

# MULTILATERAL DEVELOPMENT BANKS' HARMONIZED FRAMEWORK FOR ADDITIONALITY IN PRIVATE SECTOR OPERATIONS

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## Executive Summary

The term *additionality* captures a clear and simple premise: interventions by multilateral development banks (MDBs) to support private sector operations should make a contribution beyond what is available in the market and should not crowd out the private sector. While the premise is clear, determining the presence of additionality is more complex because of the dynamic nature of markets, the multiple factors that affect private sector behaviour and decision-making, and the diverse ways in which MDBs engage with markets and private sector actors, and the goals of those engagements.

Additionality is central to the mandate of MDBs that work with the private sector and is embedded in the founding documents of many MDBs. As public institutions supporting the private sector, MDBs provide services that are *additional* to those provided by private markets, acting both as commercial and development entities. They invest principally on a commercial basis in projects that are expected to meet high financial, procurement, economic, sustainability, and governance criteria standards. But as public entities with development mandates, they step in where market failures exist, rather than compete with private markets. While all MDBs embrace the concept of additionality, they use different operational frameworks to achieve it because of differing mandates.

MDB shareholders have recognized that to achieve the objectives of the 2030 Agenda for Sustainable Development, MDBs must help enhance the private sector's role across a broad spectrum of development activities, among other things. MDBs play a key role in mobilizing and catalyzing private sector finance for development. Some MDBs specialize in private sector development or have specialized private sector arms. Others are expanding private sector or non-sovereign operations and deploying new blended-finance instruments and guarantees to achieve this end. The Group of Twenty, or G20, issued the *Principles on Crowding-in Private Sector Finance* in April 2017 (the Hamburg Principles), which provide a common framework for MDBs to increase private investment levels to support their development objectives. Recognizing the growing importance of private sector operations, a group of shareholders, in May 2017, requested MDBs to develop a harmonized approach to additionality. A harmonized approach will increase the understanding of additionality—as a concept with clearer definitions, how it is applied, and its governance—across MDBs and their shareholders.

MDBs formed a Task Force in response to the request. The Task Force looked at and built on existing shared principles, such as the *2012 MDB Principles to Support Sustainable Private Sector Operations*, in which additionality is the first principle. This report summarizes the efforts of MDBs to develop (i) more detail on the principle of additionality; (ii) common definitions; (iii) guidance on a common approach to the governance of additionality; and (iv) guidance on types of evidence that help demonstrate the presence of additionality.

Defining of common approaches has resulted in an improved understanding and consistency across MDBs, while also allowing sufficient flexibility within each MDB's internal operating framework for substantiating additionality in projects.

## 1. Introduction and Context

The international community has reached a consensus that private sector finance must play a critical role to achieve the Sustainable Development Goals (SDGs) and the COP 21 commitments. Private sector finance is more abundant than even the most generous levels of development assistance. Yet private investment does not always flow to areas of need. Indeed, foreign direct investment is concentrated in certain geographies and certain sectors. As a result, local capital markets and financial sectors remain shallow in several developing and emerging markets.

MDBs are uniquely placed to help bridge the significant gap between demand and supply for private finance and help build a more effective demand (so-called bankable projects) in developing and emerging markets. MDBs make significant efforts to channel private finance to unserved or under-served markets by helping address existing failures in business and regulatory environments and actively contribute to creating and enhancing opportunities for private financiers. A fundamental principle guiding MDBs' engagement in these operations is additionality:<sup>1</sup> MDBs' support to private sector operations should make a contribution that is beyond what is available, or is otherwise absent from the market, and should not crowd out the private sector.<sup>2</sup>

In May 2017, a group of shareholders<sup>3</sup> requested that MDBs develop a common framework for additionality. In response to that request the MDB Task Force on Additionality was formed.<sup>4</sup> The Task Force has focused on the additionality of MDB investments with respect to non-sovereign or private sector operations, and not on MDB lending to public sector or sovereign operations. Additionality in blended concessional finance support for private sector operations was addressed by the DFIs Working Group on Blended Concessional Finance for Private Sector Projects in October 2017.<sup>5</sup> That aspect is not reported here separately.

