





WELCOME to the DCED Webinar

on
Demonstrating Additionality
in Private Sector Development
Initiatives

With

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Melina Heinrich (DCED Secretariat)
James Carnegie (Africa Enterprise Challenge Fund)
Christine Scott Dunkley (Compete Caribbean Challenge Fund)

Introduction

Would companies receiving aid funds for pro-poor investments have invested anyway? A key question that donors increasingly need be able to address...



- Working directly through business increasingly common to achieve economic development goals; competitive challenge funds are a popular format to reduce risks for companies or encourage the provision of public benefits
- More partnerships with business encouraged at political and international level (e.g. Post-2015 discussions, Global Partnership for Effective Development Co-operation)

But...

- ... also more donor commitments to show value for money & good use of aid
-increasing pressures from NGOs, media to justify funding decisions:

"Why is taxpayer money given to profitable companies..?"





Introduction

What we are going to do in the next hour

1. Highlights from the DCED Report: 'Demonstrating Additionality in Private Sector Development Initiatives: A Practical Exploration of Good Practice for Challenge Funds and other Cost-Sharing Mechanisms'



- **DCED** the global forum for donor and UN agencies working in private sector development (PSD) collaborated with a range of funders and practitioners of cost-sharing mechanisms to extract practical lessons on how to demonstrate additionality: what to assess and how
- 2. Africa Enterprise Challenge Fund (AECF): Examples of how AECF considers additionality in practice when reviewing business proposals (James Carnegie)



3. Compete Caribbean Enterprise Innovation Challenge Fund (EICF): Insights into how EICF assesses additionality, including after the partnership, and possible challenge fund design implications (Christine Scott Dunkley)

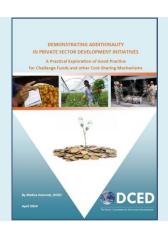


4. Questions and Answers: Please submit your questions **in writing** via the chat box.

Defining Additionality

1. Highlights from the DCED Report:

A practical exploration of good practice in demonstrating additionality for challenge funds and other cost-sharing mechanisms



What do we mean when talking about 'additionality'?



Simply put: Would a business project happen anyway, without donor support? If not, donor support can be considered 'additional'.

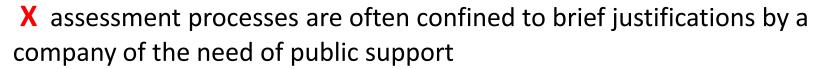
A formal definition: 'Additionality is the net positive difference resulting from a donor-business partnership. The extent to which business activities (and associated results) are larger in scale, of higher quality, happen quicker or take place at all as a result of a financial and/or technical donor support.'

Assessment practices to date

Agencies can (easily) do more to convincingly show the that their direct support to companies is 'additional'

Additionality typically described as a formal condition of support,

but: X assessment criteria are often limited or vague



X there are typically no internal guidelines on how additionality is considered in awarding support to businesses [DCED Review, 2013]



"Basic principles such as additionality (...) are not considered adequately in most challenge funds. (...) It is entirely possible for a supported project to display excellent (...) development impact, with zero (...) additionality." [EPS PEAKS for DFID, 2014]

"By and large... donors have described their development additionality in vague terms" [Kindornay, Reilly-King/NSI, 2013]

"Significant up-front project screening and appraisal work is necessary and justified to ensure projects are additional." [Spratt, Collins/IDS, 2012]



Towards a practical approach

Caveats to demonstrating additionality

• It would not be possible or cost-efficient to 'prove' or exactly measure additionality as we can never collect all relevant information [AECF 2012; Warner/ IMF 2013]



• Scope and depth of additionality assessments influenced by programme **design factors** (e.g. geographical scope, management budget)



Making an informed judgement on key issues influencing additionality

The DCED report summarises eight key criteria and principles that can help agencies to 'think through' and demonstrate additionality in a structured, credible way

Typical starting point, and focus in this presentation: 'Essential' assessment criteria for showing additionality

'To qualify as 'additional',

public support should not substitute

for what the company

and other parties

are able and willing to provide' (IEG, 2008)

6 Key Questions on Additionality



Resources, capacities and incentives of the potential partner company:

Does the company have insufficient funds to self-finance the project?

