be certain of this and impossible to verify, the best that can be managed is to provide a probabilistic estimate (in reality an educated guess) of the MDB's additionality. For example, the project team's best estimate could be that there is a 70 per cent chance the MDB is additional in project X. It is in fact harder to be confident about financial additionality than non-financial additionality whereas the opposite is true of the MDB's value added.

The question to be answered that follows once the likelihood of additionality is pinned down is 'So what?' The answer here depends on the scope and scale of the input to the project. A small contribution to the finance total, a late arrival to the financing package, insufficient equity to have much influence (e.g. no board seat), could all be considered a 'low' contribution; whereas leading an important syndication, a well-designed corporate governance plan, intensive parallel regulatory dialogue might constitute 'high' contributions.

The significance of the MDB's expected contribution is thus the combination of the probability it is additional and the strength (i.e. size and quality) of the inputs it supplies to the operation. It would appear that while current additionality systems pay attention to the former - though without specifying the degree of doubt - they pay only limited attention to the latter and not in a systematic way. This might be improved upon.

V. Conclusions and Suggestions

General

Although additionality is a principle of operations among MDBs, it has received less attention than other goals such as business volume, development outcomes, geographic spread or financial returns. In many respects, additionality is development impact's poorer relation.

Additionality is not an easy subject to deal with, conceptually or in practice. Counterfactuals do not exist and have to be invented; alternative finance options are hard to discern; and many non-financial contributions take effect only slowly. Evaluation is not straightforward.

All the same, interest in understanding MDB additionality better has grown among shareholders, managements and evaluators. Progress has been made through revamps of some systems and has been helped by the MDB task force that led to the *Harmonised Framework*.

That said, more can be done and in the light of this stocktake of MDB practices a number of observations might be made.

Clarity and Coherence

There is no single consistent definition of additionality, though the concept of 'beyond the market' is common ground and typologies are increasingly in line among MDBs. While all MDBs declare additionality is important and have systems in place to address it practices vary and there is as yet no coherent overall story on additionality.

> ***Evaluators*** *and* ***management*** *might consider whether additionality deserves more prominence and a greater consistency of approach.*

MDBs consider the quality of their contributions to operations and the difference their inputs make, in the context of the theory of change, with an expectation that their contribution helps to deliver valuable development outcomes. Yet confusion can arise over lines drawn between additionality and development impact.

> *One* ***option****, consistent with the theory of change, would be to bring together under one comprehensive umbrella mechanisms measuring inputs (additionality) with those measuring results (development impact) to create a seamless end-to-end project assessment system.*

Strategic Matters

While key MDB documents such as Strategic and Capital Reviews and Annual Reports sometimes mention additionality they generally offer little strategic depth on the issue.

Assessment of additionality is almost entirely at project-level and in some respects trends are being missed, such as a possible weakening of standard MDB financial additionality.

Options exist to go beyond this. A greater strategic focus could be achieved for example through analysis of MDB additionality over time or within sectors or countries, and among financial instruments and client types as well as on non-financial dimensions.

> ***Evaluators*** *and* ***management*** *might consider the value of a higher-level basis for understanding additionality, which could point up where efforts might be targeted. This could come from more comprehensive information on:*
>
> - *Market 'gaps',*
> - *Contemporaneous financing conditions and related market data repositories,*
> - *Local ESG and other standards,*
> - *Areas approaching 'graduation' from MDB assistance, and*
> - *MDB comparative advantages*
>
> *Portfolio assessments might also be considered alongside individual projects.*

Strategic views could also help resourcing, where criticisms of the burden additionality assessment imposes are frequently heard from operational staff.

> *An* ***option*** *for* ***management*** *to consider is adopting a 'proportionate' or targeted approach (based on likely additionality) which could free up resources to allow a focus on more contentious areas of additionality.*

Operational Judgements

Assessment of additionality *ex ante* is largely judgemental and mostly in the hands of investment officers. Evaluation can be difficult, especially where little evidence or clear reasoning is provided.

One approach is to adopt *ex ante* rating systems which specify in some detail what counts and how to scale additionality components. This can help bankers' understanding and choices and carry through to *ex post* evaluation. But it may feel a bit rigid or mechanical; and rating systems have their own pluses and minuses.

Another approach makes use of quasi-independent reviewers (usually economists) who are integrated into the decision-making process and this may help evaluators later on, especially on financial additionality.

Other routes offer detailed guidance on what to look for under additionality, supplemented by model examples.

Clear practical guidance on sound ex ante additionality practices looks to be a relatively easy step forward which ***evaluators*** *and/or* ***management*** *could provide.*

Tackling Ambiguities

Mobilisation of additional finance forms part of financial additionality and is an increasingly important part of MDB business yet differences in definition and interpretation exist. Agreement has been reached among MDBs on reporting requirements for mobilisation.

In principle, agreement might be sought among ***MDBs*** *to use similar definitions when citing mobilisation as a source of financial additionality.*

Wider MDB targeting of mobilised finance and its importance to meeting the SDGs suggests that this component of additionality might be separated out as a focal point to yield ***three core dimensions*** *of additionality: financial, mobilisation and non-financial.*

Repeat clients are not always treated in the same way among MDBs.

