DEMONSTRATING ADDITIONALITY IN PRIVATE SECTOR DEVELOPMENT INITIATIVES

A Practical Exploration of Good Practice for Challenge Funds and other Cost-Sharing Mechanisms

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DCED

The Donor Committee for Enterprise Development

Preface

The Donor Committee for Enterprise Development *(DCED) is the global forum for bilateral donors, foundations and UN agencies working to increase the effectiveness of private sector development – by promoting the exchange of practical experience among policy advisors as well as field staff, identifying promising innovations, and developing guidance on good practice. You can find out more about the DCED at www.Enterprise-Development.org.*

Since 2010, the DCED has been working on the theme of ***cost- and risk-sharing partnerships that create economic opportunities for the poor, through challenge funds and similar mechanisms****. In 2013, the DCED published a Review of current experience in such partnerships . One key finding was that agencies could do more to credibly demonstrate that the private investment and associated impact would not have happened anyway (the 'additionality'). The DCED 2013 Annual Meeting therefore decided that* ***inter-agency guidelines should be developed on how agencies can better assess and enhance their additionality****. It has also become evident that the lessons in these guidelines can be* ***similarly relevant for other mechanisms, such as market development programmes****, which may choose to use matching grants as a tool to stimulate pro-poor investments by a partner company. However, as opposed to challenge funds, these typically invest more time and resources into market analysis and identifying appropriate business partners upfront. Many elements of this document may therefore not be new to such programmes, but still serve as useful orientations.*

These guidelines are based on inputs from 24 experts from 18 agencies and programmes. *They provide a* ***synthesis of the key elements (assessment criteria and principles) that can form the basis of good practice in demonstrating additionality****.*

It is hoped that the document will help to strengthen the way in which agencies consider additionality as a central criterion for providing support to private companies*. It may be further developed in the future as practice continues to evolve. Feedback, suggestions of practical examples or case studies and other contributions are therefore welcome at any time. Please contact Melina Heinrich of the DCED Secretariat at heinrich@enterprise-development.org.*

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List of Abbreviations

AECF – Africa Enterprise Challenge Fund
AusAID – (former) Australian Agency for International Development (now DFAT)
BIF – Business Innovation Facility (Pilot)
BMZ – German Federal Ministry for Economic Cooperation and Development
Danida – Danish Agency for International Development
DCED – Donor Committee for Enterprise Development
DFID – UK Department for International Development
ECF – Enterprise Challenge Fund (for the Asia-Pacific)
GIZ – German International Cooperation (Gesellschaft für Internationale Zusammenarbeit)
PSI – (Netherlands) Private Sector Investment Programme
Sida – Swedish International Development Agency

Executive Summary

Additionality in private sector development initiatives: what it is and why it is important

DCED member agencies are increasingly interested in sharing the costs and risks of private investments in developing countries in order to promote economic development goals. **Competitive challenge funds are a popular format,** channelling resources to the private sector to bring about **investments and activities which would not otherwise have happened (at all, or in the same way, extent or time);** in other words, it is increasingly important that agencies can demonstrate the ***additionality*** of their support.

Agencies can improve on current additionality assessments

However, DCED (2013) and other research papers show that **assessment practices in many agencies may not allow them to make a convincing case for the additionality of their support**. This is because assessment criteria are often limited or vague; assessment processes are often confined to brief justifications by potential partner companies. There are also typically no overarching internal guidelines on how additionality is considered in project appraisals. There may be limited staff capacities, and pressures to disburse funds.

What good practice could look like (1): EIGHT CRITERIA for assessing additionality

Although additionality cannot be 'proven' or 'exactly measured', it is possible to enhance assessments in practical ways – to make an informed and credible judgement on additionality and to maximise the added value of public funds.

First of all, the agency must establish at least one of the following: The company **cannot self-finance** the project (within a reasonable time frame); it does **not have the knowledge or skills** to the implement the project activities alone; and/ or it is **unwilling** to implement the project because it perceives the costs or risks to be higher than the benefits.

If the company lacks the finance or knowledge to implement the project, the next step is to establish with reasonable credibility that the company also **cannot access equivalent support from a commercial provider**. Ideally, the agency would also make a convincing case that the cost-shared project is **unlikely to displace other companies already operating or ready to enter the market**. Finally, the agency should establish that its support **does not duplicate other donor-funded support**. If these criteria can also be met, additionality can be demonstrated.

The case for additionality may be reinforced if the agency can also demonstrate that it is will **leverage in funds from other public or private parties**. It may further be able to show that it is likely to bring about changes beyond **the cost-shared project**, such as in the operational standards applied in wider business operations, **or beyond the partner business,** such as improvements in the business environment that will benefit a wider set of companies. Ways to assess the level of **innovation and risk** of a project should also be clearly documented by the agency; the higher it is, the more likely it is that donor support is additional.

It should be noted that agencies sometimes have to carefully balance additionality criteria with other requirements and objectives of the collaboration. For example, partnering with a small firm will probably show clear additionality, but not necessarily achieve scale or significant co-investment.

What good practice could look like (2): EIGHT PRINCIPLES for assessing and enhancing additionality

Eight overarching principles emerge from an analysis of current gaps and practitioner lessons in assessing and enhancing additionality. **Agencies must be sensitive and creative in requesting information** related to additionality from companies – to make it more likely that the answers they

receive are honest and comprehensive. If possible, they should also **maximise personal interaction** with companies during the application or design process, especially to address doubts about additionality. Agencies should do as much as possible to **triangulate information** (e.g. by speaking separately to different company staff and a range of other stakeholders) and to **involve experts in the review and decision-making process**. While agencies can choose from, or combine, a range of different expert consultation methods, the use of review panels with a range of external experts and practitioners seems to be a particularly helpful process.

Where agencies have the mandate (and resources) to do so, they can **use the application stage to enhance the initial project proposal** by the company, e.g. to make it more pro-poor, environmentally sustainable or commercially viable. By **considering several types and degrees of additionality**, agencies can select the projects with the highest expected net benefits.

To connect all information relevant for additionality, agencies should **develop a clear, transparent narrative on the theory of change underlying the collaboration.** Such a narrative would capture the agency's assessment of the counterfactual, i.e. what would happen anyway, and a clear articulation of how the collaboration is expected to change the company's activities. Such an approach is preferred to complicated indices or other quantitative measures of additionality, although agencies may find these useful to develop or complement an overarching theory of change. More generally, it is useful for agencies **to document internally the additionality assessment criteria and processes used**, not only to communicate these to staff, but also to enhance external communication and accountability.

Considering additionality during and after support

Assumptions made about additionality *ex-ante* may be challenged during or after the partnership, while some elements of additionality, such as longer-term changes in the company's behaviour resulting from the partnership, may be difficult to gauge *ex-ante* with reasonable credibility. It is therefore important to consider additionality *ex-post* too. **After project completion, agencies can use qualitative business surveys to deepen or revise their initial understanding of their additionality.** A few agencies have done this internally, and independent assessments of this kind could also be considered. Similarly, and although more difficult, it could be valuable for more agencies to explore *ex-post* evaluations of rejected projects that are roughly comparable to others that did get support.

Further implications for donors and programme designers

While agencies are encouraged to '**do as much as possible' to use the criteria and principles outlined**, the guidelines offer the flexibility for agencies to **adapt the exact scope and depth of their assessment to their specific context, resources and objectives.** However, it would often be **easier for agencies to work towards good practices** in additionality assessments if these are **considered in the design of cost-sharing mechanisms upfront** and if there is a **clear institutional commitment by the donor** to making additionality a key requirement of support.

These are some of the **available options** to do so: **Enhancing management budgets and staff capacities and/or** reducing **the geographical scope and sectors of eligible projects**. A stronger focus on **choosing the most innovative projects**, supported by clearly defined assessment criteria, may also be helpful. **Keeping flexibility in the type and amount of support** offered may facilitate agency's ability to use 'just what is needed' to trigger the desired actions. **Enhancing transparency by publishing funding decisions** would enhance accountability and incentives for agencies to pay higher attention to additionality assessments.

1. Introduction

1.1 Background

Donors are increasingly interested in sharing the costs and risks of private investments in developing countries – by giving money directly to businesses, paying for or providing in-kind services. One possible model to do this is through **competitive challenge funds and other matching grant or cost-sharing mechanisms that invite applications from businesses.** Matching grants are also a possible **tool used by market system development programmes** that aim to stimulate changes to a company's business model.[1] What these approaches have in common is the aim to bring about pro-poor private investments which would not happen (at all or in the same way, extent or time) without public support. While this means that there must be significant barriers to such investments, these are then typically expected to achieve sustainable and scalable commercial and development results and be replicated by other companies within fairly short time frames.[2]

Pressures are rising to demonstrate that such partnerships make good use of public resources, not least as media attention focuses on donors' funding decisions. For example, a recent newspaper article notes that many "critics questioned why some of Britain's most successful and highly profitable firms are being given taxpayers' cash for projects they could easily fund themselves."[3]

One central task for the fund manager[4] is therefore to **determine *ex-ante* – that is *before* a funding decision is made – that public money will likely be *additional***, i.e. not be used to support activities that the business **could *and* would** undertake anyway.

Now imagine working for a donor or implementing agency of a partnership mechanism and being asked to justify the money spent to the tax-paying public: What would be the key processes and criteria in place for assessing additionality that you would mention? Would a sceptical (but reasonable) observer find them convincing?

A DCED Review of Experience in Partnerships (2013) found that, for many cost-sharing mechanisms, the answers are not compelling: Even though additionality is typically a formal requirement of support[5], **additionality assessment criteria** are often only limited or vague; **assessment processes** are often confined to 'box-ticking' or brief justifications by applicant businesses, and there are typically no overarching internal guidelines on how additionality is considered.[6] This means that agencies often cannot convincingly establish the value of public support.

Other research echoes this conclusion: The *Institute of Development Studies (2012)* notes that while 'additional' projects are generally not easy to identify, this means that "significant up-front project

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[1] Market development programmes, however, differ from challenge fund-style mechanisms in several ways. In particular, they typically invest more time and resources into market analysis and identifying appropriate business partners upfront. Many elements of this document may therefore not be new to such programmes, but still serve as useful orientations.

[2] See also Poulton, Colin (2009): *An Assessment of Alternative Mechanisms for Leveraging Private Sector Involvement in Poorly Functioning Value Chains*, FAO.

[3] Daily Mail, 28 January 2014: www.dailymail.co.uk/news/article-2546863/High-street-giants-including-Primark-Asda-M-amp-S-British-aid-money-help-treat-suppliers-better.html

[4] Note that '**fund manager'** and **'(implementing) agency'** are used interchangeably in this document to refer to the agency that leads the process of reviewing business proposals and awarding support to businesses. In some cases, this agency is the donor organisation itself, whereas in other cases it is a contracted organisation.

[5] See also Annex 2 on additionality criteria of major challenge funds and other cost-sharing mechanisms.

[6] For more information, please refer to DCED (2013): *Donor Partnerships with Business for Private Sector Development. What can we learn from experience?*, by Melina Heinrich.

screening and appraisal work is necessary and justified to ensure projects are additional."[7] Similarly, *Warner (2013)* in a paper on government subsidies to business concludes that "there is scope for improving practice long before [agencies] (…) confront the limits of what is feasible"[8]. *Kindornay and Reilly-King's (2013)* review of grant-making mechanisms suggests that "donors could be doing more to clearly articulate development additionality and to ensure that the projects they support have a clear financing need."[9] **Further quotes from researchers, practitioners and businesses** that demonstrate the opportunity to enhance additionality assessments and to articulate more clearly how agencies add value to a partner business are listed in **Box 1**.

Often, donor and implementing staff are keen to improve assessments of additionality but not sure how best to do so. Practices are also not harmonised among agencies. **Existing academic literature** on additionality focuses on *ex-post* evaluations rather than *ex-ante* assessments, and typically does not deal with the objectives and procedures of donor mechanisms encouraging pro-poor investments in developing countries.[10] Moreover, staff may **feel unable to effectively assess additionality**, for example due to limited time, skills or staff and **political and bureaucratic pressures to disburse funds quickly** rather than to scrutinise additionality. Further, there is a need to keep the procedures and language used at an appropriate level to be **accessible and manageable for businesses**.

Box 1. The opportunity to enhance additionality assessments: Views and illustrations from researchers, practitioners and businesses

Views from researchers:

"[B]y and large… donors have described their development additionality in vague terms," *[Kindornay and Reilly-King (2013)]*

"Basic evaluation principles such as additionality (...) are often not considered adequately in most challenge funds. (...) [W]ith a challenge fund modality, is it entirely possible for a supported project to display excellent leverage and development impact, with zero input or output additionality (meaning that the project generates significant private sector development but would have gone ahead without the use of aid funds). The risk of this undesirable outcome clearly increases as challenge funds support projects from a large and well-capitalised grantee, with only "light touch" input from the fund manager." *[Brain, Gulrajani and Mitchell (2014)]*

"The difficulty of assessing additionality is highlighted by a mobile banking scheme in Kenya [M-Pesa]", which some authors "placed in the 'would have gone ahead anyway' category" while others "hail it as a clear case of additionality" *[Poulton, Macartney (2012)].*

Most of the reasons cited by an evaluation of the PSI programme as to why projects had limited additionality could have been addressed through stronger scrutiny at the application stage. The reasons mentioned are: similar companies already existed; existing government policies meant that other companies invested in similar ventures at the time without subsidies; and the applicant firm had enough experience and/or funds to be able to take the (limited) risk. *[adapted from DCED (2013): Donor Partnerships with Business for PSD, based on Triodos Facet (2010)]*

Views from donors and implementers of partnerships:

"How to 'measure' additionality is an ongoing discussion within our organisation." *[Els Huntjens, Netherlands PSI programme]*

"Some things are paid for under the partnership that would have been paid for by the company anyway." *[Interview by the author with a development partner in Ethiopia, November 2012]*

[7] The statement is made in the context of development finance projects but represents a transferrable lesson from this field of practice, see Spratt, S and L. Ryan Collins (2012): *Development Finance Institutions and Infrastructure: A systematic review of evidence for development additionality,* IDS and PIDG.

[8] Warner, Andrew (2013): *A Framework for Efficient Government Investment*, IMF Working Paper.

