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Policy Paper
Additionality at OeEB

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1. Background

The concept of **additionality** is key to the role of Development Finance Institutions (DFIs), referring to financing provided for projects in underserved geographies, sectors, and segments that the private sector is unable to provide.

Both bilateral and multilateral development banks (MDBs) have drawn on the concept of additionality since their founding. It sets DFIs apart from commercial banks, avoiding crowding out of the private sector and justifies the role of development banks.

This document outlines OeEB's understanding of the concept of additionality aligned with Organisation for Economic Co-operation and Development (OECD) definitions and gives guidance as to how the additionality shall be integrated into the bank's investment processes. The mid-term review of the OeEB 2024 to 2028 strategic cycle will include an assessment of the implementation of this policy.

2. Definition of additionality according to OECD

OeEB reports its Official Development Aid (ODA) contribution according to the OECD guidelines on Private Sector Instruments (PSI), comprising loans, equity and guarantees, which the OECD Development Assistance Committee (DAC) agreed to revise in October 2023[1]. Additionality is of particular relevance because it is one of the main determinants for the ODA eligibility of OeEB's financial flows.

In this context, OECD provides the following conditions and definitions on additionality[2]:

"The DAC statistics distinguish between three types of additionalities: "financial additionality", "value additionality" and "development additionality". Financial and value additionality seek to avoid market distortions. For a PSI activity to be ODA-eligible, it must be additional financially ***or*** *in value,* ***together*** *with its development additionality.*

Hence, a PSI activity conveys the following three forms of additionality:

- **Financial additionality** in cases where private sector partners are unable to obtain financing from capital markets (local or international) for a specific activity at the necessary terms and/or scale, or where it mobilises finance from the private sector that would otherwise not have been invested.
- **Value additionality** in cases where the official sector provides or mobilises, alongside its investment, non-financial value to private sector partners that the capital markets would not offer and which will lead to better development outcomes. It is often pursued through investment conditionality, active ownerships (e.g., board participation), capacity building activities, advisory services and other technical assistance and other ways.
- **Development additionality** if it is intended to deliver development impact that would not have occurred without the partnership between the official and the private sector.

In order to harmonize reporting, OECD has classified the different types of additionality, ensuring the comparability and transparency across OECD member states:

[1] See The modernisation of official development assistance (ODA) - OECD
[2] Source: https://one.oecd.org/document/DCD/DAC(2023)48/FINAL/en/pdf

Table 1. Classification of additionality types according to OECD Guidelines[3]

Additionality category	Additionality type	Description
For any individual PSI activity reported in ODA, indicate whether it is considered additional as it:		
Financial additionality	Targets underserved geographies	This includes LICs, LDCs, SIDS[4] or other high-risk or capital-constrained markets.
	Targets underserved sectors or segments	This includes high-risk or capital-constrained sectors of economic activity (or parts thereof), or underserved population groups.
	Conveys investment terms unavailable on the market	This includes both volume and qualitative aspects (e.g. currency, maturity, interest and/or fees, amortisation schedule, flexible collateral, return expectations etc.) to promote a project bankability. Anchor investments or investments that enable financial close are included here too.
	Mobilise private finance	This includes interventions that aim to mobilise private finance which would not have otherwise been invested.
Value additionality	Mitigate non-financial risks	This includes various country, regulatory, project, macroeconomic, political, and other risks. The official sector may use its reputation, convening power or good relationship with authorities and/or the private sector in developing countries to mitigate such risks.
	Promotes pro-development business models	This includes various capacity-building activities that specifically aim to improve the business models of private sector partners to improve their development impact beyond the adoption of environmental, social and governance (ESG) standards.
	Promotes knowledge transfer and generation	This includes various capacity-building activities in support of in-house research and development (R&D), access to networks and associations, growth etc.
	Other, please specify	

As to *financial and value additionality,* one of the above-mentioned types is sufficient.

Development additionality is given through both, the intended development effects of the project and the mandate of the reporting institution. This term also needs to be explained in detail with focus on the aspect that the development effects would not have occurred without the participation of OeEB with its mandate to promote private sector development in developing countries.

[3] https://one.oecd.org/document/DCD/DAC(2023)48/FINAL/en/pdf, page 20
[4] LICs: low-income countries, LDC: least-developed countries, SIDS: Small Island Developing States

3. Integrating additionality at OeEB

OeEB follows the OECD definition of additionality and will systematically capture financial and value additionality across all its products. This means a holistic view has to be taken: next to the development additionality which describes the developmental aim of the project, the financial and value additionality will be analysed for all types of projects (Investment Finance (IF), Private Equity (PE) and Technical Assistance (TA)) and may overlap in certain aspects. That concludes that a careful, in-depth analysis along the OECD definitions needs to be integrated into the project cycle, starting at the sourcing/first checks of the project.

The initial information on financial and value additionality gained at the beginning of a project will be verified and deepened in the due diligence stage, resulting in a description of additionality for each project on an individual level. This information should be considered in connection with the Development Effectiveness Rating Tool (DERa)[5], which assesses and rates the development effectiveness of projects, thereby contributing to a sound understanding of the developmental context of the given project.

The analysis of additionality will be based on **an OeEB-internal indicative list of guiding questions** to support the formulation of additionality for each specific project and help to identify gaps, which can be closed through TA measures[6].