Does the company lack knowledge/ skills to implement project?

Is the firm unwilling to invest alone because of negative cost-benefit perception?









Resources that are available from other parties:

Can similar services not be accessed commercially?

Is the donor-funded project unlikely to displace other companies in the market?

Does the public contribution not duplicate other donor funding?







Cross-Cutting Criteria: Risk & Innovation

Insufficient funds to selffinance the projects Lack of knowledge/ skills to implement project

Unwillingness to invest alone because of negative cost-benefit perception







The more risky/ innovative the project, the more likely it is that donor support is additional







Similar services cannot be accessed commercially

Donor-funded project is unlikely to displace other companies in the market Public contribution does not duplicate other donor funding

8 Good practice principles when assessing additionality at the design/application stage

1. Be sensitive when requesting information from companies to get informative answers



Credible and informed additionality assessments

Examples:

- ▶ DO start by using open questions, e.g. Please outline why you require support for the proposed project; DON'T simply require yes/no answers or boxticking in application form
- Do ask explicitly for a counterfactual scenario

Get good quality information

8 Good practice principles when assessing additionality

1. Be sensitive when requesting information from companies to get informative answers

Credible and informed additionality assessments

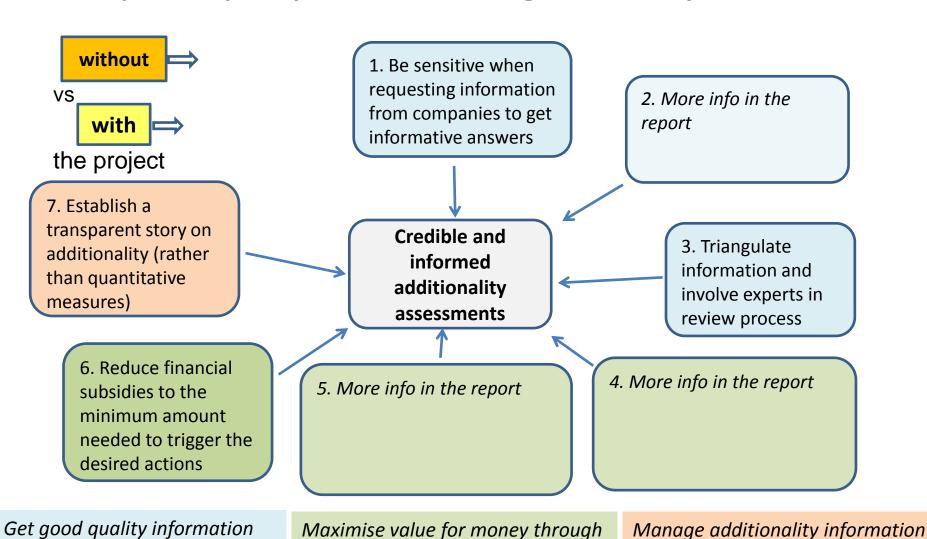
2. More in the report...

3. Triangulate information and involve experts in review process

- 5 models for expert consultation identified
- involving a review panel with external stakeholders and thematic/ country experts particularly useful (e.g. AusAID Enterprise Challenge Fund)