[9] Kindornay, Shannon and Fraser Reilly-King (2013*): Investing in the Business of Development. Bilateral Donor Approaches to Engaging the Private Sector*, p.34.

[10] Previous work has in particular focused on innovation subsidies in OECD countries, development finance, and additionality assessments in the context of the UN Framework Convention on Climate Change.

"It would be helpful to be able to use a set of recommended actions and standardised criteria to assess additionality." *[Daniel Rössler, Austrian Development Agency]*

"The criteria against which applications are judged and rated must be transparent and clear (…) Especially additionality is a key criterion." *[Sida's Challenge Fund guidelines (2013)]*

Views from businesses:
" Could we have achieved what we have without Business Innovation Facility support? Probably. But, has BIF support helped us achieve it? Yes definitely." *[Agroprocessing company, Malawi; quoted in Ashley, Harrison and Schramm (2014)]*

" I wouldn't know how to proceed with the business expansion. We wouldn't have a clear understanding of how to proceed. Now we understand what to do next." *[Agricultural company (Zambia) receiving support from the Business Innovation Facility pilot; quoted in Ashley, Harrison and Schramm (2014)]*

"Donor support was nice to have, but in the end we would have gone ahead with the project anyway." *[Interview by the author with a partner business in Ethiopia, November 2012]*

In the Grantee Perception Survey of 2012, 90% of grantee respondents indicated their projects would not have started when they did without the ECF grant, and would have started in 3–5 years (60%) or 6–10 years (10%). *[Coffey International (2012)]*

1.2 What this document offers

Objectives

The key objective of this document is to explain **practical ways of how to assess and enhance additionality before a cost-sharing partnership begins.** Specifically, it aims

- to allow donors and implementing staff to **credibly determine** that the private investment and associated development impacts would be unlikely to happen (in the same way, time or extent) without public support;
- to help implementing staff **to articulate clearly** the specific way(s) in which they expect public support to change the company's course of action;
- to suggest a process that is **manageable** for both implementing agencies and companies, considering time and capacities constraints; and
- to offer a **common point of reference** against which 'good practice' can be reported.

The document also describes **appropriate monitoring of** additionality in ongoing partnerships as well as ***ex-post* assessments**, i.e. after project completion. Further, it suggests ways in which **the design of cost-sharing mechanisms with businesses** may be improved to allow for better additionality assessments. The recommendations are based on a **literature review and interviews with a range of practitioners**.

Definition of additionality

The document defines additionality as

> *the **net positive difference that is expected to result from a donor-business partnership**. The extent to which activities (and associated results) are larger in scale, at a higher quality, take place quicker, take place at a different location, or take place at all as a result of a donor intervention.*[11]

In other words, to establish whether donor support is additional, agencies have to consider the difference between the counterfactual (what would happen anyway), and the position if and when the intervention is implemented.[12] As outlined in the definition, this includes an explicit consideration of whether the activity would happen anyway, and if it would happen in the *same way*.

[11] Based on Scottish Enterprise (2008): *Additionality & Economic Impact Assessment Guidance Note: A Summary Guide to Assessing the Additional Benefit, or Additionality, of an Economic Development Project or Programme, p.22.*
[12] Ibid., p.2.

Let us have a brief look at the ways in which agencies can report on their expected additionality: Typically, two angles, or 'types' of additionality are referred to, namely **input and development additionality**, which are defined below.[13] Note that these **can in principle also be termed in more nuanced ways if desired by the agency**, e.g. based on the specific 'additional' inputs given by the agency or the outcomes expected to result from these (e.g. financial additionality, knowledge or (project) design additionality, time additionality, behavioural/operational additionality, demonstration additionality, institutional or policy additionality etc). Some of these will be referred to either explicitly or implicitly later on in this document.

- The focus of an **input additionality angle** is whether the **public input resources are additional** to what might anyway be invested or done by the applicant/partner company and other parties, as well as the timing of it. The most commonly referred to sub-category of input additionality is **financial additionality**, which focuses on the fact that donor funds do not substitute other available funding, from the partner company itself or other parties.[14] However, as indicated above, public inputs can also be non-financial in nature, such as knowledge**. 'Time additionality**' can be reported if public inputs will accelerate the implementation of a project by a significant amount of time based on credible financial projections.
- A focus on **development additionality** implies to also report on expected development-relevant net results (outputs, outcomes and impacts, e.g. related to the scale, scope, quality, target group or location of the project or partner activities) that are expected to be achieved *as a result of 'additional' public inputs*.[15] Hence, reporting on expected 'additional development results' would still require specifying why the agencies 'input activities' are considered additional.

Caveats to the 'measurement' of additionality

The criteria and principles for assessing additionality compiled in this document take into account that **there is no exact measurement or 100 per cent certainty of additionality.** Rather, any *ex-ante* assessment will be to some extent **a case-by-case judgement.**

> ***"It is impossible to 'prove' additionality, as we can never have perfect knowledge of relevant factors…" [AECF, 2012]***

For example, *Warner (2013)* suggests, in the context of government investment in business, that it would not be cost-effective or even possible to collect all the information that influence whether or not public support to business is additional.[16] The *Africa Enterprise Challenge Fund* (AECF), which offers matching grants to innovative pro-poor business ideas, points out that "it is impossible to 'prove' additionality, as we can never have perfect knowledge of relevant factors such as the behaviour of financial markets in each country or the willingness of the business to take a risk".[17] Similarly, a report on the *Business Innovation Facility Pilot*, which provided technical support to inclusive businesses, notes that "additionality is extremely difficult to assess for any donor programme, as ideally it requires

[13] For a short review of agencies ex-ante additionality concepts, categorised by input and development additionality, please refer to DCED (2013*): Donor partnerships with business for private sector development*, p.14.
[14] See for example the definition of additionality used by the Netherlands PSI programme; URL: PSI List of Terms, 2013; URL: english.rvo.nl/sites/default/files/2014/01/PSI%20List%20of%20Terms%202014_0.pdf
[15] See for example the definition used by the Danida Business Partnership Programme; URL: um.dk/en/~/media/UM/English-site/Documents/Danida/Activities/Business/DB%20Partnerships/Toolbox/DBP%20%20Guidelines%20and%20Conditions%20for%20Support%20May%202013.pdf
[16] Warner (2013), p.5.
[17] Africa Enterprise Challenge Fund: 2012 Portfolio Overview Report.

knowledge of the counterfactual (…) [This is particularly complex as the] businesses are unique and innovative, so there is no easy comparison as a proxy control group."[18]

Box 2. Target audience – who should use this and how?

The document is **mainly based on experiences in challenge funds and similar facilities that invite project ideas from businesses** and provide matched funding and/ or technical support following a competitive selection process. Its key lessons however are similarly **relevant for programme-based approaches, such as M4P/market system development programmes** that may use matching grants or in-kind support as an incentive to trigger a specific private investment.

In line with the DCED's focus, the document is mainly targeted at mechanisms that aim to achieve **economic opportunities for the poor, or other economic development goals, through private sector development (PSD).** They may also pursue **complementary goals**, **such as improved working conditions, gender equality or environmental impacts**. Yet, the good practice elements included here are also applicable or can be adapted to mechanisms with different objectives.

More generally, even though cost-sharing mechanisms do differ in their design, the purpose is to **focus on common key issues and good practice that should generally be aspired to**. Yet, the exact **scope and depth of additionality assessments may need to be aligned to given design factors** such as the management budget and expertise resident in, or contracted by, the implementing agency, as well as the scope and duration of the challenge fund or programme. This document therefore does not 'mandate the impossible' but **encourages agencies to 'do as much as possible'** to use the additionality criteria and principles outlined here, and **adapt them to their specific context and wider strategic framework, if need be.**

1.3 Structure of the document

Chapter 2 and 3 form the core of this document: Chapter 2 deals with 'the what' – the key **criteria** that influence whether public support to businesses is additional. The section is organised by different sub-categories of additionality and proposes a range of proxies that agencies can use to think through their expected 'added value' in a structured way. Some important trade-offs that agencies may encounter between additionality and other objectives, and ways of dealing with them, are highlighted across the criteria. **Chapter 3 deals with 'the how'** – the **principles** which agencies should follow to credibly assess and enhance additionality. This also includes the overall management and documentation of additionality-related considerations.

Chapter 4 offers further consideration on assessing and enhancing additionality: It starts by exploring the **continuous monitoring and *ex-post* assessment of additionality**, while the second section considers **wider implications for donors and the design of cost-sharing mechanisms**.

Annex 1 is a one-page overview of all principles and assessment criteria compiled in the document. For ease of reference, **current concepts and definitions of additionality publicised by major donor mechanisms** are compiled in **Annex 2.**

[18] Ashley, Caroline, Tom Harrison and Carolin Schramm (2014): *Adding Value to Innovation: Lessons for Donors from the Business Innovation Facility Pilot*, Business Innovation Facility, p.12.

2. The 'What': Eight Criteria of Additionality to Consider in *Ex-Ante* Assessments

This section describes eight criteria which cost-sharing mechanisms in PSD should typically consider when reviewing proposals in order to test for additionality. Their relevance may vary according to the agency, objectives and support modalities (e.g. matching grant and/or in-kind advisory support), as well as the nature of the partner company (e.g. smaller companies or multinationals). A number of these differences will be highlighted where relevant.

The additionality criteria are summarised in three sub-categories:

- **Resources, capabilities and incentives of the applicant company**: Criteria in this category relate to the financial resources, knowledge and incentives that influence whether a company could and would implement the project on its own. Typically, at least one of the criteria in this category has to be fulfilled as a basis for demonstrating additionality.
- **Resources that are available from other parties**: Criteria in this category relate to resources that are available from a range of other parties, such as banks, commercial advisory service providers and other donor agencies. Most of these criteria also have to be fulfilled to claim additionality; and
- **Agency engagement beyond the cost-shared project or partner business**: The donor or implementing agency may have a unique role in bringing about changes beyond the cost-shared project or business partner, notably through conditions attached to support and engagement to improve the wider environment in which the company operates. These are typically complementary ways in which an agency can achieve and demonstrate additionality.

Graphic 1 on page 9 is a central element of this chapter: The flow-chart illustrates the sequence in which the eight criteria should typically be assessed and how they relate to each other; it also shows which criteria *need to be fulfilled* for full additionality to be in place, and which criteria may be further indications of the different ways in which public support adds value.

The chapter then explains each of the eight criteria in more detail. (Proxy) **indicators** are highlighted for each criterion to help agencies structure their enquiries and reflections. **More advice on *how* to gather and assess information on these criteria is given in Chapter 3.**

Note that the level of risk and innovation of a business project is a cross-cutting indicator, as support to more risky and innovative projects is more likely to be additional. A clear definition of innovation and risk, and due scrutiny of innovation and risk levels in the selection process, are therefore vital, as further explained in **Box 3 below**.

Box 3: Innovation and risk as cross-cutting indicators influencing additionality

As an approximate guide, the more risky and innovative a proposed business project is, the more likely it is that donor support is additional. Companies which invest in innovative, untested business models, face risks and costs that may require donor support to be overcome. Conversely, if a business project involves no or low risk, it is much less likely that donor support is additional. Specifically, and as will be explained in more detail in this Chapter, high risk and innovation

- may require special knowledge or skills that the company does not have (see Criterion 2);
- may lower the marginal value to the business of undertaking a project without donor support, as opposed to alternative projects with less risk and potentially higher returns (see Criterion 3);
- make banks less willing to provide commercial finance, especially in contexts with risk averse financial institutions (see Criterion 4); and
- decrease the likelihood that other companies are already, or would be interested in, undertaking the same project without support (see Criterion 5).

However, a general statement that a project appears risky and/or innovative cannot be considered as a convincing argument for additionality: As for example noted in an evaluation of the *Netherlands' PSOM/PSI programme*, investments in developing countries can always be considered risky, and most products can be seen as innovative, depending on the definition.[19] **An agency-based definition of different degrees of innovation/risk is therefore recommended as a reference for reviewing proposals (see also Principle 8 in Chapter 3).**

For example, a business project can be considered innovative if it introduces a product, service, production method or means of service provision that is entirely new, or only new to a certain region in a given country. **The *Africa Enterprise Challenge Fund's* system for rating different degrees of innovation can serve as a useful reference for classifying proposals:**

> *1-2 marks = Project is new for the company in the country of application; 3-4 marks = Project is new for the company in Africa; 5-6 marks = Project is new for the company and new for the country in which it will take place; 7-8 marks = Project new for company globally, new for country and new for the sector; 8-9 marks = Project is new for the company and sector in Africa; 10 marks = Project is new globally (A world first)* *[Source: AECF]*