Because of differences in institutional mandates among MDBs, the concept of additionality does not lend itself easily to a one-size-fits-all definition or application. The Task Force began work with a stocktaking survey of MDBs' approaches to additionality. The survey found considerable variations in how MDBs define and operationalize additionality. The harmonized framework

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<sup>1</sup> Please note that the term "Additionality" as used in this harmonized framework does not supersede the meaning of the same term as defined in some of the MDBs' respective mandates.

<sup>2</sup> As defined in the 2012 [Multilateral Development Bank Principles to Support Sustainable Private Sector Operations](#).

<sup>3</sup> Specifically, G7 shareholders, during the meeting of G7 Finance Ministers in Bari, May 2017.

<sup>4</sup> The Task Force consists of the African Development Bank Group (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Inter-American Development Bank Group (IDB and IDB Invest), the International Finance Corporation (IFC), the Islamic Development Bank Group (IsDB), Multilateral Investment Guarantee Agency (MIGA), and the New Development Bank (NDB). Consultations were held with the Asian Infrastructure Investment Bank (AIIB) and the World Bank (WB), who approved the document.

<sup>5</sup> The report is available [online](#). To summarize the principle on additionality, the Blended Concessional Finance DFI working group concluded that it is critical that concessionality is itself not the source of additionality. Concessional finance products should only be used in cases where the private sector or DFI finance using ordinary (commercial) terms is not able to provide adequate finance for a project to be viable or achieve the same objectives. When projects cannot be structured on a fully commercial basis, the use of blended concessional finance can be justified if it addresses externalities, information asymmetries and/or other institutional and market failures, or affordability constraints that are hindering positive market dynamics, and there is an expectation to arrive at commercial solutions over the medium term. The remainder of this report will focus only on private sector operations of MDBs.

produced for this report proposes guiding principles and definitions, while providing sufficient flexibility for MDBs' internal operations to serve the needs of institutions with different mandates.

The remainder of the report is structured as follows: section 2 outlines the key concepts agreed by MDBs for additionality in private sector operations; section 3 outlines definitions of additionality; section 4 summarizes common approaches to governance and operationalization in each MDB; and section 5 describes the types of evidence to demonstrate additionality. The annex provides a non-exhaustive list of illustrative examples to assist in determining additionality as described in the definitions.

## 2. The Additionality Principle

Additionality is central to the engagement of MDBs with the private sector. All MDBs apply the concept of additionality to their private sector operations. For most MDBs, additionality is included in founding charters, articles of agreement, key operating principles, or strategy documents.

In 2012, MDBs endorsed five common principles—the [Principles to Support Sustainable Private Sector Operations](#)—which aim to guide their engagement with the private sector to achieve development goals consistent with their mandates. The first of these principles is additionality, reflecting the centrality of this concept in MDB operations. The other principles, equally important, are: crowding in; commercial sustainability; reinforcing markets; and promoting high standards.

The 2012 *Principles to Support Sustainable Private Sector Operations* define additionality as follows:

*MDB 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.*

*The shared principle of additionality often delivers, among other things:*

- *Financing that is not provided by the market*
- *Risk mitigation and/or risk sharing*
- *Improved project design*
- *Better development outcomes*
- *Environmental, social, and governance standards.*

*Additionality is an important aspect of determining MDB value-addition in a private sector operation and MDBs should always seek to provide financial and/or non-financial additionality.*

These principles were reinforced in the 2013 [DFI Guidance for Using Investment Concessional Finance in Private Sector Operations](#) and the 2017 [Enhanced Principles for Blended Finance](#).

The Task Force reviewed existing documents that touch on additionality to ascertain whether they are still relevant to MDBs' private sector operations today. The Task Force also looked at how each MDB defined additionality to seek to further align the common understanding of what constitutes additionality across the different institutions. After careful review, the Task Force affirmed the relevance of the current definition of the additionality principle. This report builds on this definition to provide a more detailed breakdown of what constitutes additionality.

Additionality is related to—but distinct from—other key MDB concepts and objectives. For the purposes of this report, we have unpacked the distinctions to provide a stronger basis for understanding the harmonized approach to additionality.

- Additionality is closely related to MDBs' development mandates.<sup>6</sup> The opportunities for MDB interventions to be additional arises from the presence of market failures that lead to an absence of commercial financiers willing or able to offer the inputs and services offered

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<sup>6</sup> The EIB's unique mandate as both an MDB, as well as part of the European Union architecture, requires it to employ complementary criteria to assess additionality on top of the ones specified in this framework. Those are aligned with the shared principles outlined here.

by MDBs. Such absence, inability, or unwillingness on the part of private financiers often reflects real or perceived, cyclical or persistent investment risk, whereby the specific attributes of MDBs allow them to offer financing under reasonable conditions, which lower such risk or its perception.