Get good quality information

8 Good practice principles when assessing additionality

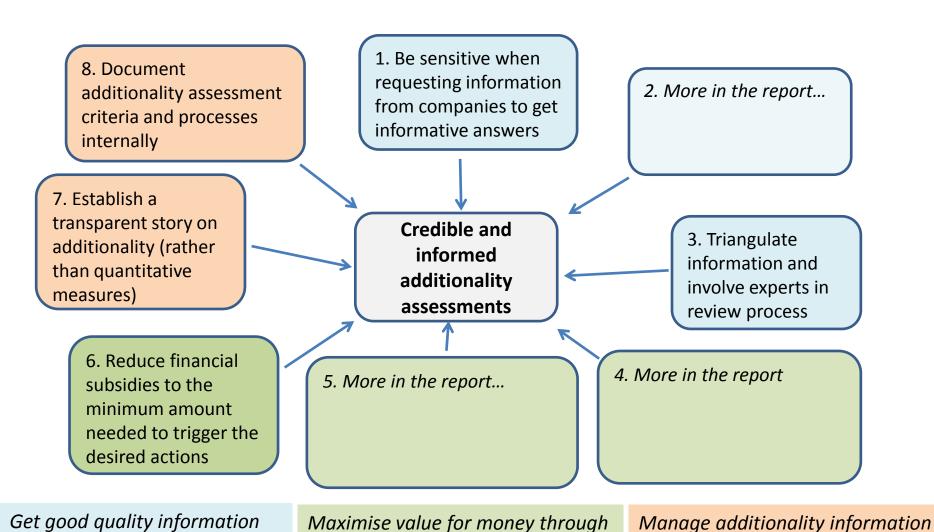


additionality considerations

www.Enterprise-Development.org

and assessment systems

8 Good practice principles when assessing additionality



additionality considerations

and assessment systems



Using Additionality Assessment Criteria and Principles in Practice

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Examples from the Africa Enterprise Challenge Fund (AECF)

James Carnegie



Presentation contents

- About the AECF
- Additionality in the AECF
- Innovation and the link to additionality
- Process of assessing additionality in AECF competitions
 - Application
 - 'Investigation'
 - Expert panels
- Some examples



Africa Enterprise Challenge Fund

- The AECF is challenge fund for private sector development focussing on agribusiness and renewable energy markets across Africa;
- AECF funds innovative private sector business ideas/models that are inclusive of the rural poor — having positive impacts on large numbers of poor people through jobs and livelihoods enhancement;
- AECF is funded by a multi-donor consortium including DFID, Australia, Danida, Sida, Dutch, among others, and KPMG as the Fund Manager;
- Initial capital was US\$34m (2008); now US\$240m (June 2014); and
- 191 projects funded with average grant of \$700k (\$100 to \$1.5m) matching funds in combination of grants and repayable grants.



Additionality in the AECF

- Key issue facing challenge funds.
- Would have gone ahead in the absence of AECF funding, and would it have happened at the same speed or scale.
- AECF examines additionality when awarding funding, and will reject applicants if we do not believe that the AECF funding is additional.
- However, 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.



Innovation in the AECF – link with additionality:

- AECF is about unearthing innovative (creative) business models that are inclusive of the rural poor to their benefit and extending the market system into poor rural areas;
- Innovation in AECF projects are inclusive of poor people and technologies;
- AECF uses an innovation scale in the assessment of this to ensure that all funded projects are innovative, hence are more risky and less likely to attract other forms of funding.



AECF's innovation scale:

- 0 = Project not considered innovative
- 1 = Project is new for the company in the country of application
- 2 = Project is new for the company in Africa
- 3 = Project is new for the company and new for the country in which the project will take place
- 4 = project is new for the company globally, new for the country and new for the sector in that country
- 5 = Project is new for the company and the sector in Africa
- 6 = project is new globally (a world first)

The higher the score, the more likely the funding will be additional



Assessing Additionality in the AECF (1)

- Iterative process at the competition phase in deciding which businesses to fund with the limited donor funding
- Additionality is one of many factors, but an important one
- Use a combination of eight principles in DCED paper
- However, we acknowledge that the process could be made more explicit and methodical in adopting from the decision making flow chart (p.8)
- Assessment process Application, 'Investigation', Expert panels



Assessing Additionality in the AECF (2)

- In the **application forms** and **business plan template** businesses are asked to answer the following questions:
 - Will the business idea take place at all without AECF support?
 - Can you raise the funds from other sources to implement it on your own?
 - Will it take place on a different scale or at a different pace, or address a different group with or without AECF support?
 - Will AECF funding replace more commercial funding?
 - Will AECF funding leverage in funding from others (eg equity partners, banks, others, etc)



Assessing Additionality in the AECF (3)

- Project managers with relevant skills and experience assigned to projects to assess criteria including additionality.
- Involves 'investigation' through interviews/discussions, project site visits against draft business plans, and triangulation with key informants
- **Expert panels** Investment Sub-Committees
 - Combine experts of different skills and experience
 - Meet to decide a short list at the concept note stage and then at the business plan stage in deciding on the projects to fund
 - Important in the Investment committees to have local knowledge experts who are able to better assess in relation to the local situation and especially the local markets and funding environment



