Demonstrating additionality in working with the private sector: A summary

DCED
The Donor Committee for Enterprise Development

This summary is based on DCED (2014): 'Demonstrating Additionality in Private Sector Development Initiatives. A practical exploration of good practice'*. The report is focused on programmes providing grants and advice to business. For more resources, please refer to the DCED knowledge page on* private sector engagement*.* *22/09/2017*

Most donor agencies provide technical support or grants to businesses investing in commercial, pro-poor projects. Their aim is to trigger investments that businesses would not make otherwise, or to make them happen more quickly, at a bigger scale or simply better in terms of development outcomes. In short, public support should be *additional* to what would happen anyway.

While it is impossible to 'prove' additionality, efforts to demonstrate it can be undermined by three common issues: (1) Programmes may have no real systems to probe additionality, use only vague criteria or rely on simple checklists filled in by companies; (2) Staff may not have the time or expertise to assess additionality, although minimising 'overhead costs' through small teams may be a false economy and has been labelled as 'poor development practice'[1]; and (3) Political pressure for high leverage may reduce additionality, as it encourages programmes to choose well-capitalised partner businesses.

The DCED therefore worked with donors and implementers to explore what good practice in demonstrating additionality could look like. The resulting report summarises eight key criteria and principles[2] as well as practical tips on how to gather relevant information.

Graphic 1 below summarises key criteria in a flow-chart: First, the company should face at least one of the following issues:

- It cannot self-finance the project (within a reasonable time frame);
- it does not have the expertise to implement the project alone; and/or
- it is unwilling to invest as the project costs or risks appear higher than the benefits.

As a second step, programmes may consider resources available from other parties:

- Is the company most likely unable to access finance or advice commercially?
- Is it not already receiving similar support from other donors?
- Ideally, programmes should also assess whether major competitors exist in the target market and already implement business models similar to the one under discussion. If so, they not only risk being displaced; they may also indicate that the risk for the partner company is limited and does not warrant public support.

Overall, donor support is more likely to be additional if the project is highly innovative and risky. Additionality is reinforced if the programme can show that other parties co-invest because of its involvement, or that support is likely to trigger wider changes (e.g. in the business environment).

Several principles can help programmes in gathering relevant and credible information, as outlined in the report. They will then be able to develop a clear narrative on the theory of change underlying the collaboration (see Graphic 2 below).

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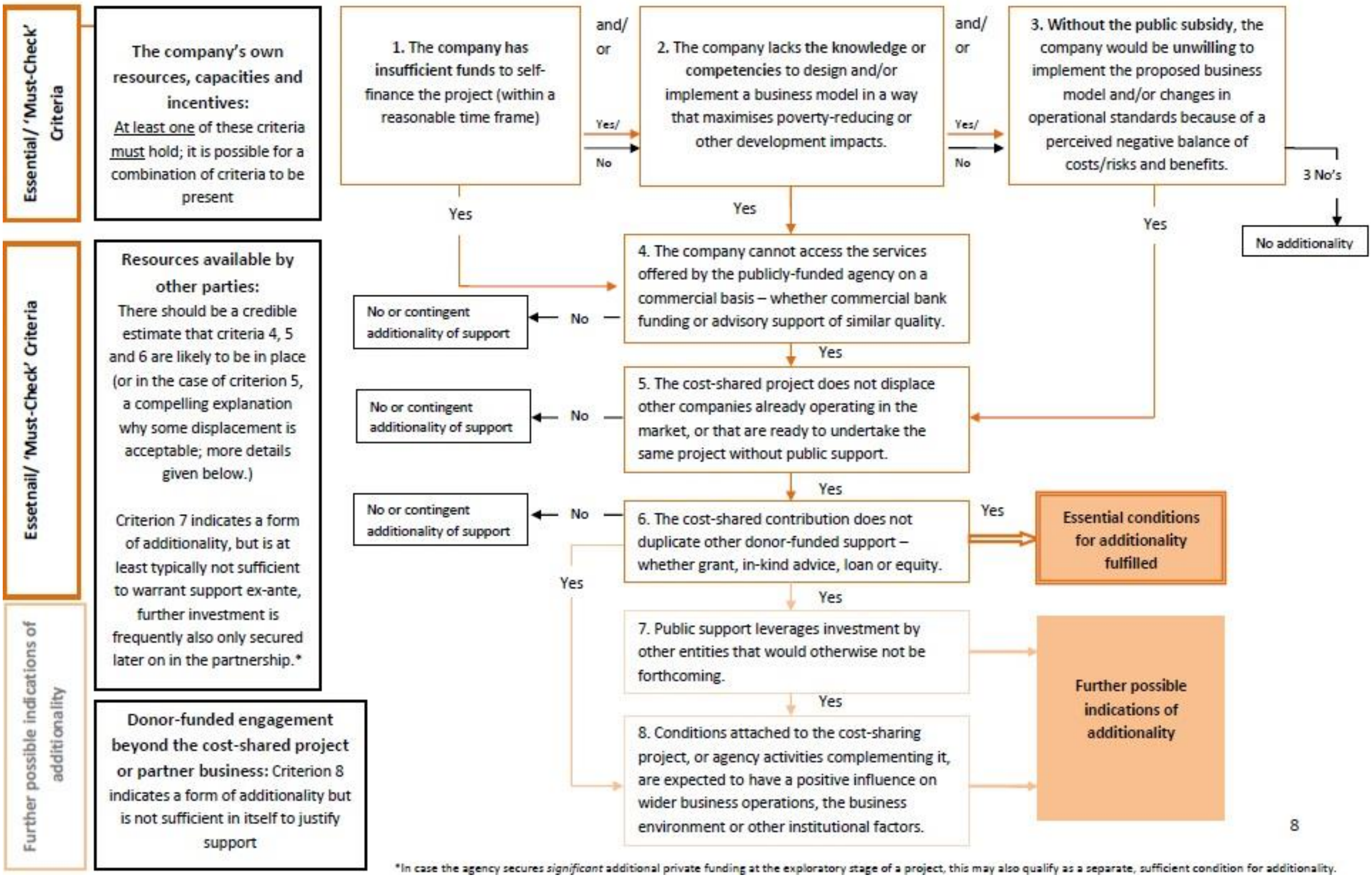
[1] DFID (2014): How can enterprise challenge funds be made to work better.