- Additionality is different from development impact. Additionality refers to key financial and non-financial inputs brought by MDBs to a client and project to make the project or investment happen, make it happen much faster than it would otherwise, or improve its design and/or development impact. Development impact captures the development results that the project or investment is expected to deliver. The unique inputs and attributes provided by MDBs—as sources of additionality—are essential for development impact to actually materialize, but the concepts are distinct from one another.
- Additionality is a threshold condition, *sine qua non* for considering a potential intervention. However, after determining that additionality is present, other criteria also come into play when making decisions on projects. Additionality is assessed at the project level in all MDBs, based on evidence available at the time of the decision. Other considerations may include financial viability, portfolio implications, strategic relevance, sustainability, and development impact.
- Additionality is assessed in the context of the complementary work of other MDBs. In designing new financing operations, MDBs consider the broader landscape of development finance institutions and how a potential intervention can be complementary to those of other MDBs. The goal is to avoid competing with other MDBs, and instead to jointly contribute to the success of private sector projects, taking into account respective institutional advantages and in line with respective mandates of each institution.



### 3. Categories and Definitions of Additionality

This section defines the two types of additionality—financial and non-financial—and provides a harmonized set of definitions for each category. These definitions are best understood with reference to examples, provided in the annex for illustrative purposes. It is not necessary for both types of additionality to be present in any given transaction. Additionality varies by country, sector, market and client context, all of which are dynamic and evolve over time. MDBs use the project design and due diligence processes to make sure that their interventions are additional, relative to the condition of the market in question.

Starting with financial additionality, the terms, conditions and structure of finance provided by MDBs can be materially different from what is available commercially. Demonstrating better financing structures can also contribute to market development. MDB terms may include innovative features that are new to a specific market.

With regard to non-financial additionality, there are MDB private sector interventions that contribute to better project outcomes that would not have been required or offered by commercial financiers. Those can include, among other things, strong safeguards, capacity building for clients, potential for market creation, or other positive externalities.

Category	Type	Definition
<b>Financial Additionality</b>	<b>Financing Structure</b>	MDBs provide financing that is not available in the market from commercial sources on reasonable terms and conditions. This includes local currency financing, increased amounts, extended tenor, or grace period.
	<b>Innovative Financing Structures and/or Instruments</b>	MDBs provide clients and partners with innovative financing structures that (i) add value by lowering the cost of capital or by better addressing risks and (ii) are not available in the market at a reasonable cost. It is understood that innovation is market specific; a structure could be considered innovative if it is new to a market even if may already exist in more developed markets.
	<b>MDBs' Own Account Equity</b>	MDBs provide equity that is not available in the market in a way that strengthens the financial soundness, creditworthiness, and/or governance of the client. Equity is a vehicle for additionality as it often strengthens the client's ability to take risk, leverage resources, and improve corporate governance.
	<b>Resource Mobilization</b>	MDBs are involved in mobilization of resources from private sources; that is, there is a verifiable role played by MDBs in

		mobilizing financing on commercial terms from an institutional or private financier. <sup>7</sup>
<b>Non-Financial Additionality</b>	<b>Risk Mitigation</b>	MDBs provide comfort to clients and investors by mitigating non-financial risks, such as country, regulatory, project, economic cycle, or political risks. Such comfort is often due to MDBs' reputation in the market, role as honest brokers, trusted and long-term client partnerships, signaling function for sound projects, convening power, close relationships with governments, and rigorous due diligence processes.
	<b>Policy, Sector, Institutional, or Regulatory Change</b>	MDBs' involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level.
	<b>Standard-Setting: Helping Projects and Clients Achieve Higher Standards</b>	MDBs help raise the bar on standards. MDBs promote improved policies (for example, gender equality) and provide expertise in environmental, social, and governance standards (ESG) and on integrity and procurement best practice. Support to clients in meeting these standards is considered a form of additionality when ESG performance is likely to translate into improved impact and performance of the project, where clients lack the ability to meet such standards without support, and/or where laws and/or market practice do not reinforce such standards or require lower ones compared to MDBs' requirements. In this case, MDBs bring additionality by introducing changes in policies, providing guidance, establishing standards, and/or offering technical support and training, or introducing international best practices to client companies and their stakeholders. These are the kinds of issues that most private financiers would not necessarily prioritize systematically.
	<b>Knowledge, Innovation, and Capacity Building</b>	MDBs provide expertise, innovation, knowledge and/or capabilities that are material to the timely realization of the project's anticipated development impact, including support to strengthen the capacity of the client. Capacity-building support may be provided either in-house or by external experts.