Assessing Additionality in the AECF - examples

- "Could / Would" distinction
 - This distinction is very important. Of course a large company "could" undertake the said activity without public funding - that is not in question.
 The question to ask is - would they?
 - Example: SABMiller South Sudan
 Cassava outgrower scheme to provide brewing supply for beer
- Credit availability
 - Location specific eg Somaliland has no formal banking system therefore no formal credit lines – easier to assess additionality
 - Post Conflict Environments and resource poor rural environments are often too risky for formal credit channels

Hand over to Christine, EICF

Assessing Additionality in the Compete Caribbean Enterprise Innovation Challenge Fund

Experiences and Lessons for Challenge Fund Design

Christine Scott Dunkley



Overview



- 5 year, US\$40M private sector and competitiveness program – DFID, DFATD and IDB with support of CDB
- Operates in 15 Caribbean countries
- Enterprise Innovation Challenge Fund 51% (US\$13.25M) of US\$25.8M program budget
- 2 windows Direct Firm Support and Support for Clusters Initiative. Maximum grant US\$500K
- By end of project, expected that 20 firms and clusters will be financed from > 600 applications

"Light Touch" Management



- 1 Fund Coordinator; 2 project development officers;
 Administrative/research support officer;
- Shared administrative, financial management, M&E, environment/gender, procurement and operational support.
- Limited external analytical support Due diligence firm
- Focus on
 - Promotion and managing competitive process
 - Quality control of business/cluster business plan
 - Post-approval relationship contract negotiation, implementation
 - Fiduciary reporting and results verification

Additionality — Ex-ante



Risk and innovation as clear eligibility criteria:

- Grants pitched to start ups, innovative, higher risk enterprises; ".....to develop new products, implement new business models, and/or enter new markets"
- Self selection
 - Firms: start ups with no track record; applications from challenging economies,
 - Clusters: micro-enterprises as part of clusters not likely to receive commercial financing; financing of common goods

Assessment of available company resources:

- Due diligence exercise financial strength, other funding sources
- Justification statement for CC grant funding

Factors constraining ex-ante additionality assessment



- Additionality not an explicit selection criterion
- Wide dispersion of countries and economic conditions
 - limited in-depth knowledge of in-country conditions
- Limited presence /capacity of donor country offices or other partners to triangulate information
- Lean fund management focusing on fund promotion, application processing and fiduciary oversight
- Timeliness (Responsiveness to private sector already lengthy processes between application, business plan development, approval and contracting)

During the partnership



- Baseline survey of firms (specific additionality questions)
 - Motivation for applying to the Challenge Fund?
 - External financing sought year prior to submission?
 - Successful in securing external financing or technical assistance?
 - Amount received?
 - Perceived ability to secure equivalent loan or investment commercially?
 - Acceleration of activities with CC funding?

During the partnership



- Assess non-financial benefits (beneficiary survey)
 - Enhanced understanding/analysis of business or cluster
 - Understanding investor requirements/practice to pitch business idea
 - Insights from the due diligence exercise
 - Networking with other firms
 - Formation/improved cohesion of existing cluster
 - Access to additional opportunities for funding
 - Identification of new business opportunities

Ex-post



End of project evaluations - Built into grant budget

 Impact evaluation of Compete Caribbean – Built into program budget.

Implications for design



If importance of additionality not stated up front in objectives, run the risk of not systematically assessing it

Additionality assessment cost affected by:

- Geographic scope (market intelligence for multiple countries)
- Budgets and economies of scale (budget may only accommodate "light touch" project management)
- Available in-kind technical support from donors/other partners
- Insourcing or outsourcing options for required expertise

Important to consider additionality assessment scope up - front and identify resources needed.

Implications for design



- Ensure donor consensus on importance of additionality for multi-donor challenge funds
- Preferable to invest time up front to design detailed operational guidelines vs "building the bicycle while riding it".
- M&E processes needed to develop qualitative narrative on additionality where ex ante assessment is challenging.
- Focus on financing "innovation" may be sufficient to justify additionality, but requires clear criteria



Submit your questions via the chatbox on the bottom right!