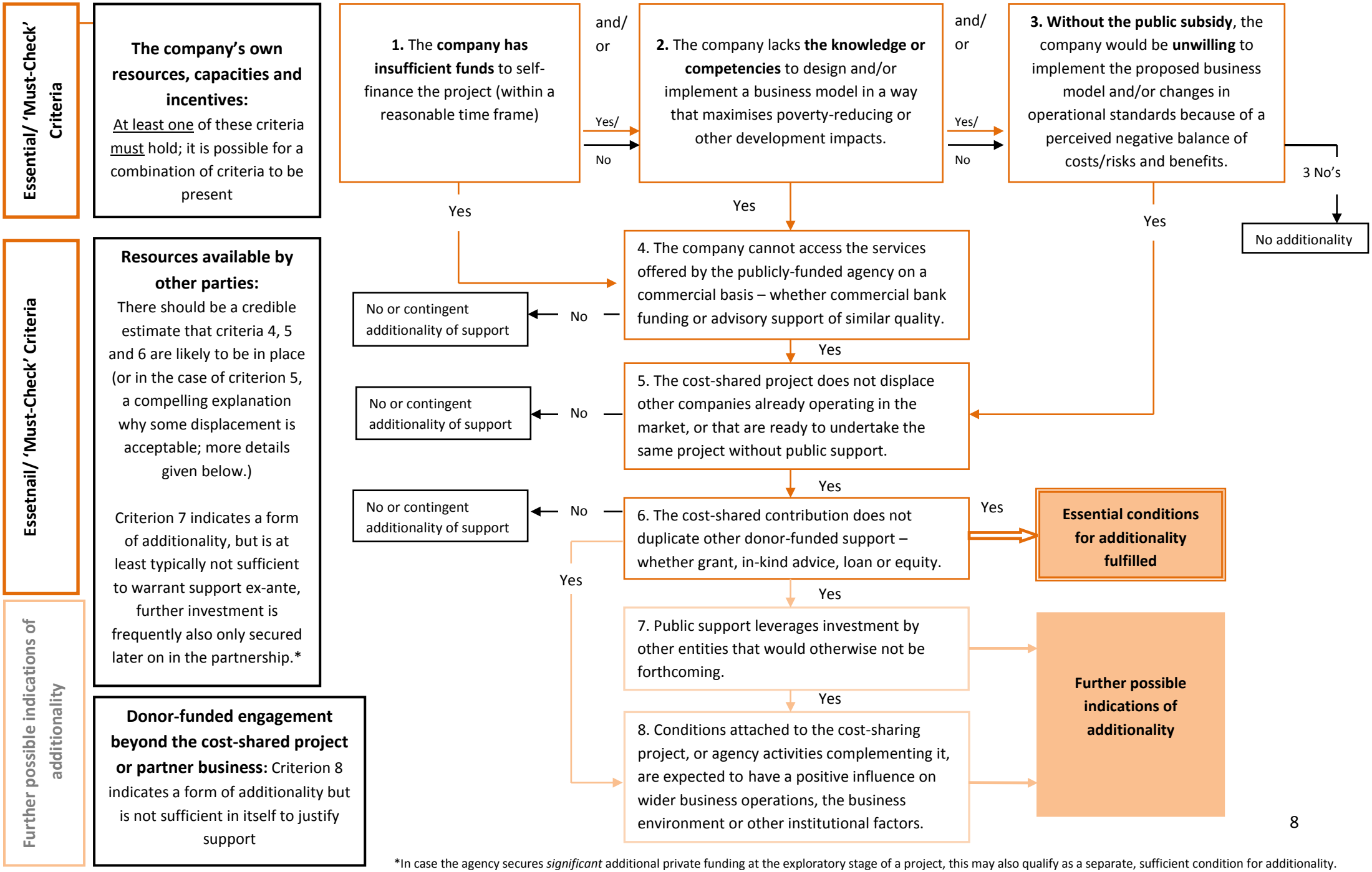
Examples of proxies for innovation and risk that agencies can consider are given for the respective criteria below. Agencies can use various methods to gather information on these:

- **Explicit questions on innovation in the application form**, *e.g. Are you aware of any other company that has used the proposed business model in the target country? Is the proposed business model new in the target country or industry?;*
- A review of any **literature** on the product or service (in the target country);
- **Consultation of staff and/or external experts with local market knowledge,** even though such an approach will generally be more reliable in **less economically active regions** such as conflict-affected, remote or impoverished areas.
- Rapid **market analyses** to get a more profound knowledge on the level of risk and innovation.
- Making **innovation and risk of the proposed project, and its potential for wider replication** a **repeated consideration** in the review process.

Note that identifying innovative projects often involves seeking **balance between risk and prospects for commercial viability**: The *Business Innovation Facility Pilot* referred to this as finding the "sweet spot" where "DFID could reduce risk and improve viability" by adding "maximum value to help a business", without "propping us a venture that cannot be commercial."[20] In some contexts, there can also be **tensions between supporting innovation and achieving pro-poor or economic development objectives** as high-risk innovative project may benefit more technologically savvy elite members of the private sector. In the ideal case, innovation is supported as a means to an end, be it economic competitiveness or developmental outcomes for the poor. Project selection therefore needs to reconcile **appropriate assessments of risk and innovation with a clear appraisal of likely development outcomes**. It should also be noted that it is neither realistic nor desirable to achieve the same high level risk and innovation in all projects; rather, challenge funds will take **a portfolio approach to risk** and also include relatively less risky projects.

[19] Triodos Facet (2010): Evaluation of PSOM/PSI 1999-2009 and the MMF, p.38.
[20] Ashley, Harrison and Schramm (2014), p. 4 and 36.

Graphic 1. Different pathways to demonstrating additionality *ex-ante*: A decision-making flow-chart



*In case the agency secures *significant* additional private funding at the exploratory stage of a project, this may also qualify as a separate, sufficient condition for additionality.

A: The company's own resources, capabilities and incentives

Criterion 1 for assessing additionality: The company has insufficient funds to self-finance the project (within a reasonable time frame).

> ***A fund that provides grant financing to projects which anyway would have taken place through private capital has wasted its resources. [Sida Challenge Fund Guidelines, 2013]***

Donor support may be additional if **the company lacks the means to self-finance the project (within a reasonable time frame).** Further conditions for achieving financial additionality would be that the company cannot access financial support from other sources, and that no other companies would do the project without public support (see in particular criteria 4, 5 and 6). 'Project' can refer to **a capital investment in a business venture** and/or the **ability to pay for advisory support from a commercial provider** (instead of receiving publicly-funded advisory support).

The criterion of financial capacities is particularly relevant for small or medium sized companies. Yet, **even large, multinational companies may face internal competition for limited resources** dedicated to risky, innovative projects that do not have a strong business case upfront and that may take a long time to become profitable. However, they frequently *do* allocate a substantial amount of funds to pilot projects in low-income markets, such as through their Corporate Social Responsibility budgets. This means that **additionality assessments for larger companies** are more likely to focus on whether the company ***would*** **invest in the specific project without donor support (see criterion 3).**

In identifying companies which are in need of external finance to implement a project, agencies often have to **balance the requirement of additionality with other goals and criteria of their support.** One is the aspect of **leverage** – the ratio of a grant to the value of resources invested by the company as part of the cost-sharing agreement. This typically varies from about 1:1 to up to 1:4.[21] As pointed out in DCED (2013), a very high leverage ratio may imply that the input additionality of donor support is low.[22] A report by EPS PEAKS for DFID (2014) details that "leverage ratios are often one the key indicators of success by challenge funds. (...) [Yet] the danger of having too strong a focus on leverage ratios is that it may encourage fund managers to be too risk averse and choose well-capitalised grantees for which the additionality (...)is most difficult to demonstrate." Hence, an overly strong desire to achieve leverage can "create a barrier to entry for the firms which are in most need of finance" [23]; it may be more useful for agencies to prioritise additionality over leverage in their project appraisals. (Note that leverage of funds from *other* public or private parties that may invest as a result of initial donor support to the grantee could however reinforce additionality; see Criterion 7.)

For similar reasons, there is a trade-off between the financial need and financial robustness of the partner firm – which is considered important to ensure that the company has sufficient resources to absorb the funding, provide the required contribution and sustain the project in future. Closely related is the desire to achieve large-scale **development impact**, which may be easier to achieve when working with larger, well-resourced companies. Agencies **currently tend to apply more detailed criteria to assess financial viability than they do to assess financial additionality**, for example by defining threshold criteria of financial robustness based on the company's financial accounts for a number of

[21] See Brain, Adam, Nilima Gulrajani and Jonathan Mitchell (2014): *Meeting the Challenge. How can Enterprise Challenge Funds be made to work better*, EPS PEAKS Topic Guide for DFID, p.16; DCED (2013), *Donor Partnerships with Business for PSD*, Annex 3.
[22] DCED (2013), *Donor Partnerships with Business for PSD*, Annex 3.
[23] Brain, Gulrajani and Mitchell (2014), p. 16, 17.

past years. The *Africa Enterprise Challenge Fund* considers a ratio of 2:1 between assets and liabilities as ideal[24]; *Danida's Business Partnerships Programme* applies a rule of thumb of 2:1 in terms of the ratio between equity and the size of the planned investment. It also notes that the equity for the most recently completed accounting period must make up at least 15% of the balance-sheet total.[25] A possible route that agencies could explore would be to identify similar thresholds for additionality. For example, considering the above-mentioned financial strength criteria, **a reasonable threshold for financial additionality could be an equity-project size ratio that does not significantly exceed the ratio of 2:1**. Whether agencies pursue this or other ways to demonstrate financial need, they will have to find a credible way to identify the projects that, at the same time, fulfil the criteria of financial robustness and significant expected development impact.

It is worth mentioning that **several challenge funds**, such as the *Compete Caribbean Enterprise Innovation Challenge Fund*, **use independent contractors** to undertake due diligence assessments of firms to analyse financial strength. Where this is the case, agencies can use this opportunity to include an assessment of the company's ability to self-finance the project in the terms of reference.

Relevant (proxy) indicators that the company is unable to self-finance the project include:

- Financial information: Based on financial accounts, the company's current and projected equity is considered insufficient to allow it to self-finance the project at all or within a reasonable time frame.

  Internal threshold criteria as to what is considered "reasonable" can serve as a helpful reference. Also note that the availability of comprehensive financial information will typically vary by country and the size of the firm, making proxy indicators at times more important.
- There are no signs that the company has already started to implement the project and is progressing.
- The company has not successfully self-financed a similar project elsewhere.

Note that financial/ time additionality can only be claimed if funding is also not available from other sources (see criteria 4, 5 and 6).

Criterion 2 for assessing additionality: The company lacks the knowledge or competencies to design and/or implement a business model in a way that maximises poverty-reducing or other (economic) development impacts.

External support may be additional if a company does not have the knowledge or skills to design and/or implement a business model in a way that maximises the potential for (economic) development impacts. This may **include**, for example, **a lack of knowledge on how to include the poor in their business model**, but also **how to make a pro-poor business model more commercially viable**.

Agencies vary in whether and how they offer advisory services. Several cost-sharing mechanisms, including many that focus exclusively on grants, provide advice on enhancing the project concept before signing a partnership agreement where they see the need (e.g. the BMZ-funded *DeveloPPP programme*) or have dedicated resources to support a sub-set of applicants in developing full-fledged proposals (e.g. *the Responsible and Accountable Garment Sector Challenge Fund's 'pump prime'*

[24] AECF Business Plan Visit Report (Internal Assessment Sheet).
[25] Danida: netpublikationer.dk/um/PSProgrammeStartUpFacility/html/chapter01.htm

funding). Others **specialise in in-kind advice and technical assistance during project implementation**, often focusing on a specific set of measures or objectives (e.g. the DFID-funded *Business Innovation Facility)*. They identify the type of support required to implement a certain business model and provide or source it. For some, co-funding for feasibility studies or technical advice is one of several possible areas of financial support (e.g. *Finnpartnership*).

Mechanisms that fund or provide technical support during project implementation should make a convincing argument that the company was in need of external advice: For example, the project may take place in a location in which the company has never operated; involve poorer, less knowledgeable suppliers than they usually work with, or new production methods or other new operational aspects. Hence, external advice may be necessary, of which the agency is one possible, if not the only, provider (or funder). For example, a report on the *Business Innovation Facility Pilot* notes that companies, including large ones "have to go outside their normal operations and comfort zones to develop inclusive business. This calls for skills they do not have internally, which BIF helped to provide or source."[26]

Box 4. The experience of the Business Innovation Facility in assessing the additionality of in-kind technical advice

A core focus of the in-kind technical assistance offered by the *Business Innovation Facility Pilot* was to "help companies design, test or implement a more robust and sustainable inclusive business model." In many cases, this started at the time of application, as frequently only rudimentary business plan were received. The technical assistance was then about understanding the market or supply chain, fleshing out the options for costs and revenues for financing, or developing the entire approach.

A final report on the BIF pilot notes that it is difficult to measure the value of this kind of support and that there may not be a clear counterfactual. They also argue that while some donor programmes seek the development of a product or services that 'would not have happened' without the input, this is not what BIF sought as it was considered counter-productive to develop business models that were excessively reliant on technical assistance. BIF, instead, sought to create additional value by improving the trajectory of the business over time, including by a) making business models more effective and sustainable, so as to increase the prospects of viability and scale; and b) increase the company commitment or investment by sharing the cost and risk of early stage actions, such as piloting or market landscaping. Ultimately BIF expected to make a difference between the business stopping or continuing, or simply changing the time to viability.

Given this, their assessment of additionality **looked for evidence that support affected how the business develops,** based on information provided by the company at the time of the application as well as after completion of support. The options, of which 1 and 2 were classed as 'high' additionality, option 3 'medium' and option 4 and 5 'low' additionality; **such options can also be usefully thought through *ex-ante*:**

1. Without BIF support the project would have not progressed at all (Critical)
2. Due to BIF support, the inclusive business project is better designed, or proceeding more quickly, or bigger than it would have been (Bigger, better, faster)
3. BIF support was useful to us and made it easier to progress the project, although it has not resulted in specific identifiable change compared to what would have happened (Useful)
4. BIF support made no difference (Irrelevant)
5. BIF support had net negative results (Negative)

Adapted from: Ashley, Harrison and Schramm (2014)

[26] Ashley, Harrison and Schramm (2014), p.13.

✓ .....
✓ .....
✓ .....

Examples of relevant (proxy) indicators for a lack of knowledge or competencies by the potential partner company include:

- The company proposal is relevant but there are clear opportunities to enhance its development potential (in ways that the agency is knowledgeable about).
- Company staff don't have any experience in implementing the development-relevant parts of the proposal.
- This is the first time the company would implement a project of the proposed kind.

Note that additional conditions for knowledge and related development additionality include a reasonable estimate that the company could or would not pay for similar advice provided on a commercial basis (criteria 1, 3 and 4).

Criterion 3 for assessing additionality: Without the public subsidy, the company would be unwilling to implement the proposed business model and/or changes in operational standards because of a perceived negative balance of costs/risks and benefits.

Many donors work with large or multinational companies to share the costs of business projects with positive development impacts. The question for these and potentially also other firms is typically not whether they have the financial resources to implement the project (or could access them commercially), but **whether they would be interested and willing to do so *without* public incentives.**

When companies make an investment decision they choose from a range of possible projects: **other projects may have a lower costs, risks or uncertainty and/or higher projected private returns or shorter time frames to achieve them.** For example, *Poulton (2009)* points out that in the case of the Food Retail Industry Challenge Fund, which works with big supermarket chains, it is "well established that, in many export (and other high value) supply chains, there are significant fixed costs associated with sourcing from smallholders (for example farmer group organisation, establishment of systems for quality control, food safety and traceability) that can be sufficient to prevent successful smallholder inclusion. PPP agreements (...) offer a promising way of overcoming the initial hurdles of smallholder participation"[27].

"Additionality is often linked to risk, i.e. a private company would not engage in the project alone due to high perceived risk." [Sida Challenge Fund Guidelines, 2013]

"If project activities are at the heart of the company's core business, public support is less likely to be additional. If the project activities are too far removed from core business, project activities are less likely to be sustainable. Discussions need to focus on identifying the middle ground, where support leads to 'additional' activities that are useful for business, too." [Susanne Sattlegger, Sequa/ DeveloPPP]

Companies may also not sufficiently value the benefits of the advice offered and would not use it unless it is publicly subsidised. An experience of *Finnpartnership*, for example, is that companies often would not bother doing a feasibility study if the programme had not funded it; this often helped enhance the quality, and ultimately development results, of projects.

Therefore, businesses may be encouraged to select a project with high development impact from a range of available investment options if the costs and risks are shared. 'Winning' a competitive selection process can also help isolated 'champions' of new business models within a company to get management approval for a project. While "outsiders can glean at best partial information about the

[27] Poulton (2009), p.38.

internal processes of competition for investment funds within firms"[28], direct engagement with the applicant is important to understand some of these dynamics. Generally, it is useful to ask oneself: **Would a reasonable investor decide to proceed without the benefits of public cost- and risk-sharing?**[29] If not, this could indicate that donor support is additional.

Examples of relevant proxy indicators for the company's unwillingness to implement a certain project:

- Clear barriers can be identified that make a private investment in the project unattractive from a financial point of view.
- There is management opposition within the company to the proposed project.
- The company itself, or competitors, have not successfully invested in a similar product/ activity in a similar context/ business environment previously using their own resources or commercial finance.
- The project goes beyond 'normal business'/ has public good elements that benefit other market actors, i.e. cannot be reasonably argued as being in the company's core business interest.
- The cost-shared elements do not represent any measures the company has to implement by law (e.g. (new) food safety regulations), i.e. if the proposed project activities are required by law, support would not be additional.

If criterion 3 is answered positively, it is still important to check that the project does not displace other companies in the market (criterion 5) and is not duplicating other donor funding (criterion 6).

B: Resources available from other parties

> ***"To qualify as 'additional' the inputs and services have to complement—and not substitute for—what other [parties and] institutions can or are willing to provide in order to pursue the achievement of a given set of development objectives." (IEG 2008)***

Criterion 4 for assessing additionality: The company cannot access the services offered by the publicly-funded agency on a commercial basis – whether commercial bank funding or advisory support of similar quality.

If the company cannot self-finance a project, a second condition for additionality is that donor funding does not replace commercial funding. Asking companies for a direct proof from a bank that a loan could not be obtained can generally not be considered as a credible measure, especially in developing countries. Challenge funds that have experimented with such a requirement, such as the AusAID-funded Enterprise Challenge Fund, typically concluded that it was quite ineffective. In some cases 'proof' from local banks was shown but national stakeholders (bank representatives) that were part of a review panel consulted in the grant decision-making process were confident that local finance was available for similar projects and companies. Instead of a 'formal' proof from the bank, it seems more useful for agencies to use a proxy indicators for the availability of bank finance, as listed further below.

[28] Poulton, Colin and Jon Macartney (2012): *Can public-private partnerships leverage private investments in agricultural value chains in Africa?*, in World Development, Vol.40 No. 1, p.103.
[29] Adapted from EBRD (2013): *DFI Guidance for Using Investment Concessional Finance in Private Sector Operations*: www.ebrd.com/downloads/news/roundtable.pdf

'Availability' of bank finance should be broadly understood. In addition to the absence of commercial finance for the project, it is useful to consider whether commercial finance providers are "**able to provide adequate finance for a project to be viable**."[30] Similarly, *Warner (2013)* notes government subsidies are only justified in very specific circumstances: in addition to social returns being higher than private returns, **private returns should be expected to be below the rate of interest.**[31]

For mechanisms that offer technical advice it is equally important to consider whether adequate advisory services may be available on a commercial basis: If a company has sufficient resources to pay for commercial advice, and is in principle willing to do so, in-kind advice by the implementing agency can **only be considered additional if**

- it is unlikely that services of similar quality are offered commercially in the country of operation (e.g. the *Compete Caribbean Enterprise Innovation Challenge Fund* found that small firms in small countries would be unable to find consultants as highly qualified as *Compete Caribbean* can); and
- it can be credibly argued that the quality is essential to producing the desired outcomes.

This type of additionality can be tricky to assess, as outlined by the Independent Evaluation Group (2008) in relation to IFC advisory services: "It can be difficult to identify IFC's unique role [in advisory services]"; "there is no market test to determine whether clients seek IFC for price or value reasons", and "many projects involve contracted consultants that could potentially have been hired by other institutions to carry out the work (that is, IFC's special role is not clear in these cases)."[32] To justify support, agencies should however still **make a convincing case of the added value of their services compared to other available options.**

Relevant (proxy) indicators for the absence of a commercial solution to finance or advisory services include:

Commercial bank finance

- Projected private returns are below the rate of interest in the company's home country.
- The project is significantly innovative/ risky, e.g. the first of its kind in the target country (see also Box 3 above).
- Already available loan rejections from banks can qualify as supporting documentation.

Commercial advisory support

- The expertise and advice offered to the partner company are at the minimum unusual in terms of their quality or scope, in comparison to a range of reasonable alternative services.

Full financial additionality (and related development additionality) can only be claimed if criteria 1, 5 and 6 also hold.

Criterion 5 for assessing additionality: The cost-shared project does not displace other companies already operating in the market, or that are ready to undertake the same project without public support.

Displacement is a key criterion highlighted in much of the available guidance on additionality (notably on *ex-post* evaluation). The *English Partnerships* Additionality Guide *(2008)* explains that "displacement arises where the intervention takes market share, or labour, land or capital (…) from other existing firms

[30] This recommendation is made by the *European Bank for Reconstruction and Development* in the context development finance institutions, see EBRD (2013).
[31] Warner (2013), p.17.
[32] IEG (2008): *Independent Review of IFC's Development Results in 2008. IFC's Additionality in Supporting Private Sector Development*, p.35.

or organisation. For example, an intervention may help a business to expand its operations. However, this business may take market share from other local firms producing the same goods or services."[33]

> ***"Considering displacement is essential for assessing additionality. It requires a certain level of market knowledge and a clear definition of innovation." [David Elliott, DFID]***

A key question to answer is therefore whether the cost-shared project will reduce existing (or immediately planned) activity from within (or outside) the target area.[34] 'Additional' effects would then consist of the estimated net benefits of the project minus reductions in other economic activity.

A more manageable strategy for challenge funds and other cost-sharing mechanisms in the field of PSD, would be to only grant support to those proposals which are likely to cause no significant displacement. While *the UK Government's Green Book* states that "the appropriate area for analysis of displacement effects will depend on the type of project"[35] there are a couple of proxy indicators which are typically useful to consider in all cases – mainly related to the innovativeness of the project. In particular where agencies have limited capacities to conduct market analyses, a reasonable estimate of the level of innovation may be the closest they can get to considering displacement.

If the agency plans to support the applicant *despite* knowingly taking market share from other companies, it should acknowledge this in its reporting on additionality and spell out a **compelling rationale why benefits are expected to be higher than costs**. For example, the agency may **accept taking market share from companies that offer a similar product or service as planned by the partner firm, but with less pro-poor benefits**. In fact, if the partner company has "characteristics which are sufficiently similar to a much broader population of enterprises in the target country" this may increase the chances of the project be replicated and scaled up. [36]

Such considerations are part of a larger debate on whether challenge fund-style instruments should be used to **'start races'** (i.e. keep competitive neutrality) **or to 'pick winners'** (i.e. cause displacement through competitive disadvantage for other firms that already are operating, or wish to enter, the same market as a supported project.)[37] The *Africa Enterprise Challenge Fund*, for example, claims to deliberately crowd in a number of businesses in the same sector to minimise displacement and maximise market systems impact; a similar practice has at times been followed by the Netherlands *PSI programme*, e.g. in the horticultural sector in Ethiopia where over several years a total of 9 projects have been co-funded.[38]

Proxy indicators for managing displacement include:

- There are no competitors operating in the target market implementing a similar business activity (or immediately planning to do so).
- The proposed business activity is new to the target region or country.
- The project is likely to have positive multiplier effects on local economic activity (e.g. through local sourcing) which can be expected to offset any minor displacement effects.

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[33] English Partnerships (2008): *Additionality Guide. A Standard Approach to assessing the additional impact of interventions*, Third Edition, p.21.
[34] Ibid, p.22.
[35] HM Treasury (2003, updated 2011): The Green Book. Appraisal and Evaluation in Central Government, p.53.
[36] Brain, Gulrajani and Mitchell (2014), p.23.
[37] See also Ibid.
[38] See DCED (2013): *Donor partnerships with business for PSD,* p. 37.

- Other factors, such as pro-poor benefits or market systems impacts, are expected to have higher benefits than displacement costs.

Criterion 6 for assessing additionality: The cost-shared contribution does not duplicate other donor-funded support – whether grant, in-kind advice, loan or equity.

It is also important for agencies to check that a business does not receive similar support in parallel from another donor-funded mechanism, or has applied for such support. **Agencies can demonstrate that their support is additional if no other support is currently being received by the business, or if support would complement rather than duplicate other donor support**. In the latter case, co-funding with other agencies is therefore also a possibility. For example, the *ECF* 2012 Annual Portfolio Report notes that *ECF* projects were awarded grants when no other sources of funds were available for the project while "in some cases other donor funds have also contributed to other parts of the implementation and overall development impact."[39]

In addition, it is also **relevant to consider the history of a company's engagement with donor-funded programmes**. This is because it helps agencies lower the risk of supporting 'institutionalised' partner companies[40] or 'donor hoppers' (as referred to by the AECF) that may have learned how to access public funds as 'free extra money' rather than a way of reducing any real perceived risks of an investment**.** In the words of *Poulton and Macartney (2012)*, agencies should avoid servicing a small number of businesses interested in "rent-seeking" rather than "innovation"[41]. **This is mainly in the interest of sustainability of donor interventions, but may also have implications for additionality.** Hence, if a business has received donor support in the recent past, agencies may wish to **more thoroughly analyse the motivations and needs of the business as well as innovativeness of the business model**.

For agencies providing financial subsidies it is further recommended to check that the project **would not obviously be eligible for development finance**. If it does qualify for development finance, grant support would not be additional.

Indications that support does not risk duplicating or following shortly after other donor support (and hence would require more in-depth scrutiny and potential coordination with other programmes):

- The business is not receiving parallel support from another donor-funded programme.
- The business has not applied in parallel to another donor-funded programme.
- The business has not received funding from a donor- funded programme within the last three years. The DCED's directory of partnership mechanisms can be a useful resource for agencies to identify similar mechanisms that operate in the same country and/ or sector.
- Especially in the case of larger scale projects proposed by large and multinational companies it is useful to check that the proposed project is not eligible for development bank finance.

Criteria 1, 4, and 5 also have to be met to claim full financial additionality.

[39] Coffey International (2012): *AusAID Enterprise Challenge Fund for the Pacific and South-East Asia. A report on the outcomes of the ECF Portfolio Investment for 2012*, for AusAID, p.7.
[40] See also Elliott, David (2013): *Exploding the Myth of Challenge Funds – a start at least.*
[41] Poulton and Macartney (2012), p. 8.

Criterion 7 for assessing additionality: Public support leverages investment by other entities that would otherwise not be forthcoming.

Another aspect of financial additionality is "the ability of initial financing to **leverage further investment**"[42], meaning that others invest in the project *because or on the condition that* public funds subsidise the project. The *Africa Enterprise Challenge Fund*, for example, considers whether AECF funding will **leverage in funding from other sources (private investors or banks)** as one of the key questions in their internal assessment of additionality. Leverage then is the ratio of the public contribution to the private investment (e.g. 1:1.5). This question is best addressed directly through written information by, and personal conversations with, the company. The implementing agency may also itself play the role of identifying additional investors (see also Principle 4). To gauge general potential for leveraging in further private investment, the consultation of practitioners such as venture capitalists can be useful, provided that venture capitalists are present in the region and the agency is able to build relationships with them.

While it may be more desirable for agencies to leverage in private investment, Criterion 7 can also relate to situations where the **initial support catalyses further support by other public entities**. In several projects supported by the *ECF*, for example, its funding "was a catalyst for setting up programs that donors were then able to partner with."[43]

Indicators for additional investment leveraged include:

- Other private entities are willing to invest in the project because or on the condition that the agency supports the company.
- Other public support is made available as a result of the initial project.

C: Donor-funded engagement beyond the cost-shared project or partner business

Criterion 8 for assessing additionality: Conditions attached to support, or agency activities complementing the cost-sharing collaboration, are expected to have a positive influence on wider business operations, operations by other businesses, or the business environment.

Challenge funds and other cost-sharing mechanisms are frequently used to stimulate changes that affect a **company's business operations beyond the immediate cost-shared activities**: This may be done through **conditions** stipulated by the agency regarding operational, social or environmental standards applied in the context of the cost-shared project or the company's operations more generally.

In some cases, agencies also go beyond a cost-sharing collaboration to lobby for changes in the business regulatory environment affecting the partner company, or improvements in trade-related infrastructure. They may also **encourage the business partner to do so itself and provide access to relevant government counterparts**. The DCED's Review of Experience in Donor Partnerships with Business (2013) highlights a few case examples in this area.[44] **In other cases, engagement beyond the partner business is a major area of activity that the donor's contribution is used for.** For example, "grant funding (…) [can be] used for public goods such as (…) research and dissemination of good

[42] Kindornay and Reilly-King (2013), p. 32.
[43] Coffey International (2012), p.7.
[44] DCED (2013), *Donor partnerships with business for private sector development*, p.38, 39.

practices [e.g. to stimulate replication by other companies], (…) advocacy for supportive legislation, and broad awareness raising campaigns that develop the industry as a whole."[45]

If such conditions or activities are outlined in a partnership agreement or otherwise intended and stimulated by the agency, they can be reported as an element of additionality that the agency aims to bring to the project.

Indicators for additionality through activities beyond the cost-shared project or partner business include:

- The partnership agreement stipulates changes in the company's operational standards beyond the immediate cost-shared activities which the company would otherwise not implement.
- The partnership agreement or other project documents foresee activities by the agency and/or company aimed at changing aspects of the company's wider business environment which would not be implemented without the partnership.
- Donor contributions to the cost-shared project are dedicated to activities aimed at stimulating changes beyond the partner business and with 'public good' character.

Box 5. Assessing additionality in multi-stakeholder partnerships

Several donors are now supporting multi-stakeholder partnerships, either through facilities that invite applications from businesses (including consortia of two or more businesses, or business clusters), such as *Germany's Strategic Development Alliances* or the *Compete Caribbean Cluster Window*, or initiated in more organic ways, e.g. by seeking out companies that could collaborate in a certain value chain. In the latter case, agencies can demonstrate additionality if they can convincingly argue that they have played the **role of the 'convenor'** – the party that brings actors together which have previously not considered collaborating and is thereby expected to trigger certain collaborative actions and development results.

Where cost-shared support is involved (in either modality), there are different options of how to conduct additionality assessments. While no clear lesson or recommendation has emerged from the experience of practitioners so far, these options are ultimately linked to the set-up and design of multi-stakeholder partnerships chosen by an agency.

If support is granted to **individually to each partners company**, additionality assessments would in would in principle need to be done for each recipient of support. Another practical way forward, in terms of both additionality assessment and management more generally, may be to work, where appropriate, through one 'lead partner'. The **lead partner functions as the primary recipient and manager of cost-shared contributions, which would allow agencies to assess their additionality vis-à-vis one partner company**. For example, the Netherlands Ministry of Foreign Affairs (MFA) ' Public-Private Partnership (PPP) Guide (2010) argues that, while " each PPP is different, from a management standpoint it is better for the MFA not to finance more than one party or partner in the framework of a single PPP. Preferably one participant in the PPP will act as the MFA's counterparty ('principal contractor') and be answerable for all the parties' compliance with their obligations to the MFA. This counterparty will therefore have to make enforceable agreements with all the other private parties". This lesson may also be relevant to additionality assessment.

A third approach is to **provide support to a group of businesses**; for example the *Compete Caribbean Cluster Window* gives provides cost-shared grants to entire clusters. More generally some multi-stakeholder partnerships may require a set of separate additionality assessment criteria. This could be explored further by future research.

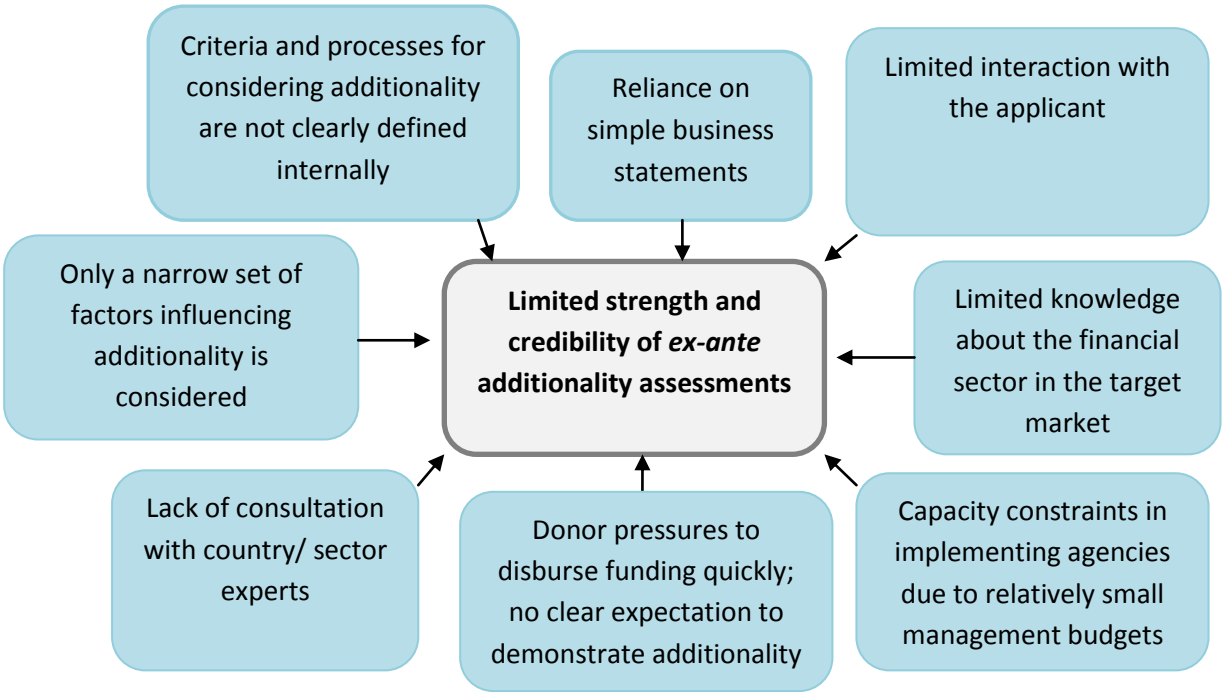
[45] Hoffmann, Jenny and Mary McVay (2013): *Lessons from WING Cambodia*, prepared for Enterprise Challenge Fund on behalf of Riskfrontier Consultants Ltd, p.5.

3. The 'How': Eight Principles for Assessing and Enhancing Additionality *Ex-Ante*

The previous section presented different criteria that donor can use to demonstrate additionality. In practice however, there remain concerns as to **what extent agencies consider and assess these criteria, and if they do so in credible and meaningful ways.** The graphic below illustrates some of the issues that frequently undermine the ability of agencies to thoroughly understand and enhance their additionality.

Have you experienced one or several of these in your own work? If you have, you are very likely to benefit from reading the rest of this document. If you haven't, you may still find new ideas, including based on practice in other agencies, of how to strengthen your additionality assessments.

Graphic 2. Process and organisational factors contributing to limited strength and credibility of ex-ante additionality assessments



This section therefore focuses on **eight overarching principles on good practice** that can allow agencies to improve the way they consider additionality. They are organised in **three categories**:

- Principles for getting good quality information on businesses and projects;
- Principles for maximising value for money through additionality-related considerations; and
- Principles for managing additionality information and the overall assessment system.

Section 4.2 offers further thoughts on increasing incentives and capacities for additionality assessments.

A: Getting good quality information on businesses and projects

Principle 1 – Be sensitive and creative in requesting additionality-related information from companies to increase the chances of honest and informative answers.

When requesting information from the a company, it is important to be sensitive to the fact that most applicant businesses will by default be inclined to argue that they are in need of free support.

Agencies can unconsciously reinforce this, for example by asking questions in a way that make it easy for businesses to argue in favour of support without providing critical information, or to know exactly what the agency will perceive as a 'good' answer. This is particularly important when the first contact is made with the company (e.g. through the initial application form), but remains critical in further exchanges. Some examples of good practice in requesting information are given below.

> ***"Once you try to measure something, you already risk influencing it."***
> ***Andrew Wilson, Helvetas Swiss Intercooperation***

Box 6. Do's and Don'ts in requesting additionality-related information from companies

DO	DON'T
• **Start by using open questions** that require the applicant to provide a narrative on central issues, including why they believe support is needed, what are other possible sources of finance etc., e.g.: ○ *Please outline briefly why you require support for the proposed project* Where **yes/ no questions** are used these should typically be complemented by a request to **specify the reason for the answer**. • **ask specifically for a narrative on the counterfactual scenario,** e.g.: ○ *Please provide a comparison between your company's business idea with our support and without our support;* ○ *What will happen if your application for support is unsuccessful?; or* ○ *What would the project look like without our support?* • **Consider framing more detailed follow-up questions from both and input and results angle, e.g.:** ○ *Have you already approached a commercial financial institution with this idea? Have you been able to access similar support services/ finance from any other sources?; and* ○ *Specify how our contribution helps you achieve results for the local economy or population that you would otherwise not achieve (e.g. jobs, incomes, addressing a different group or take place in a different location)* • **frame all other relevant questions in ways likely to prompt honest answers** from the company; e.g.: ○ *Do you have experience in working with other donor programmes?*, **rather than**, *Are you receiving, or have you recently received funding from any other donor programme?*	• reduce additionality-related questions to a **simple yes/ no questionnaire or box-ticking;** • **use jargon** which the company might not understand or cannot easily relate to, e.g.: ○ *Will the support be additional?* or ○ *Will our support make the project more sustainable/ pro-poor/ inclusive etc.?* ○ For smaller, local companies in developing countries, even common business terminology might need to be broken down into simpler wording, e.g. don't ask: *What is your turnover?* (but, e.g. whether the company has some money available to invest). • **phrase questions in a way that may bias companies to argue in a specific ('pro-additionality') way,** e.g.: ○ *Please specify why you would not undertake the project without our support;* or ○ *Have you been unable to access commercial finance for this project?* • **use general wording (e.g. 'the partnership') when various forms of support are offered or several activities supported,** but be as specific as possible in identifying 'added value'

Principle 2 – Maximise personal interaction with potential partner companies during the application or project design process.

As stressed by practitioners and researcher alike *(see for example Poulton (2009) below)*, it is **critical to maximise personal interaction** with potential partner companies during the various stages of the application or project design process (where the agency's mandate allows this). This is because

- further inquiries can help to **check for consistency** in the statements made;
- establishing **trust with the company** can be crucial to get a thorough understanding of its interests and needs; and
- dialogue with the company can help to **scope out common ground**, including revisions to the project proposal to maximise the added value of public support.

The exact level of dialogue and interrogation will be case-specific and subject to the resources and capacities of the implementing agency. As a **rule of thumb**, the more doubts there are about the real need of publicly-funded support (for an otherwise promising project proposal), the more personal interaction is useful. For example, a **higher level of scrutiny** may be needed in reviewing proposals by **large companies** as well as projects focusing on **core business activities** (as opposed to projects that are more removed from core business).

> ***"Initial concept notes typically provide little real insight into the additionality question. (...) [S]o there is a case for personal interaction between bidders and managers during the period of preparation of full proposals by promising projects. Interaction during this second stage of the process can provide managers with useful insights into how the project is seen within the firm, which in turn they can feed into the decision making process" (Poulton 2009)***

Principle 3 – Always seek to triangulate information as much as possible and involve experts in the review and decision-making process.

As pointed out in the introduction, assessing additionality *ex-ante* is essentially based on a case-by-case reasoning. Yet, this should not be made without a clear set of assessment criteria, nor by relying on the judgement call of a single individual[46]: Instead, to allow for a more informed and reliable judgement on additionality, it is important to both **cross-check information provided by the company** and to establish **checks and balances in the decision-making process**. Moreover, given that most cost-sharing mechanisms **are not designed to invest significant staff time and resources into market analyses**, agencies typically have to be **creative in getting reliable information from a range of relevant sources.**

Information gathering and cross-checking should ideally happen at various levels, including by

- **speaking *separately* to several staff members in the company**; for bigger companies, speaking to different departments (e.g. outside the corporate social responsibility unit) can also help in getting more comprehensive and balanced insights into their constraints and capabilities;
- **talking to stakeholders in the project country**, e.g. government, other development agencies and/or home country of the partner company (if practical) to learn more about their view on the innovativeness of the business model, their knowledge of the partner company itself etc;

[46] In the context of development finance, for example, a report criticised that "financial additionality relies on the judgement calls of investment officers who must ask if [their organisation's] money is really needed and which risks [their organisation] would be taking that others would not." Bodo Ellmers, Nuria Molina and Visa Tuominen (2010): *Development Inverted: How the IFC fails to reach the poor*, Eurodad.

- **maintaining a frank and open discussion among implementing team members** on proposals and the potential added value of the agency's contribution throughout the various stages of the decision-making process; and
- **involving a range of practitioners and/ or experts in the decision-making process** who are familiar with the type of business model, activity or technology supported, the target market and local financial sector, as **further outlined below**.

Bringing together a range of expertise and experience is a key 'ingredient' of an informed judgement on complex issues such as the innovativeness of the business model, level of risk, and availability of commercial finance (see Chapter 3 for more information on these and other criteria). In practice of course, such consultation processes go beyond additionality-related issues, and are used to review the quality of the project more broadly, such as its commercial viability and development relevance.

Five different models are typically pursued by agencies to consult expert opinions, sometimes in parallel, and partly depending on the financial volume, geographical and sectoral level of operation, and human resources of the specific mechanism:[47]

- **asking country or sector specialists at Headquarters and/ or Country Offices of the funding and/ or implementing agency to review the project proposal:** This is done by range of cost-sharing mechanisms, for example, within BMZ's *DeveloPPP programme* or the *Netherlands PSI programme*; in the case of *Danida's Business Partnership Programme*, funding decisions are taken at Embassy level, but Headquarters can play an advisory role on request. The implementing organisation of the DFID-funded *Responsible and Accountable Garment Sector Challenge Fund* (RAGS) consulted both DFID Headquarters and country offices in reviewing proposals. Such exchanges may be most useful for small and/or thematically and geographically broad mechanisms, with only one or a few and non-sector specialist staff member(s).
- **discussing the project with individual experts or private sector players, such as banks:** The Netherlands *PSI programme*, for example, sought to consult a commercial bank either in the applicant's home country or the country of implementation; the *RAGS Challenge Fund* used independent expert reviewers (on an expert roster) for technical reviews proposals.
- **employing sector and country experts in the core team of the fund manager:** This may be of particular relevance in mechanisms with a narrow geographical and sectoral focus. Such experts will be able to make informed judgements and can do rapid market assessments when needed;
- **using an internal review panel within an agency or programme that combines a range of relevant in-house expertise:** This is done for example as part of *BMZ's DeveloPPP programme* or in *Danida's Business Partnerships*, which involves internal grant committees for project sizes above US$ 910,000 ; and/or
- **involving a review panel with external stakeholders and experts from private, public and social sectors in the target country or region (or at the international level)** in the decision-making process: This is for example done by the AusAID-funded *Enterprise Challenge Fund in the Asia-Pacific*. The *Africa Enterprise Challenge Fund* uses a series of Investment Sub-Committees for each of its thematic funding windows which can include both country or regional and technical experts, in addition to the core Investment Committee members[48].

[47] Note that as soon as external stakeholders are consulted in the application process, agencies would typically either need explicit permission by the potential partner company (e.g. through by asking for their consent in the application forms), or maintain confidentiality of information concerning the firm.
[48] For more information on the AECF's core Investment Committee members, refer to http://www.aecfafrica.org/about-aecf.

Is there a 'best model' to bring in expert opinions in the funding decision-making process? Certainly, the more targeted a challenge fund is in terms of countries and sectors, the easier it will be to build on in-house expertise. However, in many other cost-sharing mechanisms, in particular those covering a range of sectors and countries, this is unlikely to be the case. More generally, the market knowledge of development practitioners is likely to be somewhat limited. **Pursuing different consultation methods in parallel can therefore enhance the reliability of the agency's judgement of proposals.**

In particular though, it would be **useful for more agencies to consider setting up external review panels with various experts and from the target region or country of the investment**, **where this is justified by a certain volume of applications** (*see the example of AusAID's Enterprise Challenge Fund below*). If external review panels are not used for all applications, agencies may wish to define **internal threshold beyond which** a more thorough review process is needed. More generally, the profile of panel members can be adapted to a mechanism's specific objectives and target countries.

Box 7: The use of review panels in the AusAID-funded Enterprise Challenge Fund

The AusAID-funded Enterprise Challenge Fund in the Asia-Pacific used various ways to gather and assess additionality-related information. In retrospect, and similar for example to the Africa Enterprise Challenge Fund, they concluded that the practice of requiring a letter from a local bank declining commercial finance for a project was not a reliable measure when working with local firms in a developing country context. They also concluded, however, that another of their mechanisms in the application review process was central to taking informed funding decisions, with additionality being one of several considerations: the use of multi-stakeholder review panels.

The fund manager invited various experts and practitioners familiar with the target market to participate in a regional panel and an international review panel. Participants included, among others, representatives from the banking sector in the project countries who could give a view on the availability of commercial finance; venture capitalists who could judge the commercial viability and availability of private equity for a project; and NGOs and development specialists active in the targeted sectors who may be aware of any similar business models in the sector.

For projects of a high value (over A$200,000) the applications were assessed by both the regional and an international assessment panel which also included regional or thematic specialists. The international panel also gave the regional panel some level of comfort protection in decision making especially in countries where the business community was very small.

The panels were provided with application forms from bidders that included questions on relevance of the funds to the project and an assessment of the project and its risk. Each application had also been checked for compliance with internal policy by the in-country AusAID embassy, assessed by the ECF country manager (a business specialist from in country), and reviewed by the Fund Manager and an independent financial assessor. The panel members were told to assess the funds as if they were investing their own money. The panels relied on their own knowledge of the standing of the company and assessing projects they knew could be funded by banks or donors. In some cases there were officers from local or regional banks who knew that a proposal could have been funded in the country by the bank.

Source: Amanda Jupp, former ECF project manager, Coffey International

B: Maximising value for money through additionality-related considerations

Principle 4 – 'Adding Additionality': Identify possible ways for enhancing the expected development impacts of the proposed project

"Wherever possible, interventions should be designed to maximised additionality (or 'design-out' non-additionality)" [English Partnerships:

Before a funding decision on proposals is made, several implementing agency enter a process of discussion with the applicant, often with the objective to revise and enhance the proposal (*see also Criterion 2 for examples*). Agencies can use this opportunity to **actively think of possible changes to the business model, or forms of support, that can lead to improved commercial viability and/or bigger development impacts**.

If the project proposal is adjusted accordingly, the implementing agency can already claim that its advice is likely to trigger activities and impacts that would otherwise not have happened. However, to determine whether the support granted for the actual project implementation is additional, the agency also needs to probe whether the company would implement the suggested changes without further public support (*following the criteria in Chapter 2*).

It should be noted that the activity outlined in this principle is not an option for all cost-sharing mechanisms: Some challenge funds are barred from giving advice to businesses, including at the application stage as this might be perceived as changing the competitive nature of the fund. To some extent therefore, the application of this principle depends on design choices made early on – whether the agency is mandated or given dedicated technical assistance funds to provide advice on the business model.

Box 8. Illustrative guiding questions to identify impact-enhancing measures for projects

- Can any changes be made to the business model, which are likely to enhance benefits for poor producers or consumers?
- Can any measures be taken to promote knowledge spill-overs or linkages to the local economy?
- Are there any concerns or contractual agreements about Intellectual Property Rights that would prevent the adoption of the business model by other companies in the future?
- Can any measures be taken to enhance the quality of methods or technologies used?
- Is the agency in a position to leverage in additional investment by private investors, e.g. building on existing contacts?
- Is there scope for support or mitigating measures in the context of environmental risks, health and safety of workers, or other concerns linked to the business plan?
- Are there constraints in the business environment that negatively affect the business? Is the implementing agency or business in a position to implement measures or support reforms that address these constraints?

Principle 5 – Consider several types and degrees of additionality to select the projects with the highest expected net positive difference resulting from donor support.

The criteria in Chapter 2 showed that there are a range of different possible scenarios in which agencies may achieve additionality. **This principle is about the importance of agencies getting a nuanced understanding of the factors influencing their additionality**, not only to make a credible assessment for each individual project, but also to enhance **their additionality at a project and portfolio level:**

- Given that there cannot be 100 per cent assurance about additionality, 'diversifying' the ways in which public support is expected to change company behaviour can make it more likely that additionality is achieved in one way or another, and help to establish **a more convincing story about the added value of support** (see also Graphic 1 on page 8 on different pathways to demonstrating additionality).
- In some cases, the **presence of different types of additionality may even be necessary to justify support**: For example, a company is committed to a project in a developing country and would be able to self-finance in the near future, say in about 1-2 years time. The financial subsidy by the donor therefore only helps to marginally accelerate the project, but it will also be used to expand the project to a more remote, impoverished part of the country that the company would otherwise not be willing to invest in. **In the same vein, support should be declined where additionality is limited overall and/or confined to areas where net benefits accrue primarily to the company itself rather than to the target economy or population.** An example of this are projects where the 'additionality' of public support may confined to enhancing the reputation or granting a 'licence to operate' for the company. It is therefore crucial to **question whether the type and scale of the expected net benefits are appropriate and sufficient to warrant public support.**
- A similar principle can be applied at the **portfolio level**: Additionality should be one of the key criteria in the competitive selection process of business proposals (see for example the question used in the internal assessment sheet used by the *Africa Enterprise Challenge Fund* in Box 9). While it may be unrealistic for all projects to achieve the same degree of additionality, just as not all projects will be similarly innovative, it is important to at least seek an overall balance between projects which may be relatively less additional and those in which public support appears absolutely necessary for the project to happen.

Box 9. Sample question used in internal assessment sheet used by AECF staff

"Would/could the project happen, more or less as envisaged in the Concept Note, without AECF funding? Is AECF funding truly 'Additional' (yes or no above)?

Answer YES if: 1) Project unlikely to go ahead without AECF support or 2) Project would probably go ahead without AECF support but on a significantly reduced scale and/or a significantly delayed timeline

Answer NO if: 3) Project would probably go ahead without AECF support, albeit perhaps with minor changes in scale and/or timeline. These projects are ineligible and will not be considered for AECF funding."

Source: AECF proposal assessment sheet for staff

Moreover, there are indications that pursuing different types of additionality may ultimately maximise development impact, based on lessons from development finance institutions: An evaluation of the IFC by the Independent Evaluation Group concluded that **project development results were better**, when the IFC's **role was stronger** *and* **when different types of additionality were present**, including financial additionality, 'operational additionality' (improving the project's design or functioning

through specialist advice) and 'institutional additionality' (e.g. improving standards of corporate governance, environmental and social sustainability, regulations and policies).[49]

Principle 6 – Seek to reduce financial subsidies to the minimum amount needed to trigger the desired actions.

Most cost-sharing mechanisms define a certain range of minimum and maximum financial support that they may grant to a business proposal. In publicly available documents and application guidelines, the exact level of support is often made dependent on the level invested by the private partner, to achieve at the minimum an equal contribution by the private partner. However, additionality is another key consideration that should influence this decision. As for example outlined by *USAID (2013)*, "**subsidy minimisation**" should be a key principle of private sector support and staff should seek a high confidence level "that the proposed USAID contribution is the least possible subsidy required for the investment to occur".[50] The same principle can be applied to changes to an existing business project that donor support may seek to bring about.

While a first step in the proposal review process is to establish the *general need* for publicly-funded support to trigger the desired actions, this should be followed by **a constant reflection on the minimum support required to do so.** *The Africa Enterprise Challenge Fund*, for example, actively considers the minimum amount of financial support needed to trigger actions that otherwise would not happen when reviewing proposals. The same principle can be applied for facilities offering only in-kind support or a mix of financial and technical support. The reflection would then also question the necessary **type and scope of support** to trigger sustainable commercial and development results.

C: Connecting the dots: Managing additionality information and assessment systems

Principle 7 – Establish a transparent story on additionality, based on a clear theory of change, rather than complicated indices or other quantitative measures.

Chapter 2 elaborated the key criteria that agencies can take into account to assess if, and in what ways, their support to business can be considered 'additional'. The principles above then highlighted how agencies can gather credible information on these criteria, ensure a thorough appreciation of the factors influencing their additionality, and take steps to enhance it where possible. **This principle is about how the agency ultimately connects all information and considerations, to make a case for or against support and to document and communicate funding decisions**.

> ***Additionality is always in comparison to what would have happened otherwise. You need to be as explicit as you can about the logic of the net results you expect to achieve. [Anno Galema, Netherlands Ministry of Foreign Affairs]***

A useful process to follow is to **establish the 'do nothing case' (counterfactual scenario)** of what would most likely happen if the intervention does not go ahead, followed by **an assessment of the *net* benefits** the agency can expect to bring to the project[51] - for each of the additionality criteria above. Given the subjective rather than scientific nature of the additionality concept, the most practical way to then consolidate all of this information is **through a clear, honest and transparent narrative on the theory of change underlying additionality;** a theory of change is a

[49] IEG (2008), p. 38.
[50] USAID (2013): *Private Sector Engagement. A Primer – Draft for comment*, p. 19.
[51] This sequence of considering the 'do-nothing' case, followed by an assessment of the net impacts and benefits is also outlined in the UK Government's Green Book, see HM Treasury (2003).

description of a sequence of events that is expected to lead to a particular desired outcome[52] which would reflect the qualitative judgements made on different additionality criteria. **Box 9** on the next page provides a few practical examples of how such a theory of change can be articulated.

Conversely, quantifying or rating additionality criteria as well as establishing an overall quantitative index reflecting a project's level of additionality are approaches that not only seem more complex and less manageable for cost-sharing mechanisms; they are also potentially less meaningful in terms of their explanatory power in external communications, than clear narratives.

> ***"Assessing additionality always implies a careful consideration and weighing of relevant factors; it is ultimately a case-by-case decision." [Helma Zeh-Gasser, GIZ/ DeveloPPP Programme]***

- For example, (in the context of ex-post assessments) an 'Additionality and Economic Impact Assessment Guidance Note' by *Scottish Enterprise (2008)* argues that "**different types of additionality may be written up and accounted for separately**" **as part of an overall account** of a project. This is because "any individual intervention may display a particular combination of additionality in terms of scale, time and quality. (…) [T]hese will be measured on different scales and are usually not easily combined into an overall measure of additionality."[53]
- The *Independent Evaluation Group (2008)* notes that most development institutions use **qualitative, case-by-case judgements based on additionality proxies rather than quantitative metrics** – reflecting the challenges of determining additionality.[54]
- A case in point is also the ***Africa Enterprise Challenge Fund*, which moved away from a system of marking additionality proxies to providing 'yes and no' answers**, coupled with some reasoning, according to pre-defined guidelines outlined in an internal assessment sheet. Such qualitative information can then be used in developing an overall narrative on additionality.

However, some organisations, including some development banks, currently do rate different subcategories of additionality as well as the overarching expected additionality of a project (e.g. on a scale of no, weak, positive or significant additionality); the ranking is then reflected in a numerical rating for statistical analysis.[55] Some agencies may find such an approach helpful to develop and complement an overall theory of change.

Note that theory-of-change based approaches are also useful for the **monitoring of project results**. The **DCED Standard for results measurement** advocates such an approach and requires programmes, as the first of eight good practices, to clarify the logic of expected results in a results chain.[56] For challenge funds and other cost-sharing mechanism already working towards compliance with the Standard, Principle 7 could offer the opportunity to **capture the *ex-ante* assessment of additionality in a narrative that complements the overall project results chain** that is developed at the very beginning of the partnership[57]. Specifically, it would provide a justification for the first link in the chain, which is built on an implicit understanding that the business activities would not have happened (in the same way) without the public input. This is also illustrated in the graphic in Box 10.

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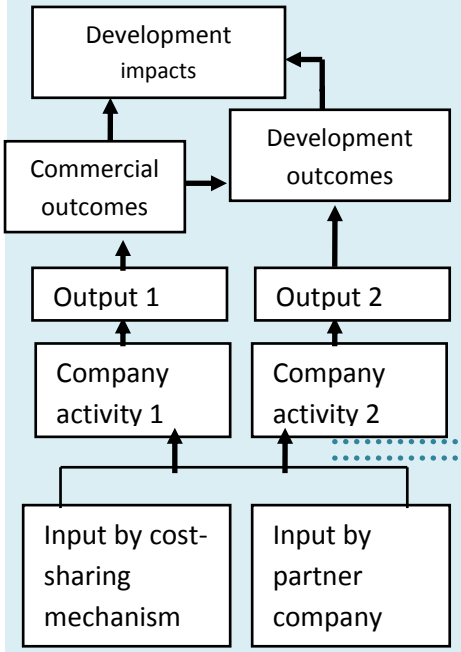
[52] AECF: *The Theory of Change*: www.aecfafrica.org/about-aecf/theory-change.
[53] Scottish Enterprise (2008), p.28.
[54] IEG (2008), p.26.
[55] e.g. the African Development Bank's Additionality and Development Outcomes Assessment Framework (unpublished).
[56] For more information, refer to www.enterprise-development.org/page/implementing-standard and DCED (2013): Practical Guidelines for Measuring Results in Challenge Funds, by Adam Kessler.
[57] Note that the Standard also calls for projects to update their results chains on a regular basis, in light of experiences and knowledge gained during implementation.

Box 10. Complementing a project logic with a narrative on the theory of change underlying additionality: Graphic illustration and practical examples



Simplified illustrative results chain of a challenge fund or other cost-sharing mechanism

Provide a clear and credible narrative on the theory of change,

- based on a judgement of the counterfactual scenario – what would happen without the agency's support;
- articulating how the agency brings about, or changes the nature of, the company activity; and
- optionally, spelling out further results and development impacts you expect to happen as a consequence of the agency's inputs

Examples of how theories of change underlying additionality can be articulated:

WING is a mobile payment service in Cambodia; it won a grant by the AusAID-funded Enterprise Challenge Fund which covered 25% of the project costs. The text below is written from an ex-post perspective. Its key elements could however be credibly captured in an ex-ante assessment and updated over time in light of experience:

ECF-funding received by WING offset the cost of the initial education programs to build community awareness of mobile technology and banking and to ensure eventual commercial viability. (…) Prior to WING being developed, there were no mobile phone payment services available in Cambodia. Without ECF support, WING would have launched their service but only in urban areas of Cambodia (…) as the project had high commencement costs and was outside of what the company would ordinarily invest in. WING would not have invested in financial literacy campaigns, targeted rural marketing promotions or had the opportunity to expand the network as far as it has with ECF funding. Additionally, the network of WING Cash Xpress agents in rural areas would not have been set up and WING Pilots would not have recruited rural based customers because the cost benefits of this activity would not have been profitable without ECF support. To establish the counterfactual, all transactions or transfers originating with rural customers have been measured as these would not have happened without the ECF campaign. Evaluation of the WING project has shown that WING Cash Xpress agents in rural Cambodia reported that their primary transactions were funds sent from rural areas to urban areas to pay for school fees and funding students from Phnom Penh. [*source: AusAID ECF Case Study: WING – Mobile Payments in Cambodia, and Amanda Jupp, former ECF project manager, Coffey International*]

Two hypothetical examples of narratives on additionality are given below:

'There was one champion of a pro-poor business project in the company, but the management was risk averse and did not release the funds for the project. By co-funding it, we allowed the champion to push the cause and convince the management that the benefits outweighed the risks. We also saw room to enhance the original proposal sent to us and identified additional measures to strengthen the capacities of about 500 poor producers. As a result we expect the company to source from a more impoverished region than originally planned. No potential competitors are currently active in this region.'

'The Africa-based company sought to expand its operations to South Sudan where this production method would be introduced for the first time. We verified that the company is unable to cover the project costs itself. There are no other sources of finance as the project is considered too risky given the volatile environment and the financial sector is generally underdeveloped in the target country.'

Principle 8 – Additionality assessment criteria and processes should be clearly documented internally.

The criteria and principles outlined above made clear that additionality assessments may require more careful planning and thinking than is often applied in practice. To make additionality a more strategic and central element in the review of proposals, it would therefore be useful for agencies to develop an **internal summary document or staff guide** on how to consider additionality. This would include **clear definitions** of the key criteria and indicators used and how the agency goes about assessing them.

> ***"Ideally, it should be documented internally how additionality is assessed." [James Carnegie, AECF]***
>
> ***"A paper trail with explicit reference to additionality considerations should be maintained for each funding decision." [Steven Anderson, USAID]***

Another use of such an internal document would be increased outside accountability, allowing the agency to demonstrate how additionality is considered in funding decisions. Another practice that would be helpful in this regard would be to **keep a paper trail of the decision-making process regarding individual proposals**. In addition to other relevant considerations, these should convey clearly why (and in what way) support is, or is not, considered additional. This would allow agencies to credibly justify externally why a specific funding decision has been made.

4. Further Considerations for Assessing and Enhancing Additionality

4.1 Practical considerations for monitoring and assessing additionality *ex-post*

The process principles and additionality criteria above are mainly written from an *ex-ante* perspective: What can agencies do *before* they sign a partnership agreement to ensure, to the extent that is possible, that their support is additional? However, **demonstrating additionality does not stop at the time of launching a partnership**.

In fact, assumptions developed *ex ante* about input or development additionality may be challenged during or after the partnership. **There are also some elements of additionality that cannot be gauged *ex-ante* with reasonable credibility,** such as longer-term changes in the partner company's – or other companies' – behaviour, which an agency frequently *hopes* to stimulate but that are hard to predict. Sepcifically these could include, for example, longer term changes in the risk attitude of the partner company, which may start to self-finance similar projects after a successful experience, or copying of the business model by others. Also other forms of additionality, such as leverage of other funding, may only emerge during the partnership and not always be known in the initial phases. It is therefore up to agencies to **choose appropriate ways to re-assess and adjust initial claims on additionality** (in line with Principle 7 above).

In principle, **monitoring of additionality can be integrated in a cost-sharing mechanism's results measurement system**; for example, business surveys could be a useful tool to explore additionality-related questions during the partnership (e.g. once annually). However, there is currently **no established practice regarding the monitoring of input additionality *during* the partnership.** While some agencies may wish to re-consider whether the business could and would have implemented the project anyway, most agencies will find it more practical to continue with their *ex-ante* assessment. In this case, a pragmatic approach would be to at least maintain an **honest reporting regarding their contribution to the results that are attributable to the project**:[58] For example, if the agency assumes that it brings about certain qualitative changes (e.g. in terms of the speed, scale or target group) to an already ongoing project (i.e. the 'deadweight' is not zero), it would ideally seek to measure the *share of the impact* that can be attributed to its inputs, i.e. its **development additionality**. In most cases, however, this would be very demanding, if not impossible. **Still, agencies can avoid claiming responsibility for all development impacts, but stress that they have 'contributed' to the results** (in a certain way). This is the approach chosen for instance by the *Africa Enterprise Challenge Fund*, which presents the full data of project impacts and states that "AECF is making a 'contribution' to this impact"; however it does "not calculate the AECF's 'share of impact'.[59]

To verify their assumptions on input additionality, it may be more useful for agencies to conduct *ex-post* assessments after project completion, internally but also through independent evaluators. To date, only a few cost-sharing mechanisms have done this through internal reviews: Examples are the *Business Innovation Facility*[60], the *Compete Caribbean Enterprise Innovation Challenge Fund* and the *Enterprise Challenge Fund for the Asia-Pacific*[61]. This can be a useful exercise to deepen and adapt an

[58] Project-level attribution is the question whether the observed benefits have happened as a result of the project, and not other factors, such as changes in the business environment or economy more generally. More information on how to assess project-level attribution is included in DCED (2013): Practical Guidelines for Measuring Results in Challenge Funds, by Adam Kessler.
[59] AECF (2012): 2012 Portfolio Overview Report.
[60] See Ashley, Harrison and Schramm (2014).
[61] See Coffee International (2012).

agency's understanding of its additionality. For example, the *Compete Caribbean Challenge Fund* has surveyed beneficiaries already shortly after the application process to specify the benefits that companies gained from it, such as market knowledge and business skills. It has also built in *ex-post* evaluations in its project budget. The *ECF* conducted grantee perception surveys after project completion including questions about the role of ECF support. This was complemented by analysis of the Fund Management team. A summary of their findings is included in the box below.

Box 11: Summary of the ECF's ex-post additionality assessment

In the Grantee Perception Survey of 2012, 90% of grantee respondents indicated their projects would not have started when they did without the ECF grant, and would have started in 3–5 years (60%) or 6–10 years (10%).

Analysis by the Fund Management team in 2010 of 'what would have happened without ECF funding for these businesses' indicates that 11 projects (52%) would not have happened at all, 5 projects (24%) may have started in the 5–10 years longer term with fewer or no pro-poor benefits if they were implemented, and the remaining 5 projects (24%) could have been implemented without ECF support at some stage but would be unlikely to deliver the same level of development impacts. *[Source: Coffey International (2012)]*

Similar to *ex-ante* assessments, ***ex-post* surveys require a careful approach to information gathering from businesses (see Principle 1)**. In the experience of some agencies, companies are more inclined to argue that they would have implemented the project anyway afterwards; this may be because they have not revealed this *ex-ante* because they did not want to jeopardise the support, but is also frequently influenced by the perceived success of the project as, for example, they may be inclined to take full credit for a successful project. Typically, carefully worded and more in-depth questions can still reveal a more nuanced perspective on the agency's additionality.

Similarly, it could be valuable for more agencies to explore *ex-post* evaluations of a selection of rejected projects that are roughly comparable to others that did get support. This would allow them to gather more rigorous evidence on their additionality based on counterfactuals. However, such evaluations have not been done, and are rather difficult to do, for most challenge funds and similar cost-sharing mechanisms.[62] A main reason given by Campos (2012) is that rejected projects did not meet the eligibility criteria and therefore are unlikely to include a suitable comparison group; however, a recognised method would to take businesses that 'almost' made the grade as a control group.

The *Netherlands' PSI programme* has produced a **simple overview of what happened to rejected projects,** and observed that 15% of rejected projects did start anyway. If programmes can show that a certain percentage of projects that were rejected due to a lack of additionality did indeed go ahead without public support, such surveys may be a complementary way of demonstrating a certain level of 'success' in additionality screening *ex-ante*. A more crude way of doing this may be to simply **keep track of how many projects have been rejected on the basis of lacking additionality**; if they make up a reasonable share of rejected projects, this could be interpreted as a sign of the strength of the assessment system; if there are none or very few this could be considered as a clear sign that assessments need to be improved.

[62] Campos, Francisco et. al. (2012): *Learning from the experiments that never happened*: *Lessons from trying to conduct randomized evaluations of matching grant programs in Africa*, World Bank Policy Research Working Paper, p.5; Campos provides possible explanations for this in the context of World Bank matching grant funds. URL: http://elibrary.worldbank.org/docserver/download/6296.pdf?expires=1363892328&id=id&accname=guest&checksum=EC1CE729416C216CB38E6EDA42EC71B7

4.2 Wider implications for donors and programme designers

While reading this Chapter 2 and 3 of this document, you may have thought "*Yes, this should be done, but we are constrained because we were not set up in a way to do x or y*", or "*we don't do x because we are not required to do so*". Indeed, as touched on in the introduction, **enhancing the ways in which challenge funds and other cost-sharing mechanisms consider additionality goes beyond technical knowledge** of appropriate assessment processes and criteria. It is also linked to the **broader questions** of the initial design and staffing of mechanisms, and, in many cases, political and bureaucratic incentives. In other words, some of the '**good practices' outlined would be much facilitated if they are considered in the design upfront and if there is a clear institutional commitment** in the donor agency to making additionality a key requirement for support.

This section lists a **number of key options and opportunities that agencies may wish to consider** in the context of additionality and value for money in their partnerships with business. It should be noted that some of these considerations have already been made in earlier publications on cost-sharing mechanisms, however not always explicitly in the context of additionality.[63] The options below directly emerge from the principles and criteria above.

Option 1. Enhancing staff capacities vs maintaining 'light-touch' management approaches.

The principles listed in this document highlight ways in which cost-sharing mechanisms can collect credible information on the partner company, project and target market in the context of relatively limited staff capacities. However, **for some agencies, a meaningful implementation of activities** such as personal interaction with applicant companies, rapid market assessments or enhancing the quality of proposals, **may depend on increased human resources** that would either be resident in, or contracted by, the implementing agency. As noted in an EPS PEAKS topic guide on challenge funds, *"[p]ursuing a 'light touch' approach to fund management may appear attractive in terms of restraining fees (...) – but this may be a false economy. Allowing insufficient funding to conduct robust design and sufficient market system and sector-specific research to understand how projects could have a catalytic effect, without disadvantaging other businesses in the sector, is poor development practice."*[64] Ultimately therefore, donors' ability better to demonstrate additionality will often hinge on their willingness to shift, or make available, resources to pay for higher management fees.

Alternatively, there may be advantages in narrowing down the set of eligible projects and target markets, to allow for a good use of sparse human resources (see also option 2). For example, an evaluation of the Netherlands' PSI Programme noted that "*for a proper assessment of (…) innovation and additionality of PSI applications, sufficient time and expertise needs to be made available at the country level. We therefore suggest that PSI only operates in countries where embassies can commit the required time and capacity to the programme and where the embassy involvement is not voluntary*."[65]

Option 2. Adopting a narrow vs. broader thematic and geographical scope.

A good understanding of the target market has been shown to be critical to make an informed judgement on additionality – based on aspects such as the level of innovation of the proposed project and resources available from other market actors. It is clear that a **narrow thematic and geographical focus of cost-sharing mechanisms makes it easier to judge additionality** given that it is possible to gain

[63] See for example DCED (2013): *Donor partnerships with business for PSD*; Elliott, David (2013); Ebony Consulting International (2003): Mid-term review of the Financial Deepening Challenge Fund; Davies, Robin and Margaret Callan (2013): When business meets aid.
[64] Brain, Gulrajani and Mitchell (2014), p.24.
[65] Triodos Facet (2010), p.58.

a more thorough understanding of the target market if staff specialise in certain areas of business activity and countries, and/or are based in the target region. A potential trade-off in this context is, however, that mechanisms with a **broader scope may increase the chances of attracting higher numbers of good quality, innovative projects.** Where mechanisms receive fewer applications than could be funded, incentives for a rigorous scrutiny of proposals may be lowered.[66]

When deciding on the scope of a cost-sharing mechanism, **agencies could therefore consider how many resources they are able and willing to invest in management and staff capacities** – given that these would ideally be **proportional to the (volume and) breadth of proposals managed**. It would also be of interest to study the advantages and disadvantages of narrow and broader mechanisms more in depth, using practical examples such as the *AECF* which operates thematic, country-based as well as Africa-wide competitions.

Option 3. Focusing support on the most innovative projects.

Innovation and risk were identified as a cross-cutting criteria that influence the additionality of cost-sharing by donor-funded mechanisms and that should be clearly defined as a basis for project appraisal. It is therefore worth reiterating here that **innovation may need to get greater attention, starting at the design stage of cost-sharing mechanisms**. While the rhetoric of many agencies is often full of references to supporting innovative private sector projects, **agencies could often be clearer in defining innovation, articulating what types of innovation they seek to encourage, and spelling out project eligibility criteria** favouring sectors and activities with positive development outcomes that are financially riskier[67].

Option 4. Keeping flexibility in the level and type of cost-shared support.

One principle outlined above focused on subsidy minimisation, or more broadly, the need to adjust the type and/or level of support depending on what input is needed to trigger the desired actions. This could possibly already be facilitated through a more **flexible 'framework' of possible levels of funding, types of technical support or combined cash and in-kind services offered**.[68] For example, in the context of technical advice, the *Business Innovation Facility* concluded that "being flexible was an essential part of ensuring the value of TA"; "the scope of topics addressed by TA was wide […] and a menu of certain support types […] (was) not developed due to the need for tailor-made packages."[69]

Option 5. Coordinating project data of cost-sharing mechanisms with other agencies.

It seems important for agencies to better coordinate partnerships with companies to avoid, or scrutinise more in-depth, companies that receive parallel or repeated support from donors. To facilitate this process, it was suggested that agencies can draw on the DCED's directory of partnership mechanisms to check which programmes operate in which countries and with what types of businesses. However, no mechanisms currently exist that could facilitate agencies' direct access to project and company data.

Option 6. Enhancing transparency of funding decisions.

Challenge Funds and similar cost-sharing mechanisms that grant support to businesses on a competitive basis are often considered by donors as a transparent way of giving money directly to businesses. Yet, much more could be done to enhance the transparency of how and to whom support is being awarded.

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[66] Triodos Facet 2010, p.38.
[67] See for example Ellmers, Molina and Tuominen, p.20.
[68] Note that the *Africa Enterprise Challenge Fund*, for example, also has the option of using repayable grants (zero-interest rate loans) and/ or reducing level of subsidy where they judge the innovation and risk less compelling (but where development impact might still be high).
[69] See Ashley, Harrison and Schramm (2014), p.55.

In particular, **publishing funding decisions and the paper trail documenting the reasoning behind them could significantly enhance accountability**. At the same time, more outside scrutiny can increase incentives for donors and programmes to enhance the quality of assessment practices while potentially counter-acting pressures for more and quicker partnership agreements with businesses.

Option 7. Stimulating further knowledge generation, exchange and dialogue on additionality.

The current state of knowledge on how to best demonstrate additionality suggests that there is still room for further knowledge generation and exchange: At the moment assessment processes and criteria used in cost-sharing mechanisms are still quite variable and typically not documented internally. This document brings together early insights into effective practice, conclusions drawn from the available literature in related fields and new ideas and suggestions of how to address typical gaps in assessment practices. It may be further developed as practice evolves.

Agencies may also actively advance the process of knowledge generation and exchange on additionality, including through the DCED. This could include

- **dissemination and awareness-raising** of the principles and criteria documented in this report, online and through physical events;
- **an agreement on a learning agenda** of particular aspects of additionality assessments that may need to be understood better, such as through **case studies** based on more detailed experiences in assessing additionality in **different sectors** or for **different types of partner companies** (local/ international, small and medium or large companies); and
- **exploring ways that cost-sharing mechanisms can get better support** in assessing additionality (e.g. through peer-to-peer exchanges, expert advice etc).

More generally, by making additionality a central element of current discussions on partnerships, agencies can help to de-politicise ongoing debates, and focus more on *how* to identify the true 'win-win' scenarios where public resources complement rather than substitute private resources, and provide a real added value in development terms.

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Annex 1. Summary of process principles and assessment criteria to consider in *ex-ante* additionality assessments

Assessment Criteria

A: The company's own resources, capabilities and incentives

Criterion 1: The company has insufficient funds to self-finance the project (within a reasonable time frame).

Criterion 2: The company does not have the knowledge or competencies to design and/or implement a business model in a way that maximises poverty-reducing or other (economic) development impacts.

Criterion 3: Without the public subsidy, the company would be unwilling to implement the proposed business model and/or changes in operational standards because of a perceived negative balance of costs/risks and benefits.

B: Resources available from other parties

Criterion 4: The company cannot access the services offered by the publicly-funded agency on a commercial basis – whether commercial bank funding or advisory support of similar quality.

Criterion 5: The cost-shared project does not displace other companies already operating in the market, or ready to undertake the same project without public support.

Criterion 6: The cost-shared contribution does not duplicate other donor-funded support – whether grant, in-kind advice, loan or equity.

Criterion 7: Public support leverages investment by other entities that would otherwise not be forthcoming.

C: Donor-funded engagement beyond the cost-shared project or partner business

Criterion 8: Conditions attached to support, or agency activities complementing the cost-sharing collaboration, are expected to have a positive influence on wider business operations, operations of other businesses, or the business environment.

Assessment Principles

A: Getting good quality information on businesses and projects

Principle 1 – Be sensitive and creative in requesting additionality-related information from companies to increase the chances of prompting honest and informative answers.

Principle 2 – Maximise personal interaction with potential partner companies during the application or project design process.

Principle 3 – Always seek to triangulate information as much as possible and involve experts in the review and decision-making process.

B: Maximising value for money through additionality-related considerations

Principle 4 – 'Adding Additionality': Identify possible ways for enhancing the expected development impacts of the proposed project

Principle 5 – Consider several types and degrees of additionality to select the projects with the highest expected net positive difference resulting from donor support.

Principle 6: Seek to reduce financial subsidies to the minimum amount needed to trigger the desired actions.

C: Connecting the dots: Managing additionality information and assessment systems

Principle 7 – Focus on establishing a transparent story on additionality, based on a clear theory of change, rather than complicated indices or other quantitative measures.

Principle 8 – Additionality assessment criteria and processes should be clearly documented internally.

Annex 2. Concepts of additionality in selected donor-funded challenge funds and other cost- and risk-sharing mechanisms

The table below summarises the concepts of additionality in use by challenge funds and other cost-and risk-sharing mechanisms, based on publicly available information (unless indicated otherwise).

Challenge Fund or other Cost-Sharing Mechanism	Additionality concept (and criteria)
ADA Business Partnership Programme	'Added value': • The project creates an added value which would not have happened without the support of the programme. In assessing concept notes, it is therefore a priority to avoid supporting activities or results which the applicant company would have undertaken or achieved anyway. • Further, no activities are being funded that only serve to fulfil a legal obligation of the company. (see ADA, 2013 and Rössler, 2011) [*translation by the author*]
Africa Enterprise Challenge Fund (multi-donor)	• The intention is to get funds to the organizations that truly need them and can use them effectively to realize the broader aims of public policy; and to do this transparently." (AECF website: What is a Challenge Fund) • "The competition rules favour ideas that promise profitable sustainability and provide evidence that the companies involved have the technical and financial capacity to deliver. They will be innovative. • They will have to make a convincing case for the need for AECF funding, answering the question, 'why couldn't you do this with normal commercial finance?' (AECF website: What ideas is AECF prepared to support?)
Africa Facility (BMZ/GIZ) [same concept as BMZ/GIZ Mano River Union Fund)	• A contribution from the public sector is only made if the private partner was to refrain from carrying out the measure in the absence of the public partner and the measure is not legally required (subsidiarity).
AusAID Enterprise Challenge Fund	At ECF attribution is look at two levels, a) at project level-concerning grantee and the business, b) at impact-concerning the beneficiaries. • At project level ECF collects evidence to validate whether ECF funding is crucial for the project to materialize. These assessments take place as part of the process of project selection. • Potential grantees are required submit evidence on lack of finance and/or lack financing funding from other organization, to substantial their claim. For example, many projects would have to submit letters from bank's/ financial institutions confirming their lack of interest in funding the business models. • The assessments also looked into the time issue, potential grantees were ask to substantial with information related to number of years it would take them to venture into the business model if they had to rely on their own funding. • This information was also used by the ECF panel in judging the importance of ECF funding and its attribution. Therefore, through the selection process, only those project are selected which qualified as 'will not come into being without the funding'. Therefore, ECF has 100% attribution to changes achieved through each projects and its business model. *(ECF: Internal Results Measurement Manual)*

Danida Business Partnerships	Justification of Danida support (Recommendations): In order to qualify for support, a company or organisation must explain how partnership activities are expected to contribute to development objectives e.g. job-creation, increased competitiveness and promotion of CSR - and how these objectives cannot be achieved without support from Danida Business Partnerships. Justification for support may also be based on the scale, location, and time frame of the business operation. Danida Business Partnership Recommendations 2013
DFID Business Innovation Facility	Value of BIF support: "Did support from the BIF add value in any way?" [Carolin Schramm and Caroline Ashley (2014)] Categories of Additionality: • Support was fundamental: ...would not happen without Business Innovation Facility. Might not have gone ahead without Facility • Support was core to business: ...would be less commercially sustainable, more risky, and/or less able to scale, due to lower • Support was useful: ...would still be on track but just not so good, not so comprehensive [Business Innovation Facility Pilot, 2012 Portfolio Review)
DeveloPPP.de programme	'Subsidiarity': A public contribution in the context of develoPPP.de will only be made providing that: • the private partner would not otherwise implement the develoPPP.de project without the public partner; • the develoPPP.de project is not required by law; • the develoPPP.de project gives rise to an appropriate economic development benefit for the developing country that exceeds any commercial benefits to the private partner. Correspondingly, the contribution made by the private partner to the develoPPP.de project should only include such investments and expenditure that would not have been made without the measure. Projects where implementation is already underway cannot be co-financed retrospectively as develoPPP.de projects, unless they retrospectively adopt additional development-relevant elements. (DeveloPPP website, accessed November 2013)
Enterprise Innovation Fund for the Caribbean (Compete Caribbean) (multi-donor)	Applicants need to "certify that they are not receiving grant financing from another donor agency for the development of the Innovative Business Plan". (Compete Caribbean website, accessed November 2013)
Finnpartnership	In the framework of the de minimis regulation, a company is entitled to receive a maximum of € 200,000 over a 3-year period (€ 400,000 if not de minimis). • Prior to applying for the grant, the applicant should check whether the company has received de minimis aid and also the amount of the received aid. • Also take into account that a company who takes part in the Young Innovative Enterprise -programme of Tekes,

	cannot receive Business Partnership Support for three years when accepted to the programme. (Finnpartnership website, accessed November 2013)
Netherlands PSI programme	Additionality: • The extent to which it is to be expected that a project will be carried out only as a result of the intervention of providing a subsidy. If a project can be financed with own means, a commercial loan or by means of another public instrument the subsidy is not additional, but a substitution. • Only if "it cannot reasonably be expected that such costs can be funded from the applicant's own resources or other sources" (Ministry of Foreign Affairs Grants Decree, article 14) a grant can be awarded. Applicants and other interested parties can be asked by PSI to submit their plan to FMO for Financing by FOM-OS. (PSI List of Terms, 2013)
Sida Challenge Funds	• The criteria against which applications are judged and rated must be transparent and clear. (…) Especially additionality is a key criterion: a fund that provides grant financing to projects which anyway would have taken place through private capital has wasted its resources. Additionality is often linked to risk, i.e. a private company would not engage in the project alone due to high perceived risk. The willingness of a challenge fund to take risks tends therefore to be a key issue of the development performance of a CF. Development effects are of course the main rationale for a CF where potential for systemic impact and positive externalities are generic criteria as mentioned above. (Sida Challenge Fund Recommendations (2013)) • Innovation against Poverty Eligibility Criteria/ Additionality: "The project would not take place at the same scale or have the same development impact without IAP funding" (Innovations against Poverty – Guide for applicants (2011/2012))
Sida Public Private Development Partnership Programme	• How would Sida's contribution contribute to the realisation of the project? • What alternative financing possibilities are available? • Describe the constraints or challenges justifying Sida support (PPDP Application Recommendations)

Development finance *While not the focus of this Guide, illustrative definitions from the field of development finance are listed below for to showcase further available additionality concepts and criteria*	**Additionality concept (and criteria)** *Note that most concepts have been originally compiled in IEG (2008), as referenced below.*
EBRD	Multilateral Development Bank support of the private sector should make a contribution that is beyond what is available, or that is otherwise absent from the market, and should not crowd out the private sector. (EBRD 2013)

Multilateral Development Bank Evaluation Cooperation Group's Good Practice Standards for Evaluation of Private Sector Operations	MDB additionality should take into consideration the following: • Would the client have been able to obtain sufficient funding from private sources on appropriate terms? Judgments on this indicator consider pricing (including additional costs arising from MDB conditions that would not be imposed by private investors), tenor, grace period, currency, and timeliness, that is, the availability of financing without unduly delaying the project. • Was the MDB (because it is a multilateral institution) needed to reduce the risks or provide comfort (that is, improve the investors' perceptions of the risks involved) and, thus, to encourage the investors and lenders to proceed? • Did the MDB improve the venture's design or functioning—in business, development, transition, social, or environmental terms? • Was the MDB needed to bring about a fair, efficient allocation of risks and responsibilities, for example, between the public sector and private investors? (IEG 2008)
Evaluation Cooperation Group	An MDB brings additionality when it: 1. Reduces the risks or provides comfort (i.e., improves the investors' perceptions of the risks involved) and, thus, encourages investors and lenders to proceed; 2. Brings about a fair, efficient allocation of risks and responsibilities, e.g. between the public sector and the private investors; 3. Improves the venture's design or functioning -in business, developmental, transition, social or environmental terms (see for example AfDB 2012)
Asian Development Bank	Additionality is based on whether (i) Asian Development Bank finance was a necessary condition for the timely realization of the project, through direct mobilization of funds and/or indirectly by providing comfort to other financiers, and (ii) Asian Development Bank's contribution to the project design and function improved the development impact. (IEG 2008)
Inter-American Development Bank	The value added by the IDB's contribution to enhance a project's long-range sustainability prospects or its development benefits. (IEG 2008)
Multilateral Investment Guarantee Agency	The rating of "role and contribution" considers MIGA's additionality as an insurer, influence on project design, and synergy with partners. (IEG, 2008)
FMO [Netherlands Development Finance Company]	The degree to which FMO was additional to the market (additionality), acted as a catalyst for other investors (catalytic role) and made specific contributions to a project's performance (where appropriate). (IEG 2008)
USAID (in the context of loan guarantees)	Loan guarantees should be designed to stimulate new private investment rather than subsidize existing sources of capital. If a guaranteed loan would have been made regardless of the guarantee, the guarantee may simply reflect a subsidy to the lender and it does not stimulate any additional lending. The aggregate amount of lending with or without the guarantee is the same. "Additionality" arises when a loan is made that would not have otherwise been made but for the guarantee. If additionality is achieved, the aggregate amount of lending is thus increased and this can promote economic growth. (IEG 2008)