<sup>7</sup> This aligns with how MDBs calculate and jointly report private investment mobilization. For guidance on relevant definitions, measurement methodology, and attribution details, please see the Reference Guide [www.worldbank.org/mdbmobguide](http://www.worldbank.org/mdbmobguide).

#### **4. Governance and Operationalization of Additionality in MDBs: A Common Approach**

This section describes a common approach to the governance and operationalization of additionality in MDBs' private sector operations. This aims to maintain some consistency, and accountability across institutions. In operationalizing additionality, each MDBs' internal framework should be designed to minimize additional reporting burdens on staff and clients beyond what is necessary to demonstrate additionality.

MDBs follow these guidelines:

1. **All private sector projects are required to demonstrate additionality.**
2. **Additionality is assessed at the project level or at the program level across a set of transactions when they have very similar or identical features.**
3. **Additionality assessments are based on available evidence and knowledge of the market context of the operations at the time of approval.** Examples of potential sources of evidence are provided in section 5 of this report.
4. **An assessment of additionality is contextualized and may differ by country, sector, market, and/or client type.** Within the same country, levels of risk may vary across sector, market, and/or client type.
5. **Project teams are responsible for identifying and demonstrating additionality in projects,** which is supported or verified through an internal validation process.
6. **Management is accountable to shareholders** for demonstrating additionality in projects. MDBs report on additionality to their respective Boards at the time of project approval (including delegated authority to Management).
7. As part of their respective mandates, **independent evaluation offices provide checks and balances by considering the additionality** of MDB operations as part of their ex-post evaluation activities.

## 5. Types of Evidence to Demonstrate Additionality

Additionality is a dynamic concept and the MDBs' value addition for a given project will evolve over time as the global, country, market, or sector context changes, as well as the MDBs' product/service offerings. Nonetheless, MDBs make specific efforts to demonstrate additionality claims with evidence as far as is possible, noting that accounting for the counterfactual can be difficult (that is, what would have not happened without the MDB intervention).

To demonstrate additionality, a project description generally includes the following:

- A narrative that **describes the types of additionality present**, supported by information that demonstrates the judgement based on market knowledge and/or available information.
- A focus on **key sources of additionality**, identifying the most significant and relevant sources.
- A description of **why additionality matters** to the project's success.

Further, a project description includes, where relevant:

- **Significant and incremental additionality claims stemming from MDBs' ESG and other standards.** This should specify ways in which the ESG and other standards under the project will address specific risks or enhance existing company practice.
- **Where other MDBs are involved, a description of how the work of the MDBs is complementary** to each other in the project, with references to their comparative advantages.
- **There may be a description of the link between non-financial additionality (the input) and the development impact of the project (the expected outcome).**

While it is impossible to predict the specific evidence required to support all future additionality claims, given evolving markets, the following types of evidence can help MDBs assess financial and non-financial additionality as defined in section 3.

### 5.1 Evidence of Financial Additionality

Evidence to support financial additionality may include market benchmarks, market behavior (recent projects), evidence of the client's inability to obtain commercial financing, and/or willingness to pay for MDB support (market test). Published benchmark data may not exist, particularly in less-developed markets, so the evidence to support additionality may be qualitative or drawn from MDB market intelligence. A non-exhaustive list of possible evidence to demonstrate financial additionality includes:

- Comparison of MDB funding terms to those offered by local banks, international foreign private financiers, or other investors involved/interested in the project, and those available in local banking and bond markets for a similar credit risk.
- Sponsor's inability to raise funding from private sources, which is corroborated with information available to the MDB from market intelligence.
- In the case of lines of credit to banks and deposit-collecting institutions:

- The maturity structure of the FI deposits and loans that would provide an indication of their capacity to access stable long-term resources.
- List of funding sources used in the past.
- Local currency: the availability of local-currency funding with similar terms and absence of revenue flows in foreign exchange, or lack of hedging options on the market.
- For risk sharing and guarantees for financial intermediaries (such as trade finance):
  - Information about the current situation of single obligor and country/sector limits.
  - Reductions in funding lines that the beneficiary client received in the past.
  - Rating of entities that have extended capital relief to the client.
- Innovative financing structures and/or instruments
  - Introduction of an innovative financing structure or instrument into a market or sector.
- Resource mobilization:
  - Active verifiable role in mobilizing and/or arranging private co-financing from private entities on both funded and unfunded basis.
  - Use of syndicated loan structures (such as the A/B loan) or guarantees benefiting private financiers.
  - Evidence that private investors have made their participation in a project conditional on the participation of MDBs.
  - Collection of fees or memorandum of understanding for mobilization services paid by lenders participating in the project.

## 5.2 Evidence of Non-Financial Additionality

Non-financial additionality measures the improvements that can be attributed to MDBs' long-term client partnerships, or their involvement in designing private sector operations, such as leveraging policy or regulatory reform, raising standards, or putting in place necessary risk mitigants, building capacities, and frameworks or systems. A challenge with non-financial additionality is to identify evidence *ex ante* of a commitment to the intended improvements, and that they are material. The forms of non-financial additionality claimed in projects should be specific and well-targeted.

Non-financial additionality may be more self-evident in non-sovereign operations in countries or markets where political and/or commercial risk are deemed high, such as in fragile states, or those with untested regulatory regimes, less developed market or ESG practices, or in new sectors in higher income countries. A non-exhaustive list of possible evidence to substantiate non-financial additionality includes:

- Risk mitigation:
  - Information on a country political risk rating.
  - Evidence that investors will not engage, or will only engage, at prohibitively high cost to the project, due to political/regulatory risk.
  - Information on specific market or regulatory issues relevant to project risk.
  - Assessment of whether MDBs have a right over assets and their participation is visible at the level where specific political risk lies.

- MDB provision of instruments that explicitly offer risk protection: this is the case of Partial Risk Guarantee (PRG) or political risk insurance or political risk carve-outs, for example.
- Improved standards:
  - Comparison of the client's ESG and procurement practices, norms and standards in the target market, with international and MDB standards and requirements.
  - Specific plans provided by the client to achieve higher standards by bringing best practices to the project.
- Knowledge / innovation:
  - Existence of a complementary advisory program designed to strengthen a key aspect of the project, including cost-sharing by the client.
  - Mutually agreed commitment by MDB and client to improve the global or technical knowledge of the company, and/or general improvements in client standards; for example, introducing IFRS, accounting standards improvements, corporate governance standards.
  - List of funding conditions or covenants of the MDB financing package that incorporates elements of non-financial additionality.
- Partnership and honest broker:
  - Demonstration that MDB expertise in the market will allow the client to expand into new markets or facilitate the project's creation of new markets.
  - Description of issues surrounding the MDB's role as honest broker between foreign and local sponsors and government will help ensure successful project implementation.
- Government commitment to engage in dialogue with the MDB to revise regulation.

## **Conclusion**

The Task Force on Additionality's work to identify common definitions, a common approach to governance and operationalization of additionality, and the types of evidence to demonstrate additionality has been a valuable exercise in sharing knowledge and enhancing understanding among MDBs. While the assessment of additionality is context-specific for each project within the boundaries of every MDB's mandate, MDBs base their private sector operations on clear common principles with a view to ultimately crowd in private finance.

Harmonizing definitions of types of additionality and types of evidence to demonstrate additionality will help MDBs be consistently rigorous in how they apply the concept. The common approach to governance and operationalization is particularly germane in this regard. Having a harmonized approach will hopefully allow for a more effective and efficient conversation with shareholders on where and how to intervene to ensure that shareholder resources are used in the most catalytic manner possible and that they are directed to where they are most needed, ultimately to support delivery of the *2030 Agenda for Sustainable Development*.

## Annex: Demonstrating Additionality—Common Illustrative Examples

This annex provides more detailed examples of the operational definitions highlighted in section 3. Note that this list is not exhaustive, and examples of additionality will evolve over time depending on country, sector, market, and client context.