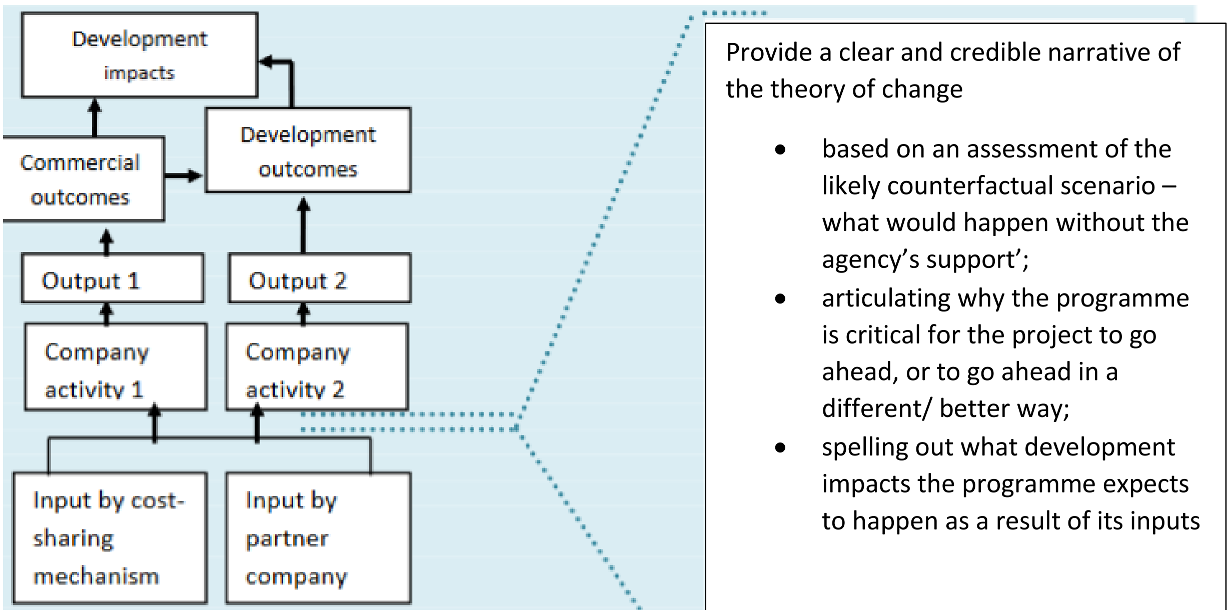
[2] Note that the DCED report is compatible with the reporting on private sector instruments recommended by the OECD-DAC Secretariat, which proposes that an official transaction be considered additional either because of 'financial additionality' or 'value additionality'. (OECD, 2016: Private Sector Engagement for Sustainable Development. Lessons from the DAC)

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.

Graphic 2.
Building a narrative on additionality



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