Operations*' teams could help pin down the 'extra' from succeeding projects by articulating how additionality is served by the developing relationship.*

It is also the case that when several MDBs finance the same project there is no mechanism to ensure additionality assessments are made on a consistent basis.

Additionality through improvements in standards, e.g. environmental and safety standards, can be subject to different interpretations – sometimes seen as regular compliance as per loan agreements, sometimes as driving local norms forward.

Evaluators *might consider whether a harmonised approach towards setting standards, graduated on a consistent basis e.g. against local, regional and international yardsticks, is desirable.*

Incorporation of various forms of financial advantage in MDB products and services – cheap or blended finance, donor- or trust-fund supported technical assistance, non-market guarantees, subsidies – may distort the playing-field, result in windfall gains and deadweight losses, and complicates the assessment of additionality. This is becoming an increasingly pressing issue as MDBs look to donors and others to provide finance in order to take on greater risks.

Evaluators *need to be part of the debate on blended finance and use of subsidies.*

A close look at the use of ***blended finance*** *by each MDB and the extent to which it impinges on additionality and leads to possible crowding out and deadweight costs would be a useful starting-point.*

Monitoring, Reporting and Evaluating

Successful evaluation of additionality depends on well-prepared baselines and counterfactuals, good data, clear articulation of intentions and implementation paths, and evidence of delivery.

In practice, variations in quality arise over the specification of additionality sources *ex ante*, the quality of supporting evidence, counterfactual assessments, delineation of expected effects, and the use of indicators, benchmarks and timings.

> ***Evaluators*** *could take a systematic approach to cataloguing performance in these areas.*

Monitoring of additionality claims is generally weak, patchy and uncoordinated and is matched by minimal collective 'in-flight' (non-sovereign) project reporting. Governance is also unclear.

> *One area of focus for* ***evaluators*** *could be additionality monitoring and reporting systems, including their governance and that of additionality more generally, and coordination with other areas (such as TA), data handling and IT arrangements.*

Transparency on additionality – e.g. annual reporting, summary information before Board approvals – could also be enhanced. Public disclosure supports feedback and potential interest in lessons derived from evaluations.

> ***Evaluators*** *could seek from* ***management*** *a shift towards a presumption of disclosure on additionality.*

Assessing Trade-offs and Tensions

Additionality is part of the project decision-making process and there may be a trade-off between additionality and profitability or business volume, though evidence for this is unclear. Similarly, there may be occasions when strong expected development outcomes are pursued in spite of a risk of crowding out some private finance. And no definitive view appears to exist on whether non-financial additionality is sufficient for a project to go ahead.

Other tensions also arise. For example, additionality is measured against commercial sector alternatives but in some cases another MDB may be the relevant alternative. Mobilising finance is easier when commercial investors are ready and willing to commit but this is more likely when financial additionality more generally is weak.

> ***Evaluators*** *may wish to identify additionality trade-offs and tensions and potential solutions.*

In some MDBs additionality is not considered in public sector projects even though similar principles apply and private finance might be an option.

> ***Evaluators** might look at whether a 'unified', or more consistent, approach to public and private sector additionality deserves consideration.*

Additionality and Expected Contribution

Sustainable development requires the transfer of human capital as well as financial capital. Climate change goals, better governance, gender equality rely on behavioural, institutional and regulatory change (as well as finance) where MDBs have comparative advantages. Hence MDB additionality is both finance- and knowledge-based.

MDBs add value by carefully selecting, designing and strengthening projects through appropriate finance and its structuring, mobilising other funding, implementing quality standards and by working closely with clients as they execute their plans. Policy engagement around projects adds further value.

Efforts here, and the inputs involved, are more than 'do no harm' but also 'do some good': additionality is not simply 'yes or no' – after all, some form of finance is usually available in the market but is always less attractive than a long tenor, low cost loan. Of central interest is the overall <u>value</u> of the MDB's 'contribution', i.e. the probability the MDB's input is additional and the difference it makes.

> *An MDB's **contribution** (beyond alternatives) to a project provides the counterpoint to development results and helps make clear what additionality means today.*

Evaluating

Greater consistency in approach to additionality is possible across MDBs (without loss) from which all would benefit: management, evaluators and the public alike.

*Thus, in addressing additionality **evaluators** should look for:*

- *Integrated systems,*
- *Proper specification of key additionality sources – why they are needed and what would happen without them,*
- *Clearer statements of expectations,*
- *Use of supportive evidence,*
- *Effective monitoring of implementation,*
- *Explicit reviews of delivery performance, and*
- *Greater transparency*

Common definitions of sources of additionality, use of agreed indicators and benchmarks, and consistent levels of ambition on standards would assist evaluation, as would client and competitor surveys and other means of testing the plausibility of additionality claims *ex post*; while common databases for financial market information would be in every MDB’s interest.

> ***Evaluators*** *should be encouraged to pursue comprehensive evaluations of additionality from time to time.*