### Examples of Financial Additionality

#### ▪ Financing Beyond What is Available in the Markets

1. Amount: MDBs provide or mobilize meaningfully larger loan amounts compared to what is available in the market at reasonable cost and terms.
2. Tenor and/or grace period: MDBs provide tenors or grace periods longer than what is available in the market, while ensuring that it matches the economic life of the project's assets.
3. Local currency financing: MDBs provide loans, risk management, and credit enhancement products and structures expressed in local currency per se, or at maturities that are not available in the market. This includes:
  - Loans denominated in local currency.
  - Risk management products that allow clients to hedge existing or new foreign currency-denominated liabilities back into local currency.
  - Credit enhancement structures that facilitate clients' borrowing in local currency from commercial sources.

#### ▪ Innovative Financing Structures and/or Instruments

1. Islamic financing: MDBs provide products and/or equity/debt structures that adhere to Islamic finance principles in markets where there is demand for such products without sufficient supply.
2. Long-term derivatives: MDBs provide derivative products to the client that are designed to hedge specific risks for longer maturities than those already available in the market.
3. Interest-rate derivatives: MDBs provide derivative products not sufficiently available in the market that allow the client to hedge their exposure to interest rate risk through products such as interest rate swaps.
4. Commodity derivatives: MDBs provide derivative products that are not sufficiently available in the market, which allow the client to hedge against price fluctuations in commodities that act either as inputs or outputs to the client's operations.
5. Risk-management swaps: MDBs provide swap structures that allow the client to hedge market risks.
6. Green/Diaspora/Infrastructure/Social impact bonds: MDBs invest in innovative bond structures such as green bonds that meet certain environmental standards and guidelines and are certified by a recognized certification agency.
7. Project preparation and structuring support: MDBs actively participate in debt structuring/matching repayment to revenues.
8. Subordinated or mezzanine financing: MDBs provide mezzanine and subordinated debt including debt with equity upside participation.



9. Distressed assets resolution platforms: MDBs support the acquisition and resolution of distressed assets, the refinancing and roll-over risk of viable entities, and restructurings of small and medium-sized companies.
10. Capital-markets financing: MDBs actively support and/or initiate capital markets transactions, securitizations, private placements, and covered bonds that crowd in private finance.
11. Guarantees: MDBs provide credit-rating improvement of senior/subordinated portfolios backed-up by guarantees to crowd-in private investors directly and/or through structured vehicles.

▪ **Resource Mobilization**

1. Financial products where MDBs play the role of a mandated lead arranger or a trusted reference that attracts private funding. This includes cases where MDBs are the lenders of record, and commercial banks or other private financiers participate. It also includes cases where private financiers invest conditional to MDBs participation.
2. A/B loan syndication: A loan/B loan structures in which MDBs are the lenders of record, and participants benefit from the MDB's risk mitigation capacity, relationships with governments, structuring skills or due diligence, including environmental or social risks.
3. Equity: Resource mobilization may include instances where MDBs play an active role to support and facilitate equity investment by third parties.
4. Long-term guarantees: MDBs provide a guarantee that transfers credit risk up to the total amount of the loan or equity being guaranteed by the MDB, including commercial risk guarantees or noncommercial risk guarantees.
5. Unfunded risk transfer: MDBs provide an unfunded transfer of credit risk associated with loans or guarantees from an MDB to a third-party guarantor (like an insurance company or a commercial bank).
6. Client bond issuance: Resource mobilization may include instances where MDBs play an active role to support and facilitate the issuance of debt securities (bonds or commercial paper) in addition to loans or where MDBs act as an anchor investor.
7. Mobilization platforms: MDBs create a platform for third-party co-investors to participate with funding or risk sharing in portfolios originated by MDBs, often with decision-making delegated to the MDBs. This includes mobilizing private reinsurance.
8. Direct transaction support: MDBs may also provide advisory services and related assistance to a client where these services are linked to the procurement of private financing for a specific activity or project.
9. Trade finance: MDBs provide support to ensure successful realization of trade transactions using either funded or unfunded instruments.

▪ **MDBs' Own Account Equity**

1. Financial soundness and creditworthiness: MDBs provide equity financing that allows a project, or client to increase capital to meet capital requirements in a certain country.
2. Governance: MDBs provide equity financing associated with board seats, including MDBs' provision for the appointment of independent board directors to improve governance.