These questions are stated in the sections below and are based on best practices by other EDFIs such as IFU (Danish) and Swedfund (Swedish) and adjusted to the OeEB strategy. The questions shall guide the OeEB project managers to provide relevant information, they are a catalogue describing possible aspects related to additionality and need to be chosen in relation to the specific project context. Together with the DERa this forms the basis for project approval and ODA eligibility.

According to OECD a project is ODA eligible if development additionality and financial and/or value additionality is fulfilled. Being a Development Bank the OeEB will fulfil financial as well as development additionality.

Development additionality:

This term describes the intended outcome/impact of a project. Next to the general alignment with the OeEB strategic topics (green finance, MSMEs/financial inclusion, infrastructure, and industry) the DERa categories (Decent Jobs, Local Income, Market and Sector Development, Environmental Stewardship and Community Benefits) are of particular relevance. Therefore, the intended development effects of a project which are forecasted in the DERa can be used as basis for the description which is specific to each individual project. Examples are the creation of quality jobs, local income, climate and gender-related improvements.

[5] DERa rates individual clients' contribution to development and follows up on changes in performance since OeEB's investment. Based on the DERa assessments, OeEB can build its impact reporting and steer the overall development quality of its portfolio., For more information see https://www.oe-eb.at/en/our-impact/measuring-results.html

[6] See also the Policy Paper on Technical Assistance „Technische Assistenz – unser Angebot"

Financial additionality:

The three additionality types aim at geographies, sectors and markets and mobilization of capital.

Targets underserved geographies (such as LDCs):

- Is there generally capital available in the specific market? – check with databases such as the World Bank Findex, IMF Country reports etc.
- How are the country risks in general? Can commercial banks cover those risks?
- What is OeEB's strategic motivation to go into that geography?
- Is the OeEB financing provided to urban/rural areas, are there differences, can this gap be closed by OeEB?
- How is the DERa score related to the country, is the project "going where we need to go"?

Targets underserved sectors or segments:

- What is the motivation to finance the project in the specific sector?
- Is the targeted segment within the scope of local banks (bankability)?
- Why is the sector underserved in that economy and how is it related to the strategy of OeEB?
- If available, what are
  - the overall financing conditions in the sector of the country,
  - the overall amounts of external financing provided to this sector in the country,
  - the average tenors and spreads in the sector in the country?
- How is the DERa score related to the sector, is the project "going where we need to go"?

Conveys investment terms unavailable on the market

- Does this OeEB engagement strengthen the financial soundness, creditworthiness, and/or governance of the client in a way that could not otherwise have been achieved?
- Are the tenor length/financing conditions/financing instruments, such as bullet loans, grace periods etc. of OeEB available in the market?
- Is OeEB an equity / anchor investor?
- Is local currency financing available?
- Is the project financially/non-financially risky?
- Have the opportunities to attract commercial financing been reasonably explored by the client? If yes, how?
- Would you characterise the OeEB engagement as
  - a greenfield investment or more as a brownfield/M&A type investment?
  - "new" to the market or more as an "expansion" to an existing market?
  - an investment in a "first mover" location/market (location/market with no prior DFI involvement)
  - a "prior experience" location/market (location/market with no prior DFI involvement)?

Mobilise private finance

- What is the rationale behind financial additionality provided by a partnership with EDFI members? Does this partnership intend to favour mobilisation?
- Are there other financing parties involved and what are their roles?
- Is there some private sector party mobilized, how?
- What is the ratio between public / DFI capital and private capital mobilized?

Value additionality

Mitigate non-financial risks:

- Is there any outcome of the project which goes beyond the project itself, e.g. empowerment of women through better understanding of financial products, contribution to a better understanding of green finance beyond the project, etc.
- Is the project part of a sector-initiative or a human-rights project?

Promotes pro-development business models:

- Does the OeEB engagement cover the mitigation of ESG risks beyond compliance with a specific ESAP which would have not been achieved without the involvement of OeEB?
- Is OeEB actively supporting e.g. better CO2 reporting, development of a gender action plan, introduction of certifications in the ESG area, etc.
- Has OeEB supported better representation of gender at management and/or board level?
- Does OeEB support capacity building in technical or managerial areas?
- Has OeEB conducted any measures, such as a gender action plan and/or Memorandum of Understanding to achieve the client's 2X Challenge qualification?

Promotes knowledge transfer and generation:

- Is there a knowledge sharing element in the project, such as the development of a new project structure, new fund strategy in particular regarding OeEBs strategic topics such as green finance and gender, changes in technologies for product improvement.
- Does OeEB have a board seat and/or a seat in a decision-making / advisory body?
- Has there been a lack of expertise at local level (e.g. for project management, implementation, technical expertise, etc.) identified, which is hindering reaching both the financial and the development goals of the project? If yes, is there any engagement through TA measures?

4. Implementation at OeEB

OeEB will integrate its additionality assessment into its investment processes through the following steps:

- Initial project stage: The responsible project manager performs a first additionality assessment. This is reviewed by OeEB's Strategy, Impact and Sustainability (SIS) team for presentation at the first stage of investment committee meetings.
- Due diligence phase: Additional aspects will be incorporated.. based on information gathered from the client and/or on site DD. These will be added in the approval document and to the DERa Document ("DERa Beilage"),
- The DERa Document, which has to be approved by SIS forms an essential part of the approval documents and is presented to the "Committee for Business and Development" as part of the investment approval process. Furthermore, additionality will also form an integral part in a possible evaluation of a project. This will further contribute to systematic analysis and learning of the subject matter.

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Strauchgasse 3
1010 Wien

T +43 1 533 1200-0
office@oe-eb.at

www.oe-eb.at