Understanding Additionality

Several forms of additionality exist when working with the private sector in development. Development finance institutions (DFIs) often focus on at least two kinds of additionality – financial and value (also called operational or institutional additionality). A third form of additionality is development additionality.

Financial additionality is about ensuring that public investments are additional to the market – or in other words, that financing is provided in cases where private sectors are unable to obtain commercial financing owing to the high risk nature of the investment. Financial additionality aims to avoid market distortion and without it, public institutions are essentially subsidising the private sector or competing with it (e.g. with other commercial finance providers).

In discussions on ODA modernisation at the OECD-DAC, the Working Party on Development Finance Statistics has suggested that additionality be defined largely in financial terms - as "finance extended to companies in countries and regions where the private sector would not invest in developmental projects without official support." In July 2016, DAC members will discuss the suitability of this definition, which will eventually frame reporting by DFIs to the OECD-DAC Creditor Reporting System.

Value additionality refers to the specific role of the public sector actor or in other words, the comparative advantage of the public institution. In addition to the provision of financing, this refers to the non-financial contributions public institutions make when partnering with the private sector, such as provision of knowledge and expertise, and links local networks.

Finally, **development additionality** refers to the development outcomes that are achieved through partnership which otherwise would not have occurred. This can include greater, better quality and faster outcomes than what otherwise would have occurred if partners operated alone.

These forms of additionality or not mutually exclusive and necessarily linked. For example, the knowledge and expertise of public institutions generally contributes to ensuring better quality investments from a development perspective, and as such, greater development impact.

A systematic approach to additionality assessment contributes to ensuring that private sector partnerships do not distort markets, harnessing the comparative advantage of public institutions and realising better development results. Moreover, such assessments can be used to articulate a compelling case for public support to private sector partnerships.

It is worth noting that limited examples of systemic additionality frameworks and guidelines exist. However, the development community, and DFIs in particular, are increasing focusing on the question of how to ensure and measure additionality. Two example of additionality assessment frameworks are listed below.

- Corporate Policy Project Rating (GPR) – Deutsche Investitions- und Entwicklungsgesellschaft (DEG), Germany
- Additionality Guide – Homes and Communities Agency, United Kingdom