3. Capital enhancement: MDBs' equity participation leads to capital enhancement because of their superior credit rating.

## Examples of Non-Financial Additionality

### ▪ **Non-Financial Risk Mitigation**

1. Political and country risk: MDBs provide comfort (for example, long-term partnership) that allows the client to launch operations in countries with real or perceived political risk such as risk of nationalization/appropriation, devaluation, national default, or capital controls.
2. Project risk: MDBs provide a suite of advisory services to improve knowledge of certain project risks such as completion risk and cost or time overruns due to poor planning.
3. Direct agreements or letters of non-objection: MDBs enter into tripartite agreements, which are explicit legally-binding assurances between the government, the sponsor, and the MDBs, which stipulate that the government will undertake or refrain from specific actions.
4. Trusted client partnerships: MDBs use their long-term partnership to provide comfort to the client to take more risk-enabling outcomes such as innovation, expansion into new markets, or the creation of new markets. Additionality can be materialized in such cases through a series of investments rather than a single investment.

### ▪ **Frameworks: Catalyzing Policy or Regulatory Change**

1. Regulatory change: MDBs' intervention is designed in whole or part to demonstrate the value of a regulatory change, such as the opening of a market to private sector investments. MDBs may, in such cases, also be involved in helping to create the regulatory environment to sustain this change in ownership over time. The project may be the first to test a new policy, regulatory regime, or legal framework, such that there is a likelihood of further regulatory changes. An example of this may include investment in a leasing entity, which may prompt further work to develop the regulatory framework for leasing.
2. Policy change: MDBs' intervention is designed to catalyze a change in a policy through participation in projects that may demonstrate alternative ways to achieve policy goals. An example of this may include a project designed to reach lower-income beneficiaries commercially or with targeted subsidies, which may help governments reconsider policies concerning public provision to targeted beneficiaries.

### ▪ **Standard-Setting: Helping Projects and Clients Achieve Higher Standards**

1. Improved management of environmental and social issues: MDBs help companies improve their capacity in areas such as: social and environmental risk assessment and management systems; resource efficiency, energy efficiency, and renewable energy; pollution prevention and abatement (including improvements in production processes that help client companies reduce resource use, prevent pollution, or treat wastewater); labor and working conditions; community health, safety, and security; land acquisition and involuntary resettlement; biodiversity conservation and sustainable natural resource management; indigenous peoples; and/or cultural heritage.

2. Corporate governance: MDBs help companies improve their corporate governance practices by incorporating lessons learned from working with client companies on shareholder rights, the internal control environment, and transparency and disclosure.
3. Gender: MDBs contribute to tangible, verifiable, and lasting improvements in gender equality within the client or the client value-chain or for the project beneficiaries (for example, new women's leadership programs or targets, women in leadership positions, gender-equality policies).

▪ **Knowledge, Innovation, and Capacity Building**

1. Institutional capacity-building: MDBs provide clients with a range of services—including a combination of advisory services and investments—to strengthen their capacity and to improve their effectiveness and accountability. This includes situations where MDBs financing and advisory work helps clients target largely untapped markets and/or offer more innovative products that deepen existing markets.
2. Industry or market expertise: MDBs share their technical expertise with clients at all stages of a project and leverage their relationships with companies to transfer knowledge of regional and global markets to less developed or underserved ones. MDBs also foster adoption of international best industry practices and benchmarks (for example, best practice for origination of mortgage-backed securities, product development for SME lending, design and implementation of pilot projects, and strengthening private schools' capacity to access funding, and/or engineering and technical studies).
3. Business strategy or operations: MDBs advise clients on material issues of strategy, operational management, leveraging international best practices to support commercial sustainability and realization of intended developmental impacts. MDBs may help the client introduce innovations, or provide recommendations on strengthening financial management, information systems, risk management, human resources, or other operational areas that are material to intended impact.
4. Ecosystem development: MDBs develop suppliers to its client companies, spreading economic benefits more widely, improving suppliers' access to new markets and creating indirect employment opportunities around an investment. MDBs help strengthen supply and distribution chains for investment clients. MDBs support projects that encourage community development, through investments or advisory services.
5. Project sponsorship: MDBs play an active role in developing projects and institutions aimed at addressing existing market gaps or imperfections in specific areas. These are typically cases where MDBs identify a market gap, propose an intervention, and take a lead in the project's design